VAREL ENERGY SOLUTIONS

Q3 2024
Unaudited Financial Report

BEYOND TECHNOLOGY • BEYOND NORMAL

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Disclaimer:

VAREL
ENERGY SOLUTIONS

EXECUTIVE SUMMARY

Growth

YTD Sales outperform Plan by $4.3m or roughly 3%

YTD Operating profit outperform Plan by $5.7m or 23%

Profitability

$33.0m adjusted EBITDA YTD Q3 2024

$42.2m adjusted EBITDA LTM Q3 2024

Adjusted net income of $12.5m through Q3 2024
- ($4.9m) loss through Q3 23

Cash

Cash / Cash equivalents of $11.6m through Q324

Net debt of $63.4m; Net Leverage of 1.5x

Operations

Middle East NOC: Long-Term Pricing Agreement (LTPA) shared awards for three years - $12m value.

Commercial launch of Saudi Arabia drill bit technology with seven new successful trials.

International (UAE) commercialization of Aqueous shoe track technology with a growing sales pipeline.

Letter from CEO

Derek Nixon
Chief Executive Officer

I am pleased to outline this CEO Statement following the 3rd quarter of 2024 with a sense of pride about our company and the ~1,800 employees around the world. As I look back on the last four years a period of profound volatile and economic period for the energy sector it is remarkable how much we have accomplished, not only in terms of financial performance but in our steadfast dedication to becoming a leading value creator in downhole consumable products. To that end, the company delivered in line revenue of $52.7m and Adjusted EBITDA of $10.6m, 7% above plan.

Business Overview:
With nearly 51% of our global business generated from the Middle East region, we recorded record high sales of $25.7m, exceeding plan figures by 15.7%. This performance is underpinned by our strong investments in Saudi Arabia both in manufacturing capacity and operational support where we continued to see business growth month over month across our key business lines of drill bits and cementing products ($12.1m and 45% growth YoY).

Despite early headwinds signaling a softening drilling outlook and competitive pricing pressure, I anticipate our major supply contracts across the Middle East region and secured sales channels with our major oilfield service partners will generate a stronger financial performance than our peers.

In North America, we continue focus on high-value, high-return technology sales while driving maximum efficiency with our PDC drill bit rental fleet. Our Completions business continues to perform well notwithstanding headwinds from depressed completions market activity and competitive pressure – lead by the SlipXtreme™ bit technology, we generated $15.2m of sales with average gross margins of 62% (remaining in the leading market share position). This is another example of Varel rapidly bringing practical innovation to market and immediately adding incremental value to the enterprise and our customers.

The global production order pipeline remains strong at $39.2m and through October, where we are overperforming against plan for plant absorption and efficiency. As we enter Q4, we set guidance of $9m to $12m for the quarter, resulting in a midpoint of $43.5m of Adjusted EBITDA for the year. I anticipate cautious optimism and a moderately stable climate over the next 18 months for this enterprise, driven primarily by strategic customer share gain, Middle East expansion, and new technology market adoption.

Furthermore, we have built a strong pipeline of acquisition opportunities. In this context, we have mandated Pareto Securities and Arctic Securities to explore the possibility for a tap issue under the Company's already existing Senior Secured Bond framework of $90 million (ISIN: NO0013182121). Subject to, inter alia, market conditions, a $12 million tap issue may follow.

As always, the safety of our people will continue to be our number one priority. I am pleased that we continued our strong safety performance this quarter, delivering a TRIR of 0.30 with (0) Lost Time Incidents.

CFO FINANCIAL STATEMENT

Operating Performance:

The consolidated income statement is shown on page 4 to these financial statements. Revenue was $52.7m and $50.5m for the quarters ended September 30 and June 30, 2024, respectively with adjusted net profit being $4.0m and $4.7m for the same periods.

Adjusted EBITDA was $10.6m and $12.4m for the quarters ended September 30 and June 30, 2024, respectively. A reconciliation between net profit per these financial statements and Adjusted EBITDA is set out below.

Adjusted EBITDA Reconciliation Table

(in thousands of dollars)	Quarter ended Sept. 30, 2024	1H 2024	Nine Months Ended Sept. 30, 2024	LTM Ended Sept. 30, 2024
Net profit	$ 802	$ 8,438	$ 9,240	$ 5,810
Transaction cost (debt)	578	326	904	1,114
Depreciation and amortization	1,543	3,384	4,927	8,182
Interest expense	6,155	4,906	11,061	13,742
Provision (benefit) for income taxes	1,530	3,720	5,250	6,526
EBITDA	10,608	20,774	31,382	35,374
Adjustments for the effects of:				
Foreign currency (gains) losses	(844)	194	(650)	(722)
Restructuring & Severance	542	688	1,230	3,443
Other	302	776	1,078	4,079
Adjusted EBITDA	$ 10,608	$ 22,433	$ 33,041	$ 42,174

Borrowings:

During the second quarter, the Company completed the refinancing of its pre-existing debt facility through the issue of a new 4-year senior secured $60m Nordic Bond. This process was completed on April 4, 2024, with the proceeds being used to repay the aforementioned pre-existing debt facility amounting to $33.1m, fees associated with both the pre-existing debt facility and the bond process of $2.8m, the remaining purchase price related to our Indian acquisition in 2022 amounting to $6.6m which was finalized in September 2024, and other general corporate purposes. During the quarter, the Company successfully executed a new $10m bonding line to be used for bid and performance guarantees.

Cashflow and Debt:

The consolidated statement of cash flows is show on page 6 of the financial statements. An analysis of the net debt for the quarter ending September 30, 2024, is set out below, with leverage at 1.5x.

Leverage Ratio Table

(in thousands of dollars)	Sept 30, 2024
Nordic Bonds	$ (60,000)
Loan-Revolver	(4,063)
Right of Use Liabilities	(10,406)
Asset Finance Liabilities	(520)
Cash	11,623
Net Debt as of June 30, 2024	$ (63,366)
EBITDA LTM Q3 2024	$ 42,174
Leverage	1.5x

FINANCIAL SCOREBOARD

$52.7 million

Q3 2024 Net Sales and Revenue

Strong Sales and
SG&A Cost Control
leading to:

5%

Above Operating Profit Plan

Cash Flow improvement from operating activities for YTD 2024, versus YTD 2023

3Q24 over 3Q23

13% Improvement in Revenue

21% Improvement in Operating Profit

16% Improvement in Adjusted EBITDA

3Q24 over 3Q23

Adjusted EBITDA exhibited a significant improvement of **$1.5m or 16%.**

$11.6 million

Current Cash Balance

$9.6 million YoY

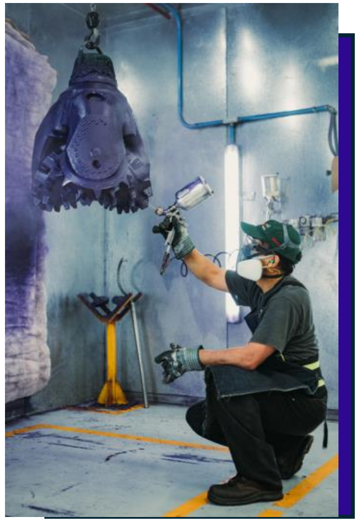
Reduction in 2024 Costs with
10% in Cost of Sales;
2% in SG&A

Q3 2024 Profitability

$10.3
Operating Profit

$10.6
Adjusted EBITDA

$4.0
Adjusted Net Income



VAREL ENERGY SOLUTIONS

FINANCIAL STATEMENTS

Consolidated Unaudited Profit and Loss

(in thousands of dollars)	Three Months Ended September 30			Nine Months Ended September 30			
	2024	2023	Percent Change	2024	2023	Percent Change	LTM
Revenue	$ 52,704	$ 46,649	13%	$ 153,430	$ 146,370	5%	$ 201,089
Cost of revenue	(29,705)	(27,872)	7%	(84,719)	(93,980)	-10%	(112,622)
Gross profit	22,999	18,777	22%	68,711	52,390	31%	88,467
Selling, general and administrative expenses	(12,727)	(10,285)	24%	(38,437)	(39,378)	-2%	(51,779)
Operating profit	10,272	8,492	21%	30,274	13,012	133%	36,688
Other income (expense)	336	(892)	NM	1,108	(2,537)	NM	(1,314)
Add: Add-backs	-	1,529	NM	1,659	4,439	-63%	6,800
Adjusted EBITDA	10,608	9,129	16%	33,041	14,914	122%	42,174
Less: Add-backs	-	(1,529)	NM	(1,659)	(4,439)	-63%	(6,800)
Transaction cost (debt)	(578)	(103)	461%	(904)	(288)	214%	(1,114)
Depreciation	(1,543)	(1,540)	0%	(4,927)	(5,310)	-7%	(8,182)
Finance costs	(6,155)	(2,217)	178%	(11,062)	(6,684)	65%	(13,742)
Income tax expense	(1,530)	(752)	103%	(5,249)	(3,043)	72%	(6,526)
Net profit (loss)	802	2,988	-73%	9,240	(4,850)	NM	5,810
Sledgehammer interest expense	3,239	-	NM	3,239	-	NM	3,239
Adjusted net profit (loss)	$ 4,041	$ 2,988	35%	$ 12,479	$ (4,850)	NM	$ 9,049

NM = Not Meaningful

FINANCIAL STATEMENTS

Consolidated Unaudited Balance Sheets

(in thousands of dollars)	Sept. 30, 2024	Dec. 31, 2023
Assets		
Current assets		
Cash and cash equivalents	$ 11,623	$ 5,876
Trade receivables, net	42,785	37,017
Inventories, net	73,081	62,171
Other current assets	13,811	16,453
Total current assets	141,300	121,517
Noncurrent assets		
Property, Plant and Equipment, net	28,901	28,512
Right-of-use assets, net	7,153	8,074
Intangibles, net	10,881	11,226
Goodwill	8,155	8,420
Deferred tax receivable	3,626	4,037
Other assets	126	786
Total noncurrent assets	58,842	61,055
Total assets	$ 200,142	$ 182,572

	Sept. 30, 2024	Dec. 31, 2023
Liabilities		
Current liabilities		
Trade payables	$ 19,160	$ 32,362
Income tax payable	3,725	2,125
Accrued liabilities	6,167	4,579
Other current liabilities	9,914	19,055
Current portion of borrowings	16,187	23,514
Current portion of lease liabilities	2,219	2,303
Total current liabilities	57,372	83,938
Noncurrent liabilities		
Borrowings	64,063	29,556
Lease liabilities	8,181	8,091
Other liabilities	7,696	7,397
Total noncurrent liabilities	79,940	45,044
Total liabilities	137,312	128,982
Equity		
Total equity	62,830	53,590
Total shareholders' equity and liabilities	$ 200,142	$ 182,572

VAREL ENERGY SOLUTIONS

FINANCIAL STATEMENTS

Consolidated Unaudited Cash Flow

Cash from operating activities improved through September 30, 2024 as compared to September 30, 2023.

As part of the bond raise, a portion of the funding was used for general corporate purposes. We allocated approximately $10m of funds to our strategic vendor base to solidify stronger and more reliable supply chain execution; as a result, our overall vendor relationships and trade payable position are at its healthiest in years.

Enhanced relationships and working capital position has allowed us to purchase raw material in bulk (i.e., steel mill runs) at reduced, more competitive prices to capture additional market share at increased margins.

We are experiencing growth in receivables and unbilled revenue due to certain process changes from some of our larger Middle East customers. However, we are working side-by-side with those customers on a daily basis and experiencing success with expectations that a significant amount of cash will be received over the course of both Q424 and Q125.

Absent the above, we would have experienced significant positive cash flows from operating activities.

Condensed Consolidated Statements of Cash Flow (Unaudited)

	Nine Months Ended September 30	
(in thousands of dollars)	**2024**	**2023**
Cash flows from operating activities		
Net profit (loss)	$ 9,240	$ (4,850)
Adjustments to net income:		
Depreciation & amortization	4,927	5,310
Amortization of deferred financing costs	328	286
Change in operating assets and liabilities:		
Increase in trade receivables	(5,768)	(6,058)
Increase in inventories	(10,910)	(3,735)
Decrease in other assets	3,713	1,415
Decrease in trade payables	(9,612)	(2,114)
Increase in income tax payable	1,600	1,688
Decrease in other liabilities	(654)	(3,246)
Net cash used in operating activities	(7,136)	(11,304)
Cash flows from investing activities		
Acquisition of ROU assets	(855)	(88)
Acquisition of property and equipment	(4,104)	(6,180)
Acquisition of Sledgehammer	(6,600)	-
Net cash used in investing activities	(11,559)	(6,268)
Cash flows from financing activities		
Proceeds from long-term borrowings	60,000	16,302
Repayments of long-term borrowings	(33,126)	(1,063)
Payment of Lease Liabilities	(2,416)	(2,765)
Net cash provided by financing activities	24,458	12,474
Effect of exchange rate changes on cash	(16)	(760)
Net increase (decrease) in cash & cash equivalents	5,747	(5,858)
Cash and cash equivalents at beginning of year	5,876	12,560
Cash and cash equivalents at end of period	$ 11,623	$ 6,702

RISK FACTORS (I/VI)

Investing in the bonds (the "**Bonds**") to be issued by Varel Oil and Gas Inc. (the "**Company**" or the "**Issuer**" and together with, among others, its subsidiaries (the "**Group**")) involves inherent risks. An investor should consider carefully, among other things, all information set forth in this Investor Presentation and the term sheet for the Bonds (the "**Term Sheet**") and, in particular, the specific risk factors set out below before making an investment decision. An investment in the Bonds is suitable only for investors who understand the risks associated with this type of investment and who can afford a loss of the entire investment. If any of the risks described below were to materialise, individually, cumulatively or together with other circumstances, they may have a material adverse effect on the Group's business, financial condition, results of operations and cash flow and/or future prospects, which may affect the ability of the Issuer to make interest payments and repay the Bonds at maturity, and/or that could result in a loss of all or part of any investment in the Bonds.

The risks and uncertainties described below are the material known risks and uncertainties faced by the Issuer and the Group as of the date hereof, and represent those risk factors that the Issuer believes to represent the most material risks for investors when making their investment decision in the Bonds. Additional risks not presently known and uncertainties that the Issuer currently believes are immaterial, may also have a material adverse effect on its business, financial condition, results of operations and cash flow, and may cause a decline in the value of the Bonds that could result in a loss of all or part of any investment in the Bonds. An investment in the Bonds 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 absence of negative past experience associated with a given risk factor does not mean that the risks and uncertainties described herein should not be considered prior to making an investment decision in respect of the Bonds.

The risk factors are presented in a limited number of categories, where each risk factor is sought placed in the most appropriate category based on the nature of the risk it represents. The most material risk factor in a category is presented first under that category, where the materiality has been determined based on the probability of occurrence and expected magnitude of negative impact of the risk. Subsequent risk factors in the same category are not ranked in order of the likelihood of their occurrence or the magnitude of their potential impact.

1 RISKS RELATING TO THE GROUP'S BUSINESS ACTIVITIES AND INDUSTRY

1.1 The demand for the Group's services and products largely depends on the activity levels in the oil and gas and mining industries

The demand for the Group's products and services has historically been influenced by the level of capital expenditures and drilling activities carried out by oil and gas and companies and their respective supply chains. These expenditures are significantly influenced by prevailing hydrocarbon prices and expectations regarding future hydrocarbon prices, as well as by various other factors including the availability of financing to fund these activities and societal trends towards a low carbon future. An actual decline, or the perceived risk of a decline, in oil and/or natural gas prices, or a reduction in the ability of oil and gas companies to access the capital necessary to finance expenditures, could cause oil and gas companies to reduce their overall level of activity or spending, in which case demand for services and products provided by the Group may decline and revenue may be adversely affected.

The Group's revenues, cash flow, profitability and rate of growth depend substantially on prevailing international and local prices of crude oil. Oil and gas prices may fluctuate based on relatively minor changes in the supply of and demand for oil and gas, expectations regarding future supply of, and demand for, hydrocarbons and certain other factors beyond the Group's control. During earlier periods of depressed commodity prices, many oil and gas companies significantly reduced their levels of capital spending, driving the volumes and prices for the Group's products and services down and consequently also the Group's profits. Uncertainty about the global economy has had and may in the future continue to have a significant adverse impact on commercial performance and financial condition of many companies, which may affect the Group's customers and suppliers. These developments could have a material adverse effect on the Group's business, results of operations, financial condition and cash flows.

Increases in oil and natural gas prices may not increase demand for the Group's services or may otherwise not have a positive effect on the Group's financial condition or results of operations. Previously forecasted trends in oil and gas exploration and development activities may not continue, and demand for the Group's products may not reflect the level of activity in the industry. Change in attractiveness in the operational segments that the Group operates may have significant adverse effects on the Group.

1.2 The Russian invasion of Ukraine may affect the operations of the Group in the short and potentially longer term

Recent developments in Europe, including the current conflict between Russia and Ukraine, have created an unstable geopolitical situation both in Europe and globally. This has led to a variety of sanctions imposed on Russia and Belarus by the EU/EEA, the United Kingdom, the United States and several other nations, changes in laws and policies affecting trade and actions by the members of the Organization of the Petroleum Exporting Countries (OPEC). The effects of this unstable situation, including sanctions, have shown to have significant implications on global trade, global markets, oil and gas prices and other aspects of the global economy, with uncertain outcomes in the medium to longer term.

The duration and development of the war and related sanctions toward Russian and Belarusian interests are highly uncertain, and as such, the medium-term and long-term impacts