

Prospectus



VAREL OIL AND GAS INC.

(a private limited liability company incorporated under the laws of the State of Delaware)

Admission to listing and trading of Varel Oil and Gas Inc.'s 12.25% senior secured USD 72,000,000 bonds 2024/2028 on the Oslo Stock Exchange

This prospectus (the "**Prospectus**") has been prepared by Varel Oil and Gas Inc., a private limited liability company incorporated under the laws of the State of Delaware ("**Varel**" or the "**Issuer**") in connection with the admission to listing and trading on Euronext Oslo Børs, a regulated marketplace part of Euronext and operated by Oslo Børs ASA (the "**Oslo Stock Exchange**"), of the 12.25% senior secured USD 72,000,000 bonds 2024/2028 with ISIN NO0013182121 (the "**Bonds**") (such admission, the "**Listing**"), consisting of (i) the USD 60,000,000 bonds issued by the Issuer on 8 April 2024 (the "**Tranche 1 Bonds**") and (iii) the USD 12,000,000 bonds issued by the Issuer on 11 December 2024 (the "**Tranche 2 Bonds**") under the tap issue addendum entered into on 6 December 2024 (the "**Tap Issue Addendum**"). The Issuer is a wholly owned subsidiary of Varel Oil and Gas Intermediate Holdings Inc., a private limited liability company incorporated under the laws of the State of Delaware (the "**Parent**", and together with its subsidiaries, the "**Group**").

The Bonds are registered in Euronext Securities Oslo, the Norwegian Central Securities Depository (the "**CSD**") in book-entry form. All Bonds rank in parity with one another.

The Bonds are expected to be listed and tradable on the Oslo Stock Exchange on or about 4 April 2025 under the ticker code "VAREL01".

THIS PROSPECTUS SERVES AS A LISTING PROSPECTUS ONLY. THE PROSPECTUS DOES NOT CONSTITUTE AN OFFER, OR INVITATION TO PURCHASE, SUBSCRIBE OR SELL, ANY OF THE SECURITIES DESCRIBED HEREIN, AND NO BONDS, SHARES OR OTHER SECURITIES ARE BEING OFFERED OR SOLD IN ANY JURISDICTION PURSUANT TO THIS PROSPECTUS.

Investing in the Issuer or the Bonds involves a high degree of risk. Any prospective investors should read the entire Prospectus, and in particular consider Section 1 "**Risk factors**", when considering an investment in the Bonds or the Issuer.

The distribution of this Prospectus may be restricted by law in certain jurisdictions. Persons in possession of this Prospectus are required by the Issuer to inform themselves about and to observe any such restrictions. Any failure to comply with these regulations may constitute a violation of the securities laws of the relevant jurisdiction. See Section 10 "**Selling and transfer restrictions**".

Managers



3 April 2025

IMPORTANT INFORMATION

This Prospectus has been prepared by the Issuer solely for use in connection with the Listing of the Bonds on the Oslo Stock Exchange.

This Prospectus has been prepared to comply with the Norwegian Securities Trading Act of 29 June 2007 no. 75, as amended (the "**Norwegian Securities Trading Act**") and related secondary legislation, including the Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, as amended (the "**EU Prospectus Regulation**"), and as implemented in Norway in accordance with section 7-1 of the Norwegian Securities Trading Act and the bond rules issued by the Oslo Stock Exchange and comprises. This Prospectus has been prepared solely in the English language.

This Prospectus has been approved by the Financial Supervisory Authority of Norway (Nw.: *Finanstilsynet*) (the "**Norwegian FSA**"), as competent authority under the EU Prospectus Regulation. The Norwegian FSA only approves this Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the EU Prospectus Regulation, and such approval should not be considered as an endorsement of the issuer or the quality of the securities that are the subject of this Prospectus. Prospective investors should make their own assessment as to the suitability of investing in the securities.

The Issuer has engaged Arctic Securities AS and Pareto Securities AS as managers in connection with the issuance of the Bonds (jointly, the "**Managers**").

Unless otherwise indicated, the information contained in this Prospectus is current as of the date hereof and is subject to change, completion and amendment without notice. In accordance with Article 23 of the EU Prospectus Regulation, every significant new factor, material mistake or material inaccuracy relating to the information included in this Prospectus, which may affect the assessment of the Bonds and which arises or is noted between the date of this Prospectus and the Listing, will be presented in a supplement to this Prospectus without undue delay. Neither the publication nor distribution of this Prospectus shall under any circumstances imply that there has been no change in the Group's affairs or that the information herein is correct as of any date subsequent to the date of this Prospectus.

All inquiries relating to this Prospectus should be directed to the Issuer. No person is authorized to give information or to make any representation concerning the Group in connection with the Listing other than as contained in this Prospectus. If any such information is given or made, it must not be relied upon as having been authorized by the Issuer or the Managers or by any affiliates, representatives, advisors or selling agents of any of the foregoing.

Any reproduction or distribution of this Prospectus, in whole or in part, and any disclosure of its contents, is prohibited.

An investment in the Bonds involves inherent risks. Potential investors should carefully consider the risk factors set out in Section 1 "*Risk Factors*" in addition to the other information contained herein before making an investment decision. An investment in the Bonds is suitable only for investors who understand the risk factors associated with this type of investment and who can afford a loss of their entire investment. In making an investment decision, prospective investors must rely on their own examination, and analysis of, and enquiry into the Group and the Bonds, including the merits and risks involved. Neither the Issuer nor any of its advisers are making any representation to any purchaser of the Bonds regarding the legality of an investment in the Bonds by such purchaser under the laws applicable to such purchaser. The contents of this Prospectus do not constitute legal, tax, business, or financial advice, and each investor should consult with his or her own advisors as to the legal, tax, business, financial and related aspects of a purchase of the Bonds.

This Prospectus does not constitute an offer of, or an invitation to purchase or sell any of the securities described herein in any jurisdiction in which such offer or sale would be unlawful. The distribution of this Prospectus and the offer and sale of the Bonds may in certain jurisdictions be restricted by law. The Issuer has not registered the Bonds under the U.S. Securities Act, and does not expect to do so in the future. The Bonds may not be offered or sold in the United States or to U.S. persons (as defined in Regulation S under the Securities Act), except for pursuant to an exemption from the registration requirements of the U.S. Securities Act and applicable state securities law, or pursuant to an effective registration statement. Neither this Prospectus nor any advertisement or other material pertaining to the securities of the Issuer may be distributed or published in any jurisdiction except under circumstances that will result in compliance with applicable laws and regulations. Persons in possession of this Prospectus are required to inform themselves about and to observe any applicable restrictions. In addition, the Bonds are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under applicable securities laws and regulations.

This Prospectus shall be governed by and construed in accordance with Norwegian law. The courts of Norway, with the Oslo District Court as legal venue, shall have exclusive jurisdiction to settle any dispute which may arise out of or in connection with this Prospectus.

All Sections of the Prospectus should be read in context with the information included in Section 2 "*General information*".

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1 RISK FACTORS

This Prospectus is a listing prospectus. An investment in the Bonds involves inherent risk. Before making an investment decision, investors should carefully consider the risk factors and all information contained in this Prospectus, including the Financial Statements and related notes. The risks and uncertainties described in this Section "Risk factors" are the principal known risks and uncertainties faced by the Group as of the date hereof that the Issuer believes are the material risks relevant to an investment in the Bonds. An investment is suitable only for investors who understand the risks associated with this type of investment and who can afford to lose all or part of their investment.

The risk factors included in this Section 1 are presented in a limited number of categories, where each risk factor is sought to be placed in the most appropriate category based on the nature of the risk it represents. While the most material risk factor in each category is set out first, the remaining risk factors in each section are not ranked in order of materiality or probability of occurrence. The absence of negative past experience associated with a given risk factor does not mean that the risk factor is not genuine or poses a potential threat to the Group. If any of the following risks were to materialize, individually or together with other circumstances, they could have a material adverse effect on the Group and/or its business, results of operations, cash flows, financial condition and/or prospects, which may cause a decline in the value and trading price of the Bonds, resulting in loss of all or part of an investment in the Bonds. Additional factors of which the Issuer is currently unaware or which it currently deems not to be risks, may also have corresponding negative effects.

1.1 Risks related to the Group's business and the industry in which it operates

1.1.1 *The Group's profitability and the demand for its services and products largely depends on the activity levels in the oil and mining industries, as well as hydrocarbon prices*

The Group's core business involves delivering products and services to mining and oil and gas companies. Consequently, the demand for its products and services is significantly influenced by the capital expenditures and drilling activities of mining and oil and gas companies, which are considerably affected by current and expected hydrocarbon prices, including oil and gas. Other factors, such as the availability of financing for mining and oil and gas companies, may also influence demand for the Group's products and services. A decline, or the perceived risk of a decline, in hydrocarbon prices, or a reduction in the ability of oil and gas companies to access necessary capital, could cause mining and oil and gas companies to reduce their activity or spending. This, in turn, could lower demand for the Group's products and services, adversely affecting its revenue. Therefore, the Group's revenues, cash flow, profitability, and growth depend substantially on prevailing international and local hydrocarbon prices, which may fluctuate due to minor changes in supply and demand, and other uncontrollable factors.

In times of low commodity prices and global economic uncertainty, mining and oil and gas companies have previously significantly reduced their capital spending, decreasing the volumes and prices for the Group's products and services, and consequently its profits. Such conditions could have a material adverse effect on the Group's business, results of operations, financial condition, and cash flows. Conversely, increases in hydrocarbon prices may not necessarily boost demand for the Group's products and services or positively affect its financial condition or results.

1.1.2 *The Group is exposed to the risk of revenue concentration*

The Group has a high concentration of revenue with its top seven customers accounting for 48% of total revenue for fiscal year 2023. Variations in the activity levels or demand for the Group's products and services from these key clients can fluctuate year to year. The loss of any of these major customers could lead to a significant reduction in revenue, especially in the short term, negatively impacting the Group's operational results and cash flows.

Additionally, negative financial developments affecting one or more of these customers may reduce their capital expenditures and activity levels, thereby decreasing their demand for the Group's products and services. This dependency on a limited number of key clients causes a risk of revenue concentration, where the Group's financial health is disproportionately affected by the performance and purchasing decisions of its major customers.

1.1.3 The Group is dependent on its current and future contracts

The Group's revenue and financial condition depend on its current and future contracts. The Group operates in an industry characterized by significant backlogs, presenting a risk that existing and future orders for the Group's products and services may not ultimately be realized. The backlog represents the aggregate sales value of all customer orders received but not yet shipped or contractually obligated to fulfill. Factors such as product demand and availability, raw material shortages, and changes in customer activity based on market conditions (e.g., oil prices) may impact whether these customer orders convert to recognized revenues. While the Group's current contracts provide access to customers, they do not guarantee future revenue, as the Group remains dependent on the activity levels of these customers and the successful execution of contracts. Furthermore, contracts may be subject to early termination due to certain events, such as subpar performance by the Group.

To maintain its financial condition, the Group relies on its ability to renew and extend existing contracts and secure new ones. Bidding for future contracts may involve unforeseen or unanticipated risks, costs or timing issues that the Group may not have considered. If these factors materialize, they may reduce the profitability of such contracts. If activity levels under relevant contracts are lower than expected, or if the Group's current contracts are terminated, not renewed, or not extended, or if the Group fails to secure new contracts, it could, particularly in the short term, adversely affect the Group's business, cash flow, liquidity, financial position and operational results.

1.1.4 Assertions by third parties regarding infringement of their intellectual property rights may result in damage, claims and litigations costs, force the Group to modify its products, or prevent it from selling its products.

The Group, as a manufacturer of consumable drilling, cementing, and completion products for the oil and gas industry, may face claims from third parties alleging breaches of patents and other intellectual property rights. Such claims, whether on a non-contractual basis or based on licensing agreements or other agreements, can be brought by both operating companies and entities focused on asserting ownership of IP rights.

Currently, the Group is facing a lawsuit from National Oilwell Varco ("**NOV**"), which claims that the Group and certain other drill bit manufacturers have breached a patent license covering a portfolio of patents with varying expiration dates, as further detailed under Section 5.7 "*Legal and arbitral proceedings*". NOV asserts that the Group is specifically liable for past and future royalties amounting to around USD 37 million. The Group has entered into a joint defense agreement with the other manufacturers to jointly defend against the lawsuit. Although the Issuer believes the likelihood of successfully defending against the lawsuit is high, there is a risk of an unfavorable outcome, which may result in the Group being liable to pay royalties to NOV from October 2021 onwards to January 2031.

Such claims, regardless of their merit, are time-consuming and costly, potentially requiring significant management attention and financial resources. A successful claim of infringement, misuse, or misappropriation by a third party against the Group could lead to the cessation of production or distribution of certain products, or necessitate the payment of substantial damages, profits, royalties, or other fees. Additionally, these claims might require the temporary or permanent cessation of the manufacture, licensing, or use of products alleged to infringe or misappropriate IP rights.

Any of these outcomes could materially and adversely affect the Group's business, results of operations and financial condition.

1.1.5 The Group is dependent upon a limited number of specialized, strategically located manufacturing facilities and suppliers

The Group relies on a limited number of strategically located in-house manufacturing facilities for producing its products and delivering its services, which in turn depend on suppliers to perform its services. Due to the highly specialized nature of some of the Group's products, replacing manufacturing facilities and suppliers may be challenging the event of production or supply disruptions. Such disruptions often result from steel shortages or geopolitical trade restrictions. Additionally, price volatility can lead to unpredictable raw material costs, affecting margins and pricing. Logistical bottlenecks, such as transportation delays, can disrupt supply chains and production schedules. Regulatory changes can introduce new compliance requirements, raising operational costs. These factors can impact the availability of materials and overall production costs, posing significant challenges to the Group's ability to meet demand consistently. From a production perspective, slowdowns may result from equipment failures, labor shortages, or material quality issues. The Group's competitive advantages largely rely on product availability and consistency. Therefore, dependency on a limited number of manufacturing facilities and suppliers may make the Group more vulnerable to production disruptions and shutdowns, which could significantly limit its ability to source and deliver its products and services. This could materially affect the Group's business, results of operations, financial condition and cash flows.

As the Group derives a substantial part of its income from activities related to the oil and gas industries, the above-mentioned trends may over time reduce the demand for the Group's products and services and consequently reduce its income. Such reduction in the Group's activities will adversely affect its results of operations and thus reduce the value of the Bonds.

1.1.6 The Group may not be able to keep pace with changes in technological or quality requirements

The Group may be unable to keep pace with changes in technological or quality requirements. The market for the Group's products is characterized by continuous and rapid technological developments, leading to considerable improvements in equipment functions and performance. The competitive landscape requires constant iterations of products to meet customer demands, driven by how products are applied and changes derived from well planning based on specific conditions. For example, customers may need products that can withstand higher pressures or temperatures, or that can perform more efficiently in different geological formations. This creates an expectation that technology must be flexible and continuously improved to address customer needs, ranging from design to material enhancements.

Consequently, the Group's future success and profitability depend on its ability to maintain its market position and expand by responding effectively to technological changes. The future performance of the Group's operations will depend on the successful development, introduction and market acceptance of both existing and new products that meet customer requirements cost-effectively. The introduction of new products, acceptance of products based on new or alternative technologies, or the emergence of new industry standards could render the Group's existing products obsolete or increase competition. Failure to acquire or develop processes and equipment or upgrade existing ones in a timely and cost-effective manner in response to technological developments or changes in industry standards, or if the Group's product quality or performance is deemed inferior, could have a material adverse effect on the Group's business, cash flow, prospects, financial position and results of operations.

1.1.7 The success, competitive position and future revenues of the Group will depend in significant part on the Group's ability to protect intellectual property and know-how

The Group's business is based on its technology, that is subject to risk of infringement or unauthorized use by third parties. The Group's strategy is to benefit from its production methods and technology, which the Group believes is and will continue to be a competitive advantage, and thereby the success depends in large part on the Group's ability to obtain and maintain patent protection for its products, methods, processes and other technologies, to preserve trade secrets, to prevent third parties from infringing proprietary rights of the Group and to operate without

infringing the proprietary rights of third parties. The patent rights are limited in time. The Group cannot predict the range of protection any patents will afford against competitors and competing technologies, including whether third parties will find ways to invalidate the patents, obtain patents claiming aspects similar to those covered by the Group's patents and patents applications, and whether the Group may be subject to litigation proceedings. In addition, the Group cannot give any assurance that the measures implemented to protect its intellectual property rights will give satisfactory protection, including in its customer, supplier and employment agreements. Furthermore, third parties may, both with and without substance, claim that the Group is infringing or violating their proprietary technology and intellectual property rights. Disputes associated with such claims could be time-consuming and costly and could result in loss of significant rights and/or penalties, such as loss of freedom to operate.

Failure to protect the Group's proprietary technology and property rights or claims that the Group is violating or infringing third party intellectual property rights could lead to a competitive disadvantage and result in a material adverse effect on the Group's business, prospects, financial position and results of operations.

1.1.8 The Group relies on key personnel and its ability to attract new qualified personnel

The Group is dependent on having a highly qualified team and is therefore reliant on key personnel, particularly within the management team, as well as its ability retain and attract new, qualified personnel. The Group believes that its current key personnel offer a competitive advantage in areas such as leadership in developing and executing organizational strategies, industry knowledge that enables identification of specific trends, anticipation of customer needs, and the development of targeted solutions; as well as specialized knowledge and skills in critical areas such as research and development, sales, and customer relations.

The collective experience of the executive team encompasses over 60 years of oilfield service knowledge, with a significant portion of those years dedicated to the drill bit market. This extensive experience brings valuable insight into the industry, fosters key customer relationships, and enhances understanding of the market dynamics. Additionally, all executives have global experience. Some executives possess over 15 years of dedicated experience in the Middle Eastern market., where significant prospects for growth are projected for the Group. Other key executives bring knowledge in mergers & acquisitions and advisory services obtained over the course of their career which is believed to enable the Group to identify and seize opportunities for market share growth.

The Group may not be able to recruit the necessary key personnel in the future and any failure to retain or attract such personnel could result in the Group being unable to successfully implement its business plan which could have an adverse effect on the Group's business, financial condition, results of operations, cash flow and prospects.

The loss of one or more key executives or key employees, or inability to recruit relevant new personnel, might also impede the achievement of the Group's development and commercial objectives. Additionally, the Group's key personnel are only to a limited extent subject to restrictive covenants such as non-compete undertakings in their employment agreements, and the Group's competitors may therefore be successful in recruiting and hiring one or more key persons, including members of the Group's key executives and other key persons hired as part of its international expansion, and it may be difficult for the Group to find suitable replacements on a timely basis, on competitive terms or at all.

1.1.9 The Group's products are used in critical applications, and product failure and potential claims could significant impact the Group's finance and reputation

The Group's products are used in various critical applications, but may contain defects that are not detected until after they are installed because the Group cannot test for all possible scenarios or applications. Product failures may be caused by a number of factors including, but not limited to, incorrect specification or design, defects in materials or manufacturing, installation or maintenance processes, products used by sub-suppliers, or other factors including the operating conditions in which the products are used. Any such defects could cause the Group to incur significant replacement costs or re-engineering costs, divert the attention of its engineering from product

development efforts, and significantly affect its customer relations and business reputation. If the Group delivers defective products or if there is a perception that its products are defective, the Issuer's credibility and the market acceptance and sales of its products could be harmed. This could have a significant adverse effect on the Group's business, prospects, financial results and results of operations

Furthermore, widespread product failures may damage the Group's market reputation, reduce its market share and cause sales to decline. A successful product liability claim against the Group could require it to make significant damage payments, which would negatively affect the Group's business, prospects, financial results and results of operations.

1.1.10 The global support for energy transition may decrease the demand for the Group's products and services

The pace and magnitude of the expected shift from hydrocarbons to low-carbon and renewable energy remain difficult to predict. Increasingly, civil society and investors, including governments, are encouraging reduced consumption of carbon-based energy sources to combat climate change. Global interest in the energy transition may boost demand for renewables, potentially shifting demand away from traditional oil and gas towards cleaner energy sources such as solar, wind, and hydrogen. Such a shift could negatively impact the financial condition of mining and oil and gas companies and reduce their demand for the Group's products and services. Both the energy transition trend and a major shift toward renewables could significantly impair the Group's business by reducing the short-term and long-term demand for its products and services.

1.1.11 The Group's business is exposed to risk related to the volatility of global economic and social condition, including sanctions

The Group's global business exposes it to the volatility of global economic and social conditions, including but not limited to inflation, sanctions, increased energy costs, market fluctuations, and import/export restrictions. In this context, the Group has in the past and may in the future be exposed to sanctions regimes. Specifically, on 15 November 2022, a subsidiary within the Group received a USD 130,000 payment from Sakhalin Energy Investments Company, a subsidiary of the Russian-incorporated Gazprom Public Joint Stock Company. The payment was blocked by the receiving bank due to sanctions imposed as a result of Russia's invasion of Ukraine, ultimately leading to the US Authorities by Office of Foreign Assets Control (OFAC) issuing a cautionary letter with no further action required.

The risks related to the Group's global operations may increase the Group's operating costs, lead to reduced demand for the Group's services and products and thereby have a material adverse effect on the Group's performance, cash flow, financial condition and its prospects and results. Additionally, there is a risk that potential future exposure to sanctions regimes could adversely affect the Group's results of operations and its operations.

1.1.12 The Group operates in countries with a high risk of corrupt practices

The Group operates and owns assets in countries which have a low score on Transparency International's Corruption Perception Index¹, such as Mexico and India, which implies that these countries are perceived as jurisdictions where there is a higher risk of corruption. The Group has internal policies in place to mitigate such risks, however given the size of the Group and the lack of visibility in certain jurisdictions, there are risks relating to fraud, bribery and corruption.

Further, the Group has partners and may engage agents, consultants and representatives in such jurisdictions. Although the Group believes that all its agency and consultancy agreements are entered into on market terms and

¹ Source: Transparency International's Corruption Perception Index, 2023, https://www.transparency.org/en/cpi/2023?gad_source=1&qclid=Cj0KCQjws560BhCuARIsAHMqE0EqJpNMu3YcGyJWKKu-SAPU5eJkQWXf9He6HIWTP0VSBcmvyHyF4s0aAuc1EALw_wcB.

that its agents, consultants and representatives conduct their business in accordance with applicable laws, there is a risk that agents, consultants and other persons acting on behalf of the Group may engage in corrupt activities, misconduct, fraud or noncompliance with applicable government laws and or contractual obligations, or other improper activities without the knowledge of the Group. Failure by agents, consultants and representatives to comply with applicable laws, regulations and contractual obligations or acts of misconduct could subject the Group to fines and penalties and suspension, sanctions, debarment from contracting or remedies for contractual breaches (such as termination of contracts), any or all of which could harm the Group's business and reputation, subject the Group to administrative, criminal or civil enforcement actions. Although the Group has put in place internal regulations and contractual commitments with a view to limiting such risks, such measures cannot mitigate such risks entirely, and any such practices by third parties or anyone working for the Group, or allegations of such corrupt practices, may have a material adverse effect on the reputation, performance, financial condition, cash flow, prospects and results of the Group.

1.1.13 The Group's insurance coverage may prove insufficient

The Group has contractual arrangements for recourse against installers of its products and holds insurance that covers general and product liability, which is crucial due to its reliance on third-party services for installation work. However, there is a risk that the Group's insurance coverage may be insufficient to cover potential claims. Insufficient insurance coverage can lead to significant financial loss and adversely affect the Group's business, financial condition, and operations. Additionally, if the Group's insurance proves inadequate concerning a claim, it could have severe consequences for its cash flow and prospects. Any major or systematic incidents related to installations or overall operations could exacerbate these issues. Therefore, sufficient and comprehensive insurance coverage is vital for the Group to mitigate potential liabilities effectively.

1.2 Risks related to the Group's financial position

1.2.1 The Group's amount of debt could adversely affect in its financial health

Following the issuance of the Bonds, for a total of USD 72,000,000, the Group will have debt and debt service obligations. The Group may, subject to the terms and conditions of the Bonds (the "**Bond Terms**") and the Group's other credit agreements, incur additional indebtedness in the future, including, but not limited to by (i) issuing further Bonds up to a total aggregate principal amount of USD 90,000,000 and/or (ii) utilizing its right under the Bond Terms to enter into one or more guarantee facilities with an aggregate principal amount outstanding not exceeding the higher of USD 10,000,000 and 0.25x EBITDA, or the equivalent amount in any other currency. This level of debt could have important negative consequences for the Group. For example, the Group's considerable debt and underlying terms could:

- make it difficult for the Group to satisfy its debt obligations,
- require the Group to dedicate a portion of its cash flow from operations to service debt and fund repayments on the Group's debt, thereby reducing the availability of its cash flow to fund growth and necessary capital expenditures,
- increase the Group's vulnerability to adverse general economic or industry conditions,
- limit the Group's flexibility in planning for, or reacting to, changes in the Group's business or the industry in which it operates,
- limit the Group's ability to raise additional debt or equity capital in the future,
- restrict the Group from making strategic acquisitions or exploiting business opportunities, and/or
- place the Group at a competitive disadvantage compared to its competitors that have less debt.

Moreover, volatility in the financial markets could have a material adverse effect on the Group's ability to refinance all or a portion of its indebtedness and to otherwise fund the Group's operational requirements.

1.2.2 The Bond Terms and financial agreements contain financial covenants which the Group could fail to meet

The Bond Terms section 13.20 requires that the Issuer, subject to certain conditions, continuously satisfy both (i) a maximum leverage ratio test, stipulating that the Issuer's debt may not exceed a certain proportion of its earnings, and (ii) a minimum liquidity test, ensuring that the Issuer maintains a minimum amount of cash and cash equivalents. Future and existing credit agreements entered into by the Group may impose similar or additional financial covenants, including restrictions on the Group's operations, and impose financial restrictions on the Group. Compliance with these tests may be impacted by events beyond the Group's control, and the Group cannot assure that it will consistently meet these requirements. Any failure to comply with these obligations could result in a default under these credit agreements or the Bond Terms, unless the Group obtains waivers or consents for any breaches. There is no guarantee that such waivers or consents will be granted.

In the event of a default under these credit arrangements, the relevant lenders could choose to declare all outstanding borrowings, together with accrued interest, fees and other amounts due, immediately due and payable. Any event of default could also trigger cross-default clauses in other financing arrangements. If any of the Group's indebtedness were accelerated, the Group cannot guarantee that its assets would be sufficient to repay all claims in full. This may in turn have a material adverse effect on the Group's financial position and results, potentially leading to insolvency or related proceedings and financial restructuring.

1.2.3 The Group is exposed to exchange rate risks

The functional currency of the Group and most of its subsidiaries is USD. As a consequence of its international operations, the Group is exposed to expenses incurred in currencies other than USD. The major currencies include GBP, EUR, SAR, MXN, INR, and AED.

The Group is exposed to exchange rate risk primarily due to its operations in the United Kingdom and the Middle East, as there are local currencies in both areas (GBP and SAR and AED, respectively) for a material portion of operational costs, while the Issuer's revenues are predominantly in USD, and the Group does not engage in currency hedging activities. Also, operating expenses denominated in GBP, EUR, SAR, MXN, INR and AED for which the Group has international operations, constitute a part of the Group's total operating expenses. Consequently, fluctuations in the exchange rate of GBP, EUR, SAR, MXN, INR and AED may have a significant impact on the financial statements of the Group. The exchange-rate risk is calculated for each foreign currency and it takes into account assets and liabilities, liabilities not recognized in the balance sheet and expected purchases and sales in the currency in question.

1.2.4 The Group is exposed to credit risk

The Group's expansion in the Middle East, particularly through current and potential future contracts with national oil companies, presents a heightened risk associated with extended payment terms. While the Group's customer payment terms generally range from 45 to 60 days, engagements with national oil companies customers may involve payment terms stretching up to 90 days. These prolonged credit periods increase the Group's exposure to trade receivables and reliance on timely collection. Consequently, the combination of extended payment terms and the Group's growth ambitions in the Middle East, could expose the Group to short-term liquidity challenges, impacting the Group's cash flow, working capital, and overall financial flexibility.

Extended payment terms further increase the Group's vulnerability to customer defaults, given the heightened collection risk associated with longer credit periods. Therefore, any inability or unwillingness of a counterparty to

fulfil its contractual obligations could have a material effect on the Group's business, prospects, financial position and results of operations.

1.3 Risk related to legal matters

1.3.1 Presence and operation in multiple jurisdictions involve application of different regulatory regimes

The Group operates in several jurisdictions in addition to the U.S., including the U.K., France, Canada, Mexico, the United Arab Emirates, Pakistan, Saudi Arabia, China, Malaysia, India and Gabon. The Group's operations in several international markets exposes it to risks, particularly related to general economic conditions, differing tax structures, the need for management expertise in multiple jurisdictions, increased operating costs, and complications and delays associated with repairing and replacing equipment (including as a result of having to transport replacement equipment from distant locations). As the Group continues to expand into other international markets, the complexity of its operations will continue to grow.

Operations in the international markets require the Group to adapt to and comply with the regulatory regime of multiple jurisdictions. Accordingly, whilst the Group will maintain its current business model with an international supply chain, and, potentially, apply that in other new international markets, it is specifically exposed to risks associated with unexpected changes in regulatory requirements, compliance with various foreign laws and regulations, wage and price controls, trade sanctions or barriers, local content laws, changes in tax and economic policies, legislation amendments increasing the compliance costs, restrictions on currency or capital repatriations, currency fluctuations and devaluations, high inflation rates, high interest rates, significant governmental influence over local economies, and other forms of government regulation. These factors could materially and adversely effect on the Group's business, financial position, result of operations and cash flows.

In particular, the Group's three manufacturing facilities located in India, Saudi Arabia and Mexico are subject to evolving regulations and changes or revised application of these regulations could impact the Group's ability to operate these facilities under current terms in the future.

1.3.2 The Group is subject to a wide variety of environmental laws and regulations

An increased focus on climate change, fossil fuel extraction, and greenhouse gas emissions may lead to more rapid changes in regulatory frameworks and policies affecting both the Group's operations and those of its existing and potential customers. The Group is subject to environmental regulations from the U.S. Environmental Protection Agency (USA), La Ley General de Equilibrio Ecologico y Proteccion al Ambiente (Mexico), among a host of other regulatory agencies for India and Saudi Arabia. As global warming and other environmental issues escalate, Environmental, Social and Governance (ESG) reporting has grown in importance, along with the associated cost of reporting and ensuring the Group's commitment to sustainability and ethical practices where the Group operates.

The adoption of increasingly strict regulatory frameworks and policies could substantially increase compliance costs and liabilities. Greater operational requirements could reduce the Group's profit margins and earnings, potentially having a material adverse impact on the Group's business, results of operations, cash flows, financial condition and prospects. Additionally, higher compliance costs and liabilities for mining and oil and gas companies may reduce their capital expenditure and activity, negatively affecting the demand for the Group's products and services.

1.4 Risks related to the Bonds

1.4.1 Risks of being unable to repay the Bonds

During the lifetime of the Bonds, the Issuer is required to make payments on the Bonds. The ability to generate cash flow from operations and to make scheduled interest payments on indebtedness, including the Bonds, will

depend on the future financial performance of the Group. If the Group is unable to service its indebtedness, it may need to adopt alternative strategies, such as reducing or delaying capital expenditures, selling assets, restructuring or refinancing indebtedness, or seeking equity capital. The Group's ability to successfully refinance debt, for example, depends on its financial condition and future performance, which will be affected by a range of economic, competitive, governmental, operating and other business factors, many of which are beyond its control.

The Group cannot assure investors that any of these alternative strategies could be implemented on satisfactory terms, if at all, or that they would generate sufficient funds to make required payments on the Bonds and other indebtedness. Additionally, any failure to make scheduled payments of interest and principal on outstanding indebtedness is likely to result in a reduction of the credit rating, which could negatively impact the Group's ability to incur additional indebtedness on acceptable terms.

1.4.2 The Issuer is predominantly a holding company and is dependent upon cash flow from its subsidiaries to meet its obligations under the Bonds

The Issuer depends on receiving cash from its subsidiaries to pay the principal and interest on the Bonds and to meet its other obligations. The ability of the subsidiaries to pay distributions, dividends, intercompany debt, and other payments to their parent entities, including the Issuer, may be restricted by factors such as the availability of cash flows from operations and applicable corporate, tax, and other laws and agreements to which the subsidiaries are bound. Additionally, certain entities within the Group may be restricted by the terms of their financings from paying dividends, and the quantity and frequency of dividends that may be paid to the Issuer may vary based on factors outside the Issuer and/or Group's control. Compliance with such restrictions may limit the amounts available for distribution, or could cause distributions or transfers to be subject to costs, deductions and withholdings.

Furthermore, all cash within the Group may be held in bank accounts of subsidiaries that are pledged in favor of secured creditors. This may become unavailable to the Issuer or the bondholders (a "**Bondholder**", and collectively the "**Bondholders**") in a default or enforcement scenario. The inability to transfer cash from the Issuer's subsidiaries in any scenario may result in the Issuer being unable to meet its obligations under the Bond Terms, which could result in investors losing their investment in the Bonds, in whole or in part.

1.4.3 The Issuer may have insufficient funds to make required repurchases of Bonds

The Bond Terms provide for certain redemption and repurchase mechanics in respect of the Bonds, which involve redemption or repurchase with a premium, either voluntarily or mandatorily. A mandatory repurchase may, *inter alia*, be effectuated upon the occurrence of a change of control event (as defined in clause 1.1 (*Definitions*) of the Bond Terms), whereby each individual Bondholder has a right pursuant to paragraph (a) of clause 10.3 (*Voluntary early redemption – Call Option*) of the Bond Terms to require that the Issuer purchases all or some of the Bonds at 101% their par value (plus accrued interest). There can be no guarantee that the Issuer will have sufficient funds at the time to make the required repurchase of the Bonds in the event of a mandatory repurchase event occur.

1.4.4 There are restrictions on the transferability of the Bonds

The Bonds have not been and will not be registered under the U.S. Securities Act of 1933, as amended, or any U.S. state securities laws. Furthermore, the Issuer does not intend to register the Bonds under any other country's securities laws. This limits the Bondholders' ability to offer or sell the Bonds in certain jurisdictions. It is each potential investor's obligation to ensure that the offers and sales of Bonds comply with all applicable securities laws. Due to these restrictions, there is a risk that a Bondholder will not be able to sell its Bonds as desired.

1.4.5 There is presently no active trading market for the Bonds

Pursuant to clause 4 (*Admission to Listing*) of the Bond Terms, the Issuer is obligated to list the Bonds on the Oslo Stock Exchange within 12 months of 8 April 2024 (the "**Issue Date**"). However, even if the Bonds are listed and

admitted to trading, there is no guarantee that an active market for trading in the Bonds will develop. Furthermore, following a listing, the Issuer will be subject various obligations and standards of conduct, including those set out in the Norwegian Securities Trading Act and the continuing obligations for issuers of bonds listed on the Oslo Stock Exchange. In the event that the Issuer fails to comply with such obligations, this may lead to the exclusion of the Bonds from trading. As a result of any of the foregoing, Bondholders may find it difficult or impossible to trade their Bonds when desired or at a price level which allows for a profit comparable to similar investments.

1.4.6 *The Bonds are structurally subordinated to liabilities of the Issuer's subsidiaries*

Generally, claims of creditors of the Issuer's subsidiaries, including trade creditors, secured creditors, and creditors holding indebtedness and guarantees issued by such subsidiary, will have priority with respect to the assets and earnings of the subsidiary over the claims of creditors of the Issuer, including the Bondholders. Consequently, these creditors will be entitled to payments of their claims from the assets of such subsidiaries before those assets are made available for distribution to the Issuer, as a direct or indirect shareholder, to the extent the Issuer's obligations are not guaranteed by the relevant entity. Accordingly, absent a guarantee from the relevant subsidiary, the Bonds will be structurally subordinated to all such creditors' claims against these subsidiaries. In an enforcement scenario, such creditors will generally be entitled to payment in full from the sale or other disposal of the assets of such subsidiaries before the Issuer, as a direct or indirect shareholder, will be entitled to receive any distributions.

In particular, one of the entities in the Group, namely Sledgehammer Oil Tools Private Limited, is party to an India INR revolving credit facility in an amount equal to the higher of USD 5,000,000 and 0.15x EBITDA at the time of commitment. The facility is secured by the assets of Sledgehammer Oil Tools Private Limited and a parent company guarantee from Varel International Energy Services, Inc., a direct subsidiary of the Issuer, and may therefore receive payment ahead of the Bondholders in an enforcement scenario.

1.4.7 *Limitations on guarantees and security interests*

The Guarantors (as defined in Section 4.1 "*Main terms of the bond*" below) are incorporated in different jurisdictions, where, inter alia, legal restrictions may apply to the granting of security and/or guarantees provided in connection with an acquisition of shares in companies within a group. There may also be requirements to receive corporate benefit as consideration for granting financial assistance. Furthermore, there may be legal limitations on the maximum secured amount of a security interest or guarantee, and the Bond Terms contain several agreed security principles (the "**Agreed Security Principles**") whereby the members of the Group will not be required to grant security and/or guarantees to the extent that doing so would conflict with applicable law. The security principles also provide that certain security and/or guarantees may be limited, cannot be perfected, or are otherwise subject to limitations. Such limitations may reduce the value of the security package and negatively affect the Bondholders.

1.4.8 *The security granted may not be sufficient to cover amounts owed to Bondholders*

The Bonds are secured by guarantees from certain material members of the Group located in the US, and the UK, as well as all shares owned by the Issuer and the Guarantors (as defined in Section 4.1 "*Main terms of the Bond*" below). However, there can be no certainty that the entities issuing the guarantees are creditworthy or that the value of the security interests in the Group's assets is, or will be, sufficient to cover amounts owed to the Bondholders.

The Bonds are secured on a *pari passu* basis with the other secured parties under the security package, subject to the super senior status of certain guarantee facilities with an aggregate principal amount outstanding not exceeding the higher of USD 10,000,000 and 0.25x EBITDA (or the equivalent amount in any other currency). The super senior creditors will, inter alia, receive the proceeds from any enforcement of the security and the guarantees and certain distressed disposals prior to the Bondholders in accordance with the waterfall provisions of any applicable intercreditor agreement. The intercreditor agreement also contains provisions regulating instruction rights, including instructions as to enforcement. Upon certain conditions being met, such instruction rights may be held entirely by a defined majority of such super senior creditors which may have conflicting interests with the Bondholders in a default

and enforcement scenario, including an incentive to take enforcement steps which may be detrimental to the value of the Bonds and recovery for the Bondholders. As a consequence, and although the Bonds are secured obligations of the Issuer, the value of the security may not be sufficient to cover all the outstanding amounts under the Bond Terms together with accrued interest and expenses in case of a default and/or if the Issuer enters into liquidation.

Furthermore, enforcing the guarantees and security interests may be an expensive and time consuming process involving complex legal proceedings, and there can be no certainty that it will be successful. Even if the Bondholders are successful in bringing an action in a jurisdiction, local laws may prevent or restrict the Bondholders from enforcing a judgment against a member of the Group, the Group's assets or the assets of its officers.

2 RESPONSIBILITY FOR THE PROSPECTUS

This Prospectus has been prepared in connection with the Listing of the Bonds on the Oslo Stock Exchange.

Varel Oil and Gas Inc. accepts responsibility for the information contained in this Prospectus. The Issuer confirms that to the best of its knowledge, the information contained in this Prospectus is in accordance with the facts and that the Prospectus makes no omission likely to affect its import.

Texas, USA, 3 April 2025

Varel Oil and Gas Inc.

3 GENERAL INFORMATION

3.1 Other important investor information

This Prospectus has on 3 April 2025 been approved by the Norwegian FSA, as competent authority under the EU Prospectus Regulation. The Norwegian FSA only approves this Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the EU Prospectus Regulation, and such approval shall not be considered as an endorsement of the issuer or the quality of the securities that are the subject of this Prospectus. Investors should make their own assessment as to the suitability of investing in the Bonds.

The Issuer has furnished the information in this Prospectus. The Issuer's advisors make no representation or warranty, express or implied, as to the accuracy, completeness or verification of the information set forth herein, and nothing contained in this Prospectus is, or shall be relied upon, as a promise or representation in this respect, whether as to the past or the future.

The information contained herein is current as of the date hereof and is subject to change, completion and amendment without notice. In accordance with Article 23 of the EU Prospectus Regulation, every significant new factor, material mistake or material inaccuracy relating to the information included in this Prospectus, which may affect the assessment of the Bonds and which arises or is noted between the time when the Prospectus is approved by the Norwegian FSA and the Listing, will be presented in a supplement to this Prospectus without undue delay. Neither the publication nor distribution of this Prospectus shall under any circumstance imply that there has not been any change in the Group's affairs or that the information herein is correct as of any date subsequent to the date of this Prospectus.

Neither the Issuer nor the Managers nor any of their respective affiliates, representatives or advisors, is making any representation, express or implied, to any offeree or purchaser of Bonds regarding the legality or suitability of an investment in the Bonds. Each investor should consult with his or her own advisors as to the legal, tax, business, financial and related aspects of a purchase of the Bonds.

Investing in the Bonds involves a high degree of risk. See Section 1 "*Risk factors*".

3.2 Presentation of financial and other information

3.2.1 *The Issuer Financial Statements*

The financial information in this Prospectus relating to the Issuer has been derived from (i) the financial statements for Varel Oil and Gas Inc. as of and for the financial years ended 31 December 2023 and 31 December 2022, and (ii) the consolidated financial statements for Varel Oil and Gas Inc. as of and for the financial year ended 31 December 2023 and 31 December 2022 (together, the "**Issuer Financial Statements**"), prepared in accordance with the IFRS® Accounting Standards as adopted by the International Accounting Standards Board ("**IFRS (IASB)**"). The Issuer Financial Statements are presented in USD and have been audited by PricewaterhouseCoopers LLP ("**PwC US**"). PwC US has conducted the audit in accordance with auditing standards generally accepted in the United States ("**US GAAS**").

For information regarding accounting policies and the use of estimates and judgements, please refer to note 2 of the Issuer Financial Statements, as well as in integrated parts of the other notes of the Issuer Financial Statements. There is no financial information in the Prospectus about the Issuer not extracted from the Issuer Financial Statements.

The Issuer Financial Statements are included in Appendices 13 – 14 to this Prospectus.

3.2.2 *The Guarantors' Annual Financial Statements*

The Guarantors' statements included in this Prospectus comprise the following financial statements:

- 1) Varel Oil and Gas Intermediate Holdings, Inc.; audited consolidated financial statements as of and for the financial years 31 December 2023 and 2022, prepared in accordance with IFRS (IASB). The financial statements are presented in USD and have been audited by PwC US in accordance with US GAAS.
- 2) Varel International Energy Services, Inc.; audited financial statements as of and for the financial years 31 December 2023 and 2022, prepared in accordance with IFRS (IASB). The financial statements are presented in USD and have been audited by PwC US in accordance with US GAAS.
- 3) Varel International Holdings, LLC; audited financial statements as of and for the financial years 31 December 2023 and 2022, prepared in accordance with IFRS (IASB). The financial statements are presented in USD and have been audited by PwC US in accordance with US GAAS.
- 4) Varel International Ind., LLC; audited financial statements as of and for the financial years 31 December 2023 and 2022, prepared in accordance with IFRS (IASB). The financial statements are presented in USD and have been audited by PwC US in accordance with US GAAS.
- 5) DHP Varel, Inc.; audited financial statements as of and for the financial years 31 December 2023 and 2022, prepared in accordance with IFRS (IASB). The financial statements are presented in USD and have been audited by PwC US in accordance with US GAAS.
- 6) Downhole Products UK Holdco II Limited; unaudited (dormant) financial statements as of and for the financial year ended 31 December 2022 prepared in accordance with Financial Reporting Standard 101, "Reduced Disclosure Framework" as adopted by the Financial Reporting Council of the United Kingdom ("**UK GAAP**"). The financial statements are presented in USD.
- 7) Downhole Products UK Holdco II Limited; audited financial statements as of and for the financial year ended 31 December 2023 prepared in accordance with UK GAAP. The financial statements are presented in USD and have been audited by PwC PricewaterhouseCoopers LLP in the United Kingdom ("**PwC UK**") in accordance with International Standards on Auditing (UK) ("**ISAs (UK)**") and applicable law.
- 8) Downhole Products UK Holdco Limited; unaudited (dormant) financial statements as of and for the financial year ended 31 December 2022 prepared in accordance with UK GAAP. The financial statements are presented in USD.
- 9) Downhole Products UK Holdco Limited; audited (dormant) financial statements as of and for the financial year ended 31 December 2023 prepared in accordance with UK GAAP. The financial statements are presented in USD and have been audited by PwC UK in accordance with ISAs (UK) and applicable law.
- 10) Downhole Products Limited; audited financial statements as of and for the financial year ended 31 December 2022 prepared in accordance with UK GAAP. The financial statements are presented in USD and have been audited by PwC UK in accordance with ISAs (UK) and applicable law.
- 11) Downhole Products Limited; audited financial statements as of and for the financial year ended 31 December 2023 prepared in accordance with UK GAAP. The financial statements are presented in USD and have been audited by PwC UK in accordance with ISAs (UK) and applicable law.
- 12) Downhole Products Holdings USA, Inc.; audited financial statements as of and for the financial year 31 December 2023 with comparable figures for the financial year ended 31 December 2022, prepared in accordance with IFRS (IASB). The financial statements are presented in USD and have been audited by PwC US in accordance with US GAAS.

- 13) Aberdeen Products, Inc.; audited financial statements as of and for the financial year 31 December 2023 with comparable figures for the financial year ended 31 December 2022, prepared in accordance with IFRS (IASB). The financial statements are presented in USD and have been audited by PwC US in accordance with US GAAS.

The financial statements of the Guarantors are hereinafter collectively referred to as the "**Guarantors' Annual Financial Statements**". The Guarantors' Annual Financial Statements and the Issuer Financial Statements are hereinafter collectively referred to as the "**Financial Information**".

Note on differences between UK GAAP and IFRS Accounting Standards (EU)

As stated, the Guarantors referenced in financial statements 6-11 above prepare their financial statements in accordance with UK GAAP. As such, these financial statements have not been prepared in accordance with IFRS Accounting Standards® as adopted by the EU ("**IFRS (EU)**"). IFRS (EU) differs to UK GAAP in a number of areas and consequently there may be material differences in the financial information had IFRS (EU) been applied to this historical financial information. UK GAAP applies the recognition, measurement and disclosure requirements of the IFRS Accounting Standards as adopted by the UK (UK-adopted international accounting standards) but makes amendments where necessary in order to comply with the United Kingdom Companies Act 2006 (the "**Companies Act**") and to take advantage of the UK GAAP disclosure exemptions. There are no material recognition or measurement differences between the UK GAAP to IFRS (EU).

Financial statements of Downhole Products UK Holdco II Limited and Downhole Products UK Holdco Limited

The financial statements for the year ended 31 December 2022 for Downhole Products UK Holdco II Limited and Downhole Products UK Holdco Limited (the "**Dormant Guarantors**"), referenced in 6 and 8 above, are unaudited. The Dormant Guarantors were exempted from preparing audited financial statements pursuant to Section 480 of the Companies Act, as they were dormant during 2022.

In accordance with Annex 21, Section 3, cf. Annex 7, Item 11.2.1 to the Commission Delegated Regulation (EU) 2019/980 of 14 March 2019, as amended and implemented in Norway in accordance with section 7-1 of the Norwegian Securities Trading Act (the "**Delegated Regulation**"), the Issuer is required to include audited historical financial information covering the latest two financial years for all the Guarantors, including the Dormant Guarantors, in the Prospectus. The Issuer applied for an exemption to this requirement for the Dormant Guarantors for the year ended 31 December 2022 *inter alia* on the basis that the Dormant Guarantors were exempted from preparing audited financial statements under Section 480 of the Companies Act. Based on this application, the Norwegian FSA granted an exemption from including audited financial statements for the year ended 31 December 2022 for the Dormant Guarantors.

Furthermore, attention is drawn to the "Other Matters" section of the audit opinions in the financial statements for the year ended 31 December 2023 for the Dormant Guarantors: *The financial statements for the year ended 31 December 2022, forming the corresponding figures of the financial statements for the year ended 31 December 2023, are unaudited.* The inclusion of this "Other Matters" section in the audit opinions stems from the fact that the financial statements for the year ended 31 December 2022 for the Dormant Guarantors are unaudited.

3.2.3 Industry and market data

In this Prospectus, the Issuer has used industry and market data from independent industry publications and market research.

The Issuer confirms that where information has been sourced from a third party, such information has been accurately reproduced and that as far as the Issuer is aware and is able to ascertain from information published by that third party, no facts have been omitted that would render the reproduced information inaccurate or misleading. Where information sourced from third parties has been presented, the source of such information has been

identified. However, source references to websites shall not be deemed as incorporated by reference to this Prospectus.

The Issuer confirms that no statement or report attributed to a person as an expert is included in this Prospectus.

Industry publications or reports generally state that the information they contain has been obtained from sources believed to be reliable, but the accuracy and completeness of such information is not guaranteed. The Issuer has not independently verified and cannot give any assurances as to the accuracy of market data contained in this Prospectus that was extracted from these industry publications or reports and reproduced herein. Market data and statistics are inherently predictive and subject to uncertainty and not necessarily reflective of actual market conditions. Such statistics are based on market research, which itself is based on sampling and subjective judgments by both the researchers and the respondents, including judgments about what types of products and transactions should be included in the relevant market.

The Issuer cautions prospective investors not to place undue reliance on the above-mentioned data. Unless otherwise indicated in the Prospectus, any statements regarding the Group's competitive position are based on the Issuer's own assessment and knowledge of the market in which it operates. Such information and data are sourced herein as "**Company Information**".

As a result, prospective investors should be aware that statistics, data, statements and other information relating to markets, market sizes, market shares, market positions and other industry data in this Prospectus (and projections, assumptions and estimates based on such information) may not be reliable indicators of the Issuer's future performance and the future performance of the industry in which it operates. Such indicators are necessarily subject to a high degree of uncertainty and risk due to the limitations described above and to a variety of other factors, including those described in Section 1 "*Risk factors*" and elsewhere in this Prospectus.

3.2.4 Currencies

In this Prospectus, all references to "**USD**" are to the lawful currency of the United States; all references to "**NOK**" are to the lawful currency of Norway; all references to "**EUR**" are to the lawful common currency of the EU member states who have adopted the Euro as their sole national currency; all references to "**GBP**" are to the lawful currency of the United Kingdom; all references to "**SAR**" are to the lawful currency of Saudi Arabia; all references to "**INR**" are to the lawful currency of India; all references to "**MXN**" are to the lawful currency of Mexico; and all references to "**AED**" are to the lawful currency of the United Arab Emirates. No representation is made that the USD, NOK, EUR, GBP, SAR, INR, MXN or AED amounts referred to herein could have been or could be converted into USD, NOK, EUR, GBP, SAR, INR, MXN or AED as the case may be, at any particular rate, or at all.

3.2.5 Rounding

Certain figures included in this Prospectus have been subject to rounding adjustments (by rounding to the nearest whole number or decimal or fraction, as the case may be). Accordingly, figures shown for the same category presented in different tables may vary slightly. As a result of rounding adjustments, the figures presented may not add up to the total amount presented.

3.3 Cautionary note regarding forward-looking statements

This Prospectus includes forward-looking statements that reflect the Issuer's current views with respect to future events and financial and operational performance. These forward-looking statements may be identified by the use of forward-looking terminology, such as the terms "anticipates", "assumes", "believes", "can", "could", "estimates", "expects", "forecasts", "intends", "may", "might", "plans", "projects", "should", "will", "would" or, in each case, their negative, or other variations or comparable terminology. These forward-looking statements as a general matter are

all statements other than statements as to historic facts or present facts and circumstances. They appear, among other areas, in the following sections in this Prospectus, Section 5 "*Business of the Group*", and Section 6 "*Selected Historical Financial Information*", and include statements regarding the Issuer's intentions, beliefs or current expectations concerning, among other things, financial strength and position of the Group, operating results, liquidity, prospects, growth, the implementation of strategic initiatives, as well as other statements relating to the Group's future business development and financial performance, and the industry in which the Group operates, such as, but not limited to the Group's expansion in existing and entry into new markets in the future.

Prospective investors are cautioned that forward-looking statements are not guarantees of future performance and that the Group's actual financial position, operating results and liquidity, and the development of the industry and potential market in which the Group may operate in the future, may differ materially from those made in, or suggested, by the forward-looking statements contained in this Prospectus. The Issuer cannot guarantee that the intentions, beliefs or current expectations upon which its forward-looking statements are based will occur.

By their nature, forward-looking statements involve, and are subject to, known and unknown risks, uncertainties and assumptions as they relate to events and depend on circumstances that may or may not occur in the future. Because of these known and unknown risks, uncertainties and assumptions, the outcome may differ materially from those set out in the forward-looking statements. Important factors that could cause those differences include, but are not limited to:

- the Group's strategy, outlook and growth prospects;
- the Group's operational and financial objectives, including statements as to the Issuer's medium or long-term growth, margin, and dividend policy;
- the competitive nature of the business in which the Group operates and the competitive pressure and competitive environment in general;
- earnings, cash flow, dividends and other expected financial results and conditions;
- the expected growth and other developments of the industries which the Group operates;
- the Group's planned investments;
- forecasts; and
- the Group's liquidity, capital resources, capital expenditures, and access to funding.

The risks that are currently known to the Issuer and which could affect the Group's future results and could cause results to differ materially from those expressed in the forward-looking statements are discussed in Section 1 "*Risk factors*".

The information contained in this Prospectus identifies additional factors that could affect the Group's financial position, operating results, cash flow, liquidity and performance. Prospective investors are urged to read all Sections of this Prospectus for a more complete discussion of the factors that could affect the Group's future performance and the industry in which the Group operates when considering an investment in the Issuer.

These forward-looking statements speak only as of the date on which they are made. The Issuer undertakes no obligation to publicly update or publicly revise any forward-looking statement, whether as a result of new information, future events or otherwise. All subsequent written and oral forward-looking statements attributable to the Issuer or to persons acting on the Issuer's behalf are expressly qualified in their entirety by the cautionary statements referred to above and contained elsewhere in this Prospectus.

4 THE BONDS

4.1 Main terms of the Bonds

The issuance of the Bonds (the "**Bond Issue**") is governed by the Norwegian law governed bond agreement entered into on 4 April 2024 (the Bond Terms) between the Issuer as issuer and Nordic Trustee AS as bond trustee on behalf of the bondholders (the "**Bond Trustee**"). A copy of the Bond Terms is attached to this Prospectus as Appendix 2.

In this Section 4.1 "*Main terms of the Bonds*" capitalized terms used and not defined herein shall have the same meaning as in the Bond Terms.

ISIN:	NO 0013182121
The Bond Issue:	Varel Oil and Gas Inc. 12.25% senior secured USD 72,000,000 bonds 2024/2028
Issuer:	Varel Oil and Gas Inc., a private limited liability company existing under the laws of the State of Delaware, having its official seat in Delaware, USA, with registration number 7649188 and LEI-code 984500A10EA482B94081.
Guarantors:	<p>The Original Guarantors and each Material Subsidiary from time to time, which at the date of this Prospectus comprise:</p> <ul style="list-style-type: none"> a) Varel Oil and Gas Intermediate Holdings Inc.; b) Varel International Energy Services Inc.; c) Varel International Holdings, LLC; d) Varel International Ind., LLC; e) DHP Varel, Inc.; f) Downhole Products UK Holdco II Limited; g) Downhole Products UK Holdco Limited; h) Downhole Products Limited; i) Downhole Products Holdings USA, Inc.; and j) Aberdeen Products, Inc. <p>The Guarantees are joint and several, unconditional and irrevocable Norwegian law guarantees and indemnity (Nw.: <i>selskyldnerkausjon</i>) issued by each of the Guarantors in respect of the Secured Obligations (as defined in the Bond Terms), which includes, inter alia, all liabilities incurred by any member of the Group (including the Issuer) in connection with the Bond Terms and the related Finance Documents.</p>
Group:	The Parent and its Subsidiaries from time to time.
Subsidiary:	A person over which another person has Decisive Influence.
Material Group Company:	<p>Any Group Company which is nominated as such by the Issuer in accordance with clause 13.18 (<i>Designation of Material Group Companies</i>) of the Bond Terms regarding designation of material group companies.</p> <p>Pursuant to clause 13.18 on designation of material group companies:</p> <ul style="list-style-type: none"> (a) The Issuer shall: <ul style="list-style-type: none"> (i) together with the delivery of its Annual Financial Statements; and

	<p>(ii) on the date of the completion of any merger or de-merger, disposal of a Material Group Company, or any acquisition which is financed through the proceeds of a Tap Issue,</p> <p>deliver a Compliance Certificate to the Bond Trustee designating as Material Group Companies;</p> <p>(A) each such Group Company which (on a consolidated basis in the case of a Group Company which itself has Subsidiaries) has EBITDA which represents more than 10.00 percent of aggregate EBITDA (excluding intra-Group items) of the Group, calculated on a consolidated basis, based on the preceding four financial quarters (where Financial Reports are available); and</p> <p>(B) any additional Group Companies which are necessary to ensure that the aggregate EBITDA of the Guarantors (calculated on an unconsolidated basis and excluding all intra-Group items, investments in Subsidiaries of any Group Company) exceed 80.00 percent of consolidated EBITDA of the Group.</p> <p>(b) The Issuer shall procure that each Group Company constituting an Eligible Material Group Company no later than 30 Business Days after such nomination grants Transaction Security in accordance with the Agreed Security Principles and access to the Intercreditor Agreement.</p> <p>(c) The identity of the Material Group Companies nominated by the Issuer in accordance with this Clause 13.18 (<i>Designation of Material Group Companies</i>) and the identity of any Eligible Material Group Companies shall be listed in the Compliance Certificate to be provided to the Bond Trustee in connection with the provision of the relevant compliance certificate in accordance with Clause 12.2 (<i>Requirements as to Financial Reports</i>).</p>
Status of the Bonds and Security:	<p>The Bonds constitute senior secured unsubordinated debt obligations of the Issuer and will rank <i>pari passu</i> between themselves and at least <i>pari passu</i> with all other senior obligations of the Issuer (save for such claims which are preferred by bankruptcy, insolvency, liquidation or other similar laws of general application).</p> <p>The Bonds are secured on a <i>pari passu</i> basis with the claims of the other Secured Parties in respect of the Transaction Security (other than the Escrow Account Pledge), subject to the super senior status of the Guarantee Facilities. The Super Senior Creditors (as defined in the Intercreditor Agreement) will receive (i) the proceeds from any enforcement of the Transaction Security (other than the Escrow Account Pledge) and certain distressed disposals and (ii) any payments following any other enforcement event prior to the Bondholders (but otherwise rank <i>pari passu</i> in right of payment with the Bonds) in accordance with the waterfall provisions of the Intercreditor Agreement.</p>
Date of Bond Terms:	4 April 2024
Maximum Issue Amount:	USD 90,000,000
Initial Bond Issue:	USD 60,000,000
Outstanding amount:	USD 72,000,000
Tap Issue:	The Issuer may, provided that the conditions set out in clause 6.4 (<i>Tap Issues</i>) of the Bond Terms are met, at one or more occasions issue Additional Bonds

	<p>until the Nominal Amount of all Additional Bonds equals in aggregate the Maximum Issue Amount less the Initial Bond Issue. Each Tap Issue will be subject to identical terms as the Bonds issued pursuant to the Initial Bond Issue in all respects as set out in the Bond Terms, except that Additional Bonds may be issued at a different price than for the Initial Bond Issue and which may be below or above the Nominal Amount. The Bond Trustee shall prepare an addendum to the Bond Terms evidencing the terms of each Tap Issue.</p> <p>If the Bonds are listed on an Exchange and there is a requirement for a new prospectus in order for the Additional Bonds to be listed together with the Bonds, the Additional Bonds may be issued under a separate ISIN. Upon the approval of the prospectus, the Issuer shall (i) notify the Bond Trustee, the Exchange and the Paying Agent and (ii) ensure that the Temporary Bonds are converted into the ISIN for the Bonds.</p>
Initial nominal value of each Bond:	USD 125,000
Currency:	USD
Issue price:	100 percent of the Initial Nominal Amount (par value).
Securities form:	The Bonds are electronically registered in dematerialised form with the CSD.
Issue Date:	8 April 2024
Interest bearing from and including:	Issue Date
Interest bearing until:	Maturity Date
Maturity Date:	7 April 2028
Details of the arrangements for the amortization of the loan:	<p>The Outstanding Bonds will mature in full on the Maturity Date and shall be redeemed by the Issuer on the Maturity Date at a price equal to 100 percent of the Nominal Amount.</p> <p>There are no arrangements for amortization of the outstanding amount under the Bond Issue.</p>
Voluntary early or partial redemption	<p>Voluntary early redemption – Call Option</p> <p>(a) The Issuer may redeem all or part of the Outstanding Bonds on any Business Day from and including:</p> <ul style="list-style-type: none"> (i) the Issue Date to, but not including, the First Call Date at a price equal to the Make Whole Amount; (ii) the First Call Date to, but not including, the Interest Payment Date in October 2026 at a price equal to 106.1250 percent of the Nominal Amount for each redeemed Bond; (iii) the Interest Payment Date in October 2026 to, but not including, the Interest Payment Date in April 2027 at a price equal to 104.5938 percent of the Nominal Amount for each redeemed Bond; and (iv) the Interest Payment Date in April 2027 to, but not including, the Interest Payment Date in October 2025 at a price equal to 103.0625

	<p>(v) the Interest Payment Date in October 2027 to, but not including, the Maturity Date at a price equal to 100 percent of the Nominal Amount for each redeemed Bond.</p> <p>(b) Any redemption of Bonds pursuant to paragraph (a) above shall be determined based upon the redemption prices applicable on the Call Option Repayment Date.</p> <p>(c) The Call Option may be exercised by the Issuer by written notice to the Bond Trustee at least 10 Business Days prior to the proposed Call Option Repayment Date. Such notice sent by the Issuer is irrevocable and shall specify the Call Option Repayment Date. Unless the Make Whole Amount is set out in the written notice where the Issuer exercises the Call Option, the Issuer shall calculate the Make Whole Amount and provide such calculation by written notice to the Bond Trustee as soon as possible and at the latest within 3 Business Days from the date of the notice.</p> <p>(d) Any redemption notice given in respect of the Call Option may, at the Issuer's discretion, be subject to the satisfaction of one or more conditions precedent, in which case the exercise of the Call Option will be automatically cancelled unless such conditions precedent have been satisfied or waived no later than 3 Business Days prior to such Call Option Repayment Date</p> <p>(e) Any Call Option exercised in part will be used for pro rata payment to the Bondholders in accordance with the applicable regulations of the CSD.</p>
Interest Rate:	12.25 percentage points per annum.
Yield:	Investors wishing to invest in the Bonds after the Issue Date must pay the market price for the Bonds in the secondary market at the time of purchase. Depending on the development in the bond market in general and the development of the Issuer, the price of the Bonds may have increased (above par) or decreased (below par). If the price has increased, the yield for the purchaser in the secondary market will be lower than the Interest Rate of the Bonds and vice versa.
Interest Payment Dates:	The last day of each Interest Period, the first Interest Payment Date was 8 October 2024 and the last Interest Payment Date being the Maturity Date.
Interest Period:	Interest Period means, subject to adjustment in accordance with the Business Day Convention, the period between 8 October and 8 April each year, provided however that an Interest Period shall not extend beyond the Maturity Date.
First Interest Payment Date:	8 October 2024
Calculation and payment of interest:	<p>Calculation of interest</p> <p>Pursuant to clause 13.18 on calculation of interest: (a) Each Outstanding Bond accrues interest at the Interest Rate on the Nominal Amount for each Interest Period, commencing on and including the first date of the Interest Period, and ending on but excluding the last date of the Interest Period.</p> <p>(b) Any Additional Bond accrues interest at the Interest Rate on the Nominal Amount commencing on the first date of the Interest Period in which the Additional Bonds are issued and thereafter in accordance with paragraph (a) above.</p> <p>(c) Interest is be calculated on the basis of a 360-day year comprised of twelve months of 30 days each (30/360-days basis), unless:</p> <p>(i) the last day in the relevant Interest Period is the 31st calendar day but the first day of that Interest Period is a day other than the 30th or</p>

	<p>the 31st day of a month, in which case the month that includes that last day shall not be shortened to a 30-day month; or</p> <p>(ii) the last day of the relevant Interest Period is the last calendar day in February, in which case February shall not be lengthened to a 30-day month.</p> <p>Payment of interest</p> <p>Interest falls due on each Interest Payment Date for the corresponding preceding Interest Period and, with respect to accrued interest on the principal amount then due and payable, on each Repayment Date.</p>
Business Day:	A day on which both the relevant CSD settlement system and the relevant settlement system for the Bond Currency are open.
Business Day Convention:	If the last day of any Interest Period originally falls on a day that is not a Business Day, no adjustment will be made to the Interest Period.
Time limit on the validity of claims relating to interest and repayment of principal:	All claims under the Finance Documents for payment, including interest and principal, shall be subject to the time-bar provisions of the Norwegian Act of 18 May 1979 no. 18 relating to the limitation period for claims (currently being 3 years for interest rates and 10 years for principal).
Put Option:	<p>Put Option</p> <p>(a) Upon the occurrence of a Put Option Event, each Bondholder has the right to require that the Issuer purchases all or some of the Bonds held by that Bondholder at a price equal to 101 percent of the Nominal Amount.</p> <p>(b) The Put Option must be exercised within 15 Business Days after the Issuer has given notice to the Bond Trustee and the Bondholders that a Put Option Event has occurred pursuant to clause 12.4 (<i>Put Option Event</i>) of the Bond Terms. Once notified, the Bondholders' right to exercise the Put Option is irrevocable.</p> <p>(c) Each Bondholder may exercise its Put Option by written notice to its account manager for the CSD, who will notify the Paying Agent of the exercise of the Put Option. The Put Option Repayment Date will be the 5th Business Day after the end of 15 Business Days exercise period referred to in paragraph (b) above. However, the settlement of the Put Option will be based on each Bondholders holding of Bonds at the Put Option Repayment Date.</p> <p>(d) Notwithstanding the foregoing, in the event that any Bondholder has exercised the Put Option in respect of a Change of Control Event, and the Issuer makes use of the Special Redemption Option, then the Special Redemption Option shall prevail and all Bonds (including those subject to the Put Option) shall be redeemed in accordance with the Special Redemption Option.</p> <p>(e) If Bonds representing more than 90 percent of the Outstanding Bonds have been repurchased pursuant to clause 10.3 of the Bond Terms, the Issuer is entitled to repurchase all the remaining Outstanding Bonds at the price stated in paragraph (a) above by notifying the remaining Bondholders of its intention to do so no later than 10 Business Days after the Put Option Repayment Date. Such notice sent by the Issuer is irrevocable and shall specify the Call Option Repayment Date.</p> <p>Early redemption option due to a tax event</p> <p>If the Issuer is or will be required to gross up any withheld tax imposed by law from any payment in respect of the Bonds under the Finance Documents pursuant to clause 8.4 (<i>Taxation</i>) of the Bond Terms as a result of a change</p>

	in applicable law implemented after the date of the Bond Terms, the Issuer has the right to redeem all, but not only some, of the Outstanding Bonds at a price equal to 100 percent of the Nominal Amount. The Issuer shall give written notice of such redemption to the Bond Trustee and the Bondholders at least 20 Business Days prior to the Tax Event Repayment Date, provided that no such notice shall be given earlier than 40 Business Days prior to the earliest date on which the Issuer would be obliged to withhold such tax were a payment in respect of the Bonds then due.
Put Option Event:	<p>A Change of Control Event.</p> <p>"Change of Control Event" has the meaning as described in the table below.</p>
Put Option Repayment Date	The Put Option Repayment Date is the fifth (5th) Business Day after the end of fifteen (15) Business Days exercise period referred to in clause 10.3 paragraph (b) of the Bond Terms. However, the settlement of the Put Option will be based on each Bondholders holding of Bonds at the Put Option Repayment Date.
Change of Control Event:	<p>Prior to an IPO Event, a Change of Control Event means any event where the Sponsor and any Permitted Transferee between them collectively or individually (directly or indirectly) cease to (i) control a majority of the voting rights in the Issuer, or (ii) a right to elect or remove a majority of the members of the board of directors of the Issuer.</p> <p>Following an IPO, a Change of Control Event means any person or group of persons acting in concert (other than the Sponsor or any Permitted Transferee) gains (i) control of a majority of the voting rights in the Issuer, or (ii) a right to elect or remove a majority of the members of the board of directors of the Issuer.</p>
Covenants:	General and financial covenants apply to the Issuer. See clauses 12 (<i>Information undertakings</i>) and 13 (<i>General and financial undertakings</i>) of the Bond Terms for more information.
Admission to listing:	The Issuer shall ensure that the Bonds are listed on an Exchange within 12 months of the Issue Date, i.e., 8 April 2025, and thereafter remain listed on an Exchange until the Bonds have been redeemed in full. The Issuer shall ensure that any Temporary Bonds are listed on the Exchange where the other Bonds are listed within the later of (i) 6 months of the issue date for such Temporary Bonds and (ii) 12 months of the Issue Date.
Use of proceeds:	<p>The Issuer has and will use the Net Proceeds from the Initial Bond Issue as follows:</p> <ul style="list-style-type: none"> (i) refinancing of the Existing Debt; (ii) Payment of the Deferred Consideration; and (iii) general corporate purposes. <p>The Issuer will use the Net Proceeds from the issuance of any Additional Bonds for general corporate purposes of the Group (if not otherwise stated).</p>
Bond Terms:	<p>Means the terms and conditions, including all Attachments which form an integrated part of the Bond Terms, in each case as amended and/or supplemented from time to time, entered into by the Issuer and the Bond Trustee in respect of the Bond Issue.</p> <p>The bondholders shall be bound by the terms and conditions of the Bond Terms and any other Finance Document without any further action required to</p>

	<p>be taken or formalities complied with by the Bond Trustee, the bondholders, the Issuer or any other party.</p> <p>The Bond Trustee acts as the representative of all the bondholders, monitoring the Issuer's performance of obligations pursuant to the Bond Terms, supervising the timely and correct payment of principal or interest, arranging bondholders' meetings, and taking action on behalf of all the bondholders as and if required.</p> <p>For further details of the Bond Trustee's role and authority as the bondholders' representative, see clause 16 (<i>The Bond Trustee</i>) of the Bond Terms.</p> <p>Information regarding bondholders' meeting and the bondholders' right to vote are described in clause 15 (<i>Bondholder' decisions</i>) of the Bond Terms.</p>
Finance Documents:	The Bond Terms, the Bond Trustee Fee Agreement, the Intercreditor Agreement, any Transaction Security Document, any Security Agent Agreement and any other document designated by the Issuer and the Bond Trustee as a Finance Document.
Bondholders' Meeting:	<p>At the Bondholders' Meeting each Bondholder (or person acting for a Bondholder under a power of attorney) has one vote for each Bond owned by the Bondholder. The Issuer's Bonds shall not carry any voting rights.</p> <p>At least 50 percent of the Voting Bonds must be represented at a Bondholders' Meeting for a quorum to be present.</p> <p>Resolutions shall be passed with a simple majority of the Voting Bonds represented at the Bondholders' Meeting, except as set forth below.</p> <p>Notwithstanding the above, approval of at least 2/3 of the Voting Bonds represented at the Bondholders' Meeting is required for approval of any waiver or amendment of the Bond Terms, except for any amendments or waivers that can be made without a resolution pursuant to paragraph (a) (i) and (ii) of clause 17.1 (<i>Procedure for amendments and waivers</i>) of the Bond Terms.</p> <p>For further details of the Bondholders' Meeting's authority, procedures, voting rules and written resolutions, see clause 15 (<i>Bondholders' decisions</i>) of the Bond Terms and Section 4.2 "<i>Bondholders' rights</i>" below.</p>
Availability of documentation:	www.varel.com and www.stamdata.no .
Bond Trustee:	<p>Nordic Trustee AS, a company existing under the laws of Norway with registration number 963 342 624 and LEI-code 549300XAKTM2BMKIPT85.</p> <p>The Bond Trustee may, in some cases, have the right to make decisions and take actions that bind all Bondholders. It is possible that such decisions and actions will negatively affect one or more Bondholders.</p>
Manager for the Bond Issue:	Arctic Securities AS and Pareto Securities AS.
Paying Agent:	Pareto Securities AS, as appointed by the Issuer to act as its paying agent with respect to the Bonds in the CSD.
Transfer of Bonds:	<p>Restrictions</p> <p>(a) Certain purchase or selling restrictions may apply to Bondholders under applicable local laws and regulations from time to time. Neither the Issuer nor the Bond Trustee are responsible for ensuring compliance with such laws and</p>

	<p>regulations and each Bondholder is responsible for ensuring compliance with the relevant laws and regulations at its own cost and expense.</p> <p>(b) A Bondholder who has purchased Bonds in breach of applicable restrictions may, notwithstanding such breach, benefit from the rights attached to the Bonds pursuant to the Bond Terms (including, but not limited to, voting rights), provided that the Issuer shall not incur any additional liability by complying with its obligations to such Bondholder.</p>
Legislation under which the Bonds have been created:	Norwegian law.
Fees and expenses:	Any public fees levied on the trade of Bonds in the secondary market shall be paid by the Bondholders, unless otherwise provided by law or regulation, and the Issuer is not responsible for reimbursing any such fees.

4.2 Bondholders rights

The rights attached to the Bonds are set out in the Bond Terms, which is enclosed as [Appendix 2](#) to the Prospectus. Below is a summary of principal rights and competencies.

4.2.1 Bondholders' meetings

The Bondholders' meeting is the highest authority in the Bondholders' community. The Bondholders' meeting may on behalf of the Bondholders resolve to alter any of the Bond Terms, including but not limited to, any reduction of principal or interest and any conversion of the Bonds into other capital classes. The Bondholders' meeting cannot resolve that any overdue payment of any instalment shall be reduced unless there is a pro rata reduction of the principal that has not fallen due, but may resolve that accrued interest (whether overdue or not) shall be reduced without a corresponding reduction of principal. The Bondholders' meeting cannot adopt resolutions that will give certain Bondholders an unreasonable advantage at the expense of other Bondholders.

Subject to the power of the Bond Trustee to take certain actions, if a resolution or approval by the Bondholders' meeting is required, such resolution may be passed at a Bondholders' meeting. Resolutions passed at any Bondholders' meeting will be binding upon all bondholders.

The Bond Trustee represents all Bondholders in all matters relating to the Bonds, and the Bondholders are prevented from taking action on their own against the Issuer. Consequently, individual Bondholders do not have the right to take enforcement action against the Issuer if it defaults; they must instead wait until a requisite majority of Bondholders agree to take such action.

Bondholders' meetings are convened by the Bond Trustee upon a written request from the Issuer, Bondholders representing at least 1/10 of the voting Bonds, the Oslo Stock Exchange, or the Bond Trustee, specifying the matters to be discussed and resolved. The Bond Trustee shall convene Bondholders' meetings within ten trading days of receiving a valid request. Summons to a Bondholders' meeting (the "**Summons**") must be sent no later than ten Business Days prior to the proposed date of the Bondholders' meeting. The Summons shall be sent to all Bondholders registered in the CSD at the time the Summons is sent from the CSD. If the Bonds are listed, the Issuer shall ensure that the Summons is published in accordance with the applicable regulations of the Exchange. The Summons shall also be published on the website of the Bond Trustee (alternatively by press release or other relevant information platform). Any Summons for a Bondholders' meeting must clearly state the agenda for the Bondholders' meeting and the matters to be resolved. The Bond Trustee may include additional agenda items to those requested by the person calling for the Bondholders' meeting in the Summons. If the Summons contains proposed amendments to the Bond Terms, a description of the proposed amendments must be set out in the

Summons. Items which have not been included in the Summons may not be put to a vote at the Bondholders' Meeting.

By written notice to the Issuer, the Bond Trustee may prohibit the Issuer from acquiring or dispose of Bonds during the period from the date of the Summons until the date of the Bondholders' meeting, unless the acquisition of Bonds is made by the Issuer pursuant to clause 10 (*Redemption and Repurchase of Bonds*) of the Bond Terms.

The Issuer shall bear the costs and expenses incurred in connection with convening a Bondholders' meeting, regardless of who has convened the meeting, including any reasonable costs and fees incurred by the Bond Trustee.

At least 50% of the voting Bonds must be represented at a Bondholders' meeting for a quorum to be present. Each Bondholder, the Bond Trustee and representatives of the Oslo Stock Exchange, or any person or persons acting under a power of attorney for a bondholder shall have the right to attend the Bondholders' meeting. The chairperson (the Bond Trustee or such other representative) elected by the Bondholders' meeting may grant access to the meeting to other persons, unless the Bondholders' meeting decides otherwise. In addition, each person entitled to attend the meeting has the right to be accompanied by an advisor. In addition, each person entitled to attend the meeting has the right to be accompanied by an advisor.

Even if the necessary quorum is not achieved, the Bondholders' meeting shall be held and voting completed for the purpose of recording the voting results in the minutes of the Bondholders' meeting. The Bond Trustee or the person who convened the initial Bondholders' meeting may, within ten trading days of the initial Bondholder meeting, convene a repeated meeting with the same agenda as the first meeting, in accordance with the same procedures as the initial meeting, with the exception that the quorum requirements set out in paragraph (e) of clause 15.1 (*Authority of the Bondholders' Meeting*) of the Bond Terms shall not apply to a repeated Bondholders' meeting. A Summons for a repeated Bondholders' meeting shall also contain the voting results obtained in the initial Bondholders' meeting. Such a repeated Bondholders' meeting may only be convened once for each original Bondholders' meeting.

4.2.2 Voting rights

Each Bond carries one vote. In order to exercise voting rights, the Bondholder must be the registered owner of the Bonds on the relevant record date, being the Business Day immediately preceding the date of the respective Bondholders' decision. If the beneficial owner of a Bond is not registered as a Bondholder in the CSD and wishes to exercise his or her rights as a Bondholder, he or she must obtain proof of ownership of the Bonds acceptable to the Bond Trustee.

Ordinary resolutions are passed by a simple majority of the voting Bonds represented at the Bondholders' meeting. Any amendments or waivers of the Bond Terms require a majority of at least two-thirds of the voting Bonds represented at the Bondholders' meeting for approval, save for such amendments or waivers which can be made without resolution pursuant to paragraph (a) section (i) and (ii) of clause 17.1 (*Procedure for amendments and waivers*) of the Bond Terms.

As the Bond Terms allow for stated majorities to bind all Bondholders, including Bondholders who have not taken part in the meeting or procedure and those who have voted against the majority, there is a risk that the actions of the majority in such matters will impact a Bondholder's rights in a manner that is undesirable to it.

4.2.3 Written bondholders' resolutions

Subject to the Bond Terms, matters that may be resolved by the bondholders' meeting may also be resolved by way of a written resolution if passed with the relevant majority. The person requesting a Bondholders' meeting may

instead request that the relevant matters are to be resolved by written resolution only, unless the Bond Trustee decides otherwise.

Summons for written resolutions shall be sent to the Bondholders registered in the CSD at the time the Summons is sent from the CSD and published at the Bond Trustee's web site, or other relevant electronic platform or via press release. The Summons for written resolutions shall include instructions on how to vote for each separate item, and the time limit within which the Bond Trustee must have received all votes necessary in order for the written resolution to be passed with the requisite majority, being no less than ten and no more than 15 trading days from the date of the summons. Otherwise, unless conflicting, written resolutions are subject to the same procedures as bondholders' meetings in respect of bondholders' authority, quorums, voting rules, and repeated resolutions.

Only bondholders of voting Bonds registered with the CSD on the relevant record date, or the beneficial owner thereof having presented relevant evidence to the Bond Trustee, will be counted in the written resolution.

4.3 Reasons for the Listing

This Prospectus is being produced in connection with the Issuer's application for the admission to trading of the Bonds on Oslo Stock Exchange.

Pursuant to clause 4 (*Admission to listing*) of the Bond Terms, the Issuer shall ensure that the Bonds are listed on the Oslo Stock Exchange within 12 months of the Issue Date, i.e., 8 April 2025, and thereafter remain listed on an Exchange (as defined in the Bond Terms) until the Bonds have been redeemed in full.

The Issuer shall ensure that any Temporary Bonds are listed on an Exchange where the other Bonds are listed within the later of (i) 6 months of the issue date for such Temporary Bonds, and (ii) 12 months of the Issue Date.

The application for admission to trading is made by the Issuer to satisfy the conditions of the Bond Terms.

The Issuer will apply for the Bonds to be listed and admitted to trading on the Oslo Stock Exchange on 4 April 2025 as soon as possible after (i) this Prospectus has been approved by the Norwegian FSA. Approval of the application and commencement of trading in the Bonds is expected to take place on or about 4 April 2025, subject to fulfillment of any criteria set by the Oslo Stock Exchange.

Following the Listing, the Bonds will be admitted to trading on the Oslo Stock Exchange, under the ticker code "VAREL01".

The total costs of the Issuer in connection with the listing of the Bonds on Oslo Stock Exchange are estimated by the Issuer to be approximately USD 3.5 million.

4.4 Tax warning

Potential investors should be aware that changes in the tax legislation of the investors' and of the Issuer's country of incorporation may have an impact on the income received from the Bonds. There can be changes in the applicable tax legislation, increased taxation by national, local or foreign authorities, new or modified taxation rules and requirements, including requirements relating to the timing of any tax payments, which may have an impact on the on the income received from the Bonds.

4.5 No credit ratings

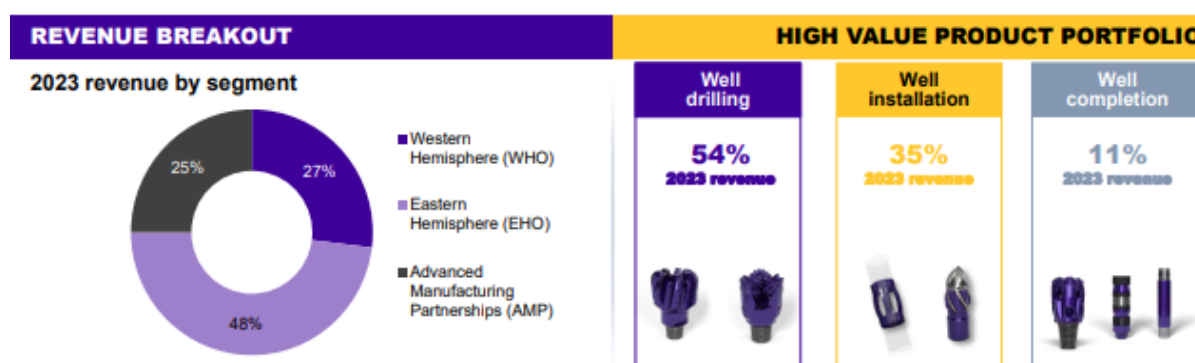
There are no credit ratings assigned to the Issuer or the Guarantors at the request of the Issuer or the Guarantors or with the cooperation of the Issuer or the Guarantors in the rating process.

5 BUSINESS OF THE GROUP

5.1 Introduction and business overview

The Group is a manufacturer of consumable drilling, cementing, and completion products for the oil and gas industry, with a total revenue of USD 192.2 million in 2023. The Group offers solutions that enable customers to drill, complete, and produce wells efficiently, safely, and in a cost-effective manner. Headquartered in Houston, USA, the Group operates over 1.1 million square feet of low-cost manufacturing facilities strategically located in Mexico, India, and Saudi Arabia to serve key markets globally with fast response times.

The Group's offered products includes both (i) a diverse product portfolio of highly engineered comprehensive drilling, cement and equipment packages across the wellbore construction, including well drilling, well installation and well completions, containing a full suite of components needed for a newbuild or reactivated drilling rig, and (ii) individual or grouped components of specific products that facilitate customers in maintaining and upgrading their existing fleet.

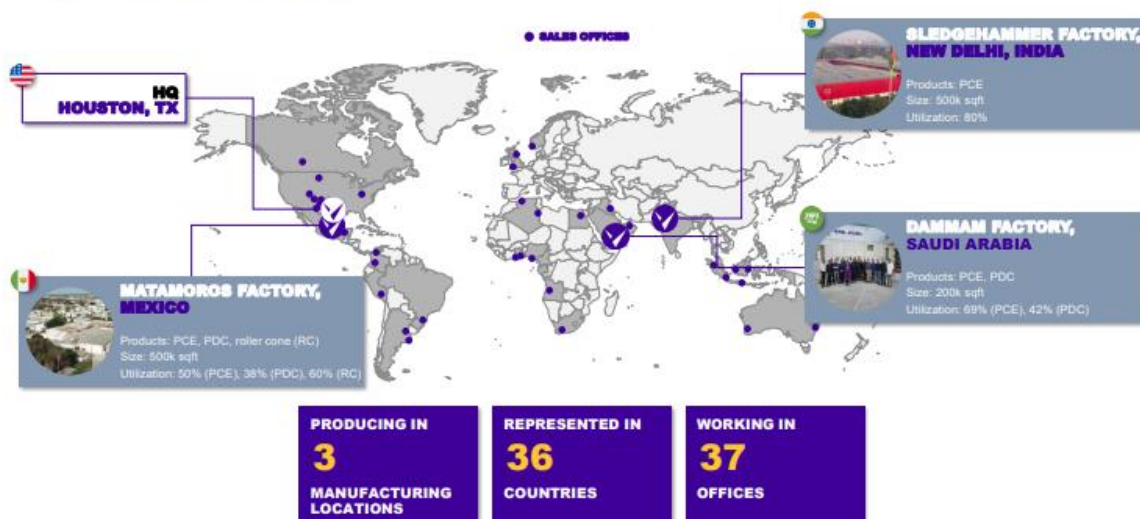


Approximately 30% of the Group's installed base of equipment serves the offshore drilling market, which is more highly regulated, more demanding and more technologically sophisticated than is typically encountered in the onshore market. As a result, offshore operators require highly engineered equipment and technical support services to keep their operations running safely, efficiently and productively. The Group believes that it is well-positioned to continue supporting and building its presence in the offshore drilling market as a result of its full, integrated suite of mission-critical drilling solutions, highly technical expertise, aftermarket services offerings and long experience providing and maintaining equipment in this industry.

The Group is a global business dating to its founding in 1947. In total, the Group has locations in 36 countries and sales in over 36 countries in 2023. In addition to sales offices and direct sales efforts, the Group incorporates distributors and manufacturing sales representatives into its sales and marketing channels in certain limited locations to market its various offerings.

■ A global manufacturer with unique logistics' setup covering all the world's major energy hubs

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In 2023, the Group held a 3% share of the global drill bits market.² Excluding state-owned and publicly traded companies, Varel was the largest supplier of drill bits to the GCC market (Gulf Cooperation Council). The Group generates a significant portion of revenues from long-term contracts which offers the Group a stable stream of revenues, as further detailed in Section 5.6 "Material agreements outside the ordinary course of business". Over its 77-year history, the Group believes it has developed trusted relationships with its customers and a strong reputation across the major market participants.



The Group has grown through internal development and strategic acquisitions over the years. In the opinion of the Issuer, the Group is well positioned to benefit from the strategic initiatives implemented since the investment in the Group in 2020 by the renowned private equity company Blue Water Energy LLP ("Bluewater"). As of date, the Group has 89 registered patents, underlying almost every strong selling product, including several in pipeline.

The Group operates an asset-neutral business model, requiring only limited investments in physical assets to maintain and/or grow its operational activities. During the period from 2021 to 2023, capital expenditures outside of

² Spears & associates – oilfield market report 2023 edition [Oilfield Market \(Single License\) — Spears & Associates](#) (the report is behind payment wall)

business combinations, such as acquisitions, have averaged 5.2% of the Group's revenues. The Group does not anticipate any material investment in property, plant and equipment in the near term.

5.2 History and important events

The Issuer is an affiliate within the Group commercially known as Varel Energy Solutions, a global provider of products and services to the oil and gas industry. A predecessor company of the Group, Varel Manufacturing, was founded in 1947 in Carrollton, Texas as a manufacturer of roller cone rock bits. The Group has expanded its product offering over the years to include PDC drill bits (2001) and primary cementing equipment (2008). In October 2019, the Issuer was established to facilitate Blue Water Energy and Nixon Energy's acquisition of a majority interest in the Group from Sandvik Inc. ("**Sandvik**"), with Sandvik retaining a 30% interest in the Group

The table below provides an overview of key events in the history of the Group:

Month, year	Main events
1947	Varel Manufacturing founded and established in Carrollton, Texas.
1985	Commercial launch of sealed bearing roller cone drill bits.
2001	Commercial launch of geoscience services and matrix body PDC drill bits.
2003	Established capability of manufacturing tungsten carbide compacts.
2006	Commercial launch of "jumbo" sized roller cone drill bits.
2008	Acquisition of Downhole Products Ltd: PCE (primary cementing equipment) product line.
2009	Expansion of Matamoros, Mexico manufacturing facility (totaling >370,000 sq ft).
2014	Acquired by Sandvik
2015	Commercial launch of Slipstream completions bit.
2016	Expansion of Matamoros, Mexico manufacturing facility (totaling >500,000 sq ft).
2017	Established manufacturing and drill bit repair center in Dammam, Saudi Arabia.
2018	Commercial launch of Reaper reamer shoe.
2020	Brand restructuring and product line integration of Varel Energy Solutions. Majority ownership acquired by Bluewater. Minority ownership acquired by Nixon Energy Investments (with Sandvik retaining minority ownership through Sandvik Venture AB).
2022	Majority acquisition of Sledgehammer Oil Tools.
2025	Acquired Ace Well Technology.

5.3 Competitive strengths

The Group is a manufacturer of consumable downhole drilling, cementing and completions products that enable its customers to drill, complete and produce wellbores efficiently, safely and in a cost-effective manner. The Group has over 1.1 million square feet of low-cost manufacturing centers strategically located in Mexico, India and Saudi Arabia that enables it to serve key energy markets across both hemispheres with rapid response times. The Group manufactures consumable drilling products for the drilling of oil and gas wells. The products include several types of drill bits, well installation products such as bow spring centralizers and well completion products. The products are continuously consumed through the stages of a well and may be seen as "consumer staples of oil and gas drilling". This secures recurring revenues for the Group.

The manufacturing of the products are to a large extent standardized with limited technology risk. A key strength of the Group is the proven track record and long-lasting client relationships with the world's largest oil and gas companies as well as the integrated oilfield service companies. To illustrate, some contracts with customers like Kuwait Oil Company and Saudi Aramco can span 12 and 7 years, respectively, with others ranging from 4 years in length, like Schlumberger. The average contract length for the portfolio of key client is 6 years.

The Group was founded in the US in 1947 and has a long track record in the production of drilling consumables.

The Group is regarded as a tier-1 supplier among non-public and non-state-owned suppliers that directly supply goods or services to end-users or customers that utilize their products. For example, excluding state-owned and publicly traded companies, the Group is the largest independent supplier to Middle Eastern national oil companies, like Saudi Aramco.³ The Group also produces white label products to the large integrated oilfield service providers and a mining equipment provider that sell the Group's products under own brand names.









Oilfield Services and Equipment Manufacturers are building the same things, buying raw material from the same sources, competing for capacity. The Group leverages the global production capacity to offer customers and competitors a greater economic benefit than the cost of producing product themselves. The Group has a long-term minimum volume supply contract with a major mining equipment company to manufacture mining equipment on a cost plus basis.

Unless otherwise indicated in the Prospectus, the basis for any statements regarding the Issuer's competitive position in the future is based on the Issuer's own assessment and knowledge of the potential market in which it may operate.

5.4 Products and services

5.4.1 Introduction

The Group's extensive product portfolio spans the wellbore construction lifecycle and mitigates against product concentration risk. The equipment generally falls under three broad categories: (i) well drilling products, (ii) well installation products, and (iii) well completions.

WELL DRILLING		PDC¹ drill bits		Roller cone drill bits	
54% 2023 revenue	Drilling: Powered by a drilling rig, a bottom-hole assembly comprised of a drill bit, drill collars, stabilizers and various sensors working together to bore into the earth	A drill bit using PDC ¹ cutters to shear rock with a continuous scraping motion		A drill bit having two or three abrasive, spinning cones that break up rock and sediment as they grind against it	
					
WELL INSTALLATION		Float equipment		Casing accessories	
35% 2023 revenue	Installation: Well construction involves installing a casing (steel pipe) inside a drilled well. The small space between the casing and the open earth is filled with cement to permanently set the casing in place	Supports the integrity and accuracy of the cement operation		Supports the stability and position of the casing in the wellbore	
					
				Reamer shoes	
				Ensures safe casing landing without getting stuck on obstructions	
					
				Cement plugs	
				To minimize contamination by fluids inside the casing prior to cementing	
					
WELL COMPLETIONS		Completions drillout bits		Completion accessories	
11% 2023 revenue	Completion: The process of making a well ready for production (or injection) after drilling operations. Creating a connection between the drilled well and the hydrocarbons to be produced to surface	A roller cone used to drill out pre-set frac plugs (used to isolate frac zones) in the 'plug and perf' completions process		Mechanical tools supporting safety from bottom-hole pressures, zonal isolation or intervention when the well requires remediation	
					

5.4.2 Well drilling

Powered by a drilling rig, a bottom-hole assembly comprised of a drill bit, drill collars, stabilizers and various sensors working together to bore into the earth.

³ Source: Spears & associates – oilfield market report 2023 edition [Oilfield Market \(Single License\) — Spears & Associates](#) (the report is behind payment wall)

Polycrystalline Diamond Compact (PDC) drill bits

A drill bit using PDC cutters to shear rock with a for continuously shearing rock. The PDC drill bits are among the most complex products that the Group manufactures. The creation of a PDC drill bit may take up to 3 months and the materials used in the production include diamond grade materials.

Roller cone drill bits

A drill bit having two or three abrasive, spinning cones that break up rock and sediment as they grind against it.

5.4.3 Well installation

Well construction involves installing a casing (steel pipe) inside a drilled well. The small space or annulus between the casing and the open earth is filled with cement to permanently set the casing in place.

Float equipment

Float equipment supports the integrity and accuracy of the cement operation. The Group has recently developed an innovative wet shoe track which provides a simpler and more cost effective alternative to traditional toe sleeves for testing the casing string after cementing and restoring circulation capability in the well for completion operations.

Centralizers

Centralizers including the bow spring and solid body type. Centralizers ensure that casing is centrally positioned in the well to maintain a uniform annulus for proper cement sheath formation with integrity.

Reamer shoes

Reamer shoes guide the casing into the well while preventing obstructions from halting deployment of the casing. Each reamer shoe includes a shaped nose for moving the casing away from the obstructions and a cutting structure for reaming obstructions for washing out of the well.

Cement plugs

The Group's cement plugs, equipped with anti-rotational heavy-duty teeth, are designed for effective casing wiping. They help minimize fluid contamination inside the casing prior to cementing.

5.4.4 Well completion

The process of making a well ready for production (or injection) after drilling operations. Creating a connection between the drilled well and the hydrocarbons to be produced to surface.

Completion drillout bits

The Group has an industry-leading and patented completion drillout bit and method of use⁴. In the completion of modern hydraulically fractured wells, the well may have 50-150 frac plugs used for fracturing individual zones of the formation.³ Prior to production these frac plugs need to be removed and the most expedient way is to drill them out. Prior completion drillout bits failed before drilling out all of the plugs requiring costly replacement operation. The Group developed a more durable completion drillout bit that is capable of handling the increased demands of modern fractured wells. The Group has even licensed the technology to the primary competitor in the field.

Completion accessories

The completion accessories line of products which are various tools used with production tubing which transports hydrocarbons from the productive well formation to surface.

⁴ Source: Spears & associates – oilfield market report 2023 edition [Oilfield Market \(Single License\) — Spears & Associates](#) (the report is behind payment wall)

5.4.5 Services

The Group provides geoscience services to customers as an ancillary benefit to the supply of drill bits to the customer.

5.5 Strategy

The Group intends to achieve its primary business objectives by successfully executing on the following strategies through increased spending of existing customers, progressive focus on Eastern Hemisphere Operations, focus on execution, and mergers & acquisitions.

Increased Spending of Existing Customers

Increase existing customers spend through price increases, multi-product offerings and geographic coverage.

Progressive Focus on Eastern Hemisphere Operations (EHO)

Continue to improve on relationships in the high-margin EHO with key Middle-Eastern and East Asian clients, ensuring the Group becomes a leading player in one of the fastest growing markets in the world.

Focus on Execution

Increased emphasis to be put on operational execution now that previous optimization of manufacturing facilities has been implemented. Such strategy includes 3 prongs: (i) drive monthly revenue EBITDA growth; (ii) generate additional operating cash flow; (iii) and enhance operational efficiencies. The first prong includes growth of strategic products, offshore market encroachment, strategic customer market share growth, increase in net pricing, and commercial knowledge management. The second prong includes: strengthening inventory position, optimizing cash conversion, and optimizing accounts payable landscape. The third prong includes: enterprise transformation on quality, strategic supplier management, focusing on on-time delivery, and cost reduction of commodity products.

Mergers & Acquisitions

Consider candidates for accretive acquisitions candidates, such as the recent acquisition of Ace Well Technology.

5.6 Material agreements outside the ordinary course of business

Other than as set out below, no company within the Group has entered into any material contracts or other agreements containing rights or obligations of material importance to such company or the Group outside the ordinary course of business during the two years preceding the date of this Prospectus. Considering the current state of development of the Group, it is the Issuer's opinion that the Group's existing business and profitability are not dependent upon any single contracts.

The Group's material contracts are summarized in the below table:

Customer	Length of relationship	Relationship	Comment
Major Mining equipment company	4 years	Long term contract	Min volume contract until 2026
Middle East/North Africa National Oil Company	7 years	Long term contract	Long-term supply contract to 2028. High-growth customer; in-country value manufacturing
Major oil field service company	4 years	Private label	PCE and drill bit supply
Middle East/North Africa National Oil Company	1.5 years	Long term contract	Long-term "Mega Tender" for PCE supply to 2028; additional drill bit supply

Customer	Length of relationship	Relationship	Comment
Middle East/North Africa National Oil Company	12 years	Long term contract	Long-term supply contract to 2025
Oil Field Service Company	8	Re-occurring	Highly profitable completions drill bit supply
Middle East/North Africa National Oil Company	9	Long term contract	Long-term supply contract to 2025; PCE and drill bit supply; in-country value manufacturing
Asia Pacific National Oil Company	10	Long term contract	Long-term supply contract to 2025

5.7 Legal and arbitral proceedings

Due to the nature of the Group's business, the Group might be involved in disputes and litigation matters from time to time. These matters may include, among other things, project errors, employment matters, intellectual property related matters, as well as other disputes that arise in the ordinary course of business. The Group cannot predict with certainty the outcome of any claim or other litigation matter. The ultimate outcome of any litigation matter and the potential costs associated with prosecuting or defending such lawsuits, including the diversion of Management's attention to these matters, could have a material adverse effect on Group's business, revenue, cash flow, profit and financial condition.

The Group is currently facing a lawsuit from National Oilwell Varco (NOV), which claims that the Group and certain other drill bit manufacturers have breached a patent license covering a portfolio of patents with varying expiration dates. NOV asserts that the Group is specifically liable for past and future royalties amounting to around USD 37 million. This amount is calculated based on the Group's estimate of around USD 4 million per year in royalty rate such that an adverse judgment could award NOV USD 10 million – 12 million (calculated for October 2021-mid 2024) and an ongoing royalty payment until January 2031. The Group has entered into a joint defense agreement with those other manufacturers to jointly defend against the lawsuit. Although the Issuer is of the opinion that the likelihood of successfully defending against the lawsuit is high, there is a risk of an unfavorable outcome. The unfavorable outcome could lead to a significant reduction in earnings, especially in the short term, negatively impacting the Group's operational results and cash flows.

Other than as set out above, the Group has not been part of any governmental, legal or arbitration proceedings during a period covering at least the previous 12 months which may have, or have had in the recent past significant effects on the Issuer and/or Group's financial position or profitability.

6 SELECTED HISTORICAL FINANCIAL INFORMATION AND OTHER INFORMATION

6.1 Introduction, basis of preparation

The financial statement information referenced in this Section has been sourced from the Issuer Financial Statements and the Guarantors' Annual Financial Statements, as defined in, respectively, Section 3.2.1 "*The Issuer Financial Statements*" and Section 3.2.2 "*The Guarantors' Annual Financial Statements*".

6.2 The Issuer

The Issuer Financial Statements are included in [Appendices 13 – 14](#).

The table below references pages in the financial statements for Varel Oil and Gas Inc. as of and for the financial years ended 31 December 2023 and 31 December 2022.

	Financial Statements for the years ended 31 December 2023 and 31 December 2022
Report of independent auditors	Page 1-2
Consolidated statement of financial position	Page 3
Consolidated statement of loss and comprehensive loss	Page 4
Consolidated statement of changes in equity	Page 5
Consolidated statement of cash flows	Page 6
Notes	Page 7-39

The table below references pages in the consolidated financial statements for Varel Oil and Gas Inc. as of and for the financial year ended 31 December 2023 with comparable figures for the financial year ended 31 December 2022.

	Consolidated Financial Statements for the years ended 31 December 2023 and 31 December 2022
Report of independent auditors	Page 1-2
Consolidated statement of financial position	Page 3
Consolidated statement of loss and comprehensive loss	Page 4
Consolidated statement of changes in equity	Page 5
Consolidated statement of cash flows	Page 6
Notes	Page 7-39

6.3 The Guarantors

6.3.1 Varel Oil and Gas Intermediate Holdings, Inc.

The consolidated financial statements for Varel Oil and Gas Intermediate Holdings, Inc. (the Parent) as of and for the financial years ended 31 December 2023 with comparable audited figures for the financial year ended 31 December 2022 is included in [Appendix 15](#).

The table below references pages in the annual financial statements of Varel Oil and Gas Intermediate Holdings, Inc..

	As of and for the year ended 31 December 2023	As of and for the year ended 31 December 2022
Consolidated Statements of Loss and Comprehensive Loss	Page 3	Page 3
Consolidated Statements of Financial Position	Page 3	Page 3
Consolidated Statements of Changes in Equity	Page 4	Page 4
Consolidated Statements of Cash Flows	Page 4	Page 4
Notes to Consolidated Financial Statements	Page 5-7	Page 5-7

6.3.2 Varel International Energy Services, Inc.

The separate financial statements for Varel International Energy Services, Inc. as of and for the financial year ended 31 December 2023 with comparable audited figures for the financial year and 31 December 2022 are included in [Appendix 16](#).

The table below references pages in the annual financial statements of Varel International Energy Services, Inc. .

	As of and for the year ended 31 December 2023	As of and for the year ended 31 December 2022
Statements of Loss and Comprehensive Loss	Page 3	Page 3
Statements of Financial Position	Page 3	Page 3
Statements of Changes in Equity	Page 4	Page 4
Statements of Cash Flows	Page 5	Page 5
Notes to the Financial Statements	Page 6-9	Page 6-9
Report of Independent Auditors	Page 1-2	Page 1-2

6.3.3 Varel International Holdings, LLC

The separate financial statements for Varel International Holdings, LLC as of and for the financial year ended 31 December 2023 with comparable audited figures for the financial year ended 31 December 2022 is included in [Appendix 17](#).

The table below references pages in the annual financial statements of Varel International Holdings, LLC.

	As of and for the year ended 31 December 2023	As of and for the year ended 31 December 2022
Statements of Profit and Comprehensive Income	Page 4	Page 4
Statements of Financial Position	Page 3	Page 3
Statements of Changes in Member's Equity	Page 5	Page 5
Statements of Cash Flows	Page 6	Page 6
Notes to the Financial Statements	Page 7-9	Page 7-9
Report of Independent Auditors	Page 1-2	Page 1-2

6.3.4 Varel International Ind., LLC

The separate financial statements for Varel International Ind., LLC as of and for the financial year ended 31 December 2023 with comparable audited figures for the financial year ended 31 December 2022 is included in [Appendix 18](#).

The table below references pages in the annual financial statements of Varel International Ind., LLC.

	As of and for the year ended 31 December 2023	As of and for the year ended 31 December 2022
Statements of Loss and Comprehensive Loss	Page 4	Page 4
Statements of Financial Position	Page 3	Page 3
Statements of Changes in Member's Equity	Page 5	Page 5
Statements of Cash Flows	Page 6	Page 6
Notes to the Financial Statements	Page 7-26	Page 7-26
Report of Independent Auditors	Page 1-2	Page 1-2

6.3.5 DHP Varel, Inc.

The separate financial statements for DHP Varel, Inc. as of and for the financial year ended 31 December 2023 with comparable audited figures for the financial year ended 31 December 2022 is included in [Appendix 19](#).

The table below references pages in the financial statements of DHP Varel, Inc.

	As of and for the year ended 31 December 2023	As of and for the year ended 31 December 2022
Statements of Profit and Comprehensive Income	Page 4	Page 4
Statements of Financial Position	Page 3	Page 3
Statements of Changes in Equity	Page 5	Page 5
Statements of Cash Flows	Page 6	Page 6
Notes to the Financial Statements	Page 7-10	Page 7-10
Report of Independent Auditors	Page 1-2	Page 1-2

6.3.6 Downhole Products UK Holdco II Limited

The annual report and financial statements for Downhole Products UK Holdco II Limited as of and for the financial years ended 31 December 2023 and 31 December 2022 are included in [Appendix 20](#) and [Appendix 21](#), respectively.

The table below references pages in the financial statements of Downhole Products UK Holdco II Limited.

	As of and for the year ended 31 December 2023	As of and for the year ended 31 December 2022
Statement of Comprehensive Income	Page 7	Page 7
Balance sheet	Page 8	Page 8
Cash flow statement	Page N/A	Page N/A
Statement of Equity	Page 9	Page 9
Notes to the financial statements	Page 10	Page 10
Independent Auditors report	Page 3	N/A

6.3.7 Downhole Products UK Holdco Limited

The annual report and financial statements for Downhole Products UK Holdco Limited as of and for the financial years ended 31 December 2023 and 31 December 2022 are included in [Appendix 22](#) and [Appendix 23](#), respectively.

The table below references pages in the financial statements of Downhole Products UK Holdco Limited.

	As of and for the year ended 31 December 2023	As of and for the year ended 31 December 2022
Statement of comprehensive income	Page 8	Page 8
Balance sheet	Page 9	Page 9
Cash flow statement	Page N/A	Page N/A
Statement of Equity	Page 10	Page 10
Notes to the financial statements	Page 11	Page 11
Independent Auditors report	Page 4	N/A

6.3.8 Downhole Products Limited

The annual report and financial statements for Downhole Products Limited as of and for the financial years ended 31 December 2023 and 31 December 2022 are included in [Appendix 24](#) and [Appendix 25](#), respectively.

The table below references pages in the annual financial statements of Downhole Products Limited including selected historical financial information.

	As of and for the year ended 31 December 2023	As of and for the year ended 31 December 2022
Statement of comprehensive income	Page 20	Page 20
Balance sheet	Page 21	Page 21
Cash flow statement	Page N/A	Page N/A
Statement of changes in equity	Page 22	Page 22
Notes to the financial statements	Page 23	Page 23
Independent auditors' report to the members of Downhole Products Limited	Page 17	Page 17

6.3.9 Downhole Products Holdings USA, Inc.

The separate financial statements for Downhole Products Holdings USA, Inc. as of and for the financial year ended 31 December 2023 with comparable audited figures for the financial year ended 31 December 2022 is included in [Appendix 26](#).

The table below references pages in the annual financial statements of Downhole Products Holdings USA, Inc. including selected historical financial information.

	As of and for the year ended 31 December 2023	As of and for the year ended 31 December 2022
Statements of Profit and Comprehensive Income	Page 4	Page 4
Statements of Financial Position	Page 3	Page 3
Statements of Changes in Equity	Page 5	Page 5
Statements of Cash Flows	Page 6	Page 6
Notes to Financial Statements	Page 7-9	Page 7-9
Report of Independent Auditors	Page 1-2	Page 1-2

6.3.10 Aberdeen Products, Inc.

The separate financial statements for Aberdeen Products, Inc. as of and for the financial year ended 31 December 2023 with comparable audited figures for the financial year ended 31 December 2022 is included in [Appendix 27](#).

The table below references pages in the annual financial statements of Aberdeen Products, Inc. including selected historical financial information.

	As of and for the year ended 31 December 2023	As of and for the year ended 31 December 2022
Statements of Profit and Comprehensive Income	Page 4	Page 4
Statements of Financial Position	Page 3	Page 3
Statements of Changes in Equity	Page 5	Page 5
Statements of Cash Flows	Page 6	Page 6
Notes to Financial Statements	Page 7-18	Page 7-18
Report of Independent Auditors	Page 1-2	Page 1-2

6.4 Independent auditors of the Issuer and the Guarantors

The Issuer's independent auditor PricewaterhouseCoopers LLP (PwC US), with a registered business address at 909 Poydras, Suite 3100, New Orleans, Louisiana 70112, USA. PwC US is a member of the professional body *American Institute of Certified Public Accountants (AICPA)*, the professional institute for the accounting profession in the United States.

PwC US has audited the Issuer Financial Statements in Appendices 13 – 14 and the Guarantor Financial Statements in Appendices 15 – 19 and Appendices 26 – 27. PricewaterhouseCoopers LLP in the United Kingdom (PwC UK) has audited the Guarantor Financial Statements in Appendices 21, 23, 24 and 25. PwC US has not audited, reviewed or produced any report on any other information provided in this Prospectus.

The table below sets out selected information about the independent auditors of the Guarantors for the period covered by the Guarantors' Annual Financial Statements:

Guarantor	Auditor	Address	Membership in professional body
Varel Oil and Gas Intermediate Holdings, Inc.	PwC US	909 Poydras, Suite 3100 New Orleans, Louisiana 70112, USA	The American Institute of Certified Public Accountants (AICPA), the professional institute for the accounting profession in the United States
Varel International Energy Services, Inc.	PwC US	909 Poydras, Suite 3100 New Orleans, Louisiana 70112, USA	The American Institute of Certified Public Accountants (AICPA), the professional institute for the accounting profession in the United States
Varel International Holdings, LLC	PwC US	909 Poydras, Suite 3100 New Orleans, Louisiana 70112, USA	American Institute of Certified Public Accountants (AICPA), the professional institute for the accounting profession in the United States
Varel International Ind., LLC	PwC US	909 Poydras, Suite 3100 New Orleans, Louisiana 70112, USA	American Institute of Certified Public Accountants (AICPA), the professional institute for the accounting profession in the United States
DHP Varel, Inc.	PwC US	909 Poydras, Suite 3100 New Orleans, Louisiana 70112, USA	American Institute of Certified Public Accountants (AICPA), the professional institute for the accounting profession in the United States

Guarantor	Auditor	Address	Membership in professional body
Downhole Products UK Holdco II Limited	PwC UK	431 Union St, Aberdeen AB11 6DA, United Kingdom	The Institute of Chartered Accountants in England and Wales (ICAEW), the professional association of the accounting profession in the United Kingdom
Downhole Products UK Holdco Limited	PwC UK	431 Union St, Aberdeen AB11 6DA, United Kingdom	The Institute of Chartered Accountants in England and Wales (ICAEW), the professional association of the accounting profession in the United Kingdom
Downhole Products Limited	PwC UK	431 Union St, Aberdeen AB11 6DA, United Kingdom	The Institute of Chartered Accountants in England and Wales (ICAEW), the professional association of the accounting profession in the United Kingdom
Downhole Products Holdings USA, Inc.	PwC US	909 Poydras, Suite 3100 New Orleans, Louisiana 70112, USA	American Institute of Certified Public Accountants (AICPA), the professional institute for the accounting profession in the United States
Aberdeen Products, Inc.	PwC US	909 Poydras, Suite 3100 New Orleans, Louisiana 70112, USA	American Institute of Certified Public Accountants (AICPA), the professional institute for the accounting profession in the United States

Except as set out in Section 3.2.1 "*The Issuer Financial Statements*" and 3.2.2 "*The Guarantors' Annual Financial Statements*", neither of the auditors set out above have audited, reviewed or produced any report on any other information provided in this Prospectus.

7 FINANCIAL OVERVIEW AND RECENT DEVELOPMENTS

This Section on financial overview should be read together with the Issuer Financial Statements and the Guarantors' Annual Financial Statements and related notes included therein. The Issuer Financial Statements and the Guarantors' Annual Financial Statements are appended to this Prospectus as Appendices 13 – 27. This Section on financial overview and recent developments should be read together with Section 3 "General information", Section 5 "Business of the Group" and Section 6 "Selected historical financial information and other information".

This Section on financial overview contains forward-looking statements. These forward-looking statements are not historical facts, but are rather based on the Group's current expectations, estimates, assumptions and projections about the Group's industry, business, strategy and future financial results. Actual results could differ materially from the results contemplated by these forward-looking statements because of a number of factors, including those discussed in Section 1 "Risk factors" of this Prospectus, as well as other Sections of this Prospectus. The forward-looking statements included in this document has been prepared by, and are the responsibility of, the Issuer. PricewaterhouseCoopers LLP has not audited, reviewed, examined, compiled nor applied agreed-upon procedures with respect to the accompanying forward-looking statements and, accordingly, PricewaterhouseCoopers LLP does not express an opinion or any other form of assurance with respect thereto. The PricewaterhouseCoopers LLP reports incorporated by reference included in this Prospectus relate to the Issuer and the Guarantor's previously issued financial statements. They do not extend to the forward-looking statements and should not be read to do so.

7.1 No material adverse change

There have been no material adverse change in the prospects of the Issuer or any of the Guarantors since 31 December 2023, being the date of its last published audited financial statement.

7.2 Significant changes in the financial position of the Issuer

In 2024, the Issuer issued the USD 72,000,000 Bonds, consisting of (i) the USD 60,000,000 bonds issued by the Issuer on 8 April 2024 (the Tranche 1 Bonds) and (iii) the USD 12,000,000 bonds issued by the Issuer on 11 December 2024 (the Tranche 2 Bonds). The proceeds from the Bond Issue were used to refinance the Group's existing debt of, as well as for acquisitions and working capital.

Furthermore, on 19 September 2024, the Group, through Downhole Products Limited, finalized its acquisition of Sledgehammer Oil Tools Pvt Ltd by acquiring the remaining 22% of its shares for a purchase price of USD 7,260,000, with the Group entity Downhole Products Holdings USA Inc. retaining ownership of one share, equaling less than 1% of the share capital.

In addition, on 3 January 2025, the Group, and specifically the entity Downhole Products Limited, completed its acquisition of Ace Well Technology (Ace) for a purchase price of USD 10,700,500.

Other than the changes described above, there have been no significant changes in the financial position of the Issuer or any of the Guarantors since 31 December 2023, being the end of the last financial period for which financial information has been published.

7.3 No significant changes in the financial performance of the Group

There have been no significant changes in the financial performance of the Group since 31 December 2023, being the end of the last financial period for which financial information has been published.

7.4 Recent events relevant to the evaluation of the solvency of the Issuer and the Guarantors

There have been no recent events particular to the Group that to a material extent are relevant for the evaluation of the solvency of the Issuer or any of the Guarantors.

8 THE BOARD OF DIRECTORS AND MANAGEMENT

8.1 Introduction

The general meeting is the highest decision-making authority of the Issuer. All shareholders of the Issuer are entitled to attend and vote at general meetings and to table draft resolutions for items to be included on the agenda for a general meeting, subject to the provisions of the law of the State of Delaware.

The governance and management of the Issuer is vested with its board of directors (the "**Board of Directors**", each a "**Board Member**") and the Issuer's executive management (the "**Management**") which entails setting the Issuer's long-term strategies and overseeing its operations. In accordance with the law of the State of Delaware, the Board of Directors is the Issuer's statutory board and is responsible for, among other things, ensuring proper organization, developing and implementing the Issuer's strategy, preparing plans and budgets for its activities ensuring that the Issuer's activities, accounts, and assets management are subject to adequate controls and undertaking investigations necessary to perform its duties.

The Management is responsible for the day-to-day management which involved routine decisions to ensure efficient business operations in alignment with the board's strategies. Within this, the CEO is responsible for the overall leadership of the organization; the CFO is responsible for the management of the organization's finances; the COO is responsible for the daily operations of the organization; and the CCO is responsible for driving commercial, communication & client engagement for the organization. The Issuer does not have a supervisory board.

8.2 The Issuer

8.2.1 Board of Directors

The Issuer's bylaws (the "**Bylaws**") provide that the Board of Directors shall comprise one or more Board Members.

The current Board of Directors consists of two Board Members. The names and positions of the Board Members as of the date of this Prospectus are set out in the table below. The Issuer's principal business address of 22001 Northpark Drive, Suite 100, Kingwood, Texas 77339 (USA) serves as business address for the Board Members as regards their directorship in the Issuer.

Name	Position
Jim Nixon	Board Member
Salil Oberoi	Board Member

Set out below are brief biographies of the Board Members, as well as indications of each of the Board Member's significant principal activities performed outside the Issuer where relevant for the business of the Group, including the names of companies and partnerships of which a Board Member is a member of the administrative management or supervisory bodies or partner (not including directorships and management positions in subsidiaries of the Issuer).

Jim Nixon, Board Member

Jim Nixon has served as a Board Member since March 2020. Mr. Nixon serves as the Chairman and CEO of Nixon Energy Investments LLC, a company set up to invest in and advise energy equipment and service businesses with high-growth potential. Prior to establishing Nixon Energy Investments LLC, Mr. Nixon was the President of Sandvik Venture AB and a member of Sandvik AB's Group Executive Management. Nixon entered Sandvik AB when, as President and CEO of Texas-based Varel International Energy Services, he led the sale of the business to Sandvik AB. Prior to the sale to Sandvik AB, the Group had established itself as a significant market participant in the oil and gas service sector, having seen tenfold revenue growth and enterprise value growth in excess of 25 times over. Nixon's combination of engineering, technology, and entrepreneurial skill, along with extensive international

business experience, helped him drive the Issuer to become a globally renowned actor in drilling and completion technology. Nixon is an EY Entrepreneur Of The Year alumnus and has served as a regional, national judge, master coach, and Chairman of the world judging committee.

Current directorships and management positions: Resman AS (board member)

Salil Oberoi, Board Member

Salil Oberoi has served as a Board Member since March 2020. Mr. Oberoi joined the private equity firm Blue Water in 2013 where his responsibilities include deal sourcing, financial modelling, due diligence, execution, and monitoring. Mr. Oberoi was previously a Director in the Corporate Finance division at Ruspetro Plc and, before then, an Investment Banking Associate in the basic industries group at Citigroup. He is a Rhodes Scholar from University of Oxford and holds a BA (Hons) degree in Economics and Management. Salil currently serves on the board of Unique Group, Galileo and Severn Glocon.

Current directorships and management positions: Apex International Energy (board member), Galileo Financial Technologies, LLC (board member), and Severn Glocon Limited (board member)

8.2.2 Management

The Issuer's management team currently consists of four individuals, including the CEO and the CFO.

The names of the members of Management and their respective positions are presented in the table below. The Issuer's registered business address serves as business address for the members of the Management in relation to their positions with the Issuer.

Name	Position
Derek Nixon	President, CEO
Wit Leblanc	CFO
Jordan Stringer	COO
Jayne Sperring	CCO

Set out below are the brief biographies of each member of the Management, as well as indications of each member's significant principal activities performed outside the Issuer where relevant for the business of the Group, including the names of companies and partnerships of which a member of the Management is a member of the administrative management or supervisory bodies or partner (not including directorships and management positions in subsidiaries of the Issuer).

Derek Nixon, CEO

Derek Nixon has been the President and Chief Executive Officer (CEO) of the Group since March 2020. He started working in the oilfield 18 years ago with Varel Oil Gas Drill Bits in the Barnett Shale in Texas as a field sales professional. He worked through various levels of responsibility towards becoming a US Regional Manager responsible for the majority of US markets. Following his management role, he took a position in Houston as the Director of Western Hemisphere for Downhole Products Limited, a legacy subsidiary of Varel, gaining valuable international experience.

Wit Leblanc, CFO

Wit Leblanc has served as Chief Financial Officer (CFO) since August 2023. Mr. Leblanc is experienced in leading functional groups and collaborating with operational counterparts at various oil field service companies. Prior to joining Varel, he spent the last 13 years at Oceaneering International, a subsea engineering and applied technology company. Most recently he has served as the company's Chief Accounting Officer leading their finance modernization efforts while overseeing all finance and accounting functions. Prior to that he served as both the Vice

President of Tax and Treasury. Prior to Oceaneering, he served as the Global Tax Director at Modec International and, earlier, Director of Tax at Hydril and then Trico Marine Services, Inc. He started his career at Big Four accounting firms where he provided consulting, M&A and advisory services. Mr. LeBlanc holds no other current directorship or management positions other than as CFO of the Issuer.

Jordan Stringer, COO

Jordan Stringer has served as Chief Operations Officer (COO) since September 2024. Before joining Varel he was the global Business Development and Strategy Vice President at Weatherford for Drilling and Evaluation. Jordan had a 13-year career with Weatherford initially focused in the Middle East, Asia and Africa covering technical support, field operations and management positions prior to moving into a global role in Houston where he headed up multiple product lines across their Well Construction portfolio. He studied at the University of Derby where he obtained a degree in Law. Mr. Stringer holds no other current directorship or management positions other than as COO of the Issuer.

Jayme Sperring, CCO

Jayme Sperring has served as Chief Commercial Officer (CCO) since October 2024. Prior to his CCO role, Mr. Sperring served as EVP – Business Development, Strategy, and Marketing for over 4 years. He co-leads commercial activities and executive management within Varel, as well as guiding strategic marketing, communications and business development within the enterprise.

Jayme is an innovative business leader with demonstrated success in direct sales, executive management, business development, strategic planning, M&A, and global marketing communications. He spent the majority of his 16-year professional career with National Oilwell Varco, serving in various commercial leadership roles across multiple business lines such as rig equipment, downhole drilling, completions, and intervention technologies. Following NOV, he spent 2012-2015 as the Vice President of Sales and Marketing for Scientific Drilling International and was more recently a co-founder and Chief Commercial Officer of Rubicon Oilfield International between 2015-2019, prior to joining Varel in June 2020.

Current directorships and management positions: Gunnar Energy Services (executive board member)

8.3 The board of directors and management of the Guarantors

8.3.1 Varel Oil and Gas Intermediate Holdings, Inc.

The names and positions of the members of the board of directors of Varel Oil and Gas Intermediate Holdings, Inc. are set out in the table below:

Name	Position
Jim Nixon	Board Member
Saili Oberoi	Board Member

The names and positions of the management of Varel Oil and Gas Intermediate Holdings, Inc. are the same as that of the Issuer above in Section 8.2.2.

The Issuer's principal business address above in Section 8.2.1 also serves as the business address for the members of the board of directors and the management in relation to their directorships and positions in the Guarantor.

The indications of the significant principal activities performed outside the Guarantor for each of the members of the board of directors and the management, where such activities are relevant for the business of the Group, including the names of companies and partnerships of which such person is a member of the administrative

management or supervisory bodies or partner (not including directorships and management positions within the Group) may be found in Sections 8.2.1 and 8.2.2 above.

8.3.2 *Varel International Energy Services, Inc.*

The names and positions of the members of the board of directors of Varel International Energy Services, Inc. are set out in the table below:

Name	Position
Wit LeBlanc	Director
Derek Nixon	Director

The names and positions of the management of Varel International Energy Services, Inc. are the same as that of the Issuer above in Section 8.2.2.

The Issuer's principal business address above in Section 8.2.1 also serves as the business address for the members of the board of directors and the management in relation to their directorships and positions in the Guarantor.

The indications of the significant principal activities performed outside the Guarantor for each of the members of the board of directors and the management, where such activities are relevant for the business of the Group, including the names of companies and partnerships of which such person is a member of the administrative management or supervisory bodies or partner (not including directorships and management positions within the Group) may be found in Sections 8.2.1 and 8.2.2 above.

8.3.3 *Varel International Holdings, LLC*

The names and positions of the members of the board of directors of Varel International Holdings, LLC are set out in the table below:

Name	Position
Wit LeBlanc	Director
Derek Nixon	Director

The names and positions of the management of Varel International Holdings, LLC are the same as that of the Issuer above in Section 8.2.2.

The Issuer's principal business address above in Section 8.2.1 also serves as the business address for the members of the board of directors and the management in relation to their directorships and positions in the Guarantor.

The indications of the significant principal activities performed outside the Guarantor for each of the members of the board of directors and the management, where such activities are relevant for the business of the Group, including the names of companies and partnerships of which such person is a member of the administrative management or supervisory bodies or partner (not including directorships and management positions within the Group) may be found in Sections 8.2.1 and 8.2.2 above.

8.3.4 *Varel International Ind., LLC*

The names and positions of the members of the board of directors of Varel International Ind., LLC are set out in the table below:

Name	Position
Wit LeBlanc	Director

Name	Position
Derek Nixon	Director

The names and positions of the management of Varel International Ind., LLC are the same as that of the Issuer above in Section 8.2.2.

The Guarantor's Issuer's principal address above in Section 8.2.1 also serves as the business address for the members of the board of directors and the management in relation to their directorships and positions in the Guarantor.

The indications of the significant principal activities performed outside the Guarantor for each of the members of the board of directors and the management, where such activities are relevant for the business of the Group, including the names of companies and partnerships of which such person is a member of the administrative management or supervisory bodies or partner (not including directorships and management positions within the Group) may be found in Sections 8.2.1 and 8.2.2 above.

8.3.5 DHP Varel, Inc.

The names and positions of the members of the board of directors of DHP Varel, Inc. are set out in the table below:

Name	Position
Wit LeBlanc	Director
Derek Nixon	Director

The names and positions of the management of DHP Varel, Inc. are the same as that of the Issuer above in Section 8.2.2.

The Issuer's principal business address above in Section 8.2.1 also serves as the business address for the members of the board of directors and the management in relation to their directorships and positions in the Guarantor.

The indications of the significant principal activities performed outside the Guarantor for each of the members of the board of directors and the management, where such activities are relevant for the business of the Group, including the names of companies and partnerships of which such person is a member of the administrative management or supervisory bodies or partner (not including directorships and management positions within the Group) may be found in Sections 8.2.1 and 8.2.2 above.

8.3.6 Downhole Products UK Holdco II Limited

The names and positions of the members of the board of directors of Downhole Products UK Holdco II Limited are set out in the table below:

Name	Position
Wit Leblanc	Director
Derek Nixon	Director

The names and positions of the management of Downhole Products UK Holdco II Limited are the same as that of the Issuer above in Section 8.2.2.

The Issuer's principal business address above in Section 8.2.1 also serves as the business address for the members of the board of directors and the management in relation to their directorships and positions in the Guarantor.

The indications of the significant principal activities performed outside the Guarantor for each of the members of the board of directors and the management, where such activities are relevant for the business of the Group, including the names of companies and partnerships of which such person is a member of the administrative management or supervisory bodies or partner (not including directorships and management positions within the Group) may be found in Sections 8.2.1 and 8.2.2 above.

8.3.7 *Downhole Products UK Holdco Limited*

The names and positions of the members of the board of directors of Downhole Products UK Holdco Limited are set out in the table below:

Name	Position
Wit Leblanc	Director
Derek Nixon	Director

The names and positions of the management of Downhole Products UK Holdco Limited are the same as that of the Issuer above in Section 8.2.2.

The Issuer's principal business address above in Section 8.2.1 also serves as the business address for the members of the board of directors and the management in relation to their directorships and positions in the Guarantor.

The indications of the significant principal activities performed outside the Guarantor for each of the members of the board of directors and the management, where such activities are relevant for the business of the Group, including the names of companies and partnerships of which such person is a member of the administrative management or supervisory bodies or partner (not including directorships and management positions within the Group) may be found in Sections 8.2.1 and 8.2.2 above.

8.3.8 *Downhole Products Limited*

The names and positions of the members of the board of directors of Downhole Products Limited are set out in the table below:

Name	Position
Wit Leblanc	Director
Derek Nixon	Director
Jordan Stringer	Director

The names and positions of the management of Downhole Products Limited are the same as that of the Issuer above in Section 8.2.2.

The Issuer's principal business address above in Section 8.2.1 also serves as the business address for the members of the board of directors and the management in relation to their directorships and positions in the Guarantor.

The indications of the significant principal activities performed outside the Guarantor for each of the members of the board of directors and the management, where such activities are relevant for the business of the Group, including the names of companies and partnerships of which such person is a member of the administrative management or supervisory bodies or partner (not including directorships and management positions within the Group) may be found in Sections 8.2.1 and 8.2.2 above.

8.3.9 *Downhole Products Holdings USA, Inc.*

The names and positions of the members of the board of directors of Downhole Products Holdings USA, Inc. are set out in the table below:

Name	Position
Wit Leblanc	Director
Derek Nixon	Director

The names and positions of the management of Downhole Products Holdings USA, Inc. are the same as that of the Issuer above in Section 8.2.2.

The Issuer's principal business address above in Section 8.2.1 also serves as the business address for the members of the board of directors and the management in relation to their directorships and positions in the Guarantor.

The indications of the significant principal activities performed outside the Guarantor for each of the members of the board of directors and the management, where such activities are relevant for the business of the Group, including the names of companies and partnerships of which such person is a member of the administrative management or supervisory bodies or partner (not including directorships and management positions within the Group) may be found in Sections 8.2.1 and 8.2.2 above.

8.3.10 Aberdeen Products, Inc.

The names and positions of the members of the board of directors of Aberdeen Products, Inc. are set out in the table below:

Name	Position
Wit Leblanc	Director
Derek Nixon	Director

The names and positions of the management of Aberdeen Products, Inc. are the same as that of the Issuer above in Section 8.2.2.

The Guarantor's registered business address also serves as the business address for the members of the board of directors and the management in relation to their directorships and positions in the Guarantor.

Set out below are indications of the significant principal activities performed outside the Guarantor for each of the members of the board of directors and the management, where such activities are relevant for the business of the Group, including the names of companies and partnerships of which such person is a member of the administrative management or supervisory bodies or partner (not including directorships and management positions within the Group) may be found in Sections 8.2.1 and 8.2.2 above.

8.4 Conflicts of interests

Jim Nixon, a member of the Board of Directors, is the father of Derek Nixon, President and CEO, who serves as board member in all the Guarantors except Varel Oil and Gas Intermediate Holdings, Inc.

Other than this, there are no actual or potential conflicts of interest between the private interests or other duties of any of the members of the respective board of directors and management of the Issuer and of each Guarantor, and their respective duties towards the Issuer or the Guarantors. There are no other family relations between any of the members of the respective board of directors and management of the Issuer and of each Guarantor.

9 CORPORATE INFORMATION

The following is a summary of certain corporate information and material information relating to the Issuer and the Guarantors, including summaries of certain provisions of the bylaws of the Issuer and each Guarantor. The summary does not purport to be complete and is qualified in its entirety by applicable law and the bylaws of the Issuer and each Guarantor.

9.1 Corporate information relating to the Issuer

The Issuer's registered name is Varel Oil and Gas Inc., while its commercial name is "Varel Energy Solutions". The Issuer is a private limited liability company validly incorporated on 9 October 2019 and existing under the laws of the State of Delaware and in accordance with the Delaware General Corporation Law (the "**DGCL**"). The Issuer is registered with the Delaware Division of Corporations under registration number 7649188.

The Issuer's corporate seat is in Delaware, USA., and its registered business address is 251 Little Falls Drive, Wilmington, DE 19808, New Castle County, USA., while its principal place of business is 22001 Northpark Drive, Suite 100, Kingwood, Texas 77339 (USA).

The telephone number to the Issuer's principal offices is +1 281 272 6000 and its website is <https://www.varel.com/>. The information presented on the Issuer's website does not form part of the Prospectus. The Issuer's LEI code is 984500A10EA482B94081.

The Bonds are registered in book-entry form with the CSD under ISIN NO0013182121. Nordic Trustee Services AS, with registered business address Kronprinsesse Märthas plass 1, N-0116 Vika, Norway, is responsible for keeping the records.

9.2 Legal structure

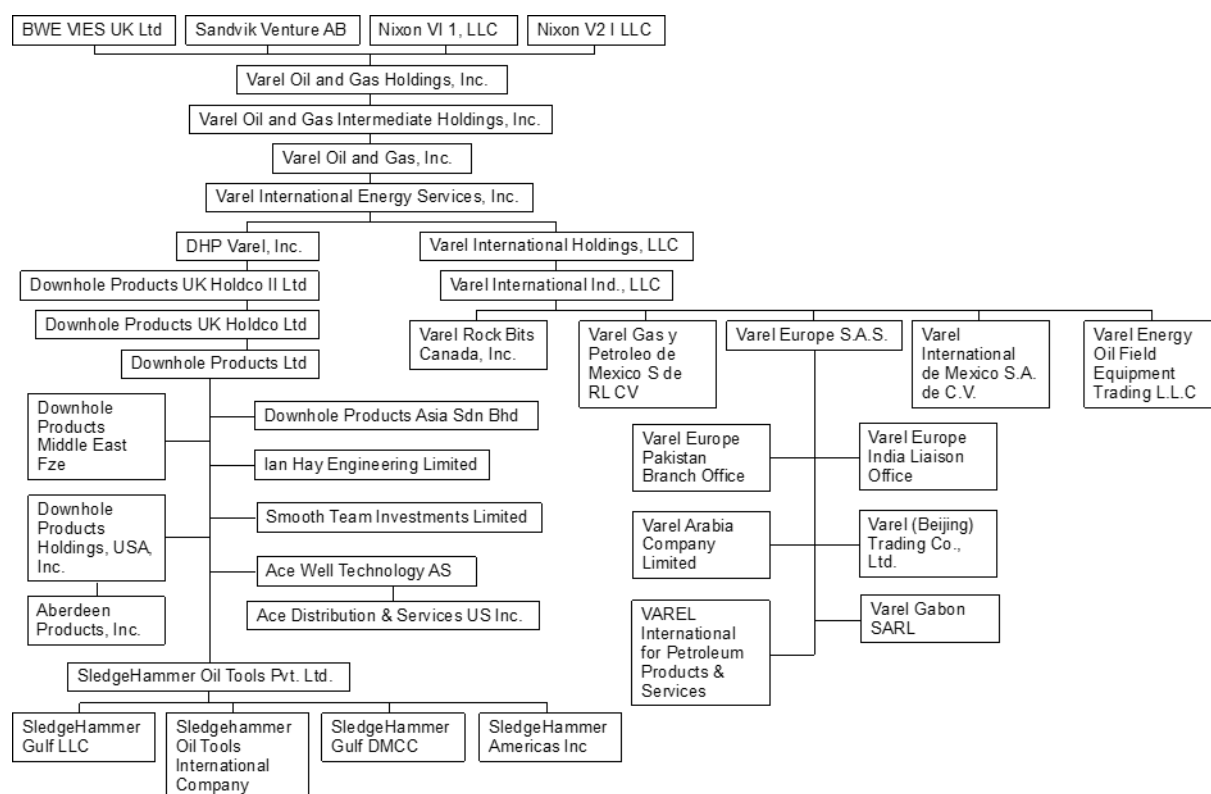
The Issuer is a wholly owned subsidiary of Varel Oil and Gas Intermediate Holdings, Inc. (the "**Parent**", together with its subsidiaries, the "**Group**"). The Parent is wholly owned by Varel Oil and Gas Holdings, Inc., which again is indirectly majority owned by funds controlled by Blue Water Energy LLP (66.5%). The Group's operations are carried out through the Group's operating entities, and the main portion of the Group's cash balance is held at subsidiary level to cover the daily liquidity requirements of the operating subsidiaries. As such, and as described in Section 1 "**Risk Factors**" above, the Issuer is dependent on the upstreaming of cash and dividends from its subsidiaries in order to service its debt and operational expenditures.

The table below sets out brief information about the Parent's direct and indirect subsidiaries, including country of incorporation. Several of the subsidiaries in the list below have granted security for the Bonds as Guarantors, see Section 9.4 below.

	Company name	Ownership	Domicile
Parent	Varel Oil and Gas Intermediate Holdings, Inc.	100%	Delaware, USA
Issuer	Varel Oil and Gas Inc.	100%	Delaware, USA
Holding companies	Varel International Energy Services, Inc.	100%	Delaware, USA
	Varel International Holdings, LLC	100%	Delaware, USA
	DHP Varel, Inc.	100%	Delaware, USA
	Downhole Products UK Holdco II Limited	100%	United Kingdom
	Downhole Products UK Holdco Limited	100%	United Kingdom
	Downhole Products Holdings, USA, Inc.	100%	Delaware, USA
Operating subsidiaries	Varel International Ind., LLC	100%	Delaware, USA
	Varel Europe S.A. S	100%	France
	Varel Rock Bits Canada, Inc	100%	Canada

	Company name	Ownership	Domicile
	Varel Gas y Petroleo de Mexico S de RL CV	100%	Mexico
	Varel Energy Oil Field Equipment Trading L.L.C.	100%	United Arab Emirates
	Varel International de Mexico S.A. de C.V.	100%	Mexico
	Varel Europe Pakistan Branch Office	100%	Pakistan
	Varel Arabia Company Limited	75%	Saudi Arabia
	Varel Gabon SARL (inactive)	100%	Gabon
	Varel International (for Oil Products & Services)	100%	Egypt
	Varel (Beijing) Trading Co., Ltd.	100%	China
	Varel Europe India Liaison Office	100%	India
	Downhole Products Limited	100%	United Kingdom
	Downhole Products Middle East Fze	100%	United Arab Emirates
	Aberdeen Products, Inc.	100%	Texas, USA
	Downhole Products Asia Sdn Bhd	100%	Malaysia
	Smooth Team Investments Limited (inactive)	100%	Hong Kong, China
	Ace Well Technology AS	100%	Norway
	Ace Distribution & Services US Inc.	100%	Texas, USA
	SledgeHammer Oil Tools Pvt. Ltd.	100%	India
	SledgeHammer Gulf LLC	49%	Oman
	SledgeHammer Oil Tools International Company	100%	Saudi Arabia
	SledgeHammer Gulf DMCC (inactive)	100%	United Arab Emirates
	SledgeHammer Americas Inc. (inactive)	100%	Texas, USA

An overview of the Group structure is set out below:



9.3 Major shareholders

As of the date of this Prospectus, the Issuer's shares are, via the Parent, held by Varel Oil and Gas Holdings, Inc. The shares of Varel Oil and Gas Holdings, Inc. are held by four shareholders, as set below:

Shareholder	No. of Shares	Percentage
BWE VIES UK Limited	89,924	66.5%
Sandvik Venture AB	30,968	22.9%
Nixon VI 1, LLC	10,000	7.4%
Nixon V2 I, LLC	4,383	3.2%
Total		100.00%

The shareholders' agreement governs the ongoing relationship between Varel Oil and Gas Holdings, Inc., the indirect owner of all shares in the Issuer, and its shareholders set out in the table above (the "**Shareholders Agreement**"). The Shareholders' Agreement covers, among other things, corporate governance related matters. Specifically, it sets out certain rights for shareholders meeting certain shareholding thresholds to nominate board members for appointment. It also contains several mechanisms to ensure that control is not abused by a current or future (major) shareholder. These include required shareholder actions where various material matters require the affirmative written consent of all the significant shareholders, i.e., BWE VIES UK Limited and Sandvik Venture AB. Approval of all the significant shareholders is required for the following matters: (i) varying the rights attached to any securities held by a significant shareholder or the economic rights of a significant shareholder in a manner that materially adversely affects their economic or voting rights; (ii) amending any provision of the articles of incorporation or by-laws of any Group member in which the relevant significant shareholder holds securities in a manner that materially or adversely affects the economic or voting rights of such significant shareholder; and (iii) actions affecting any contract (other than on arm's length terms) between any member of the Group and certain significant shareholders.

Varel Oil and Gas Holdings, Inc. indirectly holds 100% of the shares and votes in the Issuer and directly or indirectly in each Guarantor. As such, the shareholders of Varel Oil and Gas Holdings, Inc. exercise control over the Issuer and the Group. Neither the Issuer nor any of the Guarantors hold any treasury shares, and none of the Guarantors (besides the Parent) nor any of the Issuer's other subsidiaries hold shares in the Issuer.

The Issuer is not aware of any arrangements, the operation of which may at a subsequent date result in a change in control of the Issuer or the Group.

9.4 Selected corporate information relating to the Guarantors

9.4.1 Varel Oil and Gas Intermediate Holdings, Inc.

The Guarantor's registered name is Varel Oil and Gas Intermediate Holdings, Inc, while its commercial name is "Varel Energy Solutions". The Guarantor is a private limited liability company validly incorporated on 9 October 2019 and existing under the laws of the State of Delaware and in accordance with the DGCL. The Guarantor is registered with the Delaware Division of Corporations under registration number 7649184.

The Guarantor's corporate seat is in Delaware, USA., and its registered business address is 251 Little Falls Drive, Wilmington, DE 19808, New Castle County, USA., while its principal place of business is 22001 Northpark Drive, Suite 100, Kingwood, TX 77339. The telephone number to the Guarantor's principal offices is +1 281 272 6000 and its website is <https://www.varel.com/>. The information presented on the Guarantor's website does not form part of the Prospectus. The Guarantor's LEI code is 9845009D2G8D1C9A5B37.

9.4.2 Varel International Energy Services, Inc.

The Guarantor's registered name is Varel International Energy Services, Inc, while its commercial name is "Varel Energy Solutions". The Guarantor is a private limited liability company validly incorporated on 11 March 2008 and existing under the laws of the State of Delaware and in accordance with the DGCL. The Guarantor is registered with the Delaware Division of Corporations under registration number 451709.

The Guarantor's corporate seat is in Delaware, USA., and its registered business address is 251 Little Falls Drive, Wilmington, DE 19808, New Castle County, USA while its principal place of business is 22001 Northpark Drive, Suite 100, Kingwood, TX 77339, USA. The telephone number to the Issuer's principal offices is +1 281 272 6000 and its website is <https://www.varel.com/>. The information presented on the Guarantor's website does not form part of the Prospectus. The Guarantor's LEI code is 549300CQPOC37W8EPL04.

9.4.3 *Varel International Holdings, LLC*

The Guarantor's registered name is Varel International Holdings, LLC, while its commercial name is "Varel Energy Solutions". The Guarantor is a private limited liability company validly incorporated on 21 May 2010 and existing under the laws of the State of Delaware and in accordance with the DGCL. The Guarantor is registered with the Delaware Division of Corporations under registration number 4826716.

The Guarantor's corporate seat is in Delaware, USA, and its registered business address is 251 Little Falls Drive, Wilmington, DE 19808, New Castle County, USA], while its principal place of business is 22001 Northpark Drive, Suite 100, Kingwood, TX 77339, USA. The telephone number to the Issuer's principal offices is +1 281 272 6000 and its website is <https://www.varel.com/>. The information presented on the Guarantor's website does not form part of the Prospectus. The Guarantor does not have a LEI code is 9845009C8F78D4F9CF04.

9.4.4 *Varel International Ind., LLC*

The Guarantor's registered name is Varel International Ind., LLC, while its commercial name is "VES". The Guarantor is a private limited liability company validly incorporated on 20 April 2005 and existing under the laws of the State of Delaware and in accordance with the DGCL. The Guarantor is registered with the Delaware Division of Corporations under registration number 3957175.

The Guarantor's corporate seat is in Delaware, USA, and its registered business address is 251 Little Falls Drive, Wilmington, DE 19808, New Castle County, USA, while its principal place of business is 22001 Northpark Drive, Suite 100, Kingwood, TX 77339, USA. The telephone number to the Issuer's principal offices is +1 281 272 6000 and its website is <https://www.varel.com/>. The information presented on the Guarantor's website does not form part of the Prospectus. The Guarantor LEI code is 98450079XB6463695F52.

9.4.5 *DHP Varel, Inc.*

The Guarantor's registered is DHP Varel, Inc., while its commercial name is "Varel Energy Solutions". The Guarantor is a limited company, validly incorporated on 31 March 2020 and existing under the laws of the State of Delaware and in accordance with the DGCL. The Guarantor is registered with the Delaware Division of Corporations under registration number 7920290.

The Guarantor's corporate seat is in Delaware, USA, and its registered business address is 251 Little Falls Drive, Wilmington, DE 19808, New Castle County, USA, while its principal place of business is 22001 Northpark Drive, Suite 100, Kingwood, TX 77339, USA]. The telephone number to the Issuer's principal offices is +1 281 272 6000 and its website is <https://www.varel.com/>. The information presented on the Guarantor's website does not form part of the Prospectus. The Guarantor does not have a LEI code is 9845004456ED6PCA7B37.

9.4.6 *Downhole Products UK Holdco II Limited*

The Guarantor's registered name is Downhole Products UK Holdco II Limited, while its commercial name is "Varel Energy Solutions". The Guarantor is a limited liability company, validly incorporated on 28 March 2008 and existing under the laws of the United Kingdom and in accordance with the Companies Act. The Guarantor is registered with the Companies House with registration number SC340395.

The Guarantor's corporate seat is in the United Kingdom, and its registered business address is C/O Brodies LLP Capital Square, 58 Morrison Street, Edinburgh, United Kingdom, EH3 8BP, while its principal place of business is Badentoy Avenue, Badentoy Industrial Estate, Portlethen, Aberdeen, AB12 4YB, United Kingdom. The telephone

number to the Guarantor's principal offices is +1 281 272 6000 and its website is <https://www.varel.com/>. The information presented on the Guarantor's website does not form part of the Prospectus. The Guarantor's LEI code is 98450087M3PCC625CA27.

9.4.7 *Downhole Products UK Holdco Limited*

The Guarantor's registered name is Downhole Products UK Holdco Limited, while its commercial name is "Varel Energy Solutions". The Guarantor is a limited liability company, validly incorporated on 25 March 2008 and existing under the laws of the United Kingdom and in accordance with the Companies Act. The Guarantor is registered with the Companies House with registration number SC340137.

The Guarantor's corporate seat is in the United Kingdom, and its registered business address is C/O Brodies LLP Capital Square, 58 Morrison Street, Edinburgh, United Kingdom, EH3 8BP, while its principal place of business is Badentoy Avenue, Badentoy Industrial Estate, Portlethen, Aberdeen, AB12 4YB, United Kingdom. The telephone number to the Guarantor's principal offices is +1 281 272 6000 and its website is <https://www.varel.com/>. The information presented on the Guarantor's website does not form part of the Prospectus. The Guarantor LEI code is 984500501138DXEWB961.

9.4.8 *Downhole Products Limited*

The Guarantor's registered name is Downhole Products Limited, while its commercial name is "Varel Energy Solutions". The Guarantor is a limited liability company, validly incorporated on 12 July 1993 and existing under the laws of the United Kingdom and in accordance with the Companies Act. The Guarantor is registered with the Companies House with registration number SC145401.

The Guarantor's corporate seat is in the United Kingdom, and its registered business address is C/O Brodies LLP Capital Square, 58 Morrison Street, Edinburgh, United Kingdom, EH3 8BP, while its principal place of business is Badentoy Avenue, Badentoy Industrial Estate, Portlethen, Aberdeen, AB12 4YB, United Kingdom. The telephone number to the Guarantor's principal offices is +1 281 272 6000 and its website is <https://www.varel.com/>. The information presented on the Guarantor's website does not form part of the Prospectus. The Guarantor LEI code is 984500E5CE3T7CCADA90.

9.4.9 *Downhole Products Holdings USA, Inc.*

The Guarantor's registered name is Downhole Products Holdings USA, Inc., while its commercial name is "Varel Energy Solutions". The Guarantor is a limited company, validly incorporated on 23 January 2003 and existing under the laws of the State of Delaware and in accordance with the DGCL. The Guarantor is registered with the Delaware Division of Corporations under registration number 3617717.

The Guarantor's corporate seat is in Delaware, USA, and its registered business address is 251 Little Falls Drive, Wilmington, DE 19808, New Castle County, USA, while its principal place of business is 22001 Northpark Drive, Suite 100, Kingwood, TX 77339, USA. The telephone number to the Issuer's principal offices is +1 281 272 6000 and its website is <https://www.varel.com/>. The information presented on the Guarantor's website does not form part of the Prospectus. The Guarantor LEI code is 984500C53B77D1CEED61.

9.4.10 *Aberdeen Products, Inc.*

The Guarantor's registered is Aberdeen Products, Inc., while its commercial name is "VES" also has registered assumed name of "Downhole Products USA." The Guarantor is a limited company, validly incorporated on 3 February 2003 and existing under the laws of the State of Texas and in accordance with the TBCA. The Guarantor is registered with the Texas Office of the Secretary of State under registration number 800169989.

The Guarantor's corporate seat is in Texas, USA, and its registered business address is 211 E 7th St, Ste. 620, Austin, TX 78701, while its principal place of business is 22001 Northpark Drive, Suite 100, Kingwood, TX 77339, USA. The telephone number to the Issuer's principal offices is +1 281 272 6000 and its website is

<https://www.varel.com/>. The information presented on the Guarantor's website does not form part of the Prospectus.
The Guarantor LEI code is 984500EE5C0455003846.

10 SELLING AND TRANSFER RESTRICTIONS

As a consequence of the following restrictions, prospective investors are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of the securities described herein. The Issuer is not taking any action to permit a public offering of the Bonds in any jurisdiction. Receipt of this Prospectus will not constitute an offer in those jurisdictions in which it would be illegal to make an offer and, in those circumstances, this Prospectus is for information only and should not be copied or redistributed. Except as otherwise disclosed in this Prospectus, if an investor receives a copy of this Prospectus in any jurisdiction other than Norway, the investor may not treat this Prospectus as constituting an invitation or offer to it, nor should the investor in any event deal in the Bonds (or any other securities described herein), unless, in the relevant jurisdiction, such an invitation or offer could lawfully be made to that investor, or the Bonds (or any other securities described herein) could lawfully be dealt in without contravention of any unfulfilled registration or other legal requirements. Accordingly, if an investor receives a copy of this Prospectus, the investor should not distribute or send the same, or transfer Bonds, to any person or in or into any jurisdiction where to do so would or might contravene local securities laws or regulations.

10.1 Selling and transfer restrictions

10.1.1 United States

The Bonds have not been, and will not be, registered under the U.S. Securities Act or with any securities regulatory authority of any state or other jurisdiction in the United States, and may not be offered or sold within the United States.

10.1.2 Other jurisdictions

The Bonds may not be offered, sold, resold, transferred or delivered, directly or indirectly, in or into any other jurisdiction in which it would not be permissible to offer the Bonds.

11 ADDITIONAL INFORMATION

11.1 Advisors

Arctic Securities AS, with registration number 991 125 175 and registered business address Haakon VIIIs gate 5, N-0161, Oslo, Norway, and Pareto Securities AS, with registration number 956 632 374 and registered business address Dronning Mauds gate 3, N-0250 Oslo, Norway, have acted as joint global coordinators and bookrunners in connection with the Bond Issue.

Wikborg Rein Advokatfirma AS, with registration number 916 782 195 and registered business address Dronning Mauds gate 11, N-0250 Oslo, Norway, has acted as Norwegian legal counsel to the Group in connection with the Listing.

11.2 Availability of Documents

Copies of the following documents will be available for inspection at the Issuer's website, www.varel.com, for a period of twelve months from the date of this Prospectus:

- the Bylaws and the bylaws, company agreements and articles of association of the Guarantors; and
- this Prospectus.

The content of the website is not incorporated by reference into, or otherwise form part of, this Prospectus.

12 DEFINITIONS AND GLOSSARY OF TERMS

AED	United Arab Emirates dirham, the lawful currency of the United Arab Emirates
Additional Bonds	Has the meaning ascribed to it in the Bond Terms, see Section 4.1 and Appendix 2
Agreed Security Principles	Has the meaning ascribed to it in the Bond Terms, see Section 4.1 and Appendix 2
Bluewater	Blue Water Energy LLP
Board of Directors or Board Member(s)	The members of the board of directors of the Issuer, or any one of them
Bond Issue	The USD 72,000,000 (but up to USD 90,000,000) bond issue of the 4-year 12.25% senior secured USD 72,000,000 bonds 2024/2028 with ISIN NO0013182121 (the Bonds), consisting of (i) the USD 60,000,000 bonds issued by the Issuer on 8 April 2024 (the Tranche 1 Bonds) and (iii) the USD 12,000,000 bonds issued by the Issuer on 11 December 2024 (the Tranche 2 Bonds) under the tap issue addendum entered into on 6 December 2024 (the Tap Issue Addendum)
Bond Terms	The bond terms entered into on 4 April 2024 between the Issuer as issuer and Nordic Trustee AS, attached hereto as Appendix 2
Bond Trustee	Nordic Trustee AS, with business registration number 963 342 624 and registered business address Kronprinsesse Märthas plass 1, N-0116 Vik, Norway
Bond Trustee Fee Agreement	Has the meaning ascribed to it in the Bond Terms, see Section 4.1 and Appendix 2
Bondholders' Meeting	Has the meaning ascribed to it in the Bond Terms, see Section 4.1 and Appendix 2
Bonds	Has the meaning ascribed to it in the Bond Terms, see Section 4.1 and Appendix 2
Business Day	Has the meaning ascribed to it in the Bond Terms, see Section 4.1 and Appendix 2
Bylaws	The bylaws of the Issuer, last amended 20 March 2025, attached hereto as Appendix 1
Call Option	Has the meaning ascribed to it in the Bond Terms, see Section 4.1 and Appendix 2
Call Option Repayment Date	Has the meaning ascribed to it in the Bond Terms, see Section 4.1 and Appendix 2
CCO	Chief Commercial Officer
CEO	Chief Executive Officer
CFO	Chief Financial Officer
Change of Control Event	Has the meaning ascribed to it in the Bond Terms, see Section 4.1 and Appendix 2
Companies Act	the United Kingdom Companies Act 2006
Company Information	Any statements regarding the Group's competitive position based on the Issuer's own assessment and knowledge of the market in which it operates
Compliance Certificate	Has the meaning ascribed to it in the Bond Terms, see Section 4.1 and Appendix 2
COO	Chief Operating Officer
CSD	The Norwegian central securities depository, Euronext Securities Oslo (NW.: <i>Verdipapirsentralen</i>)
Decisive Influence	Has the meaning ascribed to it in the Bond Terms, see Section 4.1 and Appendix 2
Delegated Regulation	Commission Delegated Regulation (EU) 2019/980 of 14 March 2019, as amended and implemented in Norway in accordance with section 7-1 of the Norwegian Securities Trading Act
Dormant Guarantors	Downhole Products UK Holdco II Limited and Downhole Products UK Holdco Limited
ESMA	The European Securities and Markets Authority
EU	The European Union
EU Prospectus Regulation	Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, as amended, as implemented in Norwegian law
EUR	Euro, the lawful currency of the European Union
Exchange	Has the meaning ascribed to it in the Bond Terms, see Section 4.1 and Appendix 2
Finance Documents	Has the meaning ascribed to it in the Bond Terms, see Section 4.1 and Appendix 2
Financial Report	Has the meaning ascribed to it in the Bond Terms, see Section 4.1 and Appendix 2
First Call Date	Has the meaning ascribed to it in the Bond Terms, see Section 4.1 and Appendix 2
GBP	British Pound Sterling, the lawful currency of the United Kingdom
Group	The Parent and its consolidated subsidiaries
Group Company	Has the meaning ascribed to it in the Bond Terms, see Section 4.1 and Appendix 2
Guarantee	Has the meaning ascribed to it in the Bond Terms, see Section 4.1 and Appendix 2

Guarantors' Financial Statements	The financial statements for the Guarantors.
Guarantors	The Original Guarantors and each Material Subsidiary from time to time, which at the date of this Prospectus comprise: (i) Varel Oil and Gas Intermediate Holdings, Inc., (ii) Varel International Energy Services, Inc., (iii) Varel International Holdings, LLC, (iv) Varel International Ind, LLC, (v) DHP Varel, Inc., (vi) Downhole Products UK Holdco II Limited, (vii) Downhole Products UK Holdco Limited, (viii) Downhole Products Limited, (ix) Downhole Products Holdings USA, Inc., and (x) Aberdeen Products, Inc.
IFRS (IASB)	IFRS® Accounting Standards and in accordance with interpretations determined by the International Accounting Standards Board (IASB)
IFRS (EU)	IFRS® Accounting Standards as adopted by the EU
Intercreditor Agreement	Has the meaning ascribed to it in the Bond Terms, see Section 4.1 and Appendix 2
Interest Payment Date	Has the meaning ascribed to it in the Bond Terms, see Section 4.1 and Appendix 2
Interest Period	Has the meaning ascribed to it in the Bond Terms, see Section 4.1 and Appendix 2
Interest Rate	Has the meaning ascribed to it in the Bond Terms, see Section 4.1 and Appendix 2
Initial Bond Issue	Has the meaning ascribed to it in the Bond Terms, see Section 4.1 and Appendix 2
INR	Indian rupee, the lawful currency of India
IPO Event	Has the meaning ascribed to it in the Bond Terms, see Section 4.1 and Appendix 2
ISAs (UK)	International Standards on Auditing (UK)
Issue Date	8 April 2024, see Section 4.1 and Appendix 2
Issuer or Varel	Varel Oil and Gas Inc., a private limited liability company existing under the laws of Delaware, having its official seat in Delaware, USA, with registration number 7649188 and LEI-code 984500A10EA482B94081
Issuer Financial Statements	(i) The financial statements for Varel Oil and Gas Inc. as of and for the financial years ended 31 December 2023 and 31 December 2022, and (ii) the consolidated financial statements for Varel Oil and Gas Inc as of and for the financial year ended 31 December 2023 and 31 December 2022
LEI	Legal Entity Identifier
Listing	The listing of the Bonds on the Oslo Stock Exchange
Make Whole Amount	Has the meaning ascribed to it in the Bond Terms, see Section 4.1 and Appendix 2
Management	The members of the Issuer's executive management
Managers	Arctic Securities AS and Pareto Securities AS
Material Subsidiary	Has the meaning ascribed to it in the Bond Terms, see Section 4.1 and Appendix 2
Maturity Date	Has the meaning ascribed to it in the Bond Terms, see Section 4.1 and Appendix 2
Maximum Issue Amount	Has the meaning ascribed to it in the Bond Terms, see Section 4.1 and Appendix 2
MXN	Mexican pesos, the lawful currency of Mexico
Net Proceeds	Has the meaning ascribed to it in the Bond Terms, see Section 4.1 and Appendix 2
Norwegian FSA	The Norwegian Financial Supervisory Authority (Nw.: <i>Finanstilsynet</i>)
NOK	Norwegian kroner, the lawful currency of Norway
Nominal Amount	Has the meaning ascribed to it in the Bond Terms, see Section 4.1 and Appendix 2
Oslo Stock Exchange	Euronext Oslo Børs, a Norwegian regulated market being part of Euronext and operated by Oslo Børs ASA
Original Guarantors	Has the meaning ascribed to it in the Bond Terms, see Section 4.1 and Appendix 2
Outstanding Bonds	Has the meaning ascribed to it in the Bond Terms, see Section 4.1 and Appendix 2
Paying Agent	Nordic Trustee Services AS, with registered business address Kronprinsesse Märthas plass 1, N-0116 Vika, Norway.
Parent	Varel Oil and Gas Intermediate Holdings Inc.
Prospectus	This prospectus dated 3 April 2025
Put Option	Has the meaning ascribed to it in the Bond Terms, see Section 4.1 and Appendix 2
Put Option Event	Has the meaning ascribed to it in the Bond Terms, see Section 4.1 and Appendix 2
Put Option Repayment Date	Has the meaning ascribed to it in the Bond Terms, see Section 4.1 and Appendix 2
PWC UK	PricewaterhouseCoopers LLP in the United Kingdom
PWC US	PricewaterhouseCoopers LLP in the United States

Repayment Date	Has the meaning ascribed to it in the Bond Terms, see Section 4.1 and Appendix 2
Sandvik	Sandvik Inc.
SAR	Saudi Riyals, the lawful currency of Saudi Arabia
Shareholders' Agreement	the shareholders' agreement governs the ongoing relationship between Varel Oil and Gas Holdings, Inc., the indirect owner of all shares in the Issuer, and its shareholders.
Subsidiary	Has the meaning ascribed to it in the Bond Terms, see Section 4.1 and Appendix 2
Summons	Summons to a Bondholders' meeting
Tap Issues	Has the meaning ascribed to it in the Bond Terms, see Section 4.1 and Appendix 2
Tax Event Repayment Date	Has the meaning ascribed to it in the Bond Terms, see Section 4.1 and Appendix 2
Temporary Bonds	Has the meaning ascribed to it in the Bond Terms, see Section 4.1 and Appendix 2
Transaction Security	Has the meaning ascribed to it in the Bond Terms, see Section 4.1 and Appendix 2
Transaction Security Document	Has the meaning ascribed to it in the Bond Terms, see Section 4.1 and Appendix 2
UK GAAP	Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101) as adopted by the Financial Reporting Council of the United Kingdom
US GAAS	Auditing standards generally accepted in the United States
U.S. Securities Act	The U.S. Securities Act of 1933, as amended
U.S., USA or the United States	The United States of America
USD	United States Dollars, the lawful currency of the United States of America
Voting Bonds	Has the meaning ascribed to it in the Bond Terms, see Section 4.1 and Appendix 2



Varel Oil and Gas Inc.

251 Little Falls Drive
Wilmington, DE 19808
New Castle
USA.

Managers to the Issuer



Norwegian legal advisor to the Issuer

Wikborg Rein Advokatfirma AS

Dronning Mauds gate 11
N-0250 Oslo
Norway

Appendix 1 - Bylaws of Varel Oil and Gas Inc.

**BYLAWS
OF
VAREL OIL AND GAS INC.,
A Delaware Corporation**

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BYLAWS
OF
VAREL OIL AND GAS INC.,
a Delaware corporation

1. Offices

1.1 Registered Office. The registered office shall be in the City of Wilmington, County of New Castle, State of Delaware.

1.2 Other Offices. The corporation may also have offices at such other places both within and without the State of Delaware as the Board of Directors may from time to time determine or the business of the corporation may require.

2. Meetings Of Stockholders

2.1 Annual Meeting. Unless directors are elected by written consent in lieu of an annual meeting as permitted by Section 2.14, an annual meeting of the stockholders for the election of directors shall be held at such place, if any, either within or without the State of Delaware as shall be designated on an annual basis by the Board of Directors and stated in the notice of the meeting. Any other proper business may be transacted at the annual meeting.

2.2 Meetings by Remote Communication. The Board of Directors may, in its sole discretion, determine that any meeting shall not be held at any place, but may instead be held solely by means of remote communication in accordance with Section 2.13.

2.3 Notice of Meetings. Whenever stockholders are required or permitted to take any action at a meeting, a written notice of the meeting shall be given which shall state the place, date and hour of the meeting, the means of remote communications, if any, by which stockholders and proxy holders may be deemed to be present in person and vote at such meeting, and, in the case of a special meeting, the purpose or purposes for which the meeting is called.

2.4 Timing of Notice. Unless otherwise provided in the Delaware General Corporation Law (the “DGCL”), the written notice of any meeting of the stockholders shall be given not less than 10 nor more than 60 days before the date of the meeting to each stockholder entitled to vote at such meeting.

2.5 Voting List. The officer who has charge of the stock ledger of the corporation shall prepare and make, or cause a third party to prepare and make, at least 10 days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Nothing contained in this Section 2.5 shall require the corporation to include electronic mail addresses or other electronic contact information on such list. Such list shall be open to the examination of any stockholder for any purpose germane to the meeting for a period of at least 10 days prior to the meeting: (i) on a reasonably accessible electronic network, provided that the information required to gain access to such list is provided with the notice of the meeting, or (ii) during ordinary business hours, at the principal place of business of the corporation. If the meeting is to be held at a place, then the list shall be produced and kept at the time and place of the meeting during the whole time

thereof and may be examined by any stockholder who is present. If the meeting is to be held solely by means of remote communication, then the list shall also be open to the examination of any stockholder during the whole time of the meeting on a reasonably accessible electronic network, and the information required to access such list shall be provided with the notice of the meeting.

2.6 Special Meetings. Special meetings of the stockholders of this corporation, for any purpose or purposes, unless otherwise prescribed by statute or by the Certificate of Incorporation, shall be called by the President or Secretary at the request in writing of a majority of the members of the Board of Directors or at the request in writing of stockholders owning at least 10% of the total voting power of all outstanding shares of stock of this corporation then entitled to vote, and may not be called absent such a request. Such request shall state the purpose or purposes of the proposed meeting.

2.7 Scope of Business at Special Meeting. Business transacted at any special meeting of stockholders shall be limited to the purposes stated in the notice.

2.8 Quorum. Except as otherwise provided by statute or by the Certificate of Incorporation, the holders of a majority of the shares entitled to vote, present in person or represented by proxy, shall constitute a quorum at all meetings of stockholders. If, however, such quorum shall not be present or represented at any meeting of the stockholders, the chairman of the meeting or the stockholders entitled to vote thereat, present in person or represented by proxy, shall have power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present or represented. At such adjourned meeting at which a quorum shall be present or represented, any business may be transacted which might have been transacted at the meeting as originally notified. If the adjournment is for more than 30 days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting as provided in Section 2.3.

2.9 Qualifications to Vote. The stockholders of record on the books of the corporation at the close of business on the record date as determined by the Board of Directors and only such stockholders shall be entitled to vote at any meeting of stockholders or any adjournment thereof.

2.10 Record Date for Meetings of the Stockholders. In order that the corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, and which record date shall not be more than 60 nor less than 10 days before the date of such meeting. If no record date is fixed by the Board of Directors, the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

2.11 Action at Meetings. When a quorum is present at any meeting, the vote of the holders of a majority of the shares of stock having voting power present in person or represented by proxy shall decide any question brought before such meeting, unless the question is one upon which by express provision of applicable law or of the Certificate of Incorporation, a different vote is required, in which case such express provision shall govern and control the decision of such question.

2.12 Voting and Proxies. Unless otherwise provided in the Certificate of Incorporation, and subject to Section 213 of the DGCL, each stockholder shall be entitled to one vote in person or by proxy

for each share of capital stock having voting power held by such stockholder. If the Certificate of Incorporation provides for more or less than one vote for any share, on any matter, every reference in these Bylaws to a majority or other proportion of stock, voting stock or shares shall refer to such majority or other proportion of the votes of such stock, voting stock or shares. Each stockholder entitled to vote at a meeting of stockholders or to express consent or dissent to corporate action in writing without a meeting may authorize another person or persons to act for such stockholder by proxy, but no proxy shall be voted on after 3 years from its date, unless the proxy provides for a longer period. A duly executed proxy shall be irrevocable if it states it is irrevocable and if, and only as long as, it is coupled with an interest sufficient in law to support an irrevocable power.

2.13 Attendance by Stockholders not Physically Present. If authorized by the Board of Directors in its sole discretion, and subject to such guidelines and procedures as the Board of Directors may adopt, stockholders and proxyholders not physically present at a meeting of stockholders may, by means of remote communication: (a) participate in a meeting of stockholders; and (b) be deemed present in person and vote at a meeting of stockholders, whether such meeting is to be held at a designated place or solely by means of remote communication, provided that (i) the corporation shall implement reasonable measures to verify that each person deemed present and permitted to vote at the meeting by means of remote communication is a stockholder or proxyholder, (ii) the corporation shall implement reasonable measures to provide such stockholders and proxyholders a reasonable opportunity to participate in the meeting and to vote on matters submitted to the stockholders, including an opportunity to read or hear the proceedings of the meeting substantially concurrently with such proceedings, and (iii) if any stockholder or proxyholder votes or takes other action at the meeting by means of remote communication, a record of such vote or other action shall be maintained by the corporation.

2.14 Action by Stockholders Without a Meeting. Unless otherwise provided in the Certificate of Incorporation, any action required to be taken at any annual or special meeting of stockholders of the corporation, or any action which may be taken at any annual or special meeting of such stockholders, may be taken without a meeting, without prior notice and without a vote, if a consent or consents in writing, setting forth the action so taken, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted and shall be delivered to the corporation by delivery to its registered office in the State of Delaware (by hand or by certified or registered mail, return receipt requested), to its principal place of business, or to an officer or agent of the corporation having custody of the book in which proceedings of meetings of stockholders are recorded; provided, however, that action by written consent to elect directors, if less than unanimous, shall be in lieu of holding an annual meeting only if all the directorships to which directors could be elected at an annual meeting held at the effective time of such action are vacant and are filled by such action. Prompt notice of the taking of the corporate action without a meeting by less than unanimous written consent shall be given to those stockholders who have not consent in writing and who, if the action had been taken at a meeting, would have been entitled to notice of the meeting if the record date for such meeting had been the date that written consents signed by a sufficient number of stockholders or members to take the action were delivered to the corporation by delivery to its registered office in the State of Delaware (by hand or by certified or registered mail, return receipt requested), to its principal place of business, or to an officer or agent of the corporation having custody of the book in which proceedings of meetings of stockholders are recorded.

2.15 Consent by Electronic Transmission. If a stockholder provides consent in writing to action without a meeting by electronic transmission, such consent shall be deemed to have been delivered when such consent is delivered to its principal place of business or an officer or agent of the corporation having custody of the book in which proceedings of meetings of stockholders are recorded.

2.16 Record Date for Action by Stockholders Without a Meeting. In order that the corporation may determine the stockholders entitled to consent to corporate action in writing without a meeting, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, and which date shall not be more than 10 days after the date upon which the resolution fixing the record date is adopted by the Board of Directors. If no record date has been fixed by the Board of Directors, the record date for determining stockholders entitled to consent to corporate action in writing without a meeting, when no prior action by the Board of Directors is required by the DGCL, shall be the first date on which a signed written consent setting forth the action taken or proposed to be taken is delivered to the corporation by delivery to its registered office in Delaware, its principal place of business or an officer or agent of the corporation having custody of the book in which proceedings of meetings of stockholders are recorded. Delivery made to the corporation's registered office shall be by hand or by certified or registered mail, return receipt requested. If no record date has been fixed by the Board of Directors and prior action by the Board of Directors is required by the DGCL, the record date for determining stockholders entitled to consent to corporate action in writing without a meeting shall be at the close of business on the day on which the Board of Directors adopts the resolution taking such prior action.

2.17 Nominations for Board of Directors. Nominations for election to the Board of Directors may be made by the Board of Directors or by any stockholder of any outstanding class of capital stock of the corporation entitled to vote for the election of directors. Nominations, other than those made by the Board of Directors of the corporation, must be preceded by notification in writing in fact received by the Secretary of the corporation not less than 60 days prior to any meeting of stockholders called for the election of directors. Such notification shall contain the written consent of each proposed nominee to serve as a director if so elected and the following information as to each proposed nominee and as to each person, acting alone or in conjunction with one or more other persons as a partnership, limited partnership, syndicate or other group, who participates or is expected to participate in making such nomination or in organizing, directing or financing such nomination or solicitation of proxies to vote for the nominee:

(i) the name, age, residence, address, and business address of each proposed nominee and of each such person;

(ii) the principal occupation or employment, the name, type of business and address of the corporation or other organization in which such employment is carried on of each proposed nominee and of each such person;

(iii) the amount of stock of the corporation owned beneficially, either directly or indirectly, by each proposed nominee and each such person; and

(iv) a description of any arrangement or understanding of each proposed nominee and of each such person with each other or any other person regarding future employment or any future transaction to which the corporation will or may be a party.

The presiding officer of the meeting shall have the authority to determine and declare to the meeting that a nomination not preceded by notification made in accordance with the foregoing procedure shall be disregarded.

3. Directors

3.1 Powers. The business and affairs of the corporation shall be managed by or under the direction of a Board of Directors, except as may otherwise be provided by law or in the Certificate of

Incorporation. All powers of the corporation, except those specifically reserved or granted to the stockholders by law, the Certificate of Incorporation or these Bylaws, are hereby granted to and vested in the Board of Directors.

3.2 Number; Election; Tenure and Qualification. The Board of Directors of the corporation shall consist of one or more members, each of whom shall be a natural person. The number of directors which shall constitute the whole board shall be fixed from time to time by resolution of the Board of Directors or by the stockholders at the annual meeting of the stockholders, with the exception of the first Board of Directors, which shall be elected by the incorporator. Except as provided in the Certificate of Incorporation or these Bylaws, the directors shall be elected at the annual meeting of the stockholders by a plurality vote of the shares represented in person or by proxy. Each director elected shall hold office until such director's successor is elected and qualified or until such director's earlier resignation or removal. Directors need not be stockholders.

3.3 Vacancies and Newly Created Directorships. Unless otherwise provided in the Certificate of Incorporation or these Bylaws, vacancies and newly created directorships resulting from any increase in the authorized number of directors may be filled by a majority of the directors then in office, though less than a majority of the whole Board, or by a sole remaining director. If at any time, by reason of death or resignation or other cause, the corporation should have no directors in office, then any officer or any stockholder or an executor, administrator, trustee or guardian of a stockholder, or other fiduciary entrusted with like responsibility for the person or estate of a stockholder, may call a special meeting of stockholders, or may apply to the Court of Chancery for a decree summarily ordering an election as provided in Section 211 of the DGCL. If, at the time of filling any vacancy or any newly created directorship, the directors then in office shall constitute less than a majority of the whole board (as constituted immediately prior to any such increase), the Court of Chancery may, upon application of any stockholder or stockholders holding at least 10% of the voting stock at the time outstanding having the right to vote for such directors, summarily order an election to be held to fill any such directors, summarily order an election to be held to fill any such vacancies or newly created directorships, or to replace the directors chosen by the directors then in office, which election shall be governed by Section 211 of the DGCL as far as applicable.

3.4 Meeting of Newly Elected Board of Directors. The first meeting of each newly elected Board of Directors shall be held immediately following the annual meeting of stockholders and no notice of such meeting shall be necessary to the newly elected directors in order legally to constitute the meeting, provided a quorum shall be present. In the event such meeting is not held at such time, the meeting may be held at such time and place as shall be specified in a notice given as hereinafter provided for special meetings of the Board of Directors, or as shall be specified in a written waiver signed by all of the directors.

3.5 Regular Meetings. Regular meetings of the Board of Directors may be held without notice at such time and at such place as shall from time to time be determined by the Board of Directors; provided that any director who is absent when such a determination is made shall be given notice of such location.

3.6 Special Meetings. Special meetings of the Board of Directors may be called by the President on 2 days' notice to each director by mail, overnight courier service, or electronic transmission; special meetings shall be called by the President or Secretary in a like manner and on like notice on the written request of two directors unless the Board of Directors consists of only one director, in which case special meetings shall be called by the President or Secretary in a like manner and on like notice on the written request of the sole director. Notice may be waived in accordance with Section 229 of the DGCL.

3.7 Quorum and Action at Meetings. At all meetings of the Board of Directors, a majority of the total number of directors then in office shall constitute a quorum for the transaction of business unless the Certificate of Incorporation requires a greater number. The vote of a majority of the directors present at a meeting at which a quorum is present shall be the act of the Board of Directors unless the Certificate of Incorporation shall require a vote of a greater number. If a quorum shall not be present at any meeting of the Board of Directors, the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

3.8 Action Without a Meeting. Unless otherwise restricted by the Certificate of Incorporation or these Bylaws, any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting, if all members of the Board of Directors or committee, as the case may be, consent thereto in writing or by electronic transmission, and the writing or writings or electronic transmission or transmissions are filed with the minutes of proceedings of the Board of Directors or committee. Such filing shall be in paper form if the minutes are maintained in paper form and shall be in electronic form if the minutes are maintained in electronic form.

3.9 Telephonic Meeting. Unless otherwise restricted by the Certificate of Incorporation, members of the Board of Directors, or any committee designated by the Board of Directors, or any subcommittee designated by any such committee, may participate in a meeting of the Board of Directors, or any committee or subcommittee, as the case may be, by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and such participation in a meeting shall constitute presence in person at the meeting.

3.10 Committees. The Board of Directors may designate one or more committees, each committee to consist of 1 or more of the directors of the corporation. The Board of Directors may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of a member of a committee, the member or members present at any meeting and not disqualified from voting, whether or not such member or members constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member.

3.11 Committee Authority. Any such committee, to the extent provided in the resolution of the Board of Directors, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the corporation, and may authorize the seal of the corporation to be affixed to all papers which may require it; but no such committee shall have the power or authority in reference to (i) approving, adopting or recommending to the stockholders, any action or matter expressly required by the DGCL to be submitted to stockholders for approval, or (ii) adopting, amending or repealing any Bylaw of the corporation. Such committee or committees shall have such name or names as may be determined from time to time by resolution adopted by the Board of Directors.

3.12 Subcommittees. Unless otherwise provided in the Certificate of Incorporation or the resolution of the Board of Directors designating the committee, a committee may create one or more subcommittees, each subcommittee to consist of one or more members of the committee, and delegate to a subcommittee any or all of the powers and authority of the committee. Such committee or committees shall have such name or names as may be determined from time to time by resolution adopted by the committee.

3.13 Committee Minutes. Each committee and subcommittee shall keep regular minutes of its meetings and report the same to the Board of Directors when required to do so by the Board of Directors.

3.14 Directors Compensation. Unless otherwise restricted by the Certificate of Incorporation or these Bylaws, the Board of Directors shall have the authority to fix the compensation of directors. The directors may be paid their expenses, if any, of attendance at each meeting of the Board of Directors and may be paid a fixed sum for attendance at each meeting of the Board of Directors or a stated salary as director. No such payment shall preclude any director from serving the corporation in any other capacity and receiving compensation therefor. Members of special or standing committees or subcommittees may be allowed like compensation for attending committee or subcommittee meetings.

3.15 Resignation. Any director or officer of the corporation may resign at any time upon notice given in writing or by electronic transmission to the corporation. A resignation is effective when the resignation is delivered unless the resignation specifies a later effective date or an effective date determined upon the happening of an event or events. A resignation which is conditioned upon the director failing to receive a specified vote for reelection as a director may provide that it is irrevocable. The acceptance of a resignation shall not be necessary to make it effective unless expressly so provided in the resignation.

3.16 Removal. Unless otherwise restricted by the Certificate of Incorporation, these Bylaws or applicable law, any director or the entire Board of Directors may be removed, with or without cause, by the holders of a majority of shares entitled to vote at an election of directors.

4. Notices

4.1 Notice to Directors and Stockholders. Whenever, under the provisions of the statutes or of the Certificate of Incorporation or of these Bylaws, notice is required to be given to any director or stockholder, it shall not be construed to mean personal notice, but such notice may be given in writing, by mail, addressed to such director or stockholder, at his address as it appears on the records of the corporation, with postage thereon prepaid, and such notice shall be deemed to be given at the time when the same shall be deposited in the United States mail. An affidavit of the Secretary or an Assistant Secretary or of the transfer agent or other agent of the corporation that the notice has been given shall, in the absence of fraud, be prima facie evidence of the facts stated therein. Notice to directors may also be given by telephone or electronic transmission (with confirmation of receipt if such electronic transmission is by telegram).

4.2 Notice to Stockholders by Electronic Transmission. Without limiting the manner by which notice otherwise may be given effectively to stockholders, any notice to stockholders given by the corporation under any provision of the DGCL, the Certificate of Incorporation, or these Bylaws shall be effective if given by a form of electronic transmission consented to by the stockholder to whom the notice is given, unless effective notice to stockholders by electronic transmission is prohibited by law. Any such consent shall be revocable by the stockholder by written notice to the corporation. Any such consent shall be deemed revoked if (i) the corporation is unable to deliver by electronic transmission two consecutive notices given by the corporation in accordance with such consent and (ii) such inability becomes known to the Secretary or an Assistant Secretary of the corporation or to the transfer agent, or other person responsible for the giving of notice; provided, however, the inadvertent failure to treat such inability as a revocation shall not invalidate any meeting or other action.

4.3 Effectiveness of Notice by Electronic Transmission. Notice given pursuant to Section 4.2 shall be deemed given: (i) if by facsimile telecommunication, when directed to a number at which the stockholder has consented to receive notice; (ii) if by electronic mail, when directed to an electronic mail address at which the stockholder has consented to receive notice; (iii) if by a posting on an electronic network together with separate notice to the stockholder of such specific posting, upon the later of (A) such posting and (B) the giving of such separate notice; and (iv) if by any other form of electronic

transmission, when directed to the stockholder. An affidavit of the Secretary or an Assistant Secretary or of the transfer agent or other agent of the corporation that the notice has been given by a form of electronic transmission shall, in the absence of fraud, be prima facie evidence of the facts stated therein.

4.4 Waiver. Whenever any notice is required to be given under any provision of the DGCL or of the Certificate of Incorporation or of these Bylaws, a written waiver, signed by the person entitled to notice, or a waiver by electronic transmission by the person entitled to notice, whether before or after the time stated therein, shall be deemed equivalent to notice. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the stockholders, directors or members of a committee or subcommittee of directors need be specified in any written waiver of notice or any waiver by electronic transmission unless so required by the Certificate of Incorporation or these Bylaws. Attendance at the meeting is not a waiver of any right to object to the consideration of matters required by the DGCL to be included in the notice of the meeting but not so included, if such objection is expressly made at the meeting.

4.5 Definition of Electronic Transmission. For purposes of these Bylaws, “electronic transmission” means any form of communication, not directly involving the physical transmission of paper, that creates a record that may be retained, retrieved and reviewed by a recipient thereof, and that may be directly reproduced in paper form by such a recipient through an automated process. For the avoidance of doubt, “electronic transmission” includes transmission by facsimile.

5. Officers

5.1 Enumeration. The officers of the corporation shall be chosen by the Board of Directors and shall include a President, a Secretary, a Treasurer (who may also be referred to as the Chief Financial Officer) and such other officers with such other titles as the Board of Directors shall determine. The Board of Directors may elect from among its members a Chairman or Chairmen of the Board and a Vice Chairman of the Board. The Board of Directors may also choose one or more Vice-Presidents, Assistant Secretaries and Assistant Treasurers. Any number of offices may be held by the same person, unless the Certificate of Incorporation or these Bylaws otherwise provide.

5.2 Election. The Board of Directors at its first meeting after each annual meeting of stockholders shall elect a President, a Secretary, a Treasurer and such other officers with such other titles as the Board of Directors shall determine.

5.3 Appointment of Other Agents. The Board of Directors may appoint such other officers and agents as it shall deem necessary, who shall hold their offices for such terms and shall exercise such powers and perform such duties as shall be determined from time to time by the Board of Directors.

5.4 Compensation. The salaries of all officers of the corporation shall be fixed by the Board of Directors or a committee thereof. The salaries of agents of the corporation shall, unless fixed by the Board of Directors, be fixed by the President or any Vice-President of the corporation.

5.5 Tenure. Each officer shall hold office until such officer’s successor is elected and qualified or until such officer’s earlier resignation or removal. Any officer elected or appointed by the Board of Directors may be removed at any time by the affirmative vote of a majority of the directors of the Board of Directors. Any vacancy occurring in any office of the corporation shall be filled by the Board of Directors.

5.6 Chairman of the Board and Vice-Chairman of the Board. The Chairman of the Board, if any, shall preside at all meetings of the Board of Directors and of the stockholders at which the Chairman shall be present. The Chairman shall have and may exercise such powers as are, from time to time, assigned to the Chairman by the Board of Directors and as may be provided by law. In the absence of the Chairman of the Board, the Vice Chairman of the Board, if any, shall preside at all meetings of the Board of Directors and of the stockholders at which the Vice Chairman shall be present. The Vice Chairman shall have and may exercise such powers as are, from time to time, assigned to such person by the Board of Directors and as may be provided by law.

5.7 President. The President shall be the Chief Executive Officer of the corporation unless such title is assigned to another officer of the corporation; in the absence of a Chairman and Vice Chairman of the Board, the President shall preside as the chairman of meetings of the stockholders and the Board of Directors; and the President shall have general and active management of the business of the corporation and shall see that all orders and resolutions of the Board of Directors are carried into effect. The President or any Vice President shall execute bonds, mortgages and other contracts requiring a seal, under the seal of the corporation, except where required or permitted by law to be otherwise signed and executed and except where the signing and execution thereof shall be expressly delegated by the Board of Directors to some other officer or agent of the corporation.

5.8 Vice-President. In the absence of the President or in the event of the President's inability or refusal to act, the Vice-President, if any (or in the event there be more than one Vice-President, the Vice-Presidents in the order designated by the Board of Directors, or in the absence of any designation, then in the order of their election) shall perform the duties of the President, and when so acting shall have all the powers of and be subject to all the restrictions upon the President. The Vice-President shall perform such other duties and have such other powers as the Board of Directors may from time to time prescribe.

5.9 Secretary. The Secretary shall attend all meetings of the Board of Directors and all meetings of the stockholders and record all the proceedings of the meetings of the corporation and of the Board of Directors in a book to be kept for that purpose and shall perform like duties for the standing committees when required. The Secretary shall give, or cause to be given, notice of all meetings of the stockholders and special meetings of the Board of Directors, and shall perform such other duties as may be prescribed by the Board of Directors or President, under whose supervision the Secretary shall be subject. The Secretary shall have custody of the corporate seal of the corporation and the Secretary, or an Assistant Secretary, shall have authority to affix the same to any instrument requiring it and when so affixed, it may be attested by the Secretary's signature or by the signature of such Assistant Secretary. The Board of Directors may give general authority to any other officer to affix the seal of the corporation and to attest the affixing by such officer's signature.

5.10 Assistant Secretary. The Assistant Secretary, or if there be more than one, the Assistant Secretaries in the order determined by the Board of Directors (or if there be no such determination, then in the order of their election) shall, in the absence of the Secretary or in the event of the Secretary's inability or refusal to act, perform the duties and exercise the powers of the Secretary and shall perform such other duties and have such other powers as the Board of Directors may from time to time prescribe.

5.11 Chief Financial Officer. The Chief Financial Officer may also be designated by the alternate title of "Treasurer." The Chief Financial Officer shall have the custody of all moneys and securities of the Corporation and shall keep regular books of account. Such officer shall disburse funds of the Corporation in payment of the just demands against the Corporation, or as may be ordered by the Board, taking proper vouchers for such disbursements, and shall render to the Board from time to time as may be required of such officer, an account of all transactions as Chief Financial Officer and of the

financial condition of the Corporation. Such officer shall perform all duties incident to such office or that are properly required by the President or by the Board. If required by the Board of Directors, the Chief Financial Officer shall give the corporation a bond (which shall be renewed every 6 years) in such sum and with such surety or sureties as shall be satisfactory to the Board of Directors for the faithful performance of the duties of such officer's office and for the restoration to the corporation, in case of such officer's death, resignation, retirement or removal from office, of all books, papers, vouchers, money and other property of whatever kind in such officer's possession or control belonging to the corporation.

5.12 Assistant Treasurer. The Assistant Treasurer or the Assistant Treasurers, in the order of their seniority, shall, in the absence or disability of the Chief Financial Officer, or in the event of such officer's refusal to act, perform the duties and exercise the powers of the Chief Financial Officer, and shall have such powers and discharge such duties as may be assigned from time to time by the President or by the Board of Directors.

6. Capital Stock

6.1 Certificates. The shares of the corporation shall be represented by a certificate, unless and until the Board of Directors adopts a resolution permitting shares to be uncertificated. Certificates shall be signed by, or in the name of the corporation by, two (2) authorized officers of the corporation, certifying the number of shares owned by such stockholder in the corporation. Certificates may be issued for partly paid shares and in such case upon the face or back of the certificates issued to represent any such partly paid shares, the total amount of the consideration to be paid therefor and the amount paid thereon shall be specified.

6.2 Class or Series. If the corporation shall be authorized to issue more than one class of stock or more than one series of any class, the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights shall be set forth in full or summarized on the face or back of the certificate which the corporation shall issue to represent such class or series of stock, provided that, except as otherwise provided in Section 202 of the DGCL, in lieu of the foregoing requirements, there may be set forth on the face or back of the certificate which the corporation shall issue to represent such class or series of stock, a statement that the corporation will furnish without charge to each stockholder who so requests the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights. Within a reasonable time after the issuance or transfer of uncertificated stock, the corporation shall send to the registered owner thereof a written notice containing the information required to be set forth or stated on certificates pursuant to Sections 151, 156, 202(a) or 218(a) of the DGCL or a statement that the corporation will furnish without charge, to each stockholder who so requests, the powers, designations, preferences and relative participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights.

6.3 Signature. Any of or all of the signatures on a certificate may be facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the corporation with the same effect as if such person were such officer, transfer agent or registrar at the date of issue.

6.4 Lost Certificates. The Board of Directors may direct a new certificate or certificates to be issued in place of any certificate or certificates theretofore issued by the corporation alleged to have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate

of stock to be lost, stolen or destroyed. When authorizing such issue of a new certificate or certificates, the Board of Directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate or certificates, or such owner's legal representative, to advertise the same in such manner as it shall require and/or to give the corporation a bond in such sum as it may direct as indemnity against any claim that may be made against the corporation with respect to the certificate alleged to have been lost, stolen or destroyed.

6.5 Transfer of Stock. Upon surrender to the corporation or the transfer agent of the corporation of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignation or authority to transfer, it shall be the duty of the corporation to issue a new certificate to the person entitled thereto, cancel the old certificate and record the transaction upon its books. Upon receipt of proper transfer instructions from the registered owner of uncertificated shares such uncertificated shares shall be canceled and issuance of new equivalent uncertificated shares or certificated shares shall be made to the person entitled thereto and the transaction shall be recorded upon the books of the corporation.

6.6 Registered Stockholders. The corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, and to vote as such owner, and to hold liable for calls and assessments a person registered on its books as the owner of shares, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Delaware.

7. General Provisions

7.1 Dividends. Dividends upon the capital stock of the corporation, subject to the applicable provisions, if any, of the Certificate of Incorporation, may be declared by the Board of Directors at any regular or special meeting, pursuant to law. Dividends may be paid in cash, in property or in shares of capital stock, subject to the provisions of the Certificate of Incorporation. Before payment of any dividend, there may be set aside out of any funds of the corporation available for dividends such sum or sums as the Board of Directors from time to time, in their absolute discretion, think proper as a reserve or reserves to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the corporation, or for such other purposes as the Board of Directors shall think conducive to the interest of the corporation, and the Board of Directors may modify or abolish any such reserve in the manner in which it was created.

7.2 Record Date for Dividends. In order that the corporation may determine the stockholders entitled to receive payment of any dividend or other distribution or allotment of any rights or the stockholders entitled to exercise any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful action, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted, and which record date shall be not more than 60 days prior to such action. If no record date is fixed, the record date for determining stockholders for any such purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto.

7.3 Checks. All checks or demands for money and notes of the corporation shall be signed by such officer or officers or such other person or persons as the Board of Directors may from time to time designate.

7.4 Fiscal Year. The fiscal year of the corporation shall be fixed by resolution of the Board of Directors.

7.5 Seal. The Board of Directors may adopt a corporate seal having inscribed thereon the name of the corporation, the year of its organization and the words “Corporate Seal, Delaware”. The seal may be used by causing it or a facsimile thereof to be impressed or affixed or reproduced or otherwise.

7.6 Loans. The Board of Directors of the corporation may, without stockholder approval, authorize loans to, or guaranty obligations of, or otherwise assist, including, without limitation, the adoption of employee benefit plans under which loans and guarantees may be made, any officer or other employee of the corporation or of its subsidiary, including any officer or employee who is a director of the corporation or its subsidiary, whenever, in the judgment of the Board of Directors, such loan, guaranty or assistance may reasonably be expected to benefit the corporation. The loan, guaranty or other assistance may be with or without interest, and may be unsecured, or secured in such manner as the Board of Directors shall approve, including, without limitation, a pledge of shares of stock of the corporation.

8. Indemnification

8.1 Scope. The corporation shall, to the fullest extent permitted by Section 145 of the DGCL, as that section may be amended and supplemented from time to time, indemnify any director of the corporation, against expenses (including attorneys’ fees), judgments, fines, amounts paid in settlement and/or other matters referred to in or covered by that section, by reason of the fact that such person is or was a director of the corporation, or is or was serving at the request of the corporation as a director another corporation, partnership, joint venture, trust or other enterprise. The corporation may, to the fullest extent permitted by Section 145 of the DGCL, as that section may be amended and supplemented from time to time, indemnify any officer, employee or agent of the corporation, against expenses (including attorneys’ fees), judgments, fines, amounts paid in settlement and/or other matters referred to in or covered by that section, by reason of the fact that such person is or was an officer, employee or agent of the corporation, or is or was serving at the request of the corporation as an officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise.

8.2 Advancing Expenses. Expenses (including attorneys’ fees) incurred by a present or former director of the corporation in defending a civil, criminal, administrative or investigative action, suit or proceeding by reason of the fact that such person is or was a director of the corporation (or is or was serving at the request of the corporation as a director of another corporation, partnership, joint venture, trust or other enterprise) shall be paid by the corporation in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of such director to repay such amount if it shall ultimately be determined that such person is not entitled to be indemnified by the corporation as authorized by relevant provisions of the DGCL; provided, however, the corporation shall not be required to advance such expenses to a director (i) who commences any action, suit or proceeding as a plaintiff unless such advance is specifically approved by a majority of the Board of Directors, or (ii) who is a party to an action, suit or proceeding brought by the corporation and approved by a majority of the Board of Directors which alleges willful misappropriation of corporate assets by such director, disclosure of confidential information in violation of such director’s fiduciary or contractual obligations to the corporation, or any other willful and deliberate breach in bad faith of such director’s duty to the corporation or its stockholders.

8.3 Liability Offset. The corporation’s obligation to provide indemnification under this Section 8 shall be offset to the extent the indemnified party is indemnified by any other source including, but not limited to, any applicable insurance coverage under a policy maintained by the corporation, the indemnified party or any other person.

8.4 Continuing Obligation. The provisions of this Section 8 shall be deemed to be a contract between the corporation and each director of the corporation who serves in such capacity at any time

while this Bylaw is in effect, and any repeal or modification thereof shall not affect any rights or obligations then existing with respect to any state of facts then or theretofore existing or any action, suit or proceeding theretofore or thereafter brought based in whole or in part upon any such state of facts.

8.5 Nonexclusive. The indemnification and advancement of expenses provided for in this Section 8 shall (i) not be deemed exclusive of any other rights to which those indemnified may be entitled under any Bylaw, agreement or vote of stockholders or disinterested directors or otherwise, both as to action in their official capacities and as to action in another capacity while holding such office, (ii) continue as to a person who has ceased to be a director and (iii) inure to the benefit of the heirs, executors and administrators of such a person.

8.6 Other Persons. In addition to the indemnification rights of directors, officers, employees, or agents of the corporation, the Board of Directors in its discretion shall have the power on behalf of the corporation to indemnify any other person made a party to any action, suit or proceeding who the corporation may indemnify under Section 145 of the DGCL.

8.7 Definitions. The phrases and terms set forth in this Section 8 shall be given the same meaning as the identical terms and phrases are given in Section 145 of the DGCL, as that section may be amended and supplemented from time to time.

9. Amendments

Except as otherwise provided in the Certificate of Incorporation, these Bylaws may be altered, amended or repealed, or new bylaws may be adopted, by the holders of a majority of the outstanding voting shares or by the Board of Directors, when such power is conferred upon the Board of Directors by the Certificate of Incorporation, at any regular meeting of the stockholders or of the Board of Directors or at any special meeting of the stockholders or of the Board of Directors if notice of such alteration, amendment, repeal or adoption of new Bylaws be contained in the notice of such special meeting. If the power to adopt, amend or repeal Bylaws is conferred upon the Board of Directors by the Certificate of Incorporation, it shall not divest or limit the power of the stockholders to adopt, amend or repeal Bylaws.

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Adopted as of October 9, 2019

Appendix 2 - The Bond Terms

BOND TERMS

FOR

**Varel Oil and Gas Inc. 12.25% senior secured USD 60,000,000 bonds
2024/2028**

ISIN NO0013182121 (after compliance period)

ISIN NO0013182113 (during compliance period)

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ATTACHMENT 1 COMPLIANCE CERTIFICATE

ATTACHMENT 2 RELEASE NOTICE – ESCROW ACCOUNT

BOND TERMS between	
ISSUER:	Varel Oil and Gas Inc. , a company existing under the laws of Delaware with registration number 7649188 and LEI-code 984500A10EA482B94081; and
BOND TRUSTEE:	Nordic Trustee AS , a company existing under the laws of Norway with registration number 963 342 624 and LEI-code 549300XAKTM2BMKIPT85.
DATED:	4 April 2024
These Bond Terms shall remain in effect for so long as any Bonds remain outstanding.	

1. INTERPRETATION

1.1 Definitions

The following terms will have the following meanings:

“**Accounting Standard**” means GAAP.

“**Additional Bonds**” means the debt instruments issued under a Tap Issue, including any Temporary Bonds.

“**Affiliate**” means, in relation to any person:

- (a) any person which is a Subsidiary of that person;
- (b) any person with Decisive Influence over that person (directly or indirectly); and
- (c) any person which is a Subsidiary of an entity with Decisive Influence over that person (directly or indirectly).

“**Agreed Security Principles**” has the meaning ascribed to such term in the Intercreditor Agreement.

“**Annual Financial Statements**” means the audited unconsolidated and consolidated annual financial statements of the Issuer for any financial year, prepared in accordance with the Accounting Standard, such financial statements to include a profit and loss account, balance sheet, cash flow statement and report of the board of directors.

“**Attachment**” means any schedule, appendix or other attachment to these Bond Terms.

“**Bond Currency**” means the currency in which the Bonds are denominated, as set out in Clause 2.1 (*Amount, denomination and ISIN of the Bonds*).

“**Bond Terms**” means these terms and conditions, including all Attachments which form an integrated part of these Bond Terms, in each case as amended and/or supplemented from time to time.

“**Bond Trustee**” means the company designated as such in the preamble to these Bond Terms, or any successor, acting for and on behalf of the Bondholders in accordance with these Bond Terms.

“**Bond Trustee Fee Agreement**” means the agreement entered into between the Issuer and the Bond Trustee relating, among other things, to the fees to be paid by the Issuer to the Bond Trustee for the services provided by the Bond Trustee relating to the Bonds.

“**Bondholder**” means a person who is registered in the CSD as directly registered owner or nominee holder of a Bond, subject however to Clause 3.3 (*Bondholders’ rights*).

“**Bondholders’ Meeting**” means a meeting of Bondholders as set out in Clause 15 (*Bondholders’ Decisions*).

“**Bonds**” means (i) the debt instruments issued by the Issuer pursuant to these Bond Terms, including any Additional Bonds, and (ii) any overdue and unpaid principal which has been issued under a separate ISIN in accordance with the regulations of the CSD from time to time.

“**Business Day**” means a day on which both the relevant CSD settlement system and the relevant settlement system for the Bond Currency are open.

“**Business Day Convention**” means that if the last day of any Interest Period originally falls on a day that is not a Business Day, no adjustment will be made to the Interest Period.

“**Call Option**” has the meaning ascribed to such term in Clause 10.2 (*Voluntary early redemption – Call Option*).

“**Call Option Repayment Date**” means the settlement date for the Call Option determined by the Issuer pursuant to Clause 10.2 (*Voluntary early redemption – Call Option*), paragraph (d) of Clause 10.3 (*Mandatory repurchase due to a Put Option Event*) or a date agreed upon between the Bond Trustee and the Issuer in connection with such redemption of Bonds.

“**Cash and Cash Equivalents**” means at any time:

- (a) cash in hand or amounts standing to the credit of any current and/or on deposit accounts with a reputable bank; and
- (b) time deposits with reputable banks and certificates of deposit issued; and bills of exchange accepted, by a reputable bank,

in each case to which a Group Company is beneficially entitled at the time and to which it has free and unrestricted access and which is not subject to any Security (other than any Transaction Security).

“**Change of Control Call**” has the meaning ascribed to such term in Clause 10.4 (*Change of control call*).

“**Change of Control Event**” means:

- (a) at any time prior to an IPO Event, that the Sponsor and any Permitted Transferee between them ceases to have Decisive Influence over the Issuer; or

- (b) upon and at any time following an IPO Event, that any person or group of persons acting in concert (other than the Sponsor or any Permitted Transferee gains Decisive Influence over the Issuer).

“**Closing Procedure**” means the closing procedure agreed between the Bond Trustee and the Issuer.

“**Compliance Certificate**” means a statement substantially in the form as set out in Attachment 1 hereto.

“**CSD**” means the central securities depository in which the Bonds are registered, being Verdipapirsentralen ASA (VPS).

“**Decisive Influence**” means a person having, as a result of an agreement or through the ownership of shares or interests in another person (directly or indirectly):

- (a) a majority of the voting rights in that other person; or
- (b) a right to elect or remove a majority of the members of the board of directors of that other person.

“**Default Notice**” has the meaning ascribed to such term in Clause 14.2 (*Acceleration of the Bonds*).

“**Default Repayment Date**” means the settlement date set out by the Bond Trustee in a Default Notice requesting early redemption of the Bonds.

“**Deferred Consideration**” means the earn-out obligation of approximately USD 6,600,000 due and payable in June 2024 related to the Sledgehammer acquisition.

“**Distribution**” means:

- (a) payment of dividend, charge or fee or other distribution (whether in cash or in kind) on or in respect of share capital;
- (b) repayment or distribution of dividend or share premium reserve;
- (c) redemption, repurchase or repayment of share capital or other restricted equity with repayment to shareholders;
- (d) repayment or service of any Subordinated Loan (other than capitalising accrued interest); or
- (e) other similar distributions or transfers of value to the direct and indirect shareholders of any Group Company or the Affiliates of such direct and indirect shareholders.

“**EBITDA**” means, in respect of any Relevant Period, the consolidated operating profit of the Group before taxation (excluding, without any form of double counting, the results from discontinued operations):

- (a) before deducting any interest, commission, fees, discounts, prepayment fees, premiums or charges and other finance payments whether paid, payable or capitalised by any Group Company (calculated on a consolidated basis) in respect of that Relevant Period;
- (b) not including any accrued interest owing to any Group Company;
- (c) after adding back any amount attributable to the amortisation or depreciation of assets of any Group Company;
- (d) in respect of any Relevant Period ending on or before 30 September 2024, before taking into account any exceptional, one off, non-recurring or extraordinary items incurred on or before 31 December 2023;
- (e) in respect of any Relevant Period ending after 30 September 2024, before taking into account any exceptional, one off, non-recurring or extraordinary items for up to a total amount equal to 10.00 per cent. of EBITDA in respect of such Relevant Period (when calculated prior to the making of any adjustments for any such items) in aggregate for the Group;
- (f) before deducting any fees, costs and expenses, stamp, registration and other taxes incurred by any Group Company in connection with the Bond Issue;
- (g) after deducting the amount of any profit (or adding back the amount of any loss) of any Group Company which is attributable to minority interests;
- (h) plus or minus the Group's share of the profits or losses (after finance costs and tax) of any investment or entity (which is not itself a Group Company (including associates and joint ventures)) in which any Group Company has an ownership interest;
- (i) excluding any Transaction Cost;
- (j) before taking into account any unrealised gains or losses on any derivative or financial instrument (other than any derivative instrument which is accounted for on a hedge accounting basis);
- (k) before taking into account any gain or loss arising from an upward or downward revaluation of any other asset;
- (l) before taking into account any income or charge attributable to a post-employment benefit scheme (other than the current service costs and any past service costs and curtailments and settlements attributable to the scheme); and
- (m) excluding the charge to profit represented by the expensing of stock options,

in each case, to the extent added, deducted or taken into account, as the case may be, for the purpose of determining operating profits of the Group before taxation.

“Eligible Material Group Company” means any Material Group Company which is incorporated within the European Economic Area (EEA), Great Britain, United States of America or Canada.

“Escrow Account” means an account in the name of the Issuer, blocked and pledged on first priority as security for the Issuer’s obligations under the Finance Documents.

“Escrow Account Pledge” means the pledge over the Escrow Account, where the bank operating the account has waived any set-off rights.

“Event of Default” means any of the events or circumstances specified in Clause 14.1 (*Events of Default*).

“Exchange” means:

- (a) Oslo Børs (the Oslo Stock Exchange); or
- (b) any regulated market as such term is understood in accordance with the Markets in Financial Instruments Directive 2014/65/EU (MiFID II) and Regulation (EU) No. 600/2014 on markets in financial instruments (MiFIR).

“Existing Debt” means the Financial Indebtedness under the USD 38,000,000 facilities agreement originally dated 28 October 2019 with, among others, Investec Bank Plc as agent and the Issuer as company and original borrower which shall be refinancing using part of the proceeds of the Bond Issue.

“Finance Documents” means these Bond Terms, the Bond Trustee Fee Agreement, the Intercreditor Agreement, any Transaction Security Document, any Security Agent Agreement and any other document designated by the Issuer and the Bond Trustee as a Finance Document.

“Financial Indebtedness” means any indebtedness for or in respect of:

- (a) moneys borrowed (and debit balances at banks or other financial institutions);
- (b) any amount raised by acceptance under any acceptance credit facility or dematerialised equivalent;
- (c) any amount raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or any similar instrument, including the Bonds;
- (d) the amount of any liability in respect of any lease or hire purchase contract which would, in accordance with the Accounting Standard, be capitalised as an asset and booked as a corresponding liability in the balance sheet;
- (e) receivables sold or discounted (other than any receivables to the extent they are sold on a non-recourse basis provided that the requirements for de-recognition under the Accounting Standard are met);
- (f) any derivative transaction entered into in connection with protection against or benefit from fluctuation in any rate or price and, when calculating the value of any derivative transaction, only the marked to market value (or, if any actual amount is due as a result of the termination or close-out of that derivative transaction, that amount shall be taken into account);

- (g) any counter-indemnity obligation in respect of a guarantee, bond, standby or documentary letter of credit or any other instrument issued by a bank or financial institution in respect of an underlying liability of a person which is not a Group Company which liability would fall within one of the other paragraphs of this definition;
- (h) any amount raised by the issue of redeemable shares which are redeemable (other than at the option of the Issuer) before the Maturity Date or are otherwise classified as borrowings under the Accounting Standard;
- (i) any amount of any liability under an advance or deferred purchase agreement, if (a) the primary reason behind entering into the agreement is to raise finance or (b) the agreement is in respect of the supply of assets or services and payment is due more than 120 calendar days after the date of supply;
- (j) any amount raised under any other transaction (including any forward sale or purchase agreement) having the commercial effect of a borrowing or otherwise being classified as a borrowing under the Accounting Standard; and
- (k) without double counting, the amount of any liability in respect of any guarantee for any of the items referred to in paragraphs (a) to (j) above.

“Financial Reports” means the Annual Financial Statements and the Interim Accounts.

“First Call Date” means the Interest Payment Date falling in April 2026.

“GAAP” means generally accepted accounting practices and principles in the country in which the Issuer is incorporated including, if applicable, IFRS.

“Group” means the Parent and its Subsidiaries from time to time.

“Group Company” means any person which is a member of the Group.

“Guarantee” means the unconditional Norwegian law guarantee and indemnity (Norwegian: *“selvskyldnerkausjon”*) issued by the Guarantors in respect of the Secured Obligations.

“Guarantee Facilities” means one or more guarantee facilities to be provided to the Issuer or any Group Company up to an amount not exceeding the higher of (i) USD 10,000,000 and (ii) 0.25x EBITDA at the time of commitment (or, in each case, its equivalent in any other currency), which may consist of one or several facilities from one or more lenders for the purposes of providing performance guarantees or bonding lines on behalf of the Group, which shall rank *pari passu* between each other.

“Guarantee Facility Finance Documents” means the Guarantee Facilities, and any other document designated by the guarantee facility creditors and the Bond Trustee as a finance document under the Guarantee Facilities.

“Guarantor” means each Original Guarantor and each Eligible Material Group Company.

“IFRS” means the International Financial Reporting Standards and guidelines and interpretations issued by the International Accounting Standards Board (or any predecessor and

successor thereof) in force from time to time and to the extent applicable to the relevant financial statement.

“Incurrence Test” has the meaning ascribed to such term in Clause 13.22 (*Incurrence test*).

“Initial Bond Issue” means the amount to be issued on the Issue Date as set out in Clause 2.1 (*Amount, denomination and ISIN of the Bonds*).

“Initial Nominal Amount” means the Nominal Amount of each Bond on the Issue Date as set out in Clause 2.1 (*Amount, denomination and ISIN of the Bonds*).

“Insolvent” means that a person:

- (a) is unable or admits inability to pay its debts as they fall due;
- (b) suspends making payments on any of its debts generally; or
- (c) is otherwise considered insolvent or bankrupt within the meaning of the relevant bankruptcy legislation of the jurisdiction which can be regarded as its centre of main interest as such term is understood pursuant to Regulation (EU) 2015/848 on insolvency proceedings (as amended from time to time).

“Intercompany Loan” means any loan or credit granted by a Group Company to any other Group Company where (i) the loan or credit is scheduled or expected to be outstanding for at least 12 months and (ii) the principal amount thereof is at least USD 2,000,000 (or the equivalent in any other currency) and, in the case of any loan or credit granted to a Material Group Company shall be fully subordinated pursuant to the Intercreditor Agreement or a subordination statement, provided that no Financial Indebtedness under any cash pool arrangement shall constitute an Intercompany Loan.

“Intercompany Loan Assignment” means a first priority assignment over any Intercompany Loan granted by any Guarantor to Varel International Energy Services, Inc.

“Intercreditor Agreement” means the Norwegian law governed intercreditor agreement entered into on or about the date of these Bond Terms between, among others, the Issuer, the Bond Trustee and the Security Agent.

“Interest Payment Date” means the last day of each Interest Period, the first Interest Payment Date being 8 October 2024 and the last Interest Payment Date being the Maturity Date.

“Interest Period” means, subject to adjustment in accordance with the Business Day Convention, the periods between 8 October and 8 April each year, provided however that an Interest Period shall not extend beyond the Maturity Date.

“Interest Rate” means 12.25 percentage points per annum.

“Interim Accounts” means the unaudited consolidated quarterly financial statements of the Issuer for the quarterly period ending on each Quarter Date in the English language, prepared in accordance with the Accounting Standard.

“ISIN” means International Securities Identification Number.

“Issue Date” means 8 April 2024.

“Issuer” means the company designated as such in the preamble to these Bond Terms.

“Issuer’s Bonds” means any Bonds which are owned by the Issuer or any Affiliate of the Issuer.

“Issuer Share Pledge” means a first priority US law share pledge given by the Parent in respect of the shares it owns in the Issuer.

“IPO Event” means the earlier to occur of:

- (a) any initial public offering of shares in the Parent or any of its (direct or indirect) holding companies and;
- (b) any listing of any part of the share capital of the Parent or any of its (direct or indirect) holding companies at London AIM, any Euronext Growth market or any Exchange for listing and trading of shares.

“Leverage Ratio” means, in respect of any Relevant Period, the ratio of Total Net Debt to EBITDA in respect of that Relevant Period.

“Listing Failure Event” means:

- (a) the Bonds (save for any Temporary Bonds) have not been admitted to listing on an Exchange within 12 months following the Issue Date;
- (b) in the case of a successful admission to listing, that a period of 6 months has elapsed since the Bonds ceased to be admitted to listing on an Exchange; or
- (c) that the Temporary Bonds have not been admitted to listing on the Exchange where the other Bonds are listed within the later of (i) 6 months following the issue date for such Temporary Bonds, and (ii) 12 months following the Issue Date.

“Make Whole Amount” means an amount equal to the sum of the present value on the Call Option Repayment Date of:

- (a) the Nominal Amount of the redeemed Bonds at the price as set out in paragraph (a) (ii) of Clause 10.2 (*Voluntary early redemption – Call Option*) as if such payment originally had taken place on the First Call Date; and
- (b) the remaining interest payments of the redeemed Bonds (less any accrued and unpaid interest on the redeemed Bonds) to the First Call Date,

where the present value shall be calculated by using a discount rate of 5.07 per cent. per annum.

“Managers” means Arctic Securities AS and Pareto Securities AS.

“Material Adverse Effect” means a material adverse effect on:

- (a) the ability of the Issuer or any Guarantor to perform and comply with its obligations under any Finance Document; or
- (b) the validity or enforceability of any Finance Document.

“Material Group Company” means any Group Company which is nominated as such by the Issuer pursuant to Clause 13.18 (*Designation of Material Group Companies*).

“Maturity Date” means 7 April 2028, adjusted according to the Business Day Convention.

“Maximum Issue Amount” means the maximum amount that may be issued under these Bond Terms as set out in Clause 2.1 (*Amount, denomination and ISIN of the Bonds*).

“Net Proceeds” means the proceeds from the issuance of the Bonds (net of fees and legal cost of the Managers and, if required by the Bond Trustee, the Bond Trustee fee, and any other cost and expenses incurred in connection with the issuance of the Bonds).

“Nominal Amount” means the nominal value of each Bond at any time. The Nominal Amount may be amended pursuant to paragraph (j) of Clause 16.2 (*The duties and authority of the Bond Trustee*).

“Obligor” means the Issuer and each Guarantor.

“Original Guarantor” means:

- (a) the Parent; and
- (b) Varel International Energy Services Inc., a company existing under the laws of Delaware with registration number 4517109.

“Outstanding Bonds” means any Bonds not redeemed or otherwise discharged.

“Overdue Amount” means any amount required to be paid by an Obligor under the Finance Documents but not made available to the Bondholders on the relevant Payment Date or otherwise not paid on its applicable due date.

“Parent” means Varel Oil and Gas Intermediate Holdings Inc., a company existing under the laws of Delaware with registration number 7649184.

“Partial Payment” means a payment that is insufficient to discharge all amounts then due and payable under the Finance Documents.

“Paying Agent” means the legal entity appointed by the Issuer to act as its paying agent with respect to the Bonds in the CSD.

“Payment Date” means any Interest Payment Date or any Repayment Date.

“Permitted Financial Indebtedness” means any Financial Indebtedness:

- (a) arising under the Finance Documents or any Guarantee Facility Finance Documents;

- (b) up to the first release of funds from the Escrow Account any Existing Debt;
- (c) arising under any India INR revolving credit facility agreement not exceeding the higher of (i) USD 5,000,000 and (ii) 0.15x EBITDA at the time of commitment (or, in each case, the equivalent in any other currency) (the “**India Facility**”);
- (d) subject to compliance with the Incurrence Test, arising under any Tap Issue;
- (e) arising under a Permitted Loan or a Permitted Guarantee;
- (f) of any person acquired by a Group Company after the Issue Date which is incurred under arrangements in existence at the date of acquisition, but not incurred or increased or having its maturity date extended in contemplation of, or since, the acquisition, and outstanding only for a period of 3 months following the date of acquisition;
- (g) under any lease or hire purchase contract;
- (h) in the form of Subordinated Loans;
- (i) any Intercompany Loans and other loans between Group Companies;
- (j) any obligation under a Permitted Hedging Obligation;
- (k) in respect of any counter-indemnity obligation arising under any guarantee granted by a commercial bank for the obligations of any Group Company;
- (l) arising under supplier credits on normal commercial terms in the ordinary course of business;
- (m) arising as a result of a contemplated refinancing of the Bonds in full provided that (i) a call notice has been served on the Bonds or will be served in connection with the refinancing (in full) and (ii) the proceeds of such debt issuance are held in escrow until full repayment of the Bonds;
- (n) under any pension and tax liabilities incurred in the ordinary course of business;
- (o) under the Deferred Consideration;
- (p) incurred in the form of any earn-out obligations;
- (q) subject to compliance with the Incurrence Test, incurred under any unsecured seller's credit on normal commercial terms in relation to any acquisition of any company, business, undertaking, shares or securities (or any interest in any of the foregoing), provided that such obligations are subordinated to the Bonds (following any enforcement event) and may be serviced if any Event of Default is outstanding; or
- (r) not permitted by the preceding paragraphs and the outstanding amount of which does not exceed USD 3,000,000 (or its equivalent) in aggregate for the Group at any time.

“**Permitted Guarantee**” means:

- (a) any Guarantee or indemnity granted under the Finance Documents or the Guarantee Facility Finance Documents;
- (b) any guarantee or indemnity for the benefit of third parties in the ordinary course of business or guarantee or indemnity for or for the benefit of any Group Company which liabilities are not financial Indebtedness;
- (c) any guarantee given in respect of netting or set-off arrangements permitted pursuant to paragraph (f) of the definition of Permitted Security;
- (d) the guarantee granted by Varel International Energy Services, Inc. in respect of the India Facility; or
- (e) not otherwise permitted by the preceding paragraphs and in the ordinary course of business so long as the aggregate amount of the guaranteed liabilities does not exceed USD 3,000,000 (or its equivalent in other currencies) at any time.

“Permitted Hedging Obligation” means a derivative transaction entered into with one or more hedge counterparties in connection with protection against or benefit from fluctuation in any rate or price, where such exposure arises in respect of payments to be made under the Bond Terms or otherwise in the ordinary course of business (but not in relation to a derivative transaction for speculative purposes).

“Permitted Loan” means:

- (a) any trade credit extended by any Group Company on normal commercial terms and in the ordinary course of trading;
- (b) any loan which is referred to in the definition of, or otherwise constitutes Permitted Financial Indebtedness; and
- (c) any loan as long as the aggregate amount of the Financial Indebtedness under any such loans does not exceed USD 3,000,000 (or its equivalent in other currencies) at any time.

“Permitted Security” means:

- (a) any Transaction Security or Security created in favour of the Guarantee Facility Finance Documents, provided that such Security is extended to and shared with the Secured Parties to the extent required by and pursuant to and in accordance with the terms of the Intercreditor Agreement;
- (b) any Security in the form of cash collateral securing liabilities under any Guarantee Facility, to the extent such liabilities are not secured by the Transaction Security;
- (c) any lien arising by operation of law and in the ordinary course of trading and not as a result of any default or omission by any Group Company;
- (d) any Security in respect of the Existing Debt so long as the Security is irrevocably removed or discharged by no later than the date of the initial disbursement of the Net Proceeds or in accordance with the Closing Procedure;

- (e) any netting or set-off arrangement entered into by any Group Company in the ordinary course of its banking arrangements for the purpose of netting debit and credit balances of members of the Group;
- (f) any payment or close out netting or set-off arrangement pursuant to any treasury transaction or foreign exchange transaction entered into by a Group Company which constitutes Permitted Financial Indebtedness;
- (g) any Security over or affecting any asset or company acquired by a Group Company after the Issue Date if the Security was not created in contemplation of the acquisition of that asset or company, the principal amount secured has not been increased in contemplation of or since the acquisition of that asset or company by a Group Company and the Security is removed or discharged within 3 months of the date of acquisition of such asset or company;
- (h) any Security arising under any retention of title, hire purchase or conditional sale arrangement or arrangements having similar effect in respect of goods supplied to a Group Company in the ordinary course of trading and on the supplier's standard usual terms and not arising as a result of any default or omission by any Group Company;
- (i) any Security granted in favour of any Permitted Hedging Obligation;
- (j) any Security arising as a consequence of any lease or hire purchase contract permitted pursuant to the definition of "Permitted Financial Indebtedness";
- (k) any Security granted in respect of the India Facility by or in respect of the borrower entity thereunder; or
- (l) any Security (excluding over assets covered by Transaction Security) securing indebtedness the outstanding principal amount of which (when aggregated with the outstanding principal amount of any other indebtedness which has the benefit of Security given by any Group Company other than any permitted under the preceding paragraphs) does not exceed USD 3,000,000 (or its equivalent in other currencies).

"Permitted Transferee" means any Person approved (prior to a Change of Control Event occurring) as a permitted transferee by a Bondholders' meeting or written resolution of the Bondholders with a simple majority of the Voting Bonds.

"Post-Disbursement Security" means the Transaction Security listed in paragraph (a)(vii)-(ix) of Clause 2.5 (*Transaction Security*).

"Pre-Disbursement Security" means the Transaction Security listed in paragraph (a)(ii)-(vi) of Clause 2.5 (*Transaction Security*).

"Pre-Settlement Security" means the Transaction Security listed in paragraph (a)(i) of Clause 2.5 (*Transaction Security*).

"Put Option" has the meaning ascribed to such term in Clause 10.3 (*Mandatory repurchase due to a Put Option Event*).

“Put Option Event” means a Change of Control Event.

“Put Option Repayment Date” means the settlement date for the Put Option pursuant to Clause 10.3 (*Mandatory repurchase due to a Put Option Event*).

“Quarter Date” means, in each financial year, 31 March, 30 June, 30 September and 31 December.

“Relevant Jurisdiction” means the country in which the Bonds are issued, being Norway.

“Relevant Record Date” means the date on which a Bondholder’s ownership of Bonds shall be recorded in the CSD as follows:

- (a) in relation to payments pursuant to these Bond Terms, the date designated as the Relevant Record Date in accordance with the rules of the CSD from time to time; or
- (b) for the purpose of casting a vote with regard to Clause 15 (*Bondholders’ Decisions*), the date falling on the immediate preceding Business Day to the date of that Bondholders’ decision being made, or another date as accepted by the Bond Trustee.

“Relevant Period” means each period of 12 consecutive calendar months ending on the relevant Quarter Date.

“Repayment Date” means any Call Option Repayment Date, the Default Repayment Date, any Put Option Repayment Date, the Special Redemption Repayment Date, the Tax Event Repayment Date or the Maturity Date.

“Secured Obligations” has the meaning ascribed to such term in the Intercreditor Agreement.

“Secured Parties” has the meaning ascribed to such term in the Intercreditor Agreement.

“Securities Trading Act” means the Securities Trading Act of 2007 no. 75 of the Relevant Jurisdiction.

“Security” means a mortgage, charge, pledge, lien, security assignment or other security interest securing any obligation of any person or any other agreement or arrangement having a similar effect.

“Security Agent” means the Bond Trustee or any successor Security Agent, acting for and on behalf of the Secured Parties in accordance with any Security Agent Agreement or any other Finance Document.

“Security Agent Agreement” means any agreement other than these Bond Terms whereby the Security Agent is appointed to act as such in the interest of the Bond Trustee (on behalf of itself and the Bondholders).

“Security Provider” means the Parent, each Obligor and each other person granting Transaction Security.

“Special Redemption Option” has the meaning ascribed to such term in Clause 10.5 (*Special redemption option*).

“Special Redemption Repayment Date” means the settlement date for the Special Redemption Option determined by the Issuer pursuant to Clause 10.5 (*Special Redemption Option*).

“Sponsor” means Blue Water Energy LLP and any fund or entity managed or advised by it.

“Subordinated Loans” means any loan granted to the Issuer from the Parent or any of its direct or indirect shareholders which is fully subordinated to the Secured Obligations to the satisfaction of the Security Agent and where any servicing of interest or principal of such loan is subject to all present and future obligations and liabilities under the Secured Obligations having been discharged in full (unless serviced as part of a distribution expressly permitted under these Bond Terms).

“Subordinated Loans Assignments” means a first priority assignment over any Subordinated Loans.

“Subsidiary” means a person over which another person has Decisive Influence.

“Subsidiary Share Pledge” means a first priority US law share pledge given by the Issuer in respect of the shares it owns in Varel International Energy Services, Inc.

“Summons” means the call for a Bondholders’ Meeting or a Written Resolution as the case may be.

“Tap Issue” has the meaning ascribed to such term in Clause 2.1 (*Amount, denomination and ISIN of the Bonds*).

“Tap Issue Addendum” has the meaning ascribed to such term in Clause 2.1 (*Amount, denomination and ISIN of the Bonds*).

“Tax Event Repayment Date” means the date set out in a notice from the Issuer to the Bondholders pursuant to Clause 10.4 (*Early redemption option due to a tax event*).

“Temporary Bonds” has the meaning ascribed to such term in Clause 2.1 (*Amount, denomination and ISIN of the Bonds*).

“Total Net Debt” means, at any time, the aggregate amount of all interest bearing debt of the Group but:

- (a) excluding any such obligation of any other Group Company;
- (b) excluding any such obligation in respect of any Subordinated Loan;
- (c) excluding any Bonds held by the Issuer;
- (d) including, in the case of finance leases, their capitalised value only; and
- (e) deducting the aggregate amount of Cash and Cash Equivalents at that time,

and so that no amount shall be included or excluded more than once.

“**Transaction Cost**” means all fees, costs and expenses, stamp, registration and other taxes incurred by the Issuer or any other member of the Group directly or indirectly in connection with (a) the Initial Bond Issue and any Tap Issue, (b) the admission to trading of the Bonds and (c) refinancing of the Existing Debt.

“**Transaction Security**” means the Security created or expressed to be created in favour of the Security Agent (on behalf of the Secured Parties) pursuant to the Transaction Security Documents.

“**Transaction Security Documents**” means, collectively, the Escrow Account Pledge and all of the documents which shall be executed and delivered pursuant to Clause 2.5 (*Transaction Security*).

“**Voting Bonds**” means the Outstanding Bonds less the Issuer’s Bonds.

“**Written Resolution**” means a written (or electronic) solution for a decision making among the Bondholders, as set out in Clause 15.5 (*Written Resolutions*).

1.2 Construction

In these Bond Terms, unless the context otherwise requires:

- (a) headings are for ease of reference only;
- (b) words denoting the singular number will include the plural and vice versa;
- (c) references to Clauses are references to the Clauses of these Bond Terms;
- (d) references to a time are references to Central European Time unless otherwise stated;
- (e) references to a provision of “**law**” are a reference to that provision as amended or re-enacted, and to any regulations made by the appropriate authority pursuant to such law;
- (f) references to a “**regulation**” includes any regulation, rule, official directive, request or guideline by any official body;
- (g) references to a “**person**” means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, unincorporated organisation, government, or any agency or political subdivision thereof or any other entity, whether or not having a separate legal personality;
- (h) references to Bonds being “**redeemed**” means that such Bonds are cancelled and discharged in the CSD in a corresponding amount, and that any amounts so redeemed may not be subsequently re-issued under these Bond Terms;
- (i) references to Bonds being “**purchased**” or “**repurchased**” by the Issuer means that such Bonds may be dealt with by the Issuer as set out in Clause 11.1 (*Issuer’s purchase of Bonds*);
- (j) references to persons “**acting in concert**” shall be interpreted pursuant to the relevant provisions of the Securities Trading Act; and

- (k) an Event of Default is “**continuing**” if it has not been remedied or waived.

2. THE BONDS

2.1 Amount, denomination and ISIN of the Bonds

- (a) The Issuer has resolved to issue a series of Bonds up to USD 90,000,000 (the “**Maximum Issue Amount**”). The Bonds may be issued on different issue dates and the Initial Bond Issue will be in the amount of USD 60,000,000. The Issuer may, provided that the conditions set out in Clause 6.4 (*Tap Issues*) are met, at one or more occasions issue Additional Bonds (each a “**Tap Issue**”) until the Nominal Amount of all Additional Bonds equals in aggregate the Maximum Issue Amount less the Initial Bond Issue. Each Tap Issue will be subject to identical terms as the Bonds issued pursuant to the Initial Bond Issue in all respects as set out in these Bond Terms, except that Additional Bonds may be issued at a different price than for the Initial Bond Issue and which may be below or above the Nominal Amount. The Bond Trustee shall prepare an addendum to these Bond Terms evidencing the terms of each Tap Issue (a “**Tap Issue Addendum**”).

If the Bonds are listed on an Exchange and there is a requirement for a new prospectus in order for the Additional Bonds to be listed together with the Bonds, the Additional Bonds may be issued under a separate ISIN (such Bonds referred to as the “**Temporary Bonds**”). Upon the approval of the prospectus, the Issuer shall (i) notify the Bond Trustee, the Exchange and the Paying Agent and (ii) ensure that the Temporary Bonds are converted into the ISIN for the Bonds.

- (b) The Bonds are denominated in US Dollars (USD), being the legal currency of the United States of America.
- (c) The Initial Nominal Amount of each Bond is USD 125,000.
- (d) The ISIN of the Bonds is set out on the front page. These Bond Terms apply with identical terms and conditions to (i) all Bonds issued under this ISIN, (ii) any Temporary Bonds and (iii) any Overdue Amounts issued under one or more separate ISIN in accordance with the regulations of the CSD from time to time.
- (e) Holders of Overdue Amounts related to interest claims will not have any other rights under these Bond Terms than their claim for payment of such interest claim which claim shall be subject to paragraph (b) of Clause 15.1 (*Authority of the Bondholders’ Meeting*).

2.2 Tenor of the Bonds

The tenor of the Bonds is from and including the Issue Date to but excluding the Maturity Date.

2.3 Use of proceeds

- (a) The Issuer will use the Net Proceeds from the Initial Bond Issue for:
- (i) refinancing of the Existing Debt;
 - (ii) payment of the Deferred Consideration; and
 - (iii) general corporate purposes of the Group.

- (b) The Net Proceeds from any Additional Bonds shall, if not otherwise stated, be applied towards general corporate purposes of the Group.

2.4 Status of the Bonds

- (a) The Bonds shall constitute senior secured unsubordinated debt obligations of the Issuer and will rank pari passu between themselves and at least pari passu with all other senior obligations of the Issuer (save for such claims which are preferred by bankruptcy, insolvency, liquidation or other similar laws of general application).
- (b) The Bonds will be secured on a pari passu basis with the claims of the other Secured Parties in respect of the Transaction Security (other than the Escrow Account Pledge), subject to the super senior status of the Guarantee Facilities. The Super Senior Creditors and (as defined in the Intercreditor Agreement) will receive (i) the proceeds from any enforcement of the Transaction Security (other than the Escrow Account Pledge) and certain distressed disposals and (ii) any payments following any other enforcement event prior to the Bondholders (but otherwise rank pari passu in right of payment with the Bonds) in accordance with the waterfall provisions of the Intercreditor Agreement.

2.5 Transaction Security

- (a) As Security for the due and punctual fulfilment of the Secured Obligations, the Issuer shall procure that the following Transaction Security is granted in favour of the Security Agent on behalf of the Secured Parties with first priority within the times agreed in Clause 6 (*Conditions for Disbursement*):

Pre-Settlement Security:

- (i) Escrow Account Pledge.

Pre-Disbursement Security:

- (ii) The Issuer Share Pledge;
- (iii) the Subsidiary Share Pledge;
- (iv) the Subordinated Loans Assignment;
- (v) the Intercompany Loan Assignment; and
- (vi) Guarantees from each Original Guarantor.

Post-Disbursement Security

- (i) a first priority pledge over all shares owned by any member of the Group in each Obligor (other than the Parent);
- (ii) a first priority assignment of Intercompany Loans granted by an obligor at any time; and
- (iii) Guarantees from each Guarantor.

- (b) Subject to any mandatory limitations under applicable law and subject to the Agreed Security Principles, the Issuer shall ensure that in the event that any Group Company becomes the owner of any new shares in an Obligor, any Obligor becomes the creditor of any new Intercompany Loans or any new Subordinated Loans arise, the Issuer shall promptly notify the Bond Trustee thereof in writing and shall procure that no later than forty-five (45) Business Days of the relevant Group Company becoming the owner of such assets (or such Subordinated Loan arising) equivalent Transaction Security over those assets is granted.
- (c) The Transaction Security and the Intercreditor Agreement shall be entered into on such terms and conditions as the Security Agent and the Bond Trustee in their discretion deem appropriate in order to create the intended benefit for the Secured Parties under the relevant document.
- (d) The Security Agent shall pursuant to the terms of the Intercreditor Agreement be irrevocably authorised to, release:
 - (i) any Guarantees and Transaction Security over assets which are sold or otherwise disposed of (directly or indirectly) (A) in any merger, de-merger, disposal or other transaction permitted in compliance with Clauses 13.5 (*Mergers and de-mergers*) or 13.10 (*Disposals*), or (B) in connection with any enforcement or insolvency;
 - (ii) any Guarantee or Transaction Security provided by a Guarantor that ceases to be a Material Group Company; and
 - (iii) any Transaction Security under the Issuer Share Pledge or over any Subordinated Loans, upon an IPO Event (and listing of the Parent's Shares).

3. THE BONDHOLDERS

3.1 Bond Terms binding on all Bondholders

- (a) By virtue of being registered as a Bondholder (directly or indirectly) with the CSD, the Bondholders are bound by these Bond Terms and any other Finance Document, without any further action required to be taken or formalities to be complied with by the Bond Trustee, the Bondholders, the Issuer or any other party.
- (b) The Bond Trustee is always acting with binding effect on behalf of all the Bondholders.

3.2 Limitation of rights of action

- (a) No Bondholder is entitled to take any enforcement action, instigate any insolvency procedures or take other legal action against the Issuer or any other party in relation to any of the liabilities of the Issuer or any other party under or in connection with the Finance Documents, other than through the Bond Trustee and in accordance with these Bond Terms, provided, however, that the Bondholders shall not be restricted from exercising any of their individual rights derived from these Bond Terms, including the right to exercise the Put Option.
- (b) Each Bondholder shall immediately upon request by the Bond Trustee provide the Bond Trustee with any such documents, including a written power of attorney (in form and substance satisfactory to the Bond Trustee), as the Bond Trustee deems necessary for the

purpose of exercising its rights and/or carrying out its duties under the Finance Documents. The Bond Trustee is under no obligation to represent a Bondholder which does not comply with such request.

3.3 Bondholders' rights

- (a) If a beneficial owner of a Bond not being registered as a Bondholder wishes to exercise any rights under the Finance Documents, it must obtain proof of ownership of the Bonds, acceptable to the Bond Trustee.
- (b) A Bondholder (whether registered as such or proven to the Bond Trustee's satisfaction to be the beneficial owner of the Bond as set out in paragraph (a) above) may issue one or more powers of attorney to third parties to represent it in relation to some or all of the Bonds held or beneficially owned by such Bondholder. The Bond Trustee shall only have to examine the face of a power of attorney or similar evidence of authorisation that has been provided to it pursuant to this Clause 3.3 and may assume that it is in full force and effect, unless otherwise is apparent from its face or the Bond Trustee has actual knowledge to the contrary.

4. ADMISSION TO LISTING

The Issuer shall ensure that:

- (a) the Bonds are listed on the Oslo Stock Exchange (*Oslo Børs*) within 12 months of the Issue Date and thereafter remain listed on an Exchange until the Bonds have been redeemed in full; and
- (b) any Temporary Bonds are listed on an Exchange where the other Bonds are listed within the later of (i) 6 months of the issue date for such Temporary Bonds and (ii) 12 months of the Issue Date.

5. REGISTRATION OF THE BONDS

5.1 Registration in the CSD

The Bonds shall be registered in dematerialised form in the CSD according to the relevant securities registration legislation and the requirements of the CSD. The Bond Issue will be blocked for all transaction types in the CSD settlement system.

5.2 Obligation to ensure correct registration

The Issuer will at all times ensure that the registration of the Bonds in the CSD is correct and shall immediately upon any amendment or variation of these Bond Terms give notice to the CSD of any such amendment or variation.

5.3 Country of issuance

The Bonds have not been issued under any other country's legislation than that of the Relevant Jurisdiction. Save for the registration of the Bonds in the CSD, the Issuer is under no obligation to register, or cause the registration of, the Bonds in any other registry or under any other legislation than that of the Relevant Jurisdiction.

6. CONDITIONS FOR DISBURSEMENT

6.1 Conditions precedent to disbursement to the Issuer

- (a) Payment of the Net Proceeds from the issuance of the Bonds to the Escrow Account shall be conditional on the Bond Trustee having received in due time (as determined by the Bond Trustee) prior to the Issue Date each of the following documents, in form and substance satisfactory to the Bond Trustee:
 - (i) these Bond Terms duly executed by all parties hereto;
 - (ii) copies of all necessary corporate resolutions of the Issuer to issue the Bonds and execute the Finance Documents to which it is a party;
 - (iii) a copy of a power of attorney (unless included in the corporate resolutions) from the Issuer to relevant individuals for their execution of the Finance Documents to which it is a party;
 - (iv) copies of the Issuer's articles of association and of a full extract from the relevant company register in respect of the Issuer evidencing that the Issuer is validly existing;
 - (v) the Escrow Account Pledge duly executed by all parties thereto and perfected in accordance with applicable law (including all applicable acknowledgements and consents from the account bank);
 - (vi) copies of the Issuer's latest Financial Reports (if any);
 - (vii) confirmation that the applicable prospectus requirements (ref. the EU prospectus regulation ((EU) 2017/1129)) concerning the issuance of the Bonds have been fulfilled;
 - (viii) copies of any necessary governmental approval, consent or waiver (as the case may be) required at such time to issue the Bonds;
 - (ix) confirmation that the Bonds are registered in the CSD (by obtaining an ISIN for the Bonds);
 - (x) confirmation of acceptance from any process agent;
 - (xi) copies of any written documentation used in marketing the Bonds or made public by the Issuer or any Manager in connection with the issuance of the Bonds;
 - (xii) the Bond Trustee Fee Agreement duly executed by all parties thereto; and
 - (xiii) legal opinions or other statements as may be required by the Bond Trustee (including in respect of corporate matters relating to the Issuer and the legality, validity and enforceability of these Bond Terms and the Finance Documents).
- (b) The Net Proceeds from the issuance of the Bonds (on the Escrow Account) will not be disbursed to the Issuer unless the Bond Trustee has received or is satisfied that it will receive in due time (as determined by the Bond Trustee) prior to such disbursement to

the Issuer each of the following documents, in form and substance satisfactory to the Bond Trustee:

- (i) a duly executed release notice from the Issuer, as set out in Attachment 2;
 - (ii) unless delivered under paragraph (a) above, as pre-settlement conditions precedent:
 - (A) copies of all necessary corporate resolutions of each Security Provider required to provide the Transaction Security and execute the Finance Documents to which it is a party;
 - (B) a copy of a power of attorney (unless included in the relevant corporate resolutions) from each Security Provider to relevant individuals for their execution of the Finance Documents to which it is a party;
 - (C) copies of the articles of association and a full extract from the relevant company register in respect of each Security Provider evidencing that it is validly existing; and
 - (D) the relevant Transaction Security Documents duly executed by all parties thereto and evidence of the establishment and perfection of the Transaction Security; and
 - (iii) a Closing Procedure;
 - (iv) if required, the Intercreditor Agreement, or otherwise, subordination statements with respect to any Subordinated Loans, in each case duly executed by all parties thereto;
 - (v) evidence that (i) the Existing Debt will be repaid in full no later than on the date of first disbursement and (ii) any guarantee or security created in respect thereof will be released and discharged in full, in each case subject to the Closing Procedure;
 - (vi) a list of the Group Companies that constitute Material Group Companies on the Issue Date, including reasonable calculations evidencing compliance with Clause 13.18 (*Designation of Material Group Companies*);
 - (vii) legal opinions or other statements as may be required by the Bond Trustee.
- (c) The Bond Trustee, acting in its sole discretion, may, regarding this Clause 6.1, waive the requirements for documentation or decide that delivery of certain documents shall be made subject to an agreed closing procedure between the Bond Trustee and the Issuer.

6.2 Conditions subsequent

- (a) The Issuer shall deliver to the Bond Trustee, not later than 60 calendar days after the date of the first release of funds from the Escrow Account the following documents and evidence (in form and substance satisfactory to the Bond Trustee), unless delivered under Clause 6.1 (*Conditions precedent for disbursement to Issuer*):

- (i) copies of all necessary corporate resolutions of each Security Provider required to provide Transaction Security and Eligible Material Group Company (and, if applicable, their shareholders) to execute the Finance Documents to which it is a party;
 - (ii) copies of a power of attorney (unless included in the relevant corporate resolutions) from each Security Provider to relevant individuals for their execution of the Finance Documents to which it is a party;
 - (iii) copies of each Security Provider's and Eligible Material Group Company's articles of association and of a full extract from the relevant company register in respect of each Security Provider evidencing that each Security Provider is validly existing;
 - (iv) the relevant Transaction Security Documents duly executed by all parties thereto and evidence of the establishment and perfection of the Transaction Security in accordance with the Closing Procedure;
 - (v) the Intercreditor Agreement duly executed by all parties thereto; and
 - (vi) legal opinions or other statements as may be required by the Bond Trustee.
- (b) The Bond Trustee, acting in its sole discretion, may waive the requirements for documentation or decide that delivery of certain documents shall be made subject to the Closing Procedure.

6.3 Disbursement of the proceeds

Disbursement of the proceeds from the issuance of the Bonds is conditional on the Bond Trustee's confirmation to the Paying Agent that the conditions in Clause 6.1 (*Conditions for disbursement to the Issuer*) have been either satisfied in the Bond Trustee's discretion or waived by the Bond Trustee pursuant to paragraph (c) of Clause 6.1 (*Conditions for disbursement to the Issuer*).

6.4 Tap Issues

The Issuer may issue Additional Bonds if:

- (a) a Tap Issue Addendum has been duly executed by all parties thereto;
- (b) the representations and warranties contained in Clause 7 (*Representations and Warranties*) of these Bond Terms are true and correct in all material respects and repeated by the Issuer as at the date of issuance of such Additional Bonds; and
- (c) the Issuer meets the Incurrence Test tested pro forma including the new Financial Indebtedness incurred as a result of issuing such Additional Bonds.

7. REPRESENTATIONS AND WARRANTIES

The Issuer makes the representations and warranties set out in this Clause 7, in respect of itself and in respect of each Obligor to the Bond Trustee (on behalf of the Bondholders) at the following times and with reference to the facts and circumstances then existing:

- (a) on the date of these Bond Terms;
- (b) on the Issue Date;
- (c) on each date of disbursement of proceeds from the Escrow Account; and
- (d) on the date of issuance of any Additional Bonds.

7.1 Status

It is a limited liability company, duly incorporated and validly existing and registered under the laws of its jurisdiction of incorporation, and has the power to own its assets and carry on its business as it is being conducted.

7.2 Power and authority

It has the power to enter into, perform and deliver, and has taken all necessary action to authorise its entry into, performance and delivery of, these Bond Terms and any other Finance Document to which it is a party and the transactions contemplated by those Finance Documents.

7.3 Valid, binding and enforceable obligations

These Bond Terms and each other Finance Document to which it is a party constitutes (or will constitute, when executed by the respective parties thereto) its legal, valid and binding obligations, enforceable in accordance with their respective terms, and (save as provided for therein) no further registration, filing, payment of tax or fees or other formalities are necessary or desirable to render the said documents enforceable against it.

7.4 Non-conflict with other obligations

The entry into and performance by it of these Bond Terms and any other Finance Document to which it is a party and the transactions contemplated thereby do not and will not conflict with (i) any law or regulation or judicial or official order; (ii) its constitutional documents; or (iii) any agreement or instrument which is binding upon it or any of its assets.

7.5 No Event of Default

- (a) No Event of Default exists or is likely to result from the making of any disbursement of proceeds or the entry into, the performance of, or any transaction contemplated by, any Finance Document.
- (b) No other event or circumstance has occurred which constitutes (or with the expiry of any grace period, the giving of notice, the making of any determination or any combination of any of the foregoing, would constitute) a default or termination event (howsoever described) under any other agreement or instrument which is binding on it or any of its Subsidiaries or to which its (or any of its Subsidiaries') assets are subject which has or is likely to have a Material Adverse Effect.

7.6 Authorisations and consents

All authorisations, consents, approvals, resolutions, licences, exemptions, filings, notarisations or registrations required:

- (a) to enable it to enter into, exercise its rights and comply with its obligations under these Bond Terms or any other Finance Document to which it is a party; and
- (b) to carry on its business as presently conducted and as contemplated by these Bond Terms,

have been obtained or effected and are in full force and effect.

7.7 Litigation

No litigation, arbitration or administrative proceedings or investigations of or before any court, arbitral body or agency which, if adversely determined, is likely to have a Material Adverse Effect have (to the best of its knowledge and belief) been started or threatened against it or any of its Subsidiaries.

7.8 Financial Reports

Its most recent Financial Reports fairly and accurately represent the assets and liabilities and financial condition as at their respective dates, and have been prepared in accordance with the Accounting Standard, consistently applied.

7.9 No Material Adverse Effect

Since the date of the most recent Financial Reports, there has been no change in its business, assets or financial condition that is likely to have a Material Adverse Effect.

7.10 No misleading information

Any factual information provided by it to the Bondholders or the Bond Trustee for the purposes of the issuance of the Bonds was true and accurate in all material respects as at the date it was provided or as at the date (if any) at which it is stated.

7.11 No withholdings

The Issuer is not required to make any deduction or withholding from any payment which it may become obliged to make to the Bond Trustee or the Bondholders under the Finance Documents.

7.12 Pari passu ranking

Its payment obligations under these Bond Terms or any other Finance Document to which it is a party ranks as set out in Clause 2.4 (*Status of the Bonds*).

7.13 Security

No Security exists over any of the present assets of any Group Company in conflict with these Bond Terms.

8. PAYMENTS IN RESPECT OF THE BONDS

8.1 Covenant to pay

- (a) The Issuer will unconditionally make available to or to the order of the Bond Trustee and/or the Paying Agent all amounts due on each Payment Date pursuant to the terms of these Bond Terms at such times and to such accounts as specified by the Bond Trustee and/or the Paying Agent in advance of each Payment Date or when other payments are due and payable pursuant to these Bond Terms.

- (b) All payments to the Bondholders in relation to the Bonds shall be made to each Bondholder registered as such in the CSD on the Relevant Record Date, by, if no specific order is made by the Bond Trustee, crediting the relevant amount to the bank account nominated by such Bondholder in connection with its securities account in the CSD.
- (c) Payment constituting good discharge of the Issuer's payment obligations to the Bondholders under these Bond Terms will be deemed to have been made to each Bondholder once the amount has been credited to the bank holding the bank account nominated by the Bondholder in connection with its securities account in the CSD. If the paying bank and the receiving bank are the same, payment shall be deemed to have been made once the amount has been credited to the bank account nominated by the Bondholder in question.
- (d) If a Payment Date or a date for other payments to the Bondholders pursuant to the Finance Documents falls on a day on which either of the relevant CSD settlement system or the relevant currency settlement system for the Bonds are not open, the payment shall be made on the first following possible day on which both of the said systems are open, unless any provision to the contrary has been set out for such payment in the relevant Finance Document.

8.2 Default interest

- (a) Default interest will accrue on any Overdue Amount from and including the Payment Date on which it was first due to and excluding the date on which the payment is made at the Interest Rate plus 3 percentage points per annum.
- (b) Default interest accrued on any Overdue Amount pursuant to this Clause 8.2 will be added to the Overdue Amount on each Interest Payment Date until the Overdue Amount and default interest accrued thereon have been repaid in full.
- (c) Upon the occurrence of a Listing Failure Event and for as long as such Listing Failure Event is continuing, the interest on any principal amount outstanding under these Bonds Terms will accrue at the Interest Rate plus 1 percentage point per annum. In the event the Listing Failure Event relates to Temporary Bonds, the Interest Rate will only be increased in respect of such Temporary Bonds.

8.3 Partial Payments

- (a) If the Paying Agent or the Bond Trustee receives a Partial Payment, such Partial Payment shall, in respect of the Issuer's debt under the Finance Documents be considered made for discharge of the debt of the Issuer in the following order of priority:
 - (i) firstly, towards any outstanding fees, liabilities and expenses of the Bond Trustee (and any Security Agent);
 - (ii) secondly, towards accrued interest due but unpaid; and
 - (iii) thirdly, towards any other outstanding amounts due but unpaid under the Finance Documents.

- (b) Notwithstanding paragraph (a) above, any Partial Payment which is distributed to the Bondholders, shall, after the above mentioned deduction of outstanding fees, liabilities and expenses, be applied (i) firstly towards any principal amount due but unpaid and (ii) secondly, towards accrued interest due but unpaid, in the following situations:
 - (i) if the Bond Trustee has served a Default Notice in accordance with Clause 14.2 (*Acceleration of the Bonds*); or
 - (ii) if a resolution according to Clause 15 (*Bondholders' Decisions*) has been made.

8.4 Taxation

- (a) The Issuer shall be responsible for withholding any withholding tax imposed by applicable law on any payments to be made by or on behalf of it in relation to the Finance Documents and shall remit such amounts to the applicable taking authority. Subject to paragraph b) below, all such amounts shall be treated as having been paid to the applicable Bondholder.
- (b) If any tax (whether stated to be a tax, assessment, governmental charge or otherwise) is withheld in respect of the Bonds by or on behalf of the Issuer, the Issuer shall:
 - (i) subject to the exceptions and limitations set forth in paragraph c) below, gross up the amount of the payment due from it (or on behalf of it) up to such amount which is necessary to ensure that the Bondholders or the Bond Trustee, as the case may be, receive a net amount which is (after making the required withholding) equal to the payment which would have been received by such person if no withholding had been required; and
 - (ii) at the request of the Bond Trustee, deliver to the Bond Trustee evidence that the required tax deduction or withholding has been made.
- (c) Paragraph b) shall not apply:
 - (i) to any tax imposed by reason of the Bondholder (or the beneficial owner for whose benefit such Bondholder holds one or more Bonds), or a fiduciary, settlor, beneficiary, member or shareholder of the Bondholder if the relevant Bondholder is an estate, trust, partnership or corporation, or a person holding a power over an estate or trust administered by a fiduciary Bondholder, being considered as:
 - (A) being or having been engaged in a trade or business in the United States or having or having had a permanent establishment in the United States;
 - (B) having a current or former connection with the United States or any other jurisdiction imposing such tax (other than a connection arising solely as a result of the ownership of the Bonds, the receipt of any payment or the enforcement of any rights relating to the Bonds), including being or having been a citizen or resident of the United States or any other jurisdiction imposing such tax (or any political subdivision thereof) or being or having been present in the United States, or being organized under the laws of, or having its principal office or applicable lending office located in, the United

States or any other jurisdiction imposing such tax (or any political subdivision thereof);

- (C) being or having been a personal holding company, a passive foreign investment company or a controlled foreign corporation for United States income tax purposes, a corporation that has accumulated earnings to avoid U.S. federal income tax, or a foreign tax exempt organisation with respect to the United States;
 - (D) being or having been a "10-percent shareholder" of the Issuer as defined in section 871(h)(3) or 881(c)(3) of the Code; or
 - (E) being a bank (or treated as a bank for U.S. federal income tax purposes) purchasing the Bonds in the ordinary course of its lending business; or
- (ii) to any tax that is payable otherwise than by withholding by the Issuer from payments made by it, a paying agent or Euroclear to the Bondholders;
 - (iii) to any tax or other withholding obligation imposed under Sections 1471 through 1474 of the Code (commonly referred to as FATCA) (or any amended or successor provisions), any current or future regulations or official interpretations thereof, any agreement entered into pursuant to Section 1471(b) of the Code or any fiscal or regulatory legislation, rules or practices adopted pursuant to any intergovernmental agreement entered into in connection with the implementation of such sections of the Code; or
 - (iv) to the extent any tax would not have been imposed but for the failure of the Bondholder or any other person:
 - (A) to provide a properly completed and executed Internal Revenue Service Form W-8BEN, Form W-8BEN-E or Form W-8IMY (and related documentation), as applicable, or any subsequent version thereof or successor thereto, in each case, together with any required attachments and certificates to establish an exemption pursuant to the portfolio interest exception from, or reduction under an applicable tax treaty of, U.S. federal withholding tax with respect to payments in connection with a Bond;
 - (B) to provide a properly completed and executed Internal Revenue Service Form W-9 or Form W-8ECI; or
 - (C) upon receiving a reasonable prior written notice, to otherwise comply with any applicable certification, identification or information reporting requirements concerning the nationality, residence, identity or connection with the United States of the Bondholder or beneficial owner of one or more Bonds, if compliance is required by any applicable law, regulation or tax treaty to which the United States is a party as a precondition to partial or complete exemption from such tax; or
 - (v) payments to, or to a third party on behalf of, a Bondholder where no such withholding would have been required to be made if the Bonds, at the time of

payment, had been credited to a securities deposit account with a bank, financial services institution, securities trading business or securities trading bank, in each case outside the United States; or

- (vi) payments to the extent such withholding or deduction is payable by or on behalf of a Bondholder who could lawfully mitigate (but has not so mitigated) such withholding by;
 - (A) complying or procuring that any third party complies with any statutory requirements; or
 - (B) by making or procuring that a third party makes a declaration of non-residence; or
 - (C) other similar claim for exemption to any tax authority in the place where the payment is effected; or
 - (vii) to any Bondholder that is not the sole beneficial owner of the Bonds, or a portion of the Bonds, or that is a fiduciary, partnership or limited liability company, but only to the extent that a beneficial owner with respect to the Bondholder, a beneficiary or settlor with respect to the fiduciary, or a beneficial owner or member of the partnership or limited liability company would not have been entitled to the payment of an additional amount had the beneficiary, settlor, beneficial owner or member received directly its beneficial or distributive share of the payment;
 - (viii) where such withholding is imposed on a payment to or for an individual and is required to be made pursuant to Council Directive 2003/48/EC on the taxation of savings income or any other directive or law implementing or complying with, or introduced in order to conform to, such Directive, the ECOFIN Council meeting of 26-27 November 2000 or any other law implementing or complying with any arrangement entered into between the EU member states and certain third countries and territories in connection with such Directive (including, for the avoidance of doubt, any replacement directive or law); or
 - (ix) to any combinations of paragraph c) (i)-(viii).
- (d) Any public fees levied on the trade of Bonds in the secondary market shall be paid by the Bondholders, unless otherwise provided by law or regulation, and the Issuer shall not be responsible for reimbursing any such fees.
 - (e) The Bond Trustee shall not have any responsibility to obtain information about the Bondholders relevant for the tax obligations pursuant to these Bond Terms.

8.5 Currency

- (a) All amounts payable under the Finance Documents shall be payable in the Bond Currency. If, however, the Bond Currency differs from the currency of the bank account connected to the Bondholder's account in the CSD, any cash settlement may be exchanged and credited to this bank account.

- (b) Any specific payment instructions, including foreign exchange bank account details, to be connected to the Bondholder's account in the CSD must be provided by the relevant Bondholder to the Paying Agent (either directly or through its account manager in the CSD) within 5 Business Days prior to a Payment Date. Depending on any currency exchange settlement agreements between each Bondholder's bank and the Paying Agent, and opening hours of the receiving bank, cash settlement may be delayed, and payment shall be deemed to have been made once the cash settlement has taken place, provided, however, that no default interest or other penalty shall accrue for the account of the Issuer for such delay.

8.6 Set-off and counterclaims

No Obligor may apply or perform any counterclaims or set-off against any payment obligations pursuant to these Bond Terms or any other Finance Document.

9. INTEREST

9.1 Calculation of interest

- (a) Each Outstanding Bond will accrue interest at the Interest Rate on the Nominal Amount for each Interest Period, commencing on and including the first date of the Interest Period, and ending on but excluding the last date of the Interest Period.
- (b) Any Additional Bond will accrue interest at the Interest Rate on the Nominal Amount commencing on the first date of the Interest Period in which the Additional Bonds are issued and thereafter in accordance with paragraph (a) above.
- (c) Interest shall be calculated on the basis of a 360-day year comprised of twelve months of 30 days each (30/360-days basis), unless
 - (i) the last day in the relevant Interest Period is the 31st calendar day but the first day of that Interest Period is a day other than the 30th or the 31st day of a month, in which case the month that includes that last day shall not be shortened to a 30-day month; or
 - (ii) the last day of the relevant Interest Period is the last calendar day in February, in which case February shall not be lengthened to a 30-day month.

9.2 Payment of interest

Interest shall fall due on each Interest Payment Date for the corresponding preceding Interest Period and, with respect to accrued interest on the principal amount then due and payable, on each Repayment Date.

10. REDEMPTION AND REPURCHASE OF BONDS

10.1 Redemption of Bonds

The Outstanding Bonds will mature in full on the Maturity Date and shall be redeemed by the Issuer on the Maturity Date at a price equal to 100 per cent. of the Nominal Amount.

10.2 Voluntary early redemption - Call Option

- (a) The Issuer may redeem all or part of the Outstanding Bonds (the “**Call Option**”) on any Business Day from and including:

- (i) the Issue Date to, but not including, the First Call Date at a price equal to the Make Whole Amount;
 - (ii) the First Call Date to, but not including, the Interest Payment Date in October 2026 at a price equal to 106.1250 per cent. of the Nominal Amount for each redeemed Bond;
 - (iii) the Interest Payment Date in October 2026 to, but not including, the Interest Payment Date in April 2027 at a price equal to 104.5938 per cent. of the Nominal Amount for each redeemed Bond;
 - (iv) the Interest Payment Date in April 2027 to, but not including, the Interest Payment Date in October 2027 at a price equal to 103.0625 per cent. of the Nominal Amount for each redeemed Bond; and
 - (v) the Interest Payment Date in October 2027 to, but not including, the Maturity Date at a price equal to 100 per cent. of the Nominal Amount for each redeemed Bond.
- (b) Any redemption of Bonds pursuant to paragraph (a) above shall be determined based upon the redemption prices applicable on the Call Option Repayment Date.
 - (c) The Call Option may be exercised by the Issuer by written notice to the Bond Trustee at least 10 Business Days prior to the proposed Call Option Repayment Date. Such notice sent by the Issuer is irrevocable and shall specify the Call Option Repayment Date. Unless the Make Whole Amount is set out in the written notice where the Issuer exercises the Call Option, the Issuer shall calculate the Make Whole Amount and provide such calculation by written notice to the Bond Trustee as soon as possible and at the latest within 3 Business Days from the date of the notice.
 - (d) Any redemption notice given in respect of the Call Option may, at the Issuer's discretion, be subject to the satisfaction of one or more conditions precedent, in which case the exercise of the Call Option will be automatically cancelled unless such conditions precedent have been satisfied or waived no later than 3 Business Days prior to such Call Option Repayment Date.
 - (e) Any Call Option exercised in part will be used for pro rata payment to the Bondholders in accordance with the applicable regulations of the CSD.

10.3 Mandatory repurchase due to a Put Option Event

- (a) Upon the occurrence of a Put Option Event, each Bondholder will have the right (the “**Put Option**”) to require that the Issuer purchases all or some of the Bonds held by that Bondholder at a price equal to 101 per cent. of the Nominal Amount.
- (b) The Put Option must be exercised within 15 Business Days after the Issuer has given notice to the Bond Trustee and the Bondholders that a Put Option Event has occurred pursuant to Clause 12.3 (*Put Option Event*). Once notified, the Bondholders’ right to exercise the Put Option is irrevocable.
- (c) Each Bondholder may exercise its Put Option by written notice to its account manager for the CSD, who will notify the Paying Agent of the exercise of the Put Option. The Put

Option Repayment Date will be the 5th Business Day after the end of 15 Business Days exercise period referred to in paragraph (b) above. However, the settlement of the Put Option will be based on each Bondholders holding of Bonds at the Put Option Repayment Date.

- (d) Notwithstanding the foregoing, in the event that any Bondholder has exercised the Put Option in respect of a Change of Control Event, and the Issuer makes use of the Special Redemption Option, then the Special Redemption Option shall prevail and all Bonds (including those subject to the Put Option) shall be redeemed in accordance with the Special Redemption Option.
- (e) If Bonds representing more than 90 per cent. of the Outstanding Bonds have been repurchased pursuant to this Clause 10.3, the Issuer is entitled to repurchase all the remaining Outstanding Bonds at the price stated in paragraph (a) above by notifying the remaining Bondholders of its intention to do so no later than 10 Business Days after the Put Option Repayment Date. Such notice sent by the Issuer is irrevocable and shall specify the Call Option Repayment Date.

10.4 Change of control call

- (a) If the Bondholders (in a Bondholders' meeting or as a written resolution) decline the designation as a Permitted Transferee of any Person proposed as such by the Issuer, and such person thereafter (directly or indirectly) acquires the shares in the Issuer (or any of its direct or indirect holding company), thereby triggering a Change of Control Event, the Issuer shall have the right, by giving no less than 5 Business Days' prior written notice to the Bond Trustee, to prepay all (but not only some) of the Outstanding Bonds at a price equal to 101 per cent. of the Nominal Amount (plus any accrued and unpaid interest) (the “**Change of Control Call**”).
- (b) Such Change of Control Call to be exercised no earlier than 5 Business Days prior to such Change of Control Event and no later than 5 Business Days following such Change of Control Event.
- (c) Any such call option exercised prior to the Change of Control Event shall be contingent on the Change of Control Event occurring and the settlement date of the call option shall be within 10 Business Days after the date of the Change of Control Event.
- (d) Any Bondholder who have exercised their Put Option prior to the repayment date for the Change of Control Call shall be prepaid in accordance with the provisions of the Change of Control Call.

10.5 Special redemption option

- (a) Following the occurrence of a Change of Control Event, the Issuer may at any time during the period from, but not including, the Issue Date to, but not including, the First Call Date, by giving no less than 10 Business Days' prior written notice to the Bond Trustee redeem all, but not only some, of the Outstanding Bonds at a price equal to the First Call Price (plus accrued and unpaid interest on the redeemed Bonds) (the “**Special Redemption Option**”).

- (b) The Special Redemption Option may be exercised by the Issuer no earlier than the date falling 5 Business Days prior to the Change of Control Event and no later than the date falling 5 Business Days after the Change of Control Event.
- (c) Any Special Redemption Option exercised prior to the Change of Control Event shall be contingent on the Change of Control Event occurring and the settlement date of the redemption shall be within 10 Business Days after the date of the Change of Control Event.
- (d) Any notice of redemption pursuant to this Clause 10.5 (*Special redemption option*):
 - (i) shall be irrevocable;
 - (ii) shall specify the applicable repayment date; and
 - (iii) may, at the Issuer's discretion, be subject to satisfaction of one or more conditions precedent which shall be satisfied at least 3 Business Days prior to such repayment date.

10.6 Early redemption option due to a tax event

If the Issuer is or will be required to gross up any withheld tax imposed by law from any payment in respect of the Bonds under the Finance Documents pursuant to Clause 8.4 (*Taxation*) as a result of a change in applicable law implemented after the date of these Bond Terms, the Issuer will have the right to redeem all, but not only some, of the Outstanding Bonds at a price equal to 100 per cent. of the Nominal Amount. The Issuer shall give written notice of such redemption to the Bond Trustee and the Bondholders at least 20 Business Days prior to the Tax Event Repayment Date, provided that no such notice shall be given earlier than 40 Business Days prior to the earliest date on which the Issuer would be obliged to withhold such tax were a payment in respect of the Bonds then due.

11. PURCHASE AND TRANSFER OF BONDS

11.1 Issuer's purchase of Bonds

The Issuer may purchase and hold Bonds and such Bonds may be retained, or sold or cancelled in the Issuer's sole discretion, including with respect to Bonds purchased pursuant to Clause 10.3 (*Mandatory repurchase due to a Put Option Event*).

11.2 Restrictions

- (a) Certain purchase or selling restrictions may apply to Bondholders under applicable local laws and regulations from time to time. Neither the Issuer nor the Bond Trustee shall be responsible for ensuring compliance with such laws and regulations and each Bondholder is responsible for ensuring compliance with the relevant laws and regulations at its own cost and expense.
- (b) A Bondholder who has purchased Bonds in breach of applicable restrictions may, notwithstanding such breach, benefit from the rights attached to the Bonds pursuant to these Bond Terms (including, but not limited to, voting rights), provided that the Issuer shall not incur any additional liability by complying with its obligations to such Bondholder.

12. INFORMATION UNDERTAKINGS

12.1 Financial Reports

- (a) The Issuer shall prepare Annual Financial Statements in the English language and make them available on its website (alternatively on another relevant information platform) as soon as they become available, and not later than 4 months after the end of the financial year (the first such report to be published for the year ending on 31 December 2023 no later than 180 days after the Issue Date).
- (b) The Issuer shall prepare Interim Accounts in the English language and make them available on its website (alternatively on another relevant information platform) as soon as they become available, and not later than 60 days after the end of the relevant interim period (the first such report to be published for the quarter ending on 30 June 2024).

12.2 Requirements as to Financial Reports

- (a) The Issuer shall supply to the Bond Trustee, in connection with the publication of its Financial Reports pursuant to Clause 12.1 (*Financial Reports*), a Compliance Certificate with a copy of the Financial Reports attached thereto. The Compliance Certificate shall be duly signed by the chief executive officer or the chief financial officer of the Issuer, certifying inter alia that the Financial Reports fairly represent its financial condition as at the date of the relevant Financial Report and setting out (in reasonable detail) computations evidencing compliance with Clause 13.20 (*Financial covenants*) as at such date.
- (b) The Issuer shall procure that the Financial Reports delivered pursuant to Clause 12.1 (*Financial Reports*) are prepared using the Accounting Standard consistently applied.

12.3 Change of Control Event

The Issuer shall promptly inform the Bond Trustee and the Bondholders in writing after becoming aware that a Change of Control has occurred.

12.4 Put Option Event

The Issuer shall promptly inform the Bond Trustee in writing after becoming aware that a Put Option Event has occurred.

12.5 Listing Failure Event

The Issuer shall promptly inform the Bond Trustee in writing if a Listing Failure Event has occurred. However, no Event of Default shall occur if the Issuer fails (i) to list the Bonds in accordance with Clause 4 (*Admission to listing*) or (ii) to inform of such Listing Failure Event, and such failure shall result in the accrual of default interest in accordance with paragraph (c) of Clause 8.2 (*Default interest*) for as long as such Listing Failure Event is continuing.

12.6 Information: Miscellaneous

The Issuer shall:

- (a) promptly inform the Bond Trustee in writing of any Event of Default or any event or circumstance which the Issuer understands or could reasonably be expected to understand may lead to an Event of Default and the steps, if any, being taken to remedy it;

- (b) at the request of the Bond Trustee, report the balance of the Issuer's Bonds (to the best of its knowledge, having made due and appropriate enquiries);
- (c) send the Bond Trustee copies of any statutory notifications of the Issuer, including but not limited to in connection with mergers, de-mergers and reduction of the Issuer's share capital or equity;
- (d) if the Bonds are listed on an Exchange, send a copy to the Bond Trustee of its notices to the Exchange;
- (e) if the Issuer and/or the Bonds are rated, inform the Bond Trustee of its and/or the rating of the Bonds, and any changes to such rating;
- (f) inform the Bond Trustee of changes in the registration of the Bonds in the CSD; and
- (g) within a reasonable time, provide such information about the Issuer's and the Group's business, assets and financial condition as the Bond Trustee may reasonably request.

13. GENERAL AND FINANCIAL UNDERTAKINGS

The Issuer undertakes to (and shall, where applicable, procure that the other Group Companies will) comply with the undertakings set forth in this Clause 13.

13.1 Authorisations

The Issuer shall, and shall procure that each other Group Company will, in all material respects obtain, maintain and comply with the terms of any authorisation, approval, licence and consent required for the conduct of its business as carried out from time to time if failure to do so would have a Material Adverse Effect.

13.2 Compliance with laws

The Issuer shall, and shall procure that each other Group Company will, comply in all material respects with all laws and regulations to which it may be subject from time to time.

13.3 Continuation of business

The Issuer shall procure that no material change is made to the general nature of the business from that carried on by the Group at the Issue Date. Any expansion of any current business or into any ancillary or compatible business shall not be considered a change in the general nature of the Group's business.

13.4 Corporate status

The Issuer shall not change its type of organization or jurisdiction of incorporation.

13.5 Mergers and de-mergers

- (a) The Issuer shall not, and shall procure that no other Group Company will, carry out any merger or other business combination or corporate reorganisation involving the consolidation of assets and obligations of the Issuer or any other Group Company with any other person, if such transaction would have a Material Adverse Effect and provided that in any merger or other business combination or corporate reorganisation involving the Issuer, the surviving entity shall be the Issuer.

- (b) The Issuer shall not, and shall procure that no other Material Group Company will, carry out any de-merger or other corporate reorganisation having the same effect as a de-merger, other than any de-merger or other corporate reorganisation of any Material Group Company (other than the Issuer) into two or more separate companies or entities which are (directly or indirectly) wholly-owned by any Group Company (or, in the case of a Material Group Company that was not wholly-owned prior to such de-merger, owned with the same ownership percentage as the original Material Group Company), unless such de-merger or other corporate reorganisation is carried out at arm's length terms and does not have a Material Adverse Effect.

13.6 Financial Indebtedness

The Issuer shall not, and shall procure that no other Group Company will, incur any additional Financial Indebtedness or maintain or prolong any existing Financial Indebtedness, other than any Permitted Financial Indebtedness.

13.7 Negative pledge

The Issuer shall not, and shall procure that no other Group Company will, create or allow to subsist, retain, provide, prolong or renew any Security over any of its/their assets (whether present or future), other than any Permitted Security.

13.8 Loans or credit

The Issuer shall not, and shall procure that no other Group Company will, be a creditor in respect of any Financial Indebtedness, other than any Permitted Loan.

13.9 No guarantees or indemnities

The Issuer shall not, and shall procure that no other Group Company will, incur or allow to remain outstanding any guarantee in respect of any obligation of any person, other than any Permitted Guarantee.

13.10 Acquisitions

The Issuer shall not, and shall procure that no other Group Company will, acquire any company, shares, securities, business or undertaking (or any interest in any of them) or make any similar investments, unless the transaction is carried out on arms' length basis and provided that it does not have a Material Adverse Effect.

13.11 Disposals

The Issuer shall not, and shall procure that no other Group Company will, sell, transfer or otherwise dispose of all or substantially all of its assets (including shares or other securities in any person) or operations (other than to a Group Company), unless such sale, transfer or disposal is carried out in the ordinary course of business and would not have a Material Adverse Effect.

13.12 Preservation of assets

The Issuer shall, and shall procure that each Group Company will, in all material respects, maintain in good working order and condition (ordinary wear and tear excepted) all of its assets necessary or material in the conduct of its business.

13.13 Insurances

The Issuer shall, and shall procure that each Group Company will, maintain customary insurances on or in relation to their business and assets with reputable independent insurance companies and underwriters against those risks and to the extent as is usual for companies carrying on the same or substantially similar business.

13.14 Arm's length transactions

Without limiting Clause 13.2 (*Compliance with laws*) above, the Issuer shall not, and shall procure that no other Group Company will, enter into any transaction with any Affiliate which is not a Guarantor except on arm's length basis.

13.15 Distributions

The Issuer shall not and shall procure that no other Group Company shall make any Distributions to the shareholders of the Parent, other than for payment of management fees in an amount not exceeding USD 300,000 (or the equivalent thereof in any other currency) each financial year (with any unused amount carried forward to subsequent years).

13.16 Subsidiaries' distributions

The Issuer shall procure that no Group Company creates or permits to exist any contractual obligation (or encumbrance) restricting the right to pay dividends or make other Distributions to its shareholders, other than where such obligation or encumbrance is not reasonably likely to prevent the Issuer from complying with its payment obligations under the Finance Documents.

13.17 Anti-corruption and sanctions

The Issuer shall, and shall ensure that all other Group Companies will (i) ensure that no proceeds from the Bond Issue are used directly or indirectly for any purpose which would breach any applicable acts, regulations or laws on bribery or corruption⁴ and (ii) conduct its businesses and maintain policies and procedures in compliance with applicable anti-corruption and sanction laws if failure to so comply would have a Material Adverse Effect.

13.18 Designation of Material Group Companies

(a) The Issuer shall:

- (i) together with the delivery of its Annual Financial Statements; and
- (ii) on the date of the completion of any merger or de-merger, disposal of a Material Group Company, or any acquisition which is financed through the proceeds of a Tap Issue,

deliver a Compliance Certificate to the Bond Trustee designating as Material Group Companies;

- (A) each such Group Company which (on a consolidated basis in the case of a Group Company which itself has Subsidiaries) has EBITDA which represents more than 10.00 per cent. of aggregate EBITDA (excluding intra-Group items) of the Group, calculated on a consolidated basis, based

on the preceding four financial quarters (where Financial Reports are available); and

- (B) any additional Group Companies which are necessary to ensure that the aggregate EBITDA of the Guarantors (calculated on an unconsolidated basis and excluding all intra-Group items, investments in Subsidiaries of any Group Company) exceed 80.00 per cent. of consolidated EBITDA of the Group.
- (b) The Issuer shall procure that each Group Company constituting an Eligible Material Group Company no later than 30 Business Days after such nomination grants Transaction Security in accordance with the Agreed Security Principles and access to the Intercreditor Agreement.
- (c) The identity of the Material Group Companies nominated by the Issuer in accordance with this Clause 13.18 (*Designation of Material Group Companies*) and the identity of any Eligible Material Group Companies shall be listed in the Compliance Certificate to be provided to the Bond Trustee in connection with the provision of the relevant compliance certificate in accordance with Clause 12.2 (*Requirements as to Financial Reports*).

13.19 Ownership

The Parent shall ensure that:

- (a) it shall be the legal and beneficial direct owner of all shares in the Issuer; and that
- (b) the Issuer shall be the legal and beneficial direct owner of the shares in Varel International Energy Services Inc.

13.20 Financial covenants

- (a) The Issuer shall ensure that the Leverage Ratio in respect of any Relevant Period shall not be less than:
 - (i) 3.00:1.00 for any Relevant Period ending on a Quarter Date within the period from the Issue Date to the Interest Payment Date in April 2026; and
 - (ii) 2.50:1.00 for any Relevant Period ending on a Quarter Date within the period from the Interest Payment Date in April 2026 up to the Maturity Date.
- (b) The Issuer shall ensure that Cash and Cash Equivalents at any time shall not be less than USD 5,000,000.
- (c) The Issuer undertakes to comply with the above financial covenants (i) in respect of Cash and Cash Equivalents, at all times, and (ii) in respect of Leverage Ratio, such compliance to be measured on each Quarter Date and certified by the Issuer in each Compliance Certificate and be calculated in accordance with Clause 13.23 (*Calculations and calculation adjustments*).

13.21 Financial Covenants cure

- (a) If the Issuer does not comply with any Financial Covenant and the Issuer receives or has received any Cure Amount during the period from the last Quarter Date up to the date of delivery to the Bond Trustee of the Compliance Certificate in respect of such period, then the Leverage Ratio shall be recalculated on the basis that the Cure Amount so received shall be deemed to reduce the Total Net Debt for the Relevant Period.
- (b) If, after the Leverage Ratio have been recalculated as set out above, the Issuer would be in compliance with the Leverage Ratio, the Leverage Ratio shall be deemed to have been satisfied on the relevant Quarter Date.
- (c) The Issuer shall be limited to a maximum of 2 cures of actual failures to satisfy the Financial Covenants during the term of the Bonds, and no consecutive Financial Covenant cures are permitted.

“**Cure Amount**” means cash actually received by the Parent (i) in exchange for fully paid shares in the Issuer or (ii) as Subordinated Loans.

13.22 Incurrence test

- (a) The Incurrence Test is met if the Leverage Ratio is less than 2.00:1.00.
- (b) Calculation of the Incurrence Test shall be made using the defined terms and calculation principles applied to the calculation of Financial Covenants as set forth in with Clause 13.23 (*Calculations and calculation adjustments*).

13.23 Calculations and calculation adjustments

- (a) The Leverage Ratio shall be calculated and tested at each Quarter Date.
- (b) For the purpose of the Clause 13.22 (*Incurrence Test*):
 - (i) the calculation of the Leverage Ratio shall be made as per a testing date determined by the Issuer, falling no earlier than 1 month prior to the event relevant for the application of the Incurrence Test.
 - (ii) Total Net Debt shall be measured on the relevant testing date, but adjusted so that:
 - (A) the full amount of the new Financial Indebtedness in respect of which the Incurrence Test is applied shall be added to Total Net Debt; and
 - (B) any cash balance resulting from the incurrence of such new Financial Indebtedness shall not reduce the Total Net Debt (other than to the extent it will be used to repay any Financial Indebtedness).
- (c) EBITDA shall be calculated in accordance with the most recent Financial Report for which a Compliance Certificate has been delivered and for that Relevant Period adjusted by:
 - (i) including the operating profit before interest, tax, depreciation and amortisation (calculated on the same basis as EBITDA) of a Group Company (or attributable to a business or asset) acquired during the Relevant Period for the part of the

Relevant Period prior to it becoming a Group Company or (as the case may be) prior to the acquisition of the business or asset; and

- (ii) excluding the operating profit before interest, tax, depreciation and amortisation (calculated on the same basis as EBITDA) attributable to any Group Company (or to any business or assets) disposed of during the Relevant Period for that part of the Relevant Period.

14. EVENTS OF DEFAULT AND ACCELERATION OF THE BONDS

14.1 Events of Default

Each of the events or circumstances set out in this Clause 14.1 shall constitute an Event of Default:

(a) Non-payment

An Obligor fails to pay any amount payable by it under the Finance Documents when such amount is due for payment, unless:

- (i) its failure to pay is caused by administrative or technical error in payment systems or the CSD and payment is made within 5 Business Days following the original due date; or
- (ii) in the discretion of the Bond Trustee, the Issuer has substantiated that it is likely that such payment will be made in full within 5 Business Days following the original due date.

(b) Breach of other obligations

An Obligor does not comply with any provision of the Finance Documents other than set out under paragraph (a) (*Non-payment*) above, unless such failure is capable of being remedied and is remedied within 20 Business Days after the earlier of the Issuer's actual knowledge thereof, or notice thereof is given to the Issuer by the Bond Trustee.

(c) Misrepresentation

Any representation, warranty or statement (including statements in Compliance Certificates) made by any Material Group Company under or in connection with any Finance Documents is or proves to have been incorrect, inaccurate or misleading in any material respect when made.

(d) Cross default and cross acceleration

If for any Material Group Company:

- (i) any Financial Indebtedness is not paid when due nor within any applicable grace period; or
- (ii) any Financial Indebtedness is declared to be or otherwise becomes due and payable prior to its specified maturity as a result of an event of default (however described); or

- (iii) any commitment for any Financial Indebtedness is cancelled or suspended by a creditor as a result of an event of default (however described), or
- (iv) any creditor becomes entitled to declare any Financial Indebtedness due and payable prior to its specified maturity as a result of any non-payment of Financial Indebtedness, insolvency, insolvency proceedings, creditor's process or cessation of business (however described) (but, for the avoidance of doubt, not as a result of any other defaults (including breach of any maintenance financial covenants)),

provided however that the aggregate amount of such Financial Indebtedness or commitment for Financial Indebtedness falling within paragraphs (i) to (iv) above exceeds a total of USD 5,000,000 (or the equivalent thereof in any other currency).

(e) *Insolvency and insolvency proceedings*

Any Material Group Company:

- (i) is Insolvent; or
- (ii) is object of any corporate action or any legal proceedings is taken in relation to:
 - (A) the suspension of payments, a moratorium of any indebtedness, winding-up, dissolution, administration or reorganisation (by way of voluntary arrangement, scheme of arrangement or otherwise) other than a solvent liquidation or reorganisation; or
 - (B) a composition, compromise, assignment or arrangement with any creditor which may materially impair its ability to perform its payment obligations under these Bond Terms; or
 - (C) the appointment of a liquidator (other than in respect of a solvent liquidation), receiver, administrative receiver, administrator, compulsory manager or other similar officer of any of its assets; or
 - (D) enforcement of any Security over any of its or their assets having an aggregate value exceeding the threshold amount set out in paragraph (d) (*Cross default*) above; or
 - (E) for paragraphs (A) - (D) above, any analogous procedure or step is taken in any jurisdiction in respect of any such company.

However, this shall not apply to any petition which is frivolous or vexatious and is discharged, stayed or dismissed within 20 Business Days of commencement.

(f) *Creditor's process*

Any expropriation, attachment, sequestration, distress or execution affects any asset or assets of any Material Group Company having an aggregate value exceeding the threshold amount set out in paragraph (d) (*Cross default*) above and is not discharged within 20 Business Days.

(g) *Unlawfulness*

It is or becomes unlawful for an Obligor to perform or comply with any of its obligations under the Finance Documents to the extent this may materially impair:

- (i) the ability of such Obligor to perform its obligations under these Bond Terms; or
- (ii) the ability of the Bond Trustee or any Security Agent to exercise any material right or power vested to it under the Finance Documents.

14.2 Acceleration of the Bonds

If an Event of Default has occurred and is continuing, the Bond Trustee may, in its discretion in order to protect the interests of the Bondholders, or upon instruction received from the Bondholders pursuant to Clause 14.3 (*Bondholders' instructions*) below, by serving a Default Notice to the Issuer:

- (a) declare that the Outstanding Bonds, together with accrued interest and all other amounts accrued or outstanding under the Finance Documents be immediately due and payable, at which time they shall become immediately due and payable; and/or
- (b) exercise (or direct the Security Agent to exercise) any or all of its rights, remedies, powers or discretions under the Finance Documents or take such further measures as are necessary to recover the amounts outstanding under the Finance Documents.

14.3 Bondholders' instructions

The Bond Trustee shall serve a Default Notice pursuant to Clause 14.2 (*Acceleration of the Bonds*) if:

- (a) the Bond Trustee receives a demand in writing from Bondholders representing a simple majority of the Voting Bonds, that an Event of Default shall be declared, and a Bondholders' Meeting has not made a resolution to the contrary; or
- (b) the Bondholders' Meeting, by a simple majority decision, has approved the declaration of an Event of Default.

14.4 Calculation of claim

The claim derived from the Outstanding Bonds due for payment as a result of the serving of a Default Notice will be calculated at the call prices set out in Clause 10.2 (*Voluntary early redemption – Call Option*), as applicable at the following dates (and regardless of the Default Repayment Date):

- (a) for any Event of Default arising out of a breach of paragraph (a) (*Non-payment*) of Clause 14.1 (*Events of Default*), the claim will be calculated at the call price applicable at the date when such Event of Default occurred; and
- (b) for any other Event of Default, the claim will be calculated at the call price applicable at the date when the Default Notice was served by the Bond Trustee.

However, if the situations described in paragraph (a) or (b) above takes place prior to the First Call Date, the calculation shall be based on the call price applicable on the First Call Date.

15. BONDHOLDERS' DECISIONS

15.1 Authority of the Bondholders' Meeting

- (a) A Bondholders' Meeting may, on behalf of the Bondholders, resolve to alter any of these Bond Terms, including, but not limited to, any reduction of principal or interest and any conversion of the Bonds into other capital classes.
- (b) The Bondholders' Meeting cannot resolve that any overdue payment of any instalment shall be reduced unless there is a pro rata reduction of the principal that has not fallen due, but may resolve that accrued interest (whether overdue or not) shall be reduced without a corresponding reduction of principal.
- (c) The Bondholders' Meeting may not adopt resolutions which will give certain Bondholders an unreasonable advantage at the expense of other Bondholders.
- (d) Subject to the power of the Bond Trustee to take certain action as set out in Clause 16.1 (*Power to represent the Bondholders*), if a resolution by, or an approval of, the Bondholders is required, such resolution may be passed at a Bondholders' Meeting. Resolutions passed at any Bondholders' Meeting will be binding upon all Bondholders.
- (e) At least 50 per cent. of the Voting Bonds must be represented at a Bondholders' Meeting for a quorum to be present.
- (f) Resolutions will be passed by simple majority of the Voting Bonds represented at the Bondholders' Meeting, unless otherwise set out in paragraph (g) below.
- (g) Save for any amendments or waivers which can be made without resolution pursuant to paragraph (a) section (i) and (ii) of Clause 17.1 (*Procedure for amendments and waivers*), a majority of at least 2/3 of the Voting Bonds represented at the Bondholders' Meeting is required for approval of any waiver or amendment of these Bond Terms.

15.2 Procedure for arranging a Bondholders' Meeting

- (a) A Bondholders' Meeting shall be convened by the Bond Trustee upon the request in writing of:
 - (i) the Issuer;
 - (ii) Bondholders representing at least 1/10 of the Voting Bonds;
 - (iii) the Exchange, if the Bonds are listed and the Exchange is entitled to do so pursuant to the general rules and regulations of the Exchange; or
 - (iv) the Bond Trustee.

The request shall clearly state the matters to be discussed and resolved.

- (b) If the Bond Trustee has not convened a Bondholders' Meeting within 10 Business Days after having received a valid request for calling a Bondholders' Meeting pursuant to paragraph (a) above, then the requesting party may call the Bondholders' Meeting itself.

- (c) Summons to a Bondholders' Meeting must be sent no later than 10 Business Days prior to the proposed date of the Bondholders' Meeting. The Summons shall be sent to all Bondholders registered in the CSD at the time the Summons is sent from the CSD. If the Bonds are listed, the Issuer shall ensure that the Summons is published in accordance with the applicable regulations of the Exchange. The Summons shall also be published on the website of the Bond Trustee (alternatively by press release or other relevant information platform).
- (d) Any Summons for a Bondholders' Meeting must clearly state the agenda for the Bondholders' Meeting and the matters to be resolved. The Bond Trustee may include additional agenda items to those requested by the person calling for the Bondholders' Meeting in the Summons. If the Summons contains proposed amendments to these Bond Terms, a description of the proposed amendments must be set out in the Summons.
- (e) Items which have not been included in the Summons may not be put to a vote at the Bondholders' Meeting.
- (f) By written notice to the Issuer, the Bond Trustee may prohibit the Issuer from acquiring or dispose of Bonds during the period from the date of the Summons until the date of the Bondholders' Meeting, unless the acquisition of Bonds is made by the Issuer pursuant to Clause 10 (*Redemption and Repurchase of Bonds*).
- (g) A Bondholders' Meeting may be held on premises selected by the Bond Trustee, or if paragraph (b) above applies, by the person convening the Bondholders' Meeting (however to be held in the capital of the Relevant Jurisdiction). The Bondholders' Meeting will be opened and, unless otherwise decided by the Bondholders' Meeting, chaired by the Bond Trustee. If the Bond Trustee is not present, the Bondholders' Meeting will be opened by a Bondholder and be chaired by a representative elected by the Bondholders' Meeting (the Bond Trustee or such other representative, the "**Chairperson**").
- (h) Each Bondholder, the Bond Trustee and, if the Bonds are listed, representatives of the Exchange, or any person or persons acting under a power of attorney for a Bondholder, shall have the right to attend the Bondholders' Meeting (each a "**Representative**"). The Chairperson may grant access to the meeting to other persons not being Representatives, unless the Bondholders' Meeting decides otherwise. In addition, each Representative has the right to be accompanied by an advisor. In case of dispute or doubt regarding whether a person is a Representative or entitled to vote, the Chairperson will decide who may attend the Bondholders' Meeting and exercise voting rights.
- (i) Representatives of the Issuer have the right to attend the Bondholders' Meeting. The Bondholders Meeting may resolve to exclude the Issuer's representatives and/or any person holding only Issuer's Bonds (or any representative of such person) from participating in the meeting at certain times, however, the Issuer's representative and any such other person shall have the right to be present during the voting.
- (j) Minutes of the Bondholders' Meeting must be recorded by, or by someone acting at the instruction of, the Chairperson. The minutes must state the number of Voting Bonds represented at the Bondholders' Meeting, the resolutions passed at the meeting, and the

results of the vote on the matters to be decided at the Bondholders' Meeting. The minutes shall be signed by the Chairperson and at least one other person. The minutes will be deposited with the Bond Trustee who shall make available a copy to the Bondholders and the Issuer upon request.

- (k) The Bond Trustee will ensure that the Issuer, the Bondholders and the Exchange are notified of resolutions passed at the Bondholders' Meeting and that the resolutions are published on the website of the Bond Trustee (or other relevant electronically platform or press release).
- (l) The Issuer shall bear the costs and expenses incurred in connection with convening a Bondholders' Meeting regardless of who has convened the Bondholders' Meeting, including any reasonable costs and fees incurred by the Bond Trustee.

15.3 Voting rules

- (a) Each Bondholder (or person acting for a Bondholder under a power of attorney) may cast one vote for each Voting Bond owned on the Relevant Record Date, ref. Clause 3.3 (*Bondholders' rights*). The Chairperson may, in its sole discretion, decide on accepted evidence of ownership of Voting Bonds.
- (b) Issuer's Bonds shall not carry any voting rights. The Chairperson shall determine any question concerning whether any Bonds will be considered Issuer's Bonds.
- (c) For the purposes of this Clause 15, a Bondholder that has a Bond registered in the name of a nominee will, in accordance with Clause 3.3 (*Bondholders' rights*), be deemed to be the owner of the Bond rather than the nominee. No vote may be cast by any nominee if the Bondholder has presented relevant evidence to the Bond Trustee pursuant to Clause 3.3 (*Bondholders' rights*) stating that it is the owner of the Bonds voted for. If the Bondholder has voted directly for any of its nominee registered Bonds, the Bondholder's votes shall take precedence over votes submitted by the nominee for the same Bonds.
- (d) Any of the Issuer, the Bond Trustee and any Bondholder has the right to demand a vote by ballot. In case of parity of votes, the Chairperson will have the deciding vote.

15.4 Repeated Bondholders' Meeting

- (a) Even if the necessary quorum set out in paragraph (e) of Clause 15.1 (*Authority of the Bondholders' Meeting*) is not achieved, the Bondholders' Meeting shall be held and voting completed for the purpose of recording the voting results in the minutes of the Bondholders' Meeting. The Bond Trustee or the person who convened the initial Bondholders' Meeting may, within 10 Business Days of that Bondholders' Meeting, convene a repeated meeting with the same agenda as the first meeting.
- (b) The provisions and procedures regarding Bondholders' Meetings as set out in Clause 15.1 (*Authority of the Bondholders' Meeting*), Clause 15.2 (*Procedure for arranging a Bondholders' Meeting*) and Clause 15.3 (*Voting rules*) shall apply *mutatis mutandis* to a repeated Bondholders' Meeting, with the exception that the quorum requirements set out in paragraph (e) of Clause 15.1 (*Authority of the Bondholders' Meeting*) shall not apply to a repeated Bondholders' Meeting. A Summons for a repeated Bondholders' Meeting shall also contain the voting results obtained in the initial Bondholders' Meeting.

- (c) A repeated Bondholders' Meeting may only be convened once for each original Bondholders' Meeting. A repeated Bondholders' Meeting may be convened pursuant to the procedures of a Written Resolution in accordance with Clause 15.5 (*Written Resolutions*), even if the initial meeting was held pursuant to the procedures of a Bondholders' Meeting in accordance with Clause 15.2 (*Procedure for arranging a Bondholders' Meeting*) and vice versa.

15.5 Written Resolutions

- (a) Subject to these Bond Terms, anything which may be resolved by the Bondholders in a Bondholders' Meeting pursuant to Clause 15.1 (*Authority of the Bondholders' Meeting*) may also be resolved by way of a Written Resolution. A Written Resolution passed with the relevant majority is as valid as if it had been passed by the Bondholders in a Bondholders' Meeting, and any reference in any Finance Document to a Bondholders' Meeting shall be construed accordingly.
- (b) The person requesting a Bondholders' Meeting may instead request that the relevant matters are to be resolved by Written Resolution only, unless the Bond Trustee decides otherwise.
- (c) The Summons for the Written Resolution shall be sent to the Bondholders registered in the CSD at the time the Summons is sent from the CSD and published at the Bond Trustee's web site, or other relevant electronic platform or via press release.
- (d) The provisions set out in Clause 15.1 (*Authority of the Bondholders' Meeting*), 15.2 (*Procedure for arranging a Bondholders' Meeting*), Clause 15.3 (*Voting rules*) and Clause 15.4 (*Repeated Bondholders' Meeting*) shall apply *mutatis mutandis* to a Written Resolution, except that:
 - (i) the provisions set out in paragraphs (g), (h) and (i) of Clause 15.2 (*Procedure for arranging Bondholders Meetings*); or
 - (ii) provisions which are otherwise in conflict with the requirements of this Clause 15.5,shall not apply to a Written Resolution.
- (e) The Summons for a Written Resolution shall include:
 - (i) instructions as to how to vote to each separate item in the Summons (including instructions as to how voting can be done electronically if relevant); and
 - (ii) the time limit within which the Bond Trustee must have received all votes necessary in order for the Written Resolution to be passed with the requisite majority, which shall be at least 10 Business Days but not more than 15 Business Days from the date of the Summons (the "**Voting Period**").
- (f) Only Bondholders of Voting Bonds registered with the CSD on the Relevant Record Date, or the beneficial owner thereof having presented relevant evidence to the Bond Trustee pursuant to Clause 3.3 (*Bondholders' rights*), will be counted in the Written Resolution.

- (g) A Written Resolution is passed when the requisite majority set out in paragraph (e) or (f) of Clause 15.1 (*Authority of Bondholders' Meeting*) has been obtained, based on a quorum of the total number of Voting Bonds, even if the Voting Period has not yet expired. A Written Resolution will also be resolved if the sufficient numbers of negative votes are received prior to the expiry of the Voting Period.
- (h) The effective date of a Written Resolution passed prior to the expiry of the Voting Period is the date when the resolution is approved by the last Bondholder that results in the necessary voting majority being obtained.
- (i) If no resolution is passed prior to the expiry of the Voting Period, the number of votes shall be calculated at the time specified in the summons on the last day of the Voting Period, and a decision will be made based on the quorum and majority requirements set out in paragraphs (e) to (g) of Clause 15.1 (*Authority of Bondholders' Meeting*).

16. THE BOND TRUSTEE

16.1 Power to represent the Bondholders

- (a) The Bond Trustee has power and authority to act on behalf of, and/or represent, the Bondholders in all matters, including but not limited to taking any legal or other action, including enforcement of these Bond Terms, and the commencement of bankruptcy or other insolvency proceedings against the Issuer, or others.
- (b) The Issuer shall promptly upon request provide the Bond Trustee with any such documents, information and other assistance (in form and substance satisfactory to the Bond Trustee), that the Bond Trustee deems necessary for the purpose of exercising its and the Bondholders' rights and/or carrying out its duties under the Finance Documents.

16.2 The duties and authority of the Bond Trustee

- (a) The Bond Trustee shall represent the Bondholders in accordance with the Finance Documents, including, inter alia, by following up on the delivery of any Compliance Certificates and such other documents which the Issuer is obliged to disclose or deliver to the Bond Trustee pursuant to the Finance Documents and, when relevant, in relation to accelerating and enforcing the Bonds on behalf of the Bondholders.
- (b) The Bond Trustee is not obligated to assess or monitor the financial condition of the Issuer or any other Obligor unless to the extent expressly set out in these Bond Terms, or to take any steps to ascertain whether any Event of Default has occurred. Until it has actual knowledge to the contrary, the Bond Trustee is entitled to assume that no Event of Default has occurred. The Bond Trustee is not responsible for the valid execution or enforceability of the Finance Documents, or for any discrepancy between the indicative terms and conditions described in any marketing material presented to the Bondholders prior to issuance of the Bonds and the provisions of these Bond Terms.
- (c) The Bond Trustee is entitled to take such steps that it, in its sole discretion, considers necessary or advisable to protect the rights of the Bondholders in all matters pursuant to the terms of the Finance Documents. The Bond Trustee may submit any instructions received by it from the Bondholders to a Bondholders' Meeting before the Bond Trustee takes any action pursuant to the instruction.

- (d) The Bond Trustee is entitled to engage external experts when carrying out its duties under the Finance Documents.
- (e) The Bond Trustee shall hold all amounts recovered on behalf of the Bondholders on separated accounts.
- (f) The Bond Trustee shall facilitate that resolutions passed at the Bondholders' Meeting are properly implemented, provided, however, that the Bond Trustee may refuse to implement resolutions that may be in conflict with these Bond Terms, any other Finance Document, or any applicable law.
- (g) Notwithstanding any other provision of the Finance Documents to the contrary, the Bond Trustee is not obliged to do or omit to do anything if it would or might in its reasonable opinion constitute a breach of any law or regulation.
- (h) If the cost, loss or liability which the Bond Trustee may incur (including reasonable fees payable to the Bond Trustee itself) in:
 - (i) complying with instructions of the Bondholders; or
 - (ii) taking any action at its own initiative,

will not, in the reasonable opinion of the Bond Trustee, be covered by the Issuer or the relevant Bondholders pursuant to paragraphs (e) and (g) of Clause 16.4 (*Expenses, liability and indemnity*), the Bond Trustee may refrain from acting in accordance with such instructions, or refrain from taking such action, until it has received such funding or indemnities (or adequate security has been provided therefore) as it may reasonably require.

- (i) The Bond Trustee shall give a notice to the Bondholders before it ceases to perform its obligations under the Finance Documents by reason of the non-payment by the Issuer of any fee or indemnity due to the Bond Trustee under the Finance Documents.
- (j) The Bond Trustee may instruct the CSD to split the Bonds to a lower nominal value in order to facilitate partial redemptions, write-downs or restructurings of the Bonds or in other situations where such split is deemed necessary.

16.3 Equality and conflicts of interest

- (a) The Bond Trustee shall not make decisions which will give certain Bondholders an unreasonable advantage at the expense of other Bondholders. The Bond Trustee shall, when acting pursuant to the Finance Documents, act with regard only to the interests of the Bondholders and shall not be required to have regard to the interests or to act upon or comply with any direction or request of any other person, other than as explicitly stated in the Finance Documents.
- (b) The Bond Trustee may act as agent, trustee, representative and/or security agent for several bond issues relating to the Issuer notwithstanding potential conflicts of interest. The Bond Trustee is entitled to delegate its duties to other professional parties.

16.4 Expenses, liability and indemnity

- (a) The Bond Trustee will not be liable to the Bondholders for damage or loss caused by any action taken or omitted by it under or in connection with any Finance Document, unless directly caused by its gross negligence or wilful misconduct. The Bond Trustee shall not be responsible for any indirect or consequential loss. Irrespective of the foregoing, the Bond Trustee shall have no liability to the Bondholders for damage caused by the Bond Trustee acting in accordance with instructions given by the Bondholders in accordance with these Bond Terms.
- (b) The Bond Trustee will not be liable to the Issuer for damage or loss caused by any action taken or omitted by it under or in connection with any Finance Document, unless caused by its gross negligence or wilful misconduct. The Bond Trustee shall not be responsible for any indirect or consequential loss.
- (c) Any liability for the Bond Trustee for damage or loss is limited to the amount of the Outstanding Bonds. The Bond Trustee is not liable for the content of information provided to the Bondholders by or on behalf of the Issuer or any other person.
- (d) The Bond Trustee shall not be considered to have acted negligently in:
 - (i) acting in accordance with advice from or opinions of reputable external experts; or
 - (ii) taking, delaying or omitting any action if acting with reasonable care and provided the Bond Trustee considers that such action is in the interests of the Bondholders.
- (e) The Issuer is liable for, and will indemnify the Bond Trustee fully in respect of, all losses, expenses and liabilities incurred by the Bond Trustee as a result of negligence by the Issuer (including its directors, management, officers, employees and agents) in connection with the performance of the Bond Trustee's obligations under the Finance Documents, including losses incurred by the Bond Trustee as a result of the Bond Trustee's actions based on misrepresentations made by the Issuer in connection with the issuance of the Bonds, the entering into or performance under the Finance Documents, and for as long as any amounts are outstanding under or pursuant to the Finance Documents.
- (f) The Issuer shall cover all costs and expenses incurred by the Bond Trustee in connection with it fulfilling its obligations under the Finance Documents. The Bond Trustee is entitled to fees for its work and to be indemnified for costs, losses and liabilities on the terms set out in the Finance Documents. The Bond Trustee's obligations under the Finance Documents are conditioned upon the due payment of such fees and indemnifications. The fees of the Bond Trustee will be further set out in the Bond Trustee Fee Agreement.
- (g) The Issuer shall on demand by the Bond Trustee pay all costs incurred for external experts engaged after the occurrence of an Event of Default, or for the purpose of investigating or considering (i) an event or circumstance which the Bond Trustee reasonably believes is or may lead to an Event of Default or (ii) a matter relating to the Issuer or any Finance Document which the Bond Trustee reasonably believes may

constitute or lead to a breach of any Finance Document or otherwise be detrimental to the interests of the Bondholders under the Finance Documents.

- (h) Fees, costs and expenses payable to the Bond Trustee which are not reimbursed in any other way due to an Event of Default, the Issuer being Insolvent or similar circumstances pertaining to any Obligor, may be covered by making an equal reduction in the proceeds to the Bondholders hereunder of any costs and expenses incurred by the Bond Trustee or the Security Agent in connection therewith. The Bond Trustee may withhold funds from any escrow account (or similar arrangement) or from other funds received from the Issuer or any other person, irrespective of such funds being subject to Transaction Security, and to set-off and cover any such costs and expenses from those funds.
- (i) As a condition to effecting any instruction from the Bondholders (including, but not limited to, instructions set out in Clause 14.3 (*Bondholders' instructions*) or Clause 15.2 (*Procedure for arranging a Bondholders' Meeting*)), the Bond Trustee may require satisfactory Security, guarantees and/or indemnities for any possible liability and anticipated costs and expenses from those Bondholders who have given that instruction and/or who voted in favour of the decision to instruct the Bond Trustee.

16.5 Replacement of the Bond Trustee

- (a) The Bond Trustee may be replaced by a majority of 2/3 of Voting Bonds in accordance with the procedures set out in Clause 15 (*Bondholders' Decisions*), and the Bondholders may resolve to replace the Bond Trustee without the Issuer's approval.
- (b) The Bond Trustee may resign by giving notice to the Issuer and the Bondholders, in which case a successor Bond Trustee shall be elected pursuant to this Clause 16.5, initiated by the retiring Bond Trustee.
- (c) If the Bond Trustee is Insolvent, or otherwise is permanently unable to fulfil its obligations under these Bond Terms, the Bond Trustee shall be deemed to have resigned and a successor Bond Trustee shall be appointed in accordance with this Clause 16.5. The Issuer may appoint a temporary Bond Trustee until a new Bond Trustee is elected in accordance with paragraph (a) above.
- (d) The change of Bond Trustee shall only take effect upon execution of all necessary actions to effectively substitute the retiring Bond Trustee, and the retiring Bond Trustee undertakes to co-operate in all reasonable manners without delay to such effect. The retiring Bond Trustee shall be discharged from any further obligation in respect of the Finance Documents from the change takes effect, but shall remain liable under the Finance Documents in respect of any action which it took or failed to take whilst acting as Bond Trustee. The retiring Bond Trustee remains entitled to any benefits and any unpaid fees or expenses under the Finance Documents before the change has taken place.
- (e) Upon change of Bond Trustee, the Issuer shall co-operate in all reasonable manners without delay to replace the retiring Bond Trustee with the successor Bond Trustee and release the retiring Bond Trustee from any future obligations under the Finance Documents and any other documents.

16.6 Security Agent

- (a) The Bond Trustee is appointed to act as Security Agent for the Bonds, unless any other person is appointed. The main functions of the Security Agent may include holding Transaction Security on behalf of the Secured Parties and monitoring compliance by the Issuer and other relevant parties of their respective obligations under the Transaction Security Documents with respect to the Transaction Security on the basis of information made available to it pursuant to the Finance Documents.
- (b) The Bond Trustee shall, when acting as Security Agent for the Bonds, at all times maintain and keep all certificates and other documents received by it, that are bearers of right relating to the Transaction Security in safe custody on behalf of the Bondholders. The Bond Trustee shall not be responsible for or required to insure against any loss incurred in connection with such safe custody.
- (c) Before the appointment of a Security Agent other than the Bond Trustee, the Issuer shall be given the opportunity to state its views on the proposed Security Agent, but the final decision as to appointment shall lie exclusively with the Bond Trustee.
- (d) The functions, rights and obligations of the Security Agent may be determined by a Security Agent Agreement to be entered into between the Bond Trustee and the Security Agent, which the Bond Trustee shall have the right to require each Obligor and any other party to a Finance Document to sign as a party, or, at the discretion of the Bond Trustee, to acknowledge. The Bond Trustee shall at all times retain the right to instruct the Security Agent in all matters, whether or not a separate Security Agent Agreement has been entered into.
- (e) The provisions set out in Clause 16.4 (*Expenses, liability and indemnity*) shall apply *mutatis mutandis* to any expenses and liabilities of the Security Agent in connection with the Finance Documents.

17. AMENDMENTS AND WAIVERS

17.1 Procedure for amendments and waivers

- (a) The Issuer and the Bond Trustee (acting on behalf of the Bondholders) may agree to amend the Finance Documents or waive a past default or anticipated failure to comply with any provision in a Finance Document, provided that:
 - (i) such amendment or waiver is not detrimental to the rights and benefits of the Bondholders in any material respect, or is made solely for the purpose of rectifying obvious errors and mistakes;
 - (ii) such amendment or waiver is required by applicable law, a court ruling or a decision by a relevant authority; or
 - (iii) such amendment or waiver has been duly approved by the Bondholders in accordance with Clause 15 (*Bondholders' Decisions*).
- (b) Any changes to these Bond Terms necessary or appropriate in connection with the appointment of a Security Agent other than the Bond Trustee shall be documented in an amendment to these Bond Terms, signed by the Bond Trustee (in its discretion). If so

desired by the Bond Trustee, any or all of the Transaction Security Documents shall be amended, assigned or re-issued, so that the Security Agent is the holder of the relevant Security (on behalf of the Bondholders). The costs incurred in connection with such amendment, assignment or re-issue shall be for the account of the Issuer.

17.2 Authority with respect to documentation

If the Bondholders have resolved the substance of an amendment to any Finance Document, without resolving on the specific or final form of such amendment, the Bond Trustee shall be considered authorised to draft, approve and/or finalise (as applicable) any required documentation or any outstanding matters in such documentation without any further approvals or involvement from the Bondholders being required.

17.3 Notification of amendments or waivers

- (a) The Bond Trustee shall as soon as possible notify the Bondholders of any amendments or waivers made in accordance with this Clause 17, setting out the date from which the amendment or waiver will be effective, unless such notice according to the Bond Trustee's sole discretion is unnecessary. The Issuer shall ensure that any amendment to these Bond Terms is duly registered with the CSD.
- (b) Prior to agreeing to an amendment or granting a waiver in accordance with paragraph (a) section (i) of Clause 17.1 (*Procedure for amendments and waivers*), the Bond Trustee may inform the Bondholders of such waiver or amendment at a relevant information platform.

18. MISCELLANEOUS

18.1 Limitation of claims

All claims under the Finance Documents for payment, including interest and principal, will be subject to the legislation regarding time-bar provisions of the Relevant Jurisdiction.

18.2 Access to information

- (a) These Bond Terms will be made available to the public and copies may be obtained from the Bond Trustee or the Issuer. The Bond Trustee will not have any obligation to distribute any other information to the Bondholders or any other person, and the Bondholders have no right to obtain information from the Bond Trustee, other than as explicitly stated in these Bond Terms or pursuant to statutory provisions of law.
- (b) In order to carry out its functions and obligations under these Bond Terms, the Bond Trustee will have access to the relevant information regarding ownership of the Bonds, as recorded and regulated with the CSD.
- (c) The information referred to in paragraph (b) above may only be used for the purposes of carrying out their duties and exercising their rights in accordance with the Finance Documents and shall not disclose such information to any Bondholder or third party unless necessary for such purposes.

18.3 Notices, contact information

- (a) Written notices to the Bondholders made by the Bond Trustee will be sent to the Bondholders via the CSD with a copy to the Issuer and the Exchange (if the Bonds are

listed). Any such notice or communication will be deemed to be given or made via the CSD, when sent from the CSD.

- (b) The Issuer's written notifications to the Bondholders will be sent to the Bondholders via the Bond Trustee or through the CSD with a copy to the Bond Trustee and the Exchange (if the Bonds are listed).
- (c) Notwithstanding paragraph (a) above and provided that such written notification does not require the Bondholders to take any action under the Finance Documents, the Issuer's written notifications to the Bondholders may be published by the Bond Trustee on a relevant information platform only.
- (d) Unless otherwise specifically provided, all notices or other communications under or in connection with these Bond Terms between the Bond Trustee and the Issuer will be given or made in writing, by letter or e-mail. Any such notice or communication will be deemed to be given or made as follows:
 - (i) if by letter, when delivered at the address of the relevant party;
 - (ii) if by e-mail, when received; and
 - (iii) if by publication on a relevant information platform, when published.
- (e) The Issuer and the Bond Trustee shall each ensure that the other party is kept informed of changes in postal address, e-mail address, telephone number and contact persons.
- (f) When determining deadlines set out in these Bond Terms, the following will apply (unless otherwise stated):
 - (i) if the deadline is set out in days, the first day of the relevant period will not be included and the last day of the relevant period will be included;
 - (ii) if the deadline is set out in weeks, months or years, the deadline will end on the day in the last week or the last month which, according to its name or number, corresponds to the first day the deadline is in force. If such day is not a part of an actual month, the deadline will be the last day of such month; and
 - (iii) if a deadline ends on a day which is not a Business Day, the deadline is postponed to the next Business Day.

18.4 Defeasance

- (a) Subject to paragraph (b) below and provided that:
 - (i) an amount sufficient for the payment of principal and interest on the Outstanding Bonds to the relevant Repayment Date (including, to the extent applicable, any premium payable upon exercise of a Call Option), and always subject to paragraph (c) below (the "**Defeasance Amount**") is credited by the Issuer to an account in a financial institution acceptable to the Bond Trustee (the "**Defeasance Account**");

- (ii) the Defeasance Account is irrevocably pledged and blocked in favour of the Bond Trustee on such terms as the Bond Trustee shall request (the “**Defeasance Pledge**”); and
 - (iii) the Bond Trustee has received such legal opinions and statements reasonably required by it, including (but not necessarily limited to) with respect to the validity and enforceability of the Defeasance Pledge,
- then;
- (A) the Issuer will be relieved from its obligations under paragraph (a) of Clause 12.2 (*Requirements as to Financial Reports*), Clause 12.3 (*Put Option Event*), Clause 12.6 (*Information: miscellaneous*) and Clause 13 (*General and Financial Undertakings*);
 - (B) any Transaction Security shall be released and the Defeasance Pledge shall be considered replacement of the Transaction Security; and
 - (C) any Obligor shall be released from any Guarantee or other obligation applicable to it under any Finance Document.
- (b) The Bond Trustee shall be authorised to apply any amount credited to the Defeasance Account towards any amount payable by the Issuer under any Finance Document on the due date for the relevant payment until all obligations of the Issuer and all amounts outstanding under the Finance Documents are repaid and discharged in full.
 - (c) The Bond Trustee may, if the Defeasance Amount cannot be finally and conclusively determined, decide the amount to be deposited to the Defeasance Account in its discretion, applying such buffer amount as it deems necessary.

A defeasance established according to this Clause 18.4 may not be reversed.

19. GOVERNING LAW AND JURISDICTION

19.1 Governing law

These Bond Terms are governed by the laws of the Relevant Jurisdiction, without regard to its conflict of law provisions.

19.2 Main jurisdiction

The Bond Trustee and the Issuer agree for the benefit of the Bond Trustee and the Bondholders that the City Court of the capital of the Relevant Jurisdiction shall have jurisdiction with respect to any dispute arising out of or in connection with these Bond Terms. The Issuer agrees for the benefit of the Bond Trustee and the Bondholders that any legal action or proceedings arising out of or in connection with these Bond Terms against the Issuer or any of its assets may be brought in such court.

19.3 Alternative jurisdiction

Clause 19 (*Governing law and jurisdiction*) is for the exclusive benefit of the Bond Trustee and the Bondholders and the Bond Trustee have the right:

- (a) to commence proceedings against the Issuer or any other Obligor or any of their respective assets in any court in any jurisdiction; and
- (b) to commence such proceedings, including enforcement proceedings, in any competent jurisdiction concurrently.



19.4 Service of process

- (a) Without prejudice to any other mode of service allowed under any relevant law, the Issuer:
 - (i) irrevocably appoints Marinelaw AS as its agent for service of process in relation to any proceedings in connection with these Bond Terms; and
 - (ii) agrees that failure by an agent for service of process to notify the Issuer of the process will not invalidate the proceedings concerned.
- (b) If any person appointed as an agent for service of process is unable for any reason to act as agent for service of process, the Issuer must immediately (and in any event within 10 Business Days of such event taking place) appoint another agent on terms acceptable to the Bond Trustee. Failing this, the Bond Trustee may appoint another agent for this purpose.

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These Bond Terms have been executed by way of electronic signatures.

SIGNATURES:

<p>The Issuer:</p> <p>VAREL OIL AND GAS INC.</p> <p>DocuSigned by:</p> <p> <i>Salil Oberoi</i></p> <p>D7F7C9D12610458...</p> <p>By: Salil Oberoi</p> <p>Position: President, Treasurer and Secretary</p>	<p>As Bond Trustee and Security Agent:</p> <p>NORDIC TRUSTEE AS</p> <p>DocuSigned by:</p> <p> <i>Vivian Trøsch</i></p> <p>2CDF1A62D9D9456...</p> <p>By: Vivian Trøsch</p> <p>Position: Authorised signatory</p>
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ATTACHMENT 1
COMPLIANCE CERTIFICATE

[date]

Varel Oil and Gas Inc. 12.25% bonds 2024/2028 ISIN [•]

We refer to the Bond Terms for the above captioned Bonds made between Nordic Trustee AS as Bond Trustee on behalf of the Bondholders and the undersigned as Issuer. Pursuant to Clause 12.2 (*Requirements as to Financial Reports*) of the Bond Terms a Compliance Certificate shall be issued in connection with each delivery of Financial Reports to the Bond Trustee.

This letter constitutes the Compliance Certificate for the period [•].

Capitalised terms used herein will have the same meaning as in the Bond Terms.

With reference to Clause 12.2 (*Requirements as to Financial Reports*), we hereby certify that all information delivered under cover of this Compliance Certificate is true and accurate. Copies of our latest consolidated [Annual Financial Statements] / [Interim Accounts] are enclosed.

[The financial covenants set out in Clause 13.20 (*Financial covenants*) are met, please see the calculations and figures in respect of the ratios attached hereto.]

[With reference to Clause 13.18 (*Designation of Material Group Companies*), the following Group Companies are nominated as Material Group Companies: [•].]

We confirm that, to the best of our knowledge, no Event of Default has occurred or is likely to occur.

Yours faithfully,
Varel Oil and Gas Inc.

Name of authorised person

Enclosure: Annual Financial Statements / Interim Accounts; [and any other written documentation]

ATTACHMENT 2
RELEASE NOTICE – ESCROW ACCOUNT

[date]

Dear Sirs,

Varel Oil and Gas Inc. 12.25% bonds 2024/2028 ISIN [•]

We refer to the Bond Terms for the above captioned Bonds made between Nordic Trustee AS as Bond Trustee on behalf of the Bondholders and the undersigned as Issuer.

Capitalised terms used herein will have the same meaning as in the Bond Terms.

We hereby give you notice that we on [date] wish to draw [the amount specified in Enclosure I (*Flow of Funds*)]/[all amounts] from the Escrow Account to be applied pursuant to the purpose set out in the Bond Terms, and request you to instruct the bank to release the above mentioned amount.

We hereby represent and warrant that (i) no Event of Default has occurred and is continuing or is likely to occur as a result of the release from the Escrow Account, and (ii) we confirm that the representations and warranties set out in the Bond Terms are true and accurate in all material respects at the date hereof.

Yours faithfully,
Varel Oil and Gas Inc.

Name of authorised person

Enclosure I: *Flow of Funds*

Appendix 3 - Bylaws of Varel Oil and Gas Intermediate Holdings, Inc.

BYLAWS
OF
VAREL OIL AND GAS INTERMEDIATE HOLDINGS INC.,
A Delaware Corporation

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BYLAWS
OF
VAREL OIL AND GAS INTERMEDIATE HOLDINGS INC.,
a Delaware corporation

1. Offices

1.1 Registered Office. The registered office shall be in the City of Wilmington, County of New Castle, State of Delaware.

1.2 Other Offices. The corporation may also have offices at such other places both within and without the State of Delaware as the Board of Directors may from time to time determine or the business of the corporation may require.

2. Meetings Of Stockholders

2.1 Annual Meeting. Unless directors are elected by written consent in lieu of an annual meeting as permitted by Section 2.14, an annual meeting of the stockholders for the election of directors shall be held at such place, if any, either within or without the State of Delaware as shall be designated on an annual basis by the Board of Directors and stated in the notice of the meeting. Any other proper business may be transacted at the annual meeting.

2.2 Meetings by Remote Communication. The Board of Directors may, in its sole discretion, determine that any meeting shall not be held at any place, but may instead be held solely by means of remote communication in accordance with Section 2.13.

2.3 Notice of Meetings. Whenever stockholders are required or permitted to take any action at a meeting, a written notice of the meeting shall be given which shall state the place, date and hour of the meeting, the means of remote communications, if any, by which stockholders and proxy holders may be deemed to be present in person and vote at such meeting, and, in the case of a special meeting, the purpose or purposes for which the meeting is called.

2.4 Timing of Notice. Unless otherwise provided in the Delaware General Corporation Law (the “DGCL”), the written notice of any meeting of the stockholders shall be given not less than 10 nor more than 60 days before the date of the meeting to each stockholder entitled to vote at such meeting.

2.5 Voting List. The officer who has charge of the stock ledger of the corporation shall prepare and make, or cause a third party to prepare and make, at least 10 days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Nothing contained in this Section 2.5 shall require the corporation to include electronic mail addresses or other electronic contact information on such list. Such list shall be open to the examination of any stockholder for any purpose germane to the meeting for a period of at least 10 days prior to the meeting: (i) on a reasonably accessible electronic network, provided that the information required to gain access to such list is provided with the notice of the meeting, or (ii) during ordinary business hours, at the principal place of business of the corporation. If the meeting is to be held at a place, then the list shall be produced and kept at the time and place of the meeting during the whole time

thereof and may be examined by any stockholder who is present. If the meeting is to be held solely by means of remote communication, then the list shall also be open to the examination of any stockholder during the whole time of the meeting on a reasonably accessible electronic network, and the information required to access such list shall be provided with the notice of the meeting.

2.6 Special Meetings. Special meetings of the stockholders of this corporation, for any purpose or purposes, unless otherwise prescribed by statute or by the Certificate of Incorporation, shall be called by the President or Secretary at the request in writing of a majority of the members of the Board of Directors or at the request in writing of stockholders owning at least 10% of the total voting power of all outstanding shares of stock of this corporation then entitled to vote, and may not be called absent such a request. Such request shall state the purpose or purposes of the proposed meeting.

2.7 Scope of Business at Special Meeting. Business transacted at any special meeting of stockholders shall be limited to the purposes stated in the notice.

2.8 Quorum. Except as otherwise provided by statute or by the Certificate of Incorporation, the holders of a majority of the shares entitled to vote, present in person or represented by proxy, shall constitute a quorum at all meetings of stockholders. If, however, such quorum shall not be present or represented at any meeting of the stockholders, the chairman of the meeting or the stockholders entitled to vote thereat, present in person or represented by proxy, shall have power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present or represented. At such adjourned meeting at which a quorum shall be present or represented, any business may be transacted which might have been transacted at the meeting as originally notified. If the adjournment is for more than 30 days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting as provided in Section 2.3.

2.9 Qualifications to Vote. The stockholders of record on the books of the corporation at the close of business on the record date as determined by the Board of Directors and only such stockholders shall be entitled to vote at any meeting of stockholders or any adjournment thereof.

2.10 Record Date for Meetings of the Stockholders. In order that the corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, and which record date shall not be more than 60 nor less than 10 days before the date of such meeting. If no record date is fixed by the Board of Directors, the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

2.11 Action at Meetings. When a quorum is present at any meeting, the vote of the holders of a majority of the shares of stock having voting power present in person or represented by proxy shall decide any question brought before such meeting, unless the question is one upon which by express provision of applicable law or of the Certificate of Incorporation, a different vote is required, in which case such express provision shall govern and control the decision of such question.

2.12 Voting and Proxies. Unless otherwise provided in the Certificate of Incorporation, and subject to Section 213 of the DGCL, each stockholder shall be entitled to one vote in person or by proxy

for each share of capital stock having voting power held by such stockholder. If the Certificate of Incorporation provides for more or less than one vote for any share, on any matter, every reference in these Bylaws to a majority or other proportion of stock, voting stock or shares shall refer to such majority or other proportion of the votes of such stock, voting stock or shares. Each stockholder entitled to vote at a meeting of stockholders or to express consent or dissent to corporate action in writing without a meeting may authorize another person or persons to act for such stockholder by proxy, but no proxy shall be voted on after 3 years from its date, unless the proxy provides for a longer period. A duly executed proxy shall be irrevocable if it states it is irrevocable and if, and only as long as, it is coupled with an interest sufficient in law to support an irrevocable power.

2.13 Attendance by Stockholders not Physically Present. If authorized by the Board of Directors in its sole discretion, and subject to such guidelines and procedures as the Board of Directors may adopt, stockholders and proxyholders not physically present at a meeting of stockholders may, by means of remote communication: (a) participate in a meeting of stockholders; and (b) be deemed present in person and vote at a meeting of stockholders, whether such meeting is to be held at a designated place or solely by means of remote communication, provided that (i) the corporation shall implement reasonable measures to verify that each person deemed present and permitted to vote at the meeting by means of remote communication is a stockholder or proxyholder, (ii) the corporation shall implement reasonable measures to provide such stockholders and proxyholders a reasonable opportunity to participate in the meeting and to vote on matters submitted to the stockholders, including an opportunity to read or hear the proceedings of the meeting substantially concurrently with such proceedings, and (iii) if any stockholder or proxyholder votes or takes other action at the meeting by means of remote communication, a record of such vote or other action shall be maintained by the corporation.

2.14 Action by Stockholders Without a Meeting. Unless otherwise provided in the Certificate of Incorporation, any action required to be taken at any annual or special meeting of stockholders of the corporation, or any action which may be taken at any annual or special meeting of such stockholders, may be taken without a meeting, without prior notice and without a vote, if a consent or consents in writing, setting forth the action so taken, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted and shall be delivered to the corporation by delivery to its registered office in the State of Delaware (by hand or by certified or registered mail, return receipt requested), to its principal place of business, or to an officer or agent of the corporation having custody of the book in which proceedings of meetings of stockholders are recorded; provided, however, that action by written consent to elect directors, if less than unanimous, shall be in lieu of holding an annual meeting only if all the directorships to which directors could be elected at an annual meeting held at the effective time of such action are vacant and are filled by such action. Prompt notice of the taking of the corporate action without a meeting by less than unanimous written consent shall be given to those stockholders who have not consent in writing and who, if the action had been taken at a meeting, would have been entitled to notice of the meeting if the record date for such meeting had been the date that written consents signed by a sufficient number of stockholders or members to take the action were delivered to the corporation by delivery to its registered office in the State of Delaware (by hand or by certified or registered mail, return receipt requested), to its principal place of business, or to an officer or agent of the corporation having custody of the book in which proceedings of meetings of stockholders are recorded.

2.15 Consent by Electronic Transmission. If a stockholder provides consent in writing to action without a meeting by electronic transmission, such consent shall be deemed to have been delivered when such consent is delivered to its principal place of business or an officer or agent of the corporation having custody of the book in which proceedings of meetings of stockholders are recorded.

2.16 Record Date for Action by Stockholders Without a Meeting. In order that the corporation may determine the stockholders entitled to consent to corporate action in writing without a meeting, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, and which date shall not be more than 10 days after the date upon which the resolution fixing the record date is adopted by the Board of Directors. If no record date has been fixed by the Board of Directors, the record date for determining stockholders entitled to consent to corporate action in writing without a meeting, when no prior action by the Board of Directors is required by the DGCL, shall be the first date on which a signed written consent setting forth the action taken or proposed to be taken is delivered to the corporation by delivery to its registered office in Delaware, its principal place of business or an officer or agent of the corporation having custody of the book in which proceedings of meetings of stockholders are recorded. Delivery made to the corporation's registered office shall be by hand or by certified or registered mail, return receipt requested. If no record date has been fixed by the Board of Directors and prior action by the Board of Directors is required by the DGCL, the record date for determining stockholders entitled to consent to corporate action in writing without a meeting shall be at the close of business on the day on which the Board of Directors adopts the resolution taking such prior action.

2.17 Nominations for Board of Directors. Nominations for election to the Board of Directors may be made by the Board of Directors or by any stockholder of any outstanding class of capital stock of the corporation entitled to vote for the election of directors. Nominations, other than those made by the Board of Directors of the corporation, must be preceded by notification in writing in fact received by the Secretary of the corporation not less than 60 days prior to any meeting of stockholders called for the election of directors. Such notification shall contain the written consent of each proposed nominee to serve as a director if so elected and the following information as to each proposed nominee and as to each person, acting alone or in conjunction with one or more other persons as a partnership, limited partnership, syndicate or other group, who participates or is expected to participate in making such nomination or in organizing, directing or financing such nomination or solicitation of proxies to vote for the nominee:

(i) the name, age, residence, address, and business address of each proposed nominee and of each such person;

(ii) the principal occupation or employment, the name, type of business and address of the corporation or other organization in which such employment is carried on of each proposed nominee and of each such person;

(iii) the amount of stock of the corporation owned beneficially, either directly or indirectly, by each proposed nominee and each such person; and

(iv) a description of any arrangement or understanding of each proposed nominee and of each such person with each other or any other person regarding future employment or any future transaction to which the corporation will or may be a party.

The presiding officer of the meeting shall have the authority to determine and declare to the meeting that a nomination not preceded by notification made in accordance with the foregoing procedure shall be disregarded.

3. Directors

3.1 Powers. The business and affairs of the corporation shall be managed by or under the direction of a Board of Directors, except as may otherwise be provided by law or in the Certificate of

Incorporation. All powers of the corporation, except those specifically reserved or granted to the stockholders by law, the Certificate of Incorporation or these Bylaws, are hereby granted to and vested in the Board of Directors.

3.2 Number; Election; Tenure and Qualification. The Board of Directors of the corporation shall consist of one or more members, each of whom shall be a natural person. The number of directors which shall constitute the whole board shall be fixed from time to time by resolution of the Board of Directors or by the stockholders at the annual meeting of the stockholders, with the exception of the first Board of Directors, which shall be elected by the incorporator. Except as provided in the Certificate of Incorporation or these Bylaws, the directors shall be elected at the annual meeting of the stockholders by a plurality vote of the shares represented in person or by proxy. Each director elected shall hold office until such director's successor is elected and qualified or until such director's earlier resignation or removal. Directors need not be stockholders.

3.3 Vacancies and Newly Created Directorships. Unless otherwise provided in the Certificate of Incorporation or these Bylaws, vacancies and newly created directorships resulting from any increase in the authorized number of directors may be filled by a majority of the directors then in office, though less than a majority of the whole Board, or by a sole remaining director. If at any time, by reason of death or resignation or other cause, the corporation should have no directors in office, then any officer or any stockholder or an executor, administrator, trustee or guardian of a stockholder, or other fiduciary entrusted with like responsibility for the person or estate of a stockholder, may call a special meeting of stockholders, or may apply to the Court of Chancery for a decree summarily ordering an election as provided in Section 211 of the DGCL. If, at the time of filling any vacancy or any newly created directorship, the directors then in office shall constitute less than a majority of the whole board (as constituted immediately prior to any such increase), the Court of Chancery may, upon application of any stockholder or stockholders holding at least 10% of the voting stock at the time outstanding having the right to vote for such directors, summarily order an election to be held to fill any such directors, summarily order an election to be held to fill any such vacancies or newly created directorships, or to replace the directors chosen by the directors then in office, which election shall be governed by Section 211 of the DGCL as far as applicable.

3.4 Meeting of Newly Elected Board of Directors. The first meeting of each newly elected Board of Directors shall be held immediately following the annual meeting of stockholders and no notice of such meeting shall be necessary to the newly elected directors in order legally to constitute the meeting, provided a quorum shall be present. In the event such meeting is not held at such time, the meeting may be held at such time and place as shall be specified in a notice given as hereinafter provided for special meetings of the Board of Directors, or as shall be specified in a written waiver signed by all of the directors.

3.5 Regular Meetings. Regular meetings of the Board of Directors may be held without notice at such time and at such place as shall from time to time be determined by the Board of Directors; provided that any director who is absent when such a determination is made shall be given notice of such location.

3.6 Special Meetings. Special meetings of the Board of Directors may be called by the President on 2 days' notice to each director by mail, overnight courier service, or electronic transmission; special meetings shall be called by the President or Secretary in a like manner and on like notice on the written request of two directors unless the Board of Directors consists of only one director, in which case special meetings shall be called by the President or Secretary in a like manner and on like notice on the written request of the sole director. Notice may be waived in accordance with Section 229 of the DGCL.

3.7 Quorum and Action at Meetings. At all meetings of the Board of Directors, a majority of the total number of directors then in office shall constitute a quorum for the transaction of business unless the Certificate of Incorporation requires a greater number. The vote of a majority of the directors present at a meeting at which a quorum is present shall be the act of the Board of Directors unless the Certificate of Incorporation shall require a vote of a greater number. If a quorum shall not be present at any meeting of the Board of Directors, the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

3.8 Action Without a Meeting. Unless otherwise restricted by the Certificate of Incorporation or these Bylaws, any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting, if all members of the Board of Directors or committee, as the case may be, consent thereto in writing or by electronic transmission, and the writing or writings or electronic transmission or transmissions are filed with the minutes of proceedings of the Board of Directors or committee. Such filing shall be in paper form if the minutes are maintained in paper form and shall be in electronic form if the minutes are maintained in electronic form.

3.9 Telephonic Meeting. Unless otherwise restricted by the Certificate of Incorporation, members of the Board of Directors, or any committee designated by the Board of Directors, or any subcommittee designated by any such committee, may participate in a meeting of the Board of Directors, or any committee or subcommittee, as the case may be, by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and such participation in a meeting shall constitute presence in person at the meeting.

3.10 Committees. The Board of Directors may designate one or more committees, each committee to consist of 1 or more of the directors of the corporation. The Board of Directors may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of a member of a committee, the member or members present at any meeting and not disqualified from voting, whether or not such member or members constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member.

3.11 Committee Authority. Any such committee, to the extent provided in the resolution of the Board of Directors, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the corporation, and may authorize the seal of the corporation to be affixed to all papers which may require it; but no such committee shall have the power or authority in reference to (i) approving, adopting or recommending to the stockholders, any action or matter expressly required by the DGCL to be submitted to stockholders for approval, or (ii) adopting, amending or repealing any Bylaw of the corporation. Such committee or committees shall have such name or names as may be determined from time to time by resolution adopted by the Board of Directors.

3.12 Subcommittees. Unless otherwise provided in the Certificate of Incorporation or the resolution of the Board of Directors designating the committee, a committee may create one or more subcommittees, each subcommittee to consist of one or more members of the committee, and delegate to a subcommittee any or all of the powers and authority of the committee. Such committee or committees shall have such name or names as may be determined from time to time by resolution adopted by the committee.

3.13 Committee Minutes. Each committee and subcommittee shall keep regular minutes of its meetings and report the same to the Board of Directors when required to do so by the Board of Directors.

3.14 Directors Compensation. Unless otherwise restricted by the Certificate of Incorporation or these Bylaws, the Board of Directors shall have the authority to fix the compensation of directors. The directors may be paid their expenses, if any, of attendance at each meeting of the Board of Directors and may be paid a fixed sum for attendance at each meeting of the Board of Directors or a stated salary as director. No such payment shall preclude any director from serving the corporation in any other capacity and receiving compensation therefor. Members of special or standing committees or subcommittees may be allowed like compensation for attending committee or subcommittee meetings.

3.15 Resignation. Any director or officer of the corporation may resign at any time upon notice given in writing or by electronic transmission to the corporation. A resignation is effective when the resignation is delivered unless the resignation specifies a later effective date or an effective date determined upon the happening of an event or events. A resignation which is conditioned upon the director failing to receive a specified vote for reelection as a director may provide that it is irrevocable. The acceptance of a resignation shall not be necessary to make it effective unless expressly so provided in the resignation.

3.16 Removal. Unless otherwise restricted by the Certificate of Incorporation, these Bylaws or applicable law, any director or the entire Board of Directors may be removed, with or without cause, by the holders of a majority of shares entitled to vote at an election of directors.

4. Notices

4.1 Notice to Directors and Stockholders. Whenever, under the provisions of the statutes or of the Certificate of Incorporation or of these Bylaws, notice is required to be given to any director or stockholder, it shall not be construed to mean personal notice, but such notice may be given in writing, by mail, addressed to such director or stockholder, at his address as it appears on the records of the corporation, with postage thereon prepaid, and such notice shall be deemed to be given at the time when the same shall be deposited in the United States mail. An affidavit of the Secretary or an Assistant Secretary or of the transfer agent or other agent of the corporation that the notice has been given shall, in the absence of fraud, be prima facie evidence of the facts stated therein. Notice to directors may also be given by telephone or electronic transmission (with confirmation of receipt if such electronic transmission is by telegram).

4.2 Notice to Stockholders by Electronic Transmission. Without limiting the manner by which notice otherwise may be given effectively to stockholders, any notice to stockholders given by the corporation under any provision of the DGCL, the Certificate of Incorporation, or these Bylaws shall be effective if given by a form of electronic transmission consented to by the stockholder to whom the notice is given, unless effective notice to stockholders by electronic transmission is prohibited by law. Any such consent shall be revocable by the stockholder by written notice to the corporation. Any such consent shall be deemed revoked if (i) the corporation is unable to deliver by electronic transmission two consecutive notices given by the corporation in accordance with such consent and (ii) such inability becomes known to the Secretary or an Assistant Secretary of the corporation or to the transfer agent, or other person responsible for the giving of notice; provided, however, the inadvertent failure to treat such inability as a revocation shall not invalidate any meeting or other action.

4.3 Effectiveness of Notice by Electronic Transmission. Notice given pursuant to Section 4.2 shall be deemed given: (i) if by facsimile telecommunication, when directed to a number at which the stockholder has consented to receive notice; (ii) if by electronic mail, when directed to an electronic mail address at which the stockholder has consented to receive notice; (iii) if by a posting on an electronic network together with separate notice to the stockholder of such specific posting, upon the later of (A) such posting and (B) the giving of such separate notice; and (iv) if by any other form of electronic

transmission, when directed to the stockholder. An affidavit of the Secretary or an Assistant Secretary or of the transfer agent or other agent of the corporation that the notice has been given by a form of electronic transmission shall, in the absence of fraud, be prima facie evidence of the facts stated therein.

4.4 Waiver. Whenever any notice is required to be given under any provision of the DGCL or of the Certificate of Incorporation or of these Bylaws, a written waiver, signed by the person entitled to notice, or a waiver by electronic transmission by the person entitled to notice, whether before or after the time stated therein, shall be deemed equivalent to notice. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the stockholders, directors or members of a committee or subcommittee of directors need be specified in any written waiver of notice or any waiver by electronic transmission unless so required by the Certificate of Incorporation or these Bylaws. Attendance at the meeting is not a waiver of any right to object to the consideration of matters required by the DGCL to be included in the notice of the meeting but not so included, if such objection is expressly made at the meeting.

4.5 Definition of Electronic Transmission. For purposes of these Bylaws, “electronic transmission” means any form of communication, not directly involving the physical transmission of paper, that creates a record that may be retained, retrieved and reviewed by a recipient thereof, and that may be directly reproduced in paper form by such a recipient through an automated process. For the avoidance of doubt, “electronic transmission” includes transmission by facsimile.

5. Officers

5.1 Enumeration. The officers of the corporation shall be chosen by the Board of Directors and shall include a President, a Secretary, a Treasurer (who may also be referred to as the Chief Financial Officer) and such other officers with such other titles as the Board of Directors shall determine. The Board of Directors may elect from among its members a Chairman or Chairmen of the Board and a Vice Chairman of the Board. The Board of Directors may also choose one or more Vice-Presidents, Assistant Secretaries and Assistant Treasurers. Any number of offices may be held by the same person, unless the Certificate of Incorporation or these Bylaws otherwise provide.

5.2 Election. The Board of Directors at its first meeting after each annual meeting of stockholders shall elect a President, a Secretary, a Treasurer and such other officers with such other titles as the Board of Directors shall determine.

5.3 Appointment of Other Agents. The Board of Directors may appoint such other officers and agents as it shall deem necessary, who shall hold their offices for such terms and shall exercise such powers and perform such duties as shall be determined from time to time by the Board of Directors.

5.4 Compensation. The salaries of all officers of the corporation shall be fixed by the Board of Directors or a committee thereof. The salaries of agents of the corporation shall, unless fixed by the Board of Directors, be fixed by the President or any Vice-President of the corporation.

5.5 Tenure. Each officer shall hold office until such officer’s successor is elected and qualified or until such officer’s earlier resignation or removal. Any officer elected or appointed by the Board of Directors may be removed at any time by the affirmative vote of a majority of the directors of the Board of Directors. Any vacancy occurring in any office of the corporation shall be filled by the Board of Directors.

5.6 Chairman of the Board and Vice-Chairman of the Board. The Chairman of the Board, if any, shall preside at all meetings of the Board of Directors and of the stockholders at which the Chairman shall be present. The Chairman shall have and may exercise such powers as are, from time to time, assigned to the Chairman by the Board of Directors and as may be provided by law. In the absence of the Chairman of the Board, the Vice Chairman of the Board, if any, shall preside at all meetings of the Board of Directors and of the stockholders at which the Vice Chairman shall be present. The Vice Chairman shall have and may exercise such powers as are, from time to time, assigned to such person by the Board of Directors and as may be provided by law.

5.7 President. The President shall be the Chief Executive Officer of the corporation unless such title is assigned to another officer of the corporation; in the absence of a Chairman and Vice Chairman of the Board, the President shall preside as the chairman of meetings of the stockholders and the Board of Directors; and the President shall have general and active management of the business of the corporation and shall see that all orders and resolutions of the Board of Directors are carried into effect. The President or any Vice President shall execute bonds, mortgages and other contracts requiring a seal, under the seal of the corporation, except where required or permitted by law to be otherwise signed and executed and except where the signing and execution thereof shall be expressly delegated by the Board of Directors to some other officer or agent of the corporation.

5.8 Vice-President. In the absence of the President or in the event of the President's inability or refusal to act, the Vice-President, if any (or in the event there be more than one Vice-President, the Vice-Presidents in the order designated by the Board of Directors, or in the absence of any designation, then in the order of their election) shall perform the duties of the President, and when so acting shall have all the powers of and be subject to all the restrictions upon the President. The Vice-President shall perform such other duties and have such other powers as the Board of Directors may from time to time prescribe.

5.9 Secretary. The Secretary shall attend all meetings of the Board of Directors and all meetings of the stockholders and record all the proceedings of the meetings of the corporation and of the Board of Directors in a book to be kept for that purpose and shall perform like duties for the standing committees when required. The Secretary shall give, or cause to be given, notice of all meetings of the stockholders and special meetings of the Board of Directors, and shall perform such other duties as may be prescribed by the Board of Directors or President, under whose supervision the Secretary shall be subject. The Secretary shall have custody of the corporate seal of the corporation and the Secretary, or an Assistant Secretary, shall have authority to affix the same to any instrument requiring it and when so affixed, it may be attested by the Secretary's signature or by the signature of such Assistant Secretary. The Board of Directors may give general authority to any other officer to affix the seal of the corporation and to attest the affixing by such officer's signature.

5.10 Assistant Secretary. The Assistant Secretary, or if there be more than one, the Assistant Secretaries in the order determined by the Board of Directors (or if there be no such determination, then in the order of their election) shall, in the absence of the Secretary or in the event of the Secretary's inability or refusal to act, perform the duties and exercise the powers of the Secretary and shall perform such other duties and have such other powers as the Board of Directors may from time to time prescribe.

5.11 Chief Financial Officer. The Chief Financial Officer may also be designated by the alternate title of "Treasurer." The Chief Financial Officer shall have the custody of all moneys and securities of the Corporation and shall keep regular books of account. Such officer shall disburse funds of the Corporation in payment of the just demands against the Corporation, or as may be ordered by the Board, taking proper vouchers for such disbursements, and shall render to the Board from time to time as may be required of such officer, an account of all transactions as Chief Financial Officer and of the

financial condition of the Corporation. Such officer shall perform all duties incident to such office or that are properly required by the President or by the Board. If required by the Board of Directors, the Chief Financial Officer shall give the corporation a bond (which shall be renewed every 6 years) in such sum and with such surety or sureties as shall be satisfactory to the Board of Directors for the faithful performance of the duties of such officer's office and for the restoration to the corporation, in case of such officer's death, resignation, retirement or removal from office, of all books, papers, vouchers, money and other property of whatever kind in such officer's possession or control belonging to the corporation.

5.12 Assistant Treasurer. The Assistant Treasurer or the Assistant Treasurers, in the order of their seniority, shall, in the absence or disability of the Chief Financial Officer, or in the event of such officer's refusal to act, perform the duties and exercise the powers of the Chief Financial Officer, and shall have such powers and discharge such duties as may be assigned from time to time by the President or by the Board of Directors.

6. Capital Stock

6.1 Certificates. The shares of the corporation shall be represented by a certificate, unless and until the Board of Directors adopts a resolution permitting shares to be uncertificated. Certificates shall be signed by, or in the name of the corporation by, two (2) authorized officers of the corporation, certifying the number of shares owned by such stockholder in the corporation. Certificates may be issued for partly paid shares and in such case upon the face or back of the certificates issued to represent any such partly paid shares, the total amount of the consideration to be paid therefor and the amount paid thereon shall be specified.

6.2 Class or Series. If the corporation shall be authorized to issue more than one class of stock or more than one series of any class, the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights shall be set forth in full or summarized on the face or back of the certificate which the corporation shall issue to represent such class or series of stock, provided that, except as otherwise provided in Section 202 of the DGCL, in lieu of the foregoing requirements, there may be set forth on the face or back of the certificate which the corporation shall issue to represent such class or series of stock, a statement that the corporation will furnish without charge to each stockholder who so requests the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights. Within a reasonable time after the issuance or transfer of uncertificated stock, the corporation shall send to the registered owner thereof a written notice containing the information required to be set forth or stated on certificates pursuant to Sections 151, 156, 202(a) or 218(a) of the DGCL or a statement that the corporation will furnish without charge, to each stockholder who so requests, the powers, designations, preferences and relative participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights.

6.3 Signature. Any of or all of the signatures on a certificate may be facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the corporation with the same effect as if such person were such officer, transfer agent or registrar at the date of issue.

6.4 Lost Certificates. The Board of Directors may direct a new certificate or certificates to be issued in place of any certificate or certificates theretofore issued by the corporation alleged to have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate

of stock to be lost, stolen or destroyed. When authorizing such issue of a new certificate or certificates, the Board of Directors may, in its discretion and as a condition precedent to the issuance thereof, require the owner of such lost, stolen or destroyed certificate or certificates, or such owner's legal representative, to advertise the same in such manner as it shall require and/or to give the corporation a bond in such sum as it may direct as indemnity against any claim that may be made against the corporation with respect to the certificate alleged to have been lost, stolen or destroyed.

6.5 Transfer of Stock. Upon surrender to the corporation or the transfer agent of the corporation of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignation or authority to transfer, it shall be the duty of the corporation to issue a new certificate to the person entitled thereto, cancel the old certificate and record the transaction upon its books. Upon receipt of proper transfer instructions from the registered owner of uncertificated shares such uncertificated shares shall be canceled and issuance of new equivalent uncertificated shares or certificated shares shall be made to the person entitled thereto and the transaction shall be recorded upon the books of the corporation.

6.6 Registered Stockholders. The corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, and to vote as such owner, and to hold liable for calls and assessments a person registered on its books as the owner of shares, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Delaware.

7. General Provisions

7.1 Dividends. Dividends upon the capital stock of the corporation, subject to the applicable provisions, if any, of the Certificate of Incorporation, may be declared by the Board of Directors at any regular or special meeting, pursuant to law. Dividends may be paid in cash, in property or in shares of capital stock, subject to the provisions of the Certificate of Incorporation. Before payment of any dividend, there may be set aside out of any funds of the corporation available for dividends such sum or sums as the Board of Directors from time to time, in their absolute discretion, think proper as a reserve or reserves to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the corporation, or for such other purposes as the Board of Directors shall think conducive to the interest of the corporation, and the Board of Directors may modify or abolish any such reserve in the manner in which it was created.

7.2 Record Date for Dividends. In order that the corporation may determine the stockholders entitled to receive payment of any dividend or other distribution or allotment of any rights or the stockholders entitled to exercise any rights in respect of any change, conversion or exchange of stock, or for the purpose of any other lawful action, the Board of Directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted, and which record date shall be not more than 60 days prior to such action. If no record date is fixed, the record date for determining stockholders for any such purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto.

7.3 Checks. All checks or demands for money and notes of the corporation shall be signed by such officer or officers or such other person or persons as the Board of Directors may from time to time designate.

7.4 Fiscal Year. The fiscal year of the corporation shall be fixed by resolution of the Board of Directors.

7.5 Seal. The Board of Directors may adopt a corporate seal having inscribed thereon the name of the corporation, the year of its organization and the words “Corporate Seal, Delaware”. The seal may be used by causing it or a facsimile thereof to be impressed or affixed or reproduced or otherwise.

7.6 Loans. The Board of Directors of the corporation may, without stockholder approval, authorize loans to, or guaranty obligations of, or otherwise assist, including, without limitation, the adoption of employee benefit plans under which loans and guarantees may be made, any officer or other employee of the corporation or of its subsidiary, including any officer or employee who is a director of the corporation or its subsidiary, whenever, in the judgment of the Board of Directors, such loan, guaranty or assistance may reasonably be expected to benefit the corporation. The loan, guaranty or other assistance may be with or without interest, and may be unsecured, or secured in such manner as the Board of Directors shall approve, including, without limitation, a pledge of shares of stock of the corporation.

8. Indemnification

8.1 Scope. The corporation shall, to the fullest extent permitted by Section 145 of the DGCL, as that section may be amended and supplemented from time to time, indemnify any director of the corporation, against expenses (including attorneys’ fees), judgments, fines, amounts paid in settlement and/or other matters referred to in or covered by that section, by reason of the fact that such person is or was a director of the corporation, or is or was serving at the request of the corporation as a director another corporation, partnership, joint venture, trust or other enterprise. The corporation may, to the fullest extent permitted by Section 145 of the DGCL, as that section may be amended and supplemented from time to time, indemnify any officer, employee or agent of the corporation, against expenses (including attorneys’ fees), judgments, fines, amounts paid in settlement and/or other matters referred to in or covered by that section, by reason of the fact that such person is or was an officer, employee or agent of the corporation, or is or was serving at the request of the corporation as an officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise.

8.2 Advancing Expenses. Expenses (including attorneys’ fees) incurred by a present or former director of the corporation in defending a civil, criminal, administrative or investigative action, suit or proceeding by reason of the fact that such person is or was a director of the corporation (or is or was serving at the request of the corporation as a director of another corporation, partnership, joint venture, trust or other enterprise) shall be paid by the corporation in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of such director to repay such amount if it shall ultimately be determined that such person is not entitled to be indemnified by the corporation as authorized by relevant provisions of the DGCL; provided, however, the corporation shall not be required to advance such expenses to a director (i) who commences any action, suit or proceeding as a plaintiff unless such advance is specifically approved by a majority of the Board of Directors, or (ii) who is a party to an action, suit or proceeding brought by the corporation and approved by a majority of the Board of Directors which alleges willful misappropriation of corporate assets by such director, disclosure of confidential information in violation of such director’s fiduciary or contractual obligations to the corporation, or any other willful and deliberate breach in bad faith of such director’s duty to the corporation or its stockholders.

8.3 Liability Offset. The corporation’s obligation to provide indemnification under this Section 8 shall be offset to the extent the indemnified party is indemnified by any other source including, but not limited to, any applicable insurance coverage under a policy maintained by the corporation, the indemnified party or any other person.

8.4 Continuing Obligation. The provisions of this Section 8 shall be deemed to be a contract between the corporation and each director of the corporation who serves in such capacity at any time

while this Bylaw is in effect, and any repeal or modification thereof shall not affect any rights or obligations then existing with respect to any state of facts then or theretofore existing or any action, suit or proceeding theretofore or thereafter brought based in whole or in part upon any such state of facts.

8.5 Nonexclusive. The indemnification and advancement of expenses provided for in this Section 8 shall (i) not be deemed exclusive of any other rights to which those indemnified may be entitled under any Bylaw, agreement or vote of stockholders or disinterested directors or otherwise, both as to action in their official capacities and as to action in another capacity while holding such office, (ii) continue as to a person who has ceased to be a director and (iii) inure to the benefit of the heirs, executors and administrators of such a person.

8.6 Other Persons. In addition to the indemnification rights of directors, officers, employees, or agents of the corporation, the Board of Directors in its discretion shall have the power on behalf of the corporation to indemnify any other person made a party to any action, suit or proceeding who the corporation may indemnify under Section 145 of the DGCL.

8.7 Definitions. The phrases and terms set forth in this Section 8 shall be given the same meaning as the identical terms and phrases are given in Section 145 of the DGCL, as that section may be amended and supplemented from time to time.

9. Amendments

Except as otherwise provided in the Certificate of Incorporation, these Bylaws may be altered, amended or repealed, or new bylaws may be adopted, by the holders of a majority of the outstanding voting shares or by the Board of Directors, when such power is conferred upon the Board of Directors by the Certificate of Incorporation, at any regular meeting of the stockholders or of the Board of Directors or at any special meeting of the stockholders or of the Board of Directors if notice of such alteration, amendment, repeal or adoption of new Bylaws be contained in the notice of such special meeting. If the power to adopt, amend or repeal Bylaws is conferred upon the Board of Directors by the Certificate of Incorporation, it shall not divest or limit the power of the stockholders to adopt, amend or repeal Bylaws.

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Adopted as of October 9, 2019

**BYLAWS
OF
VAREL INTERNATIONAL ENERGY SERVICES, INC.**

ARTICLE I.

OFFICES

Section 1. Registered Office. The corporation shall at all times maintain a registered office in the State of Delaware. The registered office of the corporation and the registered agent of the corporation at such office may be changed from time to time by the corporation in the manner specified by law.

Section 2. Other Offices. The corporation may have its principal office and other offices at such place or places both within and without the State of Delaware as the board of directors may, from time to time, determine or the business of the corporation may require.

ARTICLE II.

MEETINGS OF STOCKHOLDERS

Section 1. Place and Time of Meetings. All meetings of stockholders shall be held at such place, either within or without the State of Delaware, as shall be stated in the notice of the meeting or in a duly executed waiver of notice thereof.

Section 2. Annual Meetings. The annual meetings of stockholders for the election of directors and for the transaction of such other business as may properly come before the meeting shall be held at such date, time and place, either within or without the State of Delaware, as may be designated from time to time by the board of directors and stated in the notice of the meeting. The board of directors may specify by resolution prior to any special meeting of stockholders held within the year that such meeting shall be in lieu of the annual meeting.

Section 3. Special Meetings. Special meetings of the stockholders, for any purpose or purposes, unless otherwise prescribed by statute or by the certificate of incorporation, may be called by the president and shall be called by the president or secretary at the request in writing of a majority of the board of directors. Business transacted at any special meeting of stockholders shall be limited to the purpose or purposes stated in the notice.

Section 4. Notice of Meetings; Waiver. Written notice of an annual or special meeting of the stockholders stating the place, date and hour of the meeting, and, in the case of a special meeting, the purpose or purposes for which the meeting is called, shall be delivered not less than ten nor more than 60 days before the date of the meeting, either personally or by mail, by or at the direction of the president, the secretary or any other authorized officer by the board of directors calling the meeting, to each stockholder of record entitled to vote at such meeting. If mailed, such notice shall be deemed to be given when deposited in the United States mail, postage prepaid, directed to the stockholder at such stockholder's address as it appears on the records of the corporation. Whenever notice is required to be given to any stockholder, a written

waiver thereof, signed by the stockholder entitled to notice, whether before or after the time stated therein, shall be deemed equivalent to notice. Attendance at a meeting shall constitute a waiver of notice of such meeting, except when the stockholder attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business transacted at, nor the purpose of, any regular or special meeting need be stated in the written waiver of notice of such meeting. Notice of any meeting may be given by or at the direction of the chairman of the board of directors, the vice chairman of the board of directors, the president, the secretary or the board of directors. No notice need be given of the time and place of reconvening of any adjourned meeting if the time and place to which the meeting is adjourned are announced at the adjourned meeting. If the adjournment is for more than 30 days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

Section 5. List of Stockholders. The officer who has charge of the stock ledger of the corporation shall prepare and make, at least ten days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, showing the address of each stockholder and number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present. The stock ledger shall be the only evidence as to who are the stockholders entitled to examine the stock ledger, to vote in person or by proxy at any meeting of the stockholders.

Section 6. Quorum; Required Stockholder Vote. Each stockholder entitled to vote at any meeting of the stockholders shall be entitled to one vote for each share of common stock held by such stockholder that has voting power upon the matter in question. A quorum for the transaction of business at any annual or special meeting of stockholders shall exist when the holders of the outstanding shares entitled to vote and constituting a majority of the total votes are represented either in person or by proxy at such meeting. In all matters other than the election of directors, the affirmative vote of the shares present in person or represented by proxy and constituting a majority of the total votes present and entitled to be cast at the meeting and entitled to vote on the subject matter shall be the act of the stockholders, unless a greater vote is required by law, by the certificate of incorporation or by these bylaws. Directors shall be elected by the affirmative vote of a plurality of the votes represented by the shares present in person or represented by proxy at the meeting and entitled to vote on the election of directors. When a quorum is once present to organize a meeting, the stockholders present may continue to do business at the meeting or at any adjournment thereof, notwithstanding the withdrawal of enough stockholders to leave less than a quorum.

Section 7. Proxies. A stockholder may vote either in person or by a proxy which such stockholder has duly executed in writing. No proxy shall be valid after three years from the

date of its execution unless a longer period is expressly provided in the proxy. A duly executed proxy shall be irrevocable if it states that it is irrevocable and if, and only as long as, it is coupled with an interest sufficient in law to support an irrevocable power. A stockholder may revoke any proxy which is not irrevocable by attending the meeting and voting in person or by filing an instrument in writing revoking the proxy or another duly executed proxy bearing a later date with the secretary of the corporation.

Section 8. Organization. Meetings of stockholders shall be presided over by the chairman of the board of the board of directors, or in such officer's absence by the vice chairman of the board of directors, or in such officer's absence by the president, or in the absence of the foregoing persons by a chairman designated by the board of directors, or in the absence of such designation by a chairman chosen at the meeting. The secretary shall act as secretary of the meeting, but in such officer's absence the chairman of the meeting may appoint any person to act as secretary of the meeting.

Section 9. Record Date. In order that the corporation may determine stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or entitled to consent to corporate action in writing without a meeting, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for any other lawful purpose, the board of directors may fix a record date, which record date shall not precede the date upon which the resolution fixing the record date is adopted by the board of directors, and which record date: (a) in the case of the determination of stockholders entitled to vote at any meeting of stockholders or adjournment thereof, shall not be more than 60 nor less than ten days before the date of such meeting; (b) in the case of the determination of stockholders entitled to consent to corporate action in writing without a meeting, shall not be more than ten days after the date upon the resolution fixing the record date is adopted by the board of directors; and (c) in the case of any other action, shall not be more than 60 days prior to such other action. If no record date is fixed: (w) the record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held; (x) the record date for determining the stockholders entitled to consent to corporate action without a meeting, when no prior action by the board of directors is required by the Delaware General Corporation Law, shall be the first date on which a signed written consent setting forth the action taken or proposed to be taken is delivered to the corporation by delivery to its registered office in the State of Delaware, its principal place of business or its secretary; and (y) the record date for determining stockholders for any other purpose, including for entitlement to consent to corporate action without a meeting, when prior action by the board of directors is required by the Delaware General Corporation Law, shall be at the close of business on the day on which the board of directors adopts the resolution relating thereto. A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the board of directors may fix a new record date for the adjourned meeting.

Section 10. Written Consent of Stockholders. Any action required to be taken at any

annual or special meeting of the stockholders of the corporation, or any action which may be taken at any annual or special meeting of the stockholders, may be taken without a meeting, without prior notice and without a vote, if a consent or consents in writing, setting forth the action so taken, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted and shall be delivered to the corporation by delivery to its registered office in the State of Delaware, its principal place of business or its secretary. Prompt notice of the taking of the corporate action without a meeting by less than unanimous written consent shall be given to those stockholders who have not consented in writing. Action taken pursuant to this paragraph shall be subject to the provisions of Section 228 of the Delaware General Corporation Law.

ARTICLE III.

DIRECTORS

Section 1. Power of Directors. The business and affairs of the corporation shall be managed by or under the direction of its board of directors. In addition to the authority and powers conferred upon the board of directors by the Delaware General Corporation Law, the certificate of incorporation and these bylaws, the board of directors is hereby authorized and empowered to exercise all such powers and do all such acts and things as may be exercised or done by the corporation, subject to the provisions of the Delaware General Corporation Law, the certificate of incorporation and these bylaws.

Section 2. Number and Term. The number of directors which shall constitute the whole board of directors shall be no less than one, as determined initially by the incorporator and, after the issuance of stock, by resolution of the board of directors or by the stockholders at the annual or any special meeting. Each director elected shall hold office until such director's successor is elected and qualified or until such director's earlier resignation or removal. Directors shall be at least eighteen years of age and need not be residents of the State of Delaware nor stockholders of the corporation. The directors, other than the first board of directors, shall be determined by resolution of the board of directors or by the stockholders at the annual meeting, except as hereinafter provided.

Section 3. Vacancies. Newly created directorships resulting from an increase in the board of directors and all vacancies occurring in the board of directors, including vacancies caused by removal without cause, may be filled by a majority of the directors then in office, though less than a quorum, or by the sole remaining director, or by a plurality of the votes cast at a meeting of the stockholders, and each director so chosen shall hold office until the expiration of the term of office of the director whom he has replaced, unless sooner displaced. If there are no directors in office, then an election of directors may be held in the manner provided by statute.

Section 4. Performance by Directors. Each member of the board of directors and each member of any committee designated by the board of directors, shall, in the performance of

such member's duties, be fully protected in relying in good faith upon the records of the corporation and upon such information, opinions, reports or statements presented to the corporation by any of the corporation's officers or employees, or committees of the board of directors, or by any other person as to matters such member reasonably believes are within such other person's professional or expert competence and who has been selected with reasonable care by or on behalf of the corporation.

Section 5. Meetings of the Board of Directors. Regular meetings of the board of directors may be held at such places within or without the State of Delaware and at such times as the board of directors may from time to time determine, and if so determined, notices thereof need not be given. Special meetings of the board of directors may be held at such places within or without the State of Delaware and may be called by the chairman of the board of directors, the vice chairman of the board of directors, the president or a majority of the entire board of directors. Written notice of the time and place of such special meetings shall be given to each director by the person or persons calling such meeting by first class or registered mail at least four days before the meeting or by telephone, telecopy or in person at least one day before the meeting. Whenever notice is required to be given to any director, a written waiver thereof, signed by such director, whether before or after the time stated therein, shall be deemed equivalent to notice. Attendance at a meeting shall constitute a waiver of any required notice of such meeting, except when the director attends such meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any meeting of the board of directors need be stated in the notice or waiver of notice of such meeting.

Section 6. Quorum. At all meetings of the board of directors, a majority of the directors in office shall constitute a quorum for the transaction of business unless a greater or lesser number is required by law or by the certificate of incorporation. The act of a majority of the directors present at any meeting at which a quorum is present shall be the act of the board of directors, except as may be otherwise specifically provided by statute or by the certificate of incorporation. If a quorum shall not be present at any meeting of directors, the directors present may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

Section 7. Organization. Meetings of the board of directors shall be presided over by the president, the chairman of the board of directors, the vice chairman of the board of directors or in their absence by a chairman chosen at the meeting. The secretary shall act as secretary of the meeting, but in such officer's absence the chairman of the meeting may appoint any person to act as secretary of the meeting.

Section 8. Written Consent of Directors. Any action required or permitted to be taken at any meeting of the board of directors or of any committee thereof may be taken without a meeting, if all members of the board of directors or such committee, as the case may be, consent thereto in writing, and the writing or writings are filed with the minutes of proceedings of the board of directors or committee, as the case may be.

Section 9. Meetings by Conference Telephone. Members of the board of directors, or any committee designated by the board of directors, may participate in a meeting of the board of directors, or such committee, by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and such participation in a meeting shall constitute presence in person at the meeting.

Section 10. Committees of Directors. The board of directors may designate one or more committees, each committee to consist of one or more of the directors of the corporation. The board of directors may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of a member of the committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not such member or they constitute a quorum, may unanimously appoint another member of the board of directors to act at the meeting in place of any such absent or disqualified member. Any such committee, to the extent provided in the resolution of the board of directors, shall have and may exercise all the powers and authority of the board of directors in the management of the business and affairs of the corporation, and may authorize the seal of the corporation to be affixed to all papers which may require it; provided that no committee shall have the power or authority of the board of directors in reference to (a) approving or adopting, or recommending to the stockholders, any action or matter expressly required by the Delaware General Corporation Law to be submitted to stockholders for approval or (b) adopting, amending, or repealing any bylaw of the corporation. Unless the board of directors otherwise provides, each committee designated by the board may make, alter and repeal rules for the conduct of its business. In the absence of such rules, each committee shall conduct its business in the same manner as the board of directors conducts its business pursuant to this Article III.

Section 11. Compensation of Directors. Unless otherwise restricted by the certificate of incorporation, the board of directors may be paid their expenses, if any, of attendance at each meeting of the board of directors and may be paid a fixed sum for attendance at such meeting of the board of directors or a stated salary as director. No such payment shall preclude any director from serving the corporation in any other capacity and receiving compensation therefor. Members of special or standing committees may be allowed like compensation for attending committee meetings or such compensation as the board of directors may fix.

Section 12. Removal of Directors. Any or all of the directors may be removed, with or without cause, at any time by the holders of a majority of the shares then entitled to vote at an election of directors at a special meeting called for that purpose.

Section 13. Corporate Records. The directors may keep the books of the corporation outside the State of Delaware, except such as are required by law to be kept within the state, at such place or places as they may from time to time determine.

ARTICLE IV.

OFFICERS

Section 1. Officers. The officers of the corporation shall be chosen by the board of directors and may include, but shall not be limited to, a president, one or more vice presidents (any one or more of whom may be designated an executive vice president or senior vice president), a chief executive officer, a chief operations officer, a treasurer and a secretary. The board of directors may also choose a chairman of the board of directors, one or more vice chairmans of the board of directors, one or more assistant treasurers and one or more assistant secretaries, as well as other officers and agents, with such titles, duties and powers as the board of directors may from time to time determine. Any number of offices may be held by the same person, unless the certificate of incorporation or these bylaws provide otherwise.

Section 2. Appointment of Officers. The board of directors, at its first meeting after each annual meeting of stockholders, shall choose the officers of the corporation.

Section 3. Salaries of Officers. The salaries of all officers and agents of the corporation shall be fixed by the board of directors.

Section 4. Term; Removal and Vacancies. Each officer of the corporation shall hold office until such officer's successor has been chosen and qualified or until such officer shall have resigned or shall have been removed. Any officer may be removed at any time by the affirmative vote of a majority of the board of directors. Any vacancy occurring in any office of the corporation shall be filled by the board of directors.

Section 5. Chairman of the Board of Directors. The chairman of the board of directors, who shall be chosen from among the board of directors, shall have the general powers and duties of management and supervision of the business of the corporation, shall preside at all meetings of the board of directors if present, and shall, in general, perform all duties incident to the office of chairman of the board of directors and such other duties as, from time to time, may be assigned to him by the board of directors.

Section 6. Vice Chairman. In the absence of the chairman of the board of directors, or in the event of such officer's inability or refusal to act, the vice chairman, if any, shall perform the duties and exercise the powers of the chairman of the board of directors and shall perform such other duties and have such other powers as the chairman of the board of directors or the board of directors may from time to time prescribe.

Section 7. President. It shall be the president's duty to supervise generally the management of the business of the corporation. Without limiting the generality of the foregoing, in the absence of the chairman or vice chairman of the board of directors, or in the event of such officer's inability or refusal to act, the president shall preside at all meetings of the stockholders and all meetings of the board of directors and shall see that all orders and resolutions of the board of directors are carried into effect. In addition to the foregoing, the president shall have power to

sign contracts, powers of attorney and other instruments on behalf of the corporation and shall execute bonds, mortgages and other contracts requiring a seal under the seal of the corporation, except where required or permitted by law to be otherwise signed and executed and except where the signing and execution thereof shall be expressly delegated by the board of directors to some other officer or agent of the corporation. Unless directed otherwise by the board of directors, the president, or any officer of the corporation authorized by the president, shall have the power to vote or otherwise act on behalf of the corporation, in person or by proxy, at any meeting of the stockholders or with respect to any action of stockholders of any other company or corporation in which the corporation may hold securities and otherwise to exercise any and all rights and powers which this corporation may possess by reason of its ownership of securities in such other corporation or company.

Section 8. Vice Presidents. In the absence of the president, or in the event of such officer's inability or refusal to act, the vice presidents in the order determined by the board of directors (or if there be not such determination, then in the order of their election) shall perform the duties and exercise the powers of the president and shall perform such other duties and have such other powers as the board of directors may from time to time prescribe. In addition, the vice presidents shall have the power to sign contracts, powers of attorney and other instruments on behalf of the corporation, except where the execution thereof shall be otherwise delegated by the board of directors.

Section 9. Chief Executive Officer. The chief executive officer shall have the general powers and duties of management and supervision of the various operational functions of the corporation and of working with affiliates of the corporation in areas that are similar to the business of the corporation, subject, however, in each case, to the control of the board of directors. The chief executive officer shall report solely to the board of directors with respect to such officer's activities on behalf of the corporation. The chief executive officer shall perform such other duties as may be assigned to him from time to time by the board of directors. The chief executive officer may assume the title of chairman in name only, but, unless the chief executive officer is expressly elected by the board of directors to be the chairman of the board of directors, shall neither be the chairman of the board of directors nor have any of the responsibilities, duties, rights or powers of the chairman of the board of directors.

Section 10. Chief Operating Officer. The chief operating officer shall have the general powers and duties of management and supervision of the various operational functions of the corporation and of working with affiliates of the corporation in areas that are similar to the business of the corporation, subject, however, in each case, to the control of the chief executive officer and board of directors. The chief operating officer shall report solely to the chief executive officer with respect to such officer's activities on behalf of the corporation. Such officer shall, in general, perform such duties as the chief executive officer and board of directors may from time to time prescribe. The chief operating officer may assume the title of president in name only, but, unless the chief operating officer is expressly elected by the board of directors to be the president of the corporation, shall neither be the president nor have any of the responsibilities, duties, rights or powers of the president.

Section 11. Treasurer. The treasurer shall have the custody of the corporate funds and securities and shall keep full and accurate accounts of receipts and disbursements in books belonging to the corporation and shall deposit all moneys and other valuable effects in the name and to the credit of the corporation in such depositories as may be designated by the board of directors. The treasurer shall disburse the funds of the corporation as may be ordered by the board of directors, taking proper vouchers for such disbursements, and shall render to the president and the board of directors at its regular meetings, or when the board of directors so requires, an account of all such officer's transactions as treasurer and of the financial condition of the corporation.

Section 12. Assistant Treasurer. The assistant treasurer (or, if there be more than one, the assistant treasurers in the order determined by the board of directors or, if there shall be no such determination, then in the order of their election) shall, in the absence of the treasurer or in the event of such officer's disability, inability or refusal to act, perform the duties and exercise the powers of the treasurer and shall perform such other duties and have such other powers as the board of directors may from time to time prescribe.

Section 13. Secretary. The secretary shall attend all meetings of the board of directors and all meetings of the stockholders and record all the proceedings of the meetings of the stockholders and of the board of directors in a book to be kept for that purpose and shall perform like duties for the standing committees when required. The secretary shall give, or cause to be given, notice of all meetings of the stockholders and special meetings of the board of directors, and shall perform such other duties as may be prescribed by the board of directors or president, under whose supervision such officer shall be. The secretary shall have custody of the corporate seal of the corporation and such officer, or an assistant secretary, shall have authority to affix the same to any instrument requiring it and, when so affixed, it may be attested by the secretary's signature or by the signature of such assistant secretary. The board of directors may give general authority to any other officer to affix the seal of the corporation and to attest the affixing by such officer's signature.

Section 14. Assistant Secretary. The assistant secretary (or, if there be more than one, the assistant secretaries in the order determined by the board of directors or, if there shall be no such determination, then in the order of their election) shall, in the absence of the secretary or in the event of such officer's disability, inability or refusal to act, perform the duties and exercise the powers of the secretary and shall perform such other duties and have such other powers as the board of directors may from time to time prescribe.

ARTICLE V.

CERTIFICATE OF STOCK

Section 1. Certificates. Every holder of stock in the corporation shall be entitled to have a certificate of the shares of the corporation signed by the president or a vice president and either the treasurer or the secretary of the corporation and may be sealed with the seal of the corporation or a facsimile thereof.

Section 2. Signatures. Any or all of the signatures of the officers of the corporation upon a certificate may be facsimiles. In case any officer who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer before such certificate is issued, it may be issued by the corporation with the same effect as if such officer were such officer at the date of issue.

Section 3. Lost Certificates. The corporation may issue a new certificate of stock or uncertificated shares in place of any certificate theretofore issued by it, alleged to have been lost, stolen or destroyed, and the corporation may require the owner of the lost, stolen or destroyed certificate, or such owner's legal representative, to give the corporation a bond sufficient to indemnify it against any claim that may be made against it on account of the alleged loss, theft or destruction of any such certificate or the issuance of such new certificate or uncertificated shares.

Section 4. Transfers of Shares. Upon surrender to the corporation or the transfer agent of the corporation of a certificate representing shares duly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer, it shall be the duty of the corporation to issue a new certificate to the person entitled thereto, cancel the old certificate and record the transaction upon its books.

Section 5. Registered Stockholders. The corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to vote as such owner, and to hold liable for calls and assessments a person registered on its books as the owner of shares, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of the State of Delaware.

Section 6. Stock Ledger. A record shall be kept by the secretary or by any other officer, employee or agent designated by the board of directors, of the name of each person, firm or corporation holding capital stock of the corporation, the class and number of shares represented by, and the respective dates of, each certificate for such capital stock, and in case of cancellation of any such certificate, the respective dates of cancellation.

ARTICLE VI.

INDEMNIFICATION

Section 1. Indemnity Undertaking. To the extent not prohibited by law, the corporation shall indemnify any person who is or was made, or threatened to be made, a party to any threatened, pending or completed action, suit or proceeding (a "Proceeding"), whether civil, criminal, administrative or investigative, including, without limitation, an action by or in the right of the corporation to procure a judgment in its favor, by reason of the fact that such person, or a person of whom such person is the legal representative, is or was a director or officer of the corporation, or, at the request of the corporation, is or was serving as a director or officer of any other corporation or in a capacity with comparable authority or responsibilities for any partnership, joint venture, trust, employee benefit plan or other enterprise (an "Other Entity"),

against judgments, fines, penalties, excise taxes, amounts paid in settlement and costs, charges and expenses (including attorneys' fees, disbursements and other charges). Persons who are not directors or officers of the corporation (or otherwise entitled to indemnification pursuant to the preceding sentence) may be similarly indemnified in respect of service to the corporation or to an Other Entity at the request of the corporation to the extent the board of directors at any time specifies that such persons are entitled to the benefits of this Article 6.

Section 2. Advancement of Expenses. The corporation shall, from time to time, reimburse or advance to any director or officer or other person entitled to indemnification hereunder the funds necessary for payment of expenses, including attorneys' fees and disbursements, incurred in connection with any Proceeding, in advance of the final disposition of such Proceeding; PROVIDED, HOWEVER, that, if required by the Delaware General Corporation Law, such expenses incurred by or on behalf of any director or officer or other person may be paid in advance of the final disposition of a Proceeding only upon receipt by the corporation of an undertaking, by or on behalf of such director or officer (or other person indemnified hereunder), to repay any such amount so advanced if it shall ultimately be determined by final judicial decision from which there is no further right of appeal that such director, officer or other person is not entitled to be indemnified for such expenses.

Section 3. Rights Not Exclusive. The rights to indemnification and reimbursement or advancement of expenses provided by, or granted pursuant to, this Article 6 shall not be deemed exclusive of any other rights to which a person seeking indemnification or reimbursement or advancement of expenses may have or hereafter be entitled under any statute, the corporation's certificate of incorporation, these bylaws, any agreement, any vote of stockholders or disinterested directors or otherwise, both as to action in his or her official capacity and as to action in another capacity while holding such office.

Section 4. Continuation of Benefits. The rights to indemnification and reimbursement or advancement of expenses provided by, or granted pursuant to, this Article 6 shall continue as to a person who has ceased to be a director or officer (or other person indemnified hereunder) and shall inure to the benefit of the executors, administrators, legatees and distributees of such person.

Section 5. Insurance. The corporation shall have power to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of an Other Entity, against any liability asserted against such person and incurred by such person in any such capacity, or arising out of such person's status as such, whether or not the corporation would have the power to indemnify such person against such liability under the provisions of this Article 6, the corporation's certificate of incorporation or under section 145 of the Delaware General Corporation Law or any other provision of law.

Section 6. Binding Effect. The provisions of this Article 6 shall be a contract between the corporation, on the one hand, and each director and officer who serves in such capacity at any time while this Article 6 is in effect and any other person entitled to indemnification hereunder,

on the other hand, pursuant to which the corporation and each such director, officer or other person intend to be, and shall be legally bound. No repeal or modification of this Article 6 shall affect any rights or obligations with respect to any state of facts then or theretofore existing or thereafter arising or any proceeding theretofore or thereafter brought or threatened based in whole or in part upon any such state of facts.

Section 7. Procedural Rights. The rights to indemnification and reimbursement or advancement of expenses provided by, or granted pursuant to, this Article 6 shall be enforceable by any person entitled to such indemnification or reimbursement or advancement of expenses in any court of competent jurisdiction. The burden of proving that such indemnification or reimbursement or advancement of expenses is not appropriate shall be on the corporation. Neither the failure of the corporation (including its board of directors, its independent legal counsel and its stockholders) to have made a determination prior to the commencement of such action that such indemnification or reimbursement or advancement of expenses is proper in the circumstances nor an actual determination by the corporation (including its board of directors, its independent legal counsel and its stockholders) that such person is not entitled to such indemnification or reimbursement or advancement of expenses shall constitute a defense to the action or create a presumption that such person is not so entitled. Such a person shall also be indemnified for any expenses incurred in connection with successfully establishing his or her right to such indemnification or reimbursement or advancement of expenses in any such proceeding to the fullest extent permitted under the Delaware General Corporation Law.

Section 8. Service Deemed at Corporation's Request. Any director or officer of the corporation serving in any capacity (a) another corporation of which a majority of the shares entitled to vote in the election of its directors is held, directly or indirectly, by the corporation or (b) any employee benefit plan of the corporation or any corporation referred to in clause (a) shall be deemed to be doing so at the request of the corporation.

Section 9. Election of Applicable Law. Any person entitled to be indemnified or to reimbursement or advancement of expenses as a matter of right pursuant to this Article 6 may elect to have the right to indemnification or reimbursement or advancement of expenses interpreted on the basis of the applicable law in effect at the time of the occurrence of the event or events giving rise to the applicable Proceeding, to the extent permitted by law, or on the basis of the applicable law in effect at the time such indemnification or reimbursement or advancement of expenses is sought. Such election shall be made, by a notice in writing to the corporation, at the time indemnification or reimbursement or advancement of expenses is sought; PROVIDED, HOWEVER, that if no such notice is given, the right to indemnification or reimbursement or advancement of expenses shall be determined by the law in effect at the time indemnification or reimbursement or advancement of expenses is sought.

ARTICLE VII.

GENERAL PROVISIONS

Section 1. Depositories. All funds of the corporation shall be deposited in the name

of the corporation in such bank, banks, or other financial institutions as the board of directors may from time to time designate and shall be drawn out on checks, drafts or other orders signed on behalf of the corporation by such person or persons as the board of directors may from time to time designate.

Section 2. Inspection of Books and Records. Any stockholder, in person or by attorney or other agent, shall upon written demand under oath stating the purpose thereof, have the right during the usual hours for business to inspect for any proper business purpose the corporation's stock ledger, a list of its stockholders, and its other books and records, and to make copies or extracts therefrom. A proper purpose shall mean a purpose reasonably related to such person's interest as a stockholder. In every instance where an attorney or other agent shall be the person who seeks the right to inspection, the demand under oath shall be accompanied by a power of attorney or such other writing which authorizes the attorney or other agent to so act on behalf of the stockholder. The demand under oath shall be directed to the corporation at its registered office in the State of Delaware or its principal place of business. Any director shall have the right to examine the corporation's stock ledger, a list of its stockholders and its other books and records for a purpose reasonably related to the director's position as a director.

Section 3. Fiscal Year. The fiscal year of the corporation shall be fixed by resolution of the board of directors.

Section 4. Seal. The seal of the corporation shall consist of an impression bearing the name of the corporation around the perimeter and the word "Seal" and such other information. In lieu thereof, the corporation may use an impression or writing bearing the words "CORPORATE SEAL" enclosed in parentheses or scroll, which shall also be deemed the seal of the corporation.

ARTICLE VIII.

AMENDMENTS

Section 1. Amendments. These bylaws may be amended or repealed or new bylaws may be adopted at any regular or special meeting of stockholders at which a quorum is present or represented, by the vote of the holders of shares entitled to vote in the election of any directors, provided notice of the proposed alteration, amendment or repeal be contained in the notice of such meeting. Pursuant to the certificate of incorporation, these bylaws may also be amended or repealed or new bylaws may be adopted by the affirmative vote of a majority of the board of directors at any regular or special meeting of the board of directors.

VAREL INTERNATIONAL ENERGY SERVICES, INC.

BYLAW AMENDMENT

ADOPTED BY THE BOARD OF DIRECTORS ON AUGUST 1, 2010

Quorum of Directors

WHEREAS, the Bylaws of the Corporation authorize the Board of Directors to adopt amendments to the Bylaws.

RESOLVED, that the first sentence of Section 6 of Article III of the Bylaws is amended to read in full as follows:

At all meetings of the board of directors, a quorum for the transaction of business shall be the greater of (i) a majority of the directors then in office, and (ii) one third of the total authorized number of directors.

Appendix 5: Company Agreement of Varel International Holdings, LLC

COMPANY AGREEMENT

FOR

VAREL INTERNATIONAL HOLDINGS LLC
a Delaware limited liability company

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**COMPANY AGREEMENT
OF
VAREL INTERNATIONAL HOLDINGS LLC
a Delaware limited liability company**

This COMPANY AGREEMENT OF VAREL INTERNATIONAL HOLDINGS LLC (the “Company Agreement”) is executed, agreed to and adopted, for good and valuable consideration, by the undersigned Member of the Company, to be effective as of July __, 2020 (“Effective Date”). This Company Agreement is intended to satisfy the applicable provisions of Delaware Law and the Code. The Company shall be treated as a disregarded entity solely for federal tax purposes. The Member hereby adopts this Company Agreement in order to regulate the Company’s affairs, conduct its business, and for the purposes set forth below, the Member agrees as follows:

**ARTICLE I
ORGANIZATIONAL MATTERS**

Section 1.1 Formation of Limited Liability Company. The Company was formed upon the execution and filing by the organizer (such Person being hereby authorized to take such action) with the Secretary of State of the State of Delaware effective as of the date hereof (the “Certificate”) and the conversion of Varel International Holdings, Inc. into the Company. The Company’s business is conducted under the name of “VAREL INTERNATIONAL HOLDINGS LLC” until such time as the Managers designate otherwise and files amendments to the Certificate in accordance with applicable law.

Section 1.2 Company Agreement. This Company Agreement is subject to, and governed by, applicable Delaware law and the Certificate. In the event of a conflict between the provisions of this Agreement and the mandatory provisions of Delaware law or the provisions of the Certificate, the provisions of Delaware law or the Certificate control.

Section 1.3 Registered Office and Registered Agent. The Company’s registered agent and registered office are set forth in the Certificate of Formation and may be changed from time to time by the Managers pursuant to the provisions Delaware law.

Section 1.4 Principal Office and Other Offices. The address of the principal United States office and place of business of the Company will be as set by the Managers, or such other place that is consistent with the purpose of the Company as the Member may designate from time to time. The Company may have such other office or offices as the Managers may designate from time to time.

Section 1.5 Term. The Company’s existence will commence on the effective date of the initial filing of the Certificate with the Secretary of State of the State of Delaware and will continue until terminated in accordance with this Agreement. Notwithstanding the foregoing sentence, the Company existed prior to the conversion as Varel International Holdings Inc.

Section 1.6 Company Purpose. The purpose of the Company is the transaction of any and all lawful activity for which limited liability companies may be organized under Delaware law. The

Company may exercise all powers convenient, reasonable, or necessary to pursue its purpose. The Company's operations may occur through one or more subsidiaries. The Company shall have all powers of a limited liability company under the Act and the power to do all things necessary or convenient to accomplish its purpose and operate its business.

Section 1.7 Foreign Qualification. The Company shall comply with all requirements necessary to qualify the Company as a foreign limited liability company in such jurisdiction.

ARTICLE II DEFINED TERMS

Section 2.1 Defined Terms. The following terms used in this Agreement with their initial letters capitalized, unless the context requires otherwise or unless otherwise expressly provided in this Agreement, have the meanings specified in this **Section**. The singular includes the plural and vice versa, as the context requires. When used in this Agreement, the following terms have the meanings set forth below:

“Act” means the Delaware Limited Liability Company Act, and any successor statute, as amended from time to time.

“Capital Contribution(s)” means the amount of cash and the agreed value of property, services rendered, or a promissory note or other obligation to contribute cash or property or to perform services contributed by the Member for such Member's interest in the Company, equal to the sum of the Member's initial Capital Contributions prior to the conversion plus the Member's additional Capital Contributions, if any.

“Code” means the Internal Revenue Code of 1986 and the regulations promulgated thereunder, as amended from time to time (or any corresponding provision or provisions of succeeding law).

“Managers” means the Person or Persons appointed as Managers as provided in this Agreement but excludes any Person that has ceased to be the Manager.

“Member” means any Person executing this Agreement as a Member as of the date of this Agreement or hereafter admitted to the Company as a Member as provided in this Agreement, but does not include any Person who has ceased to be a Member of the Company.

“Membership Units” shall have the meaning assigned in **Section 3.1**.

“Person” means any individual, partnership, firm, corporation, limited liability company, joint-stock company, trust or other entity.

Section 2.2 Other Definitions; Reference to Definitions. Other terms defined herein have the meaning so given them. Each reference in this Agreement to a definition is a reference to a definition contained in this Agreement, unless the context expressly provides otherwise.

ARTICLE III MEMBER AND INTERESTS

Section 3.1 Interests. The Company shall have one (1) class of Membership Interests consisting of 10,000 authorized Membership Interests, which shall be referred to herein as “Membership Units”.

Section 3.2 Names, Addresses and Units of Initial Member. The initial sole Member, its address, and the number of Membership Units held by such Member are set forth on **Exhibit “A”**, attached hereto and made part of this Agreement.

Section 3.3 Additional Capital Contributions. Except as required by the mandatory provisions of applicable state law, no Member shall be required to make any Capital Contribution to the Company or to loan money or guarantee indebtedness on behalf of the Company.

Section 3.4 Member Loans. The Member may loan funds to the Company for a floating or fixed return and on other terms as set by the Member. Loans by the Member to the Company shall not be treated as a contribution to the capital of the Company.

Section 3.5 Liability of Member. Unless otherwise provided by Delaware law, no Member shall be liable under any judgment, decree or order of a court, or in any other manner, for any debt, obligation or liability of the Company, whether arising in contract, tort or otherwise, or for the acts or omissions of any other Member, or any agent or employee of the Company.

Section 3.6 Capital Accounts. The value of the initial Capital Contribution of the initial Member is One Thousand and 00/100 Dollars and other good and valuable consideration.

ARTICLE IV MANAGEMENT AND CONTROL OF BUSINESS

Section 4.1 Management by Managers.

(a) Unless the action of the Member is otherwise required by this Agreement, the Certificate or applicable Delaware law, the powers of the Company shall be exercised solely by or under the authority of, and the business and affairs of the Company shall be managed solely under the direction of, the Managers. Under the direction of the Managers, to the extent that the Managers designate relevant officers, the day-to-day activities of the Company shall be conducted on the Company’s behalf by the officers, who shall be agents of the Company.

(b) The Company shall have no more than five (5) Managers who shall be appointed by the Member and who shall serve until he or she is removed and his or her successor is duly selected by the Member or until such individual’s death, resignation or removal.

ARTICLE V OFFICERS

Section 5.1 Election of Officers, Titles and Term of Office. The Managers may, but are not required to, elect Officers of the Company, which may consist of all, or any, of the following: a President, a Chief Executive Officer (“CEO”), a Chief Operating Officers (each a “COO”), a Secretary, and a Chief Financial Officer (“CFO”). All of the Officers, if any, shall hold office at the pleasure of the Managers, and shall perform the duties set forth herein. Any two (2) or more offices may be held by one (1) Person. A member of the Managers may be an Officer. The Officers shall be subject to the direction of the Managers. Except as otherwise determined by the Managers, the Officers shall implement the decisions of the Managers and be responsible for the general supervision and management of the business, affairs, and Property of the Company.

Section 5.2 Powers and Duties of the President. The President shall preside at all meetings of the Member. The President shall keep the Managers fully informed and shall freely consult with them concerning the business of the Company in his or her charge. The President shall have general charge of the business of the Company and shall perform all additional duties as from time to time may be assigned to him or her by the Managers.

Section 5.3 Powers and Duties of the CEO. In the absence of the President, the CEO shall have such powers and perform such duties as are vested in the President, including presiding at the meetings of the Member and the Managers. If the President is to be absent, the President may delegate any of his duties to the COO instead of to the CEO. Absent such delegation, in the absence of the President, the CEO shall perform the duties customarily vested in the President. The CEO shall have such other powers and perform such duties as may be assigned to him or her in writing by the Managers.

Section 5.4 Powers and Duties of the COO. The COO shall at all times assist the President in the management of the business of the Company and shall have such other powers and perform such duties as may be assigned to him or her in writing by the Managers.

Section 5.5 Powers and Duties of the Secretary. The Secretary of the Company shall keep the minutes of all meetings of the Managers and of the Member, and he or she shall attend to the giving and serving of all notices, and shall have the custody and keeping of the common seal, if any, of the Company; he or she may sign with the President in the name of the Company all contracts authorized by the Managers, and when it is required by law and when authorized by the Managers, he or she shall affix the seal, if any, of the Company to any such contracts, deeds or other instruments executed by the Company; he or she shall have charge of such books and papers as the Managers may direct, including the payment of rent for any leased real property used in connection with the Business, all of which shall be open at all reasonable times to examination by any member of the Managers or Member upon application at the office of the Company during business hours; and he or she shall in general perform all the duties incident to the office of Secretary, subject to the control of the Managers.

Section 5.6 Powers and Duties of the CFO. The CFO shall have custody of all funds and securities of the Company which may come into his or her hands. On behalf of the Company he or she shall endorse or cause to be endorsed for collection, checks, notes and other obligations and

shall deposit the same or cause them to be deposited to the credit of the Company in such bank or banks of depository as the Managers may designate; he or she shall retain all receipts and vouchers for payments made by the Company to the Managers for approval; he or she shall be authorized to sign checks made by the Company and pay out and disburse funds of the Company under the direction and upon the authority of the Managers; he or she shall enter or cause to be entered regularly in the books of the Company, to be kept by him or her or under his or her direction for that purpose, full and accurate accounts of all moneys received and paid on account of the Company; he or she shall at all reasonable times exhibit the books and accounts to any member of the Managers of the Company upon application at the office of the Company during business hours; when required by the Managers, he or she shall render a statement of the cash account and an account of the financial condition of the Company; and he or she shall perform all acts incident to the position of CFO, subject to the control of the Managers.

Section 5.7 Removal and Resignation. Subject to **Section 5.1**, any officer may be removed, either with or without cause, by the Managers. Any officer may resign at any time upon written notice to the Company.

Section 5.8 Vacancies. A vacancy in the office of any officer, whether as a result of death, resignation, removal, disqualification or any other cause, may be filled by the Managers.

Section 5.9 Compensation. The compensation, if any, of all officers shall be fixed by the Managers.

ARTICLE VI TAXATION

Section 6.1 Disregarded as an Entity. Notwithstanding anything contained herein to the contrary, the Company shall be disregarded as an entity separate from the Member for federal income tax purposes unless and until the Member causes the Company to file an election pursuant to Regulation 301.7701-3(c) under the Code.

ARTICLE VII ALLOCATIONS AND DISTRIBUTIONS

Section 7.1 Distributions and Allocations. All distributions of cash or other assets of the Company shall be made and paid to the Member at such time and in such amounts as the Managers may determine. All items of income, gain, loss, deduction and credit shall be allocated to the Member.

ARTICLE VIII DISSOLUTION

Section 8.1 Events of Termination. The Company shall be terminated upon the first to occur of (a) the written consent of the Member or (b) the entry of a decree of judicial dissolution under the Act.

Section 8.2 Liquidation and Termination. The liquidator shall proceed to diligently wind up the affairs of the Company and make final distributions as provided herein and in the Act. The

liquidator will take all actions, and send all notices, required by the Act. The liquidator shall take full account of the Company's liabilities and Company property and the Company property, to the extent necessary to provide for the payments described in **Section 8.2(a)**, **8.2(b)** and **8.2(c)** or in the discretion of the Member, shall be liquidated as promptly as is consistent with obtaining the fair value thereof, and the proceeds therefrom, to the extent sufficient therefor, shall be applied and distributed in the following order:

- (a) To the expenses of such liquidation;
- (b) To the payment and discharge of all of the Company's debts and liabilities (including Member to the maximum extent permitted under the Act), including the establishment of any necessary reserves;
- (c) To the payment of any debts and liabilities to Member to the extent not permitted under **Section 8.2(b)**; and
- (d) All remaining assets of the Company shall be distributed to the Member.

Section 8.3 Certificate of Termination. On completion of the distribution of Company assets as provided in this Agreement, the Company shall be terminated and the Managers shall file a certificate of termination with the Secretary of State of Delaware, cancel any other filings made, and take such other actions as may be necessary to terminate the Company.

ARTICLE IX INDEMNIFICATION

Section 9.1 Indemnification of Member and Managers. To the greatest extent not inconsistent with the laws and public policies of the State of Delaware, the Company indemnifies, as a matter of right, any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative by reason of the fact that he is or was a Member, Manager or officer of the Company, or is or was serving at the request of the Company as a member, manager, officer, or director of another limited liability company, corporation, partnership, joint venture, trust or other enterprise (a "**Covered Person**"), against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such Covered Person in connection with such action, suit or proceeding, provided that such Covered Person acted in good faith and in a manner such Covered Person reasonably believed to be in or not opposed to the best interests of the Company, or, with respect to any criminal action or proceeding, that such Covered Person had no reasonable cause to believe his conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that a Covered Person did not act in good faith and in a manner which such Covered Person reasonably believed to be in or not opposed to the best interests of the Company, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful.

Section 9.2 Expenses Payable in Advance. Expenses incurred by a Covered Person in defending or investigating a threatened or pending action, suit or proceeding shall be paid by the Company in advance of the final disposition of such action, suit or proceeding upon receipt of an

unsecured undertaking by or on behalf of such Covered Person to repay such amount if it shall ultimately be determined that such Covered Person is not entitled to be indemnified by the Company as authorized by this **Article IX**.

Section 9.3 Nonexclusivity of Indemnification and Advancement of Expenses. The indemnification and advancement of expenses provided by or granted pursuant to this **Article IX** shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under any agreement, contract, consent of the Managers or Member or pursuant to the direction (howsoever embodied) of any court of competent jurisdiction or otherwise, both as to action in a Covered Person's official capacity and as to action in another capacity while holding such office, it being the policy of the Company that indemnification of the persons specified in **Section 9.1** shall be made to the fullest extent permitted by law but only if the Managers or Member authorize such broader protection than set forth in the other provisions of this **Article IX**. The provisions of this **Article IX** shall not be deemed to preclude the indemnification of any person who is not specified in **Section 9.1** but whom the Company has the power or obligation to indemnify under the provisions of Delaware law or otherwise.

Section 9.4 Insurance. The Company may purchase and maintain insurance for its benefit, the benefit of any individual who is entitled to indemnification under this Section, or both, against any liability asserted against or incurred by the individual in any capacity or arising out of the individual's service with the Company, whether or not the Company would have the power to indemnify the individual against such liability.

Section 9.5 Definitions. For purposes of **Article IX**, the following apply:

(a) The term "expenses" includes all direct and indirect costs (including without limitation counsel fees, retainers, court costs, transcripts, fees of experts, witness fees, travel expenses, duplicating costs, printing and binding costs, telephone charges, postage, delivery service fees and all other disbursements or out of pocket expenses) actually incurred in connection with the investigation, defense, settlement or appeal of a proceeding or establishing or enforcing a right to indemnification under this Article, applicable law or otherwise.

(b) The term "liability" means the obligation to pay a judgment, settlement, penalty, fine, excise tax (including an excise tax assessed with respect to an employee benefit plan), or reasonable expenses incurred with respect to a proceeding.

(c) The term "party" includes an individual who was, is or is threatened to be made a named defendant or respondent in a proceeding.

(d) The term "proceeding" means any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative and whether formal or informal.

ARTICLE X BOOKS AND RECORDS

Section 10.1 Books and Records. The Company shall keep, or cause to be kept, at the principal place of business of the Company true and correct books of account, in which shall be entered fully and accurately each and every transaction of the Company. The Company's taxable and fiscal years shall be the same as the taxable and fiscal years of the Member. The books and records of the Company shall be maintained at its principal office.

ARTICLE XI AMENDMENT

Section 11.1 Amendment. This Company Agreement may not be altered or modified except by the written consent of the Member.

ARTICLE XII MISCELLANEOUS

Section 12.1 Complete Agreement. This Agreement and the Certificate constitute the complete and exclusive statement of agreement of the Member with respect to the subject matter described. This Agreement and the Certificate replace and supersede all prior agreements by the Member. This Agreement and the Certificate supersede all prior written and oral statements and no representation, statement, or condition or warranty not contained in this Agreement or the Certificate shall be binding on the Member or has any force or effect whatsoever.

Section 12.2 Governing Law. This Agreement and the rights of the parties hereunder are governed by, interpreted, and enforced in accordance with the laws of the State of Delaware.

Section 12.3 Binding Effect. Subject to the provisions of this Agreement relating to transferability, this Agreement shall be binding on and inure to the benefit of the Member, and its respective successors and assigns.

Section 12.4 Terms. Common nouns and pronouns refer to the singular and plural, identity of the person or persons, firm or corporation as the context requires. Any reference to Delaware law will include all amendments, modifications, or replacements of the specific sections and provisions concerned.

Section 12.5 Headings. All headings herein are inserted only for convenience and ease of reference and are not to be considered in the construction or interpretation of any provision of this Agreement.

Section 12.6 Severability. If any provision of this Agreement is held to be illegal, invalid, or unenforceable under the present or future laws effective during the term of this Agreement, such provision is fully severable; this Agreement shall be construed and enforced as if the illegal, invalid, or unenforceable provision had never comprised a part of this Agreement; and the remaining provisions of this Agreement will remain in full force and effect and will not be affected by the illegal, invalid, or unenforceable provision, there will be added automatically as a part of

this Agreement a provision as similar in terms to the illegal, invalid, or unenforceable provision as may be possible and be legal, valid and enforceable.

Section 12.7 Multiple Counterparts. This Agreement may be executed in several counterparts, each of which is deemed an original but all of which constitute one and the same instrument. Nevertheless, in making proof, only one copy signed by the party to be charged is required.

Section 12.8 Additional Documents and Acts. Each Member agrees to execute and deliver additional documents and instruments and to perform all additional acts necessary or appropriate to effectuate, carry out and perform all of the terms, provisions, and conditions of this Agreement and the transactions contemplated hereby.

Section 12.9 No Third Party Beneficiary. This Agreement are made solely and specifically among and for the benefit of the parties hereto, and their respective successors and assigns subject to the express provisions hereof relating to successors and assigns, and no other person has or will have any rights, interest, or claims hereunder or be entitled to any benefits under or on account of this Agreement as a third party beneficiary or otherwise.

Section 12.10 References to this Agreement. Numbered or lettered articles, sections and subsections in this Agreement refer to articles, sections, and subsections of this Agreement unless otherwise expressly stated.

Section 12.11 Notices. Any notice to be given or to be served on the Company or any party hereto in connection with this Agreement shall be in writing (including by facsimile or email) and shall be deemed to have been given and received when delivered to the address specified by the party to receive the notice.

Section 12.12 Title to Company Property. Legal title to all property of the Company shall be held and conveyed in the name of the Company.

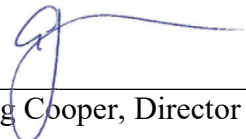
Section 12.13 Reliance on Authority of Person Signing Company Agreement. In the event that a subsequent Member is not a natural person, neither the Company nor any Member will (a) be required to determine the authority of the individual signing this Agreement to make any commitment or undertaking on behalf of such Entity or to determine any fact or circumstance bearing on the existence of the authority of the individual or (b) be required to see to the application or distribution of proceeds paid or credited to individuals signing this Agreement on behalf of the Entity.

Section 12.14 Company Agreement: Invalid Provisions. The Member, by executing this Company Agreement, hereby agrees to the terms and conditions of this Company Agreement, as they may from time to time be amended. To the extent any provision of this Company Agreement is prohibited or ineffective under the Act, this Company Agreement shall be deemed to be amended to the least extent necessary in order to make this Company Agreement effective under the Act. In the event the Act is subsequently amended or interpreted in such a way to validate any provision of this Company Agreement that was formerly invalid, such provision shall be construed to be valid from the effective date of such amendment or interpretation.

IN WITNESS WHEREOF, the undersigned has executed this Agreement, to be effective as of the Effective Date.

MEMBER:

**VAREL INTERNATIONAL ENERGY
SERVICES, INC.**

By:  _____
Greg Cooper, Director

**EXHIBIT “A”
TO THE
COMPANY AGREEMENT
VAREL INTERNATIONAL HOLDINGS LLC
a Delaware limited liability company
EFFECTIVE AS OF JULY , 2020**

Member Name and Address	Membership Units	Ownership Percentage
Varel International Energy Services, Inc.	100	100%

Appendix 6: Company Agreement of Varel International Ind., LLC

COMPANY AGREEMENT

FOR

VAREL INTERNATIONAL IND., LLC
a Delaware limited liability company

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**COMPANY AGREEMENT
OF
VAREL INTERNATIONAL IND., LLC
a Delaware limited liability company**

This COMPANY AGREEMENT OF VAREL INTERNATIONAL IND., LLC (the “Company Agreement”) is executed, agreed to and adopted, for good and valuable consideration, by the undersigned Member of the Company, to be effective as of July __, 2020 (“Effective Date”). This Company Agreement is intended to satisfy the applicable provisions of Delaware Law and the Code. The Company shall be treated as a disregarded entity solely for federal tax purposes. The Member hereby adopts this Company Agreement in order to regulate the Company’s affairs, conduct its business, and for the purposes set forth below, the Member agrees as follows:

**ARTICLE I
ORGANIZATIONAL MATTERS**

Section 1.1 Formation of Limited Liability Company. The Company was formed upon the execution and filing by the organizer (such Person being hereby authorized to take such action) with the Secretary of State of the State of Delaware effective as of April 20, 2005 (the “Certificate”). The Company’s business is conducted under the name of “VAREL INTERNATIONAL IND., LLC” until such time as the Managers designate otherwise and files amendments to the Certificate in accordance with applicable law.

Section 1.2 Company Agreement. This Company Agreement is subject to, and governed by, applicable Delaware law and the Certificate. In the event of a conflict between the provisions of this Agreement and the mandatory provisions of Delaware law or the provisions of the Certificate, the provisions of Delaware law or the Certificate control.

Section 1.3 Registered Office and Registered Agent. The Company’s registered agent and registered office are set forth in the Certificate of Formation and may be changed from time to time by the Managers pursuant to the provisions Delaware law.

Section 1.4 Principal Office and Other Offices. The address of the principal United States office and place of business of the Company will be as set by the Managers, or such other place that is consistent with the purpose of the Company as the Member may designate from time to time. The Company may have such other office or offices as the Managers may designate from time to time.

Section 1.5 Term. The Company’s existence commenced on the effective date of the initial filing of the Certificate with the Secretary of State of the State of Delaware and will continue until terminated in accordance with this Agreement.

Section 1.6 Company Purpose. The purpose of the Company is the transaction of any and all lawful activity for which limited liability companies may be organized under Delaware law. The Company may exercise all powers convenient, reasonable, or necessary to pursue its purpose. The Company’s operations may occur through one or more subsidiaries. The Company shall have all

powers of a limited liability company under the Act and the power to do all things necessary or convenient to accomplish its purpose and operate its business.

Section 1.7 Foreign Qualification. The Company shall comply with all requirements necessary to qualify the Company as a foreign limited liability company in such jurisdiction.

ARTICLE II DEFINED TERMS

Section 2.1 Defined Terms. The following terms used in this Agreement with their initial letters capitalized, unless the context requires otherwise or unless otherwise expressly provided in this Agreement, have the meanings specified in this **Section**. The singular includes the plural and vice versa, as the context requires. When used in this Agreement, the following terms have the meanings set forth below:

“Act” means the Delaware Limited Liability Company Act, and any successor statute, as amended from time to time.

“Capital Contribution(s)” means the amount of cash and the agreed value of property, services rendered, or a promissory note or other obligation to contribute cash or property or to perform services contributed by the Member for such Member’s interest in the Company, equal to the sum of the Member’s initial Capital Contributions prior to the conversion plus the Member’s additional Capital Contributions, if any.

“Code” means the Internal Revenue Code of 1986 and the regulations promulgated thereunder, as amended from time to time (or any corresponding provision or provisions of succeeding law).

“Managers” means the Person or Persons appointed as Managers as provided in this Agreement but excludes any Person that has ceased to be the Manager.

“Member” means any Person executing this Agreement as a Member as of the date of this Agreement or hereafter admitted to the Company as a Member as provided in this Agreement, but does not include any Person who has ceased to be a Member of the Company.

“Membership Units” shall have the meaning assigned in **Section 3.1**.

“Person” means any individual, partnership, firm, corporation, limited liability company, joint-stock company, trust or other entity.

Section 2.2 Other Definitions; Reference to Definitions. Other terms defined herein have the meaning so given them. Each reference in this Agreement to a definition is a reference to a definition contained in this Agreement, unless the context expressly provides otherwise.

ARTICLE III MEMBER AND INTERESTS

Section 3.1 Interests. The Company shall have one (1) class of Membership Interests consisting of 10,000 authorized Membership Interests, which shall be referred to herein as “Membership Units”.

Section 3.2 Names, Addresses and Units of Initial Member. The initial sole Member, its address, and the number of Membership Units held by such Member are set forth on **Exhibit “A”**, attached hereto and made part of this Agreement.

Section 3.3 Additional Capital Contributions. Except as required by the mandatory provisions of applicable state law, no Member shall be required to make any Capital Contribution to the Company or to loan money or guarantee indebtedness on behalf of the Company.

Section 3.4 Member Loans. The Member may loan funds to the Company for a floating or fixed return and on other terms as set by the Member. Loans by the Member to the Company shall not be treated as a contribution to the capital of the Company.

Section 3.5 Liability of Member. Unless otherwise provided by Delaware law, no Member shall be liable under any judgment, decree or order of a court, or in any other manner, for any debt, obligation or liability of the Company, whether arising in contract, tort or otherwise, or for the acts or omissions of any other Member, or any agent or employee of the Company.

Section 3.6 Capital Accounts. The value of the initial Capital Contribution of the initial Member is One Thousand and 00/100 Dollars and other good and valuable consideration.

ARTICLE IV MANAGEMENT AND CONTROL OF BUSINESS

Section 4.1 Management by Managers.

(a) Unless the action of the Member is otherwise required by this Agreement, the Certificate or applicable Delaware law, the powers of the Company shall be exercised solely by or under the authority of, and the business and affairs of the Company shall be managed solely under the direction of, the Managers. Under the direction of the Managers, to the extent that the Managers designate relevant officers, the day-to-day activities of the Company shall be conducted on the Company’s behalf by the officers, who shall be agents of the Company.

(b) The Company shall have no more than five (5) Managers who shall be appointed by the Member and who shall serve until he or she is removed and his or her successor is duly selected by the Member or until such individual’s death, resignation or removal.

ARTICLE V OFFICERS

Section 5.1 Election of Officers, Titles and Term of Office. The Managers may, but are not required to, elect Officers of the Company, which may consist of all, or any, of the following: a President, a Chief Executive Officer (“CEO”), a Chief Operating Officers (each a “COO”), a Secretary, and a Chief Financial Officer (“CFO”). All of the Officers, if any, shall hold office at the pleasure of the Managers, and shall perform the duties set forth herein. Any two (2) or more offices may be held by one (1) Person. A member of the Managers may be an Officer. The Officers shall be subject to the direction of the Managers. Except as otherwise determined by the Managers, the Officers shall implement the decisions of the Managers and be responsible for the general supervision and management of the business, affairs, and Property of the Company.

Section 5.2 Powers and Duties of the President. The President shall preside at all meetings of the Member. The President shall keep the Managers fully informed and shall freely consult with them concerning the business of the Company in his or her charge. The President shall have general charge of the business of the Company and shall perform all additional duties as from time to time may be assigned to him or her by the Managers.

Section 5.3 Powers and Duties of the CEO. In the absence of the President, the CEO shall have such powers and perform such duties as are vested in the President, including presiding at the meetings of the Member and the Managers. If the President is to be absent, the President may delegate any of his duties to the COO instead of to the CEO. Absent such delegation, in the absence of the President, the CEO shall perform the duties customarily vested in the President. The CEO shall have such other powers and perform such duties as may be assigned to him or her in writing by the Managers.

Section 5.4 Powers and Duties of the COO. The COO shall at all times assist the President in the management of the business of the Company and shall have such other powers and perform such duties as may be assigned to him or her in writing by the Managers.

Section 5.5 Powers and Duties of the Secretary. The Secretary of the Company shall keep the minutes of all meetings of the Managers and of the Member, and he or she shall attend to the giving and serving of all notices, and shall have the custody and keeping of the common seal, if any, of the Company; he or she may sign with the President in the name of the Company all contracts authorized by the Managers, and when it is required by law and when authorized by the Managers, he or she shall affix the seal, if any, of the Company to any such contracts, deeds or other instruments executed by the Company; he or she shall have charge of such books and papers as the Managers may direct, including the payment of rent for any leased real property used in connection with the Business, all of which shall be open at all reasonable times to examination by any member of the Managers or Member upon application at the office of the Company during business hours; and he or she shall in general perform all the duties incident to the office of Secretary, subject to the control of the Managers.

Section 5.6 Powers and Duties of the CFO. The CFO shall have custody of all funds and securities of the Company which may come into his or her hands. On behalf of the Company he or she shall endorse or cause to be endorsed for collection, checks, notes and other obligations and

shall deposit the same or cause them to be deposited to the credit of the Company in such bank or banks of depository as the Managers may designate; he or she shall retain all receipts and vouchers for payments made by the Company to the Managers for approval; he or she shall be authorized to sign checks made by the Company and pay out and disburse funds of the Company under the direction and upon the authority of the Managers; he or she shall enter or cause to be entered regularly in the books of the Company, to be kept by him or her or under his or her direction for that purpose, full and accurate accounts of all moneys received and paid on account of the Company; he or she shall at all reasonable times exhibit the books and accounts to any member of the Managers of the Company upon application at the office of the Company during business hours; when required by the Managers, he or she shall render a statement of the cash account and an account of the financial condition of the Company; and he or she shall perform all acts incident to the position of CFO, subject to the control of the Managers.

Section 5.7 Removal and Resignation. Subject to **Section 5.1**, any officer may be removed, either with or without cause, by the Managers. Any officer may resign at any time upon written notice to the Company.

Section 5.8 Vacancies. A vacancy in the office of any officer, whether as a result of death, resignation, removal, disqualification or any other cause, may be filled by the Managers.

Section 5.9 Compensation. The compensation, if any, of all officers shall be fixed by the Managers.

ARTICLE VI TAXATION

Section 6.1 Disregarded as an Entity. Notwithstanding anything contained herein to the contrary, the Company shall be disregarded as an entity separate from the Member for federal income tax purposes unless and until the Member causes the Company to file an election pursuant to Regulation 301.7701-3(c) under the Code.

ARTICLE VII ALLOCATIONS AND DISTRIBUTIONS

Section 7.1 Distributions and Allocations. All distributions of cash or other assets of the Company shall be made and paid to the Member at such time and in such amounts as the Managers may determine. All items of income, gain, loss, deduction and credit shall be allocated to the Member.

ARTICLE VIII DISSOLUTION

Section 8.1 Events of Termination. The Company shall be terminated upon the first to occur of (a) the written consent of the Member or (b) the entry of a decree of judicial dissolution under the Act.

Section 8.2 Liquidation and Termination. The liquidator shall proceed to diligently wind up the affairs of the Company and make final distributions as provided herein and in the Act. The

liquidator will take all actions, and send all notices, required by the Act. The liquidator shall take full account of the Company's liabilities and Company property and the Company property, to the extent necessary to provide for the payments described in **Section 8.2(a), 8.2(b) and 8.2(c)** or in the discretion of the Member, shall be liquidated as promptly as is consistent with obtaining the fair value thereof, and the proceeds therefrom, to the extent sufficient therefor, shall be applied and distributed in the following order:

- (a) To the expenses of such liquidation;
- (b) To the payment and discharge of all of the Company's debts and liabilities (including Member to the maximum extent permitted under the Act), including the establishment of any necessary reserves;
- (c) To the payment of any debts and liabilities to Member to the extent not permitted under **Section 8.2(b)**; and
- (d) All remaining assets of the Company shall be distributed to the Member.

Section 8.3 Certificate of Termination. On completion of the distribution of Company assets as provided in this Agreement, the Company shall be terminated and the Managers shall file a certificate of termination with the Secretary of State of Delaware, cancel any other filings made, and take such other actions as may be necessary to terminate the Company.

ARTICLE IX INDEMNIFICATION

Section 9.1 Indemnification of Member and Managers. To the greatest extent not inconsistent with the laws and public policies of the State of Delaware, the Company indemnifies, as a matter of right, any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative by reason of the fact that he is or was a Member, Manager or officer of the Company, or is or was serving at the request of the Company as a member, manager, officer, or director of another limited liability company, corporation, partnership, joint venture, trust or other enterprise (a "**Covered Person**"), against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such Covered Person in connection with such action, suit or proceeding, provided that such Covered Person acted in good faith and in a manner such Covered Person reasonably believed to be in or not opposed to the best interests of the Company, or, with respect to any criminal action or proceeding, that such Covered Person had no reasonable cause to believe his conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that a Covered Person did not act in good faith and in a manner which such Covered Person reasonably believed to be in or not opposed to the best interests of the Company, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful.

Section 9.2 Expenses Payable in Advance. Expenses incurred by a Covered Person in defending or investigating a threatened or pending action, suit or proceeding shall be paid by the

Company in advance of the final disposition of such action, suit or proceeding upon receipt of an unsecured undertaking by or on behalf of such Covered Person to repay such amount if it shall ultimately be determined that such Covered Person is not entitled to be indemnified by the Company as authorized by this **Article IX**.

Section 9.3 Nonexclusivity of Indemnification and Advancement of Expenses. The indemnification and advancement of expenses provided by or granted pursuant to this **Article IX** shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under any agreement, contract, consent of the Managers or Member or pursuant to the direction (howsoever embodied) of any court of competent jurisdiction or otherwise, both as to action in a Covered Person's official capacity and as to action in another capacity while holding such office, it being the policy of the Company that indemnification of the persons specified in **Section 9.1** shall be made to the fullest extent permitted by law but only if the Managers or Member authorize such broader protection than set forth in the other provisions of this **Article IX**. The provisions of this **Article IX** shall not be deemed to preclude the indemnification of any person who is not specified in **Section 9.1** but whom the Company has the power or obligation to indemnify under the provisions of Delaware law or otherwise.

Section 9.4 Insurance. The Company may purchase and maintain insurance for its benefit, the benefit of any individual who is entitled to indemnification under this Section, or both, against any liability asserted against or incurred by the individual in any capacity or arising out of the individual's service with the Company, whether or not the Company would have the power to indemnify the individual against such liability.

Section 9.5 Definitions. For purposes of **Article IX**, the following apply:

(a) The term "expenses" includes all direct and indirect costs (including without limitation counsel fees, retainers, court costs, transcripts, fees of experts, witness fees, travel expenses, duplicating costs, printing and binding costs, telephone charges, postage, delivery service fees and all other disbursements or out of pocket expenses) actually incurred in connection with the investigation, defense, settlement or appeal of a proceeding or establishing or enforcing a right to indemnification under this Article, applicable law or otherwise.

(b) The term "liability" means the obligation to pay a judgment, settlement, penalty, fine, excise tax (including an excise tax assessed with respect to an employee benefit plan), or reasonable expenses incurred with respect to a proceeding.

(c) The term "party" includes an individual who was, is or is threatened to be made a named defendant or respondent in a proceeding.

(d) The term "proceeding" means any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative and whether formal or informal.

ARTICLE X BOOKS AND RECORDS

Section 10.1 Books and Records. The Company shall keep, or cause to be kept, at the principal place of business of the Company true and correct books of account, in which shall be entered fully and accurately each and every transaction of the Company. The Company's taxable and fiscal years shall be the same as the taxable and fiscal years of the Member. The books and records of the Company shall be maintained at its principal office.

ARTICLE XI AMENDMENT

Section 11.1 Amendment. This Company Agreement may not be altered or modified except by the written consent of the Member.

ARTICLE XII MISCELLANEOUS

Section 12.1 Complete Agreement. This Agreement and the Certificate constitute the complete and exclusive statement of agreement of the Member with respect to the subject matter described. This Agreement and the Certificate replace and supersede all prior agreements by the Member. This Agreement and the Certificate supersede all prior written and oral statements and no representation, statement, or condition or warranty not contained in this Agreement or the Certificate shall be binding on the Member or has any force or effect whatsoever.

Section 12.2 Governing Law. This Agreement and the rights of the parties hereunder are governed by, interpreted, and enforced in accordance with the laws of the State of Delaware.

Section 12.3 Binding Effect. Subject to the provisions of this Agreement relating to transferability, this Agreement shall be binding on and inure to the benefit of the Member, and its respective successors and assigns.

Section 12.4 Terms. Common nouns and pronouns refer to the singular and plural, identity of the person or persons, firm or corporation as the context requires. Any reference to Delaware law will include all amendments, modifications, or replacements of the specific sections and provisions concerned.

Section 12.5 Headings. All headings herein are inserted only for convenience and ease of reference and are not to be considered in the construction or interpretation of any provision of this Agreement.

Section 12.6 Severability. If any provision of this Agreement is held to be illegal, invalid, or unenforceable under the present or future laws effective during the term of this Agreement, such provision is fully severable; this Agreement shall be construed and enforced as if the illegal, invalid, or unenforceable provision had never comprised a part of this Agreement; and the remaining provisions of this Agreement will remain in full force and effect and will not be affected by the illegal, invalid, or unenforceable provision, there will be added automatically as a part of

this Agreement a provision as similar in terms to the illegal, invalid, or unenforceable provision as may be possible and be legal, valid and enforceable.

Section 12.7 Multiple Counterparts. This Agreement may be executed in several counterparts, each of which is deemed an original but all of which constitute one and the same instrument. Nevertheless, in making proof, only one copy signed by the party to be charged is required.

Section 12.8 Additional Documents and Acts. Each Member agrees to execute and deliver additional documents and instruments and to perform all additional acts necessary or appropriate to effectuate, carry out and perform all of the terms, provisions, and conditions of this Agreement and the transactions contemplated hereby.

Section 12.9 No Third Party Beneficiary. This Agreement are made solely and specifically among and for the benefit of the parties hereto, and their respective successors and assigns subject to the express provisions hereof relating to successors and assigns, and no other person has or will have any rights, interest, or claims hereunder or be entitled to any benefits under or on account of this Agreement as a third party beneficiary or otherwise.

Section 12.10 References to this Agreement. Numbered or lettered articles, sections and subsections in this Agreement refer to articles, sections, and subsections of this Agreement unless otherwise expressly stated.

Section 12.11 Notices. Any notice to be given or to be served on the Company or any party hereto in connection with this Agreement shall be in writing (including by facsimile or email) and shall be deemed to have been given and received when delivered to the address specified by the party to receive the notice.

Section 12.12 Title to Company Property. Legal title to all property of the Company shall be held and conveyed in the name of the Company.

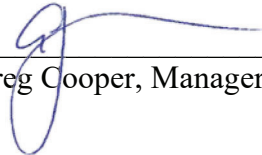
Section 12.13 Reliance on Authority of Person Signing Company Agreement. In the event that a subsequent Member is not a natural person, neither the Company nor any Member will (a) be required to determine the authority of the individual signing this Agreement to make any commitment or undertaking on behalf of such Entity or to determine any fact or circumstance bearing on the existence of the authority of the individual or (b) be required to see to the application or distribution of proceeds paid or credited to individuals signing this Agreement on behalf of the Entity.

Section 12.14 Company Agreement: Invalid Provisions. The Member, by executing this Company Agreement, hereby agrees to the terms and conditions of this Company Agreement, as they may from time to time be amended. To the extent any provision of this Company Agreement is prohibited or ineffective under the Act, this Company Agreement shall be deemed to be amended to the least extent necessary in order to make this Company Agreement effective under the Act. In the event the Act is subsequently amended or interpreted in such a way to validate any provision of this Company Agreement that was formerly invalid, such provision shall be construed to be valid from the effective date of such amendment or interpretation.

IN WITNESS WHEREOF, the undersigned has executed this Agreement, to be effective as of the Effective Date.

MEMBER:

**VAREL INTERNATIONAL HOLDINGS INC.,
(N/K/A VAREL INTERNATIONAL
HOLDINGS LLC)**

By:  _____
Greg Cooper, Manager

Signature Page to Company Agreement of Varel International Ind., LLC

**EXHIBIT “A”
TO THE
COMPANY AGREEMENT
VAREL INTERNATIONAL IND., LLC
a Delaware limited liability company
EFFECTIVE AS OF APRIL 20, 2005**

Member Name and Address	Membership Units	Ownership Percentage
Varel International Holdings Inc., (n/k/a Varel International Holdings LLC)	100	100%

Exhibit “A” to Company Agreement of Varel International Ind., LLC

BY-LAWS
OF
DHP VAREL INC.
(the “Corporation”)

ARTICLE I
STOCKHOLDERS

Section 1. Annual Meeting. The annual meeting of the stockholders of the Corporation (the “Stockholders”) shall be held either within or without the State of Delaware, at such place as the Board of Directors of the Corporation (the “Board of Directors”) may designate in the call or in a waiver of notice thereof, at such date and time as shall be designated from time to time by the Board of Directors, for the purpose of electing directors and for the transaction of such other business as may properly be brought before the meeting. Participation of one or more Stockholders by conference telephone allowing all persons participating in the meeting to hear each other at the same time shall constitute presence at a meeting.

Section 2. Special Meetings. Special meetings of the Stockholders may be called by the Board of Directors or by the President, and shall be called by the President or by the Secretary upon the written request of the holders of record of at least twenty-five per cent (25%) of the shares of stock of the Corporation, issued and outstanding and entitled to vote, at such times and at such place either within or without the State of Delaware as may be stated in the call or in a waiver of notice thereof. Participation of one or more Stockholders by telephone conference allowing all persons participating in the meeting to hear each other at the same time shall constitute presence at a meeting.

Section 3. Notice of Meetings. Notice of the time, place and purpose of every meeting of Stockholders shall be delivered personally or mailed not less than ten (10) days nor more than sixty (60) days previous thereto to each Stockholder of record entitled to vote, at such Stockholder’s post office address appearing upon the records of the Corporation or at such other address as shall be furnished in writing by him or her to the Corporation for such purpose. Such further notice shall be given as may be required by law or by these By-Laws. Any meeting may be held without notice if all Stockholders entitled to vote are present in person or by proxy, or if notice is waived in writing, either before or after the meeting, by those not present.

Section 4. Quorum. The holders of record of at least a majority of the shares of the stock of the Corporation, issued and outstanding and entitled to vote, present in person or by proxy, shall, except as otherwise provided by law or by these By-Laws, constitute a quorum at all meetings of the Stockholders; if there be no such quorum, the holders of a majority of such shares so present or represented may adjourn the meeting from time to time until a quorum shall have been obtained.

Section 5. Organization of Meetings. Meetings of the Stockholders shall be presided over by the Chairman of the Board, if there be one, or if the Chairman of the Board is

not present by the President, or if the President is not present, by a chairman to be chosen at the meeting. The Secretary of the Corporation, or in the Secretary of the Corporation's absence, an Assistant Secretary, shall act as Secretary of the meeting, if present.

Section 6. Voting. At each meeting of Stockholders, except as otherwise provided by statute or the Certificate of Incorporation of the Corporation (the "Certificate of Incorporation"), every holder of record of stock entitled to vote shall be entitled to one vote in person or by proxy for each share of such stock standing in his or her name on the records of the Corporation. Elections of directors shall be determined by a plurality of the votes cast and, except as otherwise provided by statute, the Certificate of Incorporation, or these By-Laws, all other action shall be determined by a majority of the votes cast at such meeting. Each proxy to vote shall be in writing and signed by the Stockholder or by such Stockholder's duly authorized attorney.

At all elections of directors, the voting shall be by ballot or in such other manner as may be determined by the Stockholders present in person or by proxy entitled to vote at such election. With respect to any other matter presented to the Stockholders for their consideration at a meeting, any Stockholder entitled to vote may, on any question, demand a vote by ballot.

A complete list of the Stockholders entitled to vote at each such meeting, arranged in alphabetical order, with the address of each, and the number of shares registered in the name of each Stockholder, shall be prepared by the Secretary and shall be open to the examination of any Stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten (10) days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any Stockholder who is present.

Section 7. Inspectors of Election. The Board of Directors in advance of any meeting of Stockholders may appoint one or more Inspectors of Election ("Inspectors of Elections") to act at the meeting or any adjournment thereof. If Inspectors of Election are not so appointed, the chairman of the meeting may, and on the request of any Stockholder entitled to vote shall, appoint one or more Inspectors of Election. Each Inspector of Election, before entering upon the discharge of his duties, shall take and sign an oath faithfully to execute the duties of an Inspector of Election at such meeting with strict impartiality and according to the best of his or her ability. If appointed, Inspectors of Election shall take charge of the polls and, when the vote is completed, shall make a certificate of the result of the vote taken and of such other facts as may be required by law.

Section 8. Action by Consent. Any action required or permitted to be taken at any meeting of Stockholders, including the annual meeting, may be taken without a meeting, without prior notice and without a vote, if, prior to such action, a written consent or consents thereto, setting forth such action, is signed by the holders of record of shares of the stock of the Corporation, issued and outstanding and entitled to vote thereon, having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted.

ARTICLE II

DIRECTORS

Section 1. Number, Quorum, Term, Vacancies, Removal. The Board of Directors shall consist of a number of persons as determined by the Board of Directors from time to time, but in no case less than one. The number of directors may be changed by a resolution passed by a majority of the whole Board of Directors or by a vote of the holders of record of at least a majority of the shares of stock of the Corporation, issued and outstanding and entitled to vote.

A majority of the members of the Board of Directors then holding office (but not less than one-third of the total number of directors) shall constitute a quorum for the transaction of business provided, that if at any meeting of the Board of Directors there shall be less than a quorum present, a majority of those present may adjourn the meeting from time to time until a quorum shall have been obtained.

Directors shall hold office until the next annual election and until their successors shall have been elected and shall have qualified, unless sooner displaced.

Whenever any vacancy shall have occurred in the Board of Directors, by reason of death, resignation, or otherwise, other than removal of a director with or without cause by a vote of the Stockholders, it shall be filled by a majority of the remaining directors, though less than a quorum (except as otherwise provided by law), or by the Stockholders, and the person so chosen shall hold office until the next annual election and until a successor is duly elected and has qualified.

Any one or more of the directors of the Corporation may be removed either with or without cause at any time by a vote of the holders of record of at least a majority of the shares of stock of the Corporation, issued and outstanding and entitled to vote, and thereupon the term of the director or directors who shall have been so removed shall forthwith terminate and there shall be a vacancy or vacancies in the Board of Directors, to be filled by a vote of the Stockholders as provided in these By-Laws.

Section 2. Meetings, Notice. Meetings of the Board of Directors shall be held at such place either within or without the State of Delaware, as may from time to time be fixed by resolution of the Board of Directors, or as may be specified in the call or in a waiver of notice thereof. Regular meetings of the Board of Directors shall be held at such times as may from time to time be fixed by resolution of the Board of Directors, and special meetings may be held at any time upon the call of one director, the Chairman of the Board, if one be elected, or the President, by oral, telegraphic or written notice, duly served on or sent or mailed to each director not less than two days before such meeting. A meeting of the Board of Directors may be held without notice immediately after the annual meeting of Stockholders at the same place at which such meeting was held. Notice need not be given of regular meetings of the Board of Directors. Any meeting may be held without notice, if all directors are present, or if notice is waived in writing, either before or after the meeting, by those not present. Participation of one or more directors by

conference telephone allowing all persons participating in the meeting to hear each other at the same time shall constitute presence at a meeting.

Section 3. Committees. The Board of Directors may, in its discretion, by resolution passed by a majority of the whole Board of Directors, designate from among its members one or more committees which shall consist of one or more directors. The Board of Directors may designate one or more directors as alternate members of any such committee, who may replace any absent or disqualified member at any meeting of the committee. Such committees shall have and may exercise such powers as shall be conferred or authorized by the resolution appointing them. A majority of any such committee may determine its action and fix the time and place of its meetings, unless the Board of Directors shall otherwise provide. The Board of Directors shall have power at any time to change the membership of any such committee, to fill vacancies in it, or to dissolve it.

Section 4. Action by Consent. Any action required or permitted to be taken at any meeting of the Board of Directors, or of any committee thereof, may be taken without a meeting, if prior to such action a written consent or consents thereto is signed by all members of the Board of Directors, or of such committee as the case may be, and such written consent or consents is filed with the minutes of proceedings of the Board of Directors or committee, as applicable.

Section 5. Compensation. The Board of Directors may determine, from time to time, the amount of compensation which shall be paid to its members. The Board of Directors shall also have power, in its discretion, to allow a fixed sum and expenses for attendance at each regular or special meeting of the Board of Directors, or of any committee of the Board of Directors. In addition, the Board of Directors shall also have power, in its discretion, to provide for and pay to directors rendering services to the Corporation not ordinarily rendered by directors, as such, special compensation appropriate to the value of such services, as determined by the Board of Directors from time to time.

ARTICLE III

OFFICERS

Section 1. Titles and Election. The officers of the Corporation shall be chosen by the Board of Directors at its first meeting after each annual meeting of Stockholders, and may include a President, a Treasurer and a Secretary, and one or more Vice Presidents, Assistant Secretaries, Assistant Treasurers and such other officers and agents as the Board of Directors shall deem necessary and whose powers and duties the Board of Directors may define from time to time. The Board of Directors from time to time may elect a Chairman of the Board. Any number of offices may be held by the same person.

Section 2. Terms of Office. Officers shall hold office until their successors are chosen and qualified.

Section 3. Removal. Any officer may be removed, either with or without cause, at any time, by the affirmative vote of a majority of the Board of Directors.

Section 4. Resignations. Any officer may resign at any time by giving written notice to the Board of Directors or to the Secretary. Such resignation shall take effect at the time specified therein, and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Section 5. Vacancies. If the office of any officer or agent becomes vacant by reason of death, resignation, retirement, disqualification, removal from office or otherwise, the directors may choose a successor, who shall hold office for the unexpired term in respect of which such vacancy occurred.

Section 6. Chairman of the Board. The Chairman of the Board of the Board of Directors (the "Chairman of the Board"), if one be elected, shall preside at all meetings of the Board of Directors and of the Stockholders, and the Chairman of the Board shall have and perform such other duties as from time to time may be assigned to the Chairman of the Board by the Board of Directors.

Section 7. President. The President of the Corporation (the "President") shall be the chief executive officer of the Corporation and, in the absence of the Chairman of the Board, shall preside at all meetings of the Board of Directors, and of the Stockholders. The President shall exercise the powers and perform the duties usual to the chief executive officer and, subject to the control of the Board of Directors, shall have general management and control of the affairs and business of the Corporation; the President shall appoint and discharge employees and agents of the Corporation (other than officers elected by the Board of Directors) and fix their compensation; and the President shall see that all orders and resolutions of the Board of Directors are carried into effect. The President shall have the power to execute bonds, mortgages and other contracts, agreements and instruments of the Corporation, and shall do and perform such other duties as from time to time may be assigned to the President by the Board of Directors.

Section 8. Vice Presidents. If chosen, the Vice Presidents of the Corporation (the "Vice President"), in the order of their seniority, shall, in the absence or disability of the President, exercise all of the powers and duties of the President. The Vice Presidents shall have the power to execute bonds, notes, mortgages and other contracts, agreements and instruments of the Corporation, and shall do and perform such other duties incident to the office of Vice President and as the Board of Directors, or the President shall direct.

Section 9. Secretary. The Secretary of the Corporation (the "Secretary") shall attend all sessions of the Board of Directors and all meetings of the Stockholders and record all votes and the minutes of proceedings in a book to be kept for that purpose. The Secretary shall give, or cause to be given, notice of all meetings of the Stockholders and of the Board of Directors, and shall perform such other duties as may be prescribed by the Board of Directors. The Secretary shall affix the corporate seal to any instrument requiring it, and when so affixed, it shall be attested by the signature of the Secretary or an Assistant Secretary or the Treasurer or an Assistant Treasurer who may affix the seal to any such instrument in the event of the absence or disability of the Secretary. The Secretary shall have custody of the stock records and all other books, records and papers of the Corporation (other than financial) and shall see that all books,

reports, statements, certificates and other documents and records required by law are properly kept and filed.

Section 10. Treasurer. The Treasurer of the Corporation (the “Treasurer”) shall have the custody of the corporate funds and securities and shall keep full and accurate accounts of receipts and disbursements in books belonging to the Corporation and shall deposit all moneys, and other valuable effects in the name and to the credit of the Corporation, in such depositories as may be designated by the Board of Directors. The Treasurer shall disburse the funds of the Corporation as may be ordered by the Board of Directors, taking proper vouchers for such disbursements, and shall render to the directors whenever they may require it, an account of all his or her transactions as Treasurer and of the financial condition of the Corporation.

Section 11. Duties of Officers may be Delegated. In case of the absence or disability of any officer of the Corporation, or for any other reason that the Board of Directors may deem sufficient, the Board of Directors may delegate, for the time being, the powers or duties, or any of them, of such officer to any other officer, or to any director.

ARTICLE IV

INDEMNIFICATION

Section 1. Actions by Others. The Corporation, to the fullest extent permitted by applicable law as it currently exists or may hereafter be amended, (1) shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Corporation) by reason of the fact that he or she is or was a director or an officer of the Corporation and (2) may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Corporation) by reason of the fact that he or she is or was an employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee, agent of or participant in another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys’ fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such action, suit or proceeding if he or she acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the Corporation, and with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which such person reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his or her conduct was unlawful.

Section 2. Actions by or in the Right of the Corporation. The Corporation, to the fullest extent permitted by applicable law as it currently exists or may hereafter be amended,

shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that he or she is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against expenses (including attorneys' fees) actually and reasonably incurred by such person in connection with the defense or settlement of such action or suit if he or she acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the Corporation and except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the Corporation unless and only to the extent that the Delaware Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Delaware Court of Chancery or such other court shall deem proper.

Section 3. Successful Defense. To the extent that a present or former director or officer of the Corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in Section 1 or Section 2 of this Article, or in defense of any claim, issue or matter therein, such person shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by him or her in connection therewith.

Section 4. Specific Authorization. Any indemnification under Section 1 or Section 2 of this Article IV (unless ordered by a court) shall be made by the Corporation only as authorized in the specific case upon a determination that indemnification of the present or former director, officer, employee or agent is proper in the circumstances because such person has met the applicable standard of conduct set forth in said Sections 1 and 2 of this Article IV. Such determination shall be made with respect to a person who is a director or officer of the Corporation at the time of such determination, (1) by a majority vote of the directors who are not parties to such action, suit or proceeding, even though less than a quorum, or (2) by a committee of such directors designated by majority vote of such directors, even though less than a quorum, or (3) if there are no such directors, or if such directors so direct, by independent legal counsel in a written opinion, or (4) by the Stockholders.

Section 5. Advance of Expenses. Expenses (including attorneys' fees) incurred by an officer or director of the Corporation in defending any civil, criminal, administrative or investigative action, suit or proceeding may be paid by the Corporation in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of such director or officer to repay such amount if it shall ultimately be determined that he or she is not entitled to be indemnified by the Corporation pursuant to this Article IV. Such expenses (including attorneys' fees) incurred by former directors and officers or other employees and agents of the Corporation or by persons serving at the request of the Corporation as directors, officers, employees or agents of another corporation, partnership, joint venture, trust or other enterprise may be so paid upon such terms and conditions, if any, as the Corporation deems appropriate.

Section 6. Right of Indemnity not Exclusive. The indemnification and advancement of expenses provided by, or granted pursuant to, this Article IV shall not be deemed exclusive of any other rights to which those seeking indemnification may be entitled under any by-law, agreement, vote of Stockholders or disinterested directors or otherwise, both as to action in his or her official capacity and as to action in another capacity while holding such office. A right to indemnification or to advancement of expenses arising under a provision of the certificate of incorporation or a bylaw shall not be eliminated or impaired by an amendment to such provision after the occurrence of the act or omission that is the subject of the civil, criminal, administrative or investigative action, suit or proceeding for which indemnification or advancement of expenses is sought, unless the provision in effect at the time of such act or omission explicitly authorizes such elimination or impairment after such action or omission has occurred. The indemnification and advancement of expenses provided by, or granted pursuant to, this Article IV shall, unless otherwise provided when authorized or ratified, continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of such a person.

Section 7. Insurance. The Corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against him or her and incurred by him or her in any such capacity, or arising out of such person's status as such, whether or not the Corporation would have the power to indemnify him or her against such liability under the provisions of this Article IV, Section 145 of the General Corporation Law of the State of Delaware or otherwise.

Section 8. Invalidity of any Provisions of this Article. The invalidity or unenforceability of any provision of this Article IV shall not affect the validity or enforceability of the remaining provisions of this Article IV.

ARTICLE V

CAPITAL STOCK

Section 1. Certificates. At the election of the Board of Directors, the interest of each Stockholder may be evidenced by certificates for shares of stock in such form as the Board of Directors may from time to time prescribe. Any certificates of stock issued shall be signed by the President or a Vice President and by the Secretary, or the Treasurer, or an Assistant Secretary, or an Assistant Treasurer, sealed with the seal of the Corporation or a facsimile thereof, and countersigned and registered in such manner, if any, as the Board of Directors may by resolution prescribe. Where any such certificate is countersigned by a transfer agent other than the Corporation or its employee, or registered by a registrar other than the Corporation or its employee, the signature of any such officer may be a facsimile signature. In case any officer or officers who shall have signed, or whose facsimile signature or signatures shall have been used on, any such certificate or certificates shall cease to be such officer or officers of the Corporation, whether because of death, resignation or otherwise, before such certificate or certificates shall have been delivered by the Corporation, such certificate or certificates may nevertheless be adopted by the Corporation and be issued and delivered as though the person or

persons who signed such certificate or certificates or whose facsimile signature or signatures shall have been used thereon had not ceased to be such officer or officers of the Corporation.

Section 2. Transfer. The shares of stock of the Corporation shall be transferred only upon the books of the Corporation by the holder thereof in person or by his or her attorney, upon surrender for cancellation of certificates for the same number of shares, with an assignment and power of transfer endorsed thereon or attached thereto, duly executed, with such proof of the authenticity of the signature as the Corporation or its agents may reasonably require.

Section 3. Record Dates. The Board of Directors may fix in advance a date, not less than ten (10) nor more than sixty (60) days preceding the date of any meeting of Stockholders, or the date for the payment of any dividend, or the date for the distribution or allotment of any rights, or the date when any change, conversion or exchange of capital stock shall go into effect, as a record date for the determination of the Stockholders entitled to notice of, and to vote at, any such meeting, or entitled to receive payment of any such dividend, or to receive any distribution or allotment of such rights, or to exercise the rights in respect of any such change, conversion or exchange of capital stock, and in such case only such Stockholders as shall be Stockholders of record on the date so fixed shall be entitled to such notice of, and to vote at, such meeting, or to receive payment of such dividend, or to receive such distribution or allotment or rights or to exercise such rights, as the case may be, notwithstanding any transfer of any stock on the books of the Corporation after any such record date fixed as aforesaid.

Section 4. Lost Certificates. In the event that any certificate of stock is lost, stolen, destroyed or mutilated, the Board of Directors may authorize the issuance of a new certificate of the same tenor and for the same number of shares in lieu thereof. The Board of Directors may in its discretion, before the issuance of such new certificate, require the owner of the lost, stolen, destroyed or mutilated certificate, or the legal representative of the owner to make an affidavit or affirmation setting forth such facts as to the loss, destruction or mutilation as it deems necessary, and to give the Corporation a bond in such reasonable sum as it directs to indemnify the Corporation.

ARTICLE VI

CHECKS, NOTES, ETC.

Section 1. Checks, Notes, Etc. All checks and drafts on the Corporation's bank accounts and all bills of exchange and promissory notes, and all acceptances, obligations and other instruments for the payment of money, may be signed by any director of the Corporation, the President, any Vice President or the Treasurer and may also be signed by such other officer or officers, agent or agents, as shall be thereunto authorized from time to time by the Board of Directors.

ARTICLE VII

MISCELLANEOUS PROVISIONS

Section 1. Offices. The registered office of the Corporation shall be located at Corporation Service Company, 251 Little Falls Drive, Wilmington, County of New Castle, Delaware 19808, and Corporation Service Company shall be the registered agent of this Corporation in charge thereof. The Corporation may have other offices either within or without the State of Delaware at such places as shall be determined from time to time by the Board of Directors or the business of the Corporation may require.

Section 2. Fiscal Year. The fiscal year of the Corporation shall end on December 31st of each year.

Section 3. Corporate Seal. The seal of the Corporation shall be circular in form and contain the name of the Corporation, and the year and state of its incorporation. Such seal may be altered from time to time at the discretion of the Board of Directors.

Section 4. Books. There shall be kept at such office of the Corporation as the Board of Directors shall determine, within or without the State of Delaware, correct books and records of account of all its business and transactions, minutes of the proceedings of its Stockholders, Board of Directors and committees, and the stock book, containing the names and addresses of the Stockholders, the number of shares held by them, respectively, and the dates when they respectively became the owners of record thereof, and in which the transfer of stock shall be registered, and such other books and records as the Board of Directors may from time to time determine.

Section 5. Voting of Stock. Unless otherwise specifically authorized by the Board of Directors, all stock owned by the Corporation, other than stock of the Corporation, shall be voted, in person or by proxy, by the President or any Vice President of the Corporation on behalf of the Corporation.

ARTICLE VIII

AMENDMENTS

Section 1. Amendments. The vote of the holders of at least a majority of the shares of stock of the Corporation, issued and outstanding and entitled to vote, shall be necessary at any meeting of Stockholders to amend or repeal these By-Laws or to adopt new by-laws. These By-Laws may also be amended or repealed, or new by-laws adopted, at any meeting of the Board of Directors by the vote of at least a majority of the entire Board of Directors; provided that any by-law adopted by the Board of Directors may be amended or repealed by the Stockholders in the manner set forth above.

Any proposal to amend or repeal these By-Laws or to adopt new by-laws shall be stated in the notice of the meeting of the Board of Directors or the Stockholders, or in the waiver of notice thereof, as the case may be, unless all of the directors or the holders of record of all of

the shares of stock of the Corporation, issued and outstanding and entitled to vote, are present at such meeting.

* * *

Appendix 8: Articles of Association of Downhole Products UK Holdco II Limited

Company number **SC340395**

COMPANIES ACT 2006

PRIVATE COMPANY LIMITED BY SHARES

WRITTEN RESOLUTION

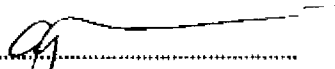
of

DOWN HOLE PRODUCTS UK HOLDCO II LIMITED (the **Company**)

Pursuant to Chapter 2 of Part 13 of the Companies Act 2006, the following resolution was passed as a special resolution on ~~28 May~~ 2020.

SPECIAL RESOLUTION

"That the articles of association annexed to this written resolution be adopted as the articles of association of the Company in substitution for and to the exclusion of the existing articles of association."


.....
Director of the Company

ARTICLES OF ASSOCIATION

of

DOWNHOLE PRODUCTS UK HOLDCO II LIMITED

B

BLACKWOOD PARTNERS ^{LLP}

Private Company Limited by Shares

Articles of Association

of

Downhole Products UK Holdco II Limited

Company Number: SC340395

(Adopted by special resolution passed on _____ 2020)

Defined terms and liability and exclusions

1. Defined terms

1.1 In the articles, unless the context requires otherwise:

articles means these articles of association adopted by the company.

bankruptcy includes individual insolvency proceedings such as sequestration in Scotland and insolvency proceedings in a jurisdiction other than Scotland which have an effect similar to that of sequestration, such as bankruptcy in England and Wales.

chairman has the meaning given in article 15.2.

Companies Acts means the Companies Acts (as defined in section 2 of the Companies Act 2006), in so far as they apply to the company.

company means Downhole Products UK Holdco II Limited.

Conflict means a situation in which a director has, or could have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the company.

controlling shareholder means a registered holder from time to time of not less than 75% in nominal value of the equity share capital of the company.

director director means a director of the company, and includes any person occupying the position of director, by whatever name called.

distribution recipient has the meaning given in article 38.

document	includes, unless otherwise specified, any document sent or supplied in electronic form.
electronic form	has the meaning given in section 1168 of the Companies Act 2006.
eligible director	means a director who would be entitled to vote on the matter at a meeting of directors (but excluding any director whose vote is not to be counted in respect of the particular matter).
fully paid	in relation to a share, means that the nominal value and any premium to be paid to the company in respect of that share have been paid to the company.
hard copy form	has the meaning given in section 1168 of the Companies Act 2006.
holder	in relation to shares means the person whose name is entered in the register of members as the holder of the shares.
Instrument	means a document in hard copy form.
ordinary resolution	has the meaning given in section 282 of the Companies Act 2006.
paid	means paid or credited as paid.
group	means in relation to a company, that company, its subsidiary undertakings, any company of which it is a subsidiary undertaking (its parent undertaking) and any other subsidiary undertakings of any such parent undertaking; and each company in a group is a member of the group. Unless the context otherwise requires, the application of the definition of Group to any company at any time will apply to the company as it is at that time and parent undertaking and subsidiary undertaking mean a parent undertaking and subsidiary undertaking as defined in section 1162 of the Companies Act 2006 (and a company shall be treated, for the purposes only of the membership requirement contained in subsections 1162(2)(b) and (d), as a member of another company even if its shares in that other company are registered in the name of (a) another person (or its nominee), whether by way of security or in connection with the taking of security, or (b) its nominee); and group undertaking shall be construed accordingly.
participate	in relation to a directors' meeting, has the meaning given in article 13.

proxy notice	has the meaning given in article 51.4.
shareholder	means a person who is the holder of a share.
shares	means shares in the company.
special resolution	has the meaning given in section 283 of the Companies Act 2006.
subsidiary	has the meaning given in section 1159 of the Companies Act 2006.
transmitee	means a person entitled to a share by reason of the death or bankruptcy of a shareholder or otherwise by operation of law.
writing	means the representation or reproduction of words, symbols or other information in a visible form by any method or combination of methods, whether sent or supplied in electronic form or otherwise.

- 1.2 Unless the context otherwise requires, other words or expressions contained in these articles bear the same meaning as in the Companies Act 2006 as in force on the date when these articles become binding on the company.
- 1.3 Headings in these articles are used for convenience only and shall not affect the construction or interpretation of these articles.
- 1.4 Unless the context otherwise requires, words in the singular include the plural and in the plural include the singular.
- 1.5 Unless the context otherwise requires, a reference to one gender includes a reference to the other genders.
- 1.6 A **person** includes a natural person, corporate or unincorporated body (whether or not having separate legal personality) and that person's personal representatives, successors or permitted assigns.
- 1.7 A reference to a particular statute, statutory provision or subordinate legislation is a reference to it as it is in force from time to time, taking account of any amendment or re-enactment and includes any statute, statutory provision or subordinate legislation which it amends or re-enacts and subordinate legislation for the time being in force made under it.
- 1.8 Any words following the terms **including, include, in particular** or any similar expression shall be construed as illustrative and shall not limit the sense of the words, description, definition, phrase or term preceding those terms.

2. **Liability of members**

The liability of the members is limited to the amount, if any, unpaid on the shares held by them.

3. Exclusion of prescribed articles

No regulations prescribed by regulations under any statute concerning companies shall form part of the articles and all such regulations are hereby excluded.

Directors' powers and responsibilities

4. Directors' general authority

- 4.1 Subject to the articles, the directors are responsible for the management of the company's business, for which purpose they may exercise all the powers of the company.
- 4.2 Any and all powers of the directors (or any of them) shall be restricted in such respects, to such extent and for such duration as a controlling shareholder may from time to time by notice in writing to the company prescribe.

5. Shareholders' reserve power

- 5.1 The shareholders may, by special resolution, direct the directors to take, or refrain from taking, specified action.
- 5.2 No such special resolution invalidates anything which the directors have done before the passing of the resolution.

6. Directors may delegate

- 6.1 Subject to the articles, the directors may jointly delegate any of the powers which are conferred on them under the articles:
 - 6.1.1 to such person or committee;
 - 6.1.2 by such means (including by power of attorney);
 - 6.1.3 to such an extent;
 - 6.1.4 in relation to such matters or territories; and
 - 6.1.5 on such terms and conditions;as they think fit.
- 6.2 If the directors so specify, any such delegation may authorise further delegation of the directors' powers by any person to whom they are delegated.
- 6.3 The directors may revoke any delegation in whole or part, or alter its terms and conditions.

7. Committees

- 7.1 Committees to which the directors delegate any of their powers must follow procedures which are based as far as they are applicable on those provisions of the articles which govern the taking of decisions by directors.
- 7.2 The directors may make rules of procedure for all or any committees, which prevail over rules derived from the articles if they are not consistent with them.

8. Borrowing powers

- 8.1 Subject to article 8.2, the directors may exercise all powers of the company to borrow or raise money without limit as to amount and on such terms and in such manner as they think fit and to mortgage or charge the whole or any part of its undertaking and property, and to grant guarantees, issue debentures, debenture stock and other securities, whether outright or as collateral security for any debt, liability or obligation of the company or any third party.
- 8.2 If the Company has a controlling shareholder at any point in time, the power to exercise the powers referred to in article 8.1 shall be exercisable by the directors only within such limits as shall from time to time be intimated in writing to the directors by such controlling shareholder; and in the absence of further direction the directors shall not without the prior written consent of its controlling shareholder have power to exercise the powers of article 8.1 in excess of £50,000.

9. Employee benefits

- 9.1 If the Company has a controlling shareholder at any point in time, the powers conferred by this article 8 shall be exercisable only with the prior written consent of the controlling shareholder.
- 9.2 The directors may establish or concur or join with its controlling shareholder or any relevant group undertakings in establishing and making contributions out of the company's moneys to any relevant scheme.
- 9.3 The directors may pay, enter into agreements to pay or make grants (revocable or irrevocable and either subject or not subject to any terms and conditions) of pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any relevant scheme. Any such pension or benefit may, as the directors consider desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

Decision-making by directors

10. Directors to take decisions collectively

- 10.1 The general rule about decision-making by directors is that any decision of the directors must be either a majority decision at a meeting or a decision taken in accordance with article 11.

10.2 If:

10.2.1 the company only has one director for the time being; and

10.2.2 no provision of the articles requires it to have more than one director;

the general rule does not apply, and the director (for so long as he remains a sole shareholder) may take decisions without regard to any of the provisions of the articles relating to directors' decision-making.

11. Unanimous decisions

11.1 A decision of the directors is taken in accordance with this article when all eligible directors indicate to each other by any means that they share a common view on a matter.

11.2 Such a decision may take the form of a resolution in writing, of which each eligible director has signed one or more copies or to which each eligible director has otherwise indicated agreement in writing.

11.3 A decision may not be taken in accordance with this article if the eligible directors would not have formed a quorum at such a meeting.

12. Calling a directors' meeting

12.1 Any director may call a directors' meeting by giving notice of the meeting to the directors or by authorising the company secretary (if any) to give such notice.

12.2 Notice of any directors' meeting must indicate:

12.2.1 its proposed date and time;

12.2.2 where it is to take place; and

12.2.3 if it is anticipated that directors participating in the meeting will not be in the same place, how it is proposed that they should communicate with each other during the meeting.

12.3 Notice of a directors' meeting must be given to each director, but need not be in writing.

12.4 Notice of a directors' meeting need not be given to directors who waive their entitlement to notice of that meeting, by giving notice to that effect to the company not more than seven days after the date on which the meeting is held. Where such notice is given after the meeting has been held, that does not affect the validity of the meeting, or of any business conducted at it.

13. Participation in directors' meetings

13.1 Subject to the articles, directors **participate** in a directors' meeting, or part of a directors' meeting, when:

13.1.1 the meeting has been called and takes place in accordance with the articles; and

13.1.2 they can each communicate to the others any information or opinions they have on any particular item of the business of the meeting.

13.2 In determining whether directors are participating in a directors' meeting, it is irrelevant where any director is or how they communicate with each other.

13.3 If all the directors participating in a meeting are not in the same place, they may decide that the meeting is to be treated as taking place wherever any of them is.

14. Quorum for directors' meetings

14.1 Subject to article 14.2, the quorum for the transaction of business at a meeting of directors is any two eligible directors or, where there is only one director in office for the time being, that director.

14.2 For the purposes of any meeting (or part of a meeting) held pursuant to article 18 to authorise a Conflict, if there is only one eligible director in office other than the Interested Director(s) (as defined in article 18.1), the quorum for such meeting (or part of a meeting) shall be one eligible director.

15. Chairing of directors' meetings

15.1 The directors may appoint a director to chair their meetings.

15.2 The person so appointed from time to time is known as the **chairman**.

15.3 The directors may terminate the chairman's appointment at any time.

15.4 If the chairman is not participating in a directors' meeting within ten minutes of the time at which it was to start, the participating directors must appoint one of themselves to chair it.

16. Casting vote

16.1 Subject to Article 16.2, if the numbers of votes for and against a proposal are equal, the chairman or other director chairing the meeting has a casting vote.

16.2 Article 16.1 does not apply if, in accordance with the articles, the chairman or other director is not to be counted as participating in the decision-making process for quorum or voting purposes.

17. Transactions or other arrangements with the Company

17.1 Subject to section 177(5) and (6) and section 182(5) and (6) of the Act, and provided he has declared the nature and extent of his interest in accordance with the requirements of the Act, a director who is in any way, whether directly or indirectly, interested in an existing or proposed transaction or arrangement with the company:

17.1.1 may be a party to, or otherwise interested in, any transaction or arrangement with the company or in which the company is otherwise (directly or indirectly) interested;

- 17.1.2 shall be an eligible director for the purposes of any proposed decision of the directors (or committee of directors) in respect of such existing or proposed transaction or arrangement in which he is interested;
 - 17.1.3 shall be entitled to vote at a meeting of directors (or of a committee of the directors) or participate in any unanimous decision, in respect of such existing or proposed transaction or arrangement in which he is interested;
 - 17.1.4 may act by himself or his firm in a professional capacity for the company (otherwise than as auditor) and he or his firm shall be entitled to remuneration for professional services as if he were not a director;
 - 17.1.5 may be a director or other officer of, or employed by, or a party to a transaction or arrangement with, or otherwise interested in, any body corporate in which the company is otherwise (directly or indirectly) interested; and
 - 17.1.6 shall not, save as he may otherwise agree, be accountable to the company for any benefit which he (or a person connected with him (as defined in section 252 of the Act)) derives from any such transaction or arrangement or from any such office or employment or from any interest in any such body corporate and no such transaction or arrangement shall be liable to be avoided on the grounds of any such interest or benefit, nor shall the receipt of any such remuneration or other benefit constitute a breach of his duty under section 176 of the Act.
- 17.2 The provisions of article 17.1.1 to article 17.1.6 (inclusive) are subject, where applicable, to any terms and conditions imposed by the directors in accordance with article 18.3.

18. Directors' conflicts of interest

- 18.1 The directors may, in accordance with the requirements set out in this article 18, authorise any Conflict proposed to them by any director which would, if not authorised, involve a director (an **Interested Director**) breaching his duty under section 175 of the Act to avoid conflicts of interest.
- 18.2 Any authorisation under this article 18 will be effective only if:
 - 18.2.1 the matter in question shall have been proposed by any director for consideration in the same way that any other matter may be proposed to the directors under the provisions of these articles or in such other manner as the directors may determine;
 - 18.2.2 any requirement as to the quorum for consideration of the relevant matter is met without counting the Interested Director; and
 - 18.2.3 the matter was agreed to without the Interested Director voting or would have been agreed to if the Interested Director's vote had not been counted.

- 18.3 Any authorisation of a Conflict under this article 18 may (whether at the time of giving the authorisation or subsequently) impose on the Interested Director such conditions or limitations, or be granted subject to such terms, as the directors may think fit for the purposes of dealing with the Conflict and the Interested Director will be obliged to conduct himself in accordance with any such terms and conditions.
- 18.4 The directors may revoke or vary such authorisation at any time, but this will not affect anything done by the Interested Director, before such revocation or variation, in accordance with the terms of such authorisation.
- 18.5 A director, notwithstanding his office, may be a director or other officer of, employed by, or otherwise interested (including by the holding of shares) in, any member of the group and no further authorisation under article 18.1 shall be necessary in respect of any such interest.
- 18.6 A director is not required, by reason of being a director (or because of the fiduciary relationship established by reason of being a director), to account to the company for any remuneration, profit or other benefit that he derives from or in connection with a relationship involving a Conflict which has been authorised by the directors in accordance with these articles, by the company or by these articles (subject in each case to any terms, limits or conditions attaching to that authorisation) and no contract shall be liable to be avoided on such grounds.

19. Records of decisions to be kept

- 19.1 The directors must ensure that the company keeps a record, in writing, for at least ten years from the date of the decision recorded, of every unanimous or majority decision taken by the directors.
- 19.2 Where decisions of the directors are taken by electronic means, such decisions shall be recorded by the directors in a form that enables the directors to retain a copy of such decisions.

20. Directors' discretion to make further rules

Subject to the articles, the directors may make any rule which they think fit about how they take decisions, and about how such rules are to be recorded or communicated to directors.

Officers

21. Methods of appointing directors

- 21.1 Any person who is willing to act as a director, and is permitted by law to do so, may be appointed to be a director:
- 21.1.1 by ordinary resolution; or
 - 21.1.2 by a decision of the directors.
- 21.2 If the company has a controlling shareholder that controlling shareholder may at any time appoint one or more persons to be a director or directors of the

company. Any such appointment shall be effected by notice in writing and shall be effective forthwith upon the receipt of such notice by the company.

21.3 In any case where the company has no directors, then any shareholder may call a general meeting (or instruct the company secretary, if any, to do so) for the purpose of appointing one or more directors.

21.4 In any case where, as a result of death, the company has no shareholders and no directors, the transmittes of the last shareholder to have died have the right, by notice in writing, to appoint a person to be a director; for the purposes of this article 21.4, where two or more shareholders die in circumstances rendering it uncertain who was the last to die, a younger shareholder is deemed to have survived an older shareholder.

22. Termination of director's appointment

A person ceases to be a director as soon as:

22.1 that person ceases to be a director by virtue of any provision of the Companies Act 2006 or is prohibited from being a director by law;

22.2 a bankruptcy order is made against that person;

22.3 a composition is made with that person's creditors generally in satisfaction of that person's debts;

22.4 a registered medical practitioner who is treating that person gives a written opinion to the company stating that that person has become physically or mentally incapable of acting as a director and may remain so for more than three months;

22.5 the director shall have been absent without the permission of the directors from four or more of the meetings of the directors in any 12 month period and his alternate director (if any) shall not during such period have attended in his stead and the directors resolve that his office be vacated;

22.6 in any case where the company has a controlling shareholder, notification is received by the company from the controlling shareholder removing that person as a director;

22.7 notification is received by the company from the director that the director is resigning from office, and such resignation has taken effect in accordance with its terms.

23. Alternate directors

23.1 Any director may appoint as an alternate any other director or any other person who has been approved by the directors to exercise the powers and carry out the responsibilities of that director and may remove any alternate so appointed.

23.2 Any such appointment or removal shall be effected by notice in writing to the company delivered at a meeting of the directors and, in the case of the appointment as an alternate of any person who is not already a director, shall be effective forthwith upon the directors giving the approval pursuant to article 23.1.

- 23.3 The notice must identify the proposed alternate and, in the case of notice of appointment, contain a statement signed by the proposed alternate that he is willing to act as an alternate of the director appointing him.
- 23.4 Except as these articles otherwise specify, alternate directors are:
- 23.4.1 deemed for all purposes to be directors;
 - 23.4.2 liable for their own acts and omissions;
 - 23.4.3 subject to the same restrictions as the director appointing them; and
 - 23.4.4 not deemed to be agents of or for the directors appointing them.
- 23.5 Subject to articles 23.6, 23.7 and 23.8, an alternate director has the same rights in relation to any directors' meeting or directors' written resolution as the director appointing him.
- 23.6 An alternate director may indicate agreement to a written resolution in place of the director appointing him, in which case the director appointing him shall be deemed to have indicated agreement to the written resolution.
- 23.7 A person who is an alternate director but not a director may be counted as participating in a directors' meeting for the purposes of determining whether a quorum has been formed (but only if the director appointing him is not participating). No alternate may be counted as more than one director for such purpose.
- 23.8 In addition to any vote he may have as a director in his own right, an alternate director has an additional vote on behalf of each director for whom he acts as alternate who is:
- 23.8.1 not participating in a directors' meeting; and
 - 23.8.2 would have been entitled to vote if they were participating in it.
- 23.9 An alternate director is not entitled to receive any remuneration from the company for serving as an alternate director. The director appointing an alternate may be notice in writing to the company from time to time direct that a part of any remuneration otherwise payable to him shall be paid to his alternate instead.
- 23.10 An alternate director ceases to be an alternate if the director appointing him ceases for any reason to be a director.

24. Directors' remuneration

- 24.1 Directors may undertake any services for the company that the directors decide.
- 24.2 Directors are entitled to such remuneration as the directors determine:
- 24.2.1 for their services to the company as directors; and
 - 24.2.2 for any other service which they undertake for the company.

- 24.3 Subject to the articles, a director's remuneration may:
- 24.3.1 take any form; and
 - 24.3.2 include any arrangements in connection with the payment of a pension, allowance or gratuity, or any death, sickness or disability benefits, to or in respect of that director.
- 24.4 Unless the directors decide otherwise, directors' remuneration accrues from day to day.
- 24.5 Unless the directors decide otherwise, directors are not accountable to the company for any remuneration which they receive as directors or other officers or employees of the company's subsidiaries or of any other body corporate in which the company is interested.

25. Officers' expenses

The company may pay any reasonable expenses which the directors and the company secretary (if any) properly incur in connection with their attendance at:

- 25.1 meetings of directors or committees of directors;
- 25.2 general meetings; or
- 25.3 separate meetings of the holders of any class of shares or of debentures of the company, or otherwise in connection with the exercise of their powers and the discharge of their responsibilities in relation to the company.

26. Secretary

- 26.1 Subject to article 26.2, the directors may appoint any person who is willing to act as the secretary of the company for such term, at such remuneration and on such conditions as they may think fit and from time to time remove such person and, if the directors so decide, appoint a replacement.
- 26.2 If the company has a controlling shareholder that controlling shareholder may at any time appoint one or more persons to be a secretary of the company and to remove any secretary from office. Any such appointment or removal shall be effected by notice in writing and shall be effective forthwith upon the receipt of such notice by the company.
- 26.3 Any secretary shall be entitled to such remuneration as the directors determine for their services to the company as secretary.

Shares

27. All shares to be fully paid up

- 27.1 No share is to be issued for less than the aggregate of its nominal value and any premium to be paid to the company in consideration for its issue.
- 27.2 This does not apply to shares taken on the formation of the company by the subscribers to the company's memorandum.

28. Powers to issue different classes of share

- 28.1 Subject to the articles, but without prejudice to the rights attached to any existing share, the company may issue shares with such rights or restrictions as may be determined by ordinary resolution.
- 28.2 The company may issue shares which are to be redeemed, or are liable to be redeemed at the option of the company or the holder, and the directors may determine the terms, conditions and manner of redemption of any such shares.

29. Allotment of shares

The directors shall not exercise any power of the company to allot shares or other securities in, or to grant rights to subscribe for, or convert into, shares or other securities of, the company without the prior written consent of the controlling shareholder (if any). Without limitation, the powers of the directors under section 550 of the Act are limited accordingly.

30. Company not bound by less than absolute interests

- 30.1 Except as required by law, no person is to be recognised by the company as holding any share upon any trust, and except as otherwise required by law or the articles, the company is not in any way to be bound by or recognise any interest in a share other than the holder's absolute ownership of it and all the rights attaching to it.
- 30.2 Notwithstanding the recognition of any trust, the company shall not be bound to see the execution, administration or observance of any trust, whether expressed, implied or constructive, in respect of any shares, and shall be entitled to recognise and give effect to the acts and deeds of the holder of such shares as if they were the absolute owners thereof.

31. Share certificates

- 31.1 The company must issue each shareholder, free of charge, with one or more certificates in respect of the shares which that shareholder holds.
- 31.2 Every certificate must specify:
 - 31.2.1 in respect of how many shares, of what class, it is issued;
 - 31.2.2 the nominal value of those shares;
 - 31.2.3 that the shares are fully paid; and
 - 31.2.4 any distinguishing numbers assigned to them.
- 31.3 No certificate may be issued in respect of shares of more than one class.
- 31.4 If more than one person holds a share, only one certificate may be issued in respect of it.
- 31.5 Certificates must:
 - 31.5.1 have affixed to them the company's common seal; or

31.5.2 be otherwise executed in accordance with the Companies Acts.

32. Replacement share certificates

32.1 If a certificate issued in respect of a shareholder's shares is:

32.1.1 damaged or defaced; or

32.1.2 said to be lost, stolen or destroyed;

that shareholder is entitled to be issued with a replacement certificate in respect of the same shares.

32.2 A shareholder exercising the right to be issued with such a replacement certificate:

32.2.1 may at the same time exercise the right to be issued with a single certificate or separate certificates;

32.2.2 must return the certificate which is to be replaced to the company if it is damaged or defaced; and

32.2.3 must comply with such conditions as to evidence and indemnity as the directors decide.

33. Share transfers

33.1 Shares may be transferred by means of an instrument of transfer in any usual form or any other form approved by the directors, which is executed by or on behalf of the transferor.

33.2 No fee may be charged for registering any instrument of transfer or other document relating to or affecting the title to any share.

33.3 The company may retain any instrument of transfer which is registered.

33.4 The transferor remains the holder of a share until the transferee's name is entered in the register of members as holder of it.

33.5 With the exception of any shares proposed to be transferred by a Controlling Shareholder, and subject to article 33.6, the directors may refuse to register the transfer of a share and, if they do so, the instrument of transfer must be returned to the transferee with the notice of refusal unless they suspect that the proposed transfer may be fraudulent.

33.6 Notwithstanding anything otherwise provided in these articles, any lien on shares which the company has or any restriction on transfer of shares in the company shall not apply in respect of any shares which have been charged by way of security to a bank, lender or other financial institution or any nominee thereof or which are transferred in accordance with the provisions of this Article.

34. Transmission of shares

34.1 If title to a share passes to a transmittee, the company may only recognise the transmittee as having any title to that share.

- 34.2 A transmittee who produces such evidence of entitlement to shares as the directors may properly require:
- 34.2.1 may, subject to the articles, choose either to become the holder of those shares or to have them transferred to another person; and
 - 34.2.2 subject to the articles, and pending any transfer of the shares to another person, has the same rights as the holder had.
- 34.3 But transmittees do not have the right to attend or vote at a general meeting, or agree to a proposed written resolution, in respect of shares to which they are entitled, by reason of the holder's death or bankruptcy or otherwise, unless they become the holders of those shares.

35. Exercise of transmittees' rights

- 35.1 Transmittees who wish to become the holders of shares to which they have become entitled must notify the company in writing of that wish.
- 35.2 If the transmittee wishes to have a share transferred to another person, the transmittee must execute an instrument of transfer in respect of it.
- 35.3 Any transfer made or executed under this article is to be treated as if it were made or executed by the person from whom the transmittee has derived rights in respect of the share, and as if the event which gave rise to the transmission had not occurred.

36. Transmittees bound by prior notices

If a notice is given to a shareholder in respect of shares and a transmittee is entitled to those shares, the transmittee is bound by the notice if it was given to the shareholder before the transmittee's name has been entered in the register of members.

Dividends and other distributions

37. Procedure for declaring dividends

- 37.1 The company may by ordinary resolution declare dividends, and the directors may decide to pay interim dividends.
- 37.2 A dividend must not be declared unless the directors have made a recommendation as to its amount. Such a dividend must not exceed the amount recommended by the directors.
- 37.3 No dividend may be declared or paid unless it is in accordance with shareholders' respective rights.
- 37.4 Unless the shareholders' resolution to declare or directors' decision to pay a dividend, or the rights attached to any shares, specify otherwise, it must be paid by reference to each shareholder's holding of shares on the date of the resolution or decision to declare or pay it.
- 37.5 If the company's share capital is divided into different classes, no interim dividend may be paid on shares carrying deferred or non-preferred rights if, at the time of payment, any preferential dividend is in arrear.

37.6 The directors may pay at intervals any dividend payable at a fixed rate if it appears to them that the profits available for distribution justify the payment.

37.7 If the directors act in good faith, they do not incur any liability to the holders of shares conferring preferred rights for any loss they may suffer by the lawful payment of an interim dividend on shares with deferred or non-preferred rights.

38. Payment of dividends and other distributions

38.1 Where a dividend or other sum which is a distribution is payable in respect of a share, it must be paid by one or more of the following means:

38.1.1 transfer to a bank or building society account specified by the distribution recipient either in writing or as the directors may otherwise decide;

38.1.2 sending a cheque made payable to the distribution recipient by post to the distribution recipient at the distribution recipient's registered address (if the distribution recipient is a holder of the share), or (in any other case) to an address specified by the distribution recipient either in writing or as the directors may otherwise decide;

38.1.3 sending a cheque made payable to such person by post to such person at such address as the distribution recipient has specified either in writing or as the directors may otherwise decide; or

38.1.4 any other means of payment as the directors agree with the distribution recipient either in writing or by such other means as the directors decide.

38.2 In the articles, the **distribution recipient** means, in respect of a share in respect of which a dividend or other sum is payable:

38.2.1 the holder of the share; or

38.2.2 if the share has two or more joint holders, whichever of them is named first in the register of members; or

38.2.3 if the holder is no longer entitled to the share by reason of death or bankruptcy, or otherwise by operation of law, the transmittee.

39. No interest on distributions

The company may not pay interest on any dividend or other sum payable in respect of a share unless otherwise provided by:

39.1 the rights attached to the share; or

39.2 the provisions of another agreement between the holder of that share and the company.

40. Unclaimed distributions

40.1 All dividends or other sums which are:

40.1.1 payable in respect of shares; and

40.1.2 unclaimed after having been declared or become payable,

may be invested or otherwise made use of by the directors for the benefit of the company until claimed.

40.2 The payment of any such dividend or other sum into a separate account does not make the company a trustee in respect of it.

40.3 If:

40.3.1 12 years have passed from the date on which a dividend or other sum became due for payment; and

40.3.2 the distribution recipient has not claimed it,

the distribution recipient is no longer entitled to that dividend or other sum and it ceases to remain owing by the company.

41. Non-cash distributions

41.1 Subject to the terms of issue of the share in question, the company may, by ordinary resolution on the recommendation of the directors, decide to pay all or part of a dividend or other distribution payable in respect of a share by transferring non-cash assets of equivalent value (including, without limitation, shares or other securities in any company).

41.2 For the purposes of paying a non-cash distribution, the directors may make whatever arrangements they think fit, including, where any difficulty arises regarding the distribution:

41.2.1 fixing the value of any assets;

41.2.2 paying cash to any distribution recipient on the basis of that value in order to adjust the rights of recipients; and

41.2.3 vesting any assets in trustees.

42. Waiver of distributions

Distribution recipients may waive their entitlement to a dividend or other distribution payable in respect of a share by giving the company notice in writing to that effect, but if:

42.1 the share has more than one holder; or

42.2 more than one person is entitled to the share, whether by reason of the death or bankruptcy of one or more joint holders, or otherwise,

the notice is not effective unless it is expressed to be given, and signed, by all the holders or persons otherwise entitled to the share.

Capitalisation of profits

43. Authority to capitalise and appropriation of capitalised sums

- 43.1 Subject to the articles, the directors may, if they are so authorised by an ordinary resolution:
- 43.1.1 decide to capitalise any profits of the company (whether or not they are available for distribution) which are not required for paying a preferential dividend, or any sum standing to the credit of the company's share premium account or capital redemption reserve; and
 - 43.1.2 appropriate any sum which they so decide to capitalise (a **capitalised sum**) to the persons who would have been entitled to it if it were distributed by way of dividend (the **persons entitled**) and in the same proportions.
- 43.2 Capitalised sums must be applied:
- 43.2.1 on behalf of the persons entitled; and
 - 43.2.2 in the same proportions as a dividend would have been distributed to them.
- 43.3 Any capitalised sum may be applied in paying up new shares of a nominal amount equal to the capitalised sum which are then allotted credited as fully paid to the persons entitled or as they may direct.
- 43.4 A capitalised sum which was appropriated from profits available for distribution may be applied in paying up new debentures of the company which are then allotted credited as fully paid to the persons entitled or as they may direct.
- 43.5 Subject to the articles the directors may:
- 43.5.1 apply capitalised sums in accordance with articles 43.3 and 43.4 partly in one way and partly in another;
 - 43.5.2 make such arrangements as they think fit to deal with shares or debentures becoming distributable in fractions under this article (including the issuing of fractional certificates or the making of cash payments); and
 - 43.5.3 authorise any person to enter into an agreement with the company on behalf of all the persons entitled which is binding on them in respect of the allotment of shares and debentures to them under this article.

Organisation of general meetings

44. Attendance and speaking at general meetings

- 44.1 A person is able to exercise the right to speak at a general meeting when that person is in a position to communicate to all those attending the meeting, during the meeting, any information or opinions which that person has on the business of the meeting.
- 44.2 A person is able to exercise the right to vote at a general meeting when:

- 44.2.1 that person is able to vote, during the meeting, on resolutions put to the vote at the meeting; and
- 44.2.2 that person's vote can be taken into account in determining whether or not such resolutions are passed at the same time as the votes of all the other persons attending the meeting.
- 44.3 The directors may make whatever arrangements they consider appropriate to enable those attending a general meeting to exercise their rights to speak or vote at it.
- 44.4 In determining attendance at a general meeting, it is immaterial whether any two or more members attending it are in the same place as each other.
- 44.5 Two or more persons who are not in the same place as each other attend a general meeting if their circumstances are such that if they have (or were to have) rights to speak and vote at that meeting, they are (or would be) able to exercise them.

45. Quorum for general meetings

- 45.1 No business other than the appointment of the chairman of the meeting is to be transacted at a general meeting unless a quorum is present at the commencement of the meeting and also when that business is voted on.
- 45.2 Where the company has only one shareholder for the time being, one qualifying person (as defined in section 318 of the Act) present at the meeting shall be a quorum. In any other case, the quorum shall be:
 - 45.2.1 a controlling shareholder present in person, by proxy or by authorised representative; or
 - 45.2.2 if the Company does not have a controlling shareholder for the time being, any two shareholders present in person, by proxy or by authorised representative.

46. Chairing general meetings

- 46.1 If the directors have appointed a chairman, the chairman shall chair general meetings if present and willing to do so.
- 46.2 If the directors have not appointed a chairman, or if the chairman is unwilling to chair the meeting or is not present within ten minutes of the time at which a meeting was due to start:
 - 46.2.1 the directors present; or
 - 46.2.2 (if no directors are present), the meeting,
 must appoint a director or shareholder to chair the meeting, and the appointment of the chairman of the meeting must be the first business of the meeting.
- 46.3 The person chairing a meeting in accordance with this article is referred to as the **chairman of the meeting**.

47. Attendance and speaking by directors and non-shareholders

- 47.1 Directors may attend and speak at general meetings, whether or not they are shareholders.
- 47.2 The chairman of the meeting may permit other persons who are not:
 - 47.2.1 shareholders of the company; or
 - 47.2.2 otherwise entitled to exercise the rights of shareholders in relation to general meetings,to attend and speak at a general meeting.

48. Adjournment

- 48.1 If the persons attending a general meeting within half an hour of the time at which the meeting was due to start do not constitute a quorum, or if during a meeting a quorum ceases to be present, the chairman of the meeting must adjourn it.
- 48.2 The chairman of the meeting may adjourn a general meeting at which a quorum is present if:
 - 48.2.1 the meeting consents to an adjournment; or
 - 48.2.2 it appears to the chairman of the meeting that an adjournment is necessary to protect the safety of any person attending the meeting or ensure that the business of the meeting is conducted in an orderly manner.
- 48.3 The chairman of the meeting must adjourn a general meeting if directed to do so by the meeting.
- 48.4 When adjourning a general meeting, the chairman of the meeting must:
 - 48.4.1 either specify the time and place to which it is adjourned or state that it is to continue at a time and place to be fixed by the directors; and
 - 48.4.2 have regard to any directions as to the time and place of any adjournment which have been given by the meeting.
- 48.5 If the continuation of an adjourned meeting is to take place more than 14 days after it was adjourned, the company must give at least seven clear days' notice of it (that is, excluding the day of the adjourned meeting and the day on which the notice is given):
 - 48.5.1 to the same persons to whom notice of the company's general meetings is required to be given; and
 - 48.5.2 containing the same information which such notice is required to contain.

- 48.6 No business may be transacted at an adjourned general meeting which could not properly have been transacted at the meeting if the adjournment had not taken place.

Voting at general meetings

49. Voting: general

A resolution put to the vote of a general meeting must be decided on a show of hands unless a poll is duly demanded in accordance with the articles.

50. Errors and disputes

- 50.1 No objection may be raised to the qualification of any person voting at a general meeting except at the meeting or adjourned meeting at which the vote objected to is tendered, and every vote not disallowed at the meeting is valid.
- 50.2 Any such objection must be referred to the chairman of the meeting, whose decision is final.

51. Poll votes

- 51.1 A poll on a resolution may be demanded:
- 51.1.1 in advance of the general meeting where it is to be put to the vote; or
 - 51.1.2 at a general meeting, either before a show of hands on that resolution or immediately after the result of a show of hands on that resolution is declared.
- 51.2 A poll may be demanded by:
- 51.2.1 the chairman of the meeting;
 - 51.2.2 the directors;
 - 51.2.3 two or more persons having the right to vote on the resolution; or
 - 51.2.4 a person or persons representing not less than one tenth of the total voting rights of all the shareholders having the right to vote on the resolution.
- 51.3 A demand for a poll may be withdrawn if:
- 51.3.1 the poll has not yet been taken; and
 - 51.3.2 the chairman of the meeting consents to the withdrawal,
- but a demand so withdrawn shall not invalidate the result of a show of hands declared before the demand was made.
- 51.4 Polls must be taken at the general meeting at which they are demanded and in such manner as the chairman of the meeting directs.

52. Content of proxy notices

- 52.1 Proxies may only validly be appointed by a notice in writing (a **proxy notice**) which:
- 52.1.1 states the name and address of the shareholder appointing the proxy;
 - 52.1.2 identifies the person appointed to be that shareholder's proxy and the general meeting in relation to which that person is appointed;
 - 52.1.3 is signed by or on behalf of the shareholder appointing the proxy, or is authenticated in such manner as the directors may determine; and
 - 52.1.4 is delivered to the company in accordance with the articles not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the right to vote is to be exercised and in accordance with any instructions contained in the notice of the general meeting (or adjourned meeting) to which they relate;
- and a proxy notice which is not delivered in such a manner shall be invalid, unless the directors, in their discretion, accept the notice at any time before the meeting.
- 52.2 The company may require proxy notices to be delivered in a particular form, and may specify different forms for different purposes.
- 52.3 Proxy notices may specify how the proxy appointed under them is to vote (or that the proxy is to abstain from voting) on one or more resolutions.
- 52.4 Unless a proxy notice indicates otherwise, it must be treated as:
- 52.4.1 allowing the person appointed under it as a proxy discretion as to how to vote on any ancillary or procedural resolutions put to the meeting; and
 - 52.4.2 appointing that person as a proxy in relation to any adjournment of the general meeting to which it relates as well as the meeting itself.

53. Delivery of proxy notices

- 53.1 A person who is entitled to attend, speak or vote (either on a show of hands or on a poll) at a general meeting remains so entitled in respect of that meeting or any adjournment of it, even though a valid proxy notice has been delivered to the company by or on behalf of that person.
- 53.2 An appointment under a proxy notice may be revoked by delivering to the company a notice in writing given by or on behalf of the person by whom or on whose behalf the proxy notice was given.
- 53.3 A notice revoking a proxy appointment only takes effect if it is delivered before the start of the meeting or adjourned meeting to which it relates.
- 53.4 If a proxy notice is not executed by the person appointing the proxy, it must be accompanied by written evidence of the authority of the person who executed it to execute it on the appointor's behalf.

54. Amendments to resolutions

- 54.1 An ordinary resolution to be proposed at a general meeting may be amended by ordinary resolution if:
- 54.1.1 notice of the proposed amendment is given to the company in writing by a person entitled to vote at the general meeting at which it is to be proposed not less than 48 hours before the meeting is to take place (or such later time as the chairman of the meeting may determine); and
 - 54.1.2 the proposed amendment does not, in the reasonable opinion of the chairman of the meeting, materially alter the scope of the resolution.
- 54.2 A special resolution to be proposed at a general meeting may be amended by ordinary resolution, if:
- 54.2.1 the chairman of the meeting proposes the amendment at the general meeting at which the resolution is to be proposed; and
 - 54.2.2 the amendment does not go beyond what is necessary to correct a grammatical or other non-substantive error in the resolution.
- 54.3 If the chairman of the meeting, acting in good faith, wrongly decides that an amendment to a resolution is out of order, the chairman's error does not invalidate the vote on that resolution.

Administrative arrangements

55. Means of communication to be used

- 55.1 Subject to article 55.2, any notice, document or other information shall be deemed served on, or delivered to, the intended recipient:
- 55.1.1 if delivered by hand, on signature of a delivery receipt; or
 - 55.1.2 if sent by fax, at the time of transmission; or
 - 55.1.3 if sent by pre-paid United Kingdom first class post, recorded delivery or special delivery to an address in the United Kingdom, at 9.00 am on the second Business Day after posting; or
 - 55.1.4 if sent by pre-paid airmail to an address outside the country from which it is sent, at 9.00 am on the fifth Business Day after posting; or
 - 55.1.5 if sent by reputable international overnight courier to an address outside the country from which it is sent, on signature of a delivery receipt; or
 - 55.1.6 if sent or supplied by e-mail, one hour after the notice, document or information was sent or supplied; or
 - 55.1.7 if sent or supplied by means of a website, when the material is first made available on the website or (if later) when the recipient receives

(or is deemed to have received) notice of the fact that the material is available on the website; and

55.1.8 if deemed receipt under the previous paragraphs of this article 55.1 would occur outside business hours (meaning 9.00 am to 5.30 pm Monday to Friday on a day that is not a public holiday in the place of deemed receipt), at 9.00 am on the day when business next starts in the place of deemed receipt. For the purposes of this article, all references to time are to local time in the place of deemed receipt.

55.2 To prove service, it is sufficient to prove that:

55.2.1 if delivered by hand or by reputable international overnight courier, the notice was delivered to the correct address; or

55.2.2 if sent by fax, a transmission report was received confirming that the notice was successfully transmitted to the correct fax number; or

55.2.3 if sent by post or by airmail, the envelope containing the notice was properly addressed, paid for and posted; or

55.2.4 if sent by e-mail, the notice was properly addressed and sent to the e-mail address of the recipient.

56. Company seals

56.1 Any common seal may only be used by the authority of the directors.

56.2 The directors may decide by what means and in what form any common seal is to be used.

56.3 Unless otherwise decided by the directors, if the company has a common seal and it is affixed to a document, the document must also be signed by at least one authorised person in the presence of a witness who attests the signature.

56.4 For the purposes of this article, an authorised person is:

56.4.1 any director of the company;

56.4.2 the company secretary (if any); or

56.4.3 any person authorised by the directors for the purpose of signing documents to which the common seal is applied.

57. No right to inspect accounts and other records

Except where the Company has a controlling shareholder or as provided by law or authorised by the directors or an ordinary resolution of the company, no person is entitled to inspect any of the company's accounting or other records or documents merely by virtue of being a shareholder.

58. Provision for employees on cessation of business

The directors may decide to make provision for the benefit of persons employed or formerly employed by the company or any of its subsidiaries (other than a director or

former director or shadow director) in connection with the cessation or transfer to any person of the whole or part of the undertaking of the company or that subsidiary.

Directors' indemnity and insurance

59. Indemnity

59.1 Subject to article 59.2, but without prejudice to any indemnity to which a relevant officer is otherwise entitled:

59.1.1 each relevant officer shall be indemnified out of the company's assets against all costs, charges, losses, expenses and liabilities incurred by him as a relevant officer:

59.1.1.1 in the actual or purported execution and/or discharge of his duties, or in relation to them; and

59.1.1.2 in relation to the company's (or any associated company's) activities as trustee of an occupational pension scheme (as defined in section 235(6) of the Act),

including (in each case) any liability incurred by him in defending any civil or criminal proceedings, or regulatory investigation or action, in which judgment is given in his favour or in which he is acquitted or the proceedings are, or the investigation or action is, otherwise disposed of without any finding or admission of any material breach of duty on his part or in connection with any application in which the court grants him, in his capacity as a relevant officer, relief from liability for negligence, default, breach of duty or breach of trust in relation to the company's (or any associated company's) affairs; and

59.1.2 the company may provide any relevant officer with funds to meet expenditure incurred or to be incurred by him in connection with any proceedings, investigation, action or application referred to in article 59.1.1 and otherwise may take any action to enable any such relevant officer to avoid incurring such expenditure.

59.2 This article 59 does not authorise any indemnity to the extent that such indemnity would be prohibited or rendered void by any provision of the Companies Acts or by any other provision of law and any such indemnity is limited accordingly.

60. Insurance

60.1 The directors may decide to purchase and maintain insurance, at the expense of the Company, for the benefit of any relevant officer in respect of any relevant loss.

60.2 In this article 60:

60.2.1 **associated company** means any member of the group and **associated companies** shall be construed accordingly;

- 60.2.2 a **relevant loss** means any loss or liability which has been or may be incurred by a relevant officer in connection with that relevant officer's duties or powers in relation to the company, any associated company or any pension fund or employees' share scheme of the company or associated company; and
- 60.2.3 a **relevant officer** means any director or other officer or former director or other officer of the company or an associated company (including any company which is a trustee of an occupational pension scheme (as defined by section 235(6) of the Act), but excluding in each case any person engaged by the company (or associated company) as auditor (whether or not he is also a director or other officer), to the extent he acts in his capacity as auditor).

Appendix 9: Articles of Association of Downhole Products UK Holdco Limited

Company number **SC340137**

COMPANIES ACT 2006

PRIVATE COMPANY LIMITED BY SHARES

WRITTEN RESOLUTION

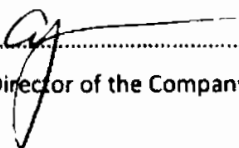
of

DOWNHOLE PRODUCTS UK HOLDCO LIMITED (the **Company**)

Pursuant to Chapter 2 of Part 13 of the Companies Act 2006, the following resolution was passed as a special resolution on 28 May 2020.

SPECIAL RESOLUTION

"That the articles of association annexed to this written resolution be adopted as the articles of association of the Company in substitution for and to the exclusion of the existing articles of association."


.....
Director of the Company

ARTICLES OF ASSOCIATION

of

DOWNHOLE PRODUCTS UK HOLDCO LIMITED

B

BLACKWOOD PARTNERS ^{LLP}

Private Company Limited by Shares

Articles of Association

of

Downhole Products UK Holdco Limited

Company Number: SC340137

(Adopted by special resolution passed on _____ 2020)

Defined terms and liability and exclusions

1. Defined terms

1.1 In the articles, unless the context requires otherwise:

articles means these articles of association adopted by the company.

bankruptcy includes individual insolvency proceedings such as sequestration in Scotland and insolvency proceedings in a jurisdiction other than Scotland which have an effect similar to that of sequestration, such as bankruptcy in England and Wales.

chairman has the meaning given in article 15.2.

Companies Acts means the Companies Acts (as defined in section 2 of the Companies Act 2006), in so far as they apply to the company.

company means Downhole Products UK Holdco Limited.

Conflict means a situation in which a director has, or could have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the company.

controlling shareholder means a registered holder from time to time of not less than 75% in nominal value of the equity share capital of the company.

director director means a director of the company, and includes any person occupying the position of director, by whatever name called.

distribution recipient has the meaning given in article 38.

document	includes, unless otherwise specified, any document sent or supplied in electronic form.
electronic form	has the meaning given in section 1168 of the Companies Act 2006.
eligible director	means a director who would be entitled to vote on the matter at a meeting of directors (but excluding any director whose vote is not to be counted in respect of the particular matter).
fully paid	in relation to a share, means that the nominal value and any premium to be paid to the company in respect of that share have been paid to the company.
hard copy form	has the meaning given in section 1168 of the Companies Act 2006.
holder	in relation to shares means the person whose name is entered in the register of members as the holder of the shares.
Instrument	means a document in hard copy form.
ordinary resolution	has the meaning given in section 282 of the Companies Act 2006.
paid	means paid or credited as paid.
group	means in relation to a company, that company, its subsidiary undertakings, any company of which it is a subsidiary undertaking (its parent undertaking) and any other subsidiary undertakings of any such parent undertaking; and each company in a group is a member of the group. Unless the context otherwise requires, the application of the definition of Group to any company at any time will apply to the company as it is at that time and parent undertaking and subsidiary undertaking mean a parent undertaking and subsidiary undertaking as defined in section 1162 of the Companies Act 2006 (and a company shall be treated, for the purposes only of the membership requirement contained in subsections 1162(2)(b) and (d), as a member of another company even if its shares in that other company are registered in the name of (a) another person (or its nominee), whether by way of security or in connection with the taking of security, or (b) its nominee); and group undertaking shall be construed accordingly.
participate	in relation to a directors' meeting, has the meaning given in article 13.

proxy notice	has the meaning given in article 51.4.
shareholder	means a person who is the holder of a share.
shares	means shares in the company.
special resolution	has the meaning given in section 283 of the Companies Act 2006.
subsidiary	has the meaning given in section 1159 of the Companies Act 2006.
transmitee	means a person entitled to a share by reason of the death or bankruptcy of a shareholder or otherwise by operation of law.
writing	means the representation or reproduction of words, symbols or other information in a visible form by any method or combination of methods, whether sent or supplied in electronic form or otherwise.

- 1.2 Unless the context otherwise requires, other words or expressions contained in these articles bear the same meaning as in the Companies Act 2006 as in force on the date when these articles become binding on the company.
- 1.3 Headings in these articles are used for convenience only and shall not affect the construction or interpretation of these articles.
- 1.4 Unless the context otherwise requires, words in the singular include the plural and in the plural include the singular.
- 1.5 Unless the context otherwise requires, a reference to one gender includes a reference to the other genders.
- 1.6 A **person** includes a natural person, corporate or unincorporated body (whether or not having separate legal personality) and that person's personal representatives, successors or permitted assigns.
- 1.7 A reference to a particular statute, statutory provision or subordinate legislation is a reference to it as it is in force from time to time, taking account of any amendment or re-enactment and includes any statute, statutory provision or subordinate legislation which it amends or re-enacts and subordinate legislation for the time being in force made under it.
- 1.8 Any words following the terms **including, include, in particular** or any similar expression shall be construed as illustrative and shall not limit the sense of the words, description, definition, phrase or term preceding those terms.

2. **Liability of members**

The liability of the members is limited to the amount, if any, unpaid on the shares held by them.

3. Exclusion of prescribed articles

No regulations prescribed by regulations under any statute concerning companies shall form part of the articles and all such regulations are hereby excluded.

Directors' powers and responsibilities

4. Directors' general authority

- 4.1 Subject to the articles, the directors are responsible for the management of the company's business, for which purpose they may exercise all the powers of the company.
- 4.2 Any and all powers of the directors (or any of them) shall be restricted in such respects, to such extent and for such duration as a controlling shareholder may from time to time by notice in writing to the company prescribe.

5. Shareholders' reserve power

- 5.1 The shareholders may, by special resolution, direct the directors to take, or refrain from taking, specified action.
- 5.2 No such special resolution invalidates anything which the directors have done before the passing of the resolution.

6. Directors may delegate

- 6.1 Subject to the articles, the directors may jointly delegate any of the powers which are conferred on them under the articles:
 - 6.1.1 to such person or committee;
 - 6.1.2 by such means (including by power of attorney);
 - 6.1.3 to such an extent;
 - 6.1.4 in relation to such matters or territories; and
 - 6.1.5 on such terms and conditions;as they think fit.
- 6.2 If the directors so specify, any such delegation may authorise further delegation of the directors' powers by any person to whom they are delegated.
- 6.3 The directors may revoke any delegation in whole or part, or alter its terms and conditions.

7. Committees

- 7.1 Committees to which the directors delegate any of their powers must follow procedures which are based as far as they are applicable on those provisions of the articles which govern the taking of decisions by directors.
- 7.2 The directors may make rules of procedure for all or any committees, which prevail over rules derived from the articles if they are not consistent with them.

8. Borrowing powers

- 8.1 Subject to article 8.2, the directors may exercise all powers of the company to borrow or raise money without limit as to amount and on such terms and in such manner as they think fit and to mortgage or charge the whole or any part of its undertaking and property, and to grant guarantees, issue debentures, debenture stock and other securities, whether outright or as collateral security for any debt, liability or obligation of the company or any third party.
- 8.2 If the Company has a controlling shareholder at any point in time, the power to exercise the powers referred to in article 8.1 shall be exercisable by the directors only within such limits as shall from time to time be intimated in writing to the directors by such controlling shareholder; and in the absence of further direction the directors shall not without the prior written consent of its controlling shareholder have power to exercise the powers of article 8.1 in excess of £50,000.

9. Employee benefits

- 9.1 If the Company has a controlling shareholder at any point in time, the powers conferred by this article 8 shall be exercisable only with the prior written consent of the controlling shareholder.
- 9.2 The directors may establish or concur or join with its controlling shareholder or any relevant group undertakings in establishing and making contributions out of the company's moneys to any relevant scheme.
- 9.3 The directors may pay, enter into agreements to pay or make grants (revocable or irrevocable and either subject or not subject to any terms and conditions) of pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any relevant scheme. Any such pension or benefit may, as the directors consider desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

Decision-making by directors

10. Directors to take decisions collectively

- 10.1 The general rule about decision-making by directors is that any decision of the directors must be either a majority decision at a meeting or a decision taken in accordance with article 11.

10.2 If:

10.2.1 the company only has one director for the time being; and

10.2.2 no provision of the articles requires it to have more than one director;

the general rule does not apply, and the director (for so long as he remains a sole shareholder) may take decisions without regard to any of the provisions of the articles relating to directors' decision-making.

11. Unanimous decisions

11.1 A decision of the directors is taken in accordance with this article when all eligible directors indicate to each other by any means that they share a common view on a matter.

11.2 Such a decision may take the form of a resolution in writing, of which each eligible director has signed one or more copies or to which each eligible director has otherwise indicated agreement in writing.

11.3 A decision may not be taken in accordance with this article if the eligible directors would not have formed a quorum at such a meeting.

12. Calling a directors' meeting

12.1 Any director may call a directors' meeting by giving notice of the meeting to the directors or by authorising the company secretary (if any) to give such notice.

12.2 Notice of any directors' meeting must indicate:

12.2.1 its proposed date and time;

12.2.2 where it is to take place; and

12.2.3 if it is anticipated that directors participating in the meeting will not be in the same place, how it is proposed that they should communicate with each other during the meeting.

12.3 Notice of a directors' meeting must be given to each director, but need not be in writing.

12.4 Notice of a directors' meeting need not be given to directors who waive their entitlement to notice of that meeting, by giving notice to that effect to the company not more than seven days after the date on which the meeting is held. Where such notice is given after the meeting has been held, that does not affect the validity of the meeting, or of any business conducted at it.

13. Participation in directors' meetings

13.1 Subject to the articles, directors **participate** in a directors' meeting, or part of a directors' meeting, when:

13.1.1 the meeting has been called and takes place in accordance with the articles; and

13.1.2 they can each communicate to the others any information or opinions they have on any particular item of the business of the meeting.

13.2 In determining whether directors are participating in a directors' meeting, it is irrelevant where any director is or how they communicate with each other.

13.3 If all the directors participating in a meeting are not in the same place, they may decide that the meeting is to be treated as taking place wherever any of them is.

14. Quorum for directors' meetings

14.1 Subject to article 14.2, the quorum for the transaction of business at a meeting of directors is any two eligible directors or, where there is only one director in office for the time being, that director.

14.2 For the purposes of any meeting (or part of a meeting) held pursuant to article 18 to authorise a Conflict, if there is only one eligible director in office other than the Interested Director(s) (as defined in article 18.1), the quorum for such meeting (or part of a meeting) shall be one eligible director.

15. Chairing of directors' meetings

15.1 The directors may appoint a director to chair their meetings.

15.2 The person so appointed from time to time is known as the **chairman**.

15.3 The directors may terminate the chairman's appointment at any time.

15.4 If the chairman is not participating in a directors' meeting within ten minutes of the time at which it was to start, the participating directors must appoint one of themselves to chair it.

16. Casting vote

16.1 Subject to Article 16.2, if the numbers of votes for and against a proposal are equal, the chairman or other director chairing the meeting has a casting vote.

16.2 Article 16.1 does not apply if, in accordance with the articles, the chairman or other director is not to be counted as participating in the decision-making process for quorum or voting purposes.

17. Transactions or other arrangements with the Company

17.1 Subject to section 177(5) and (6) and section 182(5) and (6) of the Act, and provided he has declared the nature and extent of his interest in accordance with the requirements of the Act, a director who is in any way, whether directly or indirectly, interested in an existing or proposed transaction or arrangement with the company:

17.1.1 may be a party to, or otherwise interested in, any transaction or arrangement with the company or in which the company is otherwise (directly or indirectly) interested;

- 17.1.2 shall be an eligible director for the purposes of any proposed decision of the directors (or committee of directors) in respect of such existing or proposed transaction or arrangement in which he is interested;
 - 17.1.3 shall be entitled to vote at a meeting of directors (or of a committee of the directors) or participate in any unanimous decision, in respect of such existing or proposed transaction or arrangement in which he is interested;
 - 17.1.4 may act by himself or his firm in a professional capacity for the company (otherwise than as auditor) and he or his firm shall be entitled to remuneration for professional services as if he were not a director;
 - 17.1.5 may be a director or other officer of, or employed by, or a party to a transaction or arrangement with, or otherwise interested in, any body corporate in which the company is otherwise (directly or indirectly) interested; and
 - 17.1.6 shall not, save as he may otherwise agree, be accountable to the company for any benefit which he (or a person connected with him (as defined in section 252 of the Act)) derives from any such transaction or arrangement or from any such office or employment or from any interest in any such body corporate and no such transaction or arrangement shall be liable to be avoided on the grounds of any such interest or benefit, nor shall the receipt of any such remuneration or other benefit constitute a breach of his duty under section 176 of the Act.
- 17.2 The provisions of article 17.1.1 to article 17.1.6 (inclusive) are subject, where applicable, to any terms and conditions imposed by the directors in accordance with article 18.3.

18. Directors' conflicts of interest

- 18.1 The directors may, in accordance with the requirements set out in this article 18, authorise any Conflict proposed to them by any director which would, if not authorised, involve a director (an **Interested Director**) breaching his duty under section 175 of the Act to avoid conflicts of interest.
- 18.2 Any authorisation under this article 18 will be effective only if:
 - 18.2.1 the matter in question shall have been proposed by any director for consideration in the same way that any other matter may be proposed to the directors under the provisions of these articles or in such other manner as the directors may determine;
 - 18.2.2 any requirement as to the quorum for consideration of the relevant matter is met without counting the Interested Director; and
 - 18.2.3 the matter was agreed to without the Interested Director voting or would have been agreed to if the Interested Director's vote had not been counted.

- 18.3 Any authorisation of a Conflict under this article 18 may (whether at the time of giving the authorisation or subsequently) impose on the Interested Director such conditions or limitations, or be granted subject to such terms, as the directors may think fit for the purposes of dealing with the Conflict and the Interested Director will be obliged to conduct himself in accordance with any such terms and conditions.
- 18.4 The directors may revoke or vary such authorisation at any time, but this will not affect anything done by the Interested Director, before such revocation or variation, in accordance with the terms of such authorisation.
- 18.5 A director, notwithstanding his office, may be a director or other officer of, employed by, or otherwise interested (including by the holding of shares) in, any member of the group and no further authorisation under article 18.1 shall be necessary in respect of any such interest.
- 18.6 A director is not required, by reason of being a director (or because of the fiduciary relationship established by reason of being a director), to account to the company for any remuneration, profit or other benefit that he derives from or in connection with a relationship involving a Conflict which has been authorised by the directors in accordance with these articles, by the company or by these articles (subject in each case to any terms, limits or conditions attaching to that authorisation) and no contract shall be liable to be avoided on such grounds.

19. Records of decisions to be kept

- 19.1 The directors must ensure that the company keeps a record, in writing, for at least ten years from the date of the decision recorded, of every unanimous or majority decision taken by the directors.
- 19.2 Where decisions of the directors are taken by electronic means, such decisions shall be recorded by the directors in a form that enables the directors to retain a copy of such decisions.

20. Directors' discretion to make further rules

Subject to the articles, the directors may make any rule which they think fit about how they take decisions, and about how such rules are to be recorded or communicated to directors.

Officers

21. Methods of appointing directors

- 21.1 Any person who is willing to act as a director, and is permitted by law to do so, may be appointed to be a director:
- 21.1.1 by ordinary resolution; or
 - 21.1.2 by a decision of the directors.
- 21.2 If the company has a controlling shareholder that controlling shareholder may at any time appoint one or more persons to be a director or directors of the

company. Any such appointment shall be effected by notice in writing and shall be effective forthwith upon the receipt of such notice by the company.

- 21.3 In any case where the company has no directors, then any shareholder may call a general meeting (or instruct the company secretary, if any, to do so) for the purpose of appointing one or more directors.
- 21.4 In any case where, as a result of death, the company has no shareholders and no directors, the transmittes of the last shareholder to have died have the right, by notice in writing, to appoint a person to be a director; for the purposes of this article 21.4, where two or more shareholders die in circumstances rendering it uncertain who was the last to die, a younger shareholder is deemed to have survived an older shareholder.

22. Termination of director's appointment

A person ceases to be a director as soon as:

- 22.1 that person ceases to be a director by virtue of any provision of the Companies Act 2006 or is prohibited from being a director by law;
- 22.2 a bankruptcy order is made against that person;
- 22.3 a composition is made with that person's creditors generally in satisfaction of that person's debts;
- 22.4 a registered medical practitioner who is treating that person gives a written opinion to the company stating that that person has become physically or mentally incapable of acting as a director and may remain so for more than three months;
- 22.5 the director shall have been absent without the permission of the directors from four or more of the meetings of the directors in any 12 month period and his alternate director (if any) shall not during such period have attended in his stead and the directors resolve that his office be vacated;
- 22.6 in any case where the company has a controlling shareholder, notification is received by the company from the controlling shareholder removing that person as a director;
- 22.7 notification is received by the company from the director that the director is resigning from office, and such resignation has taken effect in accordance with its terms.

23. Alternate directors

- 23.1 Any director may appoint as an alternate any other director or any other person who has been approved by the directors to exercise the powers and carry out the responsibilities of that director and may remove any alternate so appointed.
- 23.2 Any such appointment or removal shall be effected by notice in writing to the company delivered at a meeting of the directors and, in the case of the appointment as an alternate of any person who is not already a director, shall be effective forthwith upon the directors giving the approval pursuant to article 23.1.

- 23.3 The notice must identify the proposed alternate and, in the case of notice of appointment, contain a statement signed by the proposed alternate that he is willing to act as an alternate of the director appointing him.
- 23.4 Except as these articles otherwise specify, alternate directors are:
- 23.4.1 deemed for all purposes to be directors;
 - 23.4.2 liable for their own acts and omissions;
 - 23.4.3 subject to the same restrictions as the director appointing them; and
 - 23.4.4 not deemed to be agents of or for the directors appointing them.
- 23.5 Subject to articles 23.6, 23.7 and 23.8, an alternate director has the same rights in relation to any directors' meeting or directors' written resolution as the director appointing him.
- 23.6 An alternate director may indicate agreement to a written resolution in place of the director appointing him, in which case the director appointing him shall be deemed to have indicated agreement to the written resolution.
- 23.7 A person who is an alternate director but not a director may be counted as participating in a directors' meeting for the purposes of determining whether a quorum has been formed (but only if the director appointing him is not participating). No alternate may be counted as more than one director for such purpose.
- 23.8 In addition to any vote he may have as a director in his own right, an alternate director has an additional vote on behalf of each director for whom he acts as alternate who is:
- 23.8.1 not participating in a directors' meeting; and
 - 23.8.2 would have been entitled to vote if they were participating in it.
- 23.9 An alternate director is not entitled to receive any remuneration from the company for serving as an alternate director. The director appointing an alternate may be notice in writing to the company from time to time direct that a part of any remuneration otherwise payable to him shall be paid to his alternate instead.
- 23.10 An alternate director ceases to be an alternate if the director appointing him ceases for any reason to be a director.

24. Directors' remuneration

- 24.1 Directors may undertake any services for the company that the directors decide.
- 24.2 Directors are entitled to such remuneration as the directors determine:
- 24.2.1 for their services to the company as directors; and
 - 24.2.2 for any other service which they undertake for the company.

- 24.3 Subject to the articles, a director's remuneration may:
- 24.3.1 take any form; and
 - 24.3.2 include any arrangements in connection with the payment of a pension, allowance or gratuity, or any death, sickness or disability benefits, to or in respect of that director.
- 24.4 Unless the directors decide otherwise, directors' remuneration accrues from day to day.
- 24.5 Unless the directors decide otherwise, directors are not accountable to the company for any remuneration which they receive as directors or other officers or employees of the company's subsidiaries or of any other body corporate in which the company is interested.

25. Officers' expenses

The company may pay any reasonable expenses which the directors and the company secretary (if any) properly incur in connection with their attendance at:

- 25.1 meetings of directors or committees of directors;
- 25.2 general meetings; or
- 25.3 separate meetings of the holders of any class of shares or of debentures of the company, or otherwise in connection with the exercise of their powers and the discharge of their responsibilities in relation to the company.

26. Secretary

- 26.1 Subject to article 26.2, the directors may appoint any person who is willing to act as the secretary of the company for such term, at such remuneration and on such conditions as they may think fit and from time to time remove such person and, if the directors so decide, appoint a replacement.
- 26.2 If the company has a controlling shareholder that controlling shareholder may at any time appoint one or more persons to be a secretary of the company and to remove any secretary from office. Any such appointment or removal shall be effected by notice in writing and shall be effective forthwith upon the receipt of such notice by the company.
- 26.3 Any secretary shall be entitled to such remuneration as the directors determine for their services to the company as secretary.

Shares

27. All shares to be fully paid up

- 27.1 No share is to be issued for less than the aggregate of its nominal value and any premium to be paid to the company in consideration for its issue.
- 27.2 This does not apply to shares taken on the formation of the company by the subscribers to the company's memorandum.

28. Powers to issue different classes of share

- 28.1 Subject to the articles, but without prejudice to the rights attached to any existing share, the company may issue shares with such rights or restrictions as may be determined by ordinary resolution.
- 28.2 The company may issue shares which are to be redeemed, or are liable to be redeemed at the option of the company or the holder, and the directors may determine the terms, conditions and manner of redemption of any such shares.

29. Allotment of shares

The directors shall not exercise any power of the company to allot shares or other securities in, or to grant rights to subscribe for, or convert into, shares or other securities of, the company without the prior written consent of the controlling shareholder (if any). Without limitation, the powers of the directors under section 550 of the Act are limited accordingly.

30. Company not bound by less than absolute interests

- 30.1 Except as required by law, no person is to be recognised by the company as holding any share upon any trust, and except as otherwise required by law or the articles, the company is not in any way to be bound by or recognise any interest in a share other than the holder's absolute ownership of it and all the rights attaching to it.
- 30.2 Notwithstanding the recognition of any trust, the company shall not be bound to see the execution, administration or observance of any trust, whether expressed, implied or constructive, in respect of any shares, and shall be entitled to recognise and give effect to the acts and deeds of the holder of such shares as if they were the absolute owners thereof.

31. Share certificates

- 31.1 The company must issue each shareholder, free of charge, with one or more certificates in respect of the shares which that shareholder holds.
- 31.2 Every certificate must specify:
 - 31.2.1 in respect of how many shares, of what class, it is issued;
 - 31.2.2 the nominal value of those shares;
 - 31.2.3 that the shares are fully paid; and
 - 31.2.4 any distinguishing numbers assigned to them.
- 31.3 No certificate may be issued in respect of shares of more than one class.
- 31.4 If more than one person holds a share, only one certificate may be issued in respect of it.
- 31.5 Certificates must:
 - 31.5.1 have affixed to them the company's common seal; or

31.5.2 be otherwise executed in accordance with the Companies Acts.

32. Replacement share certificates

32.1 If a certificate issued in respect of a shareholder's shares is:

32.1.1 damaged or defaced; or

32.1.2 said to be lost, stolen or destroyed;

that shareholder is entitled to be issued with a replacement certificate in respect of the same shares.

32.2 A shareholder exercising the right to be issued with such a replacement certificate:

32.2.1 may at the same time exercise the right to be issued with a single certificate or separate certificates;

32.2.2 must return the certificate which is to be replaced to the company if it is damaged or defaced; and

32.2.3 must comply with such conditions as to evidence and indemnity as the directors decide.

33. Share transfers

33.1 Shares may be transferred by means of an instrument of transfer in any usual form or any other form approved by the directors, which is executed by or on behalf of the transferor.

33.2 No fee may be charged for registering any instrument of transfer or other document relating to or affecting the title to any share.

33.3 The company may retain any instrument of transfer which is registered.

33.4 The transferor remains the holder of a share until the transferee's name is entered in the register of members as holder of it.

33.5 With the exception of any shares proposed to be transferred by a Controlling Shareholder, and subject to article 33.6, the directors may refuse to register the transfer of a share and, if they do so, the instrument of transfer must be returned to the transferee with the notice of refusal unless they suspect that the proposed transfer may be fraudulent.

33.6 Notwithstanding anything otherwise provided in these articles, any lien on shares which the company has or any restriction on transfer of shares in the company shall not apply in respect of any shares which have been charged by way of security to a bank, lender or other financial institution or any nominee thereof or which are transferred in accordance with the provisions of this Article.

34. Transmission of shares

34.1 If title to a share passes to a transmittee, the company may only recognise the transmittee as having any title to that share.

- 34.2 A transmittee who produces such evidence of entitlement to shares as the directors may properly require:
- 34.2.1 may, subject to the articles, choose either to become the holder of those shares or to have them transferred to another person; and
 - 34.2.2 subject to the articles, and pending any transfer of the shares to another person, has the same rights as the holder had.
- 34.3 But transmittees do not have the right to attend or vote at a general meeting, or agree to a proposed written resolution, in respect of shares to which they are entitled, by reason of the holder's death or bankruptcy or otherwise, unless they become the holders of those shares.

35. Exercise of transmittees' rights

- 35.1 Transmittees who wish to become the holders of shares to which they have become entitled must notify the company in writing of that wish.
- 35.2 If the transmittee wishes to have a share transferred to another person, the transmittee must execute an instrument of transfer in respect of it.
- 35.3 Any transfer made or executed under this article is to be treated as if it were made or executed by the person from whom the transmittee has derived rights in respect of the share, and as if the event which gave rise to the transmission had not occurred.

36. Transmittees bound by prior notices

If a notice is given to a shareholder in respect of shares and a transmittee is entitled to those shares, the transmittee is bound by the notice if it was given to the shareholder before the transmittee's name has been entered in the register of members.

Dividends and other distributions

37. Procedure for declaring dividends

- 37.1 The company may by ordinary resolution declare dividends, and the directors may decide to pay interim dividends.
- 37.2 A dividend must not be declared unless the directors have made a recommendation as to its amount. Such a dividend must not exceed the amount recommended by the directors.
- 37.3 No dividend may be declared or paid unless it is in accordance with shareholders' respective rights.
- 37.4 Unless the shareholders' resolution to declare or directors' decision to pay a dividend, or the rights attached to any shares, specify otherwise, it must be paid by reference to each shareholder's holding of shares on the date of the resolution or decision to declare or pay it.
- 37.5 If the company's share capital is divided into different classes, no interim dividend may be paid on shares carrying deferred or non-preferred rights if, at the time of payment, any preferential dividend is in arrear.

37.6 The directors may pay at intervals any dividend payable at a fixed rate if it appears to them that the profits available for distribution justify the payment.

37.7 If the directors act in good faith, they do not incur any liability to the holders of shares conferring preferred rights for any loss they may suffer by the lawful payment of an interim dividend on shares with deferred or non-preferred rights.

38. Payment of dividends and other distributions

38.1 Where a dividend or other sum which is a distribution is payable in respect of a share, it must be paid by one or more of the following means:

38.1.1 transfer to a bank or building society account specified by the distribution recipient either in writing or as the directors may otherwise decide;

38.1.2 sending a cheque made payable to the distribution recipient by post to the distribution recipient at the distribution recipient's registered address (if the distribution recipient is a holder of the share), or (in any other case) to an address specified by the distribution recipient either in writing or as the directors may otherwise decide;

38.1.3 sending a cheque made payable to such person by post to such person at such address as the distribution recipient has specified either in writing or as the directors may otherwise decide; or

38.1.4 any other means of payment as the directors agree with the distribution recipient either in writing or by such other means as the directors decide.

38.2 In the articles, the **distribution recipient** means, in respect of a share in respect of which a dividend or other sum is payable:

38.2.1 the holder of the share; or

38.2.2 if the share has two or more joint holders, whichever of them is named first in the register of members; or

38.2.3 if the holder is no longer entitled to the share by reason of death or bankruptcy, or otherwise by operation of law, the transmittee.

39. No interest on distributions

The company may not pay interest on any dividend or other sum payable in respect of a share unless otherwise provided by:

39.1 the rights attached to the share; or

39.2 the provisions of another agreement between the holder of that share and the company.

40. Unclaimed distributions

40.1 All dividends or other sums which are:

40.1.1 payable in respect of shares; and

40.1.2 unclaimed after having been declared or become payable,

may be invested or otherwise made use of by the directors for the benefit of the company until claimed.

40.2 The payment of any such dividend or other sum into a separate account does not make the company a trustee in respect of it.

40.3 If:

40.3.1 12 years have passed from the date on which a dividend or other sum became due for payment; and

40.3.2 the distribution recipient has not claimed it,

the distribution recipient is no longer entitled to that dividend or other sum and it ceases to remain owing by the company.

41. Non-cash distributions

41.1 Subject to the terms of issue of the share in question, the company may, by ordinary resolution on the recommendation of the directors, decide to pay all or part of a dividend or other distribution payable in respect of a share by transferring non-cash assets of equivalent value (including, without limitation, shares or other securities in any company).

41.2 For the purposes of paying a non-cash distribution, the directors may make whatever arrangements they think fit, including, where any difficulty arises regarding the distribution:

41.2.1 fixing the value of any assets;

41.2.2 paying cash to any distribution recipient on the basis of that value in order to adjust the rights of recipients; and

41.2.3 vesting any assets in trustees.

42. Waiver of distributions

Distribution recipients may waive their entitlement to a dividend or other distribution payable in respect of a share by giving the company notice in writing to that effect, but if:

42.1 the share has more than one holder; or

42.2 more than one person is entitled to the share, whether by reason of the death or bankruptcy of one or more joint holders, or otherwise,

the notice is not effective unless it is expressed to be given, and signed, by all the holders or persons otherwise entitled to the share.

Capitalisation of profits

43. Authority to capitalise and appropriation of capitalised sums

- 43.1 Subject to the articles, the directors may, if they are so authorised by an ordinary resolution:
- 43.1.1 decide to capitalise any profits of the company (whether or not they are available for distribution) which are not required for paying a preferential dividend, or any sum standing to the credit of the company's share premium account or capital redemption reserve; and
 - 43.1.2 appropriate any sum which they so decide to capitalise (a **capitalised sum**) to the persons who would have been entitled to it if it were distributed by way of dividend (the **persons entitled**) and in the same proportions.
- 43.2 Capitalised sums must be applied:
- 43.2.1 on behalf of the persons entitled; and
 - 43.2.2 in the same proportions as a dividend would have been distributed to them.
- 43.3 Any capitalised sum may be applied in paying up new shares of a nominal amount equal to the capitalised sum which are then allotted credited as fully paid to the persons entitled or as they may direct.
- 43.4 A capitalised sum which was appropriated from profits available for distribution may be applied in paying up new debentures of the company which are then allotted credited as fully paid to the persons entitled or as they may direct.
- 43.5 Subject to the articles the directors may:
- 43.5.1 apply capitalised sums in accordance with articles 43.3 and 43.4 partly in one way and partly in another;
 - 43.5.2 make such arrangements as they think fit to deal with shares or debentures becoming distributable in fractions under this article (including the issuing of fractional certificates or the making of cash payments); and
 - 43.5.3 authorise any person to enter into an agreement with the company on behalf of all the persons entitled which is binding on them in respect of the allotment of shares and debentures to them under this article.

Organisation of general meetings

44. Attendance and speaking at general meetings

- 44.1 A person is able to exercise the right to speak at a general meeting when that person is in a position to communicate to all those attending the meeting, during the meeting, any information or opinions which that person has on the business of the meeting.
- 44.2 A person is able to exercise the right to vote at a general meeting when:

- 44.2.1 that person is able to vote, during the meeting, on resolutions put to the vote at the meeting; and
- 44.2.2 that person's vote can be taken into account in determining whether or not such resolutions are passed at the same time as the votes of all the other persons attending the meeting.
- 44.3 The directors may make whatever arrangements they consider appropriate to enable those attending a general meeting to exercise their rights to speak or vote at it.
- 44.4 In determining attendance at a general meeting, it is immaterial whether any two or more members attending it are in the same place as each other.
- 44.5 Two or more persons who are not in the same place as each other attend a general meeting if their circumstances are such that if they have (or were to have) rights to speak and vote at that meeting, they are (or would be) able to exercise them.

45. Quorum for general meetings

- 45.1 No business other than the appointment of the chairman of the meeting is to be transacted at a general meeting unless a quorum is present at the commencement of the meeting and also when that business is voted on.
- 45.2 Where the company has only one shareholder for the time being, one qualifying person (as defined in section 318 of the Act) present at the meeting shall be a quorum. In any other case, the quorum shall be:
 - 45.2.1 a controlling shareholder present in person, by proxy or by authorised representative; or
 - 45.2.2 if the Company does not have a controlling shareholder for the time being, any two shareholders present in person, by proxy or by authorised representative.

46. Chairing general meetings

- 46.1 If the directors have appointed a chairman, the chairman shall chair general meetings if present and willing to do so.
- 46.2 If the directors have not appointed a chairman, or if the chairman is unwilling to chair the meeting or is not present within ten minutes of the time at which a meeting was due to start:
 - 46.2.1 the directors present; or
 - 46.2.2 (if no directors are present), the meeting,

must appoint a director or shareholder to chair the meeting, and the appointment of the chairman of the meeting must be the first business of the meeting.
- 46.3 The person chairing a meeting in accordance with this article is referred to as the **chairman of the meeting**.

47. Attendance and speaking by directors and non-shareholders

- 47.1 Directors may attend and speak at general meetings, whether or not they are shareholders.
- 47.2 The chairman of the meeting may permit other persons who are not:
 - 47.2.1 shareholders of the company; or
 - 47.2.2 otherwise entitled to exercise the rights of shareholders in relation to general meetings,to attend and speak at a general meeting.

48. Adjournment

- 48.1 If the persons attending a general meeting within half an hour of the time at which the meeting was due to start do not constitute a quorum, or if during a meeting a quorum ceases to be present, the chairman of the meeting must adjourn it.
- 48.2 The chairman of the meeting may adjourn a general meeting at which a quorum is present if:
 - 48.2.1 the meeting consents to an adjournment; or
 - 48.2.2 it appears to the chairman of the meeting that an adjournment is necessary to protect the safety of any person attending the meeting or ensure that the business of the meeting is conducted in an orderly manner.
- 48.3 The chairman of the meeting must adjourn a general meeting if directed to do so by the meeting.
- 48.4 When adjourning a general meeting, the chairman of the meeting must:
 - 48.4.1 either specify the time and place to which it is adjourned or state that it is to continue at a time and place to be fixed by the directors; and
 - 48.4.2 have regard to any directions as to the time and place of any adjournment which have been given by the meeting.
- 48.5 If the continuation of an adjourned meeting is to take place more than 14 days after it was adjourned, the company must give at least seven clear days' notice of it (that is, excluding the day of the adjourned meeting and the day on which the notice is given):
 - 48.5.1 to the same persons to whom notice of the company's general meetings is required to be given; and
 - 48.5.2 containing the same information which such notice is required to contain.

- 48.6 No business may be transacted at an adjourned general meeting which could not properly have been transacted at the meeting if the adjournment had not taken place.

Voting at general meetings

49. Voting: general

A resolution put to the vote of a general meeting must be decided on a show of hands unless a poll is duly demanded in accordance with the articles.

50. Errors and disputes

- 50.1 No objection may be raised to the qualification of any person voting at a general meeting except at the meeting or adjourned meeting at which the vote objected to is tendered, and every vote not disallowed at the meeting is valid.
- 50.2 Any such objection must be referred to the chairman of the meeting, whose decision is final.

51. Poll votes

- 51.1 A poll on a resolution may be demanded:
- 51.1.1 in advance of the general meeting where it is to be put to the vote; or
 - 51.1.2 at a general meeting, either before a show of hands on that resolution or immediately after the result of a show of hands on that resolution is declared.
- 51.2 A poll may be demanded by:
- 51.2.1 the chairman of the meeting;
 - 51.2.2 the directors;
 - 51.2.3 two or more persons having the right to vote on the resolution; or
 - 51.2.4 a person or persons representing not less than one tenth of the total voting rights of all the shareholders having the right to vote on the resolution.
- 51.3 A demand for a poll may be withdrawn if:
- 51.3.1 the poll has not yet been taken; and
 - 51.3.2 the chairman of the meeting consents to the withdrawal,
- but a demand so withdrawn shall not invalidate the result of a show of hands declared before the demand was made.
- 51.4 Polls must be taken at the general meeting at which they are demanded and in such manner as the chairman of the meeting directs.

52. Content of proxy notices

- 52.1 Proxies may only validly be appointed by a notice in writing (a **proxy notice**) which:
- 52.1.1 states the name and address of the shareholder appointing the proxy;
 - 52.1.2 identifies the person appointed to be that shareholder's proxy and the general meeting in relation to which that person is appointed;
 - 52.1.3 is signed by or on behalf of the shareholder appointing the proxy, or is authenticated in such manner as the directors may determine; and
 - 52.1.4 is delivered to the company in accordance with the articles not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the right to vote is to be exercised and in accordance with any instructions contained in the notice of the general meeting (or adjourned meeting) to which they relate;
- and a proxy notice which is not delivered in such a manner shall be invalid, unless the directors, in their discretion, accept the notice at any time before the meeting.
- 52.2 The company may require proxy notices to be delivered in a particular form, and may specify different forms for different purposes.
- 52.3 Proxy notices may specify how the proxy appointed under them is to vote (or that the proxy is to abstain from voting) on one or more resolutions.
- 52.4 Unless a proxy notice indicates otherwise, it must be treated as:
- 52.4.1 allowing the person appointed under it as a proxy discretion as to how to vote on any ancillary or procedural resolutions put to the meeting; and
 - 52.4.2 appointing that person as a proxy in relation to any adjournment of the general meeting to which it relates as well as the meeting itself.

53. Delivery of proxy notices

- 53.1 A person who is entitled to attend, speak or vote (either on a show of hands or on a poll) at a general meeting remains so entitled in respect of that meeting or any adjournment of it, even though a valid proxy notice has been delivered to the company by or on behalf of that person.
- 53.2 An appointment under a proxy notice may be revoked by delivering to the company a notice in writing given by or on behalf of the person by whom or on whose behalf the proxy notice was given.
- 53.3 A notice revoking a proxy appointment only takes effect if it is delivered before the start of the meeting or adjourned meeting to which it relates.
- 53.4 If a proxy notice is not executed by the person appointing the proxy, it must be accompanied by written evidence of the authority of the person who executed it to execute it on the appointor's behalf.

54. Amendments to resolutions

- 54.1 An ordinary resolution to be proposed at a general meeting may be amended by ordinary resolution if:
- 54.1.1 notice of the proposed amendment is given to the company in writing by a person entitled to vote at the general meeting at which it is to be proposed not less than 48 hours before the meeting is to take place (or such later time as the chairman of the meeting may determine); and
 - 54.1.2 the proposed amendment does not, in the reasonable opinion of the chairman of the meeting, materially alter the scope of the resolution.
- 54.2 A special resolution to be proposed at a general meeting may be amended by ordinary resolution, if:
- 54.2.1 the chairman of the meeting proposes the amendment at the general meeting at which the resolution is to be proposed; and
 - 54.2.2 the amendment does not go beyond what is necessary to correct a grammatical or other non-substantive error in the resolution.
- 54.3 If the chairman of the meeting, acting in good faith, wrongly decides that an amendment to a resolution is out of order, the chairman's error does not invalidate the vote on that resolution.

Administrative arrangements

55. Means of communication to be used

- 55.1 Subject to article 55.2, any notice, document or other information shall be deemed served on, or delivered to, the intended recipient:
- 55.1.1 if delivered by hand, on signature of a delivery receipt; or
 - 55.1.2 if sent by fax, at the time of transmission; or
 - 55.1.3 if sent by pre-paid United Kingdom first class post, recorded delivery or special delivery to an address in the United Kingdom, at 9.00 am on the second Business Day after posting; or
 - 55.1.4 if sent by pre-paid airmail to an address outside the country from which it is sent, at 9.00 am on the fifth Business Day after posting; or
 - 55.1.5 if sent by reputable international overnight courier to an address outside the country from which it is sent, on signature of a delivery receipt; or
 - 55.1.6 if sent or supplied by e-mail, one hour after the notice, document or information was sent or supplied; or
 - 55.1.7 if sent or supplied by means of a website, when the material is first made available on the website or (if later) when the recipient receives

(or is deemed to have received) notice of the fact that the material is available on the website; and

55.1.8 if deemed receipt under the previous paragraphs of this article 55.1 would occur outside business hours (meaning 9.00 am to 5.30 pm Monday to Friday on a day that is not a public holiday in the place of deemed receipt), at 9.00 am on the day when business next starts in the place of deemed receipt. For the purposes of this article, all references to time are to local time in the place of deemed receipt.

55.2 To prove service, it is sufficient to prove that:

55.2.1 if delivered by hand or by reputable international overnight courier, the notice was delivered to the correct address; or

55.2.2 if sent by fax, a transmission report was received confirming that the notice was successfully transmitted to the correct fax number; or

55.2.3 if sent by post or by airmail, the envelope containing the notice was properly addressed, paid for and posted; or

55.2.4 if sent by e-mail, the notice was properly addressed and sent to the e-mail address of the recipient.

56. Company seals

56.1 Any common seal may only be used by the authority of the directors.

56.2 The directors may decide by what means and in what form any common seal is to be used.

56.3 Unless otherwise decided by the directors, if the company has a common seal and it is affixed to a document, the document must also be signed by at least one authorised person in the presence of a witness who attests the signature.

56.4 For the purposes of this article, an authorised person is:

56.4.1 any director of the company;

56.4.2 the company secretary (if any); or

56.4.3 any person authorised by the directors for the purpose of signing documents to which the common seal is applied.

57. No right to inspect accounts and other records

Except where the Company has a controlling shareholder or as provided by law or authorised by the directors or an ordinary resolution of the company, no person is entitled to inspect any of the company's accounting or other records or documents merely by virtue of being a shareholder.

58. Provision for employees on cessation of business

The directors may decide to make provision for the benefit of persons employed or formerly employed by the company or any of its subsidiaries (other than a director or

former director or shadow director) in connection with the cessation or transfer to any person of the whole or part of the undertaking of the company or that subsidiary.

Directors' indemnity and insurance

59. Indemnity

59.1 Subject to article 59.2, but without prejudice to any indemnity to which a relevant officer is otherwise entitled:

59.1.1 each relevant officer shall be indemnified out of the company's assets against all costs, charges, losses, expenses and liabilities incurred by him as a relevant officer:

59.1.1.1 in the actual or purported execution and/or discharge of his duties, or in relation to them; and

59.1.1.2 in relation to the company's (or any associated company's) activities as trustee of an occupational pension scheme (as defined in section 235(6) of the Act),

including (in each case) any liability incurred by him in defending any civil or criminal proceedings, or regulatory investigation or action, in which judgment is given in his favour or in which he is acquitted or the proceedings are, or the investigation or action is, otherwise disposed of without any finding or admission of any material breach of duty on his part or in connection with any application in which the court grants him, in his capacity as a relevant officer, relief from liability for negligence, default, breach of duty or breach of trust in relation to the company's (or any associated company's) affairs; and

59.1.2 the company may provide any relevant officer with funds to meet expenditure incurred or to be incurred by him in connection with any proceedings, investigation, action or application referred to in article 59.1.1 and otherwise may take any action to enable any such relevant officer to avoid incurring such expenditure.

59.2 This article 59 does not authorise any indemnity to the extent that such indemnity would be prohibited or rendered void by any provision of the Companies Acts or by any other provision of law and any such indemnity is limited accordingly.

60. Insurance

60.1 The directors may decide to purchase and maintain insurance, at the expense of the Company, for the benefit of any relevant officer in respect of any relevant loss.

60.2 In this article 60:

60.2.1 **associated company** means any member of the group and **associated companies** shall be construed accordingly;

- 60.2.2 a **relevant loss** means any loss or liability which has been or may be incurred by a relevant officer in connection with that relevant officer's duties or powers in relation to the company, any associated company or any pension fund or employees' share scheme of the company or associated company; and
- 60.2.3 a **relevant officer** means any director or other officer or former director or other officer of the company or an associated company (including any company which is a trustee of an occupational pension scheme (as defined by section 235(6) of the Act), but excluding in each case any person engaged by the company (or associated company) as auditor (whether or not he is also a director or other officer), to the extent he acts in his capacity as auditor).

Appendix 10: Articles of Association of Downhole Products Limited

Company number **SC145401**

COMPANIES ACT 2006

PRIVATE COMPANY LIMITED BY SHARES

WRITTEN RESOLUTION

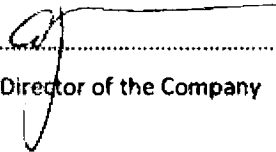
of

DOWNHOLE PRODUCTS LIMITED (the Company)

Pursuant to Chapter 2 of Part 13 of the Companies Act 2006, the following resolution was passed as a special resolution on 28 May 2020.

SPECIAL RESOLUTION

"That the articles of association annexed to this written resolution be adopted as the articles of association of the Company in substitution for and to the exclusion of the existing articles of association."


.....
Director of the Company

ARTICLES OF ASSOCIATION

of

DOWNHOLE PRODUCTS LIMITED

B

BLACKWOOD PARTNERS ^{LLP}

Private Company Limited by Shares

Articles of Association

of

Downhole Products Limited

Company Number: SC145401

(Adopted by special resolution passed on _____ 2020)

Defined terms and liability and exclusions

1. Defined terms

1.1 In the articles, unless the context requires otherwise:

articles means these articles of association adopted by the company.

bankruptcy includes individual insolvency proceedings such as sequestration in Scotland and insolvency proceedings in a jurisdiction other than Scotland which have an effect similar to that of sequestration, such as bankruptcy in England and Wales.

chairman has the meaning given in article 15.2.

Companies Acts means the Companies Acts (as defined in section 2 of the Companies Act 2006), in so far as they apply to the company.

company means Downhole Products Limited.

Conflict means a situation in which a director has, or could have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the company.

controlling shareholder means a registered holder from time to time of not less than 75% in nominal value of the equity share capital of the company.

director director means a director of the company, and includes any person occupying the position of director, by whatever name called.

distribution recipient has the meaning given in article 38.

document	includes, unless otherwise specified, any document sent or supplied in electronic form.
electronic form	has the meaning given in section 1168 of the Companies Act 2006.
eligible director	means a director who would be entitled to vote on the matter at a meeting of directors (but excluding any director whose vote is not to be counted in respect of the particular matter).
fully paid	in relation to a share, means that the nominal value and any premium to be paid to the company in respect of that share have been paid to the company.
hard copy form	has the meaning given in section 1168 of the Companies Act 2006.
holder	in relation to shares means the person whose name is entered in the register of members as the holder of the shares.
Instrument	means a document in hard copy form.
ordinary resolution	has the meaning given in section 282 of the Companies Act 2006.
paid	means paid or credited as paid.
group	means in relation to a company, that company, its subsidiary undertakings, any company of which it is a subsidiary undertaking (its parent undertaking) and any other subsidiary undertakings of any such parent undertaking; and each company in a group is a member of the group. Unless the context otherwise requires, the application of the definition of Group to any company at any time will apply to the company as it is at that time and parent undertaking and subsidiary undertaking mean a parent undertaking and subsidiary undertaking as defined in section 1162 of the Companies Act 2006 (and a company shall be treated, for the purposes only of the membership requirement contained in subsections 1162(2)(b) and (d), as a member of another company even if its shares in that other company are registered in the name of (a) another person (or its nominee), whether by way of security or in connection with the taking of security, or (b) its nominee); and group undertaking shall be construed accordingly.
participate	in relation to a directors' meeting, has the meaning given in article 13.

proxy notice	has the meaning given in article 51.4.
shareholder	means a person who is the holder of a share.
shares	means shares in the company.
special resolution	has the meaning given in section 283 of the Companies Act 2006.
subsidiary	has the meaning given in section 1159 of the Companies Act 2006.
transmitee	means a person entitled to a share by reason of the death or bankruptcy of a shareholder or otherwise by operation of law.
writing	means the representation or reproduction of words, symbols or other information in a visible form by any method or combination of methods, whether sent or supplied in electronic form or otherwise.

- 1.2 Unless the context otherwise requires, other words or expressions contained in these articles bear the same meaning as in the Companies Act 2006 as in force on the date when these articles become binding on the company.
- 1.3 Headings in these articles are used for convenience only and shall not affect the construction or interpretation of these articles.
- 1.4 Unless the context otherwise requires, words in the singular include the plural and in the plural include the singular.
- 1.5 Unless the context otherwise requires, a reference to one gender includes a reference to the other genders.
- 1.6 A **person** includes a natural person, corporate or unincorporated body (whether or not having separate legal personality) and that person's personal representatives, successors or permitted assigns.
- 1.7 A reference to a particular statute, statutory provision or subordinate legislation is a reference to it as it is in force from time to time, taking account of any amendment or re-enactment and includes any statute, statutory provision or subordinate legislation which it amends or re-enacts and subordinate legislation for the time being in force made under it.
- 1.8 Any words following the terms **including, include, in particular** or any similar expression shall be construed as illustrative and shall not limit the sense of the words, description, definition, phrase or term preceding those terms.

2. **Liability of members**

The liability of the members is limited to the amount, if any, unpaid on the shares held by them.

3. Exclusion of prescribed articles

No regulations prescribed by regulations under any statute concerning companies shall form part of the articles and all such regulations are hereby excluded.

Directors' powers and responsibilities

4. Directors' general authority

- 4.1 Subject to the articles, the directors are responsible for the management of the company's business, for which purpose they may exercise all the powers of the company.
- 4.2 Any and all powers of the directors (or any of them) shall be restricted in such respects, to such extent and for such duration as a controlling shareholder may from time to time by notice in writing to the company prescribe.

5. Shareholders' reserve power

- 5.1 The shareholders may, by special resolution, direct the directors to take, or refrain from taking, specified action.
- 5.2 No such special resolution invalidates anything which the directors have done before the passing of the resolution.

6. Directors may delegate

- 6.1 Subject to the articles, the directors may jointly delegate any of the powers which are conferred on them under the articles:
 - 6.1.1 to such person or committee;
 - 6.1.2 by such means (including by power of attorney);
 - 6.1.3 to such an extent;
 - 6.1.4 in relation to such matters or territories; and
 - 6.1.5 on such terms and conditions;as they think fit.
- 6.2 If the directors so specify, any such delegation may authorise further delegation of the directors' powers by any person to whom they are delegated.
- 6.3 The directors may revoke any delegation in whole or part, or alter its terms and conditions.

7. Committees

- 7.1 Committees to which the directors delegate any of their powers must follow procedures which are based as far as they are applicable on those provisions of the articles which govern the taking of decisions by directors.
- 7.2 The directors may make rules of procedure for all or any committees, which prevail over rules derived from the articles if they are not consistent with them.

8. Borrowing powers

- 8.1 Subject to article 8.2, the directors may exercise all powers of the company to borrow or raise money without limit as to amount and on such terms and in such manner as they think fit and to mortgage or charge the whole or any part of its undertaking and property, and to grant guarantees, issue debentures, debenture stock and other securities, whether outright or as collateral security for any debt, liability or obligation of the company or any third party.
- 8.2 If the Company has a controlling shareholder at any point in time, the power to exercise the powers referred to in article 8.1 shall be exercisable by the directors only within such limits as shall from time to time be intimated in writing to the directors by such controlling shareholder; and in the absence of further direction the directors shall not without the prior written consent of its controlling shareholder have power to exercise the powers of article 8.1 in excess of £50,000.

9. Employee benefits

- 9.1 If the Company has a controlling shareholder at any point in time, the powers conferred by this article 8 shall be exercisable only with the prior written consent of the controlling shareholder.
- 9.2 The directors may establish or concur or join with its controlling shareholder or any relevant group undertakings in establishing and making contributions out of the company's moneys to any relevant scheme.
- 9.3 The directors may pay, enter into agreements to pay or make grants (revocable or irrevocable and either subject or not subject to any terms and conditions) of pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any relevant scheme. Any such pension or benefit may, as the directors consider desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

Decision-making by directors

10. Directors to take decisions collectively

- 10.1 The general rule about decision-making by directors is that any decision of the directors must be either a majority decision at a meeting or a decision taken in accordance with article 11.

10.2 If:

10.2.1 the company only has one director for the time being; and

10.2.2 no provision of the articles requires it to have more than one director;

the general rule does not apply, and the director (for so long as he remains a sole shareholder) may take decisions without regard to any of the provisions of the articles relating to directors' decision-making.

11. Unanimous decisions

11.1 A decision of the directors is taken in accordance with this article when all eligible directors indicate to each other by any means that they share a common view on a matter.

11.2 Such a decision may take the form of a resolution in writing, of which each eligible director has signed one or more copies or to which each eligible director has otherwise indicated agreement in writing.

11.3 A decision may not be taken in accordance with this article if the eligible directors would not have formed a quorum at such a meeting.

12. Calling a directors' meeting

12.1 Any director may call a directors' meeting by giving notice of the meeting to the directors or by authorising the company secretary (if any) to give such notice.

12.2 Notice of any directors' meeting must indicate:

12.2.1 its proposed date and time;

12.2.2 where it is to take place; and

12.2.3 if it is anticipated that directors participating in the meeting will not be in the same place, how it is proposed that they should communicate with each other during the meeting.

12.3 Notice of a directors' meeting must be given to each director, but need not be in writing.

12.4 Notice of a directors' meeting need not be given to directors who waive their entitlement to notice of that meeting, by giving notice to that effect to the company not more than seven days after the date on which the meeting is held. Where such notice is given after the meeting has been held, that does not affect the validity of the meeting, or of any business conducted at it.

13. Participation in directors' meetings

13.1 Subject to the articles, directors **participate** in a directors' meeting, or part of a directors' meeting, when:

13.1.1 the meeting has been called and takes place in accordance with the articles; and

13.1.2 they can each communicate to the others any information or opinions they have on any particular item of the business of the meeting.

13.2 In determining whether directors are participating in a directors' meeting, it is irrelevant where any director is or how they communicate with each other.

13.3 If all the directors participating in a meeting are not in the same place, they may decide that the meeting is to be treated as taking place wherever any of them is.

14. Quorum for directors' meetings

14.1 Subject to article 14.2, the quorum for the transaction of business at a meeting of directors is any two eligible directors or, where there is only one director in office for the time being, that director.

14.2 For the purposes of any meeting (or part of a meeting) held pursuant to article 18 to authorise a Conflict, if there is only one eligible director in office other than the Interested Director(s) (as defined in article 18.1), the quorum for such meeting (or part of a meeting) shall be one eligible director.

15. Chairing of directors' meetings

15.1 The directors may appoint a director to chair their meetings.

15.2 The person so appointed from time to time is known as the **chairman**.

15.3 The directors may terminate the chairman's appointment at any time.

15.4 If the chairman is not participating in a directors' meeting within ten minutes of the time at which it was to start, the participating directors must appoint one of themselves to chair it.

16. Casting vote

16.1 Subject to Article 16.2, if the numbers of votes for and against a proposal are equal, the chairman or other director chairing the meeting has a casting vote.

16.2 Article 16.1 does not apply if, in accordance with the articles, the chairman or other director is not to be counted as participating in the decision-making process for quorum or voting purposes.

17. Transactions or other arrangements with the Company

17.1 Subject to section 177(5) and (6) and section 182(5) and (6) of the Act, and provided he has declared the nature and extent of his interest in accordance with the requirements of the Act, a director who is in any way, whether directly or indirectly, interested in an existing or proposed transaction or arrangement with the company:

17.1.1 may be a party to, or otherwise interested in, any transaction or arrangement with the company or in which the company is otherwise (directly or indirectly) interested;

- 17.1.2 shall be an eligible director for the purposes of any proposed decision of the directors (or committee of directors) in respect of such existing or proposed transaction or arrangement in which he is interested;
 - 17.1.3 shall be entitled to vote at a meeting of directors (or of a committee of the directors) or participate in any unanimous decision, in respect of such existing or proposed transaction or arrangement in which he is interested;
 - 17.1.4 may act by himself or his firm in a professional capacity for the company (otherwise than as auditor) and he or his firm shall be entitled to remuneration for professional services as if he were not a director;
 - 17.1.5 may be a director or other officer of, or employed by, or a party to a transaction or arrangement with, or otherwise interested in, any body corporate in which the company is otherwise (directly or indirectly) interested; and
 - 17.1.6 shall not, save as he may otherwise agree, be accountable to the company for any benefit which he (or a person connected with him (as defined in section 252 of the Act)) derives from any such transaction or arrangement or from any such office or employment or from any interest in any such body corporate and no such transaction or arrangement shall be liable to be avoided on the grounds of any such interest or benefit, nor shall the receipt of any such remuneration or other benefit constitute a breach of his duty under section 176 of the Act.
- 17.2 The provisions of article 17.1.1 to article 17.1.6 (inclusive) are subject, where applicable, to any terms and conditions imposed by the directors in accordance with article 18.3.

18. Directors' conflicts of interest

- 18.1 The directors may, in accordance with the requirements set out in this article 18, authorise any Conflict proposed to them by any director which would, if not authorised, involve a director (an **Interested Director**) breaching his duty under section 175 of the Act to avoid conflicts of interest.
- 18.2 Any authorisation under this article 18 will be effective only if:
 - 18.2.1 the matter in question shall have been proposed by any director for consideration in the same way that any other matter may be proposed to the directors under the provisions of these articles or in such other manner as the directors may determine;
 - 18.2.2 any requirement as to the quorum for consideration of the relevant matter is met without counting the Interested Director; and
 - 18.2.3 the matter was agreed to without the Interested Director voting or would have been agreed to if the Interested Director's vote had not been counted.

- 18.3 Any authorisation of a Conflict under this article 18 may (whether at the time of giving the authorisation or subsequently) impose on the Interested Director such conditions or limitations, or be granted subject to such terms, as the directors may think fit for the purposes of dealing with the Conflict and the Interested Director will be obliged to conduct himself in accordance with any such terms and conditions.
- 18.4 The directors may revoke or vary such authorisation at any time, but this will not affect anything done by the Interested Director, before such revocation or variation, in accordance with the terms of such authorisation.
- 18.5 A director, notwithstanding his office, may be a director or other officer of, employed by, or otherwise interested (including by the holding of shares) in, any member of the group and no further authorisation under article 18.1 shall be necessary in respect of any such interest.
- 18.6 A director is not required, by reason of being a director (or because of the fiduciary relationship established by reason of being a director), to account to the company for any remuneration, profit or other benefit that he derives from or in connection with a relationship involving a Conflict which has been authorised by the directors in accordance with these articles, by the company or by these articles (subject in each case to any terms, limits or conditions attaching to that authorisation) and no contract shall be liable to be avoided on such grounds.

19. Records of decisions to be kept

- 19.1 The directors must ensure that the company keeps a record, in writing, for at least ten years from the date of the decision recorded, of every unanimous or majority decision taken by the directors.
- 19.2 Where decisions of the directors are taken by electronic means, such decisions shall be recorded by the directors in a form that enables the directors to retain a copy of such decisions.

20. Directors' discretion to make further rules

Subject to the articles, the directors may make any rule which they think fit about how they take decisions, and about how such rules are to be recorded or communicated to directors.

Officers

21. Methods of appointing directors

- 21.1 Any person who is willing to act as a director, and is permitted by law to do so, may be appointed to be a director:
- 21.1.1 by ordinary resolution; or
 - 21.1.2 by a decision of the directors.
- 21.2 If the company has a controlling shareholder that controlling shareholder may at any time appoint one or more persons to be a director or directors of the

company. Any such appointment shall be effected by notice in writing and shall be effective forthwith upon the receipt of such notice by the company.

21.3 In any case where the company has no directors, then any shareholder may call a general meeting (or instruct the company secretary, if any, to do so) for the purpose of appointing one or more directors.

21.4 In any case where, as a result of death, the company has no shareholders and no directors, the transmittes of the last shareholder to have died have the right, by notice in writing, to appoint a person to be a director; for the purposes of this article 21.4, where two or more shareholders die in circumstances rendering it uncertain who was the last to die, a younger shareholder is deemed to have survived an older shareholder.

22. Termination of director's appointment

A person ceases to be a director as soon as:

22.1 that person ceases to be a director by virtue of any provision of the Companies Act 2006 or is prohibited from being a director by law;

22.2 a bankruptcy order is made against that person;

22.3 a composition is made with that person's creditors generally in satisfaction of that person's debts;

22.4 a registered medical practitioner who is treating that person gives a written opinion to the company stating that that person has become physically or mentally incapable of acting as a director and may remain so for more than three months;

22.5 the director shall have been absent without the permission of the directors from four or more of the meetings of the directors in any 12 month period and his alternate director (if any) shall not during such period have attended in his stead and the directors resolve that his office be vacated;

22.6 in any case where the company has a controlling shareholder, notification is received by the company from the controlling shareholder removing that person as a director;

22.7 notification is received by the company from the director that the director is resigning from office, and such resignation has taken effect in accordance with its terms.

23. Alternate directors

23.1 Any director may appoint as an alternate any other director or any other person who has been approved by the directors to exercise the powers and carry out the responsibilities of that director and may remove any alternate so appointed.

23.2 Any such appointment or removal shall be effected by notice in writing to the company delivered at a meeting of the directors and, in the case of the appointment as an alternate of any person who is not already a director, shall be effective forthwith upon the directors giving the approval pursuant to article 23.1.

- 23.3 The notice must identify the proposed alternate and, in the case of notice of appointment, contain a statement signed by the proposed alternate that he is willing to act as an alternate of the director appointing him.
- 23.4 Except as these articles otherwise specify, alternate directors are:
- 23.4.1 deemed for all purposes to be directors;
 - 23.4.2 liable for their own acts and omissions;
 - 23.4.3 subject to the same restrictions as the director appointing them; and
 - 23.4.4 not deemed to be agents of or for the directors appointing them.
- 23.5 Subject to articles 23.6, 23.7 and 23.8, an alternate director has the same rights in relation to any directors' meeting or directors' written resolution as the director appointing him.
- 23.6 An alternate director may indicate agreement to a written resolution in place of the director appointing him, in which case the director appointing him shall be deemed to have indicated agreement to the written resolution.
- 23.7 A person who is an alternate director but not a director may be counted as participating in a directors' meeting for the purposes of determining whether a quorum has been formed (but only if the director appointing him is not participating). No alternate may be counted as more than one director for such purpose.
- 23.8 In addition to any vote he may have as a director in his own right, an alternate director has an additional vote on behalf of each director for whom he acts as alternate who is:
- 23.8.1 not participating in a directors' meeting; and
 - 23.8.2 would have been entitled to vote if they were participating in it.
- 23.9 An alternate director is not entitled to receive any remuneration from the company for serving as an alternate director. The director appointing an alternate may be notice in writing to the company from time to time direct that a part of any remuneration otherwise payable to him shall be paid to his alternate instead.
- 23.10 An alternate director ceases to be an alternate if the director appointing him ceases for any reason to be a director.

24. Directors' remuneration

- 24.1 Directors may undertake any services for the company that the directors decide.
- 24.2 Directors are entitled to such remuneration as the directors determine:
- 24.2.1 for their services to the company as directors; and
 - 24.2.2 for any other service which they undertake for the company.

- 24.3 Subject to the articles, a director's remuneration may:
- 24.3.1 take any form; and
 - 24.3.2 include any arrangements in connection with the payment of a pension, allowance or gratuity, or any death, sickness or disability benefits, to or in respect of that director.
- 24.4 Unless the directors decide otherwise, directors' remuneration accrues from day to day.
- 24.5 Unless the directors decide otherwise, directors are not accountable to the company for any remuneration which they receive as directors or other officers or employees of the company's subsidiaries or of any other body corporate in which the company is interested.

25. Officers' expenses

The company may pay any reasonable expenses which the directors and the company secretary (if any) properly incur in connection with their attendance at:

- 25.1 meetings of directors or committees of directors;
- 25.2 general meetings; or
- 25.3 separate meetings of the holders of any class of shares or of debentures of the company, or otherwise in connection with the exercise of their powers and the discharge of their responsibilities in relation to the company.

26. Secretary

- 26.1 Subject to article 26.2, the directors may appoint any person who is willing to act as the secretary of the company for such term, at such remuneration and on such conditions as they may think fit and from time to time remove such person and, if the directors so decide, appoint a replacement.
- 26.2 If the company has a controlling shareholder that controlling shareholder may at any time appoint one or more persons to be a secretary of the company and to remove any secretary from office. Any such appointment or removal shall be effected by notice in writing and shall be effective forthwith upon the receipt of such notice by the company.
- 26.3 Any secretary shall be entitled to such remuneration as the directors determine for their services to the company as secretary.

Shares

27. All shares to be fully paid up

- 27.1 No share is to be issued for less than the aggregate of its nominal value and any premium to be paid to the company in consideration for its issue.
- 27.2 This does not apply to shares taken on the formation of the company by the subscribers to the company's memorandum.

28. Powers to issue different classes of share

- 28.1 Subject to the articles, but without prejudice to the rights attached to any existing share, the company may issue shares with such rights or restrictions as may be determined by ordinary resolution.
- 28.2 The company may issue shares which are to be redeemed, or are liable to be redeemed at the option of the company or the holder, and the directors may determine the terms, conditions and manner of redemption of any such shares.

29. Allotment of shares

The directors shall not exercise any power of the company to allot shares or other securities in, or to grant rights to subscribe for, or convert into, shares or other securities of, the company without the prior written consent of the controlling shareholder (if any). Without limitation, the powers of the directors under section 550 of the Act are limited accordingly.

30. Company not bound by less than absolute interests

- 30.1 Except as required by law, no person is to be recognised by the company as holding any share upon any trust, and except as otherwise required by law or the articles, the company is not in any way to be bound by or recognise any interest in a share other than the holder's absolute ownership of it and all the rights attaching to it.
- 30.2 Notwithstanding the recognition of any trust, the company shall not be bound to see the execution, administration or observance of any trust, whether expressed, implied or constructive, in respect of any shares, and shall be entitled to recognise and give effect to the acts and deeds of the holder of such shares as if they were the absolute owners thereof.

31. Share certificates

- 31.1 The company must issue each shareholder, free of charge, with one or more certificates in respect of the shares which that shareholder holds.
- 31.2 Every certificate must specify:
 - 31.2.1 in respect of how many shares, of what class, it is issued;
 - 31.2.2 the nominal value of those shares;
 - 31.2.3 that the shares are fully paid; and
 - 31.2.4 any distinguishing numbers assigned to them.
- 31.3 No certificate may be issued in respect of shares of more than one class.
- 31.4 If more than one person holds a share, only one certificate may be issued in respect of it.
- 31.5 Certificates must:
 - 31.5.1 have affixed to them the company's common seal; or

31.5.2 be otherwise executed in accordance with the Companies Acts.

32. Replacement share certificates

32.1 If a certificate issued in respect of a shareholder's shares is:

32.1.1 damaged or defaced; or

32.1.2 said to be lost, stolen or destroyed;

that shareholder is entitled to be issued with a replacement certificate in respect of the same shares.

32.2 A shareholder exercising the right to be issued with such a replacement certificate:

32.2.1 may at the same time exercise the right to be issued with a single certificate or separate certificates;

32.2.2 must return the certificate which is to be replaced to the company if it is damaged or defaced; and

32.2.3 must comply with such conditions as to evidence and indemnity as the directors decide.

33. Share transfers

33.1 Shares may be transferred by means of an instrument of transfer in any usual form or any other form approved by the directors, which is executed by or on behalf of the transferor.

33.2 No fee may be charged for registering any instrument of transfer or other document relating to or affecting the title to any share.

33.3 The company may retain any instrument of transfer which is registered.

33.4 The transferor remains the holder of a share until the transferee's name is entered in the register of members as holder of it.

33.5 With the exception of any shares proposed to be transferred by a Controlling Shareholder, and subject to article 33.6, the directors may refuse to register the transfer of a share and, if they do so, the instrument of transfer must be returned to the transferee with the notice of refusal unless they suspect that the proposed transfer may be fraudulent.

33.6 Notwithstanding anything otherwise provided in these articles, any lien on shares which the company has or any restriction on transfer of shares in the company shall not apply in respect of any shares which have been charged by way of security to a bank, lender or other financial institution or any nominee thereof or which are transferred in accordance with the provisions of this Article.

34. Transmission of shares

34.1 If title to a share passes to a transmittee, the company may only recognise the transmittee as having any title to that share.

- 34.2 A transmittee who produces such evidence of entitlement to shares as the directors may properly require:
- 34.2.1 may, subject to the articles, choose either to become the holder of those shares or to have them transferred to another person; and
 - 34.2.2 subject to the articles, and pending any transfer of the shares to another person, has the same rights as the holder had.
- 34.3 But transmittees do not have the right to attend or vote at a general meeting, or agree to a proposed written resolution, in respect of shares to which they are entitled, by reason of the holder's death or bankruptcy or otherwise, unless they become the holders of those shares.

35. Exercise of transmittees' rights

- 35.1 Transmittees who wish to become the holders of shares to which they have become entitled must notify the company in writing of that wish.
- 35.2 If the transmittee wishes to have a share transferred to another person, the transmittee must execute an instrument of transfer in respect of it.
- 35.3 Any transfer made or executed under this article is to be treated as if it were made or executed by the person from whom the transmittee has derived rights in respect of the share, and as if the event which gave rise to the transmission had not occurred.

36. Transmittees bound by prior notices

If a notice is given to a shareholder in respect of shares and a transmittee is entitled to those shares, the transmittee is bound by the notice if it was given to the shareholder before the transmittee's name has been entered in the register of members.

Dividends and other distributions

37. Procedure for declaring dividends

- 37.1 The company may by ordinary resolution declare dividends, and the directors may decide to pay interim dividends.
- 37.2 A dividend must not be declared unless the directors have made a recommendation as to its amount. Such a dividend must not exceed the amount recommended by the directors.
- 37.3 No dividend may be declared or paid unless it is in accordance with shareholders' respective rights.
- 37.4 Unless the shareholders' resolution to declare or directors' decision to pay a dividend, or the rights attached to any shares, specify otherwise, it must be paid by reference to each shareholder's holding of shares on the date of the resolution or decision to declare or pay it.
- 37.5 If the company's share capital is divided into different classes, no interim dividend may be paid on shares carrying deferred or non-preferred rights if, at the time of payment, any preferential dividend is in arrear.

37.6 The directors may pay at intervals any dividend payable at a fixed rate if it appears to them that the profits available for distribution justify the payment.

37.7 If the directors act in good faith, they do not incur any liability to the holders of shares conferring preferred rights for any loss they may suffer by the lawful payment of an interim dividend on shares with deferred or non-preferred rights.

38. Payment of dividends and other distributions

38.1 Where a dividend or other sum which is a distribution is payable in respect of a share, it must be paid by one or more of the following means:

38.1.1 transfer to a bank or building society account specified by the distribution recipient either in writing or as the directors may otherwise decide;

38.1.2 sending a cheque made payable to the distribution recipient by post to the distribution recipient at the distribution recipient's registered address (if the distribution recipient is a holder of the share), or (in any other case) to an address specified by the distribution recipient either in writing or as the directors may otherwise decide;

38.1.3 sending a cheque made payable to such person by post to such person at such address as the distribution recipient has specified either in writing or as the directors may otherwise decide; or

38.1.4 any other means of payment as the directors agree with the distribution recipient either in writing or by such other means as the directors decide.

38.2 In the articles, the **distribution recipient** means, in respect of a share in respect of which a dividend or other sum is payable:

38.2.1 the holder of the share; or

38.2.2 if the share has two or more joint holders, whichever of them is named first in the register of members; or

38.2.3 if the holder is no longer entitled to the share by reason of death or bankruptcy, or otherwise by operation of law, the transmittee.

39. No interest on distributions

The company may not pay interest on any dividend or other sum payable in respect of a share unless otherwise provided by:

39.1 the rights attached to the share; or

39.2 the provisions of another agreement between the holder of that share and the company.

40. Unclaimed distributions

40.1 All dividends or other sums which are:

40.1.1 payable in respect of shares; and

40.1.2 unclaimed after having been declared or become payable,

may be invested or otherwise made use of by the directors for the benefit of the company until claimed.

40.2 The payment of any such dividend or other sum into a separate account does not make the company a trustee in respect of it.

40.3 If:

40.3.1 12 years have passed from the date on which a dividend or other sum became due for payment; and

40.3.2 the distribution recipient has not claimed it,

the distribution recipient is no longer entitled to that dividend or other sum and it ceases to remain owing by the company.

41. Non-cash distributions

41.1 Subject to the terms of issue of the share in question, the company may, by ordinary resolution on the recommendation of the directors, decide to pay all or part of a dividend or other distribution payable in respect of a share by transferring non-cash assets of equivalent value (including, without limitation, shares or other securities in any company).

41.2 For the purposes of paying a non-cash distribution, the directors may make whatever arrangements they think fit, including, where any difficulty arises regarding the distribution:

41.2.1 fixing the value of any assets;

41.2.2 paying cash to any distribution recipient on the basis of that value in order to adjust the rights of recipients; and

41.2.3 vesting any assets in trustees.

42. Waiver of distributions

Distribution recipients may waive their entitlement to a dividend or other distribution payable in respect of a share by giving the company notice in writing to that effect, but if:

42.1 the share has more than one holder; or

42.2 more than one person is entitled to the share, whether by reason of the death or bankruptcy of one or more joint holders, or otherwise,

the notice is not effective unless it is expressed to be given, and signed, by all the holders or persons otherwise entitled to the share.

Capitalisation of profits

43. Authority to capitalise and appropriation of capitalised sums

- 43.1 Subject to the articles, the directors may, if they are so authorised by an ordinary resolution:
- 43.1.1 decide to capitalise any profits of the company (whether or not they are available for distribution) which are not required for paying a preferential dividend, or any sum standing to the credit of the company's share premium account or capital redemption reserve; and
 - 43.1.2 appropriate any sum which they so decide to capitalise (a **capitalised sum**) to the persons who would have been entitled to it if it were distributed by way of dividend (the **persons entitled**) and in the same proportions.
- 43.2 Capitalised sums must be applied:
- 43.2.1 on behalf of the persons entitled; and
 - 43.2.2 in the same proportions as a dividend would have been distributed to them.
- 43.3 Any capitalised sum may be applied in paying up new shares of a nominal amount equal to the capitalised sum which are then allotted credited as fully paid to the persons entitled or as they may direct.
- 43.4 A capitalised sum which was appropriated from profits available for distribution may be applied in paying up new debentures of the company which are then allotted credited as fully paid to the persons entitled or as they may direct.
- 43.5 Subject to the articles the directors may:
- 43.5.1 apply capitalised sums in accordance with articles 43.3 and 43.4 partly in one way and partly in another;
 - 43.5.2 make such arrangements as they think fit to deal with shares or debentures becoming distributable in fractions under this article (including the issuing of fractional certificates or the making of cash payments); and
 - 43.5.3 authorise any person to enter into an agreement with the company on behalf of all the persons entitled which is binding on them in respect of the allotment of shares and debentures to them under this article.

Organisation of general meetings

44. Attendance and speaking at general meetings

- 44.1 A person is able to exercise the right to speak at a general meeting when that person is in a position to communicate to all those attending the meeting, during the meeting, any information or opinions which that person has on the business of the meeting.
- 44.2 A person is able to exercise the right to vote at a general meeting when:

- 44.2.1 that person is able to vote, during the meeting, on resolutions put to the vote at the meeting; and
- 44.2.2 that person's vote can be taken into account in determining whether or not such resolutions are passed at the same time as the votes of all the other persons attending the meeting.
- 44.3 The directors may make whatever arrangements they consider appropriate to enable those attending a general meeting to exercise their rights to speak or vote at it.
- 44.4 In determining attendance at a general meeting, it is immaterial whether any two or more members attending it are in the same place as each other.
- 44.5 Two or more persons who are not in the same place as each other attend a general meeting if their circumstances are such that if they have (or were to have) rights to speak and vote at that meeting, they are (or would be) able to exercise them.

45. Quorum for general meetings

- 45.1 No business other than the appointment of the chairman of the meeting is to be transacted at a general meeting unless a quorum is present at the commencement of the meeting and also when that business is voted on.
- 45.2 Where the company has only one shareholder for the time being, one qualifying person (as defined in section 318 of the Act) present at the meeting shall be a quorum. In any other case, the quorum shall be:
 - 45.2.1 a controlling shareholder present in person, by proxy or by authorised representative; or
 - 45.2.2 if the Company does not have a controlling shareholder for the time being, any two shareholders present in person, by proxy or by authorised representative.

46. Chairing general meetings

- 46.1 If the directors have appointed a chairman, the chairman shall chair general meetings if present and willing to do so.
- 46.2 If the directors have not appointed a chairman, or if the chairman is unwilling to chair the meeting or is not present within ten minutes of the time at which a meeting was due to start:
 - 46.2.1 the directors present; or
 - 46.2.2 (if no directors are present), the meeting,
 must appoint a director or shareholder to chair the meeting, and the appointment of the chairman of the meeting must be the first business of the meeting.
- 46.3 The person chairing a meeting in accordance with this article is referred to as the **chairman of the meeting**.

47. Attendance and speaking by directors and non-shareholders

- 47.1 Directors may attend and speak at general meetings, whether or not they are shareholders.
- 47.2 The chairman of the meeting may permit other persons who are not:
 - 47.2.1 shareholders of the company; or
 - 47.2.2 otherwise entitled to exercise the rights of shareholders in relation to general meetings,to attend and speak at a general meeting.

48. Adjournment

- 48.1 If the persons attending a general meeting within half an hour of the time at which the meeting was due to start do not constitute a quorum, or if during a meeting a quorum ceases to be present, the chairman of the meeting must adjourn it.
- 48.2 The chairman of the meeting may adjourn a general meeting at which a quorum is present if:
 - 48.2.1 the meeting consents to an adjournment; or
 - 48.2.2 it appears to the chairman of the meeting that an adjournment is necessary to protect the safety of any person attending the meeting or ensure that the business of the meeting is conducted in an orderly manner.
- 48.3 The chairman of the meeting must adjourn a general meeting if directed to do so by the meeting.
- 48.4 When adjourning a general meeting, the chairman of the meeting must:
 - 48.4.1 either specify the time and place to which it is adjourned or state that it is to continue at a time and place to be fixed by the directors; and
 - 48.4.2 have regard to any directions as to the time and place of any adjournment which have been given by the meeting.
- 48.5 If the continuation of an adjourned meeting is to take place more than 14 days after it was adjourned, the company must give at least seven clear days' notice of it (that is, excluding the day of the adjourned meeting and the day on which the notice is given):
 - 48.5.1 to the same persons to whom notice of the company's general meetings is required to be given; and
 - 48.5.2 containing the same information which such notice is required to contain.

- 48.6 No business may be transacted at an adjourned general meeting which could not properly have been transacted at the meeting if the adjournment had not taken place.

Voting at general meetings

49. Voting: general

A resolution put to the vote of a general meeting must be decided on a show of hands unless a poll is duly demanded in accordance with the articles.

50. Errors and disputes

- 50.1 No objection may be raised to the qualification of any person voting at a general meeting except at the meeting or adjourned meeting at which the vote objected to is tendered, and every vote not disallowed at the meeting is valid.
- 50.2 Any such objection must be referred to the chairman of the meeting, whose decision is final.

51. Poll votes

- 51.1 A poll on a resolution may be demanded:
- 51.1.1 in advance of the general meeting where it is to be put to the vote; or
 - 51.1.2 at a general meeting, either before a show of hands on that resolution or immediately after the result of a show of hands on that resolution is declared.
- 51.2 A poll may be demanded by:
- 51.2.1 the chairman of the meeting;
 - 51.2.2 the directors;
 - 51.2.3 two or more persons having the right to vote on the resolution; or
 - 51.2.4 a person or persons representing not less than one tenth of the total voting rights of all the shareholders having the right to vote on the resolution.
- 51.3 A demand for a poll may be withdrawn if:
- 51.3.1 the poll has not yet been taken; and
 - 51.3.2 the chairman of the meeting consents to the withdrawal,
- but a demand so withdrawn shall not invalidate the result of a show of hands declared before the demand was made.
- 51.4 Polls must be taken at the general meeting at which they are demanded and in such manner as the chairman of the meeting directs.

52. Content of proxy notices

- 52.1 Proxies may only validly be appointed by a notice in writing (a **proxy notice**) which:
- 52.1.1 states the name and address of the shareholder appointing the proxy;
 - 52.1.2 identifies the person appointed to be that shareholder's proxy and the general meeting in relation to which that person is appointed;
 - 52.1.3 is signed by or on behalf of the shareholder appointing the proxy, or is authenticated in such manner as the directors may determine; and
 - 52.1.4 is delivered to the company in accordance with the articles not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the right to vote is to be exercised and in accordance with any instructions contained in the notice of the general meeting (or adjourned meeting) to which they relate;
- and a proxy notice which is not delivered in such a manner shall be invalid, unless the directors, in their discretion, accept the notice at any time before the meeting.
- 52.2 The company may require proxy notices to be delivered in a particular form, and may specify different forms for different purposes.
- 52.3 Proxy notices may specify how the proxy appointed under them is to vote (or that the proxy is to abstain from voting) on one or more resolutions.
- 52.4 Unless a proxy notice indicates otherwise, it must be treated as:
- 52.4.1 allowing the person appointed under it as a proxy discretion as to how to vote on any ancillary or procedural resolutions put to the meeting; and
 - 52.4.2 appointing that person as a proxy in relation to any adjournment of the general meeting to which it relates as well as the meeting itself.

53. Delivery of proxy notices

- 53.1 A person who is entitled to attend, speak or vote (either on a show of hands or on a poll) at a general meeting remains so entitled in respect of that meeting or any adjournment of it, even though a valid proxy notice has been delivered to the company by or on behalf of that person.
- 53.2 An appointment under a proxy notice may be revoked by delivering to the company a notice in writing given by or on behalf of the person by whom or on whose behalf the proxy notice was given.
- 53.3 A notice revoking a proxy appointment only takes effect if it is delivered before the start of the meeting or adjourned meeting to which it relates.
- 53.4 If a proxy notice is not executed by the person appointing the proxy, it must be accompanied by written evidence of the authority of the person who executed it to execute it on the appointor's behalf.

54. Amendments to resolutions

- 54.1 An ordinary resolution to be proposed at a general meeting may be amended by ordinary resolution if:
- 54.1.1 notice of the proposed amendment is given to the company in writing by a person entitled to vote at the general meeting at which it is to be proposed not less than 48 hours before the meeting is to take place (or such later time as the chairman of the meeting may determine); and
 - 54.1.2 the proposed amendment does not, in the reasonable opinion of the chairman of the meeting, materially alter the scope of the resolution.
- 54.2 A special resolution to be proposed at a general meeting may be amended by ordinary resolution, if:
- 54.2.1 the chairman of the meeting proposes the amendment at the general meeting at which the resolution is to be proposed; and
 - 54.2.2 the amendment does not go beyond what is necessary to correct a grammatical or other non-substantive error in the resolution.
- 54.3 If the chairman of the meeting, acting in good faith, wrongly decides that an amendment to a resolution is out of order, the chairman's error does not invalidate the vote on that resolution.

Administrative arrangements

55. Means of communication to be used

- 55.1 Subject to article 55.2, any notice, document or other information shall be deemed served on, or delivered to, the intended recipient:
- 55.1.1 if delivered by hand, on signature of a delivery receipt; or
 - 55.1.2 if sent by fax, at the time of transmission; or
 - 55.1.3 if sent by pre-paid United Kingdom first class post, recorded delivery or special delivery to an address in the United Kingdom, at 9.00 am on the second Business Day after posting; or
 - 55.1.4 if sent by pre-paid airmail to an address outside the country from which it is sent, at 9.00 am on the fifth Business Day after posting; or
 - 55.1.5 if sent by reputable international overnight courier to an address outside the country from which it is sent, on signature of a delivery receipt; or
 - 55.1.6 if sent or supplied by e-mail, one hour after the notice, document or information was sent or supplied; or
 - 55.1.7 if sent or supplied by means of a website, when the material is first made available on the website or (if later) when the recipient receives

(or is deemed to have received) notice of the fact that the material is available on the website; and

55.1.8 if deemed receipt under the previous paragraphs of this article 55.1 would occur outside business hours (meaning 9.00 am to 5.30 pm Monday to Friday on a day that is not a public holiday in the place of deemed receipt), at 9.00 am on the day when business next starts in the place of deemed receipt. For the purposes of this article, all references to time are to local time in the place of deemed receipt.

55.2 To prove service, it is sufficient to prove that:

55.2.1 if delivered by hand or by reputable international overnight courier, the notice was delivered to the correct address; or

55.2.2 if sent by fax, a transmission report was received confirming that the notice was successfully transmitted to the correct fax number; or

55.2.3 if sent by post or by airmail, the envelope containing the notice was properly addressed, paid for and posted; or

55.2.4 if sent by e-mail, the notice was properly addressed and sent to the e-mail address of the recipient.

56. Company seals

56.1 Any common seal may only be used by the authority of the directors.

56.2 The directors may decide by what means and in what form any common seal is to be used.

56.3 Unless otherwise decided by the directors, if the company has a common seal and it is affixed to a document, the document must also be signed by at least one authorised person in the presence of a witness who attests the signature.

56.4 For the purposes of this article, an authorised person is:

56.4.1 any director of the company;

56.4.2 the company secretary (if any); or

56.4.3 any person authorised by the directors for the purpose of signing documents to which the common seal is applied.

57. No right to inspect accounts and other records

Except where the Company has a controlling shareholder or as provided by law or authorised by the directors or an ordinary resolution of the company, no person is entitled to inspect any of the company's accounting or other records or documents merely by virtue of being a shareholder.

58. Provision for employees on cessation of business

The directors may decide to make provision for the benefit of persons employed or formerly employed by the company or any of its subsidiaries (other than a director or

former director or shadow director) in connection with the cessation or transfer to any person of the whole or part of the undertaking of the company or that subsidiary.

Directors' indemnity and insurance

59. Indemnity

59.1 Subject to article 59.2, but without prejudice to any indemnity to which a relevant officer is otherwise entitled:

59.1.1 each relevant officer shall be indemnified out of the company's assets against all costs, charges, losses, expenses and liabilities incurred by him as a relevant officer:

59.1.1.1 in the actual or purported execution and/or discharge of his duties, or in relation to them; and

59.1.1.2 in relation to the company's (or any associated company's) activities as trustee of an occupational pension scheme (as defined in section 235(6) of the Act),

including (in each case) any liability incurred by him in defending any civil or criminal proceedings, or regulatory investigation or action, in which judgment is given in his favour or in which he is acquitted or the proceedings are, or the investigation or action is, otherwise disposed of without any finding or admission of any material breach of duty on his part or in connection with any application in which the court grants him, in his capacity as a relevant officer, relief from liability for negligence, default, breach of duty or breach of trust in relation to the company's (or any associated company's) affairs; and

59.1.2 the company may provide any relevant officer with funds to meet expenditure incurred or to be incurred by him in connection with any proceedings, investigation, action or application referred to in article 59.1.1 and otherwise may take any action to enable any such relevant officer to avoid incurring such expenditure.

59.2 This article 59 does not authorise any indemnity to the extent that such indemnity would be prohibited or rendered void by any provision of the Companies Acts or by any other provision of law and any such indemnity is limited accordingly.

60. Insurance

60.1 The directors may decide to purchase and maintain insurance, at the expense of the Company, for the benefit of any relevant officer in respect of any relevant loss.

60.2 In this article 60:

60.2.1 **associated company** means any member of the group and **associated companies** shall be construed accordingly;

- 60.2.2 a **relevant loss** means any loss or liability which has been or may be incurred by a relevant officer in connection with that relevant officer's duties or powers in relation to the company, any associated company or any pension fund or employees' share scheme of the company or associated company; and
- 60.2.3 a **relevant officer** means any director or other officer or former director or other officer of the company or an associated company (including any company which is a trustee of an occupational pension scheme (as defined by section 235(6) of the Act), but excluding in each case any person engaged by the company (or associated company) as auditor (whether or not he is also a director or other officer), to the extent he acts in his capacity as auditor).

Appendix 11: Bylaws of Downhole Products Holdings USA, Inc.

**BYLAWS
OF
DOWNHOLE PRODUCTS HOLDINGS USA, INCORPORATED**

January 24, 2003

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**BYLAWS
OF
DOWNHOLE PRODUCTS HOLDINGS USA, INCORPORATED**

**ARTICLE I
OFFICES**

Section 1.1 Registered Office. The registered office and registered agent of Downhole Products Holdings USA, Incorporated (the "*Corporation*"), will be as from time to time set forth in the Certificate of Incorporation of the Corporation (the "*Certificate of Incorporation*") or in any certificate filed with the Secretary of State of the State of Delaware, and the appropriate county Recorder or Recorders, as the case may be, to amend such information.

Section 1.2 Other Offices. The Corporation may also have offices at such other places both within and without the State of Delaware as the Corporation's board of directors (the "*Board of Directors*") may from time to time determine or the business of the Corporation may require.

**ARTICLE II
STOCKHOLDERS**

Section 2.1 Place of Meetings. All meetings of the stockholders for the election of Directors will be held at such place, within or without the State of Delaware, as may be fixed from time to time by the Board of Directors. Meetings of stockholders for any other purpose may be held at such time and place, within or without the State of Delaware, as may be stated in the notice of the meeting or in a duly executed waiver of notice thereof.

Section 2.2 Annual Meeting. An annual meeting of the stockholders will be held at such time as may be determined by the Board of Directors, at which meeting the stockholders will elect a Board of Directors, and transact such other business as may properly be brought before the meeting.

Section 2.3 List of Stockholders. At least 10 days before each meeting of stockholders, a complete list of the stockholders entitled to vote at said meeting, arranged in alphabetical order and containing the address of, and the number of voting shares registered in the name of, each stockholder, will be prepared by the officer or agent having charge of the Corporation's stock transfer books. Such list will be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least 10 days prior to the meeting, either at a place within the city where the meeting is to be held, which place will be specified in the notice of the meeting, or if not so specified at the place where the meeting is to be held. Such list will be produced and kept open at the time and place of the meeting during the whole time thereof, and will be subject to the inspection of any stockholder who may be present.

Section 2.4 Special Meetings. Special meetings of the stockholders, for any purpose or purposes, unless otherwise prescribed by law, the Certificate of Incorporation or these Bylaws,

may be called by the President or the Board of Directors. Business transacted at all special meetings will be confined to the purposes stated in the notice of the meeting unless all stockholders entitled to vote are present and consent.

Section 2.5 Notice. Written or printed notice stating the place, day and hour of each meeting of the stockholders and, in case of a special meeting, the purpose or purposes for which the meeting is called, will be delivered not less than 10 nor more than 60 days before the date of such meeting, either personally or by mail, by or at the direction of the Chairman of the Board, the President, the Secretary, or the officer or person calling the meeting, to each stockholder of record entitled to vote at the meeting. If mailed, such notice will be deemed to be delivered when deposited in the United States mail, addressed to the stockholder at his address as it appears on the Corporation's stock transfer books, with postage thereon prepaid.

Section 2.6 Quorum. At all meetings of the stockholders, the presence in person or by proxy of the holders of a majority of the issued and outstanding shares of the Corporation's capital stock entitled to vote at such meeting will be necessary and sufficient to constitute a quorum for the transaction of business except as otherwise provided by law, the Certificate of Incorporation or these Bylaws. If, however, such quorum is not present or represented at any meeting of the stockholders, the stockholders entitled to vote thereat, present in person or represented by proxy, will have power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum is present or represented. If the adjournment is for more than 30 days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting will be given to each stockholder of record entitled to vote at the meeting. At such adjourned meeting at which a quorum is present or represented, any business may be transacted that might have been transacted at the meeting as originally notified.

Section 2.7 Voting. When a quorum is present at any meeting of the Corporation's stockholders, the vote of the holders of a majority of the shares entitled to vote on, and voted for or against, any matter will decide any questions brought before such meeting, unless the question is one upon which, by express provision of law, the Certificate of Incorporation or these Bylaws, a different vote is required, in which case such express provision will govern and control the decision of such question. The stockholders present in person or by proxy at a meeting at which a quorum was initially present may continue to transact business until adjournment, notwithstanding the withdrawal of enough stockholders to leave less than a quorum.

Section 2.8 Method of Voting. Each outstanding share of the Corporation's capital stock, regardless of class, will be entitled to one vote on each matter submitted to a vote at a meeting of stockholders, except to the extent that the voting rights of the shares of any class or classes are limited or denied by the Certificate of Incorporation, as amended from time to time. At any meeting of the stockholders, every stockholder having the right to vote will be entitled to vote in person, or by proxy appointed by an instrument in writing subscribed by such stockholder and bearing a date not more than three years prior to such meeting, unless such instrument provides for a longer period. Each proxy will be revocable unless expressly provided therein to be irrevocable and if, and only as long as, it is coupled with an interest sufficient in law to support an irrevocable power. A proxy may be made irrevocable regardless of whether the interest with which it is coupled is an interest in the stock itself or an interest in the Corporation

generally. Such proxy will be filed with the Secretary of the Corporation prior to or at the time of the meeting. Voting on any question or in any election, other than for directors, may be by voice vote or show of hands unless the presiding officer orders, or any stockholder demands, that voting be by written ballot.

Section 2.9 Record Date. The Board of Directors may fix in advance a record date for the purpose of determining the stockholders entitled to notice of or to vote at a meeting of stockholders, which record date will not precede the date upon which the resolution fixing the record date is adopted by the Board of Directors, and which record date will not be less than 10 nor more than 60 days prior to such meeting. In the absence of any action by the Board of Directors, the close of business on the date next preceding the day on which the notice is given will be the record date, or, if notice is waived, the close of business on the day next preceding the day on which the meeting is held will be the record date.

Section 2.10 Action by Consent. Any action required or permitted by law, the Certificate of Incorporation or these Bylaws to be taken at a meeting of the stockholders of the Corporation may be taken without a meeting:

(i) if a consent or consents in writing, setting forth the action so taken, is signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted; and

(ii) such consent or consents are delivered to the Corporation by delivery to its registered office in Delaware, its principal place of business or an officer or agent of the Corporation having custody of the minute book.

ARTICLE III BOARD OF DIRECTORS

Section 3.1 Management. The business and affairs of the Corporation will be managed by or under the direction of the Board of Directors who may exercise all such powers of the Corporation and do all such lawful acts and things as are not by law, by the Certificate of Incorporation or by these Bylaws directed or required to be exercised or done by the Corporation's stockholders.

Section 3.2 Qualification; Election; Term. None of the Directors need be a stockholder of the Corporation or a resident of the State of Delaware. The Directors will be elected by written ballot, by plurality vote at the annual meeting of the stockholders, except as hereinafter provided, and each Director elected will hold office until whichever of the following occurs first: his successor is elected and qualified, his resignation, his removal from office by the stockholders or his death.

Section 3.3 Number. The number of authorized Directors will be fixed as the Board of Directors may from time to time designate; provided, however, at all times the number of directors shall not be less than one nor more than six.

Section 3.4 Removal. Any Director may be removed either for or without cause, at any special meeting of stockholders by the affirmative vote of the holders of a majority of the shares of the Corporation's outstanding capital stock then entitled to vote for the election of such Director; provided that notice of the intention to act upon such matter has been given in the notice calling such meeting.

Section 3.5 Vacancies. Newly created directorships resulting from any increase in the authorized number of Directors and any vacancies occurring in the Board of Directors caused by death, resignation, retirement, disqualification or removal from office of any Director or Directors or otherwise, may be filled by the vote of a majority of the Directors then in office, though less than a quorum, or a successor or successors may be chosen at a special meeting of the stockholders called for that purpose, and each successor Director so chosen will hold office until whichever of the following occurs first: his successor is elected and qualified, his resignation, his removal from office by the stockholders or his death.

Section 3.6 Place of Meetings. Meetings of the Board of Directors, regular or special, may be held at such place within or without the State of Delaware as may be fixed from time to time by the Board of Directors.

Section 3.7 Annual Meeting. The first meeting of each newly elected Board of Directors will be held without further notice immediately following the annual meeting of stockholders and at the same place, unless by unanimous consent, the Directors then elected and serving change such time or place.

Section 3.8 Regular Meetings. Regular meetings of the Board of Directors may be held without notice at such time and place as is from time to time determined by resolution of the Board of Directors.

Section 3.9 Special Meetings. Special meetings of the Board of Directors may be called by the Chairman of the Board or the President on oral or written notice to each Director, given either personally, by telephone, by telegram or by mail; special meetings will be called by the Chairman of the Board, President or Secretary in like manner and on like notice on the written request of at least two Directors. The purpose or purposes of any special meeting will be specified in the notice relating thereto.

Section 3.10 Quorum. At all meetings of the Board of Directors, the presence of a majority of the total number of Directors will be necessary and sufficient to constitute a quorum for the transaction of business, and the affirmative vote of at least a majority of the Directors present at any meeting at which there is a quorum will be the act of the Board of Directors, except as may be otherwise specifically provided by law, the Certificate of Incorporation or these Bylaws. If a quorum is not present at any meeting of the Board of Directors, the Directors present thereat may adjourn the meeting from time to time without notice other than announcement at the meeting, until a quorum is present.

Section 3.11 Interested Directors. No contract or transaction between the Corporation and one or more of its Directors or officers, or between the Corporation and any other corporation, partnership, association or other organization in which one or more of the

Corporation's Directors or officers are directors or officers or have a financial interest, will be void or voidable solely for this reason, solely because the Director or officer is present at or participates in the meeting of the Board of Directors or committee thereof that authorizes the contract or transaction, or solely because his or their votes are counted for such purpose, if: (i) the material facts as to his relationship or interest and as to the contract or transaction are disclosed or are known to the Board of Directors or the committee, and the Board of Directors or committee in good faith authorizes the contract or transaction by the affirmative vote of a majority of the disinterested Directors, even though the disinterested Directors be less than a quorum, (ii) the material facts as to his relationship or interest and as to the contract or transaction are disclosed or are known to the stockholders entitled to vote thereon, and the contract or transaction is specifically approved in good faith by vote of the stockholders or (iii) the contract or transaction is fair as to the Corporation as of the time it is authorized, approved or ratified by the Board of Directors, a committee thereof or the stockholders. Common or interested directors may be counted in determining the presence of a quorum at a meeting of the Board of Directors or of a committee that authorizes the contract or transaction.

Section 3.12 Committees. The Board of Directors may, by resolution passed by a majority of the entire Board of Directors designate committees, each committee to consist of two or more Directors of the Corporation, which committees will have such power and authority and will perform such functions as may be provided in such resolution. Such committee or committees will have such name or names as may be designated by the Board and will keep regular minutes of their proceedings and report the same to the Board of Directors when required.

Section 3.13 Action by Consent. Any action required or permitted to be taken at any meeting of the Board of Directors or any committee of the Board of Directors may be taken without such a meeting if a consent or consents in writing, setting forth the action so taken, is signed by all the members of the Board of Directors or such committee, as the case may be.

Section 3.14 Compensation of Directors. Directors will receive such compensation for their services and reimbursement for their expenses as the Board of Directors, by resolution, may establish; provided that nothing herein contained will be construed to preclude any Director from serving the Corporation in any other capacity and receiving compensation therefor.

ARTICLE IV NOTICE

Section 4.1 Form of Notice. Whenever by law, the Certificate of Incorporation or these Bylaws, notice is to be given to any Director or stockholder, and no provision is made as to how such notice will be given, such notice may be given in writing, by facsimile or by mail, postage prepaid, addressed to such Director or stockholder at such address as appears on the books of the Corporation. Any notice required or permitted to be given by mail will be deemed to be given at the time the same is deposited in the United States mails.

Section 4.2 Waiver. Whenever any notice is required to be given to any stockholder or Director of the Corporation as required by law, the Certificate of Incorporation or these Bylaws, a waiver thereof in writing signed by the person or persons entitled to such notice,

whether before or after the time stated in such notice, will be equivalent to the giving of such notice. Attendance of a stockholder or Director at a meeting will constitute a waiver of notice of such meeting, except where such stockholder or Director attends such meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business on the ground that the meeting has not been lawfully called or convened.

ARTICLE V OFFICERS AND AGENTS

Section 5.1 In General. The officers of the Corporation will be elected by the Board of Directors and may include a Chairman of the Board of Directors, a President, a Vice President, a Secretary and a Treasurer. The Board of Directors may also elect additional Vice Presidents, Assistant Vice Presidents and one or more Assistant Secretaries and Assistant Treasurers. Any two or more offices may be held by the same person.

Section 5.2 Election. The Board of Directors, at its first meeting after each annual meeting of stockholders, will elect the officers, none of whom need be a member of the Board of Directors.

Section 5.3 Other Officers and Agents. The Board of Directors may also elect and appoint such other officers and agents as it deems necessary, who will be elected and appointed for such terms and will exercise such powers and perform such duties as may be determined from time to time by the Board of Directors.

Section 5.4 Compensation. The compensation of all officers and agents of the Corporation will be fixed by the Board of Directors or any committee thereof, if so authorized by the Board of Directors.

Section 5.5 Term of Office and Removal. Each officer of the Corporation will hold office until his death, his resignation or removal from office, or the election and qualification of his successor, whichever occurs first. Any officer or agent elected or appointed by the Board of Directors may be removed at any time, for or without cause, by the affirmative vote of a majority of the entire Board of Directors, but such removal will not prejudice the contract rights, if any, of the person so removed. If the office of any officer becomes vacant for any reason, the vacancy may be filled by the Board of Directors.

Section 5.6 Employment and Other Contracts. The Board of Directors may authorize any officer or officers or agent or agents to enter into any contract or execute and deliver any instrument in the name or on behalf of the Corporation, and such authority may be general or confined to specific instances. The Board of Directors may, when it believes the interest of the Corporation will best be served thereby, authorize executive employment contracts that will have terms no longer than ten years and contain such other terms and conditions as the Board of Directors deems appropriate. Nothing herein will limit the authority of the Board of Directors to authorize employment contracts for shorter terms.

Section 5.7 Chairman of the Board. The Chairman of the Board shall be an executive officer of the Corporation and, if he is a director of the Corporation, shall preside over all meetings of the Board of Directors at which he is present. The Chairman of the Board shall

supervise the implementation of the policies adopted or approved by the Board of Directors and shall have and exercise such other powers and shall perform such other duties as may from time to time be conferred upon or assigned to him by the Board of Directors.

Section 5.8 Chief Executive Officer. The Chief Executive Officer shall be responsible for the general management of the affairs of the Corporation and shall perform all duties incidental to the Chief Executive Officer's office which may be required by law and all such other duties as are properly required of him by the Board of Directors. The Chief Executive Officer shall see that all orders and resolutions of the Board of Directors and of any committee thereof are carried into effect.

~~**Section 5.9 President.**~~ The President (if one shall have been chosen by the Board of Directors) shall act in a general executive capacity and shall assist the Chairman of the Board in the administration and operation of the Corporation's business and general supervision of its policies and affairs. The President shall, in the absence of or because of the inability to act of the Chairman of the Board, perform all duties of the Chairman of the Board and preside at all meetings of stockholders and of the Board of Directors. The President may sign, alone or with the Secretary, or an Assistant Secretary, or any other proper officer of the Corporation authorized by the Board of Directors, certificates, contracts, and other instruments of the Corporation as authorized by the Board of Directors.

Section 5.10 Vice Presidents. Each Vice President will have the usual and customary powers and perform the usual and customary duties incident to the office of Vice President, and will have such other powers and perform such other duties as the Board of Directors or any committee thereof may from time to time prescribe or as the President may from time to time delegate to him. In the absence or disability of the President and the Chairman of the Board, a Vice President designated by the Board of Directors, or in the absence of such designation the Vice Presidents in the order of their seniority in office, will exercise the powers and perform the duties of the President.

Section 5.11 Secretary. The Secretary will attend all meetings of the stockholders and record all votes and the minutes of all proceedings in a book to be kept for that purpose. The Secretary will perform like duties for the Board of Directors and committees thereof when required. The Secretary will give, or cause to be given, notice of all meetings of the stockholders and special meetings of the Board of Directors. The Secretary will keep in safe custody the seal of the Corporation. The Secretary will be under the supervision of the President. The Secretary will have such other powers and perform such other duties as the Board of Directors may from time to time prescribe or as the President may from time to time delegate to him.

Section 5.12 Assistant Secretaries. The Assistant Secretaries in the order of their seniority in office, unless otherwise determined by the Board of Directors, will, in the absence or disability of the Secretary, exercise the powers and perform the duties of the Secretary. They will have such other powers and perform such other duties as the Board of Directors may from time to time prescribe or as the President may from time to time delegate to them.

Section 5.13 Treasurer. The Treasurer will have responsibility for the receipt and disbursement of all corporate funds and securities, will keep full and accurate accounts of such

receipts and disbursements, and will deposit or cause to be deposited all moneys and other valuable effects in the name and to the credit of the Corporation in such depositories as may be designated by the Board of Directors. Whenever requested, the Treasurer will render to the Board of Directors an account of the operating results and financial condition of the Corporation, and will have such other powers and perform such other duties as the Board of Directors may from time to time prescribe or as the President may from time to time delegate to him.

Section 5.14 Assistant Treasurers. The Assistant Treasurers in the order of their seniority in office, unless otherwise determined by the Board of Directors, will, in the absence or disability of the Treasurer, exercise the powers and perform the duties of the Treasurer. They will have such other powers and perform such other duties as the Board of Directors may from time to time prescribe or as the President may from time to time delegate to them.

Section 5.15 Bonding. The Corporation may secure a bond to protect the Corporation from loss in the event of defalcation by any of the officers, which bond may be in such form and amount and with such surety as the Board of Directors may deem appropriate.

ARTICLE VI CERTIFICATES REPRESENTING SHARES

Section 6.1 Form of Certificates. Certificates, in such form as may be determined from time to time, by the Board of Directors, representing shares to which stockholders are entitled will be delivered to each stockholder. Such certificates will be consecutively numbered and will be entered in the stock book of the Corporation as they are issued. Each certificate will state on the face thereof the holder's name, the number and class of shares represented thereby, and the par value of such shares or a statement that such shares are without par value. Each certificate will be signed by the President or a Vice President and the Secretary or an Assistant Secretary, and may be sealed with the seal of the Corporation or a facsimile thereof. If any certificate is countersigned by a transfer agent, or an assistant transfer agent or registered by a registrar, either of which is other than the Corporation or an employee of the Corporation, the signatures of the Corporation's officers may be facsimiles. In case any officer who has signed, or whose facsimile signature has been used on any such certificate, ceases to be an officer of the Corporation, whether because of his death, resignation or otherwise, before such certificate or certificates have been delivered by the Corporation or its agents, such certificate may nevertheless be adopted by the Corporation and be issued and delivered as though the person who signed such certificate or whose facsimile signature has been used thereon had not ceased to be an officer of the Corporation.

Section 6.2 Lost Certificates. The Board of Directors may direct that a new certificate be issued in place of any certificate theretofore issued by the Corporation alleged to have been lost or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate to be lost or destroyed. When authorizing such issue of a new certificate, the Board of Directors, in its discretion and as a condition precedent to the issuance thereof, may require the owner of such lost or destroyed certificate, or his legal representative, to advertise the same in such manner as it may require and/or to give the Corporation a bond, in such form, in such sum, and with such surety or sureties as it may direct as indemnity against any claim that may be made against the Corporation with respect to the certificate alleged to have been lost or

destroyed. When a certificate has been lost, apparently destroyed or wrongfully taken, and the holder of record fails to notify the Corporation within a reasonable time after such holder has notice of it, and the Corporation registers a transfer of the shares represented by the certificate before receiving such notification, the holder of record is precluded from making any claim against the Corporation for the transfer of a new certificate.

Section 6.3 Transfer of Shares. Shares of stock will be transferable only on the books of the Corporation by the holder thereof in person or by such holder's duly authorized attorney. Upon surrender to the Corporation or the transfer agent of the Corporation of a certificate representing shares duly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer, it will be the duty of the Corporation or the transfer agent of the Corporation to issue a new certificate to the person entitled thereto, cancel the old certificate and record the transaction upon its books.

Section 6.4 Registered Stockholders. The Corporation will be entitled to treat the holder of record of any share or shares of stock as the holder in fact thereof and, accordingly, will not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it has express or other notice thereof, except as otherwise provided by law.

ARTICLE VII GENERAL PROVISIONS

Section 7.1 Dividends. Dividends upon the outstanding shares of the Corporation, subject to the provisions of the Certificate of Incorporation, if any, may be declared by the Board of Directors at any regular or special meeting. Dividends may be declared and paid in cash, in property, or in shares of the Corporation's capital stock, subject to the provisions of the General Corporation Law of the State of Delaware and the Certificate of Incorporation. The Board of Directors may fix in advance a record date for the purpose of determining stockholders entitled to receive payment of any dividend, such record date will not precede the date upon which the resolution fixing the record date is adopted, and such record date will not be more than 60 days prior to the payment date of such dividend. In the absence of any action by the Board of Directors, the close of business on the date upon which the Board of Directors adopts the resolution declaring such dividend will be the record date.

Section 7.2 Reserves. There may be created by resolution of the Board of Directors, out of the surplus of the Corporation, such reserve or reserves as the Board of Directors from time to time, in their discretion, deem proper to provide for contingencies, or to equalize dividends, or to repair or maintain any property of the Corporation, or for such other purpose as the Board of Directors may deem beneficial to the Corporation, and the Board of Directors may modify or abolish any such reserve in the manner in which it was created. Surplus of the Corporation to the extent so reserved will not be available for the payment of dividends or other distributions by the Corporation.

Section 7.3 Telephone and Similar Meetings. Stockholders, directors and committee members may participate in and hold meetings by means of conference telephone or similar communications equipment by which all persons participating in the meeting can hear each

other. Participation in such a meeting will constitute presence in person at the meeting, except where a person participates in the meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business on the ground that such meeting has not been lawfully called or convened.

Section 7.4 Books and Records. The Corporation will keep correct and complete books and records of account and minutes of the proceedings of its stockholders and Board of Directors, and will keep at its registered office or principal place of business, or at the office of its transfer agent or registrar, a record of its stockholders, giving the names and addresses of all stockholders and the number and class of the shares held by each.

~~**Section 7.5 Fiscal Year.** The fiscal year of the Corporation will be fixed by resolution of the Board of Directors.~~

Section 7.6 Seal. The Corporation may have a seal, and the seal may be used by causing it or a facsimile thereof to be impressed or affixed or reproduced or otherwise. Any officer of the Corporation will have authority to affix the seal to any document requiring it.

Section 7.7 Advances of Expenses. The Corporation will advance to its directors and officers expenses incurred by them in connection with any "*Proceeding*," which term includes any threatened, pending or completed action, suit or proceeding, whether brought by or in the right of the Corporation or otherwise and whether of a civil, criminal, administrative or investigative nature (including all appeals therefrom), in which a director or officer may be or may have been involved as a party or otherwise, by reason of the fact that he is or was a director or officer of the Corporation, by reason of any action taken by him or of any inaction on his part while acting as such, or by reason of the fact that he is or was serving at the request of the Corporation as a director, officer, trustee, employee or agent of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise ("*Official*," which term also includes directors and officers of the Corporation in their capacities as directors and officers of the Corporation), whether or not he is serving in such capacity at the time any liability or expense is incurred; provided that the Official undertakes to repay all amounts advanced unless:

(i) in the case of all Proceedings other than a Proceeding by or in the right of the Corporation, the Official establishes to the satisfaction of the disinterested members of the Board of Directors that he acted in good faith or in a manner he reasonably believed to be in or not opposed to the best interests of the Corporation and, with respect to any criminal proceeding, that he did not have reasonable cause to believe his conduct was unlawful; provided that the termination of any such Proceeding by judgment, order of court, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not by itself create a presumption as to whether the Official acted in good faith or in a manner he reasonably believed to be in or not opposed to the best interests of the Corporation or, with respect to any criminal proceeding, as to whether he had reasonable cause to believe his conduct was unlawful; or

(ii) in the case of a Proceeding by or in the right of the Corporation, the Official establishes to the satisfaction of the disinterested members of the

Board of Directors that he acted in good faith or in a manner he reasonably believed to be in or not opposed to the best interests of the Corporation; provided that if in such a Proceeding the Official is adjudged to be liable to the Corporation, all amounts advanced to the Official for expenses must be repaid except to the extent that the court in which such adjudication was made shall determine upon application that despite such adjudication, in view of all the circumstances, the Official is fairly and reasonably entitled to indemnity for such expenses as the court may deem proper.

Section 7.8 Indemnification. The Corporation will indemnify its Directors according to the provisions of the Certificate of Incorporation or otherwise to the full extent permitted by the General Corporation Law of the State of Delaware and may, if and to the extent authorized by the Board of Directors, so indemnify its officers and any other person whom it has the power to indemnify against any liability, reasonable expense or other matter whatsoever.

Section 7.9 Insurance. At the discretion of the Board of Directors, the Corporation may purchase and maintain insurance on behalf of the Corporation and any person whom it has the power to indemnify pursuant to law, the Certificate of Incorporation, these Bylaws or otherwise.

Section 7.10 Resignation. Any director, officer or agent may resign by giving written notice to the President or the Secretary. Such resignation will take effect at the time specified therein or immediately if no time is specified therein. Unless otherwise specified therein, the acceptance of such resignation will not be necessary to make it effective.

Section 7.11 Amendment of Bylaws. These Bylaws may be altered, amended, or repealed at any meeting of the Board of Directors at which a quorum is present, by the affirmative vote of a majority of the Directors present at such meeting.

Section 7.12 Invalid Provisions. If any part of these Bylaws is held invalid or inoperative for any reason, the remaining parts, so far as possible and reasonable, will be valid and operative.

Section 7.13 Relation to the Certificate of Incorporation. These Bylaws are subject to, and governed by, the Certificate of Incorporation.

Appendix 12: Bylaws of Aberdeen Products, Inc.

BYLAWS OF ABERDEEN PRODUCTS, INCORPORATED

ARTICLE I Offices

1.01 The registered office of Aberdeen Products, Incorporated, a Texas corporation (the "Corporation"), shall be at the address provided in the Corporation's Articles of Incorporation. The name of the registered agent shall be as provided in the Corporation's Articles of Incorporation.

1.02 The Corporation also may have offices at such other places, both within and without the State of Texas, as the Corporation's board of directors (the "Board of Directors") may from time to time decide are necessary or proper to the business of the Corporation.

ARTICLE II Shareholders

2.01 All meetings of the shareholders for any purpose shall be held at such time and place, within or without the State of Texas, as shall be stated in the notice of the meeting or in a duly executed waiver of notice thereof.

2.02 Annual meetings of the shareholders shall be held at a time and on a day and month to be selected by the Board of Directors. At the meeting, the shareholders shall elect a Board of Directors and transact such other business as properly may be brought before the meeting.

2.03 Special meetings of the shareholders may be called as provided in the Corporation's Articles of Incorporation. A request directed to either the President or the Secretary shall state the purposes of the proposed meeting and business transacted at any special meeting of the shareholders shall be confined to the purposes stated in the notice of the meeting.

2.04 At least 10 days before each meeting of shareholders, a complete list of the shareholders entitled to vote at the meeting, arranged in alphabetical order, with the address of each and the number of voting shares held by each, shall be prepared by the officer or agent having charge of the stock transfer books. For a period of 10 days prior to the meeting, the list shall be kept on file at the registered office of the Corporation and shall be subject to inspection by any shareholder at any time during usual business hours. The list also shall be produced and kept open at the time and place of the meeting and shall be subject to inspection by any shareholder during the whole time of the meeting.

2.05 Written notice stating the place, day and hour of the meeting and, in the case of a special meeting, the purposes for which the meeting is called, shall be delivered not less than 10 nor more than 50 days before the date of the meeting, either personally or by mail, by or at the direction of the President, the Secretary, or the officer or person calling the meeting, to each shareholder of record entitled to vote at such meeting. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail, postage prepaid, addressed to the shareholder at his address as it appears on the stock transfer books of the Corporation.

2.06 The holders of 51 percent of the shares issued and outstanding and entitled to vote at such meeting, present in person or represented by proxy, shall be requisite and shall constitute a quorum at all meetings of the shareholders for the transaction of business, except as otherwise provided by statute or the Articles of Incorporation or these Bylaws. If a quorum is not present or represented at any meeting of the shareholders, the shareholders entitled to vote thereat, present in person or represented by proxy, shall

have the power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum is present or represented. At such adjourned meeting at which a quorum is present or represented, any business may be transacted which might have been transacted at the meeting as originally notified.

2.07 When a quorum is present at any meeting, the vote of the holders of 51 percent of the shares having voting power, present in person or represented by proxy, shall decide any question brought before such meeting, unless the question is one upon which a different vote is required by law, by the Articles of Incorporation or these Bylaws. The shareholders present at a duly organized meeting may continue to transact business until adjournment, notwithstanding the withdrawal of enough shares to leave less than a quorum.

2.08 Each outstanding share having voting power shall be entitled to one vote on each matter submitted to a vote at a meeting of the shareholders. A shareholder may vote either in person or by proxy executed in writing by the shareholder or by his duly authorized attorney in fact, but no proxy shall be valid after 11 months from the date of its execution, unless otherwise expressly provided in the proxy. Each proxy shall be revocable unless expressly provided therein to be irrevocable, and in no event shall it remain irrevocable for a period of more than 11 months. Each proxy shall be filed with the Secretary of the Corporation prior to or at the time of the meeting. Any vote must be taken by written ballot upon the oral request of any shareholder.

2.09 No action required by statute to be taken at a meeting of the shareholders, nor any action which may be taken at a meeting of the shareholders, may be effected by written consent of shareholders, unless the action to be effected by written consent of shareholders and the taking of such action by written consent have expressly been approved in advance by the Board of Directors. If previously approved, such signed written consent, or a signed copy thereof, shall be placed in the minute book of the Corporation.

ARTICLE III

Directors

3.01 The business and affairs of the Corporation shall be managed by its Board of Directors, which may exercise all powers of the Corporation and do all lawful acts and things as are not by statute or by the Articles of Incorporation or by these Bylaws directed or required to be exercised or done by the shareholders.

3.02 The number of directors which shall constitute the entire Board of Directors shall be determined by the Board of Directors from time to time but at no time shall be less than one (1).

3.03 Any vacancy occurring in the Board of Directors may be filled as provided in the Corporation's Articles of Incorporation. A director elected to fill a vacancy shall be elected for the unexpired term of his predecessor in office.

3.04 Any director may be removed with or without cause as provided in the Corporation's Articles of Incorporation.

3.05 Regular or special meetings of the Board of Directors may be held either within or without the State of Texas.

3.06 The Chairman of the Board, if one be elected by the Board, shall preside at all meetings of the Board of Directors and shall have such other powers and duties as may from time to time be

prescribed by the Board of Directors, upon written direction given to him pursuant to resolution duly adopted by the Board of Directors.

3.07 The first meeting of each newly elected Board of Directors shall be held at such time and place as shall be fixed by the vote of the shareholders at the annual meeting and no notice of such meeting shall be necessary to the newly elected directors in order legally to constitute the meeting, provided a quorum shall be present. If the shareholders fail to fix the time and place of such first meeting, it shall be held without notice immediately following the annual meeting of the shareholders, and at such time and place, unless by unanimous consent of the director then elected and serving, such time or place shall be changed.

3.08 Regular meetings of the Board of Directors may be held without notice at such time and place as shall from time to time be determined by the Board.

3.09 Special meetings of the Board of Directors may be called by the Chairman of the Board of Directors or the President and shall be called by the Secretary on the written request of one director. Notice of any special meeting of the Board of Directors shall be given to each director at least five days before the date of the meeting.

3.10 Attendance of a director at any meeting shall constitute a waiver of notice of such meeting, except where a director attends for the express purpose of objecting to the transaction of any business on the grounds that the meeting is not lawfully called or convened. Except as may be otherwise provided by law, by the Articles of Incorporation, or by these Bylaws, neither the business to be transacted at, nor the purpose of, any regular or special meeting of the Board of Directors need be specified in the notice or waiver of notice of such meeting.

3.11 At all meetings of the Board of Directors, 51 percent of the directors shall constitute a quorum for the transaction of business and the act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the Board of Directors. If a quorum shall not be present at any meeting of the directors, the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

3.12 The Board of Directors, by resolution passed by 51 percent of the entire Board, may from time to time designate members of the Board to constitute committees, including an executive committee, which shall in each case consist of such number of directors, not less than one, and shall have and may exercise such powers as the Board may determine and specify in the respective resolutions appointing them. A majority of all of the members of any such committee may determine its action and fix the time and place of any meeting, unless the Board of Directors shall otherwise direct. The Board of Directors shall have power at any time to change the number and the members of any such committee, to fill vacancies and to discharge any such committee.

3.13 Any action required or permitted to be taken at a meeting of the Board of Directors or at any executive committee may be taken without a meeting if a consent in writing setting forth the actions so taken is signed by all the members of the Board of Directors or such committee, as the case may be.

3.14 By resolution of the Board of Directors, the directors may be paid their expenses, if any, of attending each meeting of the Board and may be paid a fixed sum for attending each meeting of the Board or the stated salary for a director. No such payment shall preclude any director from serving the Corporation in any other capacity and receiving compensation therefor. Members of the executive committee or of special or standing committees may, by resolution of the Board of Directors, be allowed like compensation for attending committee meetings.

3.15 The Board of Directors shall keep regular minutes of its proceedings and such minutes shall be placed in the minute book of the Corporation.

ARTICLE IV

Notices

4.01 Any notice to directors or shareholders shall be in writing and shall be delivered personally or mailed to the directors or shareholders at their respective addresses appearing on the books of the Corporation. Notice by mail shall be deemed to be given at the time when the same shall be deposited in the United States mail, postage prepaid.

4.02 Any notice required to be given may be subject to a waiver thereof in writing signed by the person or persons entitled to such notice, whether before or after the time stated therein, and such waiver shall be deemed equivalent to the giving of such notice in a timely manner. Any such signed waiver of notice, or a signed copy thereof, shall be placed in the minute book of the Corporation. Attendance of such persons at any meeting shall constitute a waiver of notice of such meeting, except where the persons attend for the express purpose of objecting that the meeting is not lawfully convened.

ARTICLE V

Officers

5.01 The Board of Directors shall elect a President, a Treasurer and a Secretary and such other officers and assistant officers as it may deem desirable to have to conduct the affairs of the Corporation.

5.02 The Corporation also may have, at the discretion of the Board of Directors, a Chairman of the Board, and such other officers or assistant officers as may be appointed in accordance with the preceding paragraph.

5.03 The salaries of all officers and employees of the Corporation shall be fixed by the Board of Directors. The Board of Directors shall have the power to enter into contracts for the employment and compensation of officers and employees on such terms as the Board deems advisable.

5.04 The officers of the Corporation shall hold office until their successors are elected or appointed and qualified, or until their death, resignation, or removal from office. Any officer elected or appointed by the Board of Directors may be removed at any time by the Board, but such removal shall be without prejudice to the contractual rights, if any, of the person so removed. Election or appointment of an officer or employee shall not of itself create contractual rights. Any vacancy occurring in any office of the Corporation, by death, resignation, removal, or otherwise, may be filled by the Board of Directors.

5.05 Any officer may be removed, whether with or without cause, by the Board of Directors, at any regular or special meeting, or, except in the case of an officer chosen by the Board of Directors, by any officer upon whom such power of removal may be conferred by the Board of Directors.

5.06 If any office becomes vacant by reason of death, resignation or removal, the Board of Directors shall elect a successor who shall hold office for the unexpired term, and until his successor is elected.

5.07 The Board of Directors, except as otherwise provided in these Bylaws, may authorize any officer to enter into any contract or execute and deliver any instrument in the name of and on behalf of the Corporation, and such authority may be general or confined to specific instances. Unless so authorized,

no officer, agent, or employee shall have any power or authority to bind the Corporation by any contract or engagement or to pledge its credit or to render it liable pecuniarily for any purpose or in any amount.

5.08 The President shall be the chief executive officer of the Corporation, shall have general and active management of the business of the Corporation and shall see that all orders and resolutions of the Board of Directors are carried into effect. He shall preside at all meetings of the shareholders and, in the absence of a Chairman of the Board, at all meetings of the Board of Directors.

5.09 If any, the Vice-Presidents, in the order of their seniority, unless otherwise determined by the Board of Directors, in the absence or disability of the President, shall perform the duties and have the authority and exercise the powers of the President. They shall perform such other duties and have such other authority and powers as the Board of Directors may from time to time prescribe or as the President may from time to time delegate.

5.10 The Secretary shall attend all meetings of the Board of Directors and of the shareholders and record all business transacted at such meetings in a minute book to be kept for that purpose and he shall perform like duties for the standing committees when required. He shall give, or cause to be given, notice of all meetings of the shareholders and regular and special meetings of the Board of Directors, and shall perform such other duties as may be prescribed by the Board of Directors, or President, under whose supervision he shall be. He shall keep and take custody of the seal of the Corporation and, when authorized by the Board of Directors, shall affix the same to any instrument requiring it, and when so affixed, it shall be attested by his signature or by the signature of an Assistant Secretary or of the Treasurer.

5.11 The Assistant Secretaries, if any, shall, in the absence or disability of the Secretary, perform the duties and exercise the powers of the Secretary. They shall perform such other duties and have such other powers as the Board of Directors may from time to time prescribe or as the President from time to time may delegate.

5.12 The Treasurer shall have the custody of the Corporation funds and securities and shall keep full and accurate accounts and records of receipts, disbursements and other transactions in books belonging to the Corporation and shall deposit all funds and other valuable effects in the name and to the credit of the Corporation in such depositories as may be designated by the Board of Directors.

5.13 The Treasurer shall disburse funds of the Corporation as may be ordered by the Board of Directors, taking proper vouchers for such disbursements, and shall render to the President and the Board of Directors at the regular meetings of the Board, or whenever they may require it, an account of all his transactions as Treasurer and of the financial condition of the Corporation.

5.14 The Treasurer shall perform such other duties and have such other authority as the Board of Directors may from time to time prescribe, or as the President may from time to time delegate.

5.15 The Assistant Treasurers, if any, in the order of their seniority, unless otherwise determined by the Board of Directors, shall, in the absence or disability of the Treasurer, perform the duties and have the authority and exercise the powers of the Treasurer. They shall perform such other duties and have such other powers as the Board of Directors may from time to time prescribe or the President may from time to time delegate.

ARTICLE VI

Certificates and Shareholders

6.01 Certificates for shares of the stock of the Corporation shall be in such form as shall be required by law and as shall be approved by the Board of Directors. Every certificate for shares issued by the Corporation must be signed by the President, or a Vice-President and the Secretary, or an Assistant Secretary. Such certificate shall bear a legend in the form and containing the restrictions required to be thereon by the Texas Business Corporation Act.

6.02 Certificates shall be delivered representing all shares to which shareholders are entitled. Each certificate shall be consecutively numbered and shall be entered into the books of the Corporation as they are issued. Each certificate shall state on the face thereof the holder's name, the number and class of shares, the par value of such shares, and such other matters as may be required by law, the Articles of Incorporation or these Bylaws.

6.03 The Board of Directors may direct a new certificate or certificates to be issued in place of any certificate previously issued by the Corporation alleged to have been lost or destroyed, upon the making of an affidavit of that fact by the person claiming the loss or destruction. In so doing the Board of Directors may in its discretion and as a condition precedent to the issuance of any such certificate (a) require the owner of the lost or destroyed certificate, or his legal representative, to advertise the same in such manner as it shall require and/or (b) to give the Corporation a bond (with a surety or sureties satisfactory to the Corporation) in such sum as it may direct, as indemnity against any claim, or expense resulting from any claim, that may be made against the Corporation with respect to the certificate alleged to have been lost or destroyed.

6.04 Shares of stock shall be transferable only on the books of the Corporation by the holder thereof in person or by his duly authorized attorney. Upon surrender to the Corporation or its transfer agent of a certificate representing shares properly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer, the Corporation or its transfer agent shall issue a new certificate to the person entitled thereto, cancel the old certificate and record the transaction upon its books.

6.05 The Corporation shall be entitled to treat the holder of record of any share or shares of stock as the holder in fact thereof and, accordingly shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it has express or other notice thereof, except as otherwise provided by law, or any stock purchase and redemption agreement to which the stock may be subject.

ARTICLE VII

Other Provisions

7.01 Dividends may be declared by the Board of Directors at any regular or special meeting and may be paid in cash, in property, or in shares of the Corporation, subject to the provisions of the Articles of Incorporation and to the Texas Business Corporation Act. The declaration and payment of dividends shall be at the discretion of the Board of Directors.

7.02 Before payment of any dividend, the Board of Directors may create and set aside funds and reserves such as the directors, from time to time and in their absolute discretion, think proper to provide for contingencies, or to equalize dividends, or to repair or maintain any property of the Corporation, or for any other purpose they think beneficial to the Corporation. The directors may modify or abolish any such reserve or fund in the manner in which it was created.

7.03 The Corporation shall keep correct and complete books and records of account and shall keep minutes of the proceedings of its shareholders and Board of Directors, and shall keep at its registered office or principal place of business, or at the office of its transfer agent or registrar, a record of its shareholders, giving the names and addresses of all shareholders and the number and class of the share held by each.

7.04 All checks or demands for money and notes of the Corporation shall be signed by such officer or officers or such other person or persons as the Board of Directors may from time to time designate.

7.05 The fiscal year of the Corporation shall be fixed by resolution of the Board of Directors.

~~7.06 The Board of Directors shall present at each annual meeting of shareholders a full and clear statement of the business and condition of the Corporation, including a reasonably detailed balance sheet, income statement, and surplus statement.~~

7.07 The Corporation's seal shall be in such form as may be prescribed by the Board of Directors. The seal may be used by causing it or a facsimile thereof to be impressed or affixed or in any manner reproduced.

7.08 Any director, officer or agent may resign by giving written or oral notice to the Board of Directors, or to the President or the Secretary. Any such resignation shall take effect at the time specified therein, or immediately if no time is specified therein. Unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

ARTICLE VIII Amendment and Construction

8.01 These Bylaws may be altered, amended, or repealed, or new Bylaws may be adopted as provided in the Corporation's Articles of Incorporation.

8.02 If any portion of these Bylaws shall be invalid or inoperative, then, so far as is reasonable, the remainder of these Bylaws shall be considered valid and operative and effect shall be given to the intent manifested by the portion held invalid or inoperative.

**Appendix 13: Financial statements for Varel Oil and Gas Inc. as of and for the financial years ended 31
December 2023 and 31 December 2022**

Varel Oil and Gas Inc.

**Separate Financial Statements
December 31, 2023 and 2022**

Varel Oil and Gas Inc.
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December 31, 2023 and 2022

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Report of Independent Auditors

To the Management of Varel Oil and Gas, Inc.

Opinion

We have audited the accompanying financial statements of Varel Oil and Gas, Inc. (the "Company"), which comprise the statements of financial position as of December 31, 2023 and 2022, and the related statements of loss and comprehensive loss, of changes in shareholders' equity and of cash flows for the years then ended, including the related notes (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern for at least, but not limited to, twelve months from the end of the reporting period, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.



In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

A handwritten signature in blue ink, appearing to read "Priscilla Handley" followed by a stylized flourish.

New Orleans, Louisiana
November 2, 2024

Varel Oil and Gas Inc.
Statements of Financial Position
Years Ended December 31, 2023 and 2022

(in thousands of U.S. dollars)

	Notes	2023	2022
Assets			
Noncurrent assets			
Investments	(9)	\$ 125,473	\$ 99,733
Total noncurrent assets		125,473	99,733
Current assets			
Cash		273	84
Note receivable, related party		-	24,570
Other current assets		-	461
Receivables from affiliates		9,412	1,667
Total current assets		9,685	26,782
Total assets		\$ 135,158	\$ 126,515
Equity			
Share premium		\$ 114,124	\$ 88,384
Accumulated deficit		(25,590)	(16,350)
Equity attributable to owners of Varel		88,534	72,034
Total equity		88,534	72,034
Liabilities			
Noncurrent liabilities			
Borrowings	(4)	29,195	27,097
Total noncurrent liabilities		29,195	27,097
Current liabilities			
Trade payables		1,614	782
Trade payables, related parties		313	288
Accrued liabilities		34	-
Current portion of borrowings	(4)	1,744	1,744
Current portion of borrowings, related parties	(8)	13,724	24,570
Total current liabilities		17,429	27,384
Total liabilities		46,624	54,481
Total shareholders' equity and liabilities		\$ 135,158	\$ 126,515

The accompanying notes are an integral part of these separate financial statements.

Varel Oil and Gas Inc.
Statements of Loss and Comprehensive Loss
Years Ended December 31, 2023 and 2022

(in thousands of U.S. dollars)

	Notes	2023	2022
Continuing Operations			
Selling, general and administrative expenses	(5)	\$ (4,764)	\$ (1,576)
Other income (expense)	(6)	<u>1,731</u>	<u>(682)</u>
Operating loss		(3,033)	(2,258)
Finance income, related party		1,170	1,170
Finance costs, related party		(2,894)	(1,170)
Finance costs		<u>(4,444)</u>	<u>(2,498)</u>
Loss before income tax		(9,201)	(4,756)
Income tax expense		<u>(39)</u>	<u>(196)</u>
Loss for the period		(9,240)	(4,952)
Other comprehensive income			
Total comprehensive loss for the period		<u>\$ (9,240)</u>	<u>\$ (4,952)</u>
Loss for the period attributable to:			
Owners of Varel		<u>\$ (9,240)</u>	<u>\$ (4,952)</u>
		<u>\$ (9,240)</u>	<u>\$ (4,952)</u>

The accompanying notes are an integral part of these separate financial statements.

Varel Oil and Gas Inc.
Statements of Changes in Equity
Years Ended December 31, 2023 and 2022

<i>(in thousands of U.S. dollars)</i>	Share Premium	Accumulated Deficit	Equity Attributable to Owners of Varel	Total Equity
Balance at December 31, 2021	<u>\$ 88,384</u>	<u>\$ (11,398)</u>	<u>\$ 76,986</u>	<u>\$ 76,986</u>
Loss for the period	<u>-</u>	<u>(4,952)</u>	<u>(4,952)</u>	<u>(4,952)</u>
Balance at December 31, 2022	<u>\$ 88,384</u>	<u>\$ (16,350)</u>	<u>\$ 72,034</u>	<u>\$ 72,034</u>
Loss for the period	<u>-</u>	<u>(9,240)</u>	<u>(9,240)</u>	<u>(9,240)</u>
Capital contribution	<u>25,740</u>	<u>-</u>	<u>25,740</u>	<u>25,740</u>
Balance at December 31, 2023	<u>\$ 114,124</u>	<u>\$ (25,590)</u>	<u>\$ 88,534</u>	<u>\$ 88,534</u>

The accompanying notes are an integral part of these separate financial statements.

Varel Oil and Gas Inc.

Statements of Cash Flows

Years Ended December 31, 2023 and 2022

(in thousands of U.S. dollars)

	Notes	2023	2022
Cash flows from operating activities			
Loss for the period		\$ (9,240)	\$ (4,952)
Adjustments for			
Amortization of deferred financing costs	(4)	381	366
(Gain) Loss on foreign currency	(6)	(10)	17
Finance income		(1,170)	(1,170)
Finance costs		7,338	3,668
Changes in			
Receivables from affiliates		10	(17)
Prepays and other assets		476	(285)
Trade and other payables		832	691
Other liabilities		(1,652)	(1,481)
Accounts receivable, related parties		(7,745)	-
Accounts payable, related parties		1,749	(1,745)
Cash used in operating activities		(9,031)	(4,908)
Interest paid		(3,600)	(2,177)
Income taxes paid		(39)	(196)
Net cash used in operating activities		(12,670)	(7,281)
Cash flows from financing activities			
Proceeds from long-term borrowings	(4)	1,937	10,000
Proceeds from borrowings, related party	(8)	12,000	-
Repayments of long-term borrowings	(4)	(1,063)	(2,125)
Long term note intercompany		(15)	(515)
Net cash provided by financing activities		12,859	7,360
Net increase in cash and cash equivalents		189	79
Cash and cash equivalents			
Beginning of year		84	5
End of year		\$ 273	\$ 84
Supplemental non-cash investing activities			
Non-cash capital contribution with VOIGH		\$ 25,740	\$ -
Supplemental non-cash financing activities			
Non-cash note receivable with DPH		\$ -	\$ (23,400)

The accompanying notes are an integral part of these separate financial statements.

Varel Oil and Gas Inc.

Notes to Financial Statements

Years Ended December 31, 2023 and 2022

(tables in thousands of dollars, except for share and per share amounts)

1. Nature of Operations

Varel Oil and Gas Inc. ("Varel" or the "Company") was founded in 2019 as a Delaware Corporation domiciled in the United States of America. Varel primarily designs, manufactures, and supplies products to the drilling, well construction, and completion solutions businesses within the energy sector. The Company sells its products globally in the key markets of America, Europe, Asia, and the Middle East.

These Separate Financial Statements were authorized for issuance by the Board of Directors on November 2, 2024.

2. Summary of Material Accounting Policies

Basis of Presentation

The Separate Financial Statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS Accounting Standards") as issued by the International Accounting Standards Board ("IASB").

The Separate Financial Statements have been prepared under the historical cost convention except for certain items measured at fair value. The investments in subsidiaries are accounted for using the cost method.

New and amended standards adopted by the Company

There were no new or amended standards adopted by the Company in the year ended December 31, 2023 that materially impacted the Company.

IAS 1 - Disclosure of Accounting Policies

In February 2021, IASB issued 'Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)' which is intended to help entities in deciding which accounting policies to disclose in their financial statements. The amendments to IAS 1 require entities to disclose their material accounting policies rather than their significant accounting policies. Management has conducted an evaluation of the materiality of the accounting policies reported in its separate financial statements, considering both the materiality and nature of the transactions disclosed.

IAS 8 - Definition of Accounting Estimates

In February 2021, IASB issued 'Definition of Accounting Estimates (Amendments to IAS 8)' to help entities to distinguish between accounting policies and accounting estimates. The definition of a change in accounting estimates has been replaced with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". Entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty. The adoption of this amendment has no material impact on the Company's financial statements.

New and revised standards issued but not effective

The Company has not yet determined the impact of these revised standards on its financial statements that have been issued but are not yet effective:

Varel Oil and Gas Inc.

Notes to Financial Statements

Years Ended December 31, 2023 and 2022

(tables in thousands of dollars, except for share and per share amounts)

- Amendments to IFRS 16 Lease Liability in a sale and Leaseback *
- Amendments to IAS 1 Non-current Liabilities with Covenants *
- Amendments to IAS 1 Classification of Liabilities *
- Amendments to IAS 7 and IFRS 7 Supplier Finance Arrangements *
- Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates **

* Effective for annual periods beginning on or after January 1, 2024.

** Effective for annual periods beginning on or after January 1, 2025.

IFRS 16 - Lease Liability in a Sale and Leaseback

In September 2022, the IASB issued 'Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)' with amendments that clarify how a seller-lessee subsequently measures sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale.

IAS 1 - Non-current Liabilities with Covenants

In October 2022, IASB issued 'Non-current Liabilities with Covenants (Amendments to IAS 1)' to clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability.

IAS 1 - Classification of Liabilities

In January 2020, IASB issued the final amendments in Classification of Liabilities as Current or Non-Current, which affect only the presentation of liabilities in the statement of financial position. They clarify that classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the "right" to defer settlement by at least twelve months. The classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability.

IAS 7 and IFRS 7 - Supplier Finance Arrangements

In May 2023, the IASB issued 'Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)' which require an entity to provide additional disclosures about supplier finance arrangements. Solely credit enhancements for the entity or instruments used by the entity to settle their dues, are not supplier finance arrangements. Entities will have to disclose information that enables users of financial statements to assess how these arrangements affect its liabilities and cash flows and to understand their effect on an its exposure to liquidity risk and how it might be affected if the arrangements were no longer available to it.

IAS 21 - The Effects of Changes in Foreign Exchange Rates

Varel Oil and Gas Inc.

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(tables in thousands of dollars, except for share and per share amounts)

In August 2023, the IASB issued 'Lack of Exchangeability (Amendments to IAS 21)' to provide guidance to specify which exchange rate to use when the currency is not exchangeable. An entity must estimate the spot exchange rate as the rate that would have applied to an orderly transaction between market participants at the measurement date and that would faithfully reflect the economic conditions prevailing.

Use of Estimates

The preparation of financial statements in conformity with IFRS Accounting Standards requires the use of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses, as well as amounts included in the notes thereto, including discussion and disclosure of contingent liabilities. Although the Company uses its best estimates and judgments, actual results could differ from these estimates as future confirming events occur.

Cash

Cash includes cash on hand and demand deposits.

Receivables from affiliates

Receivables from affiliates are recognized when the Company has a legal right to receive cash or other assets from the affiliate, and it is probable that the economic benefits will flow to the Company. Receivables from affiliates are recognized initially at the unconditional amount of consideration. Due to the short-term nature of Receivables from affiliates, the carrying amount approximates fair value.

Trade Payables

Trade payables represent liabilities incurred by the Company for the procurement of goods and services. The amounts are unsecured and are paid within 90 days of recognition. Trade payables are presented as current liabilities, initially recognized at fair value and subsequently measured at amortized cost using the effective interest method. Due to the short-term nature, the carrying amount is approximates fair value.

Borrowings

Borrowings are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a prepayment within Borrowings and amortized over the period of the facility.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid,

Varel Oil and Gas Inc.

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including any noncash assets transferred or liabilities assumed, is recognized in the Separate Statement of Loss and Comprehensive Loss as Other income/(losses) or Finance cost.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months following the balance sheet date.

The Company considers interest expense calculated by the effective interest method, finance charges in respect of finance leases, and exchange differences arising from adjustments to foreign currency borrowing as borrowing costs.

Income Taxes

The Company is a corporation for U.S. federal and state income tax purposes, and accordingly, the Company records taxes in profit or loss, except to the extent that it relates to items recognized in Other Comprehensive Income or directly in equity. The Company also has certain subsidiaries that are subject to foreign income taxes.

The current income tax provision is calculated based on tax rates and laws enacted or substantively enacted on the reporting date in the countries where the Company's subsidiaries operate and generate taxable income.

The Company recognizes deferred tax assets to the extent that it believes it is probable the assets will be realized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except for deferred income tax liabilities where the timing of reversal of the temporary differences is controlled by the Group and it is probable that the temporary differences will not reverse in the near future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

3. Critical Accounting Estimates and Judgments

The preparation of the Separate Financial Statements in conformity with IFRS Accounting Standards requires management to make judgments, estimates and assumptions that affect the application of accounting policies, the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Actual results could differ from these estimates. These estimates and underlying assumptions are reviewed on a continuous basis. Changes in these accounting estimates are recognized in the period in which the estimates were revised and in any future periods affected.

Information about important estimation and judgments that have significant effects on the amounts recognized in the Separate Financial Statements is as follows:

Taxes

Tax liabilities are recognized when it is considered probable that there will be a future outflow of funds to a taxing authority. In such cases, provision is made for the amount expected to be settled, where this can be reasonably estimated. Provisions for uncertain income tax positions or treatments are measured at the most likely amount or the expected value, whichever method is

Varel Oil and Gas Inc.
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more appropriate. Generally, uncertain tax treatments are assessed individually, except where they are expected to be settled collectively. It is assumed that taxing authorities will examine positions taken if they have the right to do so and that they have full knowledge of the relevant information. A change in the estimate of the likelihood of a future outflow and/or in the expected amount to be settled would be recognized in the results of operations in the period in which the change occurs. This requires the application of judgment as to the ultimate outcome, which can change over time depending on facts and circumstances. Judgments relate to transfer pricing, including inter-company financing, expenditure deductible for tax purposes and taxation arising at disposal.

Deferred tax assets are recognized only to the extent it is considered probable those assets will be recovered. This involves an assessment of when those assets are likely to reverse and a judgment as to whether there will be sufficient taxable profits available to offset the assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. To the extent assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized as deferred tax assets as well as in the amounts recognized in Separate Statement of Loss and Comprehensive Loss in the period in which the change occurs.

4. Borrowings

	Current	Noncurrent	Total
External loans	\$ 2,146	\$ 28,081	\$ 30,227
Paid-in-kind	-	1,189	1,189
Debt issuance costs	(402)	(75)	(477)
Borrowings at December 31, 2023	<u>\$ 1,744</u>	<u>\$ 29,195</u>	<u>\$ 30,939</u>

	Current	Noncurrent	Total
External loans	\$ 2,125	\$ 26,716	\$ 28,841
Paid-in-kind	-	859	859
Debt issuance costs	(381)	(478)	(859)
Borrowings at December 31, 2022	<u>\$ 1,744</u>	<u>\$ 27,097</u>	<u>\$ 28,841</u>

External Loans

BWE entered in a Senior Facility Agreement with Investec Bank PLC on October 28, 2019 ("Senior Facility Agreement"). The Senior Facility Agreement ensured funding up to \$35 million allocated between an A Facility, B Facility and a Revolver. The Company further entered into a Floating Charge Agreement with Investec Bank PLC on May 29, 2020, to secure the obligations set forth within the Senior Facilities Agreement.

On August 31, 2023, the Company amended the Senior Facilities Agreement, which in addition to certain other terms, waived the Company's covenant requirements from March 31, 2022 through to March 31, 2023, and provided a moratorium on amortization payments for the quarters ending September 30, 2023 and December 31, 2023. As part of the amendment, the Company engaged a debt advisor in September 2023 and agreed to complete the refinancing of the Senior Facilities Agreement by March 31, 2024.

Varel Oil and Gas Inc.

Notes to Financial Statements

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A Facility

On March 2, 2020, the Company entered into a loan agreement with Investec Bank PLC which allows it to draw funds up to \$8.5 million through March 2025. The loan accrues interest at SOFR plus 6.5 basis points per annum. Payments are due quarterly following a 12-month grace period and the loan matures on March 2, 2025. The debt issuance costs of \$451,000 are presented as a direct deduction from Borrowings amortized over the life of the loan. As of December 31, 2023 the Company had an outstanding balance of \$2.8 million, net of debt issuance costs of \$68,000 respectively.

B Facility

On March 2, 2020, the Company entered into a loan agreement with Investec Bank PLC which allows the Company to draw funds up to \$16.5 million through to March 2025. The loan accrues interest at SOFR plus 6.5 basis points per annum plus 2% Paid-in-kind ("PIK") interest. A bullet payment is due when the loan matures on March 2, 2025. The debt issuance costs of \$875,000 are presented as a direct deduction from Borrowings amortized over the life of the loan. As of December 31, 2023 the Company had an outstanding balance of \$16.3 million, net of debt issuance costs of \$208,000.

Revolver Facility

On March 2, 2020, the Company entered into a revolving loan agreement with Investec Bank PLC which allows the Company to draw funds up to \$10.0 million through March 2025. The loan accrues Drawn interest at SOFR plus 6.5 basis points per annum plus and 2.275% basis points on the undrawn funds per annum. A bullet payment is due when the loan matures on March 2, 2025. The debt issuance costs of \$530,000 are presented as a direct deduction from Borrowings amortized over the life of the loan. As of December 31, 2023, the Company had an outstanding balance of \$11.8 million.

For the years ended December 31, 2023, and 2022, interest expense of \$ 4.4 million and \$2.5 million, respectively, were incurred on external loans.

Refer to Footnote 8, Related Party Transactions, for information on intercompany borrowings. On April 10, 2024, the Company repaid \$32.0 million. Refer to Footnote 10, Subsequent Events, for additional information on the repayments.

Fair Value of Borrowings

As the Company's external borrowings are issued with floating rates of interest and the Company's exposure to risk has remained materially unchanged, the carrying value of borrowings approximates its fair value.

Debt Covenants

The Company has certain financial covenants for its loans to maintain a minimum debt to equity ratio of 2.60 to 1 and cash flow shall not be less than negative \$1.8 million in any quarter-end periods. The Company was in compliance with all covenants for the year ended December 31, 2023.

The Company was in compliance with all covenants for the years ended December 31, 2023 and 2022.

Varel Oil and Gas Inc.
Notes to Financial Statements
Years Ended December 31, 2023 and 2022

(tables in thousands of dollars, except for share and per share amounts)

Reconciliation of liabilities arising from financial activities for the year ended December 31, 2023:

	Beginning of Year	Cash Flow	Amortization of Deferred Financing Costs	PIK	End of Year
Borrowings	\$ 28,841	\$ 875	\$ 381	\$ 842	\$ 30,939

Reconciliation of liabilities arising from financial activities for the year ended December 31, 2022:

	Beginning of Year	Cash Flow	Amortization of Deferred Financing Costs	PIK	End of Year
Borrowings	\$ 20,299	\$ 7,875	\$ 366	\$ 301	\$ 28,841

5. Selling, General, and Administrative Expenses

	2023	2022
General administrative	109	33
Information technology	5	-
Professional and legal fees	4,650	1,543
Total selling, general, and administrative	<u>\$ 4,764</u>	<u>\$ 1,576</u>

6. Other Losses

	2023	2022
Net foreign exchange gains (losses)	10	(17)
Net other income (losses)	<u>1,721</u>	<u>(665)</u>
Other income (losses), net	<u>\$ 1,731</u>	<u>\$ (682)</u>

Varel Oil and Gas Inc.
Notes to Financial Statements
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(tables in thousands of dollars, except for share and per share amounts)

7. Income Taxes

The table below reconciles the Company's income taxes computed by applying the statutory federal income tax rate to earnings before income taxes to its effective tax provision for the years ended December 31, 2023 and 2022, respectively:

	2023	2022
Accounting profit before tax	\$ (9,201)	\$ (4,756)
US statutory tax rate of the reporting entity	21%	21%
Expected total tax income	<u>(1,932)</u>	<u>(999)</u>
Reconciling items		
Expenses not deductible for tax purposes	19	4
Unrecognized deferred tax benefit	1,913	994
Other	<u>39</u>	<u>197</u>
Total current and deferred tax expense	<u>\$ 39</u>	<u>\$ 196</u>

The Company has a total of \$1.9 million and \$1.0 million of unused tax losses at December 31, 2023 and 2022, respectively. None of these amounts have been recognized for deferred tax purposes at December 31, 2023 and 2022, respectively. Additionally, the Company has \$2.9 million of interest expense carry forwards at December 31, 2023 for which no deferred tax has been recognized.

8. Related Party Transactions

Intercompany Loans

On June 30, 2022, Varel Oil and Gas Intermediate Holdings Inc. ("VOIGH") executed an Intra-Group Loan Agreement with the Company, transferring \$23.4 million to the Company at 10% coupon payable within a year. Immediately following, the Company executed an Intra-Group Loan Agreement with Downhole Products Limited ("DPH"), a wholly owned subsidiary of the Company, transferring \$23.4 million to DPH at 10% coupon payable within a year. The Intra-Group loans agreements were forgiven by VOIGH and the Company on June 28, 2023.

On March 11, 2023, the Company entered into a loan agreement with VOIGH which allows the Company to draw funds up to \$5.4 million with a maturity date of March 10, 2024. The loan accrues interest at 18% per annum. As of December 31, 2023, the Company had an outstanding balance of \$6.1 million.

On June 12, 2023, the Company entered into a second loan agreement with VOIGH which allows the Company to draw funds up to \$6.6 million with a maturity date of June 11, 2024. The loan accrues interest at 25% per annum. As of December 31, 2023, the Company had an outstanding balance of \$7.6 million.

For the years ended December 31, 2023 and 2022, interest expense of \$2.9 million and \$1.2 million, respectively, were incurred on intercompany loans.

For the years ended December 31, 2023 and 2022, interest income of \$1.2 million and \$1.2 million, respectively, were incurred on intercompany loans.

Varel Oil and Gas Inc.

Notes to Financial Statements

Years Ended December 31, 2023 and 2022

(tables in thousands of dollars, except for share and per share amounts)

A reconciliation of the current portion of borrowings, related parties the year ended December 31, 2023:

	Beginning of Year	Cash Flow	Accrued Interest	Loan Forgiveness	End of Year
Current portion of borrowings, related parties	\$ 24,570	\$ 12,000	\$ 2,894	\$ (25,740)	\$ 13,724

A reconciliation of the current portion of borrowings, related parties the year ended December 31, 2022:

	Beginning of Year	Related party Loan (non- cash)	Accrued Interest	End of Year
Current portion of borrowings, related parties	\$ -	\$ 23,400	\$ 1,170	\$ 24,570

Fair Value of Borrowings

The fixed-rate intercompany notes are recorded at amortized cost, which approximates their fair value due to the nature of the terms and prevailing interest rates in the market. The interest rates on these notes are consistent with market rates for similar instruments, reflecting the credit quality and liquidity of the counterparties involved.

9. Share in subsidiaries

The Company has a direct investment in the following company:

Entity	Country	Ownership %	Currency
Varel International Energy Services, Inc.	United States	100%	USD

Additionally, the Company has indirect investments in the following companies:

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Notes to Financial Statements
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(tables in thousands of dollars, except for share and per share amounts)

Entity	Country	Ownership %	Currency
DHP Varel, Inc.	United States	100%	USD
Downhole Products UK Holdco Limited	United Kingdom	100%	USD
Downhole Products UK Holdco II Limited	United Kingdom	100%	USD
Varel International Holdings, LLC	United States	100%	USD
Varel International Industries, LLC	United States	100%	USD
Varel Energy Oil Field Equipment Trading L.L.C	Dubai	100%	USD
Varel International de Mexico S.A. de C.V.	Mexico	100%	MXN
Varel Gas y Petroleo de Mexico S de RL CV	Mexico	100%	MXN
Varel Rock Bits Canada, Inc.	Canada	100%	CAD
Varel Europe S.A.S.	Europe	100%	USD
Varel International Engineering Resources SA	Switzerland	100%	USD
Varel Gabon SARL	Gabon	100%	XAF
Varel (Beijing) Trading Co., Ltd.	China	100%	CNY
Varel Arabia Company Limited	Saudi Arabia	75%	USD
Varel International (for Oil Products & Services)	Egypt	100%	USD
Varel Europe Pakistan Branch Office	Pakistan	100%	USD
SledgeHammer Oil Tools Pvt. Ltd.	India	78%	INR
SledgeHammer Gulf - LLC	India	49%	INR
SledgeHammer Oil Tools International Company	India	33%	INR
SledgeHammer Gulf DMCC	Dubai	100%	INR
SledgeHammer Americas Inc.	Texas	100%	INR
Down Hole Products Limited	United Kingdom	100%	USD
Aberdeen Products, Inc.	United States	100%	USD
Downhole Products Middle East	The United Arab Emirates	100%	AED
Down Hole Products Asia	Malaysia	100%	MYR
Ian Hay Engineering Limited	United Kingdom	100%	GBP
Smooth Team Investments Limited	Hong Kong	100%	GBP

10. Subsequent Events

The Company has evaluated subsequent events through November 2, 2024, the date that the Separate Financial Statements were available for issuance.

Bond Issuance

On April 4, 2024, the Company issued four-year \$60.0 million Senior Secured Bonds (the “bonds”). The bonds carry a fixed coupon of 12.25%, payable semi-annually.

Repayment of Borrowings

In connection with the issuance of the Bonds, on April 10, 2024, the Company used a portion of the proceeds to repay \$32.0 million of the Senior Facility Agreement.

Varel Oil and Gas Inc.

**Consolidated Financial Statements
December 31, 2023 and 2022**

Varel Oil and Gas Inc.
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December 31, 2023 and 2022

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Report of Independent Auditors

To the Management of Varel Oil and Gas Inc.

Opinion

We have audited the accompanying consolidated financial statements of Varel Oil and Gas Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as of December 31, 2023 and 2022, and the related consolidated statements of loss and comprehensive loss, of changes in shareholders' equity and of cash flows for the years then ended, including the related notes (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern for at least, but not limited to, twelve months from the end of the reporting period, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial



likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

A handwritten signature in blue ink, appearing to read "Priscilla Handley-HP".

New Orleans, Louisiana
October 29, 2024

Varel Oil and Gas Inc.
Consolidated Statements of Financial Position
Years Ended December 31, 2023 and 2022

<i>(in thousands of U.S. dollars)</i>	Notes	2023	2022
Assets			
Noncurrent assets			
Property, Plant and Equipment	(9)	\$ 28,512	\$ 27,719
Right-of-use assets	(19)	8,074	5,842
Goodwill	(11)	8,420	8,475
Intangibles	(10)	11,226	13,342
Investments in affiliates		676	436
Deferred tax asset	(18)	4,037	3,613
Other assets		110	1,925
Total noncurrent assets		<u>61,055</u>	<u>61,352</u>
Current assets			
Cash		5,876	12,560
Trade receivables	(7)	37,017	33,834
Trade receivables, related parties	(6)	-	494
Income tax receivables		190	-
Inventories	(8)	62,171	53,027
Prepays and other current assets		16,263	17,500
Total current assets		<u>121,517</u>	<u>117,415</u>
Total assets		<u>\$ 182,572</u>	<u>\$ 178,767</u>
Equity			
Share premium		\$ 456,796	\$ 430,380
Accumulated deficit		(415,281)	(404,944)
Accumulated other comprehensive income		12,983	11,517
Equity attributable to owners of Varel		<u>54,498</u>	<u>36,953</u>
Noncontrolling interests		<u>(908)</u>	<u>2,503</u>
Total equity		<u>53,590</u>	<u>39,456</u>
Liabilities			
Noncurrent liabilities			
Borrowings	(13)	29,556	27,139
Borrowings, related party	(20)	-	24,604
Lease liabilities	(19)	8,091	6,410
Deferred tax liabilities	(18)	1,098	1,948
Other liabilities		6,299	6,795
Total noncurrent liabilities		<u>45,044</u>	<u>66,896</u>
Current liabilities			
Trade payables		32,342	40,444
Trade payables, related parties		20	20
Income tax payable	(18)	2,125	1,825
Accrued liabilities		4,579	3,431
Provisions	(22)	406	4,191
Other current liabilities	(12)	18,649	14,671
Current portion of borrowings	(13)	9,790	6,303
Current portion of borrowings, related party	(20)	13,724	-
Current portion of lease liabilities	(19)	2,303	1,530
Total current liabilities		<u>83,938</u>	<u>72,415</u>
Total liabilities		<u>128,982</u>	<u>139,311</u>
Total shareholders' equity and liabilities		<u>\$ 182,572</u>	<u>\$ 178,767</u>

The accompanying notes are an integral part of these consolidated financial statements.

Varel Oil and Gas Inc.
Consolidated Statements of Loss and Comprehensive Loss
Years Ended December 31, 2023 and 2022

<i>(in thousands of U.S. dollars)</i>	Notes	2023	2022
Continuing Operations			
Revenue	(14)	\$ 192,241	\$ 179,272
Cost of revenue	(15)	<u>(133,058)</u>	<u>(130,819)</u>
Gross profit		59,183	48,453
Selling, general and administrative expenses	(15)	(58,717)	(55,867)
Other income	(17)	<u>460</u>	<u>857</u>
Operating profit/(loss)		926	(6,557)
Finance income	(16)	1,788	1,657
Finance costs	(16)	<u>(10,961)</u>	<u>(6,182)</u>
Loss before income tax		(8,247)	(11,082)
Income tax expense	(18)	<u>(4,070)</u>	<u>(2,271)</u>
Loss from continuing operations		(12,317)	(13,353)
Loss from discontinued operations	(5)	<u>(3,268)</u>	<u>(2,664)</u>
Loss for the period		<u>(15,585)</u>	<u>(16,017)</u>
Loss for the period from continuing operations attributable to:			
Owners of Varel		\$ (9,247)	\$ (12,381)
Non-controlling interests		<u>(3,070)</u>	<u>(972)</u>
		<u>\$ (12,317)</u>	<u>\$ (13,353)</u>
Other comprehensive income			
<i>Items that are or may be reclassified subsequently to loss</i>			
Foreign operations – foreign currency translation differences		<u>1,220</u>	<u>1,445</u>
Comprehensive income for the period		<u>1,220</u>	<u>1,445</u>
Total comprehensive loss for the period		<u>\$ (14,365)</u>	<u>\$ (14,572)</u>
Total comprehensive loss attributable to:			
Owners of Varel		\$ (11,046)	\$ (14,448)
Non-controlling interests - continuing operations		<u>(3,319)</u>	<u>(124)</u>
		<u>\$ (14,365)</u>	<u>\$ (14,572)</u>
Total comprehensive loss for the period attributable to the Owners of Varel:			
Continuing operations		\$ (7,778)	\$ (11,251)
Discontinued operations		<u>(3,268)</u>	<u>(3,197)</u>
		<u>\$ (11,046)</u>	<u>\$ (14,448)</u>

The accompanying notes are an integral part of these consolidated financial statements.

Varel Oil and Gas Inc.

Consolidated Statements of Changes in Equity

Years Ended December 31, 2023 and 2022

(in thousands of U.S. dollars)

	Shares Outstanding Amount (par value \$0.01)	Share Premium	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Equity Attributable to Owners of Varel	Noncontrolling Interests	Total Equity
Balance at December 31, 2021	<u>1,000</u>	<u>\$ 437,098</u>	<u>\$ (386,727)</u>	<u>\$ 7,206</u>	<u>\$ 57,577</u>	<u>\$ (4,540)</u>	<u>\$ 53,037</u>
Loss for the period	-	-	(12,381)	-	(12,381)	(972)	(13,353)
Other comprehensive income (loss)	-	-	-	1,130	1,130	315	1,445
Loss from discontinued operations	-	-	(3,197)	-	(3,197)	533	(2,664)
Sledgehammer acquisition	-	(7,167)	-	-	(7,167)	7,167	-
Other	-	449	(2,639)	3,181	991	-	991
Balance at December 31, 2022	<u>1,000</u>	<u>430,380</u>	<u>(404,944)</u>	<u>11,517</u>	<u>36,953</u>	<u>2,503</u>	<u>39,456</u>
Loss for the period	-	-	(9,247)	-	(9,247)	(3,070)	(12,317)
Other comprehensive income (loss)	-	-	-	1,468	1,468	(248)	1,220
Loss from discontinued operations	-	-	(3,268)	-	(3,268)	-	(3,268)
Capital contribution	-	26,325	-	-	26,325	-	26,325
Other	-	91	2,178	(2)	2,267	(93)	2,174
Balance at December 31, 2023	<u>1,000</u>	<u>\$ 456,796</u>	<u>\$ (415,281)</u>	<u>\$ 12,983</u>	<u>\$ 54,498</u>	<u>\$ (908)</u>	<u>\$ 53,590</u>

The accompanying notes are an integral part of these consolidated financial statements.

Varel Oil and Gas Inc.

Consolidated Statements of Cash Flows

Years Ended December 31, 2023 and 2022

<i>(in thousands of U.S. dollars)</i>	Notes	2023	2022
Cash flows from operating activities			
Loss for the period		\$ (15,585)	\$ (16,017)
Adjustments for			
Depreciation and amortization	(9), (10)	12,246	5,701
Depreciation of right-of-use assets	(19)	2,239	1,878
Amortization of deferred financing costs		381	366
Provision for doubtful accounts		(2,907)	(454)
(Gain) Loss on sale of equipment		1,061	855
(Gain) Loss on foreign currency	(17)	1,870	3,297
Deferred tax expense		(1,930)	(1,235)
Employee benefits		740	786
Net finance costs	(16)	9,173	4,875
Write off of intangibles		-	544
Changes in			
Trade receivables		(275)	6,267
Inventories		(9,144)	(17,119)
Prepays and other assets		3,960	(7,066)
Trade and other payables		(5,902)	23,637
Other liabilities		3,290	(390)
Cash generated from operating activities		(783)	5,925
Interest paid		(3,600)	(2,177)
Income taxes paid		(4,887)	(735)
Net cash provided by (used in) operating activities - continuing operations		(9,270)	3,013
Net cash provided by operating activities - discontinued operations		237	366
Net cash provided by (used in) operating activities		(9,032)	3,379
Cash flows from investing activities			
Acquisition of Sledgehammer	(4)	60	(24,916)
Proceeds from sale of equipment		31	3,675
Acquisition of property and equipment	(9)	(11,465)	(6,785)
Net cash used in investing activities - continuing operations		(11,374)	(28,026)
Net cash used in investing activities - discontinued operations		2,007	(134)
Net cash used in investing activities		(9,367)	(28,160)
Cash flows from financing activities			
Proceeds from long-term borrowings	(13)	4,302	44,772
Proceeds from related party borrowings	(20)	12,000	-
Repayments of long-term borrowings	(13)	(1,063)	(14,955)
Payments of lease liabilities	(19)	(2,765)	(2,992)
Net cash provided by (used in) financing activities		12,475	26,825
Effect of exchange rate changes on cash		(760)	(4,217)
Net decrease in cash and cash equivalents		(6,684)	(2,173)
Cash and cash equivalents			
Beginning of year		12,560	14,733
End of year		\$ 5,876	\$ 12,560
Supplemental non-cash investing activities			
Change in accrued capital expenditures		\$ 518	\$ 4,678

The accompanying notes are an integral part of these consolidated financial statements.

Varel Oil and Gas Inc.

Notes to Consolidated Financial Statements

Years Ended December 31, 2023 and 2022

(tables in thousands of U.S. dollars, except for share and per share amounts)

1. Nature of Operations

Varel Oil and Gas, Inc. ("Varel" or the "Company") was founded in 2019 as a Delaware Corporation domiciled in the United States of America. Varel primarily designs, manufactures, and supplies products to the drilling, well construction, and completion solutions businesses within the energy sector. The Company sells its products globally in the key markets of America, Europe, Asia, and the Middle East.

These Consolidated Financial Statements were authorized for issuance by the Board of Directors on October 29, 2024.

2. Summary of Material Accounting Policies

Basis of Presentation

The Consolidated Financial Statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS® Accounting Standards") as issued by the International Accounting Standards Board ("IASB").

The Consolidated Financial Statements have been prepared under the historical cost convention except for certain items measured at fair value.

New and amended standards adopted by the Company

The following new and amended standards were adopted by the Company in the year ended December 31, 2023:

IAS 1 - Disclosure of Accounting Policies: In February 2021, IASB issued 'Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)' which is intended to help entities in deciding which accounting policies to disclose in their financial statements. The amendments to IAS 1 require entities to disclose their material accounting policies rather than their significant accounting policies. Management has conducted an evaluation of the materiality of the accounting policies reported in its consolidated financial statements, considering both the materiality and nature of the transactions disclosed.

IAS 8 - Definition of Accounting Estimates: In February 2021, IASB issued 'Definition of Accounting Estimates (Amendments to IAS 8)' to help entities to distinguish between accounting policies and accounting estimates. The definition of a change in accounting estimates has been replaced with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". Entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty. The adoption of this amendment has no material impact on the Company's financial statements.

New and revised standards issued but not effective

The Company has not yet determined the impact of these revised standards on its financial statements that have been issued but are not yet effective:

- Amendments to IFRS 16 Lease Liability in a sale and Leaseback *
- Amendments to IAS 1 Non-current Liabilities with Covenants *

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Notes to Consolidated Financial Statements

Years Ended December 31, 2023 and 2022

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- Amendments to IAS 1 Classification of Liabilities *
- Amendments to IAS 7 and IFRS 7 Supplier Finance Arrangements *
- Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates **

* Effective for annual periods beginning on or after January 1, 2024.

** Effective for annual periods beginning on or after January 1, 2025.

IFRS 16 - Lease Liability in a Sale and Leaseback

In September 2022, the IASB issued 'Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)' with amendments that clarify how a seller-lessee subsequently measures sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale and where the lease payments contain variable elements.

IAS 1 - Non-current Liabilities with Covenants

In October 2022, IASB issued 'Non-current Liabilities with Covenants (Amendments to IAS 1)' to clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability.

IAS 1 - Classification of Liabilities

In January 2020, IASB issued the final amendments in Classification of Liabilities as Current or Non-Current, which affect only the presentation of liabilities in the statement of financial position. They clarify that classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the "right" to defer settlement by at least twelve months. The classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability.

IAS 7 and IFRS 7 - Supplier Finance Arrangements

In May 2023, the IASB issued 'Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)' which require an entity to provide additional disclosures about supplier finance arrangements. Solely credit enhancements for the entity or instruments used by the entity to settle their dues, are not supplier finance arrangements. Entities will have to disclose information that enables users of financial statements to assess how these arrangements affect its liabilities and cash flows and to understand their effect on an its exposure to liquidity risk and how it might be affected if the arrangements were no longer available to it.

IAS 21 - The Effects of Changes in Foreign Exchange Rates

In August 2023, the IASB issued 'Lack of Exchangeability (Amendments to IAS 21)' to provide guidance to specify which exchange rate to use when the currency is not exchangeable. An entity must estimate the spot exchange rate as the rate that would have applied to an orderly transaction between market participants at the measurement date and that would faithfully reflect the economic conditions prevailing.

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Notes to Consolidated Financial Statements

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Use of Estimates

The preparation of financial statements in conformity with IFRS Accounting Standards requires the use of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses, as well as amounts included in the notes thereto, including discussion and disclosure of contingent liabilities. Although the Company uses its best estimates and judgments, actual results could differ from these estimates as future confirming events occur.

Principles of Consolidation

The accompanying Consolidated Financial Statements include the accounts of subsidiary companies in which the Company has a controlling interest. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and can affect those returns through its power over the investee. These entities are consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases. If the Company does not own all of the equity of an entity, noncontrolling interest reflects the share of the identifiable net assets not owned by the Company.

All intercompany transactions, balances, income, and expenses have been eliminated in consolidation.

Segment Information

The Company is organized into three operating segments which focus on the manufacturing of downhole drilling, cementing and completion products:

1. Eastern hemisphere
2. Western hemisphere
3. Advanced manufacturing partnerships

The three operating segments are aggregated into a single operating segment. The aggregation is based on analysis of the following considerations:

1. Economic characteristics
2. Nature of products and services
3. Production processes
4. Type of customer
5. Distribution methods

Based on the considerations included above, the Company concluded it has a single reportable segment.

Business Combinations

Upon acquisition, the Company determines if the transaction is a business combination, which is accounted for using the acquisition method. Under the acquisition method, once control is obtained of a business, the assets acquired, liabilities assumed, consideration transferred and amounts attributed to noncontrolling interests, are recorded at fair value. The Company uses its best estimates and assumptions to assign fair value to the tangible and intangible assets acquired, liabilities assumed, consideration transferred and amounts attributed to noncontrolling interests at the acquisition date. The determination of the fair values is based on estimates and judgments

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made by management. The Company's estimates of fair value are based upon assumptions it believes to be reasonable, but which are inherently uncertain and unpredictable.

When there is a right for the noncontrolling interest to put their shares to the parent or a forward contract to acquire the noncontrolling interests exist, the Company assess whether the noncontrolling interest has retained risks and rewards associated with the ownership of the shares. In such instances, noncontrolling interest is presented in equity in addition to recording the net present value of the redemption obligation as a liability (the "double credit method"). In other circumstances only a liability is recognized.

Measurement period adjustments are reflected at the time identified, up through the conclusion of the measurement period, which is the time at which all information for determination of the values of assets acquired, liabilities assumed, consideration transferred and noncontrolling interests is received, and is not to exceed one year from the acquisition date (the "Measurement Period"). During the Measurement Period, the Company may record adjustments to the assigned value with a corresponding offset to goodwill. Any adjustments identified outside of the Measurement Period are directly reflected in profit or loss.

Foreign currency Transactions and Translation

(1) Foreign currency transactions

Foreign currency transactions are translated into the respective functional currencies of Varel at the exchange rates prevailing when such transactions occur. All monetary assets and liabilities are remeasured into the respective functional currencies at the applicable exchange rates at the end of the reporting period. Gains or losses on exchange differences arising from settlement or remeasurement of monetary assets and liabilities is recognized in profit or loss.

(2) Foreign operations

All assets and liabilities of foreign subsidiaries, associates and joint ventures (collectively, "foreign operations") that use a functional currency other than the United States Dollar ("USD") are translated into USD at the exchange rates at the end of the reporting period. All revenues and expenses of foreign operations are translated into USD at the average exchange rate for the period unless the exchange rate fluctuates widely. Exchange differences arising from such translations are recognized in other comprehensive income and accumulated in other components of equity in the Consolidated Statement of Financial Position. When a foreign operation is disposed of, and control, significant influence or joint control over the foreign operation is lost, the cumulative amount of exchange differences relating to the foreign operation is reclassified from equity to profit or loss.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits, and other short-term investments with original maturities of three months or less from the acquisition date.

Trade Receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. Due dates are set on a contract-by-contract basis but are generally due for settlement within 30-90 days and therefore are classified as current assets. Trade receivables are recognized initially at the unconditional amount of consideration. Due to the short-term nature of trade receivables, the carrying amount approximates fair value.

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Expected Credit Losses

The Company measures expected credit losses using a lifetime expected loss allowance for all trade receivables. To measure the expected credit loss, trade receivables are reviewed on a case-by-case basis for credit risk characteristics such as days past due. The expected loss rate is determined based on the customer payment profile over the preceding 12 month period. The historical loss rate may be adjusted if there is reliable information which the Company determined could impact the customer's ability to settle their outstanding receivables.

Based on the assessment of credit losses, the Company reduced the provision for credit losses by \$2.9 million and \$11.9 million for the years ended December 31, 2023 and 2022, respectively.

Impairment and Risk Exposure

The Company's customers are independently rated and the credit ratings are used by the Company to evaluate the risk of the counterparty. If there is no independent rating, the Company assesses the credit quality of the customer, considering its financial position, experience, and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by management.

Inventories

Inventories are stated at lower of cost or net realizable value, which is the estimated selling price less cost to sell. Cost is determined using the specific identification method and comprised of the purchase price of materials and other directly related costs. Costs are calculated using the average cost method. At each reporting date, inventories are assessed for impairment. If inventory is impaired, the carrying amount is reduced to its selling price less costs to complete and sell, and an impairment loss is recognized in the Consolidated Statement of Loss and Comprehensive Loss.

Property, Plant and Equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditures that are directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The Company adds to the carrying amount of property and equipment, renewals, and betterments when such items are expected to provide incremental future benefits. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to Cost of revenue as incurred.

Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets. Ranges of estimated useful lives are as follows:

Asset Category	Economic Life
Buildings	10 - 20 years
Furniture and fixtures	4 - 10 years
Property, plant and equipment	4 - 10 years
Rental Fleet	2 years
Vehicles	3 - 5 years
IT hardware	3 - 5 years

The Company regularly assesses the estimated useful lives of property, plant, and equipment. In December 2023, management completed an assessment of the useful lives of the rental fleet and

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revised the estimated useful life from less than one year, to two years, based on an analysis of current use, historical age patterns, and industry trends and practices. The change was accounted for as prospective change in accounting estimate, beginning on January 1, 2023. The change in estimate resulted in a decrease in depreciation of \$0.6 million.

These assets are reviewed for impairment whenever a triggering event is identified to determine whether events or circumstances provide objective evidence that suggests the carrying amount of an asset has suffered an impairment loss. An asset's carrying amount is written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

For the purpose of testing impairment, the Company groups assets into the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets called Cash Generating Units ("CGU") to estimate the fair value less cost of disposal. Future cash flows are based on expected earnings and estimated operating expenses over the remaining useful life of the CGU.

Gains and losses on disposals and retirements are determined by comparing the proceeds with the carrying amount and are recognized in the Consolidated Statement of Loss and Comprehensive Loss.

Intangible Assets

Intangible assets with finite lives are carried at cost less accumulated amortization. Amortization is computed using the straight-line method over the estimated useful lives of the intangible assets. Ranges of estimated useful lives are as follows:

Asset Category	Amortization Method	Economic Life
Patents and trademarks	Straight-line	10 - 20 years
Customer relationships	Straight-line	10 years
Software IT operations	Straight-line	3 years
Capitalized development cost	Straight-line	3 - 7 years

Trade Payables

Trade payables represent liabilities incurred by the Company for the procurement of goods and services. The amounts are unsecured and are paid within 90 days of recognition. Trade payables are presented as current liabilities, initially recognized at fair value and subsequently measured at amortized cost using the effective interest method. Due to the short-term nature, the carrying amount approximates fair value.

Other Payables

Other payables represent accrued liabilities, provisions and income tax payable. The amounts are unsecured and are typically paid within 90 days of recognition. Other payables are presented as current liabilities in the Consolidated Statement of Financial Position unless payment is not due within 12 months after the reporting period.

Borrowings

Borrowings are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost.

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Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a prepayment within Borrowings and amortized over the period of the facility.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any noncash assets transferred or liabilities assumed, is recognized in the Consolidated Statement of Loss and Comprehensive Loss as Other income/(losses) or Finance cost.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months following the balance sheet date.

The Company considers interest expense calculated by the effective interest method, finance charges in respect of finance leases, and exchange differences arising from adjustments to foreign currency borrowing as borrowing costs. General and specific borrowing costs attributable to the acquisition, construction, or production of a qualifying asset are capitalized during the period required to complete and prepare the asset for its intended use or sale. Qualifying assets are ones that take over 12 months to prepare for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. Other borrowing costs are expensed in the period in which they are incurred.

Provisions

A provision is recognized when the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses. Where there are several similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of the obligation as a whole.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

Revenue Recognition

The Company recognizes revenue when it satisfies a performance obligation by transferring a promised good to a customer. The transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods to a customer. The Company considers the terms of the contracts with customers for the relevant period to determine the transaction price.

The Company recognizes revenue based on the five-step model:

- (i) identification of contracts with customers;
- (ii) identification of performance obligations in contracts;
- (iii) determination of the price of the transaction;

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- (iv) allocation of the transaction price to the performance obligation provided for in the contracts;
- (v) recognition revenue when, (or as), the Company satisfies a performance obligation by transferring a promised good (or service) to a customer

Downhole Product Sales

Sales of downhole products are recognized at a point in time when control has been transferred to the customer. To assess when the control has been transferred, indicators such as, but not limited to, significant risks and rewards of ownership, transferred physical possession, acceptance of the asset by the customer and a present right to payment and legal title of goods and services are considered. For the sale of goods, the transfer of control usually occurs when the significant risks and rewards are transferred in accordance with the transactions shipping terms. Payment is due between 30 and 90 days from the transfer of control. In some contracts, short-term advances are required before the equipment is delivered.

Income Taxes

The Company is a corporation for U.S. federal and state income tax purposes, and accordingly, the Company records taxes in profit or loss, except to the extent that it relates to items recognized in Other Comprehensive Income or directly in equity. The Company also has certain subsidiaries that are subject to foreign income taxes.

The current income tax provision is calculated based on tax rates and laws enacted or substantively enacted on the reporting date in the countries where the Company's subsidiaries operate and generate taxable income.

The Company recognizes deferred tax assets to the extent that it believes it is probable the assets will be realized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except for deferred income tax liabilities where the timing of reversal of the temporary differences is controlled by the Group and it is probable that the temporary differences will not reverse in the near future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Leases

Lessee: The Company assesses at contract inception whether a contract is or contains a lease. That is, if the contract conveys the right to control the use of an identified asset for a period in exchange for consideration.

Leases are recognized at the commencement of the lease at the present value of the minimum lease payments. Each lease payment is apportioned between the liability and finance charges using the effective interest method.

Rental obligations, net of finance charges, are included in lease liabilities in the balance sheet. The property, plant and equipment acquired under leases is depreciated over the shorter of the asset's useful life or the lease term if there is no reasonable certainty that the Company will obtain ownership at the end of the lease term.

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Lessor: The Company classifies leases for which it is a lessor as either a finance lease or an operating lease. Whenever the terms of a lease substantially transfer all of the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When the Company is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease based on the right-of-use asset arising from the head lease.

Lease income from operating leases is recognized on a straight-line basis over the term of the relevant lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are gained. Initial direct costs incurred while negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized using the same basis as the lease income.

Consideration is allocated to lease and non-lease components, the Company applies IFRS Accounting Standards 15 to allocate the consideration under the contract to the respective components.

Measurement of Right-of-use Assets

The Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less accumulated amortization, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. The recognized right-of-use assets are amortized on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Fair Value Measurement

Fair Value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its nonperformance risk.

The Company classifies the fair value of assets and liabilities according to the following fair value hierarchy based on the amount of observable inputs used to value the instrument:

- Level 1 Fair value is based on unadjusted quoted prices in active markets for identical assets or liabilities as of the reporting date.
- Level 2 Fair value is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).
- Level 3 Fair value is based on inputs for the asset or liability that are not based on observable market data.

3. Critical Accounting Estimates and Judgments

The preparation of the Consolidated Financial Statements in conformity with IFRS Accounting Standards requires management to make judgments, estimates and assumptions that affect the

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application of accounting policies, the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Actual results could differ from these estimates. These estimates and underlying assumptions are reviewed on a continuous basis. Changes in these accounting estimates are recognized in the period in which the estimates were revised and in any future periods affected.

Information about important estimation and judgments that have significant effects on the amounts recognized in the Consolidated Financial Statements is as follows:

Impairment of Property, Plant, and Equipment

We evaluate our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may no longer be recoverable. Events that trigger a test for recoverability include material adverse changes in projected revenues or expenses, present cash flow losses combined with a history of cash flow losses and a forecast that demonstrates significant continuing and significant negative expectation of economic growth. When a triggering event occurs, a test for recoverability is performed. To determine whether an impairment has occurred, and the extent of any impairment loss or its reversal, the key assumptions management uses in estimating the risk-adjusted future cash flows for value in use are estimates of future operating profits, the terminal value, and the discounted present value of both future operating profits and the terminal value. In addition, management uses other assumptions and judgements. These assumptions and judgements are subject to change as information becomes available. Changes in assumptions could affect the carrying amounts of assets, and impairments and reversals will affect the financial results. Changes in economic conditions can affect the rate used for the discount rate used to discount future cash flow estimates and risk-adjustment in future cash flows. Judgment is applied to conclude whether changes in assumptions or economic conditions are an indicator that an asset CGU may be impaired, or that an impairment loss recognized in prior periods may no longer exist or may have decreased.

Impairment of Goodwill

Goodwill represents the excess of the purchase price over the fair value of net tangible and intangible assets acquired in a business combination. The Company allocates goodwill to the applicable CGU and evaluates goodwill for impairment annually and whenever events or circumstances make it more likely than not that impairment may have occurred. A CGU to which goodwill has been allocated is tested for impairment by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit. If the recoverable amount of the unit exceeds the carrying amount of the unit, the unit and the goodwill allocated to that unit shall be regarded as not impaired. If the carrying amount of the unit exceeds the recoverable amount of the unit, the entity shall recognize an impairment loss. Income tax effects from any tax-deductible goodwill on the carrying amount of the reporting unit are considered when measuring the goodwill impairment loss, if applicable.

Leases

Determination of the lease term is subject to judgment and has an impact on the measurement of the lease liability and related right-of-use assets. The Company judgmentally determines lease terms for lease agreements that include optional lease periods where it is reasonably certain the Company will either exercise an option to extend the lease or not exercise the option to terminate the lease. When assessing the lease term at the commencement date, the Company considers the broader economics of the contract. Reassessment of the lease term is performed upon changes in circumstances that affect the probability that an option to extend or terminate a lease will be exercised.

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Where the implicit rate in the lease is not readily available, an incremental borrowing rate is applied. This incremental borrowing rate reflects the rate of interest the lessee would have to pay to borrow over a similar term, with a similar security, the funds necessary to obtain an asset of a similar nature and value to the right-of-use asset in a similar economic environment. Determination of the incremental borrowing rate requires estimation.

Taxes

Tax liabilities are recognized when it is considered probable that there will be a future outflow of funds to a taxing authority. In such cases, provision is made for the amount expected to be settled, where this can be reasonably estimated. Provisions for uncertain income tax positions or treatments are measured at the most likely amount or the expected value, whichever method is more appropriate. Generally, uncertain tax treatments are assessed individually, except where they are expected to be settled collectively. It is assumed that taxing authorities will examine positions taken if they have the right to do so and that they have full knowledge of the relevant information. A change in the estimate of the likelihood of a future outflow and/or in the expected amount to be settled would be recognized in the results of operations in the period in which the change occurs. This requires the application of judgment as to the ultimate outcome, which can change over time depending on facts and circumstances. Judgments relate to transfer pricing, including inter-company financing, expenditure deductible for tax purposes and taxation arising at disposal.

Deferred tax assets are recognized only to the extent it is considered probable those assets will be recovered. This involves an assessment of when those assets are likely to reverse and a judgment as to whether there will be sufficient taxable profits available to offset the assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. To the extent assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized as deferred tax assets.

4. Acquisition of Sledgehammer

On June 3, 2022, the Company through its wholly owned subsidiary, Downhole Products Limited ("DPL"), entered into an agreement to acquire Sledgehammer Oil & Tools Private Ltd. ("SOTPL") in two tranches. SOTPL is a manufacturer and supplier of oil tools, oil rig equipment and other engineering products in India.

The first tranche for a 78% controlling interest in SOTPL, along with 38% and 26% minority shares in its joint venture operations- Sledgehammer Gulf LLC and Sledgehammer Oil Tools International, respectively, closed on June 28, 2022 (the "Tranche One Acquisition Date"). The first tranche payment was completed in two parts: (i) \$23.4 million, representing a 78% of the \$30.0 million enterprise value, on June 28, 2022; and (ii) \$1.6 million of working capital and other adjustments, effective September 28, 2022. The payment of \$23.4 million was financed through related party convertible loans by the parent of the Company, which subsequently executed a series of Intra-Group Loan Agreements the Company's immediate parent, the Company and with DPL for \$23.4 million at a 10% coupon rate (refer to Note 20).

Subsequent to December 31, 2023, the Company completed the acquisition of the second tranche for the remaining 22% equity investment from the minority shareholders of SOTPL. Refer to footnote 26, Subsequent Events, for additional information related to the Tranche Two Acquisition.

The deferred purchase consideration, net of discount, as of December 31, 2023, was \$1.8 million. The effective discount resulting from the deferred purchase consideration will be recorded as interest expense over the payment period using the effective interest method. The Company

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recorded interest expense on the discount of \$0.1 million and \$0.1 million as of December 31, 2023 and 2022, respectively.

The following table summarizes the purchase price for SOTPL as of the Acquisition Date.

Purchase Price

Cash consideration paid for 78% of shares and debt instruments	\$ 23,400
Deferred Consideration:	
Tranche 1 fair value of deferred consideration paid	1,516
Tranche 2 fair value of deferred consideration	1,552
Foreign currency translation adjustment	80
Total deferred consideration	<u>3,148</u>
Total purchase price	<u>\$ 26,548</u>

The purchase price was allocated to the net assets acquired and liabilities assumed based on management's determination of their estimated fair values using available information as of the Acquisition Date. The excess of purchase consideration over the net assets acquired is recorded as goodwill, which primarily reflects the existence of intangible assets not recognized under IFRS Accounting Standards such as the value of expected future synergies, the value of the assembled workforce and other market factors.

SOTPL contributed revenues of \$9.9 million and profit of \$0.03 million for the period from June 3, 2022 to December 31, 2022. If the acquisition had occurred on January 1, 2022, SOTPL would have contributed revenues of \$21.2 million and a loss of \$3.8 million for the year ended December 31, 2022.

The following table presents the allocation of the purchase price to the assets acquired and liabilities assumed as recorded in the Company's consolidated balance sheet as of the acquisition date:

Cash and cash equivalents	\$ 2,153
Trade receivables	6,926
Inventories	2,840
Other current assets	2,906
Non-operating assets	3,556
Property, plant and equipment	2,559
Non-current investment	458
Goodwill	8,475
Identified intangible assets:	
Customer relationships	7,368
Trademark	6,606
Trade payables	(3,365)
Non-operating liabilities	(4,960)
Other current liabilities	(4,049)
Borrowings	<u>(4,925)</u>
	<u>\$ 26,548</u>

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The fair value, valuation methodologies, estimated useful lives, and significant assumptions of the identifiable intangibles acquired in the SOTPL acquisition are summarized in the table below:

SOTPL Identified Intangibles	Balance Sheet Location	June 28, 2022			
		Fair Value	Valuation Methodology	Estimated Useful Life	Discount Rate
Customer Relationships	Intangibles, net	\$ 7,368	Multi-Period Excess Earnings Method - Income Approach	10 Years	14.50%
Trademark	Intangibles, net	\$ 6,606	Relief from Royalty Method - Income Approach	10 Years	14.00%

5. Discontinued Operations

On August 20, 2010, the Company, through its wholly owned subsidiary, entered into a Limited Liability Operating Agreement with MMS Holdings to form a 50:50 Joint Venture entity called Varel Newtech CIS, which had a 100% owned subsidiary, Varel NTS, LLC ("VNTS"), whose main activities are tool making; production of special equipment for drilling and workover of oil and gas wells; and provision of services for repair of equipment for oil and gas wells drilling in Russia.

In 2022, due to the escalating war between Russia and Ukraine which resulted in US sanctions on companies doing business in Russia, Varel and its Joint Venture partner MMS Holdings re-evaluated their operations in Russia. At a meeting of the shareholders of Varel on April 13, 2022, a decision was made to sell the interest in the Russian Joint Venture operations. Subsequently, on April 26, 2022, Varel entered into a Termination Agreement with its Joint Venture partner, MMS Holdings, to sell its 50% share of Varel Newtech CIS and VNTS, for a negligible amount, to the MMS Holdings Group.

As these subsidiaries represent a major line of business and geographical area of operations, they have been classified as Discontinued Operations. Revenues from Varel Newtech CIS and VNTS for the period up to the disposal date was \$1.5 million for the year ended December 31, 2022, and reported under the geographic segment of Commonwealth of Independent States ("CIS") (refer Note 14), representing 55.2% of CIS's revenue in 2022.

On October 6, 2023, the Company, through its wholly owned subsidiary, entered into a Share Purchase Agreement ("SPA") to sell its share in ESIP Energy S.A. ("ESIP"), equal to 75% of the total equity, for a negligible amount to the minority shareholders. The disposal of the shares resulted in the discontinuation of the Company's interest in this foreign subsidiary. The Company obtained Promissory Notes for the payment of amounts due under this SPA, with partial proceeds received on October 3, 2023 and the remaining amount receivable on December 31, 2023. ESIP's total revenues for 2023 were \$0.2 million and reported under the geographic region of Latin America, representing 6.3% of Latin America's revenue in 2023.

The results of the Discontinued Operations have been presented separately in the Statement of Comprehensive Income as a single item. An analysis of the foregoing single amount representing

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discontinued operations is presented below, along with prior year comparative information for the 2022 VNTS Russia Discontinued Operations:

Discontinued Operations Income Statement	2023	2022
Revenues	\$ 260	\$ 1,491
COGS	(113)	(1,284)
SG&A	(93)	(94)
Other Income/(Expense)	(583)	(849)
Pre-tax Operating Loss	(529)	(736)
(Loss) on Disposal	(2,738)	(1,928)
(Loss) on Discontinued Operations	<u>\$ (3,268)</u>	<u>\$ (2,664)</u>

6. Financial Risk management

Financial Risk Factors

The Company's activities expose it to a variety of financial risks: market risk, credit risk, and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

Foreign Exchange Risk

The Company operates internationally and is exposed to foreign exchange risk on sales and purchases that are denominated in currencies other than the USD which primarily relate to the Indian Rupee, Saudi Riyal, Canadian Dollar, and United Arab Emirates Dirham. The carrying value of the Company's monetary assets and liabilities subject to foreign exchange risk is as follows:

	December 31,	2022
	2023	
Assets	\$ 70,129	\$ 83,993
Liabilities	58,379	57,808

The Company regularly monitors the changes in foreign currency internally. A sensitivity analysis on assets and liabilities assuming a 10% increase and 10% decrease in foreign currency rates (before tax effect) as of December 31, 2023, is as follows:

	10% Increase in U.S. Dollar Against Foreign Currency		10% Decrease in U.S. Dollar Against Foreign Currency	
	Net Income (Loss)	Shareholders Equity	Net Income (Loss)	Shareholders Equity
Attributable to owners of Varel	\$ (885)	\$ (885)	\$ 885	\$ 885
Noncontrolling interests	(289)	(289)	289	289

A sensitivity analysis on assets and liabilities assuming a 10% increase and 10% decrease in foreign currency rates (before tax effect) as of December 31, 2022, is as follows:

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	10% Increase in U.S. Dollar Against Foreign Currency		10% Decrease in U.S. Dollar Against Foreign Currency	
	Net Income (Loss)	Shareholders Equity	Net Income (Loss)	Shareholders Equity
Attributable to owners of Varel	\$ (2,341)	\$ (2,341)	\$ 2,341	\$ 2,341
Noncontrolling interests	(210)	(210)	210	210

Credit Risk

Credit risk arises from cash and cash equivalents, derivative financial instruments, and deposits with banks and financial institutions, as well as credit exposure to the Company's customers, including outstanding receivables.

Cash maintained in US banks at times may exceed the FDIC coverage of \$250,000. On December 31, 2023, or 2022, the Company has not experienced losses on these cash accounts and management believes that the credit risk with regard to these deposits is not significant.

Impairment of Financial Assets

The Company has one type of financial asset that is subject to the expected credit losses ("ECL") model; trade receivables.

The Company applies the simplified approach to measure its ECL, which uses a lifetime expected loss allowance for all trade receivables. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECL's at each reporting date. The Company does not expect any credit losses.

The carrying amount of trade receivables and other financial assets represents the maximum exposure to credit risks. Credit risks are as follows:

	2023	2022
Trade receivables	\$ 37,017	\$ 33,834
Trade receivables, related parties	-	494
Financial assets subject to ECL	<u>\$ 37,017</u>	<u>\$ 34,328</u>

Interest Rate Risk

The Company has certain long-term, third-party borrowings subject to variable interest rate indices such as the Secured Overnight Financing Rate ("SOFR"). The Company regularly monitors the changes in interest rate risk. A sensitivity analysis on the Company's long-term borrowings and debentures assuming a 1% increase and 1% decrease in interest rates, before tax effect, as of December 31, 2023, is as follows:

	1% increase		1% decrease	
	Net Income (Loss)	Shareholders Equity	Net Income (Loss)	Shareholders Equity
Attributable to owners of Varel	\$ (39)	\$ (39)	\$ 39	\$ 39
Noncontrolling interests	\$ (10)	\$ (10)	\$ 10	\$ 10

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A sensitivity analysis on the Company's long-term borrowings and debentures assuming a 1% increase and 1% decrease in interest rates, before tax effect, as of December 31, 2022, is as follows:

	1% increase		1% decrease	
	Net Income (Loss)	Shareholders Equity	Net Income (Loss)	Shareholders Equity
Attributable to owners of Varel	\$ (57)	\$ (57)	\$ 57	\$ 57
Noncontrolling interests	\$ (5)	\$ (5)	\$ 5	\$ 5

Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities, and the ability to meet contractual terms of derivative positions.

The Company monitors rolling forecasts of the liquidity reserve comprising its borrowing facility (Note 13), and cash based on expected cash flow. In addition, the Company's liquidity management policy involves projecting cash flows and considering the level of liquid assets necessary to meet future obligations, monitoring balance sheet liquidity ratios against internal and external regulatory requirements and maintaining debt financing plans while taking into consideration the Company's debt covenant compliance to ensure it does not breach its covenants.

Financial Arrangements

The Company had access to the following undrawn line of credit:

	2023	2022
Line of credit available for general use	\$ 16,000	\$ 16,000

Maturity of Financial Liabilities

The table below analyzes the Company's undiscounted financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period on the balance sheet to the contractual maturity date. The interest element of borrowings is based on the actual rate or the rate at the closing date if not available. Early payments or additional borrowings on financial liabilities are not reflected.

Financial liabilities are as follows:

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At December 31, 2023	Less Than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total Contractual Cash Flows	Carrying Amount
Nonderivatives						
Trade and other payables	\$ 58,121	\$ -	\$ 7,564	\$ -	\$ 65,467	\$ 65,685
Borrowings	24,416	29,556	-	-	53,972	53,070
Lease liabilities	2,303	1,143	7,384	69	10,899	10,394
Nonderivative liabilities	<u>\$ 84,840</u>	<u>\$ 30,699</u>	<u>\$ 14,730</u>	<u>\$ 69</u>	<u>\$ 130,338</u>	<u>\$ 129,149</u>
At December 31, 2022	Less Than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total Contractual Cash Flows	Carrying Amount
Nonderivatives						
Trade and other payables	\$ 64,582	\$ -	\$ 8,743	\$ -	\$ 73,325	\$ 73,325
Borrowings	28,710	2,167	21,450	-	52,327	58,046
Lease liabilities	1,580	1,749	758	1,052	5,139	5,139
Nonderivative liabilities	<u>\$ 71,606</u>	<u>\$ 4,673</u>	<u>\$ 27,873</u>	<u>\$ 1,052</u>	<u>\$ 130,791</u>	<u>\$ 136,510</u>

There were no outstanding derivative arrangements as of December 31, 2023 or 2022, respectively.

Capital Risk Management

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. To maintain or adjust the capital structure, the Company may return capital to shareholders.

Consistent with others in the industry, the Company monitors capital based on the debt-to-equity ratio. The ratio is calculated as borrowings divided by total equity. The debt-to-equity ratios were as follows:

	2023	2022
Total borrowings (external and related party)	\$ 53,070	\$ 58,046
Total equity	53,590	39,456
Debt to equity ratio	99.03 %	147.12 %

Price Risk Management

The Company is exposed to risks arising from increased costs due to commodity price fluctuations, such as iron and steel, precious metals and nonferrous alloys used in manufacturing. The Company controls the price risk associated with the purchase of those commodities by maintaining inventory at the minimum level.

7. Trade Receivables

Trade receivables relate primarily to sales of drill bits and downhole equipment. The trade receivables, net balance was comprised of:

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	2023	2022
Trade receivables, gross	\$ 33,479	\$ 33,542
Accrued income	3,763	3,425
Provision for doubtful accounts	<u>(226)</u>	<u>(3,133)</u>
Trade receivables, net	<u>\$ 37,017</u>	<u>\$ 33,834</u>

8. Inventories

	2023	2022
Raw materials	\$ 32,025	\$ 21,285
Work in process	12,297	11,369
Finished goods	18,230	23,292
Excess and obsolete reserve	<u>(381)</u>	<u>(2,919)</u>
Inventories, net	<u>\$ 62,171</u>	<u>\$ 53,027</u>

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9. Property, Plant, and Equipment

	Buildings	Plant and Machinery	Computer Software and Hardware	Vehicles	Other	Assets Under Construction	Total
Cost							
<u>At beginning of year 2022</u>	\$ 7,119	\$ 50,386	\$ 9,070	\$ 2,148	\$ 765	\$ 666	\$ 70,154
Additions	389	7,693	472	1,674	890	2,904	14,022
CTA	238	(663)	(19)	(13)	(28)	69	(416)
Disposals	(2,053)	(10,387)	(132)	(3,543)	(102)	(14)	(16,231)
Transfers/ Other	7,646	(7,118)	-	-	(227)	(301)	-
<u>At end of year 2022</u>	<u>13,339</u>	<u>39,911</u>	<u>9,391</u>	<u>266</u>	<u>1,298</u>	<u>3,324</u>	<u>67,529</u>
Accumulated Depreciation							
<u>At beginning of year 2022</u>	\$ (5,277)	\$ (28,000)	\$ (7,902)	\$ (2,080)	\$ (541)	\$ -	\$ (43,800)
Charge for year	(764)	(5,597)	(604)	(659)	(235)	-	(7,859)
CTA	(93)	371	3	10	17	-	308
Disposals	2,250	6,583	132	2,493	83	-	11,541
Transfers/ Other	(2,171)	2,171	-	-	-	-	-
<u>At end of year 2022</u>	<u>(6,055)</u>	<u>(24,472)</u>	<u>(8,371)</u>	<u>(236)</u>	<u>(676)</u>	<u>-</u>	<u>(39,810)</u>
Net Book Value							
<u>At 31 December 2022</u>	<u>\$ 7,284</u>	<u>\$ 15,439</u>	<u>\$ 1,020</u>	<u>\$ 30</u>	<u>\$ 622</u>	<u>\$ 3,324</u>	<u>\$ 27,719</u>
	Buildings	Plant and Machinery	Computer Software and Hardware	Vehicles	Other	Assets Under Construction	Total
Cost							
<u>At beginning of year 2023</u>	\$ 13,282	\$ 39,778	\$ 9,380	\$ 265	\$ 1,340	\$ 3,324	\$ 67,369
Additions	362	10,495	161	-	215	750	11,983
CTA	1,282	672	52	35	20	92	2,153
Disposals	(1,558)	(1,453)	(2,903)	(34)	(748)	-	(6,696)
Transfers	-	2,141	-	-	38	(2,129)	50
<u>At end of year 2023</u>	<u>13,368</u>	<u>51,633</u>	<u>6,690</u>	<u>266</u>	<u>865</u>	<u>2,037</u>	<u>74,859</u>
Accumulated Depreciation							
<u>At beginning of year 2023</u>	\$ (6,036)	\$ (24,419)	\$ (8,389)	\$ (237)	\$ (604)	\$ -	\$ (39,685)
Charge for year	(1,251)	(9,051)	(604)	-	(19)	-	(10,925)
CTA	(584)	(631)	33	55	168	-	(959)
Disposals	1,308	831	2,951	34	49	-	5,173
Transfers/ Other	-	49	-	-	-	-	49
<u>At end of year 2023</u>	<u>(6,563)</u>	<u>(33,221)</u>	<u>(6,009)</u>	<u>(148)</u>	<u>(406)</u>	<u>-</u>	<u>(46,347)</u>
Net Book Value							
<u>At 31 December 2023</u>	<u>\$ 6,805</u>	<u>\$ 84,854</u>	<u>\$ 681</u>	<u>\$ 118</u>	<u>\$ 459</u>	<u>\$ 2,037</u>	<u>\$ 28,512</u>

Noncash Investing Activity

The Company acquired fixed assets through a noncash financing agreement for \$0 and \$28,000 for the years ended December 31, 2023 and 2022, respectively.

10. Intangibles

The Company recognized various amortizable intangible assets in connection with the SOTPL acquisition, including customer relationships, trademark, and patents. The following tables provide additional information for our intangible assets:

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	Customer Relationships	Trademark and Patents
Balance, January 1 2022	\$ 100	\$ 144
Acquisitions (note 4)	7,368	6,606
Accumulated Amortization	(446)	(430)
Net book amount, December 31 2022	\$ 7,022	\$ 6,320
Balance, January 1 2023	7,022	6,320
Acquisitions (note 4)	-	-
Effect of movements in foreign exchange rates	27	64
Accumulated Amortization	(1,118)	(1,089)
Net book amount, December 31 2023	\$ 5,931	\$ 5,295

	As of December 31, 2023
Weighted average amortization period (years)	8.5 years

The following table presents estimated future amortization of intangible assets:

<u>Year ending December 31,</u>	
2024	\$ 1,321
2025	1,321
2026	1,321
2027	1,321
2028	1,321
2029	1,321
2030	1,321
2031	1,321
2032	660
	\$ <u>11,226</u>

11. Goodwill

The changes in the carrying amount of goodwill are as follows:

	2023	2022
Balance, January 1	\$ 8,475	\$ -
Acquisitions	-	8,475
Foreign currency translation adjustments	(55)	-
Balance, December 31, gross	8,420	8,475
Accumulated impairment losses	-	-
Balance, December 31, net	\$ <u>8,420</u>	\$ <u>8,475</u>

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(i) Impairment testing for CGUs containing goodwill

For purposes of impairment testing, goodwill is allocated to a CGU representing the lowest level within the Company at which goodwill is monitored for internal management purposes, and which is not higher than the Company's operating segment before aggregation. Goodwill is allocated to the Eastern Hemisphere segment.

(ii) Key assumptions used for value-in-use calculations

The estimates below were used in the goodwill impairment assessment:

	Sledgehammer
Discount rate	11.76%
Terminal year growth rate (FY 2028)	5%
Tax rate	25.17%

The key assumptions in the value-in-use impairment tests are estimated post-tax cash flows, terminal year growth rate, and discount rate based on historical experience.

(iii) Impairment charge for goodwill

Management's assessment of impairment did not result in any impairment, as the recoverable amount exceeds its carrying value.

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12. Other Current Liabilities

	2023	2022
Compensation and benefits	\$ 369	\$ 950
Accrued liabilities	5,664	3,445
Other Taxes payable	1,783	1,754
Deferred Consideration	1,770	
Non-operating liability	4,913	4,968
Other	4,150	3,554
Total other current liabilities	<u>\$ 18,649</u>	<u>\$ 14,671</u>

13. Borrowings

	Current	Noncurrent	Total
External loans	\$ 10,192	\$ 28,442	\$ 38,634
Paid-in-kind interest	-	1,189	1,189
Debt issuance costs	<u>(402)</u>	<u>(75)</u>	<u>(477)</u>
Borrowings at December 31, 2023	<u>\$ 9,790</u>	<u>\$ 29,556</u>	<u>\$ 39,346</u>

	Current	Noncurrent	Total
External loans	\$ 6,682	\$ 25,210	\$ 31,892
Paid-in-kind interest	-	2,407	2,407
Debt issuance costs	<u>(379)</u>	<u>(478)</u>	<u>(857)</u>
Borrowings at December 31, 2022	<u>\$ 6,303</u>	<u>\$ 27,139</u>	<u>\$ 33,442</u>

External Loans

BWE entered in a Senior Facility Agreement with Investec Bank PLC on October 28, 2019 ("Senior Facility Agreement"). The Senior Facility Agreement ensured funding up to \$35 million allocated between an A Facility, B Facility and a Revolver. The Company further entered into a Floating Charge Agreement with Investec Bank PLC on May 29, 2020, to secure the obligations set forth within the Senior Facilities Agreement.

On August 31, 2023, the Company amended the Senior Facilities Agreement, which in addition to certain other terms, waived the Company's covenant requirements from March 31, 2022 through to March 31, 2023, and provided a moratorium on amortization payments for the quarters ending September 30, 2023 and December 31, 2023. The Company was in compliance with all covenants from April 1, 2023, to December 31, 2023. As part of the amendment, the Company engaged a debt advisor in September 2023 and agreed to complete the refinancing of the Senior Facilities Agreement by March 31, 2024.

A Facility

On March 2, 2020, the Company entered into a loan agreement with Investec Bank PLC which allows it to draw funds up to \$8.5 million through March 2025. The loan accrues interest at SOFR plus 6.5 basis points per annum. Payments are due quarterly following a 12-month grace period and the loan matures on March 2, 2025. The debt issuance costs of \$451,000 are presented as a direct deduction from Borrowings amortized over the life of the loan. As of December 31, 2023 and

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2022, the Company had an outstanding balance of \$2.8 million and \$3.8 million, net of debt issuance costs of \$34,000 and \$101,000, respectively.

B Facility

On March 2, 2020, the Company entered into a loan agreement with Investec Bank PLC which allows the Company to draw funds up to \$16.5 million through to March 2025. The loan accrues interest at SOFR plus 6.5 basis points per annum plus 2% Paid-in-kind ("PIK") interest. A bullet payment is due when the loan matures on March 2, 2025. The debt issuance costs of \$875,000 are presented as a direct deduction from Borrowings amortized over the life of the loan. As of December 31, 2023 and 2022, the Company had an outstanding balance of \$16.3 million and \$15.2 million, net of debt issuance costs of \$311,000 and \$548,000, respectively.

Revolver Facility

On March 2, 2020, the Company entered into a revolving loan agreement with Investec Bank PLC which allows the Company to draw funds up to \$10.0 million through March 2025. The loan accrues Drawn interest at SOFR plus 6.5 basis points per annum plus and 2.275% basis points on the undrawn funds per annum. A bullet payment is due when the loan matures on March 2, 2025. The debt issuance costs of \$530,000 are presented as a direct deduction from Borrowings amortized over the life of the loan. As of December 31, 2023 and 2022, the Company had an outstanding balance of \$11.8 million and \$9.8 million, respectively.

Other Facilities

During 2017, the Company signed a loan agreement with shareholder Arabian Inspection and Survey Co. Ltd. to finance working capital requirements. The loan accrues interest at 4% per annum. During the year ended December 31, 2021, the Company restructured the maturity of the loan from August 2023 through March 2025, therefore, the loan remains on the Company's Consolidated Financial Statements as long-term debt. As of December 31, 2023, and 2022, the Company had an outstanding balance of \$2.8 million and \$1.3 million, respectively.

On July 25, 2022, SOTPL entered into a working capital facility which allows SOTPL to draw funds up to 500,000,000 INR. Based on the use of funds, export orders, letters of credit, working capital, or buyers credit, the interest rate fluctuates based on SOFR plus 2.8 basis points or the marginal cost of fund based lending rate ("MCLR") plus 1.4 basis points. As of December 31, 2023, and 2022, the Company, through its wholly owned subsidiary SOTPL, had an outstanding balance of \$4.5 million and \$3.2 million, respectively.

For the years ended December 31, 2023, and 2022, interest expense of \$6.8 million and \$4.3 million, respectively, were incurred on external loans.

Refer to Footnote 20, Related Party Transactions, for information on intercompany borrowings. On April 10, 2024, the Company repaid \$32.0 million. Refer to Footnote 27, Subsequent Events, for additional information on the repayments.

Fair Value of Borrowings

As the Company's borrowings are issued with floating rates of interest and the Company's exposure to risk has remained materially unchanged, the carrying value of borrowings approximates its fair value.

Varel Oil and Gas Inc.

Notes to Consolidated Financial Statements

Years Ended December 31, 2023 and 2022

(tables in thousands of U.S. dollars, except for share and per share amounts)

Debt Covenants

The Company has certain financial covenants for its loans to maintain a minimum debt to equity ratio of 2.60 to 1 and cash flow shall not be less than negative \$1.8 million in any quarter-end periods.

The Company was in compliance with all covenants for the years ended December 31, 2023 and 2022. The Company was in compliance with all covenants from April 1, 2023, to December 31, 2023.

Reconciliation of liabilities arising from financial activities for the year ended December 31, 2023:

	Beginning of Year	Cash Flow	Interest	Amortization of Deferred Financing Costs	PIK	Sledgehammer Acquisition	Lease Addition	End of Year
Long term borrowings	\$ 33,440	\$ 3,240	1989	\$ 381	\$ 301	\$ -	\$ -	\$ 39,352
Lease liabilities	7,940	2,424	-	-	-	-	30	10,394
Total liabilities in financing activities	\$ 41,380	\$ 5,664	\$ 1,989	\$ 381	\$ 301	\$ -	\$ 30	\$ 49,746

Reconciliation of liabilities arising from financial activities for the year ended December 31, 2022:

	Beginning of Year	Cash Flow	Interest	Amortization of Deferred Financing Costs	PIK	Sledgehammer Acquisition	Lease Addition	End of Year
Long term borrowings	\$ 21,454	\$ 6,417	\$ -	\$ 366	280	\$ 4,924	\$ -	\$ 33,440
Lease liabilities	5,139	(1,922)	-	-	-	-	4,723	7,940
Total liabilities in financing activities	\$ 26,593	\$ 27,895	\$ -	\$ 366	\$ 1,793	\$ 4,924	\$ 4,723	\$ 41,380

14. Revenue

The Company derives revenue from contracts with customers recognized at a point in time.

Revenue Recognized at a Point in Time	2023	2022
Completion	\$ 20,650	\$ 20,397
Primary Cementing Equipment	65,219	52,345
Polycrystalline Diamond Compact	28,755	27,735
Roller Cones	54,101	55,135
Total	\$ 168,725	\$ 155,612

Revenue by Geographic Location	2023	2022
United States (USA)	\$ 73,848	\$ 69,862
Middle East and North Africa (MENA)	31,401	35,548
Kingdom of Saudi Arabia (KSA)	31,135	17,058
Asia	18,167	17,694
Commonwealth of Independent States (CIS)	3,568	2,657
Europe	4,861	4,534
Latin America (LATAM)	4,009	6,571
Other	1,736	1,687
Total revenue	\$ 168,725	\$ 155,612

Varel Oil and Gas Inc.
Notes to Consolidated Financial Statements
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15. Expenses by Nature

	2023	2022
Inventory materials	\$ 75,079	\$ 75,248
Employee compensation and benefits	27,971	26,158
Consumables	5,091	5,980
Freight and customs	6,392	8,758
Provision for excess and obsolescence inventory or impairments	(3,476)	(8,420)
Depreciation and amortization - nonrental	7,548	5,843
Rental fleet depreciation	4,680	6,805
Liquidating damages	793	665
Other	8,979	9,782
	<u>\$ 133,058</u>	<u>\$ 130,819</u>
Total cost of revenue		
General administrative	4,170	4,584
Insurance	1,652	1,558
Information technology	1,783	1,732
Other	1,023	2,240
Professional and legal fees	7,194	4,870
Research and development	2,460	1,808
Employee compensation and benefits	38,178	37,353
Amortization	1,321	704
Depreciation	936	1,018
	<u>\$ 58,717</u>	<u>\$ 55,867</u>
Total selling, general, and administrative		

16. Finance Costs

	2023	2022
Interest and finance charges	\$ 10,362	\$ 6,932
Amount capitalized	<u>(1,189)</u>	<u>(2,407)</u>
Finance costs, net	<u>\$ 9,173</u>	<u>\$ 4,525</u>

The amount of borrowing costs capitalized is the actual interest on specific loans for the items capitalized.

17. Other Losses

	2023	2022
Net foreign exchange gains (losses)	\$ (1,870)	\$ (3,297)
Net other income (losses)	<u>2,330</u>	<u>4,154</u>
Other income (losses), net	<u>\$ 460</u>	<u>\$ 857</u>

Varel Oil and Gas Inc.
Notes to Consolidated Financial Statements
Years Ended December 31, 2023 and 2022

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18. Income Taxes

The table below reconciles the Company's income taxes computed by applying the statutory federal income tax rate to earnings before income taxes to its effective tax provision for the years ended December 31, 2023 and 2022, respectively:

	2023	2022
Accounting profit before tax	\$ (8,247)	\$ (11,082)
US statutory tax rate of the reporting entity	<u>21.00 %</u>	<u>21.00 %</u>
Expected total tax income	(1,732)	(2,465)
Reconciling items		
Expenses not deductible for tax purposes	84	206
Effect of different tax rates in countries in which the entity operates	112	(15)
Unrecognized deferred tax benefit	4,208	3,621
Foreign Taxation	1,052	799
Prior year adjustments	281	-
Other	<u>65</u>	<u>125</u>
Total current and deferred tax expense	<u>\$ 4,070</u>	<u>\$ 2,271</u>

The tax effect of temporary differences that give rise to significant portions of the net deferred tax assets at December 31, 2023, and 2022 is as follows:

	2023	2022
Deferred tax assets		
IFRS 16 leases	\$ 6	\$ 41
Property, plant & equipment	2,202	1,374
Intangible assets	(2,828)	(3,155)
Reserves for obsolescence and receivables	1,194	1,063
Accrued liabilities	1,690	1,665
Accounts payable	172	
Net operating loss carryforwards	210	539
Interest expense carryforward	-	-
Other foreign deferred tax assets	-	138
Unrecognized deferred taxes	294	-
Deferred tax assets	<u>\$ 2,939</u>	<u>\$ 1,665</u>

The Company has a total of \$18.0 million and \$8.5 million of unused tax losses at December 31, 2023 and 2022, respectively. Of this amount, only \$0.2 and \$0.5 million have been recognized for deferred tax purposes at December 31, 2023 and 2022, respectively. Additionally, the Company has \$1.3 million of capital loss carryforwards and \$3.0 million of interest expense carry forwards at December 31, 2023 for which no deferred tax has been recognized.

The Company is not aware of any open tax examinations with authorities or any other uncertain tax positions that existed as of December 31, 2023 or December 31, 2022.

Varel Oil and Gas Inc.
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19. Leases

The Company leases buildings, land, machinery, vehicles, office equipment, and furniture and fixtures. The leased assets are included as part of Right-of-Use Assets, net. Lease liabilities were recorded at the time the lease contracts were signed and the obligations were based on the Company's incremental borrowing rate at the time. The liabilities remaining at the reporting date represent the outstanding principal of the assumed liabilities. Generally, under the terms of our lease agreements, the rights to the leased assets revert to the lessor in the event of default.

Amounts Recognized in the Consolidated Statement of Financial Position

The Consolidated Statement of Financial Position includes the following amounts relating to right-of-use assets:

	2023	2022
Right-of-use assets		
Right-of-use, building	\$ 11,346	\$ 9,495
Right-of-use, land	118	96
Right-of-use, plant and machinery	37	22
Right-of-use, vehicles	1,206	917
Right-of-use, office equipment	219	479
Right-of-use, furnitures and fixtures	51	15
Accumulated depreciation right-of-use, building	(3,804)	(4,337)
Accumulated depreciation right-of-use, land	(222)	(52)
Accumulated depreciation right-of-use, plant and machinery	(28)	(21)
Accumulated depreciation right-of-use, vehicles	(670)	(328)
Accumulated depreciation right-of-use, office equipment	(176)	(441)
Accumulated depreciation right-of-use, furnitures and fixtures	(3)	(3)
Total right-of-use assets, net	<u>\$ 8,074</u>	<u>\$ 5,842</u>
Lease liabilities		
Current	\$ 2,303	\$ 1,530
Noncurrent	<u>8,091</u>	<u>6,410</u>
Total lease liabilities	<u>\$ 10,394</u>	<u>\$ 7,940</u>

Additions to the right-of-use assets during the years ended December 31, 2023 and 2022 were \$4.5 million and \$4.7 million, respectively. The total cash outflows for leases in 2023 and 2022 were \$1.8 million and \$2.0 million, respectively. The Company recorded \$0.8 million and \$0.8 million in lease interest during the years ended December 31, 2023 and 2022, respectively.

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Depreciation expense on right-of-use assets for the years ended December 31, 2023 and 2022 were as follows:

	2023	2022
Depreciation on right-of-use assets		
Depreciation right-of-use, building	\$ 1,820	\$ 1,496
Depreciation right-of-use, plant and machinery	12	9
Depreciation right-of-use, vehicles	347	261
Depreciation right-of-use, office equipment	60	112
Depreciation right-of-use, furnitures and fixtures	-	-
Total depreciation on right-of-use assets	<u>\$ 2,239</u>	<u>\$ 1,878</u>

Lessor Arrangements

The Company subleases office space and a warehouse under operating lease agreements which expire at various dates through 2024. Sublease rental income recognized during 2023 and 2022 was \$126,000 and \$87,000, respectively.

At December 31, 2023, the estimated undiscounted minimum lease payments to be received were as follows:

	2023	2022
Less than one year	\$ 102	\$ 126
One to two years	<u>24</u>	<u>126</u>
Minimum lease payments to be received	<u>\$ 126</u>	<u>\$ 252</u>

Sale and Leaseback Arrangement

On September 6, 2022, Varel International Industries ("VIES"), a wholly owned subsidiary of the Company, sold a property comprising of land and buildings to the Trio Fund for \$2.9 million, resulting in a gain of sale of \$2.7 million.

On September 9, 2022, VIES entered into a 20 year lease with an option for four 5-year renewal periods on the same property. The initial rent payment of the lease was \$214,720 including an annual rent increase of 2.5%. Of the \$2.7 million gain on sale, \$0.7 million was recognized during the year ended December 31, 2022 and the balance of \$2.0 million will not be recognized since VIES retained the right to use the office building.

Rental Revenue

The Company recognizes rental revenue from operating leases on a straight-line basis over the term of the lease. The rental revenue for the years ended December 31, 2023, and 2022 were as follows:

	2023	2022
Rental revenue	<u>\$ 23,516</u>	<u>\$ 23,660</u>

Varel Oil and Gas Inc.

Notes to Consolidated Financial Statements

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(tables in thousands of U.S. dollars, except for share and per share amounts)

20. Related Party Transactions

Transactions with Terelion, LLC

Varel International Energy Services, Inc. ("Varel International"), a wholly owned subsidiary of Varel, entered a Purchase, Supply and Manufacturing Agreement, effective June 1, 2019, with Terelion, LLC (formerly "Varel Mining and Industrial, LLC") for the sale of roller cone drill bits, resulting in total revenue of \$29.5 million and \$28.2 million for the years ended December 31, 2023 and 2022, respectively, with an outstanding accounts receivable of \$0.1 million and \$0.5 million as of December 31, 2023 and 2022, respectively. Terelion, LLC. is a wholly owned subsidiary of the Company's noncontrolling owner, Sandvik, Inc. (30% owner).

In accordance with the agreement, there is a provision for Varel International to receive a reimbursement of expenses (including late delivery penalties, overhead under absorption, and substitute products) equal to the proven excess of aggregate purchase price of the substitute product, including all costs related to shipping and customs, over the aggregate purchase price of goods for which the buyer would have paid for pursuant to the original agreement. As of December 31, 2023 and 2022, respectively, Varel International noted \$465,306 and \$178,269, respectively, in reimbursements for late delivery penalties and overhead under absorption outside of the original agreement.

Transactions with Bluewater Energy, LLC.

The Company recorded a recharge of expenses of \$201,000 and \$206,072 for the year ended December 31, 2023 and 2022, respectively.

Intercompany Loans

On June 30, 2022, the Company's immediate parent, Varel Oil and Gas Intermediate Holdings, Inc. ("VOIGH") executed an Intra-Group Loan Agreement with the Company, transferring \$23.4 million to the Company at 10% coupon payable within a year. The Intra-Group loan was forgiven by VOIGH, and as a result the payable was reclassified as a capital contribution on the Consolidated Statement of Changes in Equity on June 28, 2023.

On March 11, 2023, the Company's immediate parent, VOIGH, executed an Intra-Group Loan Agreement with the Company, transferring a \$5.4 million note payable to the Company with a maturity date of March 10, 2024 ("March 11, 2023 Intra-Group Loan"). The loan accrues interest at 18% per annum. The Company settled the March 11 Intra-Group Loan in 2024.

On June 12, 2023, the Company's immediate parent, VOIGH, executed an Intra-Group Loan Agreement with the Company, transferring a \$6.6 million note payable to the Company with a maturity date of June 11, 2024 ("June 12, 2023 Intra-Group Loan"). The loan accrues interest at 25% per annum. The Company settled the June 12, 2023 Intra-Group Loan in 2024.

For the years ended December 31, 2023 and 2022, interest expense of \$2.9 million and \$1.2 million, respectively, were incurred on intercompany loans.

Transactions for Raw Materials and Other Expenses

During 2022 and 2023, the Company entered into purchase agreements with Sandvik Coromant Company and Sandvik Materials Technologies, AB. The entities are wholly owned subsidiaries of the Company's non-controlling owner, Sandvik, Inc. (30% owner). During the years ended December 31, 2023 and 2022 the transactions resulted in cash outflows of \$217,623 and \$317,446, respectively.

Varel Oil and Gas Inc.

Notes to Consolidated Financial Statements

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21. Commitments and Contingencies

Varel, in its global operations, is involved from time to time in legal and regulatory proceedings, which may be material in the future. The outcome of proceedings, lawsuits and claims may differ from our expectations and estimated liabilities, leading Varel to change estimates of liabilities and related insurance receivables.

Legal and regulatory proceedings, whether with or without merit, and associated internal investigations, may be time-consuming and expensive to prosecute, defend or conduct, may divert management's attention and other resources, inhibit our ability to sell our products, result in adverse judgments for damages, injunctive relief, penalties and fines, and otherwise negatively affect our business.

Where appropriate, Varel may establish financial reserves for such proceedings. Varel also maintains insurance to mitigate certain of such risks. Costs for legal services are generally expensed as incurred. The Company did not record a financial reserve for legal or regulatory proceedings at December 31, 2023 or 2022, respectively

The wholly owned subsidiary of Downhole Products Limited entered into a Floating Charge Agreement with Investec Bank PLC on May 29, 2020, to secure the obligations set forth within the Senior Facilities Agreement signed October 28, 2019, with the collateral comprising the property and undertakings of the Downhole Products Limited.

22. Provisions

	Restructuring	Saudi Provision	Royalty Accrual	Total
Balance at January 1, 2022	\$ 5,741	\$ 3,934	\$ 1,623	\$ 11,298
Provisions made during the year	1,640	-	-	1,640
Provisions used during the year	(5,500)	(1,624)	(1,624)	(8,748)
Balance at December 31, 2022	<u>\$ 1,881</u>	<u>\$ 2,310</u>	<u>\$ (1)</u>	<u>\$ 4,190</u>
Provisions made during the year	-	-	-	-
Provisions used during the year	(1,474)	(2,310)	-	(3,784)
Balance at December 31, 2023	<u>\$ 407</u>	<u>\$ -</u>	<u>\$ (1)</u>	<u>\$ 406</u>
Balance at December 31, 2022				
Current Provisions	\$ 1,881	\$ 2,310	\$ -	\$ 4,191
Non-Current Provisions	-	-	-	-
Total Provisions	<u>\$ 1,881</u>	<u>\$ 2,310</u>	<u>\$ -</u>	<u>\$ 4,191</u>
Balance at December 31, 2023				
Current Provisions	\$ 407	\$ -	\$ (1)	\$ 406
Non-Current Provisions	-	-	-	-
Total Provisions	<u>\$ 407</u>	<u>\$ -</u>	<u>\$ (1)</u>	<u>\$ 406</u>

Restructuring

During 2021, the Company recorded a provision for \$5.7 million after the Company formally announced the closure of the Varel Europe S.A.S. manufacturing plant. An additional \$1.6 million

Varel Oil and Gas Inc.

Notes to Consolidated Financial Statements

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provision was recorded in 2022. Estimated restructuring costs primarily include severance for a reduction in workforce and are based on a detailed plan. This provision was completed and paid in 2022.

Saudi Provision

This provision relates to an internal customer audit. The Company settled \$1.6 million of the liability in 2022 and the remaining \$2.3 million in 2023.

Royalty Accrual

Based on the results of an internal audit from a supplier, an additional leaching royalty provision was required. The provision was fully utilized in June of 2022.

23. Capital and Reserves

	2023	2022
Common Shares		
Outstanding at January 1	1,000	1,000
Issued in business transaction at closing	-	-
Outstanding at December 31	<u>1,000</u>	<u>1,000</u>
Authorized - par value per share	\$ 0.01	\$ 0.01

Common Shares

The Company has 3,000 shares of common stock authorized with \$0.01 par value. Holders of these shares are entitled to dividends as declared from time to time and are entitled to one vote per share at the general meetings of the Company. The Company declared and paid dividends of \$0 for the years ended December 31, 2023 and 2022, respectively.

24. Key Management Compensation

Key management personnel are those people who have authority and responsibility for planning, directing, and controlling the activities of the entity, directly or indirectly. The total remuneration of directors and key management personnel, including salaries, benefits, and severance was \$3.3 million and \$3.0 million for the years ended December 31, 2023 and 2022, respectively.

25. Material Subsidiaries and Associate

Functional currencies of the Company other than the USD include Mexican Peso ("MXN"), Canadian Dollar ("CAD"), Central African CFA Franc ("XAF"), Chinese Yuan ("CNY"), Indian Rupee ("INR"), United Arab Emirates Dirham ("AED"), Malaysian Ringgit ("MYR"), and Pound Sterling

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("GBP"). Below is a list of material subsidiaries and associates of the Company and ownership share as of December 31, 2023.

Entity	Country	Ownership	Currency
Varel International Energy Services, Inc.	United States	100%	USD
DHP Varel, Inc.	United States	100%	USD
Downhole Products UK Holdco Limited	United Kingdom	100%	USD
Downhole Products UK Holdco II Limited	United Kingdom	100%	USD
Varel International Holdings, LLC	United States	100%	USD
Varel International Industries, LLC	United States	100%	USD
Varel Energy Oil Field Equipment Trading L.L.C	Dubai	100%	USD
Varel International de Mexico S.A. de C.V.	Mexico	100%	MXN
Varel Gas y Petroleo de Mexico S de RL CV	Mexico	100%	MXN
Varel Rock Bits Canada, Inc.	Canada	100%	CAD
Varel Europe S.A.S.	Europe	100%	USD
Varel International Engineering Resources SA	Switzerland	100%	USD
Varel Gabon SARL	Gabon	100%	XAF
Varel (Beijing) Trading Co., Ltd.	China	100%	CNY
Varel Arabia Company Limited	Saudi Arabia	75%	USD
Varel International (for Oil Products & Services)	Egypt	100%	USD
Varel Europe Pakistan Branch Office	Pakistan	100%	USD
SledgeHammer Oil Tools Pvt. Ltd.	India	78%	INR
SledgeHammer Gulf - LLC	India	49%	INR
SledgeHammer Oil Tools International Company	India	33%	INR
SledgeHammer Gulf DMCC	Dubai	100%	INR
SledgeHammer Americas Inc.	Texas	100%	INR
Down Hole Products Limited	United Kingdom	100%	USD
Aberdeen Products, Inc.	United States	100%	USD
Downhole Products Middle East	The United Arab Emirates	100%	AED
Down Hole Products Asia	Malaysia	100%	MYR
Ian Hay Engineering Limited	United Kingdom	100%	GBP
Smooth Team Investments Limited	Hong Kong	100%	GBP

26. Segment information

Reportable segment assets are based on the physical location of the asset.

Noncurrent assets by Geographic Location	2023	2022
United States (USA)	\$ 18,489	\$ 15,812
Kingdom of Saudi Arabia (KSA)	1,581	2,633
Asia	24,011	25,571
Europe	2,055	5,150
Latin America (LATAM)	11,543	10,205
Other	3,376	1,981
Total noncurrent assets	<u>\$ 61,055</u>	<u>\$ 61,352</u>

The Company has a single customer, Terelion, LLC (see Note 20 for additional details), that accounts for approximately 17% and 18% of down hole product revenue for the years ended

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Notes to Consolidated Financial Statements

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(tables in thousands of U.S. dollars, except for share and per share amounts)

December 31, 2023 and 2022, respectively. The loss of any significant customer or contract could have a material adverse short-term effect; however, it is not likely that the loss of any significant customer or contract would materially impact the Company's performance as such customers could be replaced by other customers with similar terms and conditions. No other customers accounted for more than 10% or more of the Company's revenue for the year ended December 31, 2023 or 2022.

27. Subsequent Events

The Company has evaluated subsequent events through October 29, 2024, the date that the Consolidated Financial Statements were available for issuance.

Bond Issuance

On April 4, 2024, the Company issued four-year \$60.0 million Senior Secured Bonds (the "bonds"). The bonds carry a fixed coupon of 12.25%, payable semi-annually. The net proceeds from the bonds were used to repay existing debt and finance the Tranche Two Acquisition.

Repayment of Borrowings

In connection with the issuance of the Bonds, on April 10, 2024, the Company used a portion of the proceeds to repay \$32.0 million of the Senior Facility Agreement.

Final Closing of Sledgehammer

On June 28, 2024, The SOTPL Acquisition was amended to extend the Tranche Two Acquisition closing to September 18, 2024, for final consideration of \$30 million. The difference between the estimated deferred consideration of \$1.8 million at December 31, 2023 and the final consideration will be recognized as a loss on the consolidated statement of loss and comprehensive loss for the year ended December 31, 2024.

Appendix 15: Consolidated financial statements for Varel Oil and Gas Intermediate Holdings, Inc. as of and for the financial year ended 31 December 2023 with comparable figures for the financial year ended 31 December 2022

Varel Oil and Gas Intermediate Holdings, Inc.

**Consolidated Financial Statements
December 31, 2023 and 2022**

Varel Oil and Gas Intermediate Holdings, Inc. Index
December 31, 2023 and 2022

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Report of Independent Auditors

To the Management of Varel Oil and Gas Intermediate Holdings, Inc.

Opinion

We have audited the accompanying consolidated financial statements of Varel Oil and Gas Intermediate Holdings, Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as of December 31, 2023 and 2022, and the related consolidated statements of loss and comprehensive loss, of changes in equity and of cash flows for the years then ended, including the related notes (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern for at least, but not limited to, twelve months from the end of the reporting period, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial



In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

A handwritten signature in blue ink, appearing to read "Priscilla Handicapus LLP".

New Orleans, Louisiana
February 13, 2025

Varel Oil and Gas Intermediate Holdings, Inc. Consolidated Statements of Financial Position

Years Ended December 31, 2023 and 2022

<i>(in thousands of U.S. dollars)</i>	Notes	2023	2022
Assets			
Noncurrent assets			
Property, Plant and Equipment	(9)	\$ 28,512	\$ 27,719
Right-of-use assets	(19)	8,074	5,842
Goodwill	(11)	8,420	8,475
Intangibles	(10)	11,226	13,342
Investments in affiliates		676	436
Deferred tax asset	(18)	4,037	3,613
Other assets		110	1,925
Total noncurrent assets		<u>61,055</u>	<u>61,352</u>
Current assets			
Cash		5,876	12,560
Trade receivables	(7)	37,017	33,834
Trade receivables, related parties	(6)	-	494
Income tax receivables		190	-
Inventories	(8)	62,171	53,027
Prepays and other current assets		16,263	17,500
Total current assets		<u>121,517</u>	<u>117,415</u>
Total assets		<u>\$ 182,572</u>	<u>\$ 178,767</u>
Equity			
Share premium		\$ 456,796	\$ 430,380
Accumulated deficit		(415,281)	(404,944)
Accumulated other comprehensive income		12,983	11,517
Equity attributable to owners of Varel		<u>54,498</u>	<u>36,953</u>
Noncontrolling interests		<u>(908)</u>	<u>2,503</u>
Total equity		<u>53,590</u>	<u>39,456</u>
Liabilities			
Noncurrent liabilities			
Borrowings	(13)	29,556	27,139
Borrowings, related party	(20)	-	24,604
Lease liabilities	(19)	8,091	6,410
Deferred tax liabilities	(18)	1,098	1,948
Other liabilities		6,299	6,795
Total noncurrent liabilities		<u>45,044</u>	<u>66,896</u>
Current liabilities			
Trade payables		32,342	40,444
Trade payables, related parties		20	20
Income tax payable	(18)	2,125	1,825
Accrued liabilities		4,579	3,431
Provisions	(22)	406	4,191
Other current liabilities	(12)	18,649	14,671
Current portion of borrowings	(13)	9,790	6,303
Current portion of borrowings, related party	(20)	13,724	-
Current portion of lease liabilities	(19)	2,303	1,530
Total current liabilities		<u>83,938</u>	<u>72,415</u>
Total liabilities		<u>128,982</u>	<u>139,311</u>
Total shareholders' equity and liabilities		<u>\$ 182,572</u>	<u>\$ 178,767</u>

The accompanying notes are an integral part of these consolidated financial statements.

Varel Oil and Gas Intermediate Holdings, Inc. Consolidated Statements of Loss and Comprehensive Loss

Years Ended December 31, 2023 and 2022

<i>(in thousands of U.S. dollars)</i>	Notes	2023	2022
Continuing Operations			
Revenue	(14)	\$ 192,241	\$ 179,272
Cost of revenue	(15)	<u>(133,058)</u>	<u>(130,819)</u>
Gross profit		59,183	48,453
Selling, general and administrative expenses	(15)	(58,717)	(55,867)
Other income	(17)	<u>460</u>	<u>857</u>
Operating profit/(loss)		926	(6,557)
Finance income	(16)	1,788	1,657
Finance costs	(16)	<u>(10,961)</u>	<u>(6,182)</u>
Loss before income tax		(8,247)	(11,082)
Income tax expense	(18)	<u>(4,070)</u>	<u>(2,271)</u>
Loss from continuing operations		(12,317)	(13,353)
Loss from discontinued operations	(5)	<u>(3,268)</u>	<u>(2,664)</u>
Loss for the period		<u>(15,585)</u>	<u>(16,017)</u>
Loss for the period from continuing operations attributable to:			
Owners of Varel		\$ (9,247)	\$ (12,381)
Non-controlling interests		<u>(3,070)</u>	<u>(972)</u>
		<u>\$ (12,317)</u>	<u>\$ (13,353)</u>
Other comprehensive income			
<i>Items that are or may be reclassified subsequently to loss</i>			
Foreign operations – foreign currency translation differences		<u>1,220</u>	<u>1,445</u>
Comprehensive income for the period		<u>1,220</u>	<u>1,445</u>
Total comprehensive loss for the period		<u>\$ (14,365)</u>	<u>\$ (14,572)</u>
Total comprehensive loss attributable to:			
Owners of Varel		\$ (11,046)	\$ (14,448)
Non-controlling interests - continuing operations		<u>(3,319)</u>	<u>(124)</u>
		<u>\$ (14,365)</u>	<u>\$ (14,572)</u>
Total comprehensive loss for the period attributable to the Owners of Varel:			
Continuing operations		\$ (7,778)	\$ (11,251)
Discontinued operations		<u>(3,268)</u>	<u>(3,197)</u>
		<u>\$ (11,046)</u>	<u>\$ (14,448)</u>

The accompanying notes are an integral part of these consolidated financial statements.

Varel Oil and Gas Intermediate Holdings, Inc. Consolidated Statements of Changes in Equity

Years Ended December 31, 2023 and 2022

<i>(in thousands of U.S. dollars)</i>	Shares Outstanding Amount <i>(par value \$0.01)</i>	Share Premium	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Equity Attributable to Owners of Varel	Noncontrolling Interests	Total Equity
Balance at December 31, 2021	1,000	\$ 437,098	\$ (386,727)	\$ 7,206	\$ 57,577	\$ (4,540)	\$ 53,037
Loss for the period	-	-	(12,381)	-	(12,381)	(972)	(13,353)
Other comprehensive income (loss)	-	-	-	1,130	1,130	315	1,445
Loss from discontinued operations	-	-	(3,197)	-	(3,197)	533	(2,664)
Sledgehammer acquisition	-	(7,167)	-	-	(7,167)	7,167	-
Other	-	449	(2,639)	3,181	991	-	991
Balance at December 31, 2022	1,000	430,380	(404,944)	11,517	36,953	2,503	39,456
Loss for the period	-	-	(9,247)	-	(9,247)	(3,070)	(12,317)
Other comprehensive income (loss)	-	-	-	1,468	1,468	(248)	1,220
Loss from discontinued operations	-	-	(3,268)	-	(3,268)	-	(3,268)
Capital contribution	-	26,325	-	-	26,325	-	26,325
Other	-	91	2,178	(2)	2,267	(93)	2,174
Balance at December 31, 2023	1,000	\$ 456,796	\$ (415,281)	\$ 12,983	\$ 54,498	\$ (908)	\$ 53,590

The accompanying notes are an integral part of these consolidated financial statements.

Varel Oil and Gas Intermediate Holdings, Inc. Consolidated Statements of Cash Flows

Years Ended December 31, 2023 and 2022

<i>(in thousands of U.S. dollars)</i>	Notes	2023	2022
Cash flows from operating activities			
Loss for the period		\$ (15,585)	\$ (16,017)
Adjustments for			
Depreciation and amortization	(9), (10)	12,246	5,701
Depreciation of right-of-use assets	(19)	2,239	1,878
Amortization of deferred financing costs		381	366
Provision for doubtful accounts		(2,907)	(454)
(Gain) Loss on sale of equipment		1,061	855
(Gain) Loss on foreign currency	(17)	1,870	3,297
Deferred tax expense		(1,930)	(1,235)
Employee benefits		740	786
Net finance costs	(16)	9,173	4,875
Write off of intangibles		-	544
Changes in			
Trade receivables		(275)	6,267
Inventories		(9,144)	(17,119)
Prepays and other assets		3,960	(7,066)
Trade and other payables		(5,902)	23,637
Other liabilities		3,290	(390)
Cash generated from operating activities		(783)	5,925
Interest paid		(3,600)	(2,177)
Income taxes paid		(4,887)	(735)
Net cash provided by (used in) operating activities - continuing operations		(9,270)	3,013
Net cash provided by operating activities - discontinued operations		237	366
Net cash provided by (used in) operating activities		(9,032)	3,379
Cash flows from investing activities			
Acquisition of Sledgehammer	(4)	60	(24,916)
Proceeds from sale of equipment		31	3,675
Acquisition of property and equipment	(9)	(11,465)	(6,785)
Net cash used in investing activities - continuing operations		(11,374)	(28,026)
Net cash used in investing activities - discontinued operations		2,007	(134)
Net cash used in investing activities		(9,367)	(28,160)
Cash flows from financing activities			
Proceeds from long-term borrowings	(13)	4,302	44,772
Proceeds from related party borrowings	(20)	12,000	-
Repayments of long-term borrowings	(13)	(1,063)	(14,955)
Payments of lease liabilities	(19)	(2,765)	(2,992)
Net cash provided by (used in) financing activities		12,475	26,825
Effect of exchange rate changes on cash		(760)	(4,217)
Net decrease in cash and cash equivalents		(6,684)	(2,173)
Cash and cash equivalents			
Beginning of year		12,560	14,733
End of year		\$ 5,876	\$ 12,560
Supplemental non-cash investing activities			
Change in accrued capital expenditures		\$ 518	\$ 4,678

The accompanying notes are an integral part of these consolidated financial statements.

Varel Oil and Gas Intermediate Holdings, Inc.

Notes to Consolidated Financial Statements

Years Ended December 31, 2023 and 2022

(tables in thousands of U.S. dollars, except for share and per share amounts)

1. Nature of Operations

Varel Oil and Gas Intermediate Holdings, Inc. ("Varel" or the "Company") was founded in 2019 as a Delaware Corporation domiciled in the United States of America. Varel primarily designs, manufactures, and supplies products to the drilling, well construction, and completion solutions businesses within the energy sector. The Company sells its products globally in the key markets of America, Europe, Asia, and the Middle East.

These Consolidated Financial Statements were authorized for issuance by the Board of Directors on February 13, 2025.

2. Summary of Material Accounting Policies

Basis of Presentation

The Consolidated Financial Statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS® Accounting Standards") as issued by the International Accounting Standards Board ("IASB").

The Consolidated Financial Statements have been prepared under the historical cost convention except for certain items measured at fair value.

New and amended standards adopted by the Company

The following new and amended standards were adopted by the Company in the year ended December 31, 2023:

IAS 1 - Disclosure of Accounting Policies: In February 2021, IASB issued 'Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)' which is intended to help entities in deciding which accounting policies to disclose in their financial statements. The amendments to IAS 1 require entities to disclose their material accounting policies rather than their significant accounting policies. Management has conducted an evaluation of the materiality of the accounting policies reported in its consolidated financial statements, considering both the materiality and nature of the transactions disclosed.

IAS 8 - Definition of Accounting Estimates: In February 2021, IASB issued 'Definition of Accounting Estimates (Amendments to IAS 8)' to help entities to distinguish between accounting policies and accounting estimates. The definition of a change in accounting estimates has been replaced with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". Entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty. The adoption of this amendment has no material impact on the Company's financial statements.

New and revised standards issued but not effective

The Company has not yet determined the impact of these revised standards on its financial statements that have been issued but are not yet effective:

- Amendments to IFRS 16 Lease Liability in a sale and Leaseback *
- Amendments to IAS 1 Non-current Liabilities with Covenants *

Varel Oil and Gas Intermediate Holdings, Inc.

Notes to Consolidated Financial Statements

Years Ended December 31, 2023 and 2022

(tables in thousands of U.S. dollars, except for share and per share amounts)

- Amendments to IAS 1 Classification of Liabilities *
- Amendments to IAS 7 and IFRS 7 Supplier Finance Arrangements *
- Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates **

* Effective for annual periods beginning on or after January 1, 2024.

** Effective for annual periods beginning on or after January 1, 2025.

IFRS 16 - Lease Liability in a Sale and Leaseback

In September 2022, the IASB issued 'Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)' with amendments that clarify how a seller-lessee subsequently measures sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale and where the lease payments contain variable elements.

IAS 1 - Non-current Liabilities with Covenants

In October 2022, IASB issued 'Non-current Liabilities with Covenants (Amendments to IAS 1)' to clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability.

IAS 1 - Classification of Liabilities

In January 2020, IASB issued the final amendments in Classification of Liabilities as Current or Non-Current, which affect only the presentation of liabilities in the statement of financial position. They clarify that classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the "right" to defer settlement by at least twelve months. The classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability.

IAS 7 and IFRS 7 - Supplier Finance Arrangements

In May 2023, the IASB issued 'Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)' which require an entity to provide additional disclosures about supplier finance arrangements. Solely credit enhancements for the entity or instruments used by the entity to settle their dues, are not supplier finance arrangements. Entities will have to disclose information that enables users of financial statements to assess how these arrangements affect its liabilities and cash flows and to understand their effect on an its exposure to liquidity risk and how it might be affected if the arrangements were no longer available to it.

IAS 21 - The Effects of Changes in Foreign Exchange Rates

In August 2023, the IASB issued 'Lack of Exchangeability (Amendments to IAS 21)' to provide guidance to specify which exchange rate to use when the currency is not exchangeable. An entity must estimate the spot exchange rate as the rate that would have applied to an orderly transaction between market participants at the measurement date and that would faithfully reflect the economic conditions prevailing.

Varel Oil and Gas Intermediate Holdings, Inc.

Notes to Consolidated Financial Statements

Years Ended December 31, 2023 and 2022

(tables in thousands of U.S. dollars, except for share and per share amounts)

Use of Estimates

The preparation of financial statements in conformity with IFRS Accounting Standards requires the use of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses, as well as amounts included in the notes thereto, including discussion and disclosure of contingent liabilities. Although the Company uses its best estimates and judgments, actual results could differ from these estimates as future confirming events occur.

Principles of Consolidation

The accompanying Consolidated Financial Statements include the accounts of subsidiary companies in which the Company has a controlling interest. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and can affect those returns through its power over the investee. These entities are consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases. If the Company does not own all of the equity of an entity, noncontrolling interest reflects the share of the identifiable net assets not owned by the Company.

All intercompany transactions, balances, income, and expenses have been eliminated in consolidation.

Segment Information

The Company is organized into three operating segments which focus on the manufacturing of downhole drilling, cementing and completion products:

1. Eastern hemisphere
2. Western hemisphere
3. Advanced manufacturing partnerships

The three operating segments are aggregated into a single operating segment. The aggregation is based on analysis of the following considerations:

1. Economic characteristics
2. Nature of products and services
3. Production processes
4. Type of customer
5. Distribution methods

Based on the considerations included above, the Company concluded it has a single reportable segment.

Business Combinations

Upon acquisition, the Company determines if the transaction is a business combination, which is accounted for using the acquisition method. Under the acquisition method, once control is obtained of a business, the assets acquired, liabilities assumed, consideration transferred and amounts attributed to noncontrolling interests, are recorded at fair value. The Company uses its best estimates and assumptions to assign fair value to the tangible and intangible assets acquired, liabilities assumed, consideration transferred and amounts attributed to noncontrolling interests at the acquisition date. The determination of the fair values is based on estimates and judgments

Varel Oil and Gas Intermediate Holdings, Inc.

Notes to Consolidated Financial Statements

Years Ended December 31, 2023 and 2022

(tables in thousands of U.S. dollars, except for share and per share amounts)

made by management. The Company's estimates of fair value are based upon assumptions it believes to be reasonable, but which are inherently uncertain and unpredictable.

When there is a right for the noncontrolling interest to put their shares to the parent or a forward contract to acquire the noncontrolling interests exist, the Company assess whether the noncontrolling interest has retained risks and rewards associated with the ownership of the shares. In such instances, noncontrolling interest is presented in equity in addition to recording the net present value of the redemption obligation as a liability (the "double credit method"). In other circumstances only a liability is recognized.

Measurement period adjustments are reflected at the time identified, up through the conclusion of the measurement period, which is the time at which all information for determination of the values of assets acquired, liabilities assumed, consideration transferred and noncontrolling interests is received, and is not to exceed one year from the acquisition date (the "Measurement Period"). During the Measurement Period, the Company may record adjustments to the assigned value with a corresponding offset to goodwill. Any adjustments identified outside of the Measurement Period are directly reflected in profit or loss.

Foreign currency Transactions and Translation

(1) Foreign currency transactions

Foreign currency transactions are translated into the respective functional currencies of Varel at the exchange rates prevailing when such transactions occur. All monetary assets and liabilities are remeasured into the respective functional currencies at the applicable exchange rates at the end of the reporting period. Gains or losses on exchange differences arising from settlement or remeasurement of monetary assets and liabilities is recognized in profit or loss.

(2) Foreign operations

All assets and liabilities of foreign subsidiaries, associates and joint ventures (collectively, "foreign operations") that use a functional currency other than the United States Dollar ("USD") are translated into USD at the exchange rates at the end of the reporting period. All revenues and expenses of foreign operations are translated into USD at the average exchange rate for the period unless the exchange rate fluctuates widely. Exchange differences arising from such translations are recognized in other comprehensive income and accumulated in other components of equity in the Consolidated Statement of Financial Position. When a foreign operation is disposed of, and control, significant influence or joint control over the foreign operation is lost, the cumulative amount of exchange differences relating to the foreign operation is reclassified from equity to profit or loss.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits, and other short-term investments with original maturities of three months or less from the acquisition date.

Trade Receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. Due dates are set on a contract-by-contract basis but are generally due for settlement within 30-90 days and therefore are classified as current assets. Trade receivables are recognized initially at the unconditional amount of consideration. Due to the short-term nature of trade receivables, the carrying amount approximates fair value.

Varel Oil and Gas Intermediate Holdings, Inc.

Notes to Consolidated Financial Statements

Years Ended December 31, 2023 and 2022

(tables in thousands of U.S. dollars, except for share and per share amounts)

Expected Credit Losses

The Company measures expected credit losses using a lifetime expected loss allowance for all trade receivables. To measure the expected credit loss, trade receivables are reviewed on a case-by-case basis for credit risk characteristics such as days past due. The expected loss rate is determined based on the customer payment profile over the preceding 12 month period. The historical loss rate may be adjusted if there is reliable information which the Company determined could impact the customer's ability to settle their outstanding receivables.

Based on the assessment of credit losses, the Company reduced the provision for credit losses by \$2.9 million and \$11.9 million for the years ended December 31, 2023 and 2022, respectively.

Impairment and Risk Exposure

The Company's customers are independently rated and the credit ratings are used by the Company to evaluate the risk of the counterparty. If there is no independent rating, the Company assesses the credit quality of the customer, considering its financial position, experience, and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by management.

Inventories

Inventories are stated at lower of cost or net realizable value, which is the estimated selling price less cost to sell. Cost is determined using the specific identification method and comprised of the purchase price of materials and other directly related costs. Costs are calculated using the average cost method. At each reporting date, inventories are assessed for impairment. If inventory is impaired, the carrying amount is reduced to its selling price less costs to complete and sell, and an impairment loss is recognized in the Consolidated Statement of Loss and Comprehensive Loss.

Property, Plant and Equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditures that are directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The Company adds to the carrying amount of property and equipment, renewals, and betterments when such items are expected to provide incremental future benefits. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to Cost of revenue as incurred.

Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets. Ranges of estimated useful lives are as follows:

Asset Category	Economic Life
Buildings	10 - 20 years
Furniture and fixtures	4 - 10 years
Property, plant and equipment	4 - 10 years
Rental Fleet	2 years
Vehicles	3 - 5 years
IT hardware	3 - 5 years

The Company regularly assesses the estimated useful lives of property, plant, and equipment. In December 2023, management completed an assessment of the useful lives of the rental fleet and

Varel Oil and Gas Intermediate Holdings, Inc.

Notes to Consolidated Financial Statements

Years Ended December 31, 2023 and 2022

(tables in thousands of U.S. dollars, except for share and per share amounts)

revised the estimated useful life from less than one year, to two years, based on an analysis of current use, historical age patterns, and industry trends and practices. The change was accounted for as prospective change in accounting estimate, beginning on January 1, 2023. The change in estimate resulted in a decrease in depreciation of \$0.6 million.

These assets are reviewed for impairment whenever a triggering event is identified to determine whether events or circumstances provide objective evidence that suggests the carrying amount of an asset has suffered an impairment loss. An asset's carrying amount is written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

For the purpose of testing impairment, the Company groups assets into the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets called Cash Generating Units ("CGU") to estimate the fair value less cost of disposal. Future cash flows are based on expected earnings and estimated operating expenses over the remaining useful life of the CGU.

Gains and losses on disposals and retirements are determined by comparing the proceeds with the carrying amount and are recognized in the Consolidated Statement of Loss and Comprehensive Loss.

Intangible Assets

Intangible assets with finite lives are carried at cost less accumulated amortization. Amortization is computed using the straight-line method over the estimated useful lives of the intangible assets. Ranges of estimated useful lives are as follows:

Asset Category	Amortization Method	Economic Life
Patents and trademarks	Straight-line	10 - 20 years
Customer relationships	Straight-line	10 years
Software IT operations	Straight-line	3 years
Capitalized development cost	Straight-line	3 - 7 years

Trade Payables

Trade payables represent liabilities incurred by the Company for the procurement of goods and services. The amounts are unsecured and are paid within 90 days of recognition. Trade payables are presented as current liabilities, initially recognized at fair value and subsequently measured at amortized cost using the effective interest method. Due to the short-term nature, the carrying amount approximates fair value.

Other Payables

Other payables represent accrued liabilities, provisions and income tax payable. The amounts are unsecured and are typically paid within 90 days of recognition. Other payables are presented as current liabilities in the Consolidated Statement of Financial Position unless payment is not due within 12 months after the reporting period.

Borrowings

Borrowings are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost.

Varel Oil and Gas Intermediate Holdings, Inc.

Notes to Consolidated Financial Statements

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(tables in thousands of U.S. dollars, except for share and per share amounts)

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a prepayment within Borrowings and amortized over the period of the facility.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any noncash assets transferred or liabilities assumed, is recognized in the Consolidated Statement of Loss and Comprehensive Loss as Other income/(losses) or Finance cost.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months following the balance sheet date.

The Company considers interest expense calculated by the effective interest method, finance charges in respect of finance leases, and exchange differences arising from adjustments to foreign currency borrowing as borrowing costs. General and specific borrowing costs attributable to the acquisition, construction, or production of a qualifying asset are capitalized during the period required to complete and prepare the asset for its intended use or sale. Qualifying assets are ones that take over 12 months to prepare for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. Other borrowing costs are expensed in the period in which they are incurred.

Provisions

A provision is recognized when the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses. Where there are several similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of the obligation as a whole.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

Revenue Recognition

The Company recognizes revenue when it satisfies a performance obligation by transferring a promised good to a customer. The transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods to a customer. The Company considers the terms of the contracts with customers for the relevant period to determine the transaction price.

The Company recognizes revenue based on the five-step model:

- (i) identification of contracts with customers;
- (ii) identification of performance obligations in contracts;
- (iii) determination of the price of the transaction;

Varel Oil and Gas Intermediate Holdings, Inc.

Notes to Consolidated Financial Statements

Years Ended December 31, 2023 and 2022

(tables in thousands of U.S. dollars, except for share and per share amounts)

- (iv) allocation of the transaction price to the performance obligation provided for in the contracts;
- (v) recognition revenue when, (or as), the Company satisfies a performance obligation by transferring a promised good (or service) to a customer

Downhole Product Sales

Sales of downhole products are recognized at a point in time when control has been transferred to the customer. To assess when the control has been transferred, indicators such as, but not limited to, significant risks and rewards of ownership, transferred physical possession, acceptance of the asset by the customer and a present right to payment and legal title of goods and services are considered. For the sale of goods, the transfer of control usually occurs when the significant risks and rewards are transferred in accordance with the transactions shipping terms. Payment is due between 30 and 90 days from the transfer of control. In some contracts, short-term advances are required before the equipment is delivered.

Income Taxes

The Company is a corporation for U.S. federal and state income tax purposes, and accordingly, the Company records taxes in profit or loss, except to the extent that it relates to items recognized in Other Comprehensive Income or directly in equity. The Company also has certain subsidiaries that are subject to foreign income taxes.

The current income tax provision is calculated based on tax rates and laws enacted or substantively enacted on the reporting date in the countries where the Company's subsidiaries operate and generate taxable income.

The Company recognizes deferred tax assets to the extent that it believes it is probable the assets will be realized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except for deferred income tax liabilities where the timing of reversal of the temporary differences is controlled by the Group and it is probable that the temporary differences will not reverse in the near future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Leases

Lessee: The Company assesses at contract inception whether a contract is or contains a lease. That is, if the contract conveys the right to control the use of an identified asset for a period in exchange for consideration.

Leases are recognized at the commencement of the lease at the present value of the minimum lease payments. Each lease payment is apportioned between the liability and finance charges using the effective interest method.

Rental obligations, net of finance charges, are included in lease liabilities in the balance sheet. The property, plant and equipment acquired under leases is depreciated over the shorter of the asset's useful life or the lease term if there is no reasonable certainty that the Company will obtain ownership at the end of the lease term.

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Lessor: The Company classifies leases for which it is a lessor as either a finance lease or an operating lease. Whenever the terms of a lease substantially transfer all of the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When the Company is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease based on the right-of-use asset arising from the head lease.

Lease income from operating leases is recognized on a straight-line basis over the term of the relevant lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are gained. Initial direct costs incurred while negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized using the same basis as the lease income.

Consideration is allocated to lease and non-lease components, the Company applies IFRS Accounting Standards 15 to allocate the consideration under the contract to the respective components.

Measurement of Right-of-use Assets

The Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less accumulated amortization, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. The recognized right-of-use assets are amortized on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Fair Value Measurement

Fair Value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its nonperformance risk.

The Company classifies the fair value of assets and liabilities according to the following fair value hierarchy based on the amount of observable inputs used to value the instrument:

- Level 1 Fair value is based on unadjusted quoted prices in active markets for identical assets or liabilities as of the reporting date.
- Level 2 Fair value is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).
- Level 3 Fair value is based on inputs for the asset or liability that are not based on observable market data.

3. Critical Accounting Estimates and Judgments

The preparation of the Consolidated Financial Statements in conformity with IFRS Accounting Standards requires management to make judgments, estimates and assumptions that affect the

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application of accounting policies, the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Actual results could differ from these estimates. These estimates and underlying assumptions are reviewed on a continuous basis. Changes in these accounting estimates are recognized in the period in which the estimates were revised and in any future periods affected.

Information about important estimation and judgments that have significant effects on the amounts recognized in the Consolidated Financial Statements is as follows:

Impairment of Property, Plant, and Equipment

We evaluate our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may no longer be recoverable. Events that trigger a test for recoverability include material adverse changes in projected revenues or expenses, present cash flow losses combined with a history of cash flow losses and a forecast that demonstrates significant continuing and significant negative expectation of economic growth. When a triggering event occurs, a test for recoverability is performed. To determine whether an impairment has occurred, and the extent of any impairment loss or its reversal, the key assumptions management uses in estimating the risk-adjusted future cash flows for value in use are estimates of future operating profits, the terminal value, and the discounted present value of both future operating profits and the terminal value. In addition, management uses other assumptions and judgements. These assumptions and judgements are subject to change as information becomes available. Changes in assumptions could affect the carrying amounts of assets, and impairments and reversals will affect the financial results. Changes in economic conditions can affect the rate used for the discount rate used to discount future cash flow estimates and risk-adjustment in future cash flows. Judgment is applied to conclude whether changes in assumptions or economic conditions are an indicator that an asset CGU may be impaired, or that an impairment loss recognized in prior periods may no longer exist or may have decreased.

Impairment of Goodwill

Goodwill represents the excess of the purchase price over the fair value of net tangible and intangible assets acquired in a business combination. The Company allocates goodwill to the applicable CGU and evaluates goodwill for impairment annually and whenever events or circumstances make it more likely than not that impairment may have occurred. A CGU to which goodwill has been allocated is tested for impairment by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit. If the recoverable amount of the unit exceeds the carrying amount of the unit, the unit and the goodwill allocated to that unit shall be regarded as not impaired. If the carrying amount of the unit exceeds the recoverable amount of the unit, the entity shall recognize an impairment loss. Income tax effects from any tax-deductible goodwill on the carrying amount of the reporting unit are considered when measuring the goodwill impairment loss, if applicable.

Leases

Determination of the lease term is subject to judgment and has an impact on the measurement of the lease liability and related right-of-use assets. The Company judgmentally determines lease terms for lease agreements that include optional lease periods where it is reasonably certain the Company will either exercise an option to extend the lease or not exercise the option to terminate the lease. When assessing the lease term at the commencement date, the Company considers the broader economics of the contract. Reassessment of the lease term is performed upon changes in circumstances that affect the probability that an option to extend or terminate a lease will be exercised.

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Where the implicit rate in the lease is not readily available, an incremental borrowing rate is applied. This incremental borrowing rate reflects the rate of interest the lessee would have to pay to borrow over a similar term, with a similar security, the funds necessary to obtain an asset of a similar nature and value to the right-of-use asset in a similar economic environment. Determination of the incremental borrowing rate requires estimation.

Taxes

Tax liabilities are recognized when it is considered probable that there will be a future outflow of funds to a taxing authority. In such cases, provision is made for the amount expected to be settled, where this can be reasonably estimated. Provisions for uncertain income tax positions or treatments are measured at the most likely amount or the expected value, whichever method is more appropriate. Generally, uncertain tax treatments are assessed individually, except where they are expected to be settled collectively. It is assumed that taxing authorities will examine positions taken if they have the right to do so and that they have full knowledge of the relevant information. A change in the estimate of the likelihood of a future outflow and/or in the expected amount to be settled would be recognized in the results of operations in the period in which the change occurs. This requires the application of judgment as to the ultimate outcome, which can change over time depending on facts and circumstances. Judgments relate to transfer pricing, including inter-company financing, expenditure deductible for tax purposes and taxation arising at disposal.

Deferred tax assets are recognized only to the extent it is considered probable those assets will be recovered. This involves an assessment of when those assets are likely to reverse and a judgment as to whether there will be sufficient taxable profits available to offset the assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. To the extent assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized as deferred tax assets.

4. Acquisition of Sledgehammer

On June 3, 2022, the Company through its wholly owned subsidiary, Downhole Products Limited ("DPL"), entered into an agreement to acquire Sledgehammer Oil & Tools Private Ltd. ("SOTPL") in two tranches. SOTPL is a manufacturer and supplier of oil tools, oil rig equipment and other engineering products in India.

The first tranche for a 78% controlling interest in SOTPL, along with 38% and 26% minority shares in its joint venture operations- Sledgehammer Gulf LLC and Sledgehammer Oil Tools International, respectively, closed on June 28, 2022 (the "Tranche One Acquisition Date"). The first tranche payment was completed in two parts: (i) \$23.4 million, representing a 78% of the \$30.0 million enterprise value, on June 28, 2022; and (ii) \$1.6 million of working capital and other adjustments, effective September 28, 2022. The payment of \$23.4 million was financed through related party convertible loans by the parent of the Company, which subsequently executed a series of Intra-Group Loan Agreements the Company's immediate parent, the Company and with VOG for \$23.4 million at a 10% coupon rate (refer to Note 20).

Subsequent to December 31, 2023, the Company completed the acquisition of the second tranche for the remaining 22% equity investment from the minority shareholders of SOTPL. Refer to footnote 26, Subsequent Events, for additional information related to the Tranche Two Acquisition.

The deferred purchase consideration, net of discount, as of December 31, 2023, was \$1.8 million. The effective discount resulting from the deferred purchase consideration will be recorded as interest expense over the payment period using the effective interest method. The Company

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recorded interest expense on the discount of \$0.1 million and \$0.1 million as of December 31, 2023 and 2022, respectively.

The following table summarizes the purchase price for SOTPL as of the Acquisition Date.

Purchase Price

Cash consideration paid for 78% of shares and debt instruments	\$ 23,400
Deferred Consideration:	
Tranche 1 fair value of deferred consideration paid	1,516
Tranche 2 fair value of deferred consideration	1,552
Foreign currency translation adjustment	80
Total deferred consideration	<u>3,148</u>
Total purchase price	<u>\$ 26,548</u>

The purchase price was allocated to the net assets acquired and liabilities assumed based on management's determination of their estimated fair values using available information as of the Acquisition Date. The excess of purchase consideration over the net assets acquired is recorded as goodwill, which primarily reflects the existence of intangible assets not recognized under IFRS Accounting Standards such as the value of expected future synergies, the value of the assembled workforce and other market factors.

SOTPL contributed revenues of \$9.9 million and profit of \$0.03 million for the period from June 3, 2022 to December 31, 2022. If the acquisition had occurred on January 1, 2022, SOTPL would have contributed revenues of \$21.2 million and a loss of \$3.8 million for the year ended December 31, 2022.

The following table presents the allocation of the purchase price to the assets acquired and liabilities assumed as recorded in the Company's consolidated balance sheet as of the acquisition date:

Cash and cash equivalents	\$ 2,153
Trade receivables	6,926
Inventories	2,840
Other current assets	2,906
Non-operating assets	3,556
Property, plant and equipment	2,559
Non-current investment	458
Goodwill	8,475
Identified intangible assets:	
Customer relationships	7,368
Trademark	6,606
Trade payables	(3,365)
Non-operating liabilities	(4,960)
Other current liabilities	(4,049)
Borrowings	<u>(4,925)</u>
	<u>\$ 26,548</u>

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The fair value, valuation methodologies, estimated useful lives, and significant assumptions of the identifiable intangibles acquired in the SOTPL acquisition are summarized in the table below:

SOTPL Identified Intangibles	Balance Sheet Location	June 28, 2022			
		Fair Value	Valuation Methodology	Estimated Useful Life	Discount Rate
Customer Relationships	Intangibles, net	\$ 7,368	Multi-Period Excess Earnings Method - Income Approach	10 Years	14.50%
Trademark	Intangibles, net	\$ 6,606	Relief from Royalty Method - Income Approach	10 Years	14.00%

5. Discontinued Operations

On August 20, 2010, the Company, through its wholly owned subsidiary, entered into a Limited Liability Operating Agreement with MMS Holdings to form a 50:50 Joint Venture entity called Varel Newtech CIS, which had a 100% owned subsidiary, Varel NTS, LLC ("VNTS"), whose main activities are tool making; production of special equipment for drilling and workover of oil and gas wells; and provision of services for repair of equipment for oil and gas wells drilling in Russia.

In 2022, due to the escalating war between Russia and Ukraine which resulted in US sanctions on companies doing business in Russia, Varel and its Joint Venture partner MMS Holdings re-evaluated their operations in Russia. At a meeting of the shareholders of Varel on April 13, 2022, a decision was made to sell the interest in the Russian Joint Venture operations. Subsequently, on April 26, 2022, Varel entered into a Termination Agreement with its Joint Venture partner, MMS Holdings, to sell its 50% share of Varel Newtech CIS and VNTS, for a negligible amount, to the MMS Holdings Group.

As these subsidiaries represent a major line of business and geographical area of operations, they have been classified as Discontinued Operations. Revenues from Varel Newtech CIS and VNTS for the period up to the disposal date was \$1.5 million for the year ended December 31, 2022, and reported under the geographic segment of Commonwealth of Independent States ("CIS") (refer Note 14), representing 55.2% of CIS's revenue in 2022.

On October 6, 2023, the Company, through its wholly owned subsidiary, entered into a Share Purchase Agreement ("SPA") to sell its share in ESIP Energy S.A. ("ESIP"), equal to 75% of the total equity, for a negligible amount to the minority shareholders. The disposal of the shares resulted in the discontinuation of the Company's interest in this foreign subsidiary. The Company obtained Promissory Notes for the payment of amounts due under this SPA, with partial proceeds received on October 3, 2023 and the remaining amount receivable on December 31, 2023. ESIP's total revenues for 2023 were \$0.2 million and reported under the geographic region of Latin America, representing 6.3% of Latin America's revenue in 2023.

The results of the Discontinued Operations have been presented separately in the Statement of Comprehensive Income as a single item. An analysis of the foregoing single amount representing

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discontinued operations is presented below, along with prior year comparative information for the 2022 VNTS Russia Discontinued Operations:

Discontinued Operations Income Statement	2023	2022
Revenues	\$ 260	\$ 1,491
COGS	(113)	(1,284)
SG&A	(93)	(94)
Other Income/(Expense)	(583)	(849)
Pre-tax Operating Loss	(529)	(736)
(Loss) on Disposal	(2,738)	(1,928)
(Loss) on Discontinued Operations	<u>\$ (3,268)</u>	<u>\$ (2,664)</u>

6. Financial Risk management

Financial Risk Factors

The Company's activities expose it to a variety of financial risks: market risk, credit risk, and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

Foreign Exchange Risk

The Company operates internationally and is exposed to foreign exchange risk on sales and purchases that are denominated in currencies other than the USD which primarily relate to the Indian Rupee, Saudi Riyal, Canadian Dollar, and United Arab Emirates Dirham. The carrying value of the Company's monetary assets and liabilities subject to foreign exchange risk is as follows:

	December 31,	2022
	2023	
Assets	\$ 70,129	\$ 83,993
Liabilities	58,379	57,808

The Company regularly monitors the changes in foreign currency internally. A sensitivity analysis on assets and liabilities assuming a 10% increase and 10% decrease in foreign currency rates (before tax effect) as of December 31, 2023, is as follows:

	10% Increase in U.S. Dollar Against Foreign Currency		10% Decrease in U.S. Dollar Against Foreign Currency	
	Net Income (Loss)	Shareholders Equity	Net Income (Loss)	Shareholders Equity
Attributable to owners of Varel	\$ (885)	\$ (885)	\$ 885	\$ 885
Noncontrolling interests	(289)	(289)	289	289

A sensitivity analysis on assets and liabilities assuming a 10% increase and 10% decrease in foreign currency rates (before tax effect) as of December 31, 2022, is as follows:

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	10% Increase in U.S. Dollar Against Foreign Currency		10% Decrease in U.S. Dollar Against Foreign Currency	
	Net Income (Loss)	Shareholders Equity	Net Income (Loss)	Shareholders Equity
Attributable to owners of Varel	\$ (2,341)	\$ (2,341)	\$ 2,341	\$ 2,341
Noncontrolling interests	(210)	(210)	210	210

Credit Risk

Credit risk arises from cash and cash equivalents, derivative financial instruments, and deposits with banks and financial institutions, as well as credit exposure to the Company's customers, including outstanding receivables.

Cash maintained in US banks at times may exceed the FDIC coverage of \$250,000. On December 31, 2023, or 2022, the Company has not experienced losses on these cash accounts and management believes that the credit risk with regard to these deposits is not significant.

Impairment of Financial Assets

The Company has one type of financial asset that is subject to the expected credit losses ("ECL") model; trade receivables.

The Company applies the simplified approach to measure its ECL, which uses a lifetime expected loss allowance for all trade receivables. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECL's at each reporting date. The Company does not expect any credit losses.

The carrying amount of trade receivables and other financial assets represents the maximum exposure to credit risks. Credit risks are as follows:

	2023	2022
Trade receivables	\$ 37,017	\$ 33,834
Trade receivables, related parties	-	494
Financial assets subject to ECL	<u>\$ 37,017</u>	<u>\$ 34,328</u>

Interest Rate Risk

The Company has certain long-term, third-party borrowings subject to variable interest rate indices such as the Secured Overnight Financing Rate ("SOFR"). The Company regularly monitors the changes in interest rate risk. A sensitivity analysis on the Company's long-term borrowings and debentures assuming a 1% increase and 1% decrease in interest rates, before tax effect, as of December 31, 2023, is as follows:

	1% increase		1% decrease	
	Net Income (Loss)	Shareholders Equity	Net Income (Loss)	Shareholders Equity
Attributable to owners of Varel	\$ (39)	\$ (39)	\$ 39	\$ 39
Noncontrolling interests	\$ (10)	\$ (10)	\$ 10	\$ 10

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A sensitivity analysis on the Company's long-term borrowings and debentures assuming a 1% increase and 1% decrease in interest rates, before tax effect, as of December 31, 2022, is as follows:

	1% increase		1% decrease	
	Net Income (Loss)	Shareholders Equity	Net Income (Loss)	Shareholders Equity
Attributable to owners of Varel	\$ (57)	\$ (57)	\$ 57	\$ 57
Noncontrolling interests	\$ (5)	\$ (5)	\$ 5	\$ 5

Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities, and the ability to meet contractual terms of derivative positions.

The Company monitors rolling forecasts of the liquidity reserve comprising its borrowing facility (Note 13), and cash based on expected cash flow. In addition, the Company's liquidity management policy involves projecting cash flows and considering the level of liquid assets necessary to meet future obligations, monitoring balance sheet liquidity ratios against internal and external regulatory requirements and maintaining debt financing plans while taking into consideration the Company's debt covenant compliance to ensure it does not breach its covenants.

Financial Arrangements

The Company had access to the following undrawn line of credit:

	2023	2022
Line of credit available for general use	\$ 16,000	\$ 16,000

Maturity of Financial Liabilities

The table below analyzes the Company's undiscounted financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period on the balance sheet to the contractual maturity date. The interest element of borrowings is based on the actual rate or the rate at the closing date if not available. Early payments or additional borrowings on financial liabilities are not reflected.

Financial liabilities are as follows:

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	Less Than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total Contractual Cash Flows	Carrying Amount
At December 31, 2023						
Nonderivatives						
Trade and other payables	\$ 58,121	\$ -	\$ 7,564	\$ -	\$ 65,467	\$ 65,685
Borrowings	24,416	29,556	-	-	53,972	53,070
Lease liabilities	2,303	1,143	7,384	69	10,899	10,394
Nonderivative liabilities	<u>\$ 84,840</u>	<u>\$ 30,699</u>	<u>\$ 14,730</u>	<u>\$ 69</u>	<u>\$ 130,338</u>	<u>\$ 129,149</u>
At December 31, 2022						
Nonderivatives						
Trade and other payables	\$ 64,582	\$ -	\$ 8,743	\$ -	\$ 73,325	\$ 73,325
Borrowings	28,710	2,167	21,450	-	52,327	58,046
Lease liabilities	1,580	1,749	758	1,052	5,139	5,139
Nonderivative liabilities	<u>\$ 71,606</u>	<u>\$ 4,673</u>	<u>\$ 27,873</u>	<u>\$ 1,052</u>	<u>\$ 130,791</u>	<u>\$ 136,510</u>

There were no outstanding derivative arrangements as of December 31, 2023 or 2022, respectively.

Capital Risk Management

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. To maintain or adjust the capital structure, the Company may return capital to shareholders.

Consistent with others in the industry, the Company monitors capital based on the debt-to-equity ratio. The ratio is calculated as borrowings divided by total equity. The debt-to-equity ratios were as follows:

	2023	2022
Total borrowings (external and related party)	\$ 53,070	\$ 58,046
Total equity	53,144	39,456
Debt to equity ratio	99.86 %	147.12 %

Price Risk Management

The Company is exposed to risks arising from increased costs due to commodity price fluctuations, such as iron and steel, precious metals and nonferrous alloys used in manufacturing. The Company controls the price risk associated with the purchase of those commodities by maintaining inventory at the minimum level.

7. Trade Receivables

Trade receivables relate primarily to sales of drill bits and downhole equipment. The trade receivables, net balance was comprised of:

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	2023	2022
Trade receivables, gross	\$ 33,479	\$ 33,542
Accrued income	3,763	3,425
Provision for doubtful accounts	<u>(226)</u>	<u>(3,133)</u>
Trade receivables, net	<u>\$ 37,017</u>	<u>\$ 33,834</u>

8. Inventories

	2023	2022
Raw materials	\$ 32,025	\$ 21,285
Work in process	12,297	11,369
Finished goods	18,230	23,292
Excess and obsolete reserve	<u>(381)</u>	<u>(2,919)</u>
Inventories, net	<u>\$ 62,171</u>	<u>\$ 53,027</u>

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9. Property, Plant, and Equipment

	Buildings	Plant and Machinery	Computer Software and Hardware	Vehicles	Other	Assets Under Construction	Total
Cost							
At beginning of year 2022	\$ 7,119	\$ 50,386	\$ 9,070	\$ 2,148	\$ 765	\$ 666	\$ 70,154
Additions	389	7,693	472	1,674	890	2,904	14,022
CTA	238	(663)	(19)	(13)	(28)	69	(416)
Disposals	(2,053)	(10,387)	(132)	(3,543)	(102)	(14)	(16,231)
Transfers/ Other	7,646	(7,118)	-	-	(227)	(301)	-
At end of year 2022	13,339	39,911	9,391	266	1,298	3,324	67,529
Accumulated Depreciation							
At beginning of year 2022	\$ (5,277)	\$ (28,000)	\$ (7,902)	\$ (2,080)	\$ (541)	\$ -	\$ (43,800)
Charge for year	(764)	(5,597)	(604)	(659)	(235)	-	(7,859)
CTA	(93)	371	3	10	17	-	308
Disposals	2,250	6,583	132	2,493	83	-	11,541
Transfers/ Other	(2,171)	2,171	-	-	-	-	-
At end of year 2022	(6,055)	(24,472)	(8,371)	(236)	(676)	-	(39,810)
Net Book Value							
At 31 December 2022	\$ 7,284	\$ 15,439	\$ 1,020	\$ 30	\$ 622	\$ 3,324	\$ 27,719
	Buildings	Plant and Machinery	Computer Software and Hardware	Vehicles	Other	Assets Under Construction	Total
Cost							
At beginning of year 2023	\$ 13,282	\$ 39,778	\$ 9,380	\$ 265	\$ 1,340	\$ 3,324	\$ 67,369
Additions	362	10,495	161	-	215	750	11,983
CTA	1,282	672	52	35	20	92	2,153
Disposals	(1,558)	(1,453)	(2,903)	(34)	(748)	-	(6,696)
Transfers	-	2,141	-	-	38	(2,129)	50
At end of year 2023	13,368	51,633	6,690	266	865	2,037	74,859
Accumulated Depreciation							
At beginning of year 2023	\$ (6,036)	\$ (24,419)	\$ (8,389)	\$ (237)	\$ (604)	\$ -	\$ (39,685)
Charge for year	(1,251)	(9,051)	(604)	-	(19)	-	(10,925)
CTA	(584)	(631)	33	55	168	-	(959)
Disposals	1,308	831	2,951	34	49	-	5,173
Transfers/ Other	-	49	-	-	-	-	49
At end of year 2023	(6,563)	(33,221)	(6,009)	(148)	(406)	-	(46,347)
Net Book Value							
At 31 December 2023	\$ 6,805	\$ 84,854	\$ 681	\$ 118	\$ 459	\$ 2,037	\$ 28,512

Noncash Investing Activity

The Company acquired fixed assets through a noncash financing agreement for \$0 and \$28,000 for the years ended December 31, 2023 and 2022, respectively.

10. Intangibles

The Company recognized various amortizable intangible assets in connection with the SOTPL acquisition, including customer relationships, trademark, and patents. The following tables provide additional information for our intangible assets:

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	Customer Relationships	Trademark and Patents
Balance, January 1 2022	\$ 100	\$ 144
Acquisitions (note 4)	7,368	6,606
Accumulated Amortization	(446)	(430)
Net book amount, December 31 2022	\$ 7,022	\$ 6,320
Balance, January 1 2023	7,022	6,320
Acquisitions (note 4)	-	-
Effect of movements in foreign exchange rates	27	64
Accumulated Amortization	(1,118)	(1,089)
Net book amount, December 31 2023	\$ 5,931	\$ 5,295

	As of December 31, 2023
Weighted average amortization period (years)	8.5 years

The following table presents estimated future amortization of intangible assets:

<u>Year ending December 31,</u>	
2024	\$ 1,321
2025	1,321
2026	1,321
2027	1,321
2028	1,321
2029	1,321
2030	1,321
2031	1,321
2032	660
	\$ <u>11,226</u>

11. Goodwill

The changes in the carrying amount of goodwill are as follows:

	2023	2022
Balance, January 1	\$ 8,475	\$ -
Acquisitions	-	8,475
Foreign currency translation adjustments	(55)	-
Balance, December 31, gross	8,420	8,475
Accumulated impairment losses	-	-
Balance, December 31, net	\$ <u>8,420</u>	\$ <u>8,475</u>

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(i) Impairment testing for CGUs containing goodwill

For purposes of impairment testing, goodwill is allocated to a CGU representing the lowest level within the Company at which goodwill is monitored for internal management purposes, and which is not higher than the Company's operating segment before aggregation. Goodwill is allocated to the Eastern Hemisphere segment.

(ii) Key assumptions used for value-in-use calculations

The estimates below were used in the goodwill impairment assessment:

	Sledgehammer
Discount rate	11.76%
Terminal year growth rate (FY 2028)	5%
Tax rate	25.17%

The key assumptions in the value-in-use impairment tests are estimated post-tax cash flows, terminal year growth rate, and discount rate based on historical experience.

(iii) Impairment charge for goodwill

Management's assessment of impairment did not result in any impairment, as the recoverable amount exceeds its carrying value.

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12. Other Current Liabilities

	2023	2022
Compensation and benefits	\$ 369	\$ 950
Accrued liabilities	5,664	3,445
Other Taxes payable	1,783	1,754
Deferred Consideration	1,770	
Non-operating liability	4,913	4,968
Other	4,150	3,554
Total other current liabilities	<u>\$ 18,649</u>	<u>\$ 14,671</u>

13. Borrowings

	Current	Noncurrent	Total
External loans	\$ 10,192	\$ 28,442	\$ 38,634
Paid-in-kind interest	-	1,189	1,189
Debt issuance costs	<u>(402)</u>	<u>(75)</u>	<u>(477)</u>
Borrowings at December 31, 2023	<u>\$ 9,790</u>	<u>\$ 29,556</u>	<u>\$ 39,346</u>

	Current	Noncurrent	Total
External loans	\$ 6,682	\$ 25,210	\$ 31,892
Paid-in-kind interest	-	2,407	2,407
Debt issuance costs	<u>(379)</u>	<u>(478)</u>	<u>(857)</u>
Borrowings at December 31, 2022	<u>\$ 6,303</u>	<u>\$ 27,139</u>	<u>\$ 33,442</u>

External Loans

BWE entered in a Senior Facility Agreement with Investec Bank PLC on October 28, 2019 ("Senior Facility Agreement"). The Senior Facility Agreement ensured funding up to \$35 million allocated between an A Facility, B Facility and a Revolver. The Company further entered into a Floating Charge Agreement with Investec Bank PLC on May 29, 2020, to secure the obligations set forth within the Senior Facilities Agreement.

On August 31, 2023, the Company amended the Senior Facilities Agreement, which in addition to certain other terms, waived the Company's covenant requirements from March 31, 2022 through to March 31, 2023, and provided a moratorium on amortization payments for the quarters ending September 30, 2023 and December 31, 2023. The Company was in compliance with all covenants from April 1, 2023, to December 31, 2023. As part of the amendment, the Company engaged a debt advisor in September 2023 and agreed to complete the refinancing of the Senior Facilities Agreement by March 31, 2024.

A Facility

On March 2, 2020, the Company entered into a loan agreement with Investec Bank PLC which allows it to draw funds up to \$8.5 million through March 2025. The loan accrues interest at SOFR plus 6.5 basis points per annum. Payments are due quarterly following a 12-month grace period and the loan matures on March 2, 2025. The debt issuance costs of \$451,000 are presented as a direct deduction from Borrowings amortized over the life of the loan. As of December 31, 2023 and

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2022, the Company had an outstanding balance of \$2.8 million and \$3.8 million, net of debt issuance costs of \$34,000 and \$101,000, respectively.

B Facility

On March 2, 2020, the Company entered into a loan agreement with Investec Bank PLC which allows the Company to draw funds up to \$16.5 million through to March 2025. The loan accrues interest at SOFR plus 6.5 basis points per annum plus 2% Paid-in-kind ("PIK") interest. A bullet payment is due when the loan matures on March 2, 2025. The debt issuance costs of \$875,000 are presented as a direct deduction from Borrowings amortized over the life of the loan. As of December 31, 2023 and 2022, the Company had an outstanding balance of \$16.3 million and \$15.2 million, net of debt issuance costs of \$311,000 and \$548,000, respectively.

Revolver Facility

On March 2, 2020, the Company entered into a revolving loan agreement with Investec Bank PLC which allows the Company to draw funds up to \$10.0 million through March 2025. The loan accrues Drawn interest at SOFR plus 6.5 basis points per annum plus and 2.275% basis points on the undrawn funds per annum. A bullet payment is due when the loan matures on March 2, 2025. The debt issuance costs of \$530,000 are presented as a direct deduction from Borrowings amortized over the life of the loan. As of December 31, 2023 and 2022, the Company had an outstanding balance of \$11.8 million and \$9.8 million, respectively.

Other Facilities

During 2017, the Company signed a loan agreement with shareholder Arabian Inspection and Survey Co. Ltd. to finance working capital requirements. The loan accrues interest at 4% per annum. During the year ended December 31, 2021, the Company restructured the maturity of the loan from August 2023 through March 2025, therefore, the loan remains on the Company's Consolidated Financial Statements as long-term debt. As of December 31, 2023, and 2022, the Company had an outstanding balance of \$2.8 million and \$1.3 million, respectively.

On July 25, 2022, SOTPL entered into a working capital facility which allows SOTPL to draw funds up to 500,000,000 INR. Based on the use of funds, export orders, letters of credit, working capital, or buyers credit, the interest rate fluctuates based on SOFR plus 2.8 basis points or the marginal cost of fund based lending rate ("MCLR") plus 1.4 basis points. As of December 31, 2023, and 2022, the Company, through its wholly owned subsidiary SOTPL, had an outstanding balance of \$4.5 million and \$3.2 million, respectively.

For the years ended December 31, 2023, and 2022, interest expense of \$6.8 million and \$4.3 million, respectively, were incurred on external loans.

Refer to Footnote 20, Related Party Transactions, for information on intercompany borrowings. On April 10, 2024, the Company repaid \$32.0 million. Refer to Footnote 27, Subsequent Events, for additional information on the repayments.

Fair Value of Borrowings

As the Company's borrowings are issued with floating rates of interest and the Company's exposure to risk has remained materially unchanged, the carrying value of borrowings approximates its fair value.

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Debt Covenants

The Company has certain financial covenants for its loans to maintain a minimum debt to equity ratio of 2.60 to 1 and cash flow shall not be less than negative \$1.8 million in any quarter-end periods.

The Company was in compliance with all covenants for the years ended December 31, 2023 and 2022. The Company was in compliance with all covenants from April 1, 2023, to December 31, 2023.

Reconciliation of liabilities arising from financial activities for the year ended December 31, 2023:

	Beginning of Year	Cash Flow	Interest	Amortization of Deferred Financing Costs	PIK	Sledgehammer Acquisition	Lease Addition	End of Year
Long term borrowings	\$ 33,440	\$ 3,240	1989	\$ 381	\$ 301	\$ -	\$ -	\$ 39,352
Lease liabilities	7,940	2,424	-	-	-	-	30	10,394
Total liabilities in financing activities	\$ 41,380	\$ 5,664	\$ 1,989	\$ 381	\$ 301	\$ -	\$ 30	\$ 49,746

Reconciliation of liabilities arising from financial activities for the year ended December 31, 2022:

	Beginning of Year	Cash Flow	Interest	Amortization of Deferred Financing Costs	PIK	Sledgehammer Acquisition	Lease Addition	End of Year
Long term borrowings	\$ 21,454	\$ 6,417	\$ -	\$ 366	280	\$ 4,924	\$ -	\$ 33,440
Lease liabilities	5,139	(1,922)	-	-	-	-	4,723	7,940
Total liabilities in financing activities	\$ 26,593	\$ 27,895	\$ -	\$ 366	\$ 1,793	\$ 4,924	\$ 4,723	\$ 41,380

14. Revenue

The Company derives revenue from contracts with customers recognized at a point in time.

Revenue Recognized at a Point in Time	2023	2022
Completion	\$ 20,650	\$ 20,397
Primary Cementing Equipment	65,219	52,345
Polycrystalline Diamond Compact	28,755	27,735
Roller Cones	54,101	55,135
Total	\$ 168,725	\$ 155,612

Revenue by Geographic Location	2023	2022
United States (USA)	\$ 73,848	\$ 69,862
Middle East and North Africa (MENA)	31,401	35,548
Kingdom of Saudi Arabia (KSA)	31,135	17,058
Asia	18,167	17,694
Commonwealth of Independent States (CIS)	3,568	2,657
Europe	4,861	4,534
Latin America (LATAM)	4,009	6,571
Other	1,736	1,687
Total revenue	\$ 168,725	\$ 155,612

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15. Expenses by Nature

	2023	2022
Inventory materials	\$ 75,079	\$ 75,248
Employee compensation and benefits	27,971	26,158
Consumables	5,091	5,980
Freight and customs	6,392	8,758
Provision for excess and obsolescence inventory or impairments	(3,476)	(8,420)
Depreciation and amortization - nonrental	7,548	5,843
Rental fleet depreciation	4,680	6,805
Liquidating damages	793	665
Other	8,979	9,782
Total cost of revenue	<u>\$ 133,058</u>	<u>\$ 130,819</u>
General administrative	4,170	4,584
Insurance	1,652	1,558
Information technology	1,783	1,732
Other	1,023	2,240
Professional and legal fees	7,194	4,870
Research and development	2,460	1,808
Employee compensation and benefits	38,178	37,353
Amortization	1,321	704
Depreciation	936	1,018
Total selling, general, and administrative	<u>\$ 58,717</u>	<u>\$ 55,867</u>

16. Finance Costs

	2023	2022
Interest and finance charges	\$ 10,362	\$ 6,932
Amount capitalized	<u>(1,189)</u>	<u>(2,407)</u>
Finance costs, net	<u>\$ 9,173</u>	<u>\$ 4,525</u>

The amount of borrowing costs capitalized is the actual interest on specific loans for the items capitalized.

17. Other Losses

	2023	2022
Net foreign exchange gains (losses)	\$ (1,870)	\$ (3,297)
Net other income (losses)	<u>2,330</u>	<u>4,154</u>
Other income (losses), net	<u>\$ 460</u>	<u>\$ 857</u>

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18. Income Taxes

The table below reconciles the Company's income taxes computed by applying the statutory federal income tax rate to earnings before income taxes to its effective tax provision for the years ended December 31, 2023 and 2022, respectively:

	2023	2022
Accounting profit before tax	\$ (8,247)	\$ (11,082)
US statutory tax rate of the reporting entity	21.00 %	21.00 %
Expected total tax income	(1,732)	(2,465)
Reconciling items		
Expenses not deductible for tax purposes	84	206
Effect of different tax rates in countries in which the entity operates	112	(15)
Unrecognized deferred tax benefit	4,208	3,621
Foreign Taxation	1,052	799
Prior year adjustments	281	-
Other	65	125
Total current and deferred tax expense	\$ 4,070	\$ 2,271

The tax effect of temporary differences that give rise to significant portions of the net deferred tax assets at December 31, 2023, and 2022 is as follows:

	2023	2022
Deferred tax assets		
IFRS 16 leases	\$ 6	\$ 41
Property, plant & equipment	2,202	1,374
Intangible assets	(2,828)	(3,155)
Reserves for obsolescence and receivables	1,194	1,063
Accrued liabilities	1,690	1,665
Accounts payable	172	-
Net operating loss carryforwards	210	539
Interest expense carryforward	-	-
Other foreign deferred tax assets	-	138
Unrecognized deferred taxes	294	-
Deferred tax assets	\$ 2,939	\$ 1,665

The Company has a total of \$18.0 million and \$8.5 million of unused tax losses at December 31, 2023 and 2022, respectively. Of this amount, only \$0.2 and \$0.5 million have been recognized for deferred tax purposes at December 31, 2023 and 2022, respectively. Additionally, the Company has \$1.3 million of capital loss carryforwards and \$3.0 million of interest expense carry forwards at December 31, 2023 for which no deferred tax has been recognized.

The Company is not aware of any open tax examinations with authorities or any other uncertain tax positions that existed as of December 31, 2023 or December 31, 2022.

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19. Leases

The Company leases buildings, land, machinery, vehicles, office equipment, and furniture and fixtures. The leased assets are included as part of Right-of-Use Assets, net. Lease liabilities were recorded at the time the lease contracts were signed and the obligations were based on the Company's incremental borrowing rate at the time. The liabilities remaining at the reporting date represent the outstanding principal of the assumed liabilities. Generally, under the terms of our lease agreements, the rights to the leased assets revert to the lessor in the event of default.

Amounts Recognized in the Consolidated Statement of Financial Position

The Consolidated Statement of Financial Position includes the following amounts relating to right-of-use assets:

	2023	2022
Right-of-use assets		
Right-of-use, building	\$ 11,346	\$ 9,495
Right-of-use, land	118	96
Right-of-use, plant and machinery	37	22
Right-of-use, vehicles	1,206	917
Right-of-use, office equipment	219	479
Right-of-use, furnitures and fixtures	51	15
Accumulated depreciation right-of-use, building	(3,804)	(4,337)
Accumulated depreciation right-of-use, land	(222)	(52)
Accumulated depreciation right-of-use, plant and machinery	(28)	(21)
Accumulated depreciation right-of-use, vehicles	(670)	(328)
Accumulated depreciation right-of-use, office equipment	(176)	(441)
Accumulated depreciation right-of-use, furnitures and fixtures	(3)	(3)
Total right-of-use assets, net	<u>\$ 8,074</u>	<u>\$ 5,842</u>
Lease liabilities		
Current	\$ 2,303	\$ 1,530
Noncurrent	<u>8,091</u>	<u>6,410</u>
Total lease liabilities	<u>\$ 10,394</u>	<u>\$ 7,940</u>

Additions to the right-of-use assets during the years ended December 31, 2023 and 2022 were \$4.5 million and \$4.7 million, respectively. The total cash outflows for leases in 2023 and 2022 were \$1.8 million and \$2.0 million, respectively. The Company recorded \$0.8 million and \$0.8 million in lease interest during the years ended December 31, 2023 and 2022, respectively.

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Depreciation expense on right-of-use assets for the years ended December 31, 2023 and 2022 were as follows:

	2023	2022
Depreciation on right-of-use assets		
Depreciation right-of-use, building	\$ 1,820	\$ 1,496
Depreciation right-of-use, plant and machinery	12	9
Depreciation right-of-use, vehicles	347	261
Depreciation right-of-use, office equipment	60	112
Depreciation right-of-use, furnitures and fixtures	-	-
Total depreciation on right-of-use assets	<u>\$ 2,239</u>	<u>\$ 1,878</u>

Lessor Arrangements

The Company subleases office space and a warehouse under operating lease agreements which expire at various dates through 2024. Sublease rental income recognized during 2023 and 2022 was \$126,000 and \$87,000, respectively.

At December 31, 2023, the estimated undiscounted minimum lease payments to be received were as follows:

	2023	2022
Less than one year	\$ 102	\$ 126
One to two years	<u>24</u>	<u>126</u>
Minimum lease payments to be received	<u>\$ 126</u>	<u>\$ 252</u>

Sale and Leaseback Arrangement

On September 6, 2022, Varel International Industries ("VIES"), a wholly owned subsidiary of the Company, sold a property comprising of land and buildings to the Trio Fund for \$2.9 million, resulting in a gain of sale of \$2.7 million.

On September 9, 2022, VIES entered into a 20 year lease with an option for four 5-year renewal periods on the same property. The initial rent payment of the lease was \$214,720 including an annual rent increase of 2.5%. Of the \$2.7 million gain on sale, \$0.7 million was recognized during the year ended December 31, 2022 and the balance of \$2.0 million will not be recognized since VIES retained the right to use the office building.

Rental Revenue

The Company recognizes rental revenue from operating leases on a straight-line basis over the term of the lease. The rental revenue for the years ended December 31, 2023, and 2022 were as follows:

	2023	2022
Rental revenue	<u>\$ 23,516</u>	<u>\$ 23,660</u>

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20. Related Party Transactions

Transactions with Terelion, LLC

Varel International Energy Services, Inc. ("Varel International"), a wholly owned subsidiary of Varel, entered a Purchase, Supply and Manufacturing Agreement, effective June 1, 2019, with Terelion, LLC (formerly "Varel Mining and Industrial, LLC") for the sale of roller cone drill bits, resulting in total revenue of \$29.5 million and \$28.2 million for the years ended December 31, 2023 and 2022, respectively, with an outstanding accounts receivable of \$0.1 million and \$0.5 million as of December 31, 2023 and 2022, respectively. Terelion, LLC. is a wholly owned subsidiary of the Company's noncontrolling owner, Sandvik, Inc. (30% owner).

In accordance with the agreement, there is a provision for Varel International to receive a reimbursement of expenses (including late delivery penalties, overhead under absorption, and substitute products) equal to the proven excess of aggregate purchase price of the substitute product, including all costs related to shipping and customs, over the aggregate purchase price of goods for which the buyer would have paid for pursuant to the original agreement. As of December 31, 2023 and 2022, respectively, Varel International noted \$465,306 and \$178,269, respectively, in reimbursements for late delivery penalties and overhead under absorption outside of the original agreement.

Transactions with Bluewater Energy, LLC.

The Company recorded a recharge of expenses of \$201,000 and \$206,072 for the year ended December 31, 2023 and 2022, respectively.

Intercompany Loans

On June 30, 2022, the Company's immediate parent, Varel Oil and Gas Holdings, Inc. ("VOGH") executed an Intra-Group Loan Agreement with the Company, transferring \$23.4 million to the Company at 10% coupon payable within a year. The Intra-Group loan was forgiven by VOGH, and as a result the payable was reclassified as a capital contribution on the Consolidated Statement of Changes in Equity on June 28, 2023.

On March 11, 2023, the Company's immediate parent, VOGH, executed an Intra-Group Loan Agreement with the Company, transferring a \$5.4 million note payable to the Company with a maturity date of March 10, 2024 ("March 11, 2023 Intra-Group Loan"). The loan accrues interest at 18% per annum. The Company settled the March 11 Intra-Group Loan in 2024.

On June 12, 2023, the Company's immediate parent, VOGH, executed an Intra-Group Loan Agreement with the Company, transferring a \$6.6 million note payable to the Company with a maturity date of June 11, 2024 ("June 12, 2023 Intra-Group Loan"). The loan accrues interest at 25% per annum. The Company settled the June 12, 2023 Intra-Group Loan in 2024.

For the years ended December 31, 2023 and 2022, interest expense of \$2.9 million and \$1.2 million, respectively, were incurred on intercompany loans.

Transactions for Raw Materials and Other Expenses

During 2022 and 2023, the Company entered into purchase agreements with Sandvik Coromant Company and Sandvik Materials Technologies, AB. The entities are wholly owned subsidiaries of the Company's non-controlling owner, Sandvik, Inc. (30% owner). During the years ended December 31, 2023 and 2022 the transactions resulted in cash outflows of \$217,623 and \$317,446, respectively.

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21. Commitments and Contingencies

Varel, in its global operations, is involved from time to time in legal and regulatory proceedings, which may be material in the future. The outcome of proceedings, lawsuits and claims may differ from our expectations and estimated liabilities, leading Varel to change estimates of liabilities and related insurance receivables.

Legal and regulatory proceedings, whether with or without merit, and associated internal investigations, may be time-consuming and expensive to prosecute, defend or conduct, may divert management's attention and other resources, inhibit our ability to sell our products, result in adverse judgments for damages, injunctive relief, penalties and fines, and otherwise negatively affect our business.

Where appropriate, Varel may establish financial reserves for such proceedings. Varel also maintains insurance to mitigate certain of such risks. Costs for legal services are generally expensed as incurred. The Company did not record a financial reserve for legal or regulatory proceedings at December 31, 2023 or 2022, respectively.

The wholly owned subsidiary of Downhole Products Limited entered into a Floating Charge Agreement with Investec Bank PLC on May 29, 2020, to secure the obligations set forth within the Senior Facilities Agreement signed October 28, 2019, with the collateral comprising the property and undertakings of the Downhole Products Limited.

22. Provisions

	Restructuring	Saudi Provision	Royalty Accrual	Total
Balance at January 1, 2022	\$ 5,741	\$ 3,934	\$ 1,623	\$ 11,298
Provisions made during the year	1,640	-	-	1,640
Provisions used during the year	(5,500)	(1,624)	(1,624)	(8,748)
Balance at December 31, 2022	<u>\$ 1,881</u>	<u>\$ 2,310</u>	<u>\$ (1)</u>	<u>\$ 4,190</u>
Provisions made during the year	-	-	-	-
Provisions used during the year	(1,474)	(2,310)	-	(3,784)
Balance at December 31, 2023	<u>\$ 407</u>	<u>\$ -</u>	<u>\$ (1)</u>	<u>\$ 406</u>
Balance at December 31, 2022				
Current Provisions	\$ 1,881	\$ 2,310	\$ -	\$ 4,191
Non-Current Provisions	-	-	-	-
Total Provisions	<u>\$ 1,881</u>	<u>\$ 2,310</u>	<u>\$ -</u>	<u>\$ 4,191</u>
Balance at December 31, 2023				
Current Provisions	\$ 407	\$ -	\$ (1)	\$ 406
Non-Current Provisions	-	-	-	-
Total Provisions	<u>\$ 407</u>	<u>\$ -</u>	<u>\$ (1)</u>	<u>\$ 406</u>

Restructuring

During 2021, the Company recorded a provision for \$5.7 million after the Company formally announced the closure of the Varel Europe S.A.S. manufacturing plant. An additional \$1.6 million

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provision was recorded in 2022. Estimated restructuring costs primarily include severance for a reduction in workforce and are based on a detailed plan. This provision was completed and paid in 2022.

Saudi Provision

This provision relates to an internal customer audit. The Company settled \$1.6 million of the liability in 2022 and the remaining \$2.3 million in 2023.

Royalty Accrual

Based on the results of an internal audit from a supplier, an additional leaching royalty provision was required. The provision was fully utilized in June of 2022.

23. Capital and Reserves

	2023	2022
Common Shares		
Outstanding at January 1	1,000	1,000
Issued in business transaction at closing	-	-
Outstanding at December 31	<u>1,000</u>	<u>1,000</u>
Authorized - par value per share	\$ 0.01	\$ 0.01

Common Shares

The Company has 3,000 shares of common stock authorized with \$0.01 par value. Holders of these shares are entitled to dividends as declared from time to time and are entitled to one vote per share at the general meetings of the Company. The Company declared and paid dividends of \$0 for the years ended December 31, 2023 and 2022, respectively.

24. Key Management Compensation

Key management personnel are those people who have authority and responsibility for planning, directing, and controlling the activities of the entity, directly or indirectly. The total remuneration of directors and key management personnel, including salaries, benefits, and severance was \$3.3 million and \$3.0 million for the years ended December 31, 2023 and 2022, respectively.

25. Material Subsidiaries and Associate

Functional currencies of the Company other than the USD include Mexican Peso ("MXN"), Canadian Dollar ("CAD"), Central African CFA Franc ("XAF"), Chinese Yuan ("CNY"), Indian Rupee ("INR"), United Arab Emirates Dirham ("AED"), Malaysian Ringgit ("MYR"), and Pound Sterling

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("GBP"). Below is a list of material subsidiaries and associates of the Company and ownership share as of December 31, 2023.

Entity	Country	Ownership	Currency
Varel Oil and Gas, Inc.	United States	100%	USD
Varel International Energy Services, Inc.	United States	100%	USD
DHP Varel, Inc.	United States	100%	USD
Downhole Products UK Holdco Limited	United Kingdom	100%	USD
Downhole Products UK Holdco II Limited	United Kingdom	100%	USD
Varel International Holdings, LLC	United States	100%	USD
Varel International Industries, LLC	United States	100%	USD
Varel Energy Oil Field Equipment Trading L.L.C	Dubai	100%	USD
Varel International de Mexico S.A. de C.V.	Mexico	100%	MXN
Varel Gas y Petroleo de Mexico S de RL CV	Mexico	100%	MXN
Varel Rock Bits Canada, Inc.	Canada	100%	CAD
Varel Europe S.A.S.	Europe	100%	USD
Varel International Engineering Resources SA	Switzerland	100%	USD
Varel Gabon SARL	Gabon	100%	XAF
Varel (Beijing) Trading Co., Ltd.	China	100%	CNY
Varel Arabia Company Limited	Saudi Arabia	75%	USD
Varel International (for Oil Products & Services)	Egypt	100%	USD
Varel Europe Pakistan Branch Office	Pakistan	100%	USD
SledgeHammer Oil Tools Pvt. Ltd.	India	78%	INR
SledgeHammer Gulf - LLC	India	49%	INR
SledgeHammer Oil Tools International Company	India	33%	INR
SledgeHammer Gulf DMCC	Dubai	100%	INR
SledgeHammer Americas Inc.	Texas	100%	INR
Down Hole Products Limited	United Kingdom	100%	USD
Aberdeen Products, Inc.	United States	100%	USD
Downhole Products Middle East	The United Arab Emirates	100%	AED
Down Hole Products Asia	Malaysia	100%	MYR
Ian Hay Engineering Limited	United Kingdom	100%	GBP
Smooth Team Investments Limited	Hong Kong	100%	GBP

26. Segment information

Reportable segment assets are based on the physical location of the asset.

Noncurrent assets by Geographic Location	2023	2022
United States (USA)	\$ 18,489	\$ 15,812
Kingdom of Saudi Arabia (KSA)	1,581	2,633
Asia	24,011	25,571
Europe	2,055	5,150
Latin America (LATAM)	11,543	10,205
Other	3,376	1,981
Total noncurrent assets	<u>\$ 61,055</u>	<u>\$ 61,352</u>

The Company has a single customer, Terelion, LLC (see Note 20 for additional details), that accounts for approximately 17% and 18% of down hole product revenue for the years ended

Varel Oil and Gas Intermediate Holdings, Inc.

Notes to Consolidated Financial Statements

Years Ended December 31, 2023 and 2022

(tables in thousands of U.S. dollars, except for share and per share amounts)

December 31, 2023 and 2022, respectively. The loss of any significant customer or contract could have a material adverse short-term effect; however, it is not likely that the loss of any significant customer or contract would materially impact the Company's performance as such customers could be replaced by other customers with similar terms and conditions. No other customers accounted for more than 10% or more of the Company's revenue for the year ended December 31, 2023 or 2022.

27. Subsequent Events

The Company has evaluated subsequent events through February 13, 2025, the date that the Consolidated Financial Statements were available for issuance.

Bond Issuance

On April 4, 2024, the Company issued four-year \$60.0 million Senior Secured Bonds (the "bonds"). The bonds carry a fixed coupon of 12.25%, payable semi-annually. The net proceeds from the bonds were used to repay existing debt and finance the Tranche Two Acquisition.

Repayment of Borrowings

In connection with the issuance of the Bonds, on April 10, 2024, the Company used a portion of the proceeds to repay \$32.0 million of the Senior Facility Agreement.

Final Closing of Sledgehammer

On June 28, 2024, The SOTPL Acquisition was amended to extend the Tranche Two Acquisition closing to September 18, 2024, for final consideration of \$30 million. The difference between the estimated deferred consideration of \$1.8 million at December 31, 2023 and the final consideration will be recognized as a loss on the consolidated statement of loss and comprehensive loss for the year ended December 31, 2024.

Ace Well Technology Acquisition

On January 3, 2025, the Company, through its wholly owned subsidiary, Downhole Products Limited, acquired 100% of the outstanding stock of Ace Wells Technology AS for a preliminary purchase price of \$10,700,550.

Appendix 16: Financial statements for Varel International Energy Services, Inc. as of and for the financial year ended 31 December 2023 with comparable figures for the financial year ended 31 December 2022

Varel International Energy Services Inc.

**Separate Financial Statements
December 31, 2023 and 2022**

Varel International Energy Services Inc.

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December 31, 2023 and 2022

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Report of Independent Auditors

To the Management of Varel International Energy Services Inc.

Opinion

We have audited the accompanying financial statements of Varel International Energy Services Inc. (the "Company"), which comprise the statements of financial position as of December 31, 2023 and 2022, and the related statements of comprehensive loss, of changes in equity and of cash flows for the years then ended, including the related notes (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern for at least, but not limited to, twelve months from the end of the reporting period, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.



In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

A handwritten signature in blue ink, appearing to read "Priscilla Handley HP".

New Orleans, Louisiana
February 13, 2025

Varel International Energy Services Inc.
Statements of Financial Position
Years Ended December 31, 2023 and 2022

<i>(in thousands of U.S. dollars)</i>	Notes	2023	2022
Assets			
Noncurrent assets			
Investments in subsidiary	(6)	\$ 172,945	\$ 175,102
Total noncurrent assets		172,945	175,102
Other receivables		25	-
Total current assets		25	-
Total assets		<u>\$ 172,970</u>	<u>\$ 175,102</u>
Equity			
Share premium		\$ 210,238	\$ 210,238
Accumulated deficit		(40,561)	(37,293)
Total shareholder's equity		<u>169,677</u>	<u>172,945</u>
Liabilities			
Current liabilities			
Payable to subsidiaries		3,293	2,157
Total liabilities		<u>3,293</u>	<u>2,157</u>
Total shareholder's equity and liabilities		<u>\$ 172,970</u>	<u>\$ 175,102</u>

The accompanying notes are an integral part of these financial statements.

Varel International Energy Services Inc.
Statements of Loss and Comprehensive Loss
Years Ended December 31, 2023 and 2022

(in thousands of U.S. dollars)

	Notes	2023	2022
Continuing Operations			
Revenue		\$ -	\$ -
Cost of revenue		-	-
Gross Profit		-	-
Selling, general and administrative expenses		-	-
Other income (expense)		-	-
Operating profit		-	-
 Profit for income tax		-	-
Income tax expense		-	-
Profit from continuing operations		-	-
Loss from discontinued operations	(5)	(3,268)	-
Comprehensive loss		<u>\$ (3,268)</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

Varel International Energy Services Inc.
Statements of Changes in Equity
Years Ended December 31, 2023 and 2022

(in thousands of U.S. dollars)

	Share Capital Amount	Share Premium	Accumulated Deficit	Total Shareholder's Equity
Balance at December 31, 2021	100	\$ 210,238	\$ (37,293)	\$ 172,945
Profit for the period	-	-	-	-
Balance at December 31, 2022	100	\$ 210,238	\$ (37,293)	\$ 172,945
Loss for the period	-	-	(3,268)	(3,268)
Balance at December 31, 2023	100	\$ 210,238	\$ (40,561)	\$ 169,677

The accompanying notes are an integral part of these financial statements.

Varel International Energy Services Inc.
Statements of Cash Flow
Years Ended December 31, 2023 and 2022

(in thousands of U.S. dollars)

	Notes	2023	2022
Cash flows from operating activities			
Loss for the period		\$ (3,268)	\$ -
Loss on investment in subsidiary		3,268	-
Cash used in operating activities		-	-
Interest paid		-	-
Income taxes paid		-	-
Net cash used in operating activities - continuing operations		-	-
Net cash used in operating activities - discontinued operations	(5)	-	-
Net cash used in operating activities		-	-
Cash flows from investing activities			
Net cash provided by investing activities		-	-
Cash flows from financing activities			
Net cash provided by financing activities		-	-
Net change in cash and cash equivalents		-	-
Cash and cash equivalents			
Beginning of year		-	-
End of year		\$ -	\$ -

The accompanying notes are an integral part of these financial statements.

Varel International Energy Services Inc.

Notes to the Financial Statements

Years Ended December 31, 2023 and 2022

1. Nature of Operations

Varel International Energy Services, Inc. ("Varel" or "Company") was founded in 2008 as a Delaware corporation domiciled in the United States of America. Varel is a wholly owned subsidiary of Varel Oil and Gas, Inc. ("Parent") who is incorporated and domiciled in the United States of America ("USA"). The Parent is a wholly owned subsidiary of Varel Oil and Gas Intermediate Holdings, Inc. ("VOGIH"), and VOGIH is the wholly owned subsidiary of Varel Oil and Gas Holdings, Inc. ("Ultimate Parent"). Both VOGIH and the Ultimate Parent are incorporated and domiciled in the USA. Varel is a holding company and through its subsidiaries, the Company sells its products globally in the key markets of Americas, Asia, and the Middle East.

These Financial Statements were authorized for issuance by the Board of Directors on February 13, 2025.

2. Summary of Significant Accounting Policies

Basis of Presentation

The Financial Statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS Accounting Standards") as issued by the International Accounting Standards Board ("IASB"). These separate financial statements contain information about Varel as an individual company and do not contain consolidated financial information as the parent of a group. The Company has taken advantage of the exemption under IFRS 10, '*Consolidated financial statements*', from the requirement to prepare consolidated financial statements as it and its subsidiaries are included by full consolidation in the consolidated financial statements of the Parent, Varel Oil and Gas Inc and subsidiaries is incorporated in the United States. These financial statements are publicly available on the Oslo Stock Exchange website.

The Financial Statements have been prepared under the historical cost convention except for certain items measured at fair value. The Company's investments in affiliates are accounted for at historical cost. Any dividends declared by the investments are recognized when declared. No dividends from the Company's investments in affiliates were declared in 2023 and 2022. The Company did not have operational activity or cash flows in the years ending December 31, 2023 and 2022.

New and amended standards adopted by the Company

There were no new or amended standards adopted by the Company in the year ended December 31, 2023, that materially impacted the Company.

Varel International Energy Services Inc.

Notes to the Financial Statements

Years Ended December 31, 2023 and 2022

New and revised standards issued but not effective

The Company has not yet determined the impact of these revised standards on its financial statements that have been issued but are not yet effective:

- IFRS 18 – Presentation and Disclosure in Financial Statements*
- IFRS 19 – Subsidiaries without Public Accountability: Disclosures*

* Effective for annual periods beginning on or after January 1, 2027

IFRS 18 – Presentation and Disclosure in Financial Statements

In April 2024, the IASB issued 'Presentation and Disclosure in Financial Statements' to introduce a defined structure for the statement of profit or loss and enhanced principles of aggregation and disaggregation in the financial statements and notes focused on grouping items based on their shared characteristics. The new standard will also require disclosure of management-defined performance measures with a reconciliation to the related financial statement line item.

IFRS 19 – Subsidiaries without Public Accountability: Disclosures

In May 2024, the IASB issued 'Subsidiaries and Disclosure in Financial Statements' to enable certain eligible subsidiaries to apply reduced disclosure requirements that better balance the needs of the financial statement users amidst the rigidity of the full-scale disclosure requirements.

Use of Estimates

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses, as well as amounts included in the notes thereto, including discussion and disclosure of contingent liabilities. Although the Company uses its best estimates and judgments, actual results could differ from these estimates as future confirming events occur.

3. Critical Accounting Estimates and Judgments

The preparation of the Financial Statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies, the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Actual results could differ from these estimates. These estimates and underlying assumptions are reviewed on a continuous basis. Changes in these accounting estimates are recognized in the period in which the estimates were revised and in any future periods affected. The company has reviewed and has no critical accounting estimates and judgements.

4. Commitments and Contingencies

Varel, in its global operations, is involved from time to time in legal and regulatory proceedings, which may be material in the future. The outcome of proceedings, lawsuits and claims may differ from our expectations and estimated liabilities, leading Varel to change estimates of liabilities and related insurance receivables.

Legal and regulatory proceedings, whether with or without merit, and associated internal investigations, may be time-consuming and expensive to prosecute, defend or conduct, may divert management's attention and other resources, inhibit our ability to sell our products, result in

Varel International Energy Services Inc.

Notes to the Financial Statements

Years Ended December 31, 2023 and 2022

adverse judgments for damages, injunctive relief, penalties and fines, and otherwise negatively affect our business.

Where appropriate, Varel may establish financial reserves for such proceedings. Varel also maintains insurance to mitigate certain of such risks. Costs for legal services are generally expensed as incurred.

5. Discontinued Operations

On October 6, 2023, the Company entered into a Share Purchase Agreement ("SPA") to sell its 75% interest in ESIP Energy S.A. ("ESIP") for a negligible amount to the minority shareholders. As a consequence of the sale, the Company ceased to be a party to the Joint Venture Agreement entered into between the Company and ESIP on December 31, 2023. The disposal of the shares resulted in the discontinuation of the Company's interest in this foreign subsidiary. The Company obtained Promissory Notes for the payment of amounts due under this SPA, with partial proceeds received on October 3, 2023, and the remaining amount receivable at December 31, 2023. ESIP's total revenues for 2023 were \$0.2 million and have been reported under the geographic region of Latin America, representing 6.3% of Latin America's revenue in 2023.

The results of the discontinued operations have been presented separately in the Statement of Loss and Comprehensive Loss as a single item. An analysis of the foregoing single amount representing discontinued operations is presented below:

Discontinued Operations Income Statement	2023
Revenues	\$ 260
Cost of revenue	(113)
Selling, general and administrative expense	(93)
Other income(expense)	<u>(584)</u>
Pre-tax operating loss	(530)
Loss on disposal	<u>(2,738)</u>
Loss on discontinued operations	<u>\$ (3,268)</u>

6. Material Subsidiaries and Associates

Functional currencies of the Company other than the USD include Mexican Peso ("MXN"), Canadian Dollar ("CAD"), Central African CFA Franc ("XAF"), Chinese Yuan ("CNY"), Indian Rupee ("INR"), United Arab Emirates Dirham ("AED"), Malaysian Ringgit ("MYR"), and Pound Sterling

Varel International Energy Services Inc.
Notes to the Financial Statements
Years Ended December 31, 2023 and 2022

("GBP"). Below is a list of material subsidiaries and associates of the Company and ownership share as of December 31, 2023.

Entity	Country	Ownership %	Currency
Varel Oil and Gas, Inc.	United States	Parent	USD
Varel International Industries, LLC	United States	100%	USD
Varel International Holdings, LLC	United States	100%	USD
Varel Energy Oil Field Equipment Trading L.L.C	Dubai	100%	USD
Varel International de Mexico S.A. de C.V.	Mexico	100%	MXN
Varel Gas y Petroleo de Mexico S de RL CV	Mexico	100%	MXN
Varel Rock Bits Canada, Inc.	Canada	100%	CAD
Varel Europe S.A.S.	Europe	100%	USD
Varel International Engineering Resources SA	Switzerland	100%	USD
Varel Gabon SARL	Gabon	100%	XAF
Varel (Beijing) Trading Co., Ltd.	China	100%	CNY
Varel Arabia Company Limited	Saudi Arabia	75%	USD
Varel International (for Oil Products & Services)	Egypt	100%	USD
Varel Europe Pakistan Branch Office	Pakistan	100%	USD
Downhole Products UK Holdco II Limited	United Kingdom	100%	USD
Downhole Products UK Holdco Limited	United Kingdom	100%	USD
Downhole Products Limited	United Kingdom	100%	USD
Downhole Products Middle East Fze	The United Arab Emirates	100%	AED
Down Hole Products Asia Sdn Bhd	Malaysia	100%	MYR
Down Hole Products Holdings, USA, Inc.	United States	100%	USD
Aberdeen Products, Inc.	United States	100%	USD
Ian Hay Engineering Limited	United Kingdom	100%	GBP
Smooth Team Investments Limited	Hong Kong	100%	GBP
SledgeHammer Oil Tools Pvt. Ltd.	India	78%	INR
SledgeHammer Gulf - LLC	India	49%	INR
SledgeHammer Oil Tools International Company	India	33%	INR
SledgeHammer Gulf DMCC	Dubai	100%	INR
SledgeHammer Americas Inc.	Texas	100%	INR

7. Subsequent Events

The Company has evaluated subsequent events through February 13, 2025, the date that the Financial Statements were available for issuance. There were no subsequent events to report.

Appendix 17: Financial statements for Varel International Holdings, LLC. as of and for the financial year ended 31 December 2023 with comparable figures for the financial year ended 31 December 2022

**Varel International Holdings,
LLC**

**Separate Financial Statements
December 31, 2023 and 2022**

Varel International Holdings, LLC
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December 31, 2023 and 2022

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Report of Independent Auditors

To the Management of Varel International Holdings, LLC

Opinion

We have audited the accompanying financial statements of Varel International Holdings, LLC (the "Company"), which comprise the statements of financial position as of December 31, 2023 and 2022, and the related statements of comprehensive income, of changes in member's equity and of cash flows for the years then ended, including the related notes (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern for at least, but not limited to, twelve months from the end of the reporting period, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.



In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

A handwritten signature in blue ink, appearing to read "Priscilla Handayani-HP".

New Orleans, Louisiana
February 13, 2025

Varel International Holdings, LLC
Statements of Financial Position
Years Ended December 31, 2023 and 2022

	Notes	2023	2022
Assets			
Noncurrent assets			
Investments in affiliates	(5)	\$ 172,945	\$ 172,945
Total noncurrent assets		<u>172,945</u>	<u>172,945</u>
Current assets			
Receivables from affiliates		-	-
Total current assets		<u>-</u>	<u>-</u>
Total assets		<u>\$ 172,945</u>	<u>\$ 172,945</u>
Member's Equity			
Member capital		\$ 172,945	\$ 172,945
Accumulated earnings		-	-
Total member's equity		<u>172,945</u>	<u>172,945</u>
Liabilities			
Current liabilities			
Payables from affiliates		-	-
Total liabilities		<u>-</u>	<u>-</u>
Total member's equity and liabilities		<u>\$ 172,945</u>	<u>\$ 172,945</u>

The accompanying notes are an integral part of these consolidated financial statements.

Varel International Holdings, LLC
Statements of Comprehensive Income
Years Ended December 31, 2023 and 2022

	Notes	2023	2022
Revenue		\$ -	\$ -
Cost of revenue		-	-
Gross Profit		-	-
Selling, general and administrative expenses		-	-
Operating profit		-	-
Profit before income tax			
Income tax expense		-	-
Comprehensive income		\$ -	\$ -

The accompanying notes are an integral part of these consolidated financial statements.

Varel International Holdings, LLC
Statements of Changes in Member's Equity
Years Ended December 31, 2023 and 2022

	Member Equity
Balance at December 31, 2021	\$ 172,945
Profit for the period	-
Balance at December 31, 2022	<u>172,945</u>
Profit for the period	<u>-</u>
Balance at December 31, 2023	<u>\$ 172,945</u>

The accompanying notes are an integral part of these consolidated financial statements.

Varel International Holdings, LLC
Statements of Cash Flows
Years Ended December 31, 2023 and 2022

<i>(in thousands of U.S. dollars)</i>	Notes	2023	2022
Cash flows from operating activities			
Profit for the period		\$ -	\$ -
Net cash from operating activities		-	-
Cash flows from investing activities			
Net cash provided by investing activities		-	-
Cash flows from financing activities			
Net cash provided by financing activities		-	-
Net change in cash and cash equivalents		-	-
Cash and cash equivalents			
Beginning of year		-	-
End of year		\$ -	\$ -

The accompanying notes are an integral part of these consolidated financial statements.

Varel International Holdings, LLC

Notes to Financial Statements

Years Ended December 31, 2023 and 2022

1. Nature of Operations

Varel International Holdings, Inc. ("Predecessor") was converted to a Delaware limited partnership, Varel International Holdings, LLC ("Varel" or "the Company") in 2020 and is domiciled in the United States of America ("USA"). Varel is a wholly owned subsidiary of Varel International Energy Services, Inc. ("Parent") who is incorporated and domiciled in the USA. The Parent is a wholly owned subsidiary of Varel Oil and Gas, Inc. ("VOG") and who is also a wholly owned subsidiary of Varel Oil and Gas Intermediate Holdings, Inc. ("VOGIH"). VOGIH is the wholly owned subsidiary of Varel Oil and Gas Holdings, Inc. ("Ultimate Parent"). VOG, VOGIH and the Ultimate Parent are incorporated and domiciled in the USA. Varel primarily designs, manufactures, and supplies products to the drilling, well construction, and completion solutions businesses within the energy sector. The Company sells its products globally in the key markets of Americas, Asia, and the Middle East through its subsidiaries.

These Financial Statements were authorized for issuance by the Board Members on February 13, 2025.

Summary of Significant Accounting Policies

Basis of Presentation

The Financial Statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS Accounting Standards") as issued by the International Accounting Standards Board ("IASB"). The exemption from consolidation under 4(a) of IFRS 10 has been used and these Financial Statements are separate financial statements.

The Financial Statements have been prepared under the historical cost convention except for certain items measured at fair value. The Company's investment in subsidiaries is accounted for at historical cost. Any dividend declared by the investment is recognized when declared. No dividends from the Company's investment in subsidiaries were declared in 2023 and 2022. The Company did not have operational activity or cash flows in the years ending December 31, 2023 and 2022.

New and amended standards adopted by the Company

There were no new or amended standards adopted by the Company in the year ended December 31, 2023 that materially impacted the Company.

Varel International Holdings, LLC

Notes to Financial Statements

Years Ended December 31, 2023 and 2022

New and revised standards issued but not effective

The Company has not yet determined the impact of these revised standards on its financial statements that have been issued but are not yet effective:

- IFRS 18 – Presentation and Disclosure in Financial Statements*
- IFRS 19 – Subsidiaries without Public Accountability: Disclosures*

* Effective for annual periods beginning on or after January 1, 2027

IFRS 18 – Presentation and Disclosure in Financial Statements

In April 2024, the IASB issued 'Presentation and Disclosure in Financial Statements' to introduce a defined structure for the statement of profit or loss and enhanced principles of aggregation and disaggregation in the financial statements and notes focused on grouping items based on their shared characteristics. The new standard will also require disclosure of management-defined performance measures with a reconciliation to the related financial statement line item.

IFRS 19 – Subsidiaries without Public Accountability: Disclosures

In May 2024, the IASB issued 'Subsidiaries and Disclosure in Financial Statements' to enable certain eligible subsidiaries to apply reduced disclosure requirements that better balance the needs of the financial statement users amidst the rigidity of the full-scale disclosure requirements.

Use of Estimates

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses, as well as amounts included in the notes thereto, including discussion and disclosure of contingent liabilities. Although the Company uses its best estimates and judgments, actual results could differ from these estimates as future confirming events occur.

2. Critical Accounting Estimates and Judgments

The preparation of the Financial Statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies, the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Actual results could differ from these estimates. These estimates and underlying assumptions are reviewed on a continuous basis. Changes in these accounting estimates are recognized in the period in which the estimates were revised and in any future periods affected. The company has reviewed and has no critical accounting estimates and judgements.

3. Commitments and Contingencies

Varel, in its global operations, is involved from time to time in legal and regulatory proceedings, which may be material in the future. The outcome of proceedings, lawsuits and claims may differ from our expectations and estimated liabilities, leading Varel to change estimates of liabilities and related insurance receivables.

Legal and regulatory proceedings, whether with or without merit, and associated internal investigations, may be time-consuming and expensive to prosecute, defend or conduct, may divert management's attention and other resources, inhibit our ability to sell our products, result in adverse judgments for damages, injunctive relief, penalties and fines, and otherwise negatively affect our business.

Varel International Holdings, LLC

Notes to Financial Statements

Years Ended December 31, 2023 and 2022

Where appropriate, Varel may establish financial reserves for such proceedings. Varel also maintains insurance to mitigate certain of such risks. Costs for legal services are generally expensed as incurred.

4. Material Subsidiaries and Associates

Functional currencies of the Company other than the USD include Mexican Peso ("MXN"), Canadian Dollar ("CAD"), Central African CFA Franc ("XAF"), Chinese Yuan ("CNY"), Indian Rupee ("INR"), United Arab Emirates Dirham ("AED"), Malaysian Ringgit ("MYR"), and Pound Sterling ("GBP"). Below is a list of material subsidiaries and associates of the Company and ownership share as of December 31, 2023.

Entity	Country	Ownership %	Currency
Varel Oil and Gas, Inc.	United States	Ultimate Parent	USD
Varel International Energy Services, Inc.	United States	Parent	USD
Varel International Ind., LLC	United States	100%	USD
Varel Energy Oil Field Equipment Trading L.L.C	Dubai	100%	USD
Varel International de Mexico S.A. de C.V.	Mexico	100%	MXN
Varel Gas y Petroleo de Mexico S de RL CV	Mexico	100%	MXN
Varel Rock Bits Canada, Inc.	Canada	100%	CAD
Varel Europe S.A.S.	Europe	100%	USD
Varel International Engineering Resources SA	Switzerland	100%	USD
Varel Gabon SARL	Gabon	100%	XAF
Varel (Beijing) Trading Co., Ltd.	China	100%	CNY
Varel Arabia Company Limited	Saudi Arabia	75%	USD
Varel International (for Oil Products & Services)	Egypt	100%	USD
Varel Europe Pakistan Branch Office	Pakistan	100%	USD

5. Capital and Reserves

Member Units	2023	2022
Outstanding at January 1	100	100
Issued	-	-
Outstanding at December 31	100	100

6. Subsequent Events

The Company has evaluated subsequent events through February 13, 2025, the date that the Financial Statements were available for issuance. There were no subsequent events to report..

Appendix 18: Financial statements for Varel International Ind., LLC. as of and for the financial year ended 31 December 2023 with comparable figures for the financial year ended 31 December 2022

Varel International Ind., LLC

Separate Financial Statements

December 31, 2023 and 2022

Varel International Ind., LLC
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December 31, 2023 and 2022

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Report of Independent Auditors

To the Management of Varel International Ind., LLC

Opinion

We have audited the accompanying financial statements of Varel International Ind., LLC (the "Company"), which comprise the statements of financial position as of December 31, 2023 and 2022, and the related statements of comprehensive loss, of changes in member's equity and of cash flows for the years then ended, including the related notes (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern for at least, but not limited to, twelve months from the end of the reporting period, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.



In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

A handwritten signature in blue ink, appearing to read "Priscilla Handley HP", written in a cursive style.

New Orleans, Louisiana
February 13, 2025

Varel International Ind., LLC
Statements of Financial Position
Years Ended December 31, 2023 and 2022

<i>(in thousands of U.S. dollars)</i>	Notes	2023	2022
Assets			
Noncurrent assets			
Property, plant and equipment, net	(8)	\$ 13,594	\$ 14,494
Right of use assets, net	(14)	1,830	1,859
Intangibles, net		33	33
Investments in affiliates		6,539	6,539
Other-long term assets		110	-
Total noncurrent assets		<u>22,106</u>	<u>22,925</u>
Current assets			
Cash		802	662
Trade receivables, net	(6)	7,892	8,422
Accounts receivables, affiliates	(15)	48,816	46,575
Inventories, net	(7)	46,681	38,293
Prepays and other current assets		1,124	4,179
Total current assets		<u>105,315</u>	<u>98,131</u>
Total assets		<u>\$ 127,421</u>	<u>\$ 121,056</u>
Equity			
Member's equity		\$ 42,629	\$ 46,433
Liabilities			
Noncurrent liabilities			
Borrowings	(10)	361	-
Lease liabilities	(14)	3,432	3,435
Other liabilities		-	639
Total noncurrent liabilities		<u>3,793</u>	<u>4,074</u>
Current liabilities			
Trade payables		13,734	25,459
Accounts payables, affiliates	(15)	60,493	40,864
Income tax payable		85	145
Accrued liabilities		1,966	1,690
Other current liabilities	(9)	3,331	1,764
Current portion of borrowings	(10)	684	-
Current portion of lease liabilities	(14)	706	627
Total current liabilities		<u>80,999</u>	<u>70,549</u>
Total liabilities		<u>84,792</u>	<u>74,623</u>
Total member's equity and liabilities		<u>\$ 127,421</u>	<u>\$ 121,056</u>

The accompanying notes are an integral part of these financial statements.

Varel International Ind., LLC
Statements of Comprehensive Loss
Years Ended December 31, 2023 and 2022

<i>(in thousands of U.S. dollars)</i>	Notes	2023	2022
Revenue	(11)	\$ 83,539	\$ 84,084
Revenue, related party	(11)	24,566	28,187
Cost of revenue	(12)	(68,663)	(70,126)
Cost of revenue, related party	(12)	<u>(22,275)</u>	<u>(24,950)</u>
Gross Profit		17,167	17,195
Selling, general and administrative expenses	(12)	(21,165)	(22,136)
Loss on disposal of subsidiary	(5)	-	(4,683)
Other income		<u>660</u>	<u>855</u>
Operating loss		(3,338)	(8,769)
Finance costs		<u>(465)</u>	<u>(325)</u>
Loss before income tax		(3,803)	(9,094)
Income tax expense	(13)	<u>(1)</u>	<u>(10)</u>
Comprehensive loss		<u>(3,804)</u>	<u>(9,104)</u>

The accompanying notes are an integral part of these financial statements.

Varel International Ind., LLC
Statements of Changes in Member's Equity
Years Ended December 31, 2023 and 2022

(in thousands of U.S. dollars)

	Total Member's Equity
Balance at December 31, 2021	\$ 55,537
Loss for the period	<u>(9,104)</u>
Balance at December 31, 2022	46,433
Loss for the period	<u>(3,804)</u>
Balance at December 31, 2023	<u>\$ 42,629</u>

The accompanying notes are an integral part of these financial statements.

Varel International Ind., LLC
Statements of Cash Flows
Years Ended December 31, 2023 and 2022

(in thousands of U.S. dollars)

	Notes	2023	2022
Cash flows from operating activities			
Loss for the period		\$ (3,804)	\$ (9,104)
Adjustments for			
Depreciation and amortization	(8)	3,116	3,114
Depreciation of right-of-use assets	(14)	781	884
Provision for doubtful accounts		43	(341)
Loss on sale of equipment		-	60
Loss on foreign currency		63	384
Change in excess obsolete and reserve		(529)	(1,333)
Loss on disposal of subsidiary		-	4,638
Changes in			
Trade receivables		424	(1,173)
Inventories		(7,859)	(16,420)
Prepays and other assets		2,940	(1,983)
Trade and other payables		(3,643)	16,064
Other liabilities		1,399	(1,750)
Affiliate Accounts, net		9,293	6,579
Cash provided by operating activities		2,689	488
Income taxes paid		(303)	(551)
Net cash provided by operating activities		2,386	(63)
Cash flows from investing activities			
Proceeds from sale of equipment	(8)	-	2,984
Acquisition of property and equipment	(8)	(2,199)	(3,601)
Net cash used in investing activities		(2,199)	(617)
Cash flows from financing activities			
Proceeds from long-term borrowings	(10)	1,045	-
Payments of lease liabilities	(14)	(1,092)	(1,216)
Net cash (used in) provided by financing activities		(47)	(1,216)
Net change in cash and cash equivalents		140	(1,896)
Cash and cash equivalents			
Beginning of year		662	2,558
End of year		\$ 802	\$ 662

The accompanying notes are an integral part of these financial statements.

Varel International Ind., LLC

Notes to Financial Statements

Years Ended December 31, 2023 and 2022

(tables in thousands of dollars, except for share and per share amounts)

1. Nature of Operations

Varel International Ind., LLC ("Varel" or the "Company") was founded in 2019 as a Delaware Limited Liability Company domiciled in the United States of America ("USA") and is a wholly owned subsidiary of Varel International Holdings, LLC ("Parent"). The Parent holds 100 member units of the Company which are the only outstanding member units. The Parent is a wholly owned subsidiary of Varel International Holdings, LLC ("VIH") who is a wholly owned subsidiary Varel International Energy Services ("VIES"). VIES is a wholly owned subsidiary of Varel Oil and Gas, Inc. ("Ultimate Parent"). The Parent, VIH, VIES, and the Ultimate Parent are all incorporated and domiciled in the USA. Varel primarily designs, manufactures, and supplies products to the drilling, well construction, and completion solutions businesses within the energy sector. The Company sells its products globally in the key markets of Americas, Asia, and the Middle East.

These Financial Statements were authorized for issuance by the Board of Directors on February 13, 2025.

2. Summary of Significant Accounting Policies

Basis of Presentation

The Financial Statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS Accounting Standards") as issued by the International Accounting Standards Board ("IASB"). The exemption from consolidation under 4(a) of IFRS 10 has been used and these Financial Statements are separate financial statements.

The Financial Statements have been prepared under the historical cost convention except for certain items measured at fair value. The Company's investments in subsidiaries are accounted for at historical cost. Any dividends declared by the investments are recognized when declared. No dividends from the Company's investments in subsidiaries were declared in 2023 and 2022.

New and amended standards adopted by the Company

There were no new or amended standards adopted by the Company in the year ended December 31, 2023 that materially impacted the Company.

New and revised standards issued but not effective

The Company has not yet determined the impact of these revised standards on its financial statements that have been issued but are not yet effective:

- IFRS 18 – Presentation and Disclosure in Financial Statements*
- IFRS 19 – Subsidiaries without Public Accountability: Disclosures*

* Effective for annual periods beginning on or after January 1, 2027

IFRS 18 – Presentation and Disclosure in Financial Statements

In April 2024, the IASB issued 'Presentation and Disclosure in Financial Statements' to introduce a defined structure for the statement of profit or loss and enhanced principles of aggregation and disaggregation in the financial statements and notes focused on grouping items based on their shared characteristics. The new standard will also require disclosure of management-defined performance measures with a reconciliation to the related financial statement line item.

Varel International Ind., LLC

Notes to Financial Statements

Years Ended December 31, 2023 and 2022

(tables in thousands of dollars, except for share and per share amounts)

IFRS 19 – Subsidiaries without Public Accountability: Disclosures

In May 2024, the IASB issued 'Subsidiaries and Disclosure in Financial Statements' to enable certain eligible subsidiaries to apply reduced disclosure requirements that better balance the needs of the financial statement users amidst the rigidity of the full-scale disclosure requirements.

Use of Estimates

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses, as well as amounts included in the notes thereto, including discussion and disclosure of contingent liabilities. Although the Company uses its best estimates and judgments, actual results could differ from these estimates as future confirming events occur.

Foreign currency Transactions

Foreign currency transactions are translated into the functional currency of Varel at the exchange rates prevailing when such transactions occur. Gains or losses on exchange differences arising from settlement of monetary assets and liabilities is recognized in profit or loss.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits, and other short-term investments with original maturities of three months or less from the acquisition date.

Trade Receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. Due dates are set on a contract-by-contract basis but are generally due for settlement within 30-90 days and therefore are classified as current assets. Trade receivables are recognized initially at the unconditional amount of consideration. The Company holds the trade receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortized cost using the effective interest method. Due to the short-term nature of trade receivables, the carrying amount approximates fair value.

Expected Credit Losses

The Company measures expected credit losses using a lifetime expected loss allowance for all trade receivables. To measure the expected credit loss, trade receivables are reviewed on a case-by-case basis for credit risk characteristics such as days past due. The expected loss rate is determined based on the customer payment profile over the preceding 12 month period. The historical loss rate may be adjusted if there is reliable information which the Company determined could impact the customer's ability to settle their outstanding receivables.

Based on the assessment of credit losses, the Company recorded a provision for doubtful accounts of \$0.1 million and \$ 0.2 million as of December 31, 2023 and 2022, respectively.

Impairment and Risk Exposure

The Company's customers are independently rated and the credit ratings are used by the Company to evaluate the risk of the counterparty. If there is no independent rating, the Company assesses the credit quality of the customer, considering its financial position, experience, and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by management.

Inventories

Inventories are stated at lower of cost or net realizable value, which is the estimated selling price less cost to sell. Cost is determined using the specific identification method and comprised of the

Varel International Ind., LLC

Notes to Financial Statements

Years Ended December 31, 2023 and 2022

(tables in thousands of dollars, except for share and per share amounts)

purchase price of materials and other directly related costs. Costs are calculated using the average cost method. At each reporting date, inventories are assessed for impairment. If inventory is impaired, the carrying amount is reduced to its selling price less costs to complete and sell, and an impairment loss is recognized in the Statement of Comprehensive Loss.

Property, Plant and Equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditures that are directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The Company adds to the carrying amount of property and equipment, renewals, and betterments when such items are expected to provide incremental future benefits. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to Cost of revenue as incurred.

Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets. Ranges of estimated useful lives are as follows:

Asset Category	Economic Life
Buildings	10 - 20 years
Furniture and fixtures	4 - 10 years
Property, plant and equipment	4 - 10 years
Rental Fleet	2 years
Vehicles	3 - 5 years
IT hardware	3 - 5 years

The Company regularly assesses the estimated useful lives of property, plant, and equipment. In December 2023, management completed an assessment of the useful lives of the rental fleet and revised the estimated useful life from less than one year, to two years, based on an analysis of current use, historical age patterns, and industry trends and practices. The change in estimated useful life will be accounted for as a change in accounting estimate, beginning in fiscal year 2023. We expect no change from the effect of this change in estimate on depreciation, as the accounting policy for the rental fleet remains as the number of production runs.

These assets are reviewed for impairment whenever a triggering event is identified to determine whether events or circumstances provide objective evidence that suggests the carrying amount of an asset has suffered an impairment loss. An asset's carrying amount is written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. An asset's estimated recoverable amount is the higher of the Cash Generating Unit's ("CGU") fair value less costs of disposal and its value in use.

For the purpose of testing impairment, the Company groups assets into the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets called CGU to estimate the fair value less cost of disposal. Future cash flows are based on expected earnings and estimated operating expenses over the remaining useful life of the CGU. The Company determined that it has only one CGU, the Company.

Gains and losses on disposals and retirements are determined by comparing the proceeds with the carrying amount and are recognized in the Statement of Comprehensive Loss.

Varel International Ind., LLC

Notes to Financial Statements

Years Ended December 31, 2023 and 2022

(tables in thousands of dollars, except for share and per share amounts)

Intangible Assets

Intangible assets with finite lives are carried at cost less accumulated amortization. Amortization is computed using the straight-line method over the estimated useful lives of the intangible assets. Ranges of estimated useful lives are as follows:

Asset Category	Amortization Method	Economic Life
Patents and trademarks	Straight-line	10 - 20 years

Trade Payables

Trade payables represent liabilities incurred by the Company for the procurement of goods and services. The amounts are unsecured and are paid within 90 days of recognition. Trade payables are presented as current liabilities, initially recognized at fair value and subsequently measured at amortized cost using the effective interest method. Due to the short-term nature, the carrying amount approximates its fair value.

Other Payables

Other payables represent accrued liabilities, provisions and income tax payable. The amounts are unsecured and are typically paid within 90 days of recognition. Other payables are presented as current liabilities in the Statement of Financial Position unless payment is not due within 12 months after the reporting period.

Borrowings

Borrowings are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a prepayment within Borrowings and amortized over the period of the facility.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any noncash assets transferred or liabilities assumed, is recognized in the Statement of Comprehensive Loss as Other income/(losses) or Finance cost.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months following the balance sheet date.

General and specific borrowing costs attributable to the acquisition, construction, or production of a qualifying asset are capitalized during the period required to complete and prepare the asset for its intended use or sale. Qualifying assets are ones that take over 12 months to prepare for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. Other borrowing costs are expensed in the period in which they are incurred.

Varel International Ind., LLC

Notes to Financial Statements

Years Ended December 31, 2023 and 2022

(tables in thousands of dollars, except for share and per share amounts)

Revenue Recognition

The Company recognizes revenue when it satisfies a performance obligation by transferring a promised good to a customer. The transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods to a customer. The Company considers the terms of the contracts with customers for the relevant period to determine the transaction price.

The Company recognizes revenue based on the five-step model:

- (i) identification of contracts with customers;
- (ii) identification of performance obligations in contracts;
- (iii) determination of the price of the transaction;
- (iv) allocation of the transaction price to the performance obligation provided for in the contracts;
- (v) recognition revenue when, (or as), the Company satisfies a performance obligation by transferring a promised good (or service) to a customer

For the sale of goods, the transfer of control usually occurs when the significant risks and rewards are transferred in accordance with the transactions shipping terms. Payment is due between 30 and 90 days from the transfer of control. In some contracts, short-term advances are required before the equipment is delivered. Some contracts contain a right of return, late delivery penalties, volume rebates, and trade-in considerations, which give rise to variable consideration subject to constraint.

For contracts that permit the customer to return an item, stipulate a late delivery penalty clause, or include volume rebates or trade-in clauses, revenue is recognized to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur.

Therefore, the amount of revenue recognized is adjusted for expected returns, penalties, rebates or trade-ins, which are estimated based on historical data. In these circumstances, a refund liability and right to recover returned goods asset are recognized.

The right to recover returned goods asset is measured at the former carrying amount of the inventory less any expected costs to recover goods. The refund liability is included in other payables and the right to recover returned goods is included in inventory. The Company reviews the estimate of expected returns at each reporting date and updates the amounts of the asset and liability accordingly.

The Company recognizes rental revenue from operating leases on a straight-line basis over the term of the lease.

Income Taxes

The Company is a corporation for U.S. federal and state income tax purposes, and accordingly, the Company records taxes in profit or loss, except to the extent that it relates to items recognized in other comprehensive loss or directly in equity.

The current income tax provision is calculated based on tax rates and laws enacted or substantively enacted on the reporting date.

Varel International Ind., LLC

Notes to Financial Statements

Years Ended December 31, 2023 and 2022

(tables in thousands of dollars, except for share and per share amounts)

The Company recognizes deferred tax assets to the extent that it believes it is probable the assets will be realized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except for deferred income tax liabilities where the timing of reversal of the temporary differences is controlled by the Parent and it is probable that the temporary differences will not reverse in the near future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Leases

Lessee: The Company assesses at contract inception whether a contract is or contains a lease. That is, if the contract conveys the right to control the use of an identified asset for a period in exchange for consideration.

Leases are recognized at the commencement of the lease at the present value of the minimum lease payments. Each lease payment is apportioned between the liability and finance charges using the effective interest method.

Rental obligations, net of finance charges, are included in lease liabilities in the balance sheet. The right-of-use asset is depreciated over the shorter of the asset's useful life or the lease term if there is no reasonable certainty that the Company will obtain ownership at the end of the lease term.

Lessor: The Company classifies leases for which it is a lessor as either a finance lease or an operating lease. Whenever the terms of a lease substantially transfer all of the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When the Company is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease based on the right-of-use asset arising from the head lease.

Lease income from operating leases is recognized on a straight-line basis over the term of the relevant lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are gained. Initial direct costs incurred while negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized using the same basis as the lease income.

Consideration is allocated to lease and non-lease components, the Company applies IFRS 15 to allocate the consideration under the contract to the respective components.

Measurement of Right-of-use Assets

The Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less accumulated amortization, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. The recognized right-of-use assets are amortized on a straight-line basis over the

Varel International Ind., LLC

Notes to Financial Statements

Years Ended December 31, 2023 and 2022

(tables in thousands of dollars, except for share and per share amounts)

shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Fair Value Measurement

Fair Value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its nonperformance risk.

The Company classifies the fair value of assets and liabilities according to the following fair value hierarchy based on the amount of observable inputs used to value the instrument:

- Level 1 Fair value is based on unadjusted quoted prices in active markets for identical assets or liabilities as of the reporting date.
- Level 2 Fair value is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).
- Level 3 Fair value is based on inputs for the asset or liability that are not based on observable market data.

3. Critical Accounting Estimates and Judgments

The preparation of the Financial Statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies, the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Actual results could differ from these estimates. These estimates and underlying assumptions are reviewed on a continuous basis. Changes in these accounting estimates are recognized in the period in which the estimates were revised and in any future periods affected.

Information about important estimation and judgments that have significant effects on the amounts recognized in the Financial Statements is as follows:

Varel International Ind., LLC

Notes to Financial Statements

Years Ended December 31, 2023 and 2022

(tables in thousands of dollars, except for share and per share amounts)

Impairment of Property, Plant, and Equipment

We evaluate our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may no longer be recoverable. Events that trigger a test for recoverability include material adverse changes in projected revenues or expenses, present cash flow losses combined with a history of cash flow losses and a forecast that demonstrates significant continuing and significant negative expectation of economic growth. When a triggering event occurs, a test for recoverability is performed. To determine whether an impairment has occurred, and the extent of any impairment loss or its reversal, the key assumptions management uses in estimating the risk-adjusted future cash flows for value in use are estimates of future operating profits, the terminal value, and the discounted present value of both future operating profits and the terminal value. In addition, management uses other assumptions and judgements. These assumptions and judgements are subject to change as information becomes available. Changes in assumptions could affect the carrying amounts of assets, and impairments and reversals will affect the financial results. Changes in economic conditions can affect the rate used for the discount rate used to discount future cash flow estimates and risk-adjustment in future cash flows. Judgment is applied to conclude whether changes in assumptions or economic conditions are an indicator that an asset CGU may be impaired, or that an impairment loss recognized in prior periods may no longer exist or may have decreased.

Leases

Determination of the lease term is subject to judgment and has an impact on the measurement of the lease liability and related right-of-use assets. The Company judgmentally determines lease terms for lease agreements that include optional lease periods where it is reasonably certain the Company will either exercise an option to extend the lease or not exercise the option to terminate the lease. When assessing the lease term at the commencement date, the Company considers the broader economics of the contract. Reassessment of the lease term is performed upon changes in circumstances that affect the probability that an option to extend or terminate a lease will be exercised.

Where the implicit rate in the lease is not readily available, an incremental borrowing rate is applied. This incremental borrowing rate reflects the rate of interest the lessee would have to pay to borrow over a similar term, with a similar security, the funds necessary to obtain an asset of a similar nature and value to the right-of-use asset in a similar economic environment. Determination of the incremental borrowing rate requires estimation.

Taxes

Tax liabilities are recognized when it is considered probable that there will be a future outflow of funds to a taxing authority. In such cases, provision is made for the amount expected to be settled, where this can be reasonably estimated. Provisions for uncertain income tax positions or treatments are measured at the most likely amount or the expected value, whichever method is more appropriate. Generally, uncertain tax treatments are assessed individually, except where they are expected to be settled collectively. It is assumed that taxing authorities will examine positions taken if they have the right to do so and that they have full knowledge of the relevant information. A change in the estimate of the likelihood of a future outflow and/or in the expected amount to be settled would be recognized in the results of operations in the period in which the change occurs. This requires the application of judgment as to the ultimate outcome, which can change over time depending on facts and circumstances. Judgments relate to transfer pricing, including inter-company financing, expenditure deductible for tax purposes and taxation arising at disposal.

Deferred tax assets are recognized only to the extent it is considered probable those assets will be recovered. This involves an assessment of when those assets are likely to reverse and a judgment as to whether there will be sufficient taxable profits available to offset the assets when they do

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reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. To the extent assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized as deferred tax assets as well as in the amounts recognized in the Statement of Comprehensive Loss in the period in which the change occurs.

4. Financial Risk management

Financial Risk Factors

The Company's activities expose it to a variety of financial risks: market risk, credit risk, and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

Credit Risk

Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposure to the Company's customers, including outstanding receivables.

Cash maintained in US banks at times may exceed the FDIC coverage of \$250,000. On December 31, 2023, or 2022, the Company has not experienced losses on these cash accounts and management believes that the credit risk with regard to these deposits is not significant.

Impairment of Financial Assets

The Company has one type of financial asset that is subject to the expected credit losses ("ECL") model: trade receivables.

The Company applies the simplified approach under IFRS 9 to measure its ECL, which uses a lifetime expected loss allowance for all trade receivables. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECL's at each reporting date.

The carrying amount of trade receivables and other financial assets represents the maximum exposure to credit risks. Financial assets subject to expected credit losses are as follows:

	2023	2022
Trade Receivables, net	\$ 7,892	\$ 8,422
Trade Receivables, related parties	37,281	29,605
Financial assets subject to ECL	<u>\$ 45,173</u>	<u>\$ 38,027</u>

Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities.

Maturity of Financial Liabilities

The table below analyzes the Company's undiscounted financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period on the balance sheet to the contractual maturity date. The interest element of borrowings is based on the actual

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rate or the rate at the closing date if not available. Early payments or additional borrowings on financial liabilities are not reflected.

Financial liabilities are as follows:

At December 31, 2023	Less Than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total Contractual Cash Flows	Carrying Amount
Nonderivatives						
Trade and other payables	\$ 13,732	\$ -	\$ -	\$ -	\$ 13,732	\$ 13,732
Trade payables, related parties	48,960	-	-	-	48,960	48,960
Borrowings	684	361	-	-	1,045	1,045
Lease liabilities	706	1,114	2,493	55	4,368	4,138
Nonderivative liabilities	<u>\$ 64,082</u>	<u>\$ 1,475</u>	<u>\$ 2,493</u>	<u>\$ 55</u>	<u>\$ 68,105</u>	<u>\$ 67,875</u>
At December 31, 2022	Less Than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total Contractual Cash Flows	Carrying Amount
Nonderivatives						
Trade and other payables	\$ 25,459	\$ -	\$ -	\$ -	\$ 25,459	\$ 25,459
Trade payables, related parties	56,473	-	-	-	56,473	56,473
Lease liabilities	627	1,114	2,493	55	4,289	4,062
Nonderivative liabilities	<u>\$ 82,559</u>	<u>\$ 1,114</u>	<u>\$ 2,493</u>	<u>\$ 55</u>	<u>\$ 86,221</u>	<u>\$ 85,994</u>

There were no outstanding derivative arrangements as of December 31, 2023 or 2022, respectively.

Capital Risk Management

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. To maintain or adjust the capital structure, the Company may return capital to shareholders.

Consistent with others in the industry, the Company monitors capital based on the debt-to-equity ratio. The ratio is calculated as borrowings divided by total equity. The debt-to-equity ratios were as follows:

	2023	2022
Total borrowings (external and related party)	\$ 1,045	\$ -
Total equity	<u>42,629</u>	<u>46,433</u>
Debt to equity ratio	<u>2%</u>	<u>0%</u>

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Price Risk Management

The Company is exposed to risks arising from increased costs due to commodity price fluctuations, such as iron and steel, precious metals and nonferrous alloys used in manufacturing. The Company controls the price risk associated with the purchase of those commodities by maintaining inventory at the minimum level.

5. Loss on Disposal of Subsidiary

On August 20, 2010, the Company entered into a Limited Liability Operating Agreement with MMS Holdings to form a 50:50 Joint Venture entity called Varel Newtech CIS, which had a 100% owned subsidiary, Varel NTS, LLC ("VNTS"), whose main activities are tool making; production of special equipment for drilling and workover of oil and gas wells; and provision of services for repair of equipment for oil and gas wells drilling in Russia.

In 2022, due to the escalating war between Russia and Ukraine which resulted in US sanctions on companies doing business in Russia, Varel and its Joint Venture partner MMS Holdings re-evaluated their operations in Russia. At a meeting of the shareholders of Varel on April 13, 2022, a decision was made to sell the interest in the Russian Joint Venture operations. Subsequently, on April 26, 2022, Varel entered into a Termination Agreement with its Joint Venture partner, MMS Holdings, to sell its 50% share of Varel Newtech CIS and VNTS, for a negligible amount, to the MMS Holdings Group.

Revenues from Varel Newtech CIS and VNTS for the period up to the disposal date was \$1.5 million for the year ended December 31, 2022. The total loss on disposal was \$4.7 million for the year ended December 31, 2022.

6. Trade Receivables, net

Trade receivables relate primarily to sales of drill bits and downhole equipment. The trade receivables, net balance was comprised of:

	2023	2022
Trade receivables, gross	\$ 8,019	\$ 8,645
Provision for doubtful accounts	(127)	(223)
Trade receivables, net	<u>\$ 7,892</u>	<u>\$ 8,422</u>

7. Inventories, net

The Company recognized a \$0.5 million reduction and a \$1.3 million upturn in reserves for excess and obsolete inventory for the years ended December 31, 2023 and 2022, respectively, included in Cost of revenue and operating expenses in the Statement of Comprehensive Loss.

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	2023	2022
Raw materials	\$ 22,580	\$ 17,895
Work in process	11,375	11,458
Finished goods	12,882	9,625
Excess and obsolete reserve	(156)	(685)
Inventories, net	<u>\$ 46,681</u>	<u>\$ 38,293</u>

8. Property, Plant, and Equipment, net

	Buildings	Plant and Machinery	Computer Software & Hardware	Other	Assets Under Construction	Total
Cost						
<u>At beginning of year 2023</u>	\$ 535	\$ 28,923	\$ 5,261	\$ 1,429	\$ 2,590	\$ 38,738
Additions	-	606	26	12	1,555	2,199
Disposals	-	-	-	-	-	-
Transfers/Other	-	1,893	-	-	(1,893)	-
<u>At end of year 2023</u>	<u>535</u>	<u>31,422</u>	<u>5,287</u>	<u>1,441</u>	<u>2,252</u>	<u>40,937</u>
Accumulated Depreciation						
<u>At beginning of year 2023</u>	(114)	(18,930)	(4,725)	(475)	-	(24,244)
Charge for year	(14)	(2,744)	(234)	(107)	-	(3,099)
Transfers/Other	-	-	-	-	-	-
<u>At end of Year 2023</u>	<u>(128)</u>	<u>(21,674)</u>	<u>(4,959)</u>	<u>(582)</u>	<u>-</u>	<u>(27,343)</u>
Net Book Value						
<u>At 31 December 2023</u>	<u>\$ 407</u>	<u>\$ 9,748</u>	<u>\$ 328</u>	<u>\$ 859</u>	<u>\$ 2,252</u>	<u>\$ 13,594</u>

	Buildings	Plant and Machinery	Computer Software & Hardware	Vehicles	Other	Assets Under Construction	Total
Cost							
<u>At beginning of year 2022</u>	\$ 731	\$ 29,436	\$ 5,132	\$ 1,788	\$ 1,742	\$ 463	\$ 39,292
Additions	-	1,017	147	0	23	2,422	3,609
Disposals	(196)	(1,563)	(18)	(1,788)	(598)	-	(4,163)
Transfers/Other	-	33	-	-	262	(295)	-
<u>At end of year 2022</u>	<u>535</u>	<u>28,923</u>	<u>5,261</u>	<u>-</u>	<u>1,429</u>	<u>2,590</u>	<u>38,738</u>
Accumulated Depreciation							
<u>At beginning of year 2022</u>	(129)	(17,561)	(4,504)	(1,723)	(790)	-	(24,707)
Charge for year	(21)	(2,786)	(212)	(5)	(113)	-	(3,137)
Disposals	36	1,417	(9)	1,728	428	-	3,600
Transfers/Other	-	-	-	-	-	-	-
<u>At end of Year 2022</u>	<u>(114)</u>	<u>(18,930)</u>	<u>(4,725)</u>	<u>-</u>	<u>(475)</u>	<u>-</u>	<u>(24,244)</u>
Net Book Value							
<u>At 31 December 2022</u>	<u>\$ 421</u>	<u>\$ 9,993</u>	<u>\$ 536</u>	<u>\$ -</u>	<u>\$ 954</u>	<u>\$ 2,590</u>	<u>\$ 14,494</u>

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9. Other Current Liabilities

	2023	2022
Accrued liabilities	\$ 2,052	\$ 710
Other taxes payable	949	1,028
Other	330	25
Total other current liabilities	<u>\$ 3,331</u>	<u>\$ 1,764</u>

10. Borrowings

As of December 31, 2023, and 2022, the Company had an outstanding balance of \$1.0 million and \$0 million, respectively. During 2023 the Company entered into a series of notes for equipment which each have a 0.0% interest rate and terms of 2.5 years.

	Current	Noncurrent	Total
External loans	<u>\$ 684</u>	<u>\$ 361</u>	<u>\$ 1,045</u>
Borrowings at December 31, 2023	<u>\$ 684</u>	<u>\$ 361</u>	<u>\$ 1,045</u>

Fair Value of Borrowings

Due to the short-term of the note payables and that the Company's exposure to risk has remained materially unchanged, the carrying value of borrowings approximates its fair value.

Reconciliation of liabilities arising from financial activities for the year ended December 31, 2023 and 2022:

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At December 31, 2023	Beginning of Year	Cash Flow	Lease Addition	End of Year
Borrowings	\$ -	\$ 1,045	\$ -	\$ 1,045
Lease liabilities	4,062	\$ (1,092)	1,168	4,138
Nonderivative liabilities	<u>\$ 4,062</u>	<u>\$ (47)</u>	<u>\$ 1,168</u>	<u>\$ 5,183</u>

At December 31, 2022	Beginning of Year	Cash Flow	Lease Addition	End of Year
Lease liabilities	<u>\$ 1,929</u>	<u>\$ (1,216)</u>	<u>\$ 3,349</u>	<u>\$ 4,062</u>
Nonderivative liabilities	<u>\$ 1,929</u>	<u>\$ (1,216)</u>	<u>\$ 3,349</u>	<u>\$ 4,062</u>

11. Revenue

The Company derives revenue from contracts with customers and rental revenue, both recognized at a point in time.

Revenue from Contracts with Customers	2023	2022	2023 - 3rd Party	2023 - Related Party	2022 - 3rd Party	2022 - Related Party
Completion	\$ 18,435	\$ 18,444	\$ 18,435	-	\$ 18,444	\$ -
Primary Cementing Equipment	7,675	8,418	1,078	6,597	244	8,174
Polycrystalline Diamond Compact	12,741	15,637	2,168	10,573	5,032	10,605
Roller Cones	48,191	48,361	40,795	7,396	38,953	9,408
Rental revenue	21,063	21,411	21,063	-	21,411	-
Total	\$ 108,105	\$ 112,271	\$ 83,539	\$ 24,566	\$ 84,084	\$ 28,187

Revenue by Geographic Location	2023	2022	2023 - 3rd Party	2023 - Related Party	2022 - 3rd Party	2022 - Related Party
United States (USA)	\$ 90,414	\$ 91,256	\$ 83,351	\$ 7,063	\$ 83,266	\$ 7,990
Middle East and North Africa (MENA)	351	245	-	351	-	245
Kingdom of Saudi Arabia (KSA)	2,508	1,492	7	2,501	234	1,258
Asia	85	204	-	85	115	89
Europe	14,060	17,983	1	14,059	39	17,944
Latin America (LATAM)	657	147	180	477	137	10
Other	30	944	-	30	293	651
Total revenue	\$ 108,105	\$ 112,271	\$ 83,539	\$ 24,566	\$ 84,084	\$ 28,187

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12. Expenses by Nature

	2023	2022
Inventory materials	\$ 73,024	\$ 75,190
Employee compensation and benefits	5,258	4,530
Consumables	2,931	3,213
Freight and customs	2,048	2,946
Change in excess obsolete and reserve	(524)	(1,411)
Depreciation and amortization - nonrental	3,104	3,362
Rental fleet depreciation	5,197	6,371
Liquidating damages	465	178
Other	(565)	697
Total cost of revenue	<u>\$ 90,938</u>	<u>\$ 95,076</u>
General administrative	\$ 2,077	\$ 3,139
Insurance	1,384	1,315
Information technology	1,481	1,378
Management fee	(6,152)	(5,196)
Professional and legal fees	957	1,737
Research and development	3,114	300
Employee compensation and benefits	17,650	18,826
Amortization	17	13
Depreciation	637	624
Total selling, general, and administrative	<u>\$ 21,165</u>	<u>\$ 22,136</u>

13. Income Taxes

The table below reconciles the Company's income taxes computed by applying the statutory federal income tax rate to earnings before income taxes to its effective tax provision for the years ended December 31, 2023 and 2022, respectively:

	2023	2022
Accounting profit before tax	\$ (3,803)	\$ (4,411)
US statutory tax rate of the reporting entity	21%	21%
Expected total income tax benefit	<u>(799)</u>	<u>(926)</u>
Reconciling items		
Expenses not deductible for tax purposes	107	262
Unrecognized deferred tax benefit	701	654
Other	(8)	20
Total current and deferred tax expense	<u>\$ 1</u>	<u>\$ 10</u>

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The Company has a total of \$0.7 million and \$0.7 million of unused tax losses at December 31, 2023 and 2022, respectively. Of this amount, none has been recognized for deferred tax purposes at December 31, 2023 and 2022, respectively.

The Company is not aware of any open tax examinations with authorities or any other uncertain tax positions that existed as of December 31, 2023 or December 31, 2022.

14. Leases

The Company leases buildings, land, machinery, vehicles, office equipment, and furniture and fixtures. The leased assets are included as part of right-of-use assets, net. Lease liabilities were recorded at the time the lease contracts were signed and the obligations were based on the Company's incremental borrowing rate at the time. The liabilities remaining at the reporting date represent the outstanding principal of the assumed liabilities. Generally, under the terms of our lease agreements, the rights to the leased assets revert to the lessor in the event of default.

Amounts Recognized in the Statement of Financial Position

The Statement of Financial Position includes the following amounts relating to right-of-use assets:

	2023	2022
Right-of-use assets		
Right-of-use, building	\$ 2,779	2,880
Right-of-use, plant and machinery	37	22
Right-of-use, vehicles	1,142	898
Right-of-use, office equipment	531	477
Accumulated depreciation right-of-use, building	(1,679)	(1,648)
Accumulated depreciation right-of-use, plant and machinery	(10)	(20)
Accumulated depreciation right-of-use, vehicles	(526)	(310)
Accumulated depreciation right-of-use, office equipment	(444)	(440)
Total right-of-use assets, net	<u>\$ 1,830</u>	<u>\$ 1,859</u>
Lease liabilities		
Current	\$ 706	\$ 627
Noncurrent	<u>3,432</u>	<u>3,435</u>
Total lease liabilities	<u>\$ 4,138</u>	<u>\$ 4,062</u>

Additions to the right-of-use assets during the years ended December 31, 2023 and 2022 were \$0.3 million and \$4.8 million, respectively. The total cash outflows for leases in 2023 and 2022 were \$1.0 million and \$1.2 million, respectively. The Company recorded \$0.7 million and \$0.2 million in lease interest during the years ended December 31, 2023 and 2022, respectively.

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Depreciation expense on right-of-use assets for the years ended December 31, 2023 and 2022 were as follows:

	2023	2022
Depreciation on right-of-use assets		
Depreciation right-of-use, building	\$ 384	\$ 515
Depreciation right-of-use, plant and machinery	12	9
Depreciation right-of-use, vehicles	347	250
Depreciation right-of-use, office equipment	<u>38</u>	<u>110</u>
Total depreciation on right-of-use assets	<u>\$ 781</u>	<u>\$ 884</u>

Lessor Arrangements

The Company subleases office space and a warehouse under operating lease agreements which expire at various dates through 2024. Sublease rental income recognized during 2023 and 2022 was \$126,000 and \$87,000, respectively.

At December 31, 2023, the estimated undiscounted minimum lease payments to be received were as follows:

	2023
2024	\$ 102
2025	<u>24</u>
	<u>\$ 126</u>

Sale and Leaseback Arrangement

On September 6, 2022, the Company sold a property comprising of land and buildings to the Trio Fund for \$2.9 million, resulting in a gain of sale of \$2.7 million.

On September 9, 2022, VIES entered into a 20 year lease with an option for four 5-year renewal periods on the same property. The initial rent payment of the lease was \$214,720 including an annual rent increase of 2.5%. Of the \$2.7 million gain on sale, \$0.7 million was recognized during the year ended December 31, 2022 and the balance of \$2.0 million will not be recognized since the Company retained the right to use the office building.

15. Related Party Transactions

The Company has engaged in transactions with related parties, classified as affiliates, as of December 31, 2023, and December 31, 2022. These transactions primarily include accounts receivable and payable balances with entities related through common control or significant

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(tables in thousands of dollars, except for share and per share amounts)

influence. The accounts receivables and accounts payable balances relate to intercompany sales transactions as well as transactions related to other operating activities of the Company.

Accounts Receivable with Affiliates	2023	2022
Varel Oil & Gas, Inc.	\$ -	\$ 2,258
Varel International Holdings, LLC	4,438	\$ -
Downhole Products Limited	473	1,343
Varel Rock Bits Canada	11,005	11,240
Downhole Products Holdings USA	172	4,213
Sledgehammer Oil Tools	263	864
Varel Europe	26,931	21,015
Varel Gay y Petroleo de Mexico	1,329	4,174
Downhole Products Middle East	40	40
Varel Arabia	3,814	1,318
Varel Egypt	146	44
Varel (Beijing) Trading Co., Ltd.	205	66
Total accounts receivable from affiliates	<u>\$ 48,816</u>	<u>\$ 46,575</u>

Accounts Payable with Affiliates	2023	2022
Varel Oil & Gas, Inc.	\$ 9,119	\$ -
Downhole Products Limited	39,167	28,171
Downhole Products Holdings USA	610	-
Sledgehammer Oil Tools	570	2,492
Varel Europe	-	171
Varel Gay y Petroleo de Mexico	10,776	9,972
Downhole Products Middle East	16	15
Varel Arabia	235	43
Total accounts payable from affiliates	<u>\$ 60,493</u>	<u>\$ 40,864</u>

16. Key Management Compensation

Key management personnel are those people who have authority and responsibility for planning, directing, and controlling the activities of the entity, directly or indirectly. The total remuneration of directors and key management personnel, including salaries, benefits, and severance was \$3.3 million and \$3.0 million for the years ended December 31, 2023 and 2022, respectively.

17. Commitments and Contingencies

Varel, in its global operations, is involved from time to time in legal and regulatory proceedings, which may be material in the future. The outcome of proceedings, lawsuits and claims may differ

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from our expectations and estimated liabilities, leading Varel to change estimates of liabilities and related insurance receivables.

Legal and regulatory proceedings, whether with or without merit, and associated internal investigations, may be time-consuming and expensive to prosecute, defend or conduct, may divert management's attention and other resources, inhibit our ability to sell our products, result in adverse judgments for damages, injunctive relief, penalties and fines, and otherwise negatively affect our business.

Where appropriate, Varel may establish financial reserves for such proceedings. Varel also maintains insurance to mitigate certain of such risks. Costs for legal services are generally expensed as incurred.

18. Material Subsidiaries and Associates

Functional currencies of the Company other than the USD include Mexican Peso ("MXN"), Canadian Dollar ("CAD"), Central African CFA Franc ("XAF"), Chinese Yuan ("CNY"), United Arab Emirates Dirham ("AED"), and Malaysian Ringgit ("MYR"). Below is a list of material subsidiaries and associates of the Company and ownership share as of December 31, 2023.

Entity	Country	Ownership %	Currency
Varel International Energy Services, Inc.	United States	Parent	USD
Varel Energy Oil Field Equipment Trading L.L.C	Dubai	100%	USD
Varel International de Mexico S.A. de C.V.	Mexico	100%	MXN
Varel Gas y Petroleo de Mexico S de RL CV	Mexico	100%	MXN
Varel Rock Bits Canada, Inc.	Canada	100%	CAD
Varel Europe S.A.S.	Europe	100%	USD
Varel International Engineering Resources SA	Switzerland	100%	USD
Varel Gabon SARL	Gabon	100%	XAF
Varel (Beijing) Trading Co., Ltd.	China	100%	CNY
Varel Arabia Company Limited	Saudi Arabia	75%	USD
Varel International (for Oil Products & Services)	Egypt	100%	USD
Varel Europe Pakistan Branch Office	Pakistan	100%	USD

19. Subsequent Events

The Company has evaluated subsequent events through February 13, 2025, the date that the Financial Statements were available for issuance.

Appendix 19: Financial statements for DHP Varel, Inc. as of and for the financial year ended 31 December 2023 with comparable figures for the financial year ended 31 December 2022

DHP Varel, Inc.
Separate Financial Statements
December 31, 2023, and 2022

DHP Varel, Inc.
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December 31, 2023 and 2022

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Report of Independent Auditors

To the Management of DHP Varel, Inc.

Opinion

We have audited the accompanying financial statements of DHP Varel, Inc. (the "Company"), which comprise the statements of financial position as of December 31, 2023 and 2022, and the related statements of comprehensive income, of changes in equity and of cash flows for the years then ended, including the related notes (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern for at least, but not limited to, twelve months from the end of the reporting period, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.



In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

A handwritten signature in blue ink, appearing to read "Priscilla Handley HP".

New Orleans, Louisiana
February 13, 2025

DHP Varel, Inc.
Statements of Financial Position
Years Ended December 31, 2023 and 2022

<i>(in thousands of U.S. dollars)</i>	Notes	2023	2022
Assets			
Noncurrent assets			
Investments in affiliates	(6)	\$ 12	\$ 12
Affiliate Accounts Receivable		-	-
Total noncurrent assets		<u>12</u>	<u>12</u>
Current assets			
Receivables from affiliates		-	-
Total current assets		<u>-</u>	<u>-</u>
Total assets		<u>12</u>	<u>12</u>
Equity			
Share capital		\$ -	\$ -
Share premium		-	-
Accumulated earnings		-	-
Total equity		<u>-</u>	<u>-</u>
Liabilities			
Loan from affiliates		-	-
Total noncurrent liabilities		<u>-</u>	<u>-</u>
Current liabilities			
Payables from affiliates	(6)	12	12
Total current liabilities		<u>12</u>	<u>12</u>
Total liabilities		<u>12</u>	<u>12</u>
Total shareholders' equity and liabilities		<u>\$ 12</u>	<u>\$ 12</u>

The accompanying notes are an integral part of these financial statements.

DHP Varel, Inc.
Statements of Comprehensive Income
Years Ended December 31, 2023 and 2022

(in thousands of U.S. dollars)

	Notes	2023	2022
Continuing Operations			
Revenue		\$ -	\$ -
Cost of revenue		-	-
Gross Profit		<u>-</u>	<u>-</u>
Selling, general and administrative expenses		-	-
Operating profit		<u>-</u>	<u>-</u>
Finance income		-	-
Finance costs		-	-
Profit before income tax		<u>-</u>	<u>-</u>
Income tax expense		-	-
Profit and comprehensive income for the period		<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

DHP Varel, Inc.
Statements of Changes in Equity
Years Ended December 31, 2023 and 2022

(in thousands of U.S. dollars)

	Share Premium	Accumulated Earnings	Total Equity
Balance at December 31, 2021	\$ -	\$ -	\$ -
Profit for the period	-	-	-
Balance at December 31, 2022	-	-	-
Profit for the period	-	-	-
Balance at December 31, 2023	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

DHP Varel, Inc.
Statements of Changes in Cash Flows
Years Ended December 31, 2023 and 2022

<i>(in thousands of U.S. dollars)</i>	Notes	2023	2022
Cash flows from operating activities			
Profit for the period		\$ -	\$ -
Net cash from operating activities		-	-
Cash flows from investing activities			
Net cash provided by investing activities		-	-
Cash flows from financing activities			
Net cash provided by financing activities		-	-
Net change in cash and cash equivalents		-	-
Cash and cash equivalents			
Beginning of year		-	-
End of year		\$ -	\$ -

The accompanying notes are an integral part of these financial statements.

DHP Varel, Inc.
Notes to Financial Statements
Years Ended December 31, 2023 and 2022

(tables in thousands of dollars, except for share and per share amounts)

1. Nature of Operations

DHP Varel, Inc. ("Varel" or "Company") was founded in 2020 as a Delaware corporation domiciled in the United States of America ("USA"). The Company is a wholly owned subsidiary of Varel International Energy Services, Inc. ("VIES"). VIES is a wholly owned subsidiary of Varel Oil and Gas, Inc. ("Parent"). Both VIES and the Parent are domiciled and incorporated in the USA. Varel, through its wholly owned subsidiary Downhole Products UK Holdco II Limited ("DP UK"), primarily designs, manufactures, and supplies products to the drilling, well construction, and completion solutions business within the energy sector. The Company sells its products globally in the key markets of America, Europe, Asia and the Middle East.

These Financial Statements were authorized for issuance by the Board of Directors on February 13, 2025.

2. Summary of Significant Accounting Policies

Basis of Presentation

The Financial Statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS Accounting Standards") as issued by the International Accounting Standards Board ("IASB"). The exemption from consolidation under 4(a) of IFRS 10 has been used and these Financial Statements are separate financial statements.

The Financial Statements have been prepared under the historical cost convention except for certain items measured at fair value. The Company's investment in subsidiaries is accounted for at historical cost. Any dividend declared by the investment is recognized when declared. No dividends from the Company's investment in subsidiaries were declared in 2023 and 2022. The Company did not have operational activity or cash flows in the years ending December 31, 2023 and 2022.

New and amended standards adopted by the Company

There were no new or amended standards adopted by the Company in the year ended December 31, 2023, that materially impacted the Company.

DHP Varel, Inc.

Notes to Financial Statements

Years Ended December 31, 2023 and 2022

(tables in thousands of dollars, except for share and per share amounts)

New and revised standards issued but not effective

The Company has not yet determined the impact of these revised standards on its financial statements that have been issued but are not yet effective:

- IFRS 18 – Presentation and Disclosure in Financial Statements*
- IFRS 19 – Subsidiaries without Public Accountability: Disclosures*

* Effective for annual periods beginning on or after January 1, 2027

IFRS 18 – Presentation and Disclosure in Financial Statements

In April 2024, the IASB issued 'Presentation and Disclosure in Financial Statements' to introduce a defined structure for the statement of profit or loss and enhanced principles of aggregation and disaggregation in the financial statements and notes focused on grouping items based on their shared characteristics. The new standard will also require disclosure of management-defined performance measures with a reconciliation to the related financial statement line item.

IFRS 19 – Subsidiaries without Public Accountability: Disclosures

In May 2024, the IASB issued 'Subsidiaries and Disclosure in Financial Statements' to enable certain eligible subsidiaries to apply reduced disclosure requirements that better balance the needs of the financial statement users amidst the rigidity of the full-scale disclosure requirements.

Use of Estimates

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses, as well as amounts included in the notes thereto, including discussion and disclosure of contingent liabilities. Although the Company uses its best estimates and judgments, actual results could differ from these estimates as future confirming events occur.

3. Critical Accounting Estimates and Judgments

The preparation of the Financial Statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies, the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Actual results could differ from these estimates. These estimates and underlying assumptions are reviewed on a continuous basis. Changes in these accounting estimates are recognized in the period in which the estimates were revised and in any future periods affected. The company has reviewed and has no critical accounting estimates and judgement.

4. Commitments and Contingencies

Varel, in its global operations, is involved from time to time in legal and regulatory proceedings, which may be material in the future. The outcome of proceedings, lawsuits and claims may differ from our expectations and estimated liabilities, leading Varel to change estimates of liabilities and related insurance receivables.

Legal and regulatory proceedings, whether with or without merit, and associated internal investigations, may be time-consuming and expensive to prosecute, defend or conduct, may divert management's attention and other resources, inhibit our ability to sell our products, result in

DHP Varel, Inc.
Notes to Financial Statements
Years Ended December 31, 2023 and 2022

(tables in thousands of dollars, except for share and per share amounts)

adverse judgments for damages, injunctive relief, penalties and fines, and otherwise negatively affect our business.

Where appropriate, Varel may establish financial reserves for such proceedings. Varel also maintains insurance to mitigate certain of such risks. Costs for legal services are generally expensed as incurred.

DHP Varel, Inc.
Notes to Financial Statements
Years Ended December 31, 2023 and 2022

(tables in thousands of dollars, except for share and per share amounts)

5. Material Subsidiaries and Associates

Functional currencies of the Company other than the US Dollar ("USD") include Mexican Peso ("MXN"), Canadian Dollar ("CAD"), Central African CFA Franc ("XAF"), Chinese Yuan ("CNY"), Indian Rupee ("INR"), United Arab Emirates Dirham ("AED"), Malaysian Ringgit ("MYR"), and

Pound Sterling ("GBP"). Below is a list of material subsidiaries and associates of the Company and ownership share as of December 31, 2023.

Entity	Country	Ownership %	Currency
Varel Oil and Gas, Inc.	United States	Ultimate Parent	USD
Varel International Energy Services, Inc.	United States	Parent	USD
Downhole Products UK Holdco II Limited	United Kingdom	100%	USD
Downhole Products UK Holdco Limited	United Kingdom	100%	USD
Downhole Products Limited	United Kingdom	100%	USD
Downhole Products Middle East Fze	The United Arab Emirates	100%	AED
Down Hole Products Asia Sdn Bhd	Malaysia	100%	MYR
Down Hole Products Holdings, USA, Inc.	United States	100%	USD
Aberdeen Products, Inc.	United States	100%	USD
Ian Hay Engineering Limited	United Kingdom	100%	GBP
Smooth Team Investments Limited	Hong Kong	100%	GBP
SledgeHammer Oil Tools Pvt. Ltd.	India	78%	INR
SledgeHammer Gulf - LLC	India	49%	INR
SledgeHammer Oil Tools International Company	India	33%	INR
SledgeHammer Gulf DMCC	Dubai	100%	INR
SledgeHammer Americas Inc.	Texas	100%	INR

The Company owns 10,100 of common shares of DP UK at £0.0001 par value.

6. Member Capital and Reserves

Common Shares	2023	2022
Outstanding at January 1	10	10
Issued	-	-
Outstanding at December 31	10	10
Authorized - par value per share	\$ 0.01	\$ 0.01

7. Subsequent Events

The Company has evaluated subsequent events through February 13, 2025, the date that the Financial Statements were available for issuance. There were no subsequent events to report.

Downhole Products UK Holdco II Limited

Annual report and financial statements

Registered number SC340395

For the year ended 31 December 2022

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Directors' report

The directors present their report and the unaudited financial statements for the year ended 31 December 2022

Principal risks and activities

Downhole Products UK Holdco II Limited did not trade, received no income and incurred no expenses.

Proposed dividend

The directors do not propose the payment of a final ordinary dividend (2021: \$Nil).

Directors

The directors who held office during the year and subsequently were as follows:

M Gandy	Appointed 12 th July 2022
G Cooper	Resigned 12 th July 2022
D Nixon	Appointed 23 rd June 2023
M Gandy	Resigned 10 th August 2023
W Leblanc	Appointed 10 th August 2023

Political contributions

The Company has not made any political donations or incurred any political expenditure during the year.

Auditor

In accordance with section 480 of the Companies Act 2006, the company was entitled to exemption from the requirement to have its financial statements for the financial year ended 31st December 2022 audited.

By order of the board



Derek Nixon
Director

c/o Brodies LLP
Capital Square
58 Morrison Street
Edinburgh EH3 8BP

20th December 2023

Statement of directors' responsibilities in respect of the directors' report and the financial statements

The directors are responsible for preparing the strategic report, the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with IFRS as adopted by the EU and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business. (As explained in note 1, the directors do not believe that it is appropriate to prepare the financial statements on a going concern basis).

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

For the year ended 31 December 2022 the company was entitled to exemption from audit under section 480 of the Companies Act 2006 relating to dormant companies. Members have not required the company to obtain an audit of its accounts for the year in question in accordance with section 476. The directors acknowledge their responsibilities for complying with the requirements of the Act with respect to the accounting records and the preparation of the accounts.

Statement of profit and loss and other comprehensive income
for the year ended 31 December 2022

During the current and preceding financial years, the company did not trade and received no income and incurred no expenditure. Consequently, during those years the company made neither a profit nor a loss.
The notes on pages 5 to 7 form part of the financial statements.

Statement of financial position

For the year ended 31 December 2022

	Note	2022 \$000	2021 \$000
Fixed assets			
Trade and other receivables	3	<u>9,519</u>	<u>9,519</u>
Net Assets		<u>9,519</u>	<u>9,519</u>
Equity			
Share Premium		<u>9,519</u>	<u>9,519</u>
Total equity		<u>9,519</u>	<u>9,519</u>

The company was dormant throughout the financial period.

For the year ended 31 December 2022, the company was entitled to exemption from audit under section 480 of the Companies Act 2006 relating to dormant companies and the members have not required the company to obtain an audit of its accounts for the year in accordance with section 476 of the Companies Act 2006.

The director's acknowledge their responsibility for complying with the requirements of the Companies Act 2006 with respect to accounting records and for the preparation of accounts.

These financial statements were approved by the board of directors on 20 December 2023 and were signed on its behalf by:



Derek Nixon
Director

Company registered number SC340395

The notes on pages 5 to 7 form part of the financial statements.

Notes

1 Accounting policies

Downhole Products UK Holdco II Limited is a company incorporated and domiciled in the UK. The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of preparation

The Company financial statements have been prepared in US Dollars and in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101). The presentation currency of these financial statements is US Dollars. All amounts in the financial statements have been rounded to the nearest \$1,000 (except where stated otherwise). The amendments to FRS 101 (2014/15 Cycle) have been applied.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs") but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions have been taken.

In these Company financial statements, the company has applied the exemptions available under the Varel Oil and Gas Intermediate Holdings, Inc. group consolidated accounts, which includes the company in its consolidated financial statements.

The Company has also taken advantage of the available FRS 101 disclosure exemptions in relation to the following:

- A Cash Flow Statement and related notes;
- Comparative period reconciliations for share capital, tangible fixed assets and intangible assets;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs; and
- Disclosures in respect of the compensation of Key Management Personnel.

The Company has adopted S. 401 of the Companies Act 2006 providing exemption from consolidation of subsidiary accounts.

The Company's ultimate parent undertaking is Bluewater Private Equity whilst Sandvik venture AB and Nixon Energy hold minority shares.

The consolidated financial statements of Varel Oil & Gas Intermediate Holdings, Inc include the disclosures required by IAS 36 Impairment of assets, and IFRS 7 Financial Instruments: Disclosures and IFRS 13 Fair Value Measurements, both relating to financial instruments. As a consequence, the Company has also taken the exemptions under FRS 101 not to include the equivalent disclosures in respect of the impairment of goodwill and financial instruments apart from those which are relevant for financial instruments held at fair value and are not either held as part of a trading portfolio or derivatives.

The company proposes to continue to adopt the reduced disclosure framework of FRS 101 in its next financial statements.

Going concern

The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the directors believe that it remains appropriate to prepare the financial statements on the going concern basis.

Investments

The Investments in subsidiary undertakings and joint ventures are stated at cost less any amounts written off.

Notes (continued)

2 Directors and employees

The company had no employees other than its directors. None of the directors received any remuneration from the company during the year to 31 December 2022 (2021: \$Nil).

3 Fixed asset investments

	2022 \$000	2021 \$000
Cost		
At the beginning of year	9,519	9,519
Merger	-	-
Disposals	-	-
At end of year	<u>9,519</u>	<u>9,519</u>
Net book value	<u>9,519</u>	<u>9,519</u>

The company's subsidiary undertakings at the year-end were as follows:

Subsidiary undertaking	Registered office address	Country of incorporation	Class and percentage of shares held
Downhole Products UK Holdco Limited	c/o Brodies LLP, Capital Square, 58 Morrison Street, Edinburgh, EH3 8BP	Scotland	Ordinary 100%
Downhole Products Limited*	c/o Brodies LLP, Capital Square, 58 Morrison Street, Edinburgh, EH3 8BP	Scotland	Ordinary 100%
Ian Hay (Engineering) Limited	c/o Brodies LLP, Capital Square, 58 Morrison Street, Edinburgh, EH3 8BP	Scotland	Ordinary 100%
Downhole Products Holdings USA Inc*	Corporation Service Company, 251 Little Falls Drive, Wilmington, DE 19808	USA	Ordinary 100%
Aberdeen Products Inc (d/b/a DHP USA and/or VES)*	Capitol Corporate Services, Inc., 1501 S MOPAC EXPY STE 220, Austin, TX 78746	USA	Ordinary 100%
Downhole Products Asia Sdn Bhd*	Menara Binja, Level 09-04, No 2 Jalan Binjai, 50450, Kuala Lumpur	Malaysia	Ordinary 100%
Downhole Products Middle East Fze*	JAFZA 16, Jebel Ali, Dubai Flal/Rrn 702	Dubai	Ordinary 100%
Smooth Team Investments Limited*	7/F United Building, 17-19 Jubilee Street, Hong Kong	Hong Kong	Ordinary 100%

During 2022, the company acquired 78% of the share capital of Sledgehammer Oil & Tools Private Ltd.

* - Indirectly owned

Notes (continued)

5 Share capital

	2022 \$	2021 \$
<i>Authorised:</i>		
<i>Allotted, called up and fully paid:</i>		
10,100 Ordinary shares of \$0.0001 each	<u>1</u>	<u>1</u>

6 Ultimate parent company

The immediate parent undertaking is Investec Investments (UK) Limited. In 2020, 10,100 Ordinary shares were transferred from DHP Varel Inc, which had previously been the immediate parent undertaking.

The Company's ultimate parent undertaking is Bluewater Private Equity whilst Sandvik venture AB and Nixon Energy hold minority shares.

The largest group in which the results of the Company are consolidated is that headed by Varel Oil and Gas Intermediate holdings, Inc, incorporated in USA. No other group financial statements include the results of the company.

**Appendix 21: Financial statements as of and for the financial year ended 31 December 2023 for
Downhole Products UK Holdco II Limited**

Downhole Products UK Holdco II Limited

Annual report and financial statements

Registered number SC340395

For the year ended 31 December 2023

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Directors' report

The directors present their report and the financial statements for the year ended 31 December 2023

Principal risks and activities

Downhole Products UK Holdco II Limited did not trade, received no income and incurred no expenses. The principal activity of the company is that of an investment company which holds an investment in Downhole Products UK Holdco Limited.

Proposed dividend

The directors do not propose the payment of a final ordinary dividend (2022: \$Nil).

Directors

The directors who held office during the year and subsequently were as follows:

D Nixon	Appointed 23 rd June 2023
M Gandy	Resigned 10 th August 2023
W Leblanc	Appointed 10 th August 2023

Political contributions

The Company has not made any political donations or incurred any political expenditure during the year.

Going concern

The Directors have a reasonable expectation that the Company has adequate resources to continue operations for at least 12 months from the authorisation of the financial statements. For that reason, they continue to adopt the going concern basis in the preparation of the financial statements. The financial statements do not include the adjustments that would result if the company were unable to continue as a going concern

Independent Auditors

In accordance with section 480 of the Companies Act 2006, the company was entitled to exemption from the requirement to have its financial statements audited however the directors have requested the audit of the financial statements for the financial year ended 31st December 2023. PricewaterhouseCoopers LLP have been appointed as auditors. Prior year balances for 2022 have not been audited

By order of the board



Witland Leblanc Jr
Director

c/o Brodies LLP
Capital Square
58 Morrison Street
Edinburgh EH3 8BP

12 February 2025

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently.
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements.
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Directors' confirmations

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

On behalf of the Board



Witland James Leblanc Jr
Director

c/o Brodies LLP
Capital Square
Morrison Street
Edinburgh
EH3 8HA
12 February 2025

Independent auditors' report to the members of Downhole Products UK Holdco II Limited

Report on the audit of the financial statements

Opinion

In our opinion, Downhole Products UK Holdco II Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2023 and of its result for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and financial statements (the "Annual Report"), which comprise: the Balance sheet as at 31 December 2023; the Statement of Comprehensive Income and the Statement of changes in equity for the year then ended; and the notes to the financial statements, comprising material accounting policy information and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Directors' report for the year ended 31 December 2023 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise

from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to UK Corporation tax legislation and the Companies Act 2006, and we considered the extent to which non-compliance might have a material effect on the financial statements. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting of inappropriate manual journals. Audit procedures performed by the engagement team included:

- Discussions with management, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- Review of minutes of meeting of Board of Directors; and
- Identifying and testing journal entries in response to the risk of management override.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Entitlement to exemptions

Under the Companies Act 2006 we are required to report to you if, in our opinion, the directors were not entitled to: take advantage of the small companies exemption from preparing a strategic report. We have no exceptions to report arising from this responsibility.

Other matter

The financial statements for the year ended 31 December 2022, forming the corresponding figures of the financial statements for the year ended 31 December 2023, are unaudited.

A handwritten signature in black ink that reads "Alistair Rose". The signature is fluid and cursive, with the first name and last name clearly distinguishable.

Alistair Rose (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Aberdeen
12 February 2025

Statement of Comprehensive Income

for the year ended 31 December 2023

During the current and preceding financial years, the company did not trade and received no income and incurred no expenditure. Consequently, during those years the company made neither a profit nor a loss.

Balance sheet
at 31 December 2023

	Note	2023	2022
		\$000	\$000
Fixed assets			
Fixed Asset Investments	3	<u>9,519</u>	<u>9,519</u>
Net Assets		<u>9,519</u>	<u>9,519</u>
Equity			
Share Premium		<u>9,519</u>	<u>9,519</u>
Total Shareholders' funds		<u>9,519</u>	<u>9,519</u>

The company was dormant throughout the financial period.

The directors acknowledge their responsibility for complying with the requirements of the Companies Act 2006 with respect to accounting records and for the preparation of accounts.

For the year ended 31 December 2023, the company was entitled to exemption from audit under section 480 of the Companies Act 2006 relating to dormant companies however the members have requested the company to obtain an audit of its accounts for the year.

The notes on pages 10 to 13 form part of the financial statements. These financial statements on pages 7 to 13 were approved by the board of directors on 12 February 2025 and were signed on its behalf by:



Witland Leblanc Jr
Director

Statement of changes in equity

	Profit and loss account \$000	Share premium \$000	Total Equity \$000
Balance at 1 January 2022	-	9,519	9,519
Total comprehensive income for the period			
Result	-	-	-
Other comprehensive income	-	-	-
Total comprehensive income for the period	-	-	-
Balance at 31 December 2022	-	9,519	9,519

	Profit and loss account \$000	Share premium \$000	Total Equity \$000
Balance at 1 January 2023	-	9,519	9,519
Total comprehensive income for the period			
Result	-	-	-
Other comprehensive income	-	-	-
Total comprehensive income for the period	-	-	-
Balance at 31 December 2023	-	9,519	9,519

Notes

1 Material accounting policies

Downhole Products UK Holdco II Limited is a company incorporated and domiciled in Scotland, UK. The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of preparation

The Company financial statements have been prepared in US Dollars and in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) under historical cost convention. All amounts in the financial statements have been rounded to the nearest \$1,000 (except where stated otherwise).

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies.

The Company has adopted S.401 of the Companies Act 2006 providing exemption from consolidation of subsidiary financial statement. The Company's ultimate parent undertaking is Blue Water Energy LLP whilst Sandvik AB and Nixon Energy hold minority shares. The Company's Parent company, Varel Oil and Gas Intermediate Holdings, Inc includes the Company in its consolidated financial statements.

The consolidated financial statements of Varel Oil and Gas Intermediate Holdings, Inc are prepared in accordance with International Financial Reporting Standards as issued by the IASB and are published at the date of approval of the financial statements.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements in accordance with the Companies Act 2006 as applicable to companies using FRS 101:

- Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payment' (details of the number and weighted average exercise prices of share options, and how the fair value of goods or services received was determined).
- IFRS 7, 'Financial instruments: Disclosures'.
- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities).
- Paragraph 38 of IAS 1, 'Presentation of financial statements' – comparative information requirements in respect of:
 - paragraph 79(a)(iv) of IAS 1;
 - paragraph 73I of IAS 16, 'Property, plant and equipment'; and
 - paragraph 118I of IAS 38, 'Intangible assets' (reconciliations between the carrying amount at the beginning and end of the year).
- The following paragraphs of IAS 1, 'Presentation of financial statements':
 - 10(d) (statement of cash flows);
 - 16 (statement of compliance with all IFRS);
 - 38A (requirement for minimum of two primary statements, including cash flow statements);
 - 38B-D (additional comparative information);
 - 40A, 40B, 40C, 40D (change in accounting policy, retrospective restatement or reclassification);
 - 111 (statement of cash flows information); and
 - 134-136 (capital management disclosures).
- IAS 7, 'Statement of cash flows'.
- Paragraphs 30 and 31 of IAS 8, 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective).
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation).
- The requirements in IAS 24, 'Related party disclosures', to disclose related party transactions entered into between two or more members of a group.

The Company has adopted S. 401 of the Companies Act 2006 providing exemption from consolidation of subsidiary accounts.

Notes (continued)

The Company's ultimate parent undertaking is Blue Water Energy LLP whilst Sandvik venture AB and Nixon Energy hold minority shares.

The consolidated financial statements of Varel Oil & Gas Intermediate Holdings, Inc include the disclosures required by IAS 36 Impairment of assets, and IFRS 7 Financial Instruments: Disclosures and IFRS 13 Fair Value Measurements, both relating to financial instruments. As a consequence, the Company has also taken the exemptions under FRS 101 not to include the equivalent disclosures in respect of the impairment of goodwill and financial instruments apart from those which are relevant for financial instruments held at fair value and are not either held as part of a trading portfolio or derivatives.

The company proposes to continue to adopt the reduced disclosure framework of FRS 101 in its next financial statements.

Going concern

The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the directors believe that it remains appropriate to prepare the financial statements on the going concern basis.

In the event that the Company requires assistance to meet its financial obligations, the Group would be able to provide support to the Company. The directors have received a letter of support from Varel Oil & Gas Intermediate Holdings, Inc confirming it will provide financial support to the Company that will not be withdrawn during a period of 12 months from the date of authorisation of the financial statements, in order to allow the Company to continue to operate as a going concern.

Investments in subsidiary undertakings

Investments in subsidiary undertakings are considered for indications of impairment. If indicators of impairment are identified an impairment review will be carried out and a decision taken on possible impairment. Factors taken into account in reaching such a decision include the economic viability and expected future financial performance of the asset and where it is a component of a larger cash-generating unit, the viability and expected future performance of that unit. No indicators of impairment were identified in the year

2 Remuneration of directors

The remuneration of the directors in office during 2023 was borne by the parent company.

3 Fixed asset investments

	2023 \$000	2022 \$000
<i>Cost</i>		
At the beginning of year	9,519	9,519
Disposals	-	-
At end of year	<u>9,519</u>	<u>9,519</u>
<i>Net book value</i>	<u>9,519</u>	<u>9,519</u>

Notes (continued)

The company's subsidiary undertakings at the year-end were as follows:

Subsidiary undertaking	Registered office address	Country of incorporation	Class and percentage of shares held
Downhole Products UK Holdco Limited	c/o Brodies LLP, Capital Square, 58 Morrison Street, Edinburgh, EH3 8BP	Scotland	Ordinary 100%
Downhole Products Limited*	c/o Brodies LLP, Capital Square, 58 Morrison Street, Edinburgh, EH3 8BP	Scotland	Ordinary 100%
Ian Hay (Engineering) Limited*	c/o Brodies LLP, Capital Square, 58 Morrison Street, Edinburgh, EH3 8BP	Scotland	Ordinary 100%
Downhole Products Holdings USA Inc*	Corporation Service Company, 251 Little Falls Drive, Wilmington, DE 19808	USA	Ordinary 100%
Aberdeen Products Inc (d/b/a DHP USA and/or VES)*	Capitol Corporate Services, Inc., 1501 S MOPAC EXPY STE 220, Austin, TX 78746	USA	Ordinary 100%
Downhole Products Asia Sdn Bhd*	Menara Binja, Level 09-04, No 2 Jalan Binjai, 50450, Kuala Lumpur	Malaysia	Ordinary 100%
Downhole Products Middle East Fze*	JAFZA 16, Jebel Ali, Dubai Fla1/Rm 702	Dubai	Ordinary 100%
Smooth Team Investments Limited*	7/F United Building, 17-19 Jubilee Street, Hong Kong	Hong Kong	Ordinary 100%
Sledgehammer Oil Tools Pvt Limited*	262I, K,L, Sector 24, Faridabad (Haryana), 121005	India	Ordinary 78%

* Indirectly owned

4 Share capital

	2023 \$	2022 \$
Authorised:		
Allotted, called up and fully paid:		
10,100 Ordinary shares of \$0.0001 each	<u>1</u>	<u>1</u>

Notes (*continued*)

5 Ultimate parent company

At 31 December 2023 the immediate parent undertaking was Investec Investments (UK) Limited. In 2020, 10,100 Ordinary shares were transferred from Blue Water Energy LLP, which had previously been the immediate parent undertaking.

In April 2024, Blue Water Energy LLP was reinstated as the parent undertaking with significant control. The Company's ultimate parent undertaking is Blue Water Energy LLP whilst Sandvik Venture AB and Nixon Energy hold minority shares.

The largest group in which the results of the Company are consolidated is that headed by Varel Oil and Gas Intermediate holdings, Inc incorporated in USA. No other group financial statements include the results of the company.

**Appendix 22: Financial statements as of and for the financial year ended 31 December 2022 for
Downhole Products UK Holdco Limited**

Downhole Products UK Holdco Limited

Annual report and financial statements
Registered number SC340137
31 December 2022



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Statement of profit and loss and other comprehensive Income	4
Statement of Financial Position	5
Statement of Equity	6
Notes	7

Directors' report

The directors present their report and the unaudited financial statements for the year ended 31 December 2022.

Principal risks and activities

Downhole Products UK Holdco Limited did not trade, received no income and incurred no expenses.

Proposed dividend

The directors do not propose the payment of a final ordinary dividend (2021: £Nil).

Directors

The directors who held office during the year and subsequently were as follows:

G Cooper	Resigned 12 th July 2022
M Gandy	Appointed 12 th July 2022
D Nixon	Appointed 23 June 2023
M Gandy	Resigned 10 th August 2023
W Leblanc	Appointed 10 th August 2023

Political contributions

The Company has not made any political donations or incurred any political expenditure during the year.

Auditor

In accordance with section 480 of the Companies Act 2006, the company was entitled to exemption from the requirement to have its financial statements for the financial year ended 31st December 2022 audited.

By order of the board



Derek Nixon
Director

c/o Brodies LLP
Capital Square
58 Morrison Street
Edinburgh EH3 8BP

20 December 2023

Statement of directors' responsibilities in respect of the directors' report and the financial statements

The directors are responsible for preparing the strategic report, the directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with IFRS as adopted by the EU and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business. (As explained in note 1, the directors do not believe that it is appropriate to prepare the financial statements on a going concern basis).

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

For the year ended 31 December 2021 the company was entitled to exemption from audit under section 480 of the Companies Act 2006 relating to dormant companies. Members have not required the company to obtain an audit of its accounts for the year in question in accordance with section 476 of the Companies Act 2006. The directors acknowledge their responsibilities for complying with the requirements of the Act with respect to the accounting records and the preparation of the accounts.

Statement of Comprehensive Income
for the period ended 31 December 2022

During the current and preceding financial years, the company did not trade and received no income and incurred no expenditure. Consequently, during those years the company made neither a profit nor a loss.
The notes on pages 5 to 7 form part of the financial statements.

Balance sheet
at 31 December 2022

	<i>Note</i>	31 December 2022		31 December 2021	
		\$000	\$000	\$000	\$000
Fixed assets					
Investments	5		50,857		50,857
Current assets					
Debtors	7	1,001		1,001	
		<u>1,001</u>		<u>1,001</u>	
Creditors: amounts falling due within one year	8	(40,286)		(38,984)	
Net current liabilities			<u>(39,285)</u>		<u>(37,983)</u>
Creditors: amounts falling due after more than one year	9		-		(1,302)
Net assets / (liabilities)			<u>11,572</u>		<u>11,572</u>
Capital and reserves					
Called up share capital	10		-		-
Capital contribution reserve			8,535		8,535
Share premium account			-		-
Retained Earnings			<u>3,037</u>		<u>3,037</u>
Shareholders' funds			<u>11,572</u>		<u>11,572</u>

For the year ended 31 December 2022, the company was entitled to exemption from audit under section 480 of the Companies Act 2006 relating to dormant companies and the members have not required the company to obtain an audit of its accounts for the year in accordance with section 476 of the Companies Act 2006.

The directors acknowledge their responsibility for complying with the requirements of the Companies Act 2006 with respect to accounting records and for the preparation of accounts.

These financial statements were approved by the board of directors on 20 December 2023 and were signed on its behalf by:



Derek Nixon
Director

Company registered number SC340137

The notes on pages 7 to 13 form part of the financial statements

Statement of changes in equity

	Called up share capital \$000	Capital contribution reserve \$000	Profit and loss account \$000	Share premium \$000	Total Equity \$000
Balance at 1 January 2021	-	8,535	3,037	-	11,572
Total comprehensive income for the period					
Result	-	-	-	-	-
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	-
Reduction of share capital	-	-	-	-	-
Balance at 31 December 2021	-	8,535	3,037	-	11,572

	Called up share capital \$000	Capital contribution reserve \$000	Profit and loss account \$000	Share premium \$000	Total Equity \$000
Balance at 1 January 2022	-	8,535	3,037	-	11,572
Total comprehensive income for the period					
Result	-	-	-	-	-
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	-
Reduction of share capital	-	-	-	-	-
Balance at 31 December 2022	-	8,535	3,037	-	11,572

Notes

1 Accounting policies

Downhole Products UK Holdco Limited is a company incorporated and domiciled in the UK. The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of preparation

The Company financial statements have been prepared in pounds sterling and in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101). The presentation currency of these financial statements is US Dollars. All amounts in the financial statements have been rounded to the nearest \$1,000 (except where stated otherwise). The amendments to FRS 101 (2015/15 Cycle) have been applied.

The company's financial statements have been prepared in US Dollars and in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) under the historical cost convention.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

In these Company financial statements, the company has applied the exemptions available under the company's ultimate holding company Varel Oil & Gas Holdings, Inc which includes the company in its consolidated financial statements.

The Company has also taken advantage of the available FRS 101 disclosure exemptions in relation to the following:

- A Cash Flow Statement and related notes;
- Comparative year reconciliations for share capital, tangible fixed assets and intangible assets;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs; and
- Disclosures in respect of the compensation of Key Management Personnel.

The Company has adopted S. 401 of the Companies Act 2006 providing exemption from consolidation of subsidiary accounts.

The Company's ultimate parent undertaking is Bluewater Private Equity whilst Sandvik venture AB and Nixon Energy hold minority shares.

Standards, amendments and interpretations effective in the year

IFRS 16 is a new accounting standard that was effective for the year ended 31 December 2021 which had no material impact on the company.

Notes (continued)

1 Accounting policies (continued)

Going Concern

As at 31 December 2022, the Company has an intercompany payable balance with Downhole Products Limited of \$40,286,625. The intercompany loan is unsecured, interest free and repayable on demand.

The directors believe that preparing the accounts on the going concern basis is appropriate due to the continued financial support of the company's subsidiary Downhole Products Limited. The director has received confirmation that Downhole Products Limited intends to support the Company and not seek repayment of the intercompany loan due by the Company to Downhole Products Limited for at least one year after these financial statements are signed.

Investments

Investments in subsidiary undertakings are shown at cost, less provision for any impairment.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other debtors, cash and cash equivalents, loans and borrowings, and trade and other creditors.

Trade and other debtors

Trade and other debtors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and other creditors

Trade and other creditors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Investments in jointly controlled entities, associates and subsidiaries are carried at cost less impairment.

Impairment excluding stocks, and deferred tax assets

Financial assets (including trade and other debtors)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the Company would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Notes (continued)

Classification of financial instruments issued by the company

Following the adoption of IAS 32, financial instruments issued by the Company are treated as equity only to the extent they meet the following two conditions:

(a) they include no contractual obligations upon the Company to deliver cash or other financial assets, or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and

(b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments, or is a derivative that will be settled by the Company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Critical estimates and judgments

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

Investments in subsidiary undertakings

Investments in subsidiary undertakings are stated at cost, less any provision for diminution in value. Investments are tested for impairment annually by comparing the value of the investments to the net assets of the subsidiary that the investment is held in. If these net assets are not sufficient then a comparison to the forecast discounted future cash flows of the entity is performed to assess whether this is sufficient to support the level of the asset. In cases where the full amount of the asset is not supported by this forecasted amount then a provision is recorded for the value of the asset that is not supportable.

2 Net profit / result before taxation

Included in the profit and loss are the following:

	2022 \$000	2021 \$000
<i>Auditors' remuneration:</i>		
Audit of these financial statements (*)	-	-
Amounts receivable by the company's auditors and their associates in respect of:		
Other services relating to taxation	-	-
	<hr/>	<hr/>

* The auditors' fees are borne by another group company.

3 Remuneration of director

The directors are also directors of a number of other companies within the group for which they carry on work. They are paid by Varel International (VIES).

4 Staff numbers and costs

The company has no employees (2021: nil).

Notes (continued)

5 Investments

Fixed asset investments

Investments in group companies

At cost and net book value

Investment in Downhole Products Limited at beginning and end of year 2022
\$000

50,857

The company's subsidiary undertakings at the year-end were as follows:

Subsidiary undertaking	Registered office address	Country of incorporation	Class and percentage of shares held
Downhole Products UK Holdco Limited	c/o Brodies LLP, Capital Square, 58 Morrison Street, Edinburgh, EH3 8BP	Scotland	Ordinary 100%
Downhole Products Limited*	c/o Brodies LLP, Capital Square, 58 Morrison Street, Edinburgh, EH3 8BP	Scotland	Ordinary 100%
Ian Hay (Engineering) Limited	c/o Brodies LLP, Capital Square, 58 Morrison Street, Edinburgh, EH3 8BP	Scotland	Ordinary 100%
Downhole Products Holdings USA Inc*	Capitol Services Inc, 1675S States Street, Suite 8, Dover, Delaware 19901	USA	Ordinary 100%
Aberdeen Products Inc trading as Downhole Products USA*	Capitol Corporate Services, 206E 9th Street, Suite 1300, Austin, Texas	USA	Ordinary 100%
Downhole Products Asia Sdn Bhd*	Menara Binja, Level 09-04, No 2 Jalan Binjai, 50450, Kuala Lumpur	Malaysia	Ordinary 100%
Downhole Products Middle East Fze*	JAFZA 16, Jebel Ali, Dubai Flal/Rm 702	Dubai	Ordinary 100%
Smooth Team Investments Limited*	7/F United Building, 17-19 Jubilee Street, Hong Kong	Hong Kong	Ordinary 100%

During 2022, the company acquired 78% of the share capital of sledgehammer Oil & Tools Private Ltd

* - Indirectly owned

On 29 October 2013, Downhole Products Limited, a subsidiary of the company, acquired the remaining 50% shareholding of Smooth Team Investments to take full control and ownership of this company.

Value-in-use calculations have been prepared for the assessment of the company's investment carrying value using the cash flow projections included in the financial budgets prepared by management and approved by the Board for 2022. The budget is based on various assumptions including market outlook, resource utilisation, contract backlog, contract margins and assumed contract awards. Adjusted EBITA growth assumed in the 2022 business unit budgets is expected to remain in line with 2021. Short term growth rates have been assumed of 16% per annum for 2023 as activity normalises to pre-covid levels and 5% in 2024 and 2025. A long-term growth rate of 3% has been assumed in the calculation of the terminal value. The cash flows have been discounted using a pre-tax discount rate of 10%.

Notes (continued)

6 Ultimate parent company

The immediate parent undertaking is Investec Investments (UK) Limited. In 2020, 101 Ordinary shares were transferred from Downhole Products UK Holdco II Limited, which had previously been the immediate parent undertaking.

The Company's ultimate parent undertaking is Bluewater Private Equity whilst Sandvik AB and Nixon Energy hold minority shares.

The largest group in which the results of the Company are consolidated is that headed by Varel Oil and Gas Intermediate holdings, Inc, incorporated in USA. No other group financial statements include the results of the company.

7 Debtors

	2022 \$000	2021 \$000
Amount due by group undertaking	1,001	1,001
	<u>1,001</u>	<u>1,001</u>

8 Creditors: amounts falling due within one year

	2022 \$000	2021 \$000
Amounts owed to group undertakings	40,286	38,984
	<u>40,286</u>	<u>38,984</u>

9 Creditors: amounts falling due after more than 1 year

	2022 \$000	2021 \$000
Amounts owed to group undertakings	-	1,302
	<u>-</u>	<u>1,302</u>

Notes (continued)

10 Called up share capital

	2022	2021
	\$	\$
<i>Allotted and called up</i>		
101 (2021: 101) Ordinary shares of \$0.01 each	1	1
	<u>1</u>	<u>1</u>

11 Controlling parties

The immediate parent undertaking is Downhole Products UK Holdco II Limited.

The Company's ultimate parent undertaking is Bluewater Private Equity whilst Sandvik Venture AB and Nixon Energy hold minority shares.

The largest group in which the results of the Company are consolidated is that headed by Varel Oil and Gas holdings, Inc, incorporated in USA. No other group financial statements include the results of the company.

**Appendix 23: Financial statements as of and for the financial year ended 31 December 2023 for
Downhole Products UK Holdco Limited**

Downhole Products UK Holdco Limited

Annual report and financial statements

Registered number SC340137

31 December 2023

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Directors' report

The directors present their report and the financial statements for the year ended 31 December 2023.

Principal risks and activities

Downhole Products UK Holdco Limited did not trade, received no income and incurred no expenses. The principal activity of the company is that of an investment company which holds an investment in Downhole Products Limited.

Proposed dividend

The directors do not propose the payment of a final ordinary dividend (2022: £Nil).

Directors

The directors who held office during the year and subsequently were as follows:

D Nixon	Appointed 23 June 2023
M Gandy	Resigned 10 th August 2023
W Leblanc	Appointed 10 th August 2023

Political contributions

The Company has not made any political donations or incurred any political expenditure during the year.

Going concern

The Directors have a reasonable expectation that the Company has adequate resources to continue operations for at least 12 months from the authorisation of the financial statements. For that reason, they continue to adopt the going concern basis in the preparation of the financial statements. The financial statements do not include the adjustments that would result if the company were unable to continue as a going concern

Independent Auditors

In accordance with section 480 of the Companies Act 2006, the company was entitled to exemption from the requirement to have its financial statements audited however the directors have requested the audit of the financial statements for the financial year ended 31st December 2023. PricewaterhouseCoopers LLP have been appointed as auditors. Prior year balances for 2022 have not been audited.

By order of the board



Witland Leblanc Jr
Director

c/o Brodies LLP
Capital Square
58 Morrison Street
Edinburgh EH3 8BP
12 February 2025

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently.
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements.
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Directors' confirmations

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

On behalf of the Board



Witland James Leblanc Jr
Director

c/o Brodies LLP
Capital Square
Morrison Street
Edinburgh
EH3 8HA
12 February 2025

Independent auditors' report to the members of Downhole Products UK Holdco Limited

Report on the audit of the financial statements

Opinion

In our opinion, Downhole Products UK Holdco Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2023 and of its result for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and financial statements (the "Annual Report"), which comprise: the Balance sheet as at 31 December 2023; the Statement of Comprehensive Income and the Statement of changes in equity for the year then ended; and the notes to the financial statements, comprising material accounting policy information and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Directors' report for the year ended 31 December 2023 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to UK Corporation tax legislation and the Companies Act 2006, and we considered the extent to which non-compliance might have a material effect on the financial statements. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting of inappropriate manual journals. Audit procedures performed by the engagement team included:

- Discussions with management, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- Review of minutes of meeting of Board of Directors; and
- Identifying and testing journal entries in response to the risk of management override.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

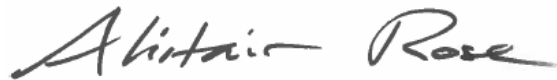
We have no exceptions to report arising from this responsibility.

Entitlement to exemptions

Under the Companies Act 2006 we are required to report to you if, in our opinion, the directors were not entitled to: take advantage of the small companies exemption from preparing a strategic report. We have no exceptions to report arising from this responsibility.

Other matter

The financial statements for the year ended 31 December 2022, forming the corresponding figures of the financial statements for the year ended 31 December 2023, are unaudited.

A handwritten signature in black ink that reads "Alistair Rose". The signature is fluid and cursive, with the first name and last name clearly distinguishable.

Alistair Rose (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Aberdeen
12 February 2025

Financial Statements

Statement of Comprehensive Income

for the period ended 31 December 2023

During the current and preceding financial years, the company did not trade and received no income and incurred no expenditure. Consequently, during those years the company made neither a profit nor a loss.

Balance sheet
at 31 December 2023

	<i>Note</i>	31 December 2023		31 December 2022	
		\$000	\$000	\$000	\$000
Fixed assets					
Investments	5		50,857		50,857
Current assets					
Debtors	6	1,001		1,001	
		<u>1,001</u>		<u>1,001</u>	
Creditors: amounts falling due within one year	7	(40,286)		(40,286)	
Net current liabilities			<u>(39,285)</u>		<u>(39,285)</u>
Creditors: amounts falling due after more than one year			-		-
Net assets / (liabilities)			<u>11,572</u>		<u>11,572</u>
Capital and reserves					
Called up share capital	8		-		-
Capital contribution reserve			8,535		8,535
Share premium account			-		-
Retained Earnings			<u>3,037</u>		<u>3,037</u>
Total Shareholders' funds			<u>11,572</u>		<u>11,572</u>

The directors acknowledge their responsibility for complying with the requirements of the Companies Act 2006 with respect to accounting records and for the preparation of accounts.

For the year ended 31 December 2023, the company was entitled to exemption from audit under section 480 of the Companies Act 2006 relating to dormant companies however the members have requested the company to obtain an audit of its accounts for the year.

The notes on pages 11 to 16 are an integral part of these financial statements. These financial statements on pages 8 to 16 were approved by the board of directors on 12 February 2025 and were signed on its behalf by:



Witland Leblanc Jr
Director

Statement of changes in equity

	Called up share capital \$000	Capital contribution reserve \$000	Profit and loss account \$000	Share premium \$000	Total Equity \$000
Balance at 1 January 2022	-	8,535	3,037	-	11,572
Total comprehensive income for the period					
Result	-	-	-	-	-
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	-
Reduction of share capital	-	-	-	-	-
Balance at 31 December 2022	-	8,535	3,037	-	11,572

	Called up share capital \$000	Capital contribution reserve \$000	Profit and loss account \$000	Share premium \$000	Total Equity \$000
Balance at 1 January 2023	-	8,535	3,037	-	11,572
Total comprehensive income for the period					
Result	-	-	-	-	-
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the period	-	-	-	-	-
Reduction of share capital	-	-	-	-	-
Balance at 31 December 2023	-	8,535	3,037	-	11,572

Notes

1 Material accounting policies

Downhole Products UK Holdco Limited is a company incorporated and domiciled in Scotland, UK. The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of preparation

The Company financial statements have been prepared in US Dollars and in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) under historical cost convention. All amounts in the financial statements have been rounded to the nearest \$1,000 (except where stated otherwise).

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies.

The Company has adopted S.401 of the Companies Act 2006 providing exemption from consolidation of subsidiary financial statement. The Company's ultimate parent undertaking is Blue Water Energy LLP whilst Sandvik AB and Nixon Energy hold minority shares. The Company's Parent company, Varel Oil and Gas Intermediate Holdings, Inc includes the Company in its consolidated financial statements.

The consolidated financial statements of Varel Oil and Gas Intermediate Holdings, Inc are prepared in accordance with International Financial Reporting Standards as issued by the IASB and are published at the date of approval of the financial statements.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements in accordance with the Companies Act 2006 as applicable to companies using FRS 101:

- Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payment' (details of the number and weighted average exercise prices of share options, and how the fair value of goods or services received was determined).
- IFRS 7, 'Financial instruments: Disclosures'.
- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities).
- Paragraph 38 of IAS 1, 'Presentation of financial statements' – comparative information requirements in respect of:
 - paragraph 79(a)(iv) of IAS 1;
 - paragraph 73I of IAS 16, 'Property, plant and equipment'; and
 - paragraph 118I of IAS 38, 'Intangible assets' (reconciliations between the carrying amount at the beginning and end of the year).
- The following paragraphs of IAS 1, 'Presentation of financial statements':
 - 10(d) (statement of cash flows);
 - 16 (statement of compliance with all IFRS);
 - 38A (requirement for minimum of two primary statements, including cash flow statements);
 - 38B-D (additional comparative information);
 - 40A, 40B, 40C, 40D (change in accounting policy, retrospective restatement or reclassification);
 - 111 (statement of cash flows information); and
 - 134-136 (capital management disclosures).
- IAS 7, 'Statement of cash flows'.
- Paragraphs 30 and 31 of IAS 8, 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not

- applied a new IFRS that has been issued but is not yet effective).
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation).
 - The requirements in IAS 24, 'Related party disclosures', to disclose related party transactions entered into between two or more members of a group.

The principal accounting policies adopted by the Company are set out below together with an explanation of where changes have been made to previous policies on the adoption of new accounting standards in the year. Accounting policies have been applied consistently other than where new policies have been adopted.

The Company proposes to continue to adopt the reduced disclosure framework of FRS 101 in its next financial statements.

Going Concern

As at 31 December 2023, the Company has an intercompany payable balance with Downhole Products Limited of \$40,286,625. The intercompany loan is unsecured, interest free and repayable on demand.

In the event that the Company requires assistance to meet its financial obligations, the Group would be able to provide support to the Company. The directors have received a letter of support from Varel Oil & Gas Intermediate Holdings, Inc confirming it will provide financial support to the Company that will not be withdrawn during a period of 12 months from the date of authorisation of the financial statements, in order to allow the Company to continue to operate as a going concern.

Having regards to the matters above, and after making reasonable enquiries and taking account of uncertainties and reasonably possible changes in operating performance, the Directors have a reasonable expectation that the Company has adequate resources to continue operations for at least 12 months from the authorisation of the financial statements. For that reason, they continue to adopt the going concern basis in the preparation of the financial statements. The financial statements do not include the adjustments that would result if the company were unable to continue as a going concern.

Investments

Investments in subsidiary undertakings are shown at cost, less provision for any impairment.

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other debtors, cash and cash equivalents, loans and borrowings, and trade and other creditors.

Trade and other debtors

Trade and other debtors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and other creditors

Trade and other creditors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Investments in jointly controlled entities, associates and subsidiaries are carried at cost less impairment.

Impairment excluding stocks, and deferred tax assets

Financial assets (including trade and other debtors)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Notes (continued)

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the Company would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Classification of financial instruments issued by the company

Following the adoption of IAS 32, financial instruments issued by the Company are treated as equity only to the extent they meet the following two conditions:

- (a) they include no contractual obligations upon the Company to deliver cash or other financial assets, or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and
- (b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments, or is a derivative that will be settled by the Company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Critical estimates and judgments

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

Investments in subsidiary undertakings

Investments in subsidiary undertakings are considered for indications of impairment. If indicators of impairment are identified an impairment review will be carried out and a decision taken on possible impairment. Factors taken into account in reaching such a decision include the economic viability and expected future financial performance of the asset and where it is a component of a larger cash-generating unit, the viability and expected future performance of that unit. No indicators of impairment were identified in the year.

Notes (continued)

2 Net profit / result before taxation

Included in the profit and loss are the following:

	2023 \$000	2022 \$000
<i>Auditors' remuneration:</i>		
Audit of these financial statements	-	-
Amounts receivable by the company's auditors and their associates in respect of:		
Other services relating to taxation	-	-
	<hr/>	<hr/>

3 Remuneration of directors

The remuneration of the directors in office during 2023 was borne by the parent company.

4 Staff numbers and costs

The company has no employees (2022: nil).

5 Investments

Fixed asset investments

<i>Investments in group companies</i>	2023 \$000
---------------------------------------	---------------

At cost and net book value

Investment in Downhole Products Limited at beginning and end of year	50,857
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Notes (continued)

The company's subsidiary undertakings at the year-end were as follows:

Subsidiary undertaking	Registered office address	Country of incorporation	Class and percentage of shares held
Downhole Products Limited	c/o Brodies LLP, Capital Square, 58 Morrison Street, Edinburgh, EH3 8BP	Scotland	Ordinary 100%
Ian Hay (Engineering) Limited	c/o Brodies LLP, Capital Square, 58 Morrison Street, Edinburgh, EH3 8BP	Scotland	Ordinary 100%
Downhole Products Holdings USA Inc*	Capitol Services Inc, 1675S States Street, Suite 8, Dover, Delaware 19901	USA	Ordinary 100%
Aberdeen Products Inc trading as Downhole Products USA*	Capitol Corporate Services, 206E 9th Street, Suite 1300, Austin, Texas	USA	Ordinary 100%
Downhole Products Asia Sdn Bhd*	Menara Binja, Level 09-04, No 2 Jalan Binjai, 50450, Kuala Lumpur	Malaysia	Ordinary 100%
Downhole Products Middle East Fze*	JAFZA 16, Jebel Ali, Dubai Fla1/Rrn 702	Dubai	Ordinary 100%
Smooth Team Investments Limited*	7/F United Building, 17-19 Jubilee Street, Hong Kong	Hong Kong	Ordinary 100%
Sledgehammer Oil Tools Pvt Limited*	262I, K,L, Sector 24, Faridabad (Haryana),121005	India	Ordinary 78%

* Indirectly owned

6 Debtors

	2023 \$000	2022 \$000
Amount due by group undertaking	1,001	1,001
	1,001	1,001

7 Creditors: amounts falling due within one year

	2023 \$000	2022 \$000
Amounts owed to group undertakings	40,286	40,286

Notes (continued)

8 Called up share capital

	2023	2022
	\$	\$
<i>Allotted and called up</i>		
101 (2021: 101) Ordinary shares of \$0.01 each	1	1
	<hr/>	<hr/>

9 Controlling parties

At 31 December 2023 the immediate parent undertaking was Investec Investments (UK) Limited. In 2020, 101 Ordinary shares were transferred from Downhole Products UK Holdco II Limited, which had previously been the immediate parent undertaking.

In April 2024, Downhole Products UK Holdco II Limited was reinstated as the parent undertaking with significant control.

The Company's ultimate parent undertaking is Blue Water Energy LLP whilst Sandvik AB and Nixon Energy hold minority shares.

The largest group in which the results of the Company are consolidated is that headed by Varel Oil and Gas Intermediate Holdings, Inc incorporated in USA. No other group financial statements include the results of the company.

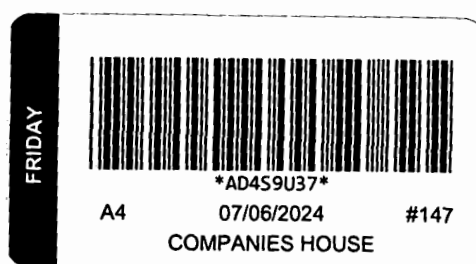
**Appendix 24: Financial statements as of and for the financial year ended 31 December 2022 for
Downhole Products Limited**

Downhole Products Limited

Annual report and financial statements

Registered number SC145401

31 December 2022



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Directors and officers

Directors:	Derek Nixon Jordan Stringer Witland James Leblanc Jr
Registered office:	C/O Brodies LLP Capital Square 58 Morrison Street Edinburgh EH3 8BP
Independent Auditors:	PricewaterhouseCoopers LLP The Capitol, 431 Union Street Aberdeen AB11 6DA

Strategic report

The Directors present their strategic report for the year ended 31 December 2022.

The company continues to design and supply a range of Primary Casing Equipment products to the oil and gas industry. The key markets in which the company operates are the Middle East, Asia and Europe including the UK.

Business review and results

2022 marked a pivotal year for Downhole Products Limited showcasing a robust recovery and significant advancements in the international market. Driven by recovery in the energy sector through stabilization of global oil prices driven by a recovering post pandemic demand and a global appetite for a mid to long term balanced energy system further accelerated the investment in our sector. The company continues to be well positioned to capitalize on the growing needs for its products and services. This recovery aligned seamlessly with the corporate strategy, facilitated by strategic management changes and disciplined focus to harness market growth opportunities, especially in the Middle East, and targeted markets in West Africa, the North Sea and Asia. The company's success in securing multi-year contracts within the GCC (Gulf Cooperation Council) has been a cornerstone for ensuring steady revenue streams and enhancing operational efficiencies.

The directors report turnover of \$34,401k (2021: \$29,614k) for the year to 31 December 2022. Operating profit as reported was \$7,582k (2021: \$5,109k restated) for the year; the increase was driven by stabilization in supply chain through the acquisition of Sledgehammer Oil Tools, coupled with less volatility in raw material and logistics along with a focus on pricing improvement.

At the year end, the company had shareholders' funds of \$76,291k (2021: \$72,324k restated). The directors believe the company's position to be satisfactory especially as the company's current assets exceed its current liabilities by \$50,564k (2021: \$71,214k restated). Net current assets include intercompany receivables of \$73,021k (2021: \$62,713k). In review and forward looking, a strategic focus on the Middle East resulted in securing long-term contracts, bolstering the company's presence and future revenue prospects. This strategic manoeuvre not only solidified Downhole Products Limited's foothold in the GCC countries but also set a strong foundation for future growth.

The company also capitalized on absorption opportunities at its plants driven by increased demand on long-term engagements, offered substantial margins for improvement. This strategic approach was critical in stabilizing the business and enhancing profitability.

Additionally, an acquisition in India through share ownership of 78% of Sledgehammer Tools, India PVT Limited created further return by transitioning to a buy vs. make model through internal supply chain sourcing enabling greater efficiencies through product costs, value add/ value engineering projects, sourcing, logistics, but not limited to further catered for the growth and overall margin improvement.

Expansion efforts were not just limited to the Middle East; Downhole Products Limited also focused on West Africa, the North Sea, and Asia across National Oil Companies, Independent and Oilfield Services. This diversification strategy was instrumental in stabilizing the business, cleansing the customer base, and significantly improving product margins. A clear direction of sustainable, profitable and efficient cash flow cycles became the focus with a discipline to turn down work which was not part of the strategic direction.

New engineering products enabled the filing of IP protection for key technologies which will provide further foundation for growth in 2023 while 2022 was utilized to draft and initiate implementation of commercial strategies for new product implementation. Additional focus on product rationalization reducing the overall SKU (stock keeping unit) count, new order management systems and product improvement further complemented the overall health and efficiency of the company.

A notable improvement also in payment terms, working capital, and customer mix across international, national, and large Oilfield Service (OFS) companies underscored the financial health of Downhole Products Limited. These improvements were pivotal in enhancing the company's operational and financial stability.

Strategic report *(continued)*

The year 2022 was a testament to Downhole Products Limited's resilience and strategic acumen. By aligning its operations with the burgeoning demands in the energy and hydrocarbon markets, especially through strategic expansions in the Middle East, West Africa, the North Sea, and Asia, the company not only overcame the challenges of the past but also set a robust pathway for future growth. The securing of long-term contracts and a keen focus on operational and financial health have positioned Downhole Products Limited. as a formidable player in the industry, poised for sustained success in the coming years.

No dividend was distributed in 2022 (2021: Nil)

Strategic report (continued)

Emissions and Energy Consumption

Downhole Products Limited presents their energy report for the year ended 31 December 2022.

Quantification and Reporting Methodology

- Downhole Products Limited complies with the Companies Act 2006 (Strategic Report and Director's Report) Regulations 2013 and the Companies (Director's Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 and our approach to reporting is based on the GHG Protocol Corporate Accounting and Reporting Standard in line with the guidance on SECR.
- Our reporting period is for the financial year 1st January 2022 to 31st December 2022, reporting all material GHG emissions using "Kilograms of CO₂ equivalent" (kgCO₂e) as the unit of measurement and reporting energy use in kWh. We have included the energy and emissions for the buildings owned and operated (i.e. those within the financial control boundary).
- The results are presented as Location-based emissions and Market-based emissions, where applicable. Location-based are mandatory and reflect the average emissions intensity of grid supplies (using grid average emissions factors) and Market-based are voluntary and reflect emissions from energy where companies have a contractual agreement to procure green energy.
- The methodology used to calculate total energy consumption and carbon emissions has been invoice data supplied by client for the financial years stated. Where data was not available, estimates have been calculated using historical profiles and details kept in the evidence pack.
- Energy and fuel consumption has been converted to carbon (kgCO₂e) using DEFRA-published conversion factors.
- New DEFRA conversion tables are issued in June and cover January to December, our financial year covers a single data set, and has therefore used the annually published factors covering 2022.
- Due to the floor area account for Badentoy Road not being closed, the system continued to include it in the 2021 intensity metric although the energy accounts had been closed. This has resulted in no change to the energy and emissions for 2021 but an increase of 3.938kgCO₂e/SqM reported for 2021 in this report compared to the intensity metric reported last year for the same reporting period.
- We have selected the most appropriate intensity metric in line with the primary drivers of energy consumption, where possible. For this report we have selected Gross Internal Area (GIA SqM) as the most appropriate to achieve a benchmark.

Energy Efficiency Action Taken

- Staff Continued the hybrid office/home working which has saved office energy costs. Out of a team of on average 20 in 2022, only 8 worked full time from the office, 4 came to the office only once a month and others did 3 days from office and 2 days from home.
- We have started monitoring and reporting energy usage across the group from 2021 which will help drive energy efficiencies.

Strategic report (continued)

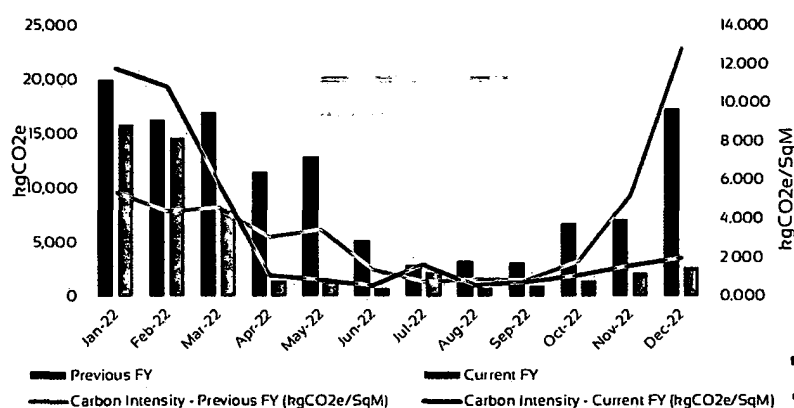
Streamlined Energy and Carbon Report for the year ended 31 December 2022

SUMMARY

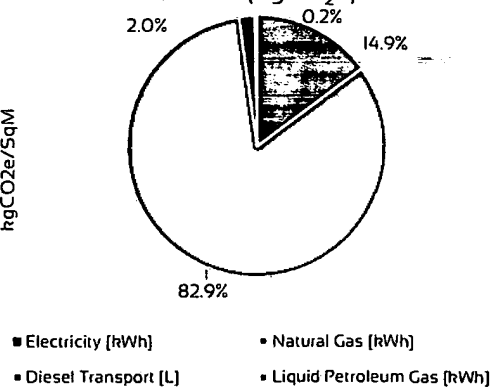
Financial Year	Jan-22 - Dec-22	Emissions (kgCO ₂ e) & Change	52,103	-57.8%
Intensity Metric	Floor Area (SqM)	Emissions Intensity kgCO ₂ e/SqM	38.612	4.2%

Reporting Category	Year Ending: Dec-22	Year Ending: Dec-21	Change
Energy consumption used to calculate emissions: (kWh)	281,593	649,792	-57%
Electricity (kWh)	40,081	112,234	-64%
Natural Gas (kWh)	236,687	505,875	-53%
Diesel Transport (L)	4,230	2,982	42%
Liquid Petroleum Gas (kWh)	595	28,701	-98%
Emissions from combustion of gas (Scope 1) (kgCO ₂ e)	43,205	92,656	-53%
Emissions from combustion of other fuel (Scope 1) (kgCO ₂ e)	128	6,156	-98%
Emissions from combustion of fuel for transport purposes (Scope 1) (kgCO ₂ e)	1,020	706	44%
Emissions from purchased electricity (Scope 2, location-based) (kgCO ₂ e)	7,751	23,831	-67%
Total gross kgCO ₂ e based on Scopes 1 & 2 above	52,103	123,349	-58%
Location-based intensity ratio: gross - Scopes 1 & 2 kgCO ₂ e/SqM	38.612	37.039	4%
Emissions from purchased electricity (Scope 2, market-based factor) (kgCO ₂ e)	7,751	23,831	-67%
Total annual net kgCO ₂ e based on Scopes 1 & 2 above	52,103	123,349	-58%
Market-based intensity ratio: net - Scopes 1 & 2 kgCO ₂ e/SqM	38.612	37.039	4%

Carbon Emissions - Location-based



Carbon Emissions by Energy Source (kgCO₂e)



Strategic report (continued)

Streamlined Energy and Carbon Report for the year ended 31 December 2022 (continued)

REPORT

Streamline Energy and Carbon Reporting Disclosure

Global energy Scope 1 and 2 GHG emission data for period:

01/01/2022

31/12/2022

Emissions from	Kilograms CO ₂ e					
	FY2022 location- based	FY2021 location- based	Variance location- based	FY2022 market- based	FY2021 market- based	Variance market- based
Scope 1 (Fuel combustion in buildings)	43,205	92,656	-53%	43,205	92,656	-53%
Scope 1 (Fuel combustion in vehicles)	1,020	706	44%	1,020	706	44%
Scope 1 (Fuel combustion in mobile and static plant)	250	6,156	-96%	250	6,156	-96%
Scope 2 (Electricity)	7,751	23,831	-67%	7,751	23,831	-67%
Total	52,226			52,226		0%

Company's chosen intensity metric:

kgCO₂e/SqM

	FY2022 location- based	FY2022 market- based	Variance
Emissions reported per SqM Floor Area	38.703	38.703	0%

Underlying global energy data for period:

01/01/2022

31/12/2022

Energy use (kWh)	FY2022	FY2021	Variance
Electricity	40,081	112,234	-64%
Natural Gas	236,687	505,875	-53%
Mobile and Static Plant Fuel	1,166	28,701	-96%
Transport Fuel	4,230	2,982	42%
Total	282,164	649,792	-57%

Strategic report (continued)

Streamlined Energy and Carbon Report for the year ended 31 December 2022 (continued)

Report Revision

		Variances						
		FY2022 Report	FY2021 Report					
Reporting Category		Year Ending: Dec-21	Year Ending: Dec-21	Variance	+	Variance	†	Comments
Energy consumption used to calculate emissions: (kWh)		649,792	649,792	0.00%		0		
Electricity	kWh	112,234	112,234	0%		0		
Natural Gas	kWh	505,875	505,875	0%		0		
Transport Fuels	kWh - Diesel (SI)	2,982	2,982	0%		0		
Stationary Fuels	kWh - LPG	28,701	28,701	0%		0		
Emissions from combustion of gas (Scope 1) (kgCO2e)		92,656	92,656	0%		0		
Emissions from combustion of other fuel (Scope 1) (kgCO2e)		6,156	6,156	0%		0		
Emissions from combustion of fuel for transport purposes (Scope 1) (kgCO2e)		706	706	0%		0.00		
Emissions from purchased electricity (Scope 2, location-based) (kgCO2e)		23,831	23,831	0%		0.00		
Total gross kgCO2e based on above		123,349	123,349	0%		0.00		
Intensity ratio: gross kgCO2e/SqM		37.039	33.101	12%		3.938		Incorrectly including Badentoy Road

Variance: - no variance in energy or emissions but there is a variance of 3.938 kgCO₂e/SqM reported for 2021 compared to data published in 2021.

Explanations

Accrued Data

- The database will automatically accrue missing data if there is no change to the account.
- The accrued figure is based on the last entry on a daily pro-rata basis and will continue to accrue until a new entry is input or a change is made.
- Due to the floor area account not being closed, the database continued to use this figure in the 2021 intensity metric, but not the energy, which has resulted in an inaccurate intensity metric reported in 2021.
- This has been rectified in this report.

Strategic report (continued)

Principal risks and uncertainties

Financial Risk Factors

The Company's activities expose it to a variety of financial risks: market risk, credit risk, and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

2022 was a period of stabilization in comparison to historical years driven by recovery of post pandemic COVID -19 energy demands coupled with geo-political issues within Eastern Europe and Russia. Oil prices had an average closing price of 94.53 USD/BBL vs. 68.17 USD/BBL in 2021 and saw a year end close of 80.51 USD/BBL vs. the prior year of 75.21 USD/BBL and 48.52 USD/BBL in 2020.

Stabilization in raw materials which contributes to over 60% of our products but a recovery in steel prices to 3,905 CNY/T across the year resulted in a average material cost reduction of 14% of certain components. Freight calculated on global container prices was down from 2021 going into 2022 by 50% to 5000 USD/40ft Container and continued to follow a similar manner for the end of 2022 going into 2023; airfreight did increase though by 10% across the same period even though total volume of freight globally dropped by 7%. The net impact to DHP was near zero as the reduced sea freight charges was offset by inflated air freight whilst also increased demand in raw material in line with market recovery stressed the order to cash cycle applicable to meeting lead times vs. securing raw materials.

2022 saw a steady compounded growth through the year in comparison to 2021 with international rig count growing on average by 11.2% to 851 with total rig count growing by 22.1% to 1747. Pricing recovery was targeted in 2021 but recovery was slower due to existing contracts/ pricing agreements with stringent terms on movement coupled with an over supply vs. demand from 2021. With market strengthening, drive for performance and client interface differentiation we were able to see pricing improvement across the aggregate compounding margin improvement across 2022; managing the line between FCF and EBITDA was particularly important while there was a greater demand for shorter lead times and subsequently stocking points, working capital associated to inventory had to be continually evaluated to maximize cash conversion cycles.

Foreign Exchange Risk

The directors previously considered one of the principal risks and uncertainties of the business to be volatility in foreign exchange rate between GBP and USD. In 2022 the company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the U.S. dollar. Most sales and purchases occur in the functional currency. Foreign currency risk is managed within the limits approved by the Company's policy using derivative contracts.

Credit Risk

Credit risk arises from cash and cash equivalents, derivative financial instruments, and deposits with banks and financial institutions, as well as credit exposure to the Company's customers, including outstanding receivables. Cash maintained in UK banks at times may exceed the FSCS coverage of £85,000. At December 31, 2022, or 2021, the Company has not experienced losses on these cash accounts and management believes that the credit risk with regard to these deposits is not significant

Interest Rate Risk

The Company has certain long-term, third-party borrowings subject to variable interest rate indices such as LIBOR. The Company regularly monitors the changes in interest rate risk.

Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities, and the ability to meet contractual terms of derivative positions.

Cybersecurity Risk

Cybersecurity risk management is a critical aspect of our business operations, and we recognize its significance in safeguarding our sensitive information and maintaining the trust of our stakeholders. We have implemented a comprehensive framework to

Strategic report (continued)

identify, assess, and mitigate cybersecurity risks. This framework encompasses proactive measures such as regular risk assessments, robust network and system monitoring, strong access controls, employee training programs, and incident response protocols. We also collaborate with external cybersecurity experts to ensure our systems remain resilient to evolving threats.

While we strive to minimize the likelihood and impact of cybersecurity incidents, we acknowledge that no system is entirely immune. Therefore, we have implemented robust measures to ensure continuous threat monitoring and response, phishing protection, and upgraded authentication systems.

Climate Risk

The Company's strategy has been influenced by climate related risks and opportunities and is developing a climate transition plan within two years.

Capital Risk Management

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. To maintain or adjust the capital structure, the Company may return capital to shareholders.

Consistent with others in the industry, the Company monitors capital based on the debt-to-equity ratio. The ratio is calculated as net borrowings divided by total equity.

The Company is exposed to risks arising from increased costs due to commodity price fluctuations, such as iron and steel, precious metals and nonferrous alloys used in manufacturing. The Company controls the price risk associated with the purchase of those commodities by maintaining inventory at the minimum level.

Key performance indicators

2022 provided opportunity for market recovery but being selective on margin was a discipline we executed to maximize incremental margin improvement year-on-year whilst also ensuring sustainability of profitability to further insulate ourselves against market volatility for future years. LOA's governing commercials were further implemented and coupled with commercial dashboards improving business intelligence associated to Net Price Change (previous sales vs. new sale price and COGS on previous sale vs. COGS on new sale)

	2022	2021
Turnover (\$000)	34,401	29,614
Gross margin % of revenues	52%	50%
Trade debtor days	92	84

The company focuses on the health and safety of its workforce, with no lost-time incidents during 2022, 2021 or 2020. Health and safety has become ever more a focus of importance and with the expansion of operations from 2021 to 2022 key champions in the form of Region Managers and VP's. They were accountable for leading a safe working environment inclusive of near misses, hazard identification, areas of improvement, safety stand downs, hazards hunts, but not limited to, and were mandated at all DHP and third party sites where Varel personnel and equipment are present. Quarterly reviews with the executive management, directors and BOD also drove further accountability through reporting.

Strategic report (continued)

Director's statement in performance of their duties under section 172(1)

The Directors have acted in the way they consider would be most likely to promote the success of the Company for the benefit of its members as a whole (having regard to the stakeholders and matters set out in s172(1) (a-f) of the Companies Act 2006) in the decisions taken during the year. Entering 2022 DHP management had taken extensive steps to position the company for sustained profitable growth internationally while taking actions to ensure an efficient working environment that maximized profits while enabling growth in a safe and reliable manner. Examples of that can be seen through customer cleansing aligned to improvement collections, inventory reduction vs. revenue growth and improved margins.

Additionally, acquisition of Sledgehammer Oil Tools allowed the company to further drive margin improvement through supply chain efficiencies while also assuming greater control of operational execution which further insulated DHP from market volatility as historical seen during pandemic and geopolitical events whilst also ensuring greater customer intimacy and effectiveness. Maintaining a disciplined organization which added resources only where necessary while training and developing existing members of the organization allowed further optimization of the Sales, General and Administrative (SGA) costs.

Being disciplined on strategic executions plans aligned to organic market growth while considering the fall through associated to incremental/ encroachment market share movements, ensured DHP continued to align to the intended outcomes for 2022. Growing existing client's basis across the business, ramping up new contract awards particularly in the Middle East from 2021, focussing on key areas that will provide sustainable positive opportunities for DHP such as North Sea, West Africa, Asia, pockets of Europe and North America and cleansing contracts adopted through acquisitions ensures a solid platform as well going into 2023. Diversity in operations not only in Oil & Gas also continues to be a focus with market execution improvements within Geothermal, Water and Remedial Production & Intervention (P&A), further diversifying our opportunities and growing our customer basis. We have established a solid pipeline for 2023 with 39% of the forward lookahead coming from contractual customers with spending obligations, open PO's or PO's received, 43% coming from long standing repeatable customer orders capable of firm demand planning and only 17% of 2023 lookahead associated to opportunity conversation where opportunities are identified with greater than 50% probability of execution.

We believe that effective corporate governance is the foundation of a well-run business and are committed to ensuring that high standards of corporate governance are maintained and supports the principles set out in the Code. We build strong, transparent relationships with host governments and regulatory authorities. We comply with all relevant legislation in the areas where we have our operations and disclose all necessary information. The Company conducts its business with integrity, respecting the laws, cultures, and rights of individuals in all the countries in which we operate. Business ethics are more than avoiding contravening laws. The Code of Conduct constitutes the basis upon which all our policies and procedures are built. The objective of the Code of Conduct is to describe the Company's commitment and requirements regarding business practice and personal conduct. It defines the behaviour the Company expects of our employees and what they can expect of the Company.

Signed on behalf of the Board



Witland James Leblanc Jr
Director

c/o Brodies LLP
Capital Square
58 Morrison Street
Edinburgh EH3 8BP
31 May 2024

Directors' report

The Directors present their Annual report and financial statements for the year ended 31 December 2022.

Future developments

Rebranding and integration of all companies in the group under the Varel Energy Solutions (VES) umbrella continues particularly with the acquisition of Sledgehammer Oil tools and the onboarding of new team members with the continued aim to enhance value and service to customers. We continue to invest in Research and Development (R&D) to develop both existing products and the range of customer solutions as a whole with particular focus on product efficiency and value add.

On 29 June 2022, the company acquired 78% of the share capital of Sledgehammer Oil Tools Pvt Limited, an international leader in the supply of oilfield casing, cementing and completion products (Note 10).

The acquisition creates for the Varel group, a consolidated major producer of consumable downhole oilfield products across the Middle East, Asia and European markets; there is ongoing cleansing of an existing customer basis applicable to commercial terms, payment cycles and alignment on operational objectives.

Development of our organization associated to strategic commercial negotiations, culture/ management training, financial discipline and root cause analysis will be key development areas for our teams going forwards.

Financial risk management objectives and policies

The Company is exposed to volatility in foreign exchange variance between GBP and USD and enters into forward currency contracts to manage the risk. Other than these, the company uses operational bank accounts, short term debtors and creditors and so its exposure to price risk, credit risk and cash flow risk is not material for the assessment of the assets, liabilities, financial position and profit and loss of the company.

Results and dividends

The profit for the year, after taxation, amounted to \$3,967k (2021: \$4,459k restated).

No dividend payments were distributed in 2022 (2021: Nil). The Directors do not recommend the payment of a final dividend.

Directors

The Directors of the company who were in office during the year and up to the date of signing the financial statements were:

Derek Nixon
Gregory Cooper (Resigned 12th July 2022)
Jordan Stringer
Mark Gandy (Appointed 12th July 2022, Resigned 10th August 2023)
Witland James Leblanc Jr (Appointed 10th August 2023)

Political contributions

The company made no political contributions during the year.

Going Concern

When assessing the going concern assumption, the Company's directors have considered the future cash flow forecasts for at least the next 12 months, ongoing funding requirements, and contracts with customers (including external and internal with fellow group undertakings). We are continually reviewing any change in events to ensure we have plausible downside scenarios which may need to be executed in light of the competitive landscape or market outlook.

Directors' report *(continued)*

As the Company is a guarantor to the existing Facilities Agreement, the directors have also carefully considered the financing status of the Company's parent, Varel Oil and Gas Intermediate Holdings, Inc ("the Group"). In March 2024 negotiations to agree an extension to its existing Facilities agreement were completed with a \$60M senior secured bond issue which will ensure the group will be able to meet its liabilities as they fall due.

In the event that the Company requires assistance to meet its financial obligations, the Group would be able to provide support to the Company. The directors have received a letter of support from the Group, confirming it will provide financial support to the Company that will not be withdrawn during a period of 12 months from the date of authorisation of the financial statements, in order to allow the Company to continue to operate as a going concern.

Having regards to the matters above, and after making reasonable enquiries and taking account of uncertainties and reasonably possible changes in operating performance, the Directors have a reasonable expectation that the Company has adequate resources to continue operations for at least 12 months from the authorisation of the financial statements. For that reason, they continue to adopt the going concern basis in the preparation of the financial statements. The financial statements do not include the adjustments that would result if the company were unable to continue as a going concern.

Financial Instruments

The company's policy is primarily to finance the business from retained earnings. The company used foreign exchange forward contracts during the year to manage foreign exchange volatility and these were all closed out with no open contracts at 31st December 2022. The company is exposed to the usual credit risk and cash flow risk associated with selling on credit terms and manages this through strict credit control procedures.

Company's policy for payment of creditors

It is the company's policy to pay creditors within the terms agreed when the contract of supply is entered into, to the extent that the creditors have fulfilled and performed their contractual obligations.

Engagement with employees

The company has continued its practice of keeping employees informed of matters affecting them as employees and the financial and economic factors affecting the performance of the company. This is achieved through monthly management calls for all managers with the Directors and then by each manager within their departments.

Inclusion and diversity

The company is an equal opportunity employer committed to positive policies in recruitment, training and career development for staff members (and potential staff members) regardless of marital status, sex, religion, colour, race, ethnic origin or disability. The company gives full consideration to applications for employment by disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person. Where existing employees become disabled it is the company policy, where practical, to provide continuing employment under similar terms and conditions and to provide training and career development.

Director indemnity clause / statement

Subject to the conditions set out in the Companies Act 2006, the Company has arranged appropriate Director and officer insurance to indemnify the Directors and officers against liability in respect of proceedings brought by third parties. Such provision remains in force at the date of this report.

The Company indemnifies the Director against actions they undertake or fail to undertake as a Director or officer of any Company, to the extent permissible for such indemnities to meet the test of a qualifying third-party indemnity provision as provided for by the Companies Act 2006. These provisions remained in force throughout the year and remain in place at the date of this report.

Directors' report *(continued)*

Research and Development

The Company continues to utilise its technical and materials expertise to remain at the forefront of innovative technology and produce specialist products to maximise the performance and capabilities of its customers. The Company continues to invest in R&D to develop both existing products and the range of customer solutions as a whole.

Branches

The Company has a branch office in Baku, Azerbaijan.

Independent Auditors

Pursuant to section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and PricewaterhouseCoopers LLP will therefore continue in office.

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently.
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements.
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Directors' confirmations

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

On behalf of the Board



Witland James Leblanc Jr
Director

c/o Brodies LLP
Capital Square
58 Morrison Street
Edinburgh
EH3 8HA
31 May 2024

Independent auditors' report to the members of Downhole Products Limited

Report on the audit of the financial statements

Opinion

In our opinion, Downhole Products Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and financial statements (the "Annual Report"), which comprise: the Balance sheet as at 31 December 2022; the Statement of Comprehensive Income and the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included. Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2022 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to UK corporation tax legislation and the Companies Act 2006, and we considered the extent to which non-compliance might have a material effect on the financial statements. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting of inappropriate manual journals to increase revenue and profitability. Audit procedures performed by the engagement team included:

- Discussions with management, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;

- Evaluation of management's controls designed to prevent and detect irregularities;
- Identifying and testing journal entries, in particular journal entries posted with unusual account combinations impacting revenue;
- Review of minutes of meeting of Board of Directors; and
- Challenging assumptions and judgements made by management in their significant accounting estimates.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

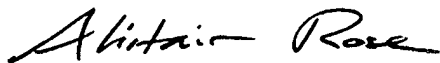
Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Alistair Rose (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Aberdeen

31 May 2024

Financial Statements

Statement of Comprehensive Income for the year ended 31 December 2022

	Note	2022 \$000	Restated 2021 \$000
Turnover	2	34,401	29,614
Cost of sales		(16,548)	(14,808)
Gross profit		17,853	14,806
Administrative expenses	3,4	(10,271)	(9,697)
Operating profit	5	7,582	5,109
Interest payable and similar expenses	6	(1,491)	(93)
Profit before taxation		6,091	5,016
Tax on profit	7	(2,124)	(557)
Profit for the financial year		3,967	4,459
Other comprehensive income net of tax: Currency translation adjustment		-	-
Total comprehensive income for the year		3,967	4,459

The results for the year are derived from continuing operations.


See note for details of restatement.

Balance sheet
at 31 December 2022

		31 December 2022		31 December 2021	
	<i>Note</i>	\$000	\$000	Restated \$000	Restated \$000
Fixed assets					
Tangible assets	8	269		485	
Right-of-use assets	9	1,577		2,164	
Investments	10	25,563		613	
			27,409		3,262
Current assets					
Stocks	11	2,823		4,622	
Debtors	12,13	82,072		71,338	
Cash at bank and in hand	14	1,284		4,059	
		86,179		80,019	
Creditors: amounts falling due within one year	15	(35,615)		(8,805)	
Net current assets			50,564		71,214
Creditors: amounts falling due after more than one year	16,17		(1,682)		(2,152)
Net assets			76,291		72,324
Capital and reserves					
Called up share capital	18		71		71
Currency translation adjustment			37		37
Profit and loss account			76,183		72,216
Total Shareholders' funds			76,291		72,324

See note 9 for details of restatement.

The notes on pages 22 to 42 are an integral part of these financial statements. The financial statements on pages 19 to 42 were approved by the Board of Directors on 31 May 2024 and signed on its behalf by:


Witland James Leblanc Jr
Director

Statement of Changes in Equity
For the year ended 31 December 2022

	Called up share capital	Profit & loss account	Currency translation adjustment	Total Shareholders' funds
	\$000	\$000	\$000	\$000
Balance at 1 January 2021 as previously reported	71	67,974	37	68,082
Correction of incremental borrowing rate on leases	-	(217)	-	(217)
Balance as at 01 January 2021 as restated	71	67,757	37	67,865
Total comprehensive income for the financial year	-	4,559	-	4,559
Correction of incremental borrowing rate on leases	-	(120)	-	(120)
Correction of IFRS 16 accounting for new leases	-	(8)	-	(8)
Correction of corporation tax liability	-	28	-	28
Balance at 31 December 2021 as restated	71	72,216	37	72,324
Total comprehensive income for the financial year	-	3,967	-	3,967
Balance at 31 December 2022 as restated	71	76,183	37	76,291

See Note 9 for further information on lease restatement.

Notes to the financial statements

1. Accounting policies

General Information

The company is a private company limited by shares incorporated and domiciled in Scotland, UK. The company financial statements have been prepared in pounds sterling and in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) under historical cost convention.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 1.17.

The Company has adopted S.401 of the Companies Act 2006 providing exemption from consolidation of subsidiary financial statement. The Company's ultimate parent undertaking is Bluewater Private Equity whilst Sandvik AB and Nixon Energy hold minority shares. The Company's Parent company, Varel Oil and Gas Intermediate Holdings, Inc includes the Company in its consolidated financial statements.

The consolidated financial statements of Varel Oil and Gas Intermediate Holdings, Inc, are prepared in accordance with International Financial Reporting Standards as issued by the IASB and are published at the date of approval of the financial statements. The address of the Varel Oil and Gas Intermediate Holdings, Inc is disclosed in note 20.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements in accordance with the Companies Act 2006 as applicable to companies using FRS 101:

- Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payment' (details of the number and weighted average exercise prices of share options, and how the fair value of goods or services received was determined).
- IFRS 7, 'Financial instruments: Disclosures'.
- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities).
- Paragraph 38 of IAS 1, 'Presentation of financial statements' – comparative information requirements in respect of:
 - paragraph 79(a)(iv) of IAS 1;
 - paragraph 73I of IAS 16, 'Property, plant and equipment'; and
 - paragraph 118I of IAS 38, 'Intangible assets' (reconciliations between the carrying amount at the beginning and end of the period).
- The following paragraphs of IAS 1, 'Presentation of financial statements':
 - 10(d) (statement of cash flows);
 - 16 (statement of compliance with all IFRS);
 - 38A (requirement for minimum of two primary statements, including cash flow statements);
 - 38B-D (additional comparative information);
 - 40A, 40B, 40C, 40D (change in accounting policy, retrospective restatement or reclassification);
 - 111 (statement of cash flows information); and
 - 134-136 (capital management disclosures).
- IAS 7, 'Statement of cash flows'.
- Paragraphs 30 and 31 of IAS 8, 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective).
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation).
- The requirements in IAS 24, 'Related party disclosures', to disclose related party transactions entered into between two or more members of a group.

The principal accounting policies adopted by the Company are set out below together with an explanation of where changes have been made to previous policies on the adoption of new accounting standards in the year. Accounting policies have been applied consistently other than where new policies have been adopted.

The Company proposes to continue to adopt the reduced disclosure framework of FRS 101 in its next financial statements.

Notes (continued)

1.1 Standards, amendments and interpretations effective in the year

There are no amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 December 2022 that have a material impact on the company's financial statements.

1.2 Going concern

When assessing the going concern assumption, the Company's directors have considered the future cash flow forecasts for at least the next 12 months, ongoing funding requirements, and contracts with customers (including external and internal with fellow group undertakings). Management have also prepared a severe, but plausible downside scenario of a reduction of 20% of revenue throughout the going concern period.

As the Company is a guarantor to the existing Facilities Agreement, the directors have also carefully considered the financing status of the Company's parent, Varel Oil and Gas Intermediate Holdings, Inc ("the Group"). In March 2024 negotiations to agree an extension to its existing Facilities agreement were completed with a \$60M senior secured bond issue which will ensure the Group will be able to meet its liabilities as they fall due.

In the event that the Company requires assistance to meet its financial obligations, the Group would be able to provide support to the Company. The directors have received a letter of support from the Group, confirming it will provide financial support to the Company that will not be withdrawn during a period of 12 months from the date of authorisation of the financial statements, in order to allow the Company to continue to operate as a going concern.

Having regards to the matters above, and after making reasonable enquiries and taking account of uncertainties and reasonably possible changes in operating performance, the Directors have a reasonable expectation that the Company has adequate resources to continue operations for at least 12 months from the authorisation of the financial statements. For that reason, they continue to adopt the going concern basis in the preparation of the financial statements. The financial statements do not include the adjustments that would result if the company were unable to continue as a going concern.

1.3 Investments

Investments in subsidiary undertakings are shown at cost, less provision for any impairment.

1.4 Foreign currency

(a) Change in functional and presentational currency

The financial statements are presented in US Dollar (USD), which is the functional currency of the company from 1 January 2022.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured.

Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges. All other foreign exchange gains and losses are presented in the income statement within 'Other (expenses)/income'

Notes (continued)

1.5 Non-derivative financial instruments

Financial assets

The company classifies its financial assets in the following categories:

- amortised cost.
- fair value through profit or loss (FVTPL)
- fair value through other comprehensive income (FVOCI)

The classification depends on the purpose for which the financial assets were acquired i.e. the entity's business model for managing the financial assets and/or the contractual cash flow characteristics of the financial asset.

Regular way purchases and sales of financial assets are recognised on trade date, being the date on which the group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the company has transferred substantially all the risks and rewards of ownership.

At initial recognition, the company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

(a) Financial assets at amortised cost

The company classifies its financial assets as at amortised cost only if both of the following criteria are met (and are not designated as FVTPL):

- the asset is held within a business model whose objective is to collect the contractual cash flows, and
- the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest.

Subsequent to initial recognition these are measured at amortised cost using the effective interest method. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other (expenses)/income together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the profit or loss under 'net impairment losses on financial and contract assets.

(b) Financial assets at fair value through profit or loss

Financial assets that are held within a different business model other than 'hold to collect' or 'hold to collect and sell' and are categorised as fair value through profit or loss. The assets are subsequently measured at fair value with gains or losses recognised in profit or loss and presented net within other (expenses)/income in the period they arise. Fair values are determined by reference to active market or using valuation techniques where no active market exists.

Financial liabilities

Basic financial liabilities, including trade and other payables, bank loans, loans from fellow group companies and preference shares that are classified as debt, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Notes (continued)

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss in finance costs or finance income as appropriate, unless they are included in a hedging arrangement.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

1.6 Tangible assets

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost could also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Land is not depreciated. The estimated useful lives are as follows:

- Plant and machinery - over 4 years
- Fixtures, fittings & equipment - between 4 and 10 years
- Motor vehicles - over 4 years

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

1.7 Leases

The company leases an office in Aberdeen and another in Azerbaijan. Rental contracts are made for fixed periods at the time of contract negotiation but may have extension options.

Contracts may contain both lease and non-lease components. The company allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the company is a lessee and for which it has major leases, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Notes (continued)

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property, plant and equipment were classified as either finance leases or operating leases. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the company.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable by the company under residual value guarantees;
- The exercise price of a purchase option if the company is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease, if the lease term reflects the company exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the company, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

The company is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset. Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of lease liability;
- An assessment of end-of-lease dilapidation costs
- Any lease payments made at or before the commencement date less any lease incentives received;
- Any initial direct costs; and
- Restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

1.8 Stocks

Stocks are stated at the lower of cost and net realisable value. Cost is based on weighted average cost principle and includes expenditure incurred in acquiring the stocks, production or conversion costs and other costs in bringing them to their existing location and condition. In the case of manufactured stocks and work in progress, cost includes an appropriate share of overheads based on normal operating capacity. In the year to 31st December 2022 and since the closure of the manufacturing plant in Aberdeen, stock has been primarily purchased from third party vendors to ensure supply while driving up manufacturing capacity in India following the acquisition of Sledgehammer Oil Tools Pvt Limited.

Periodically, obsolescence reviews are performed on slow-moving inventories and reserves are established based on current assessment about future demands and market conditions. The Company determines the reserve percentages based on an analysis of stocking levels, historical sales and sales forecasts anticipated for inventory items by product type. If market conditions are less favourable than those projected by management, additional inventory reserves may be required.

Notes (continued)

1.9 Turnover

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes. The company sells a range of drilling equipment. Turnover is recognised once performance obligations have been satisfied and for the company, when control of the products has transferred in accordance with the shipment terms of sales contracts, the risks of obsolescence and loss have been transferred to the customer, **Notes (continued)**

and either the customer has accepted the products in accordance with the sales contract or the company has objective evidence that all criteria for acceptance have been satisfied. Royalty income is recognised monthly based on agreed royalty fees per item sold.

Right of return

When the buyer has a right of return and there is uncertainty about the possibility of return, revenue is not recognized until the shipment has been accepted by the buyer or the time period for rejection has elapsed. However, if the entity, based on historical experience, can make a reliable estimate of the amount of goods that will be returned, it would be appropriate to recognize revenue for the amount that is expected to be collected (assuming the other conditions above are met).

The company is party to bill-and-hold arrangements where the customer is billed for goods that are ready for delivery but the goods are shipped to the customer at a later date. Revenue is only recognized when control is transferred to the customer even though the customer does not have physical possession of the goods. The company determines control has been transferred where product is identified separately as belonging to the customer; product is ready for physical transfer to the customer and the company does not have the ability to use the product or to direct it to another customer.

1.10 Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

1.11 Impairment of financial assets

Financial assets (including trade and other debtors)

The company assesses on a forward-looking basis the expected credit loss associated with its financial assets. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, the company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

1.12 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Notes (continued)

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

For investment property that is measured at fair value deferred tax is provided at the rate applicable to the sale of the property except for that part of the property that is depreciable and the company's business model is to consume substantially all of the value through use. In the latter case the tax rate applicable to income is used.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

1.13 Research and development expenditure

Expenditure on research and development is written off to the profit and loss account in the year in which it is incurred.

1.14 Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised where: the company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations is small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

1.15 Dividend income and distribution

Dividend income is recognised when the right to receive payment is established. Dividend distributions to the company's shareholders are recognised as a liability in the company's financial statements in the period in which the dividends are approved by the company's shareholders.

1.16 Critical accounting judgements and key sources of estimation uncertainty

In preparing these financial statements, the directors have made the following estimates:

- The discount rate used to calculate the lease liabilities is equivalent to the borrowing rate for the company (Notes 9,17)
- Fixed assets and investments are considered for indications of impairment. If indicators of impairment are identified an impairment review will be carried out and a decision taken on possible impairment. Factors taken into account in reaching such a decision include the economic viability and expected future financial performance of the asset and where it is a component of a larger cash-generating unit, the viability and expected future performance of that unit. No indicators of impairment were identified in the year.

Notes (continued)

- Inventories are assessed for evidence of obsolescence and a provision is made against any inventory unlikely to be sold. In undertaking this assessment, inventory which is held for greater than the quantity sold or consumed within the previous twelve months is deemed to be obsolete (Note 11).
- The company assesses on a forward-looking basis the expected credit loss associated with its financial assets. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, the company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

2 Turnover

	2022	2021
	\$000	\$000
Sale of goods	24,869	21,542
Royalty revenue	9,532	8,072
	34,401	29,614
	2022	2021
	\$000	\$000
By geographical market		
Europe	4,594	5,280
Middle East	23,877	18,393
Asia	3,736	4,133
Rest of World	2,194	1,808
	34,401	29,614

3 Administrative expenses

Auditors' remuneration:

	2022	2021
	\$000	\$000
Audit of these financial statements	251	207
Amounts receivable by the company's auditors and their associates in respect of:		
Tax and other advisory services	8	46

Notes (continued)

4 Staff numbers and costs

The monthly average number of persons employed by the Company (including directors) during the year, analysed by category, was as follows:

	2022	Number of employees 2021
Management and administrative	20	24
	20	24

The aggregate payroll costs of these persons were as follows:

	2022 \$000	2021 \$000
Wages and salaries	1,481	2,150
Social security costs	143	206
Other pension costs	66	100
	1,690	2,456

Directors' remuneration

	2022 \$000	2021 \$000
Directors' emoluments	-	250
Pension scheme contributions	-	11
	-	261

The remuneration of the directors in office during 2022 was borne by the parent and another group company and was recharged to the company in a monthly management and intercompany recharge fee. The total related intercompany and management fee recharged for the year which includes other corporate and group expenses amounted to \$5,480k.

Notes (continued)

5 Operating profit

Operating profit is stated after (crediting)/charging the following:

	2022	Restated
	\$000	2021 \$000
Impairment (reversal) on trade debtors (i)	(1,207)	(111)
Impairment (reversal) on stock (ii)	(1,004)	(846)
Depreciation and impairment of tangible assets	262	403
Depreciation of right of use assets (See note 9 for details of restatement)	408	418
Financial interest (leases)	183	255
Foreign exchange (gain)	(133)	(27)

(i) Includes an impairment charge of \$1,300k written off in 2022 due an irrecoverable debt with a client in Egypt.

(ii) Continuation of efforts to reduce stock holdings and old manufacturing and engineering stock in written off in 2022 resulting in a release of impairment charge for the year.

6 Interest payable and similar expenses

	2022	Restated
	\$000	2021 \$000
Bank and IFRS 16 lease interest (See note 9 for details of restatement)	1,491	93

Notes (continued)

7 Tax on profit

Recognised in the profit and loss account	2022 \$000	2022 \$000	Restated 2021 \$000	Restated 2021 \$000
<i>UK corporation tax</i>				
Current tax on profits for the year	1,071		824	
Adjustments in respect of prior years	(98)		(94)	
Foreign tax relief/other relief	(802)		(586)	
Foreign tax suffered	1,943		586	
	<hr/>		<hr/>	
Total current tax		2,114		730
<i>Deferred tax (see note 13):</i>				
Current year	10		(141)	
Effect of changes in tax rates	-		(32)	
	<hr/>		<hr/>	
Total deferred (credit) / charge		10		(173)
		<hr/>		<hr/>
Total tax		2,124		557
		<hr/>		<hr/>

Notes (continued)

Reconciliation of effective tax rate

	2022 \$000	Restated 2021 \$000
Profit for the financial year	3,967	4,459
Total tax expense	2,124	557
Profit excluding taxation	6,091	5,016
Tax using the UK corporation tax rate of 19%	1,157	953
Fixed asset differences	(2)	62
Adjustments to non-deductible expenses	-	5
Income not taxable	(66)	(105)
Tax rate changes	2	(66)
Overseas tax - non recoverable	1,141	-
Movement in deferred tax not recognised	-	(194)
Adjustments to tax charge in respect of current period	(40)	(4)
Adjustments to tax charge in respect of previous periods	(68)	(94)
Total tax expense	2,124	557

In the Spring Budget 2021 the UK Government announced that from 1 April 2023 the corporation tax rate would increase to 25% (rather than remaining at 19% as previously enacted). This new law was substantively enacted on 24 May 2021. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

Notes (continued)

8 Tangible assets

	Plant & machinery \$000	Fixtures, fittings & equipment \$000	Motor vehicles \$000	Total \$000
<i>Cost</i>				
At beginning of year	1,051	982	32	2,065
Additions	11	34	-	45
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	1,062	1,016	32	2,110
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Accumulated depreciation and impairment</i>				
At beginning of year	678	870	32	1,580
Charge for year	228	29	-	257
Additions	2	2	-	4
	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	908	901	32	1,841
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Net book value</i>				
At 31 December 2022	154	115	-	269
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2021	373	112	-	485
	<hr/>	<hr/>	<hr/>	<hr/>

Notes (continued)

9 Right of use assets

	Right of use Buildings (restated)	Right of use Plant & Machinery	Total
	\$000	\$000	\$000
Cost			
At beginning of year – as restated	2,842	25	2,867
Disposals	-	(25)	(25)
At end of year	2,842	-	2,842
Accumulated depreciation & impairment			
At beginning of year – as restated	678	25	703
Charge for year	408	-	408
Remeasurements	179	-	179
Disposals	-	(25)	(25)
At end of year	1,265	-	1,265
Net book value			
At 31 December 2022	1,577	-	1,577
At 31 December 2021 - as restated	2,164	-	2,164

Restatement

During the year 2022, Downhole Products Limited restated the right of use asset and lease balances to reflect IFRS 16 accounting for the Azerbaijan warehouse and office leases.

The lease calculations have also been corrected to reflect the incremental borrowing rate for the entity in line with the requirements of IFRS 16 where no rate is implicit in the lease.

These changes have been accounted for retrospectively and the comparative statements for 2021 have been restated. The effect of the change on 2021 financial statements is tabulated below. Opening retained earnings have been reduced by \$217k which is the amount of the adjustment relating to periods prior to 31/12/21.

Notes (continued)

	IFRS 16 accounting for new leases	Change in incremental borrowing rate	Total Restatement
	\$000	\$000	\$000
Effects on 2021 Profits:			
(Increase) in interest expense and similar charges	(12)	(120)	(132)
Decrease in administrative expenses	4	-	4
(Decrease) in profits	(8)	(120)	(128)
 Effects on 2021 Balance sheet:			
(Decrease) in right of use assets	621	(768)	(147)
(Increase) in Creditors: Amounts falling due within one year	(204)	94	(110)
(Increase) in Creditors: Amounts falling due after one year	(425)	337	(88)
(Decrease) in Net assets	(8)	(337)	(345)

10 Investments

	Shares in group undertakings \$000
Cost	
At beginning of year	613
Additions (Investment in Sledgehammer Oil Tools Pvt Limited)	24,950
At end of year	25,563
 Net book value	
At 31 December 2022	25,563
At 31 December 2021	613

Notes (continued)

The Company has the following investments in subsidiaries:

Subsidiary undertaking	Registered office address	Country of incorporation	Class and percentage of shares held
Ian Hay (Engineering) Limited	15 Atholl Crescent, Edinburgh, EH3 8HA	Scotland	Ordinary 100%
Downhole Products Holdings USA Inc	Capitol Services Inc, 1675S States Street, Suite B, Dover, Delaware 19901	USA	Ordinary 100%
Aberdeen Products Inc. trading as Downhole Products USA	Capitol Corporate Services, 206E 9 th Street, Suite 1300, Austin, Texas	USA	Ordinary 100% (indirectly owned)
Downhole Products Asia Sdn Bhd	E71, Block E, Megan Avenue	Malaysia	Ordinary 100%
Downhole Products Middle East Fze	1189, Jalan Tun Razak, 50400, Kuala Lumpur JAFZA 16, Jebel Ali, Dubai	Dubai, UAE	Ordinary 100%
Smooth Team Investments Limited	Room 702, United Building, 17-19 Jubilee Street, Central, Hong Kong	Hong Kong	Ordinary 100%
Varel UK Limited	15 Atholl Crescent, Edinburgh, EH3 8HA	Scotland	Ordinary 100%
Sledgehammer Oil Tools Pvt Limited	262I, K,L, Sector 24, Faridabad (Haryana), 121005	India	Ordinary 78%

Sledgehammer Oil Tools Pvt Limited Acquisition

On June 29, 2022, the Company entered into an agreement to acquire 100% of the share capital of Sledgehammer Oil Tools Pvt Limited in two tranches for a total consideration of \$30,000k. The first tranche of the acquisition involved the purchase of a 78% controlling interest for a consideration of \$23,400k and a deferred amount of \$1,550k paid 90 days later after acquisition. This investment was financed by convertible loan notes to Blue Water Energy Fund II, L.P. \$20,200k and Nixon V2 I, LLC \$3,200k. Both loans are subject to an 8.8% Paid-in-kind interest rate. The acquisition closed in the second quarter of 2022.

The second tranche involves the purchase for \$6,600k of the remaining 22% equity investment from the minority shareholders of Sledgehammer Oil Tools Pvt Limited in June 2024 plus a further deferred consideration. In accordance with IAS 32, this forward contract has been recognised as a derivative. A fair value assessment of this derivative has been made at 31 December 2022 which showed no material gain or loss related to the performance of the business since the date of purchase and therefore at this date the fair value of the derivative was nil. Subsequent fair value gains/losses arising on the forward contract will be assessed at each reporting date until the acquisition is complete and if material, will be recognised in the profit or loss account.

The acquisition creates for the Varel group, a consolidated major producer of consumable downhole oilfield products across the Middle East, Asia and European markets.

Notes (continued)

11 Stocks

	2022	2021
	\$000	\$000
Raw materials and consumables	48	821
Work in progress	-	3
Finished goods	2,775	3,798
	2,823	4,622

Raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales in the year amounted to \$16,848k (2021: \$15,427k). Stocks are stated after provisions for impairment of \$2,704k (2021: \$3,708k).

12 Debtors

	2022	2021
	\$000	\$000
Trade debtors	8,683	6,845
Amounts owed by group undertakings	73,021	62,713
Other debtors	32	370
Prepayments and accrued income	70	1,134
Deferred tax (note 13)	266	276
	82,072	71,338

Amounts owed by group undertakings are unsecured, interest free, repayable on demand and have no fixed repayment date. Trade receivables are stated after provisions for impairment of \$192k (2021: \$1,399k). Having reviewed the past payment performance combined with the credit rating of the company's customers in order to assess the potential for impairment, the company has concluded expected credit loss of remaining trade and other debtors to be insignificant as there has been no history of default or dispute arising on amounts since inception of the contracts.

Notes (continued)

13 Deferred tax

	2022 \$000	2021 \$000
At beginning of year – as restated	276	103
(Charge)/credit to profit and loss account (note 7)	(10)	173
At end of year	<u>266</u>	<u>276</u>

The deferred tax balance recognised within debtors was \$266k (2021: \$276k) and has no expiry date.

14 Cash at bank and in hand

Included in cash at bank and in hand is restricted cash of \$400k which is held for a performance bank guarantee.

15 Creditors: amounts falling due within one year

	2022 \$000	Restated 2021 \$000
Trade creditors	5,192	4,092
Current lease liabilities (note 17)	375	363
Amounts owed to group undertakings	28,376	2,658
Corporation tax	379	208
Other taxation and social security	221	469
Other creditors and accruals	1,072	1,015
	<u>35,615</u>	<u>8,805</u>

See note 9 for details of restatement.

Amounts owed to group undertakings are unsecured, repayable on demand and do not attract any interest.

Notes (continued)

16 Creditors: amounts falling due after more than one year

	2022	Restated 2021
	\$000	\$000
Lease liabilities	1,348	1,893
Provision for dilapidations	231	259
Interest on long term deferred consideration	103	-
	<u>1,682</u>	<u>2,152</u>

See note 9 for details of restatement.

17 Leases

The right of use asset and lease balances have been restated to reflect IFRS16 accounting for the Azerbaijan warehouse and office leases.

The lease calculations have also been corrected to reflect the incremental borrowing rate of 9.8% for the entity in line with the requirements of IFRS 16 where no rate is implicit in the lease.

See note 9 for details of restatement.

The amounts recognised in the financial statements in relation to the leases are as follows:

(i) Amounts recognised in the statement of financial position

	2022	2021
	\$000	\$000
		Restated
<i>Right of use asset</i>		
Buildings	1,577	2,164
<i>Lease liabilities</i>		
Current lease liabilities	375	363
Non-current lease liabilities	<u>1,348</u>	<u>1,893</u>
	<u>1,723</u>	<u>2,256</u>

Notes (continued)

(ii) Amounts recognised in the income statement

The income statement shows the following amounts relating to leases:

	2022	2021
	\$000	\$000
		Restated
Depreciation charge of right-of-use assets		
Buildings	408	410
Other	-	8
Interest expense (included in finance cost)	183	255

Future minimum lease payments as at 31 December are as follows

	2022	2021
	\$000	\$000
		Restated
Not later than one year	523	564
Later than one year and not later than five years	1,035	1,700
Later than five years	638	722
Total gross payments	2,196	2,986
Impact of finance expenses	(473)	(730)
Carrying amount of liability	1,723	2,256

18 Called up share capital

	2022	2021
	\$000	\$000
<i>Allotted, called up and fully paid</i>		
45,000 (2021: 45,000) A preference shares of £1 each	61	61
7,500 (2021: 7,500) B ordinary shares of £1 each	10	10
	71	71

Both the A and B shares have attached to them full voting, dividend and capital distribution (including on winding up) rights; they do not confer any rights of redemptions or carry any cumulative dividends.

19 Employee benefits

Defined contribution plans

The Company operates a number of defined contribution pension plans.

The total expense relating to these plans in the current year was \$66k (2021: \$100k).

Notes (continued)

20 Ultimate parent company and parent company of larger group

As at 31 December 2022, the immediate parent undertaking is Downhole Products UK Holdco Limited.

The smallest and largest group to consolidate these financial statements is Varel Oil and Gas Intermediate Holdings, Inc. Copies of the Varel Oil and Gas Intermediate Holdings, Inc consolidated financial statements can be obtained from the Company Secretary at c/o Brodies, Capital Square, 58 Morrison Street, Edinburgh. EH3 8HA.

The ultimate controlling party is Blue Water Energy LLP.

21 Other considerations and notes

The company has given a guarantee in respect of the group loan which amounted to \$28,121k at 31 December 2022 (2021: \$21,500k). The guarantee is secured by a charge on Downhole Products Limited assets. The company does not have arrangements involving material commitments and guarantees apart from those relating to the group loans.

The company has registered the following charges with the Companies House.

- A restricted cash performance bank guarantee with HSBC bank of \$750k effective from 19 October 2021
- A floating charge with Investec Bank PLC effective from 29 May 2020

Appendix 25: Annual report and financial statements as of and for the financial year ended 31 December 2023 for Downhole Products Limited.

Downhole Products Limited

Annual report and financial statements

Registered number SC145401

31 December 2023

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Directors and officers

Directors:	Derek Nixon Jordan Stringer Witland James Leblanc Jr
Registered office:	C/O Brodies LLP Capital Square 58 Morrison Street Edinburgh EH3 8BP
Independent Auditors:	PricewaterhouseCoopers LLP The Capitol, 431 Union Street Aberdeen AB11 6DA

Strategic report

The Directors present their strategic report for the year ended 31 December 2023.

The company continues to design and supply a range of Primary Casing Equipment products to the oil and gas industry. The key markets in which the company operates are the Middle East, Asia and Europe including the UK and Norway.

Business review and results

The year 2023 marked another period of robust recovery and sustained growth for Downhole Products Limited, building on the strong foundation and recovery established in 2021 - 2022. The company demonstrated consistent execution across key markets, particularly in the Middle East, by deepening relationships with leading National Oil Companies (NOCs) and leading Oilfield Services (OFS). At the same time, the company maintained a disciplined approach to growth in the North Sea, Caspian, West Africa, and Asia. Favorable macroeconomic drivers, including oil price stabilization, increased rig counts, and client operating expenditures (OPEX), provided greater visibility and investment opportunities, further enabling Downhole Products Limited to capture incremental market opportunities.

Strategic initiatives outlined in prior periods were effectively executed, resulting in market share gains, enhanced profitability, and improved commercial terms. The company also secured additional multi-year contracts within the Gulf Cooperation Council (GCC) region. These contracts capitalized on the company's existing personnel support network while driving higher manufacturing volumes, thereby achieving margin improvements through economies of scale and product consistency.

The directors report a turnover of \$43,386k for the year ended 31 December 2023, representing a 26% increase compared to \$34,401k in 2022. Operating profit increased to \$13,453k (2022: \$7,582k). This growth was underpinned by cost efficiencies realized from 2022 acquisitions, improvements in procurement processes, and strategic pricing initiatives. However, challenges such as increased logistics volatility associated to geopolitical stress and port capacity planning moderated potential additional margin gains.

At the close of 2023, the company reported shareholders' funds of \$110,740k, an increase from \$76,291k in 2022. Current assets exceeded current liabilities by \$85,099k, up from \$50,564k in the prior year, with intercompany receivables contributing \$81,817k (2022: \$73,021k). Working capital requirements for large-scale Middle Eastern contracts, particularly Vendor Managed Inventory (VMI) obligations, were mitigated through improved inventory turnover in other locations. The company continued to prioritize favorable commercial terms and optimized cash conversion cycles to maintain liquidity and operational flexibility.

Looking ahead, Downhole Products Limited's strategic focus remains aligned with its vision to be the leading OEM manufacturer of primary cementing equipment in the GCC, North Sea, West Africa, and Asia. This strategy is supported by disciplined growth initiatives, leveraging consistent execution of long-term contracts and product innovations. The company has further insulated itself from sector volatility by focusing on product consistency, customer alignment and expanding its engineering capabilities through Value Added/Value Engineered (VAVE) projects. These initiatives aim to enhance the product portfolio, improve reliability, and achieve cost efficiencies for both existing and new customers.

Customer intimacy, service delivery, and cost efficiency remain central to Downhole Products Limited operational philosophy. The company is committed to maintaining its defined strategic focus, ensuring sustainable growth, and delivering improved financial returns. Through its focus on execution excellence and market alignment, Downhole Products Limited. is well-positioned for continued success in the years ahead.

Strategic report *(continued)*

2023 illustrated Downhole Products Limited continued strong recovery and growth trajectory, building on the foundation set in 2022. The company achieved consistent execution in the Middle East, strengthening partnerships with NOC's and OFS's, while pursuing disciplined growth in the North Sea, Caspian, West Africa, and Asia. Favorable macroeconomic drivers, such as stabilized oil prices and increased rig activity, supported greater visibility and investment opportunities. Strategic initiatives drove market share gains, enhanced profitability, and secured multiyear contracts in the GCC, leveraging existing resources to improve margins through scale and efficiency.

Despite sporadic logistical challenges, the company optimized working capital and cash cycles while maintaining a focus on product consistency, innovation, and customer-centric service. It is committed to its vision of being a leading OEM manufacturer in its key markets, supported by disciplined growth, operational excellence, and strategic alignment for sustainable and profitable expansion.

No dividend was distributed in 2023 (2022: *\$Nil*)

Strategic report *(continued)*

Emissions and Energy Consumption

Downhole Products Limited presents their energy report for the year ended 31 December 2023.

Quantification and Reporting Methodology

- Downhole Products Limited complies with the Companies Act 2006 (Strategic Report and Director's Report) Regulations 2013 and the Companies (Director's Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 and our approach to reporting is based on the GHG Protocol Corporate Accounting and Reporting Standard in line with the guidance on SECR.
- Our reporting period is for the financial year 1st January 2023 to 31st December 2023, reporting all material GHG emissions using "Kilograms of CO2 equivalent" (kgCO2e) as the unit of measurement and reporting energy use in kWh. We have included the energy and emissions for the buildings owned and operated (i.e. those within the financial control boundary).
- The results are presented as Location-based emissions and Market-based emissions, where applicable. Location-based are mandatory and reflect the average emissions intensity of grid supplies (using grid average emissions factors) and Market-based are voluntary and reflect emissions from energy where companies have a contractual agreement to procure green energy.
- The methodology used to calculate total energy consumption and carbon emissions has been invoice data supplied for the financial years stated. Where data was not available, estimates have been calculated using historical profiles and details kept in the evidence pack.
- Energy and fuel consumption has been converted to carbon (kgCO2e) using DEFRA-published conversion factors.
- New DEFRA conversion tables are issued in June and cover January to December, our financial year covers a single data set, and has therefore used the annually published factors covering 2023.
- There was an error in the consumption of gas in the report issued for 2022 of 175,129 kWh 31,968 kgCO2e which has been removed in this report.
- We have selected the most appropriate intensity metric in line with the primary drivers of energy consumption, where possible. For this report we have selected Gross Internal Area (GIA SqM) as the most appropriate to achieve a benchmark.

Energy Efficiency Action Taken

- We have continued the hybrid office/home working which has saved office energy costs.
- We have started monitoring and reporting energy usage across the group from 2021 which will help drive energy efficiencies.

Strategic report (continued)

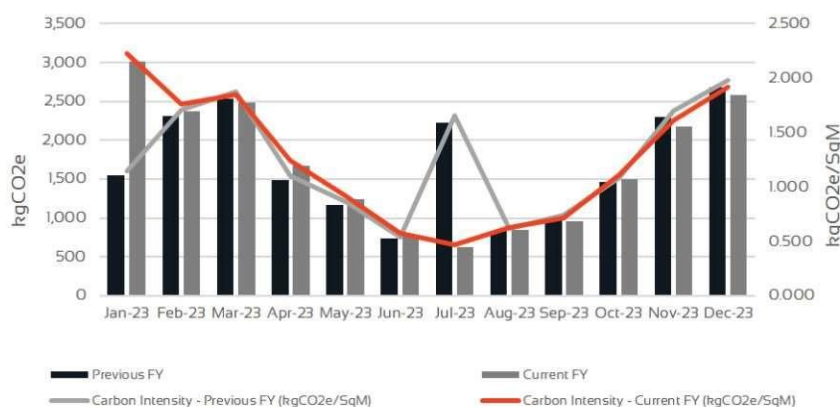
Streamlined Energy and Carbon Report for the year ended 31 December 2023

SUMMARY

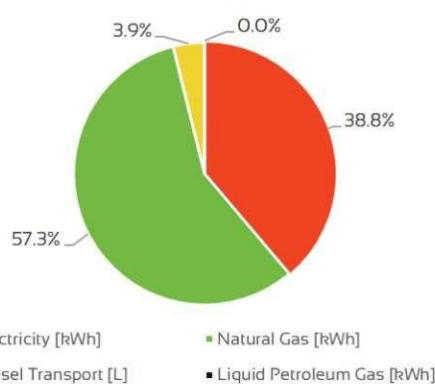
Financial Year	Jan-23 - Dec-23	Emissions (kgCO ₂ e) & Change	20,247	-0.1%
Intensity Metric	Floor Space (SqM)	Emissions Intensity kgCO ₂ e/SqM	15.004	-0.1%

Reporting Category	Year Ending: Dec-23	Year Ending: Dec-22	Change
Energy consumption used to calculate emissions: (kWh)	104,666	107,035	-2%
Electricity [kWh] kWh	37,953	40,081	-5%
Natural Gas [kWh] kWh	63,434	61,558	3%
Diesel Transport [L] kWh	3,280	4,230	-22%
Liquid Petroleum Gas [kWh] kWh	0	1,166	-100%
Emissions from combustion of gas (Scope 1) (kgCO2e)	11,603.86	11,236.82	3%
Emissions from combustion of other fuel (Scope 1) (kgCO2e)	0.00	250.16	-100%
Emissions from combustion of fuel for transport purposes (Scope 1) (kgCO2e)	784.27	1,020.07	-23%
Emissions from purchased electricity (Scope 2, location-based) (kgCO2e)	7,858.99	7,750.84	1%
Total gross kgCO2e based on Scopes 1 & 2 above	20,247	20,258	0%
Location-based intensity ratio: gross - Scopes 1 & 2 kgCO2e/SqM	15.00	15.01	0%
Emissions from purchased electricity (Scope 2, market-based factor) (kgCO2e)	7,858.99	7,750.84	1%
Emissions generated from natural gas (Scope 1, market-based factor) (kgCO2e)	11,603.86	11,236.82	3%
Total annual net kgCO2e based on Scopes 1 & 2 above	20,247.11	20,257.89	0%
Market-based intensity ratio: net - Scopes 1 & 2 kgCO2e/SqM	15.00	15.01	0%

Carbon Emissions - Location-based



Carbon Emissions by Energy Source (kgCO₂e)



Strategic report (continued)

Streamlined Energy and Carbon Report for the year ended 31 December 2023 (continued)

REPORT

Streamline Energy and Carbon Reporting Disclosure

Global energy Scope 1 and 2 GHG emission data for period:

01/01/2023

31/12/2023

Kilograms CO ₂ e						
Emissions from	FY23 location- based	FY22 location- based	Variance location- based	FY23 market- based	FY22 market- based	Variance market- based
Scope 1 (Fuel combustion in buildings)	11,603.86	11,236.82	3%	11,603.86	11,236.82	3%
Scope 1 (Fuel combustion in vehicles)	784.27	1,020.07	-23%	784.27	1,020.07	-23%
Scope 1 (Fuel combustion in mobile and static plant)	0.00	250.16	-100%	0.00	250.16	-100%
Scope 2 (Electricity)	7,858.99	7,750.84	1%	7,858.99	7,750.84	1%
Total	20,247			20,247		0%

Company's chosen intensity metric:

kgCO₂e/Sqm

	FY23 location- based	FY23 market- based	Variance
Emissions reported per Floor Space (Sqm)	15.00	15.00	0%

Underlying global energy data for period:

01/01/2023

31/12/2023

Energy use (kWh)	FY23	FY22	Variance
Electricity	37,953	40,081	-5%
Natural Gas	63,434	61,558	3%
Mobile and Static Plant Fuel	0	1,166	-100%
Transport Fuel	3,280	4,230	-22%
Total	104,666	107,035	-2%

Strategic report (continued)

Streamlined Energy and Carbon Report for the year ended 31 December 2023 (continued)

Previous Financial Year Review

A review of the submissions for FY22 were incorrect due to the gas consumption for Badentoy Road being estimated from October 2021 when the lease ended. This has resulted in a reduction of 175,129 kWh, 31,968 kgCO₂e and reduced the intensity metric down from 38.703 kgCO₂e/SqM to 15.012 kgCO₂e/SqM, a reduction of 61.21%.

Variances

		FY23 Report	FY22 Report			
Reporting Category		Year Ending: Dec-22	Year Ending: Dec-22	Variance	Variance	Comments
Energy consumption used to calculate emissions: (kWh)		107,035	282,164	-62.07%	-175,129	
Electricity	kWh	40,081	40,081	0.00%	0	
Natural Gas	kWh	61,558	236,687	-73.99%	-175,129	
Transport Fuels	kWh	4,230	4,230	0.00%	0	
Gaseous Fuels	kWh (LPG)	1,166	1,166	0.00%	0	
Emissions from combustion of gas (Scope 1) (tCO ₂ e)		11,236.82	43,204.774	-73.99%	-31,968	
Emissions from combustion of other fuel (Scope 1) (tCO ₂ e)		250.16	250	0.00%	0	
Emissions from combustion of fuel for transport purposes (Scope 1) (tCO ₂ e)		1,020.07	1,020.067	0.00%	0	
Emissions from purchased electricity (Scope 2, location-based) (kgCO ₂ e)		7,750.84	7,750.844	0.00%	0	
Total gross tCO₂e based on above		20,257.89	52,225.84	-61.21%	-31,968	
Intensity ratio: gross tCO₂e/SqM		15.012	38.703	-61.21%	-24	

Strategic report *(continued)*

Principal risks and uncertainties

Financial Risk Factors

Downhole Products Limited activities expose it to a variety of financial risks: market risk, credit risk, and liquidity risk. The company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the company's financial performance.

2023 saw further stabilization in the sector, there were pockets of geopolitical unrest which generally impacted stocking requirements and logistical volatility, yet Downhole Products Limited continued to position itself and drive strategies to mitigate operational and negative cost impacts.

Oil prices averaged \$84.03 USD/BBL in 2023, down from \$94.53 USD/BBL in 2022, with a year-end close of \$77.63 USD/BBL compared to \$80.51 USD/BBL the previous year. Despite the decline, there was a renewed emphasis on gas reservoir development in the Middle East, particularly within the GCC, driven by domestic consumption needs and export demands amid the ongoing Russia-Ukraine conflict and reduced activity in North America's land sector. This shift spurred more complex well-construction projects, aligning closely with the Company's portfolio and strengthening customer partnerships.

Continued stabilization in raw materials which contributes to over 60% of our products but a further recovery in steel prices from 3,905 CNY/T to 3,740 CNY/T across the year resulted in further cost reduction of up to 5%. Freight though after reduction from 2021 into 2022 was subject to volatility again in 2023 although at a lower base rate with reduced basis fluctuations with rates closing the year at \$1,281 per 40ft container. However, geopolitical tensions, particularly in the Middle East and high-volume shipping lanes, led to unplanned fluctuating freight rates; that not only affected lead times but resulted in a immediate shift to air freight for pulling in raw materials and consumables. Additionally, delivery of finished goods to critical delivery operational requirements, offsetting the gains of margin improvements on materials to a large proportion.

In 2022, air freight rates were elevated due to pandemic-related disruptions and high demand. For instance, in December 2022, the average spot rate for air cargo from Asia Pacific to North America was \$5.38 per kilogram, a 58% decrease from the previous year but still 87% above pre-pandemic levels. In 2023, air freight rates continued to decline as market conditions normalized. By August 2023, global headhaul rates averaged \$3.29 per kilogram, a 45% drop compared to August 2022.

The latter part of 2023 and the rapid expansion of e-commerce in Asia significantly impacted the air cargo market. Substantial shipping volumes from China lead to increased competition for airfreight capacity, causing rates to rise circa 40% in Q4-23 with similar negative trending going into 2024 compared to the previous year. Guaranteeing complete delivery slots also was challenged resulting in split shipments inducing additional charges coupled with storage fees being included by freight forwarders.

In 2022, the average international rig count was 851 units. This figure increased to 901 units in January 2023. This represents a rise of approximately 5.9% from the previous year. The global rig count, which includes both international and U.S. rigs, averaged 1,747 units in 2022. By January 2023, this number had grown to 1,899 units, marking an increase of about 8.7%. indicating a continued modest recovery in drilling activities during that period.

With rig count stabilizing, flat to modest improvement focus on market share gains through customer service bias encroachment within our existing customer basis and focus improvements on margin improvement and cash collections. With market midterm visibility, a drive for performance and client interface differentiation, we were able to see pricing improvement across the aggregate compounding margin improvement across 2023. Managing the line between Operational FCF (OFCF) and EBITDA was particularly important while there was a greater demand for shorter lead times and subsequently stocking points, working capital associated to inventory had to be continually evaluated to maximize cash conversion cycles.

Foreign Exchange Risk

The directors previously considered one of the principal risks and uncertainties of the business to be volatility in foreign exchange rate between GBP and USD. In 2023 the company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the U.S. dollar. Most sales and purchases occur in the functional currency. Foreign currency risk is managed within the limits approved by the Company's policy using derivative contracts.

Strategic report *(continued)*

Credit Risk

Credit risk arises from cash and cash equivalents, derivative financial instruments, and deposits with banks and financial institutions, as well as credit exposure to the Company's customers, including outstanding receivables. Cash maintained in UK banks at times may exceed the FSCS coverage of £85,000. At December 31, 2023, or 2022 the Company has not experienced losses on these cash accounts and management believes that the credit risk with regard to these deposits is not significant.

Interest Rate Risk

The Company has certain long-term, third-party borrowings subject to variable interest rate indices. The Company regularly monitors the changes in interest rate risk.

Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities, and the ability to meet contractual terms of derivative positions.

Cybersecurity Risk

Cybersecurity risk management is a critical aspect of our business operations, and we recognize its significance in safeguarding our sensitive information and maintaining the trust of our stakeholders. We have implemented a comprehensive framework to identify, assess, and mitigate cybersecurity risks. This framework encompasses proactive measures such as regular risk assessments, robust network and system monitoring, strong access controls, employee training programs, and incident response protocols. We also collaborate with external cybersecurity experts to ensure our systems remain resilient to evolving threats.

While we strive to minimize the likelihood and impact of cybersecurity incidents, we acknowledge that no system is entirely immune. Therefore, we have implemented robust measures to ensure continuous threat monitoring and response, phishing protection, and upgraded authentication systems.

Climate Risk

The Company's strategy has been influenced by climate related risks and opportunities and is developing a climate transition plan within two years. The directors see no material impact to the business in the coming year.

Capital Risk Management

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. To maintain or adjust the capital structure, the Company may return capital to shareholders.

Consistent with others in the industry, the Company monitors capital based on the debt-to-equity ratio. The ratio is calculated as net borrowings divided by total equity.

The Company is exposed to risks arising from increased costs due to commodity price fluctuations, such as iron and steel, precious metals and nonferrous alloys used in manufacturing. The Company controls the price risk associated with the purchase of those commodities by maintaining inventory at the minimum level.

Key performance indicators

Following on from strong improvements from 2021 to 2022, larger based contracts became a large body of revenue streams particularly for the Middle East as we continued to grow our market shares. Stronger margins with improved supply chain efficiencies were materializing. Additional expansion in the Middle East through contracts which carry high levels of customer stocking requirements induced a negative impact on Trade debtor days applicable to invoice terms up to 12 months for items not consumed but ordered in line with guarantee purchasing terms under the NOC's Early Production Commitment (EPC's).

Considering this, strong controls implemented associated to direct and indirect spend to continue to manage margin but also maximizing OFCF based on slower payment terms. Levels of control associated to operational engagement where risk increased resulted in commercial stage gates for short and long-term agreements were reviewed based on LOA's implemented in 2022. Continued improvement of LOA's governing commercials were further improved and coupled with commercial dashboards improving business intelligence associated to Net Price Change (previous sales vs. new sale price and COGS on previous sale vs. COGS on new sale), DSO, DII, OFCF and SGA values

	2023	2022
Turnover (\$000)	43,386	34,401
Gross margin % of revenues	55%	52%
Trade debtor days	109	92

The company focuses on the health and safety of its workforce, with no lost-time incidents from 2020 through 2023. Health and safety have become ever more a focus of importance and with the expansion of operations since under new management/ leadership with key champions in the form of Region Managers and VP's. They were accountable for leading a safe working environment inclusive of near misses, hazard identification, areas of improvement, safety stand downs, hazards hunts, but not limited to, and were mandated at all DHP and third party sites where Varel personnel and equipment are present. Quarterly reviews with the executive management, directors and BOD also drove further accountability through reporting

Director's statement in performance of their duties under section 172(1)

The Directors have acted in the way they consider would be most likely to promote the success of the Company for the benefit of its members as a whole (having regard to the stakeholders and matters set out in s172(1) (a-f) of the Companies Act 2006) in the decisions taken during the year. Entering 2023 Downhole Products Limited management had taken extensive steps to position the company for sustained profitable growth internationally while taking actions to ensure an efficient working environment that maximized profits while enabling growth in a safe and reliable manner. Examples of that can be seen through customer cleansing aligned to improvement collections, inventory reduction vs. revenue growth and improved margins.

Continuing to build on the integration of Sledgehammer Oil Tools allowed the company to further drive margin improvement through supply chain efficiencies while also assuming greater control of operational execution compounding the strategy to insulate Downhole Products Limited from market volatility as historical seen during pandemic and geopolitical events whilst also ensuring greater customer intimacy and effectiveness. Maintaining a disciplined organization which added resources only where necessary while training and developing existing members of the organization allowed further optimization of the Sales, General and Administrative (SGA) costs.

Being disciplined on strategic executions plans aligned to organic market growth while considering the fall through associated to incremental/ encroachment market share movements, ensuring Downhole Products Limited continued to align to the intended outcomes from a positive 2022 and enabled continued success in 2023. Growing existing client's basis across the business, while continuing to build and support new contract awards while remaining disciplined on the corporate strategy and not stretching the organization or creating diversity which would negatively impact our ability to operate efficiently as Downhole Products Limited had continued to evidently achieve. Diversity in operations not only in Oil & Gas also continues to be a focus with market execution improvements within Geothermal, Water and Remedial Production & Intervention (P&A), further diversifying our opportunities and growing our customer basis. We continue to establish a solid pipeline for 2024 with 45% of the forward lookahead coming from contractual customers with spending obligations, open PO's or PO's received, 42%% coming from long standing repeatable customer orders capable of firm demand planning and only 13% of 2024 lookahead associated to opportunity conversation where opportunities are identified with greater than 52% probability of execution.

We continue to believe that effective corporate governance is the foundation of a well-run business and are committed to ensuring that high standards of corporate governance are maintained and supports the principles set out in the Code. We build strong, transparent relationships with host governments and regulatory authorities. We comply with all relevant legislation in the areas where we have our operations and disclose all necessary information. The company conducts its business with integrity, respecting the laws, cultures, and rights of individuals in all the countries in which we operate. Business ethics are more than avoiding contravening laws. The Code of Conduct constitutes the basis upon which all our policies and procedures are built. The objective of the Code of Conduct is to describe the company's commitment and requirements regarding business practice and personal conduct. It defines the behavior the company expects of our employees and what they can expect of the company.

Signed on behalf of the Board



Witland James Leblanc Jr
Director

c/o Brodies LLP
Capital Square
58 Morrison Street
Edinburgh EH3 8BP

12 February 2025

Directors' report

The Directors present their Annual report and financial statements for the year ended 31 December 2023.

Future developments

The integration of Sledgehammer Oil Tools Pvt Limited continued in line with migrating contracts to Downhole Products Limited. for central commercial controls on more favorable terms, supporting with the transition and implementation of process, policy and/ or standardization while prepping for the remaining 22% share capital of purchase which was executed in September 2024.

We continue to invest in Research and Development (R&D) to develop both existing products and the range of customer solutions as a whole with particular focus on product efficiency and value add; new products were subject to commercial field trials in 2023 with further planned going into 2024 based on continued investment.

Development of our organization associated to strategic commercial negotiations, culture/ management training, financial discipline and root cause analysis will be key development areas for our teams going forwards with a major portion presented to the Board of Directors with a 3-5 year plan lookahead while ensuring strategies are aligned for a strong sustainable growth with clear visibility for all employees and management for engagement, transparency and alignment.

Financial risk management objectives and policies

The company is exposed to volatility in foreign exchange variance between GBP and USD and enters into forward currency contracts to manage the risk. Other than these, the company uses operational bank accounts, short term debtors and creditors and so its exposure to price risk, credit risk and cash flow risk is not material for the assessment of the assets, liabilities, financial position and profit and loss of the company.

Results and dividends

The profit for the year, after taxation, amounted to \$8,644k (2022: \$3,967k).

No dividend payments were distributed in 2023 (2022: \$Nil). The Directors do not recommend the payment of a final dividend.

Directors

The Directors of the company who were in office during the year and up to the date of signing the financial statements were:

Derek Nixon
Jordan Stringer
Mark Gandy (Appointed 12th July 2022, Resigned 10th August 2023)
Witland James Leblanc Jr (Appointed 10th August 2023)

Political contributions

The company made no political contributions during the year.

Going Concern

When assessing the going concern assumption, the company's directors have considered the future cash flow forecasts for at least the next 12 months, ongoing funding requirements, and contracts with customers (including external and internal with fellow group undertakings). We are continually reviewing any change in events to ensure we have plausible downside scenarios which may need to be executed in light of the competitive landscape or market outlook.

As the company is a guarantor to the existing Facilities Agreement, the directors have also carefully considered the financing status of the company's parent, Varel Oil and Gas Intermediate Holdings, Inc ("the Group"). In March 2024 negotiations to agree an extension to its existing Facilities agreement were completed with a \$60M senior secured bond issue which will ensure the group will be able to meet its liabilities as they fall due.

In the event that the company requires assistance to meet its financial obligations, the Group would be able to provide support to the company. The directors have received a letter of support from the Group, confirming it will provide financial support to the company that will not be withdrawn during a period of 12 months from the date of authorisation of the financial statements, in order to allow the company to continue to operate as a going concern.

Having regards to the matters above, and after making reasonable enquiries and taking account of uncertainties and reasonably possible changes in operating performance, the Directors have a reasonable expectation that the company has adequate resources to continue operations for at least 12 months from the authorisation of the financial statements. For that reason, they continue to adopt the going concern basis in the preparation of the financial statements. The financial statements do not include the adjustments that would result if the company were unable to continue as a going concern.

Financial Instruments

The company's policy is primarily to finance the business from retained earnings. The company used foreign exchange forward contracts during the year to manage foreign exchange volatility and these were all closed out with no open contracts at 31st December 2023. The company is exposed to the usual credit risk and cash flow risk associated with selling on credit terms and manages this through strict credit control procedures.

Company's policy for payment of creditors

It is the company's policy to pay creditors within the terms agreed when the contract of supply is entered into, to the extent that the creditors have fulfilled and performed their contractual obligations.

Engagement with employees

The company has continued its practice of keeping employees informed of matters affecting them as employees and the financial and economic factors affecting the performance of the company. This is achieved through monthly management calls for all managers with the Directors and then by each manager within their departments.

Inclusion and diversity

The company is an equal opportunity employer committed to positive policies in recruitment, training and career development for staff members (and potential staff members) regardless of marital status, sex, religion, colour, race, ethnic origin or disability. The company gives full consideration to applications for employment by disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person. Where existing employees become disabled it is the company policy, where practical, to provide continuing employment under similar terms and conditions and to provide training and career development.

Director indemnity clause / statement

Subject to the conditions set out in the Companies Act 2006, the company has arranged appropriate Director and officer insurance to indemnify the Directors and officers against liability in respect of proceedings brought by third parties. Such provision remains in force at the date of approval of the financial statements.

The Company indemnifies the Director against actions they undertake or fail to undertake as a Director or officer of any Company, to the extent permissible for such indemnities to meet the test of a qualifying third-party indemnity provision as provided for by the Companies Act 2006. These provisions remained in force throughout the year and remain in place at the date of approval of the financial statements.

Research and Development

The Company continues to utilise its technical and materials expertise to remain at the forefront of innovative technology and produce specialist products to maximise the performance and capabilities of its customers. The Company continues to invest in R&D to develop both existing products and the range of customer solutions as a whole.

Branches

The Company has a branch office in Baku, Azerbaijan.

Independent Auditors

Pursuant to section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and PricewaterhouseCoopers LLP will therefore continue in office.

Directors' report *(continued)*

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently.
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements.
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Directors' confirmations

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

On behalf of the Board



Witland James Leblanc Jr
Director

c/o Brodies LLP
Capital Square
58 Morrison Street
Edinburgh
EH3 8BP
12 February 2025

Independent auditors' report to the members of Downhole Products Limited

Report on the audit of the financial statements

Opinion

In our opinion, Downhole Products Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2023 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and financial statements (the "Annual Report"), which comprise: the Balance sheet as at 31 December 2023; the Statement of Comprehensive Income and the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, comprising material accounting policy information and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2023 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to UK Corporation tax legislation and the Companies Act 2006, and we considered the extent to which non-compliance might have a material effect on the financial statements. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting of inappropriate manual journals to increase revenue and profitability. Audit procedures performed by the engagement team included:

- Discussions with management, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- Identifying and testing journal entries, in particular journal entries posted with unusual account combinations impacting revenue;
- Review of minutes of meeting of Board of Directors; and
- Challenging assumptions and judgements made by management in their significant accounting estimates.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Alistair Rose (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Aberdeen
12 February 2025

Financial Statements

Statement of Comprehensive Income for the year ended 31 December 2023

	<i>Note</i>	2023 \$000	2022 \$000
Turnover	2	43,386	34,401
Cost of sales		(19,556)	(16,548)
Gross profit		23,830	17,853
Administrative expenses	3,4	(10,378)	(10,271)
Operating profit	5	13,452	7,582
Interest payable and similar expenses	6	(1,703)	(1,491)
Profit before taxation		11,749	6,091
Tax on profit	7	(3,105)	(2,124)
Profit for the financial year		8,644	3,967
Other comprehensive income net of tax: Currency translation adjustment		-	-
Total comprehensive income for the year		8,644	3,967

The results for the year are derived from continuing operations.

Balance sheet
at 31 December 2023

		31 December 2023	31 December 2022
	<i>Note</i>	\$000	\$000
Fixed assets			
Tangible assets	8	92	269
Right-of-use assets	9	1,288	1,577
Investments	10	25,531	25,563
		<u>26,911</u>	<u>27,409</u>
Current assets			
Stocks	11	8,708	2,823
Debtors	12,13	95,234	82,072
Cash at bank and in hand	14	957	1,284
		<u>104,899</u>	<u>86,179</u>
Creditors: amounts falling due within one year	15,17	<u>(19,800)</u>	<u>(35,615)</u>
Net current assets		<u>85,099</u>	<u>50,564</u>
Creditors: amounts falling due after more than one year	16,17	<u>(1,270)</u>	<u>(1,682)</u>
Net assets		<u>110,740</u>	<u>76,291</u>
Capital and reserves			
Called up share capital	18	71	71
Currency translation adjustment		37	37
Capital Reserve		25,805	-
Profit and loss account		84,827	76,183
Total Shareholders' funds		<u>110,740</u>	<u>76,291</u>

The notes on pages 23 to 43 are an integral part of these financial statements. The financial statements on pages 20 to 43 were approved by the Board of Directors on 12 February 2025 and signed on its behalf by:



Witland James Leblanc Jr
Director

Statement of Changes in Equity
For the year ended 31 December 2023

	Called Up share capital	Profit & Loss account	Currency translation adjustment	Capital Reserve	Total shareholders' funds
	\$000	\$000	\$000	\$000	\$000
Balance as at 01 January 2023	71	76,183	37	-	76,291
Total comprehensive income for the financial year	-	8,644	-	-	8,644
Conversion of loan from Varel Oil & Gas Intermediate Holdings Inc. to create a capital reserve (i)	-	-	-	25,805	25,805
Balance at 31 December 2023	71	84,827	37	25,805	110,740

- (i) In June 2023, the date of maturity of an \$23,5M Intercompany loan granted to Downhole Products Limited from the parent company Varel Oil and Gas Intermediate Holdings, Inc it was agreed to convert this loan which included interest at 10% to equity in the form of a capital reserve.

Notes to the financial statements

1. Material accounting policies

General Information

The company is a private company limited by shares incorporated and domiciled in Scotland, UK. The company financial statements have been prepared in pounds sterling and in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) under historical cost convention.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 1.16.

The company has adopted S.401 of the Companies Act 2006 providing exemption from consolidation of subsidiary financial statement. The company's ultimate parent undertaking is Bluewater Private Equity whilst Sandvik AB and Nixon Energy hold minority shares. The company's Parent company, Varel Oil and Gas Intermediate Holdings, Inc includes the company in its consolidated financial statements.

The consolidated financial statements of Varel Oil and Gas Intermediate Holdings, Inc, are prepared in accordance with International Financial Reporting Standards as issued by the IASB and are published at the date of approval of the financial statements. The address of the Varel Oil and Gas Intermediate Holdings, Inc is disclosed in note 20.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements in accordance with the Companies Act 2006 as applicable to companies using FRS 101:

- Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share-based payment' (details of the number and weighted average exercise prices of share options, and how the fair value of goods or services received was determined).
- IFRS 7, 'Financial instruments: Disclosures'.
- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities).
- Paragraph 38 of IAS 1, 'Presentation of financial statements' – comparative information requirements in respect of:
 - paragraph 79(a)(iv) of IAS 1;
 - paragraph 73I of IAS 16, 'Property, plant and equipment'; and
 - paragraph 118I of IAS 38, 'Intangible assets' (reconciliations between the carrying amount at the beginning and end of the year).
- The following paragraphs of IAS 1, 'Presentation of financial statements':
 - 10(d) (statement of cash flows);
 - 16 (statement of compliance with all IFRS);
 - 38A (requirement for minimum of two primary statements, including cash flow statements);
 - 38B-D (additional comparative information);
 - 40A, 40B, 40C, 40D (change in accounting policy, retrospective restatement or reclassification);
 - 111 (statement of cash flows information); and
 - 134-136 (capital management disclosures).
- IAS 7, 'Statement of cash flows'.
- Paragraphs 30 and 31 of IAS 8, 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective).
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation).
- The requirements in IAS 24, 'Related party disclosures', to disclose related party transactions entered into between two or more members of a group.

The principal accounting policies adopted by the company are set out below together with an explanation of where changes have been made to previous policies on the adoption of new accounting standards in the year. Accounting policies have been applied consistently other than where new policies have been adopted.

The company proposes to continue to adopt the reduced disclosure framework of FRS 101 in its next financial statements.

Notes (continued)

1.1 Standards, amendments and interpretations effective in the year

There are no amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 December 2023 that have a material impact on the company's financial statements.

1.2 Going concern

When assessing the going concern assumption, the company's directors have considered the future cash flow forecasts for at least the next 12 months, ongoing funding requirements, and contracts with customers (including external and internal with fellow group undertakings). Management have also prepared a severe, but plausible downside scenario of a reduction of 20% of revenue throughout the going concern period.

As the company is a guarantor to the existing Facilities Agreement, the directors have also carefully considered the financing status of the company's parent, Varel Oil and Gas Intermediate Holdings, Inc ("the Group"). In March 2024 negotiations to agree an extension to its existing Facilities agreement were completed with a \$60M senior secured bond issue which will ensure the Group will be able to meet its liabilities as they fall due.

In the event that the company requires assistance to meet its financial obligations, the Group would be able to provide support to the company. The directors have received a letter of support from the Group, confirming it will provide financial support to the company that will not be withdrawn during a period of 12 months from the date of authorisation of the financial statements, in order to allow the company to continue to operate as a going concern.

Having regards to the matters above, and after making reasonable enquiries and taking account of uncertainties and reasonably possible changes in operating performance, the Directors have a reasonable expectation that the company has adequate resources to continue operations for at least 12 months from the authorisation of the financial statements. For that reason, they continue to adopt the going concern basis in the preparation of the financial statements. The financial statements do not include the adjustments that would result if the company were unable to continue as a going concern.

1.3 Investments

Investments in subsidiary undertakings are shown at cost, less provision for any impairment.

1.4 Foreign currency

The financial statements are presented in US Dollar (USD), which is the functional currency of the company.

(a) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured.

Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges. All other foreign exchange gains and losses are presented in the income statement within 'Other (expenses)/income'

Notes (continued)

1.5 Non-derivative financial instruments

Financial assets

The company classifies its financial assets in the following categories:

- amortised cost.
- fair value through profit or loss (FVTPL)
- fair value through other comprehensive income (FVOCI)

The classification depends on the purpose for which the financial assets were acquired i.e. the entity's business model for managing the financial assets and/or the contractual cash flow characteristics of the financial asset.

Regular way purchases and sales of financial assets are recognised on trade date, being the date on which the group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the company has transferred substantially all the risks and rewards of ownership.

At initial recognition, the company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

(a) Financial assets at amortised cost

The company classifies its financial assets as at amortised cost only if both of the following criteria are met (and are not designated as FVTPL):

- the asset is held within a business model whose objective is to collect the contractual cash flows, and
- the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest.

Subsequent to initial recognition these are measured at amortised cost using the effective interest method. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other (expenses)/income together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the profit or loss under 'net impairment losses on financial and contract assets.

(b) Financial assets at fair value through profit or loss

Financial assets that are held within a different business model other than 'hold to collect' or 'hold to collect and sell' and are categorised as fair value through profit or loss. The assets are subsequently measured at fair value with gains or losses recognised in profit or loss and presented net within other (expenses)/income in the period they arise. Fair values are determined by reference to active market or using valuation techniques where no active market exists.

Financial liabilities

Basic financial liabilities, including trade and other payables, bank loans, loans from fellow group companies and preference shares that are classified as debt, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Notes (continued)

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss in finance costs or finance income as appropriate, unless they are included in a hedging arrangement.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

1.6 Tangible assets

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost could also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to the income statement during the financial year in which they are incurred.

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Land is not depreciated. The estimated useful lives are as follows:

- Plant and machinery - over 4 years
- Fixtures, fittings & equipment - between 4 and 10 years
- Motor vehicles - over 4 years

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

1.7 Leases

The company leases an office in Aberdeen and another in Azerbaijan. Rental contracts are made for fixed periods at the time of contract negotiation but may have extension options.

Contracts may contain both lease and non-lease components. The company allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the company is a lessee and for which it has major leases, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Notes (continued)

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property, plant and equipment were classified as either finance leases or operating leases. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the company.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable by the company under residual value guarantees;
- The exercise price of a purchase option if the company is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease, if the lease term reflects the company exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the company, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

The company is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset. Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each year.

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of lease liability;
- An assessment of end-of-lease dilapidation costs
- Any lease payments made at or before the commencement date less any lease incentives received;
- Any initial direct costs; and
- Restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

1.8 Stocks

Stocks are stated at the lower of cost and net realisable value. Cost is based on weighted average cost principle and includes expenditure incurred in acquiring the stocks, production or conversion costs and other costs in bringing them to their existing location and condition. In the year to 31st December 2023 and since the closure of the manufacturing plant in Aberdeen, stock has been primarily purchased from third party vendors to ensure supply while driving up manufacturing capacity in India following the acquisition of Sledgehammer Oil Tools Pvt Limited.

Periodically, obsolescence reviews are performed on slow-moving inventories and reserves are established based on current assessment about future demands and market conditions. The company determines the reserve percentages based on an analysis of stocking levels, historical sales and sales forecasts anticipated for inventory items by product type. If market conditions are less favourable than those projected by management, additional inventory reserves may be required.

Notes (continued)

1.9 Turnover

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes. The company sells a range of drilling equipment. Turnover is recognised once performance obligations have been satisfied and for the company, when control of the products has transferred in accordance with the shipment terms of sales contracts, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract or the company has objective evidence that all criteria for acceptance have been satisfied. Royalty income is recognised monthly based on agreed royalty fees per item sold.

Right of return

When the buyer has a right of return and there is uncertainty about the possibility of return, revenue is not recognized until the shipment has been accepted by the buyer or the time period for rejection has elapsed. However, if the entity, based on historical experience, can make a reliable estimate of the amount of goods that will be returned, it would be appropriate to recognize revenue for the amount that is expected to be collected (assuming the other conditions above are met).

The company is party to bill-and-hold arrangements where the customer is billed for goods that are ready for delivery but the goods are shipped to the customer at a later date. Revenue is only recognized when control is transferred to the customer even though the customer does not have physical possession of the goods. The company determines control has been transferred where product is identified separately as belonging to the customer; product is ready for physical transfer to the customer and the company does not have the ability to use the product or to direct it to another customer.

1.10 Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

1.11 Impairment of financial assets

Financial assets (including trade and other debtors)

The company assesses on a forward-looking basis the expected credit loss associated with its financial assets. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, the company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

1.12 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Notes (continued)

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

For investment property that is measured at fair value deferred tax is provided at the rate applicable to the sale of the property except for that part of the property that is depreciable and the company's business model is to consume substantially all of the value through use. In the latter case the tax rate applicable to income is used.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

1.13 Research and development expenditure

Expenditure on research and development is written off to the profit and loss account in the year in which it is incurred.

1.14 Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised where: the company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations is small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

1.15 Dividend income and distribution

Dividend income is recognised when the right to receive payment is established. Dividend distributions to the company's shareholders are recognised as a liability in the company's financial statements in the year in which the dividends are approved by the company's shareholders.

1.16 Critical accounting judgements and key sources of estimation uncertainty

In preparing these financial statements, the directors have made the following estimates:

- The discount rate used to calculate the lease liabilities is equivalent to the borrowing rate for the company (Notes 9,17).
- Fixed assets and investments are considered for indications of impairment. If indicators of impairment are identified an impairment review will be carried out and a decision taken on possible impairment. Factors taken into account in reaching such a decision include the economic viability and expected future financial performance of the asset and where it is a component of a larger cash-generating unit, the viability and expected future performance of that unit. No indicators of impairment were identified in the year.

Notes *(continued)*

- Inventories are assessed for evidence of obsolescence and a provision is made against any inventory unlikely to be sold. In undertaking this assessment, inventory which is held for greater than the quantity sold or consumed within the previous twelve months is deemed to be obsolete (Note 11).
- The company assesses on a forward-looking basis the expected credit loss associated with its financial assets. The impairment methodology applied depends on whether there has been a significant increase in credit risk. For trade receivables, the company applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

2 Turnover

	2023	2022
	\$000	\$000
Sale of goods	31,130	24,869
Royalty revenue	12,256	9,532
	<u>43,386</u>	<u>34,401</u>
	2023	2022
	\$000	\$000
By geographical market		
Europe	4,013	4,594
Middle East	31,685	23,877
Asia	4,146	3,736
Rest of World	3,542	2,194
	<u>43,386</u>	<u>34,401</u>

3 Administrative expenses

Auditors' remuneration:

	2023	2022
	\$000	\$000
Audit of these financial statements	201	251
Amounts receivable by the company's auditors and their associates in respect of:		
Tax and other advisory services	-	8

Notes (*continued*)

4 Staff numbers and costs

The monthly average number of persons employed by the company (including directors) during the year, analysed by category, was as follows:

		Number of employees
	2023	2022
Management and administrative	18	20
	18	20

The aggregate payroll costs of these persons were as follows:

	2023	2022
	\$000	\$000
Wages and salaries	1,462	1,481
Social security costs	144	143
Other pension costs	57	66
	1,663	1,690

Directors' remuneration

	2023	2022
	\$000	\$000
Directors' emoluments	-	-
Pension scheme contributions	-	-
	<hr/>	<hr/>
	-	-

The remuneration of the directors in office during 2023 was borne by the parent and another group company and was recharged to the company in a monthly management and intercompany recharge fee. The total related intercompany and management fee recharged for the year which includes other corporate and group expenses amounted to \$5,609k.

Notes (continued)

5 Operating profit

Operating profit is stated after (crediting)/charging the following:

	2023	2022
	\$000	\$000
Impairment / (reversal) on trade debtors	(30)	(1,207)
Impairment / (reversal) on stock (i)	(1,760)	(1,004)
Depreciation and impairment of tangible assets	182	262
Depreciation of right of use assets	459	408
Interest on leases	142	183
Foreign exchange loss/ (gain)	87	(133)

(i) Continuation of efforts to reduce stock holdings, old manufacturing and engineering stock in written off in 2023 and review at year end of old stock held in Saudi Arabia which could be reworked and sold resulting in a release of impairment charge for the year.

6 Interest payable and similar expenses

	2023	2022
	\$000	\$000
Bank and IFRS 16 lease interest	1,703	1,491

Notes (*continued*)

7 Tax on profit

Recognised in the profit and loss account

	2023	2023	2022	2022
	\$000	\$000	\$000	\$000
<i>UK corporation tax</i>				
Current tax on profits for the year	2,185		1,071	
Adjustments in respect of prior years	12		(98)	
Foreign tax relief/other relief	(992)		(802)	
Foreign tax suffered	1,906		1,943	
	<hr/>		<hr/>	
Total current tax		3,111		2,114
<i>Deferred tax (see note 13):</i>				
Current year	(6)		10	
	<hr/>		<hr/>	
Total deferred charge / (credit)		(6)		10
		<hr/>		<hr/>
Total tax		3,105		2,124
		<hr/>		<hr/>

Notes *(continued)*

Reconciliation of effective tax rate to Tax using the UK corporation tax rate of 23.5% (2022:19%)

	2023	2022
	\$000	\$000
Profit for the financial year	8,644	3,967
Total tax expense	3,105	2,124
Profit excluding taxation	11,749	6,091
Tax using the UK corporation tax rate of 23.5%	2,764	1,157
Fixed asset differences	7	(2)
Income not taxable	(570)	(66)
Tax rate changes	3	2
Overseas tax - non recoverable	914	1,141
Movement in deferred tax not recognised	(3)	-
Adjustments to tax charge in respect of current year	40	(40)
Adjustments to tax charge in respect of previous years	(50)	(68)
Total tax expense	3,105	2,124

On 1 April 2023 the corporation tax rate increased from 19% to 25%. Deferred taxes at the balance sheet date have been measured using this revised rate and reflected in these financial statements:-

Notes (continued)

8 Tangible assets

	Plant & machinery \$000	Fixtures, fittings & equipment \$000	Motor vehicles \$000	Total \$000
<i>Cost</i>				
At beginning of year	1,062	1,016	32	2,110
Additions	-	5	-	5
At end of year	1,062	1,021	32	2,115
<i>Accumulated depreciation and impairment</i>				
At beginning of year	908	901	32	1,841
Charge for year	148	34	-	182
At end of year	1,056	935	32	2,023
<i>Net book value</i>				
At 31 December 2023	6	86	-	92
At 31 December 2022	154	115	-	269

Notes (*continued*)

9 Right-of-use assets

	Right of use Buildings
	\$000
<i>Cost</i>	
At beginning of year	2,842
Additions	86
At end of year	2,928
<i>Accumulated depreciation & impairment</i>	
At beginning of year	1,265
Charge for year	459
Remeasurements	(59)
Disposals	(25)
At end of year	1,640
<i>Net book value</i>	
At 31 December 2023	1,288
 <i>At 31 December 2022</i>	 <i>1,577</i>

Notes (*continued*)

10 Investments

	Shares in group undertakings \$000
<i>Cost</i>	
At beginning of year	25,563
Disposals	(32)
At end of year	25,531
<i>Net book value</i>	
At 31 December 2023	25,531
At 31 December 2022	25,563

Notes (continued)

The company has the following investments in subsidiaries:

Subsidiary undertaking	Registered office address	Country of incorporation	Class and percentage of shares held
Ian Hay (Engineering) Limited	15 Atholl Crescent, Edinburgh, EH3 8HA	Scotland	Ordinary 100%
Downhole Products Holdings USA Inc	Capitol Services Inc, 1675S States Street, Suite B, Dover, Delaware 19901	USA	Ordinary 100%
Aberdeen Products Inc. trading as Downhole Products USA	Capitol Corporate Services, 206E 9 th Street, Suite 1300, Austin, Texas	USA	Ordinary 100% (indirectly owned)
Downhole Products Asia Sdn Bhd	E71, Block E, Megan Avenue	Malaysia	Ordinary 100%
Downhole Products Middle East Fze	I189, Jalan Tun Razak, 50400, Kuala Lumpur JAFZA 16, Jebel Ali, Dubai	Dubai, UAE	Ordinary 100%
Smooth Team Investments Limited	Room 702, United Building, 17-19 Jubilee Street, Central, Hong Kong	Hong Kong	Ordinary 100%
Varel UK Limited	15 Atholl Crescent, Edinburgh, EH3 8HA	Scotland	Ordinary 100%
Sledgehammer Oil Tools Pvt Limited	262I, K,L, Sector 24, Faridabad (Haryana), 121005	India	Ordinary 78%

In January 2025, the company acquired 100% of the share capital of Ace Well Technology AS (see note 22).

Sledgehammer Oil Tools Pvt Limited Acquisition

On June 29, 2022, the Company entered into an agreement to acquire 100% of the share capital of Sledgehammer Oil Tools Pvt Limited in two tranches for a total consideration of \$30,000k. The first tranche of the acquisition involved the purchase of a 78% controlling interest for a consideration of \$23,400k and a deferred amount of \$1,550k paid 90 days later after acquisition. This investment was financed by convertible loan notes to Blue Water Energy Fund II, L.P. \$20,200k and Nixon V2 1, LLC \$3,200k. Both loans were subject to an 8.8% Paid-in-kind interest rate. The acquisition closed in the second quarter of 2022.

The second tranche involved the purchase for \$6,600k of the remaining 22% equity investment from the minority shareholders of Sledgehammer Oil Tools Pvt Limited which took place in September 2024 plus a further deferred consideration. In accordance with IAS 32, this forward contract has been recognised as a derivative. A fair value assessment of this derivative has been made at 31 December 2023 which showed no material fair value change related to the performance of the business since the date of purchase.

The acquisition created for the Varel group, a consolidated major producer of consumable downhole oilfield products across the Middle East, Asia and European markets.

Notes (continued)

11 Stocks

	2023	2022
	\$000	\$000
Raw materials and consumables	34	48
Finished goods	8,674	2,775
	<hr/>	<hr/>
	8,708	2,823
	<hr/>	<hr/>

Raw materials, consumables and changes in finished goods and work in progress recognised as cost of sales in the year amounted to \$19,556k (2022: \$16,848k). Stocks are stated after provisions for impairment of \$943k (2022: \$2,704k).

12 Debtors

	2023	2022
	\$000	\$000
Trade debtors	13,007	8,683
Amounts owed by group undertakings	81,817	73,201
Other debtors	43	32
Prepayments and accrued income	95	70
Deferred tax (note 13)	272	266
	<hr/>	<hr/>
	95,234	82,072
	<hr/>	<hr/>

Amounts owed by group undertakings are unsecured, interest free, repayable on demand and have no fixed repayment date. Trade receivables are stated after provisions for impairment of \$23k (2022: \$192k). Having reviewed the past payment performance combined with the credit rating of the company's customers in order to assess the potential for impairment, the company has concluded expected credit loss of remaining trade and other debtors to be insignificant as there has been no history of default or dispute arising on amounts since inception of the contracts.

Notes (*continued*)

13 Deferred tax

	2023	2022
	\$000	\$000
At beginning of year	266	276
Credit/(charge) to profit and loss account (note 7)	6	(10)
At end of year	272	266

The deferred tax balance recognised within debtors was \$272k (2022: \$266k) and has no expiry date.

	2023	2022
	\$000	\$000
14 Cash at bank and in hand	957	1,284

Included in cash at bank and in hand is restricted cash of \$400k which is held for a performance bank guarantee.

15 Creditors: amounts falling due within one year

	2023	2022
	\$000	\$000
Trade creditors	6,825	5,192
Current lease liabilities (note 17)	397	375
Amounts owed to group undertakings (i)	9,591	28,376
Corporation tax	1,184	379
Other taxation and social security	436	221
Other creditors and accruals	1,115	1,072
Interest on deferred consideration	252	-
	19,800	35,615

Amounts owed to group undertakings in 2023 are unsecured, repayable on demand and do not attract any interest.

- (i) In June 2023, the date of maturity of an \$23,5M Intercompany loan granted to Downhole Products Limited from the parent company Varel Oil and Gas Intermediate Holdings, Inc it was agreed to convert this loan which included interest at 10% to equity in the form of a capital reserve.

Notes (*continued*)

16 Creditors: amounts falling due after more than one year

	2023	2022
	\$000	\$000
Lease liabilities	1,026	1,348
Provision for dilapidations	244	231
Interest on long term deferred consideration	-	103
	<hr/>	
	<u>1,270</u>	<u>1,682</u>

17 Leases

The amounts recognised in the financial statements in relation to the leases are as follows:

(i) Amounts recognised in the statement of financial position

	2023	2022
	\$000	\$000
<i>Right of use asset</i>		
Buildings	1,288	1,577
<i>Lease liabilities</i>		
Current lease liabilities	397	375
Non-current lease liabilities	1,026	1,348
	<hr/> <u>1,423</u>	<hr/> <u>1,723</u>

Notes (continued)

(ii) Amounts recognised in the income statement

The income statement shows the following amounts relating to leases:

	2023	2022
	\$000	\$000
Depreciation charge of right-of-use assets		
Buildings	459	408
Interest expense (included in finance cost)	142	183

Future minimum lease payments as at 31 December are as follows

	2023	2022
	\$000	\$000
Not later than one year	513	523
Later than one year and not later than five years	1,157	1,035
Later than five years	96	638
Total gross payments	1,766	2,196
Impact of finance expenses	(343)	(473)
Carrying amount of liability	1,423	1,723

18 Called up share capital

	2023	2022
	\$000	\$000
<i>Allotted, called up and fully paid</i>		
45,000 (2022: 45,000) A preference shares of £1 each	61	61
7,500 (2022: 7,500) B ordinary shares of £1 each	10	10
	71	71

Both the A and B shares have attached to them full voting, dividend and capital distribution (including on winding up) rights; they do not confer any rights of redemptions or carry any cumulative dividends.

19 Employee benefits

Defined contribution plans

The Company operates a number of defined contribution pension plans.

The total expense relating to these plans in the current year was \$57k (2022: \$66k).

Notes (continued)

20 Ultimate parent company and parent company of larger group

As at 31 December 2023, the immediate parent undertaking is Downhole Products UK Holdco Limited.

The smallest and largest group to consolidate these financial statements is Varel Oil and Gas Intermediate Holdings, Inc. Copies of the Varel Oil and Gas Intermediate Holdings, Inc consolidated financial statements can be obtained from the Company Secretary at c/o Brodies, Capital Square, 58 Morrison Street, Edinburgh. EH3 8HA.

The ultimate controlling party is Blue Water Energy LLP.

21 Other considerations and notes

The company has given a guarantee in respect of the group loan which amounted to \$38,886k at 31 December 2023 (2022: \$28,121k). The guarantee is secured by a charge on Downhole Products Limited assets. The company does not have arrangements involving material commitments and guarantees apart from those relating to the group loans.

The company has registered the following charges with the Companies House.

- A restricted cash performance bank guarantee with HSBC bank of \$750k effective from 19 October 2021
- A floating charge with Investec Bank PLC effective from 29 May 2020

22 Post balance sheet date events

Ace Well Technology AS Acquisition

On January 2025, the company entered into an agreement to acquire 100% of the share capital of Ace Well Technology AS (ACE) for a consideration of \$10,700k. This acquisition dramatically strengthens the Varel group Well Construction portfolio via ACE's globally recognised brand of casing accessories and premium smart completion products. The acquisition was funded from a drawdown on a bond issue held at the group level.

Appendix 26: Financial statements for Downhole Products Holdings, USA, Inc. as of and for the financial year ended 31 December 2023 with comparable figures for the financial year ended 31 December 2022

**Downhole Products Holdings,
USA, Inc.**

**Separate Financial Statements
December 31, 2023 and 2022**

Downhole Products Holdings, USA, Inc.
Index
December 31, 2023 and 2022

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Report of Independent Auditors

To the Management of Downhole Products Holdings, USA, Inc.

Opinion

We have audited the accompanying financial statements of Downhole Products Holdings, USA, Inc. (the "Company"), which comprise the statements of financial position as of December 31, 2023 and 2022, and the related statements of comprehensive income, of changes in equity and of cash flows for the years then ended, including the related notes (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern for at least, but not limited to, twelve months from the end of the reporting period, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.



In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

A handwritten signature in blue ink, appearing to read "Priscilla Handayani HP".

New Orleans, Louisiana
February 13, 2025

Downhole Products Holdings, USA, Inc.
Statements of Financial Position
Years Ended December 31, 2023 and 2022

<i>(in thousands of U.S. dollars)</i>	Notes	2023	2022
Assets			
Noncurrent assets			
Investments in affiliates	(5)	\$ 1,000	\$ 1,000
Total noncurrent assets		<u>1,000</u>	<u>1,000</u>
Current assets			
Receivables from affiliates		<u>10</u>	<u>10</u>
Total current assets		<u>10</u>	<u>10</u>
Total assets		<u>\$ 1,010</u>	<u>\$ 1,010</u>
Equity			
Share capital		\$ 10	\$ 10
Share premium		990	990
Accumulated earnings		<u>-</u>	<u>-</u>
Total equity		<u>1,000</u>	<u>1,000</u>
Liabilities			
Current liabilities			
Payables from affiliates		<u>10</u>	<u>10</u>
Total liabilities		<u>10</u>	<u>10</u>
Total shareholder's equity and liabilities		<u>\$ 1,010</u>	<u>\$ 1,010</u>

The accompanying notes are an integral part of these separate financial statements.

Downhole Products Holdings, USA, Inc.
Statements of Comprehensive Income
Years Ended December 31, 2023 and 2022

(in thousands of U.S. dollars)

	Notes	2023	2022
Revenue		\$ -	\$ -
Cost of revenue		-	-
Gross Profit		-	-
Selling, general and administrative expenses		-	-
Operating profit		-	-
Profit before income tax		-	-
Income tax expense		-	-
Comprehensive income		\$ -	\$ -

The accompanying notes are an integral part of these separate financial statements.

Downhole Products Holdings, USA, Inc.
Statements of Changes in Equity
Years Ended December 31, 2023 and 2022

(in thousands of U.S. dollars)

	Share Premium	Accumulated Earnings	Total Equity
Balance at December 31, 2021	\$ 1,000	\$ -	\$ 1,000
Profit for the period	-	-	-
Balance at December 31, 2022	1,000	-	1,000
Profit for the period	-	-	-
Balance at December 31, 2023	\$ 1,000	\$ -	\$ 1,000

The accompanying notes are an integral part of these separate financial statements.

Downhole Products Holdings, USA, Inc.
Statements of Cash Flows
Years Ended December 31, 2023 and 2022

<i>(in thousands of U.S. dollars)</i>	Notes	2023	2022
Cash flows from operating activities			
Profit for the period		\$ -	\$ -
Net cash from operating activities		-	-
Cash flows from investing activities			
Net cash provided by investing activities		-	-
Cash flows from financing activities			
Net cash provided by financing activities		-	-
Net change in cash and cash equivalents		-	-
Cash and cash equivalents			
Beginning of year		-	-
End of year		\$ -	\$ -

The accompanying notes are an integral part of these separate financial statements.

Downhole Products Holdings, USA, Inc.

Notes to the Financial Statements

Years Ended December 31, 2023 and 2022

1. Nature of Operations

Downhole Products Holdings, USA, Inc. ("Varel" or the "Company") was founded in 2003 as a Delaware Corporation domiciled in the United States of America. Varel through its wholly owned subsidiary, Aberdeen Products, Inc., primarily designs, manufactures, and supplies products to the drilling, well construction, and completion solutions businesses within the energy sector. The Company sells its products globally in the key markets of America, Europe, Asia and the Middle East. See Note 5 for further details on the Company's ownership structure.

These Financial Statements were authorized for issuance by the Board of Directors on February 13, 2025.

2. Summary of Significant Accounting Policies

Basis of Presentation

The Financial Statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS Accounting Standards") as issued by the International Accounting Standards Board ("IASB"). The exemption from consolidation under 4(a) of IFRS 10 has been used and these Financial Statements are separate financial statements.

The Financial Statements have been prepared under the historical cost convention except for certain items measured at fair value. The Company's investments in subsidiaries are accounted for at historical cost. Any dividends declared by the investments are recognized when declared. No dividends from the Company's investments in subsidiaries were declared in 2023 and 2022. The Company did not have operational activity or cash flows in the years ending December 31, 2023 and 2022.

New and amended standards adopted by the Company

There were no new or amended standards adopted by the Company in the year ended December 31, 2023, that materially impacted the Company.

Downhole Products Holdings, USA, Inc.

Notes to the Financial Statements

Years Ended December 31, 2023 and 2022

New and revised standards issued but not effective

The Company has not yet determined the impact of these revised standards on its financial statements that have been issued but are not yet effective:

- IFRS 18 – Presentation and Disclosure in Financial Statements*
- IFRS 19 – Subsidiaries without Public Accountability: Disclosures*

* Effective for annual periods beginning on or after January 1, 2027

IFRS 18 – Presentation and Disclosure in Financial Statements

In April 2024, the IASB issued 'Presentation and Disclosure in Financial Statements' to introduce a defined structure for the statement of profit or loss and enhanced principles of aggregation and disaggregation in the financial statements and notes focused on grouping items based on their shared characteristics. The new standard will also require disclosure of management-defined performance measures with a reconciliation to the related financial statement line item.

IFRS 19 – Subsidiaries without Public Accountability: Disclosures

In May 2024, the IASB issued 'Subsidiaries and Disclosure in Financial Statements' to enable certain eligible subsidiaries to apply reduced disclosure requirements that better balance the needs of the financial statement users amidst the rigidity of the full-scale disclosure requirements.

Use of Estimates

The preparation of financial statements in conformity with IFRS Accounting Standards requires the use of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses, as well as amounts included in the notes thereto, including discussion and disclosure of contingent liabilities. Although the Company uses its best estimates and judgments, actual results could differ from these estimates as future confirming events occur.

3. Critical Accounting Estimates and Judgments

The preparation of the Financial Statements in conformity with IFRS Accounting Standards requires management to make judgments, estimates and assumptions that affect the application of accounting policies, the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Actual results could differ from these estimates. These estimates and underlying assumptions are reviewed on a continuous basis. Changes in these accounting estimates are recognized in the period in which the estimates were revised and in any future periods affected. The company has reviewed and has no critical accounting estimates and judgements.

4. Commitments and Contingencies

Varel, in its global operations, is involved from time to time in legal and regulatory proceedings, which may be material in the future. The outcome of proceedings, lawsuits and claims may differ from our expectations and estimated liabilities, leading Varel to change estimates of liabilities and related insurance receivables.

Legal and regulatory proceedings, whether with or without merit, and associated internal investigations, may be time-consuming and expensive to prosecute, defend or conduct, may divert management's attention and other resources, inhibit our ability to sell our products, result in

Downhole Products Holdings, USA, Inc.

Notes to the Financial Statements

Years Ended December 31, 2023 and 2022

adverse judgments for damages, injunctive relief, penalties and fines, and otherwise negatively affect our business.

Where appropriate, Varel may establish financial reserves for such proceedings. Varel also maintains insurance to mitigate certain of such risks. Costs for legal services are generally expensed as incurred.

5. Material Subsidiaries and Associates

Functional currencies of the Company other than the USD include Mexican Peso ("MXN"), Canadian Dollar ("CAD"), Central African CFA Franc ("XAF"), Chinese Yuan ("CNY"), Indian Rupee ("INR"), United Arab Emirates Dirham ("AED"), Malaysian Ringgit ("MYR"), and Pound Sterling ("GBP"). Below is a list of material subsidiaries and associates of the Company and ownership share as of December 31, 2023.

Entity	Country	Ownership %	Currency
Varel Oil and Gas Holdings Inc.	United States	Ultimate Parent	USD
Varel Oil and Gas Intermediate Holdings, Inc.	United States	Parent	USD
Varel Oil and Gas, Inc.	United States	Parent	USD
Varel International Energy Services, Inc.	United States	Parent	USD
DHP Varel, Inc.	United States	Parent	USD
Downhole Products UK Holdco II Limited	United Kingdom	Parent	USD
Downhole Products UK Holdco Limited	United Kingdom	Parent	USD
Downhole Products Limited	United Kingdom	Parent	USD
Aberdeen Products, Inc.	United States	100%	USD

6. Member Capital and Reserves

Common Shares	2023	2022
Outstanding at January 1	1,000,000	1,000,000
Issued	-	-
Outstanding at December 31	<u>1,000,000</u>	<u>1,000,000</u>
Authorized - per value per share	\$ 0.01	\$ 0.01

7. Subsequent Events

The Company has evaluated subsequent events through February 13, 2025, the date that the Financial Statements were available for issuance. There were no subsequent events to report.

Appendix 27: Financial statements for Aberdeen Products, Inc. as of and for the financial year ended 31 December 2023 with comparable figures for the financial year ended 31 December 2022

Aberdeen Products, Inc.

Separate Financial Statements

December 31, 2023 and 2022

Aberdeen Products, Inc.
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Years ended December 31, 2023 and 2022

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Report of Independent Auditors

To the Management of Aberdeen Products, Inc.

Opinion

We have audited the accompanying financial statements of Aberdeen Products, Inc. (the "Company"), which comprise the statements of financial position as of December 31, 2023 and 2022, and the related statements of comprehensive income, of changes in equity and of cash flows for the years then ended, including the related notes (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern for at least, but not limited to, twelve months from the end of the reporting period, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.



In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

A handwritten signature in blue ink, appearing to read "Priscilla Handayani-HP".

New Orleans, Louisiana
February 13, 2025

Aberdeen Products, Inc.
Statements of Financial Position
Years Ended December 31, 2023 and 2022

(in thousands of U.S. dollars)

	Notes	2023	2022
Assets			
Noncurrent assets			
Right-of-use assets, net	(11)	\$ 37	\$ 35
Total noncurrent assets		<u>37</u>	<u>35</u>
Current assets			
Cash and cash equivalents		84	179
Trade receivables, net	(5)	2,643	3,289
Income tax receivables		152	-
Inventories, net	(6)	790	555
Prepays and other current assets		-	164
Receivables from affiliates	(12)	1,480	683
Total current assets		<u>5,149</u>	<u>4,870</u>
Total assets		<u>\$ 5,186</u>	<u>\$ 4,905</u>
Equity			
Share premium		\$ 131	\$ 131
Accumulated earnings (deficit)		<u>1,507</u>	<u>(2,262)</u>
Total shareholder's equity		<u>1,638</u>	<u>(2,131)</u>
Liabilities			
Noncurrent liabilities			
Borrowings - related party	(12)	<u>-</u>	<u>4,364</u>
Total noncurrent liabilities		<u>-</u>	<u>4,364</u>
Current liabilities			
Trade payables		784	982
Accrued liabilities	(7)	24	17
Other current liabilities	(7)	39	616
Payables to affiliates	(12)	2,676	1,034
Current portion of lease liabilities	(11)	<u>25</u>	<u>23</u>
Total current liabilities		<u>3,548</u>	<u>2,672</u>
Total liabilities		<u>3,548</u>	<u>7,036</u>
Total shareholder's equity and liabilities		<u>\$ 5,186</u>	<u>\$ 4,905</u>

The accompanying notes are an integral part of these financial statements.

Aberdeen Products, Inc.
Statements of Comprehensive Income
Years Ended December 31, 2023 and 2022

(in thousands of U.S. dollars)

	Notes	2023	2022
Revenue	(8)	\$ 14,613	\$ 13,627
Revenue, related party	(8)	772	571
Cost of revenue	(9)	(9,609)	(10,883)
Cost of revenue, related party	(9)	<u>(599)</u>	<u>(575)</u>
Gross Profit		5,177	2,740
Selling, general and administrative expenses	(9)	(1,458)	(2,276)
Other income		<u>-</u>	<u>10</u>
Operating profit		3,719	474
Finance costs, net		<u>4</u>	<u>(1)</u>
Profit before income tax		3,723	473
Income tax benefit (expense)	(10)	<u>46</u>	<u>(12)</u>
Comprehensive income for the period		<u>\$ 3,769</u>	<u>\$ 461</u>

The accompanying notes are an integral part of these financial statements.

Aberdeen Products, Inc.
Statements of Changes in Equity
Years Ended December 31, 2023 and 2022

(in thousands of U.S. dollars)

	Share Premium	Accumulated Earnings (Deficit)	Total Equity
Balance at December 31, 2021	<u>\$ 131</u>	<u>\$ (2,723)</u>	<u>\$ (2,592)</u>
Income for the period	<u>-</u>	<u>461</u>	<u>461</u>
Balance at December 31, 2022	<u>131</u>	<u>(2,262)</u>	<u>(2,131)</u>
Income for the period	<u>-</u>	<u>3,769</u>	<u>3,769</u>
Balance at December 31, 2023	<u>\$ 131</u>	<u>\$ 1,507</u>	<u>\$ 1,638</u>

The accompanying notes are an integral part of these financial statements.

Aberdeen Products, Inc.
Statements of Cash Flows
Years Ended December 31, 2023 and 2022

(in thousands of U.S. dollars)

	Notes	2023	2022
Cash flows from operating activities			
Profit for the period		\$ 3,769	\$ 461
Adjustments for			
Depreciation and amortization		-	133
Depreciation of right-of-use assets	(11)	73	52
Provision for credit losses		(2)	(33)
(Gain) Loss on foreign currency	(6)	-	-
Net finance costs		(4)	1
Change in obsolescence		(3,826)	(1,004)
Changes in			
Trade receivables		648	(227)
Inventories		3,591	1,339
Prepays and other assets		16	(36)
Trade and other payables		(197)	383
Other liabilities		(623)	657
Accounts receivable, related parties		(797)	(197)
Accounts payable, related parties		1,642	(1,188)
Cash provided by operating activities		4,290	341
Income taxes paid		52	(40)
Net cash provided by operating activities		4,342	301
Cash flows from financing activities			
Payments on borrowings, related party	(12)	(4,364)	(500)
Payments of lease liabilities	(11)	(73)	(64)
Net cash used in financing activities		(4,437)	(564)
Net decrease in cash and cash equivalents		(95)	(263)
Cash and cash equivalents			
Beginning of year		179	442
End of year		\$ 84	\$ 179

The accompanying notes are an integral part of these financial statements.

Aberdeen Products, Inc.

Notes to the Financial Statements

Years Ended December 31, 2023 and 2022

1. Nature of Operations

Aberdeen Products, Inc. ("Aberdeen" or the "Company") was founded in 2003 as a Texas corporation domiciled in the United States of America. Aberdeen primarily designs, manufactures, and supplies products to the drilling, well construction, and completion solutions businesses within the energy sector. The Company sells its products globally in the key markets of America, Europe, Asia and the Middle East. The Company is a wholly owned subsidiary of Downhole Products Holdings, USA, Inc. ("DPH USA") who is ultimately wholly owned by Varel Oil and Gas, Inc. ("Parent" or "Varel").

These Financial Statements were authorized for issuance by the Board of Directors on February 13, 2025.

2. Summary of Significant Accounting Policies

Basis of Presentation

The Financial Statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS Accounting Standards") as issued by the International Accounting Standards Board ("IASB"). The exemption from consolidation under 4(a) of IFRS 10 has been used and these Financial Statements are separate financial statements.

The Financial Statements have been prepared under the historical cost convention except for certain items measured at fair value. The Company's investments in subsidiaries are accounted for at historical cost. Any dividends declared by the investments are recognized when declared. No dividends from the Company's investments in subsidiaries were declared in 2023 and 2022.

New and amended standards adopted by the Company

There were no new or amended standards adopted by the Company in the year ended December 31, 2023, that materially impacted the Company.

New and revised standards issued but not effective

The Company has not yet determined the impact of these revised standards on its financial statements that have been issued but are not yet effective:

- IFRS 18 – Presentation and Disclosure in Financial Statements*
- IFRS 19 – Subsidiaries without Public Accountability: Disclosures*

* Effective for annual periods beginning on or after January 1, 2027

Aberdeen Products, Inc.

Notes to the Financial Statements

Years Ended December 31, 2023 and 2022

IFRS 18 – Presentation and Disclosure in Financial Statements

In April 2024, the IASB issued 'Presentation and Disclosure in Financial Statements' to introduce a defined structure for the statement of profit or loss and enhanced principles of aggregation and disaggregation in the financial statements and notes focused on grouping items based on their shared characteristics. The new standard will also require disclosure of management-defined performance measures with a reconciliation to the related financial statement line item.

IFRS 19 – Subsidiaries without Public Accountability: Disclosures

In May 2024, the IASB issued 'Subsidiaries and Disclosure in Financial Statements' to enable certain eligible subsidiaries to apply reduced disclosure requirements that better balance the needs of the financial statement users amidst the rigidity of the full-scale disclosure requirements.

Use of Estimates

The preparation of financial statements in conformity with IFRS Accounting Standards requires the use of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses, as well as amounts included in the notes thereto, including discussion and disclosure of contingent liabilities. Although the Company uses its best estimates and judgments, actual results could differ from these estimates as future confirming events occur.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits, and other short-term investments with original maturities of three months or less from the acquisition date.

Trade Receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. Due dates are set on a contract-by-contract basis but are generally due for settlement within 30-90 days and therefore are classified as current assets. Trade receivables are recognized initially at the unconditional amount of consideration. The Company holds the trade receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortized cost using the effective interest method. Due to the short-term nature of trade receivables, the carrying amount approximates fair value.

Expected Credit Losses

The Company measures expected credit losses using a lifetime expected loss allowance for all trade receivables. To measure the expected credit loss, trade receivables are reviewed on a case-by-case basis for credit risk characteristics such as days past due. The expected loss rate is determined based on the customer payment profile over the preceding 12-month period. The historical loss rate may be adjusted if there is reliable information which the Company determined could impact the customer's ability to settle their outstanding receivables.

Based on the assessment of credit losses, the Company recorded a provision for losses of \$0.04 million and \$1.0 million as of December 31, 2023, and 2022, respectively.

Impairment and Risk Exposure

The Company's customers are independently rated, and the credit ratings are used by the Company to evaluate the risk of the counterparty. If there is no independent rating, the Company assesses the credit quality of the customer, considering its financial position, experience, and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by management.

Aberdeen Products, Inc.
Notes to the Financial Statements
Years Ended December 31, 2023 and 2022

Inventories

Inventories are stated at lower of cost or net realizable value, which is the estimated selling price less cost to sell. Cost is determined using the specific identification method and comprised of the purchase price of materials and other directly related costs. Costs are calculated using the average cost method. At each reporting date, inventories are assessed for impairment. If inventory is impaired, the carrying amount is reduced to its selling price less costs to complete and sell, and an impairment loss is recognized in the Consolidated Statement of Comprehensive Income.

Trade Payables

Trade payables represent liabilities incurred by the Company for the procurement of goods and services. The amounts are unsecured and are paid within 90 days of recognition. Trade payables are presented as current liabilities, initially recognized at fair value and subsequently measured at amortized cost using the effective interest method. Due to the short-term nature, the carrying amount approximates fair value.

Other Payables

Other payables represent accrued liabilities, provisions and income tax payable. The amounts are unsecured and are typically paid within 90 days of recognition. Other payables are presented as current liabilities in the Statement of Financial Position unless payment is not due within 12 months after the reporting period.

Revenue Recognition

The Company recognizes revenue when it satisfies a performance obligation by transferring a promised good to a customer. The transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods to a customer. The Company considers the terms of the contracts with customers for the relevant period to determine the transaction price.

The Company recognizes revenue based on the five-step model:

- (i) identification of contracts with customers.
- (ii) identification of performance obligations in contracts.
- (iii) determination of the price of the transaction.
- (iv) allocation of the transaction price to the performance obligation provided for in the contracts.
- (v) recognition revenue when, (or as), the Company satisfies a performance obligation by transferring a promised good (or service) to a customer

Aberdeen Products, Inc.
Notes to the Financial Statements
Years Ended December 31, 2023 and 2022

Downhole Product Sales

Sales of downhole products are recognized at a point in time when control has been transferred to the customer. To assess when the control has been transferred, indicators such as, but not limited to, significant risks and rewards of ownership, transferred physical possession, acceptance of the asset by the customer and a present right to payment and legal title of goods and services are considered. For the sale of goods, the transfer of control usually occurs when the significant risks and rewards are transferred in accordance with the transactions shipping terms. Payment is due between 30 and 90 days from the transfer of control. In some contracts, short-term advances are required before the equipment is delivered. Some contracts contain a right of return, late delivery penalties, volume rebates, and trade-in considerations, which give rise to variable consideration subject to constraint.

For contracts that permit the customer to return an item, stipulate a late delivery penalty clause, or include volume rebates or trade-in clauses, revenue is recognized to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur.

Therefore, the amount of revenue recognized is adjusted for expected returns, penalties, rebates or trade-ins, which are estimated based on historical data. In these circumstances, a refund liability and right to recover returned goods asset are recognized.

The right to recover returned goods asset is measured at the former carrying amount of the inventory less any expected costs to recover goods. The refund liability is included in other payables and the right to recover returned goods is included in inventory. The Company reviews the estimate of expected returns at each reporting date and updates the amounts of the asset and liability accordingly.

Income Taxes

The Company is a corporation for U.S. federal and state income tax purposes, and accordingly, the Company records taxes in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity.

The current income tax provision is calculated based on tax rates and laws enacted or substantively enacted on the reporting date in the countries where the Company operates and generates taxable income.

The Company recognizes deferred tax assets to the extent that it believes it is probable the assets will be realized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except for deferred income tax liabilities where the timing of reversal of the temporary differences is controlled by the Parent and it is probable that the temporary differences will not reverse in the near future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Leases

Lessee: The Company assesses at contract inception whether a contract is or contains a lease. That is, if the contract conveys the right to control the use of an identified asset for a period in exchange for consideration.

Aberdeen Products, Inc.
Notes to the Financial Statements
Years Ended December 31, 2023 and 2022

Leases are recognized at the commencement of the lease at the present value of the minimum lease payments. Each lease payment is apportioned between the liability and finance charges using the effective interest method.

Rental obligations, net of finance charges, are included in lease liabilities in the balance sheet. The right-of-use asset is depreciated over the shorter of the asset's useful life or the lease term if there is no reasonable certainty that the Company will obtain ownership at the end of the lease term.

Lessor: The Company classifies leases for which it is a lessor as either a finance lease or an operating lease. Whenever the terms of a lease substantially transfer all of the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When the Company is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease based on the right-of-use asset arising from the head lease.

Lease income from operating leases is recognized on a straight-line basis over the term of the relevant lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are gained. Initial direct costs incurred while negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized using the same basis as the lease income.

Consideration is allocated to lease and non-lease components, the Company applies IFRS 15 to allocate the consideration under the contract to the respective components.

Measurement of Right-of-use Assets

The Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less accumulated amortization, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. The recognized right-of-use assets are amortized on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Fair Value Measurement

Fair Value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its nonperformance risk.

The Company classifies the fair value of assets and liabilities according to the following fair value hierarchy based on the number of observable inputs used to value the instrument:

- Level 1 Fair value is based on unadjusted quoted prices in active markets for identical assets or liabilities as of the reporting date.
- Level 2 Fair value is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

Aberdeen Products, Inc.
Notes to the Financial Statements
Years Ended December 31, 2023 and 2022

Level 3 Fair value is based on inputs for the asset or liability that are not based on observable market data.

3. Critical Accounting Estimates and Judgments

The preparation of the Financial Statements in conformity with IFRS Accounting Standards requires management to make judgments, estimates and assumptions that affect the application of accounting policies, the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Actual results could differ from these estimates. These estimates and underlying assumptions are reviewed on a continuous basis. Changes in these accounting estimates are recognized in the period in which the estimates were revised and in any future periods affected.

Information about important estimation and judgments that have significant effects on the amounts recognized in the Financial Statements is as follows:

Leases

Determination of the lease term is subject to judgment and has an impact on the measurement of the lease liability and related right-of-use assets. The Company judgmentally determines lease terms for lease agreements that include optional lease periods where it is reasonably certain the Company will either exercise an option to extend the lease or not exercise the option to terminate the lease. When assessing the lease term at the commencement date, the Company considers the broader economics of the contract. Reassessment of the lease term is performed upon changes in circumstances that affect the probability that an option to extend or terminate a lease will be exercised.

Where the implicit rate in the lease is not readily available, an incremental borrowing rate is applied. This incremental borrowing rate reflects the rate of interest the lessee would have to pay to borrow over a similar term, with a similar security, the funds necessary to obtain an asset of a similar nature and value to the right-of-use asset in a similar economic environment. Determination of the incremental borrowing rate requires estimation.

Taxes

Tax liabilities are recognized when it is considered probable that there will be a future outflow of funds to a taxing authority. In such cases, provision is made for the amount expected to be settled, where this can be reasonably estimated. Provisions for uncertain income tax positions or treatments are measured at the most likely amount or the expected value, whichever method is more appropriate. Generally, uncertain tax treatments are assessed individually, except where they are expected to be settled collectively. It is assumed that taxing authorities will examine positions taken if they have the right to do so and that they have full knowledge of the relevant information. A change in the estimate of the likelihood of a future outflow and/or in the expected amount to be settled would be recognized in the results of operations in the period in which the change occurs. This requires the application of judgment as to the ultimate outcome, which can change over time depending on facts and circumstances. Judgments relate to transfer pricing, including inter-company financing, expenditure deductible for tax purposes and taxation arising at disposal.

Deferred tax assets are recognized only to the extent it is considered probable those assets will be recovered. This involves an assessment of when those assets are likely to reverse and a judgment as to whether there will be sufficient taxable profits available to offset the assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. To the extent assumptions regarding future profitability change, there can be an

Aberdeen Products, Inc.
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increase or decrease in the amounts recognized as deferred tax assets as well as in the amounts recognized in Statement of Comprehensive Income in the period in which the change occurs.

4. Financial Risk management

Financial Risk Factors

The Company's activities expose it to a variety of financial risks: market risk, credit risk, and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

Impairment of Financial Assets

The Company has one type of financial asset that is subject to the expected credit losses ("ECL") model: trade receivables.

The Company applies the simplified approach under IFRS Accounting Standards 9 to measure its ECL, which uses a lifetime expected loss allowance for all trade receivables. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECL's at each reporting date.

The carrying amount of trade receivables and other financial assets represents the maximum exposure to credit risks. Financial assets subject to expected credit losses are as follows:

	2023	2022
Trade Receivables, net	\$ 2,643	\$ 3,289
Trade Receivables, related parties	1,480	683
Financial assets subject to ECL	<u>\$ 4,123</u>	<u>\$ 3,972</u>

Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities.

Maturity of Financial Liabilities

The table below analyzes the Company's undiscounted financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period on the balance sheet to the contractual maturity date. The interest element of borrowings is based on the actual rate or the rate at the closing date if not available. Early payments or additional borrowings on financial liabilities are not reflected.

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Financial liabilities are as follows:

	Less Than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total Contractual Cash Flows	Carrying Amount
At December 31, 2023						
Nonderivatives						
Trade and other payables	\$ 847	\$ -	\$ -	\$ -	\$ 847	\$ 847
Borrowings	-	-	-	-	-	-
Lease liabilities	25	-	-	-	25	25
Nonderivative liabilities	<u>\$ 872</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 872</u>	<u>\$ 872</u>
At December 31, 2022						
Nonderivatives						
Trade and other payables	\$ 1,615	\$ -	\$ -	\$ -	\$ 633	\$ 633
Borrowings	4,364	-	-	-	4,364	4,364
Lease liabilities	23	-	-	-	23	23
Nonderivative liabilities	<u>\$ 6,002</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,020</u>	<u>\$ 5,020</u>

There were no outstanding derivative arrangements as of December 31, 2023 and 2022, respectively.

Capital Risk Management

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. To maintain or adjust the capital structure, the Company may return capital to shareholders.

Consistent with others in the industry, the Company monitors capital based on the debt-to-equity ratio. The ratio is calculated as borrowings divided by total equity. The debt-to-equity ratios were as follows:

	2023	2022
Total borrowings (external and related party)	\$ -	\$ 4,364
Total equity	<u>1,638</u>	<u>(2,131)</u>
Debt to equity ratio	<u>0%</u>	<u>-205%</u>

Price Risk Management

The Company is exposed to risks arising from increased costs due to commodity price fluctuations, such as iron and steel, precious metals and nonferrous alloys used in manufacturing. The Company controls the price risk associated with the purchase of those commodities by maintaining inventory at the minimum level.

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5. Trade Receivables, net

Trade receivables relate primarily to sales of drill bits and downhole equipment. The trade receivables, net balance was comprised of:

	2023	2022
Trade receivables, gross	\$ 2,682	\$ 4,243
Provision for credit losses	<u>(39)</u>	<u>(954)</u>
Trade receivables, net	<u>\$ 2,643</u>	<u>\$ 3,289</u>

The provision for credit losses consisted of the following activity:

	2023	2022
Beginning balance January 1,	(954)	(987)
Recoveries net of charge-offs	913	-
Current provision changes	<u>2</u>	<u>33</u>
Ending balance December 31,	<u>(39)</u>	<u>(954)</u>

6. Inventories, net

	2023	2022
Raw materials	\$ 23	\$ 51
Work in process	3	28
Finished goods	1,256	4,794
Excess and obsolete reserve	<u>(492)</u>	<u>(4,318)</u>
Inventories, net	<u>\$ 790</u>	<u>\$ 555</u>

7. Other Current Liabilities

	2023	2022
Accrued liabilities	\$ 24	\$ 17
Other	<u>39</u>	<u>616</u>
Total other current liabilities	<u>\$ 63</u>	<u>\$ 633</u>

8. Revenue

The Company derives revenue from contracts with customers and rental revenue, both recognized at a point in time.

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Revenue Recognized at a Point in Time	2023	2022
Primary Cementing Equipment	\$ 15,295	\$ 14,198
Completion	89	-
Roller Cones	1	-
Total by Product Type	<u>\$ 15,385</u>	<u>\$ 14,198</u>

Revenue by Geographic Area	2023	2022
United States (USA)	\$ 11,953	\$ 9,254
Canada (CAN)	88	271
Latin America (LATAM)	3,344	4,673
Total by Geographic Area	<u>\$ 15,385</u>	<u>\$ 14,198</u>

9. Expenses by Nature

	2023	2022
Inventory materials	\$ 9,689	\$ 10,534
Freight and customs	1,028	330
Provision for excess and obsolete inventory or impairments	(947)	188
Depreciation and amortization - nonrental	73	145
Other	365	261
Total cost of revenue	<u>\$ 10,208</u>	<u>\$ 11,458</u>

General administrative	\$ 148	\$ 231
Management fee	731	925
Insurance, IT and other	12	181
Professional and legal fees	16	107
Research and development	30	53
Employee compensation and benefits	521	739
Depreciation	-	40
Total selling, general, and administrative	<u>\$ 1,458</u>	<u>\$ 2,276</u>

10. Income Taxes

The table below reconciles the Company's income taxes computed by applying the statutory federal income tax rate to earnings before income taxes to its effective tax provision for the years ended December 31, 2023 and 2022, respectively:

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	2023	2022
Accounting profit before tax	\$ 3,723	\$ 473
US statutory tax rate of the reporting entity	21%	21%
Expected total income tax expense	<u>782</u>	<u>99</u>
Reconciling items		
Expenses not deductible for tax purposes	10	2
Unrecognized deferred tax benefit	(852)	(79)
Other	<u>14</u>	<u>(10)</u>
Total current and deferred tax expense (benefit)	<u>\$ (46)</u>	<u>\$ 12</u>

The Company has a total of \$1.2 million and \$ 1.0 million in unused tax losses on December 31, 2023 and 2022, respectively. None of these amounts have been recognized for deferred tax purposes as of December 31, 2023 and 2022, respectively. Additionally, the Company has no capital loss or interest expense carry forwards.

The Company is not aware of any open tax examinations with authorities or any other uncertain tax positions that existed as of December 31, 2023 or December 31, 2022.

11. Leases

The Company leases buildings, land, machinery, vehicles, office equipment, and furniture and fixtures. The leased assets are included as part of Right-of-Use Assets, net. Lease liabilities were recorded at the time the lease contracts were signed and the obligations were based on the Company's incremental borrowing rate at the time. The liabilities remaining at the reporting date represent the outstanding principal of the assumed liabilities. Generally, under the terms of our lease agreements, the rights to the leased assets revert to the lessor in the event of default.

Amounts Recognized in the Statement of Financial Position

The Statement of Financial Position includes the following amounts relating to right-of-use assets:

	2023	2022
Right-of-use assets		
Right-of-use, building	\$ 110	87
Accumulated depreciation right-of-use, building	<u>(73)</u>	<u>(52)</u>
Total right-of-use assets, net	<u>\$ 37</u>	<u>\$ 35</u>
Lease liabilities		
Current	\$ 25	\$ 23
Noncurrent	<u>-</u>	<u>-</u>
Total lease liabilities	<u>\$ 25</u>	<u>\$ 23</u>

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Depreciation expense on right-of-use assets for the years ended December 31, 2023, and 2022 were as follows:

	2023	2022
Depreciation on right-of-use assets		
Depreciation right-of-use, building	\$ 73	\$ 52
Total depreciation on right-of-use assets	<u>\$ 73</u>	<u>\$ 52</u>

12. Related Party Transactions

The Company has engaged in transactions with related parties, classified as affiliates, as of December 31, 2023, and December 31, 2022. These transactions primarily include accounts receivable and payable balances with entities related through common control or significant influence.

Accounts Receivable with Affiliates	2023	2022
Downhole Products Middle East	\$ 861	\$ 506
Sledgehammer Oil Tools	8	6
Downhole Products Holdings USA	91	-
Varel Internationals Industries	520	171
Receivables from affiliates	<u>\$ 1,480</u>	<u>\$ 683</u>

Accounts Payable with Affiliates	2023	2022
Sledgehammer Oil Tools	\$ 1,662	\$ 244
Downhole Products Limited	843	708
Varel Europe	-	9
Varel Internationals Industries	171	73
Payables to affiliates	<u>\$ 2,676</u>	<u>\$ 1,034</u>

The receivable and payable activity relates to intercompany sales of goods. In addition to trade transactions, the Company has engaged in borrowing arrangements with its wholly owned parent, DPH USA. The Company recognized a receivable from DPH USA of \$0.09 million as of December 31, 2023, and borrowings from DPH USA of \$4.4 million as of December 31, 2022.

13. Commitments and Contingencies

Varel, in its global operations, is involved from time to time in legal and regulatory proceedings, which may be material in the future. The outcome of proceedings, lawsuits and claims may differ from our expectations and estimated liabilities, leading Varel to change estimates of liabilities and related insurance receivables.

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Legal and regulatory proceedings, whether with or without merit, and associated internal investigations, may be time-consuming and expensive to prosecute, defend or conduct, may divert management's attention and other resources, inhibit our ability to sell our products, result in adverse judgments for damages, injunctive relief, penalties and fines, and otherwise negatively affect our business.

Where appropriate, Varel may establish financial reserves for such proceedings. Varel also maintains insurance to mitigate such risks. Costs for legal services are generally expensed as incurred.

14. Subsequent Events

The Company has evaluated subsequent events through February 13, 2025, the date that the Financial Statements were available for issuance.

Appendix 28: The Tap Issue Addendum

Tap Issue Addendum

2nd Tranche

- Pursuant to the bond terms dated 4 April 2024 (the “**Bond Terms**”) related to the below Bonds, the Issuer and the Bond Trustee enter into this tap issue addendum (the “**Addendum**”) in connection with a Tap Issue under the Bond Terms:

Issuer:	Varel Oil and Gas Inc.
Bond Trustee:	Nordic Trustee AS
ISIN:	NO0013182121
Temporary ISIN for the Tap Issue:	NO0013414573
Maximum Issue Amount:	USD 90,000,000
Amount of Additional Bonds:	USD 12,000,000
Amount Outstanding Bonds after the increase:	USD 72,000,000
Date of Addendum:	6 December 2024
Tap Issue Date:	11 December 2024

- Terms defined in the Bond Terms have, unless expressly defined herein or otherwise required by the context, the same meaning in this Addendum. This Addendum is a Finance Document and after the date hereof all references to the Bond Terms in the other Finance Documents shall be construed as references to the Bond Terms as amended by this Addendum.
- Pursuant to the Bond Terms the Issuer may issue Additional Bonds until the aggregate Nominal Amount of the Initial Bonds and all Additional Bonds equals the Maximum Issue Amount. The provisions of the Bond Terms will apply to all such Additional Bonds.
- The Additional Bonds are initially issued under a separate ISIN (“**Temporary Bonds**”). The Bond Terms govern such Temporary Bonds. Upon expiration of a 40 calendar days compliance period from the Tap Issue Date, the Additional Bonds will automatically be converted into the ISIN for the Outstanding Bonds.
- With reference to paragraph (b) of clause 2.3 (*Use of proceeds*) of the Bond Terms, the Issuer will use the Net Proceeds from the Additional Bonds towards general corporate purposes of the Group.
- The payment of the proceeds of the Tap Issue to the Issuer shall be conditional on the Bond Trustee having received in due time (as determined by the Bond Trustee) prior to the Tap Issue Date each of the following documents, in form and substance reasonably satisfactory to the Bond Trustee:
 - this Addendum duly executed by all parties hereto;
 - copies of corporate resolutions required for the Tap Issue and any power of attorney or other authorisation required for execution of this Addendum and any other Finance Documents;
 - a compliance certificate confirming (i) compliance with the Incurrence Test in accordance with the terms of the Bond Terms (including supporting documentation and calculations as the Bond Trustee may reasonably require) and (ii) no Event of Default has occurred or is likely to occur as a result of the issuance of the Additional Bonds;

- (iv) confirmation that the applicable prospectus requirements (ref the EU prospectus regulation, Regulation (EU) (2017/1129)) concerning the Additional Bonds issued under the Tap Issue have been fulfilled;
- (v) copies of any written documentation used in marketing the Additional Bonds or made public by the Issuer or the Manager in connection with the Tap Issue; and
- (vi) legal opinions or other statements as may be required by the Bond Trustee (including in respect of corporate matters relating to the Issuer and the legality, validity and enforceability of this Addendum and any other Finance Documents (if applicable)).

The Bond Trustee may (at its sole discretion and in each case) waive or postpone the delivery of certain conditions precedent, and the Bond Trustee may (on behalf of the Bondholders) agree on a Closing Procedure with the Issuer.

- 7. The Issuer undertakes that the representations and warranties contained in Clause 7 (*Representations and Warranties*) of the Bond Terms are true and correct in all material respects as at the date hereof and at the Tap Issue Date.
- 8. The Issuer represents and warrants that no circumstances have occurred including any litigation pending or threatening which would have an adverse material effect on the Issuer's financial situation or ability to fulfill its obligations under the Bond Terms or which would otherwise constitute an Event of Default under the Bond Terms.
- 9. Clause 19 (*Governing law and jurisdiction*) of the Bond Terms shall apply to this Addendum *mutatis mutandis* and as if references in that clause to "these Bond Terms" were to this Addendum.

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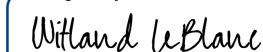
This Addendum has been executed by way of electronic signatures.

SIGNATURES:

The Issuer:

VAREL OIL AND GAS INC.

Signed by:



By: Witland LeBlanc

Title: Authorised signatory

The Bond Trustee:

NORDIC TRUSTEE AS

DocuSigned by:



By: Vivian Trøsch

Title: Authorised signatory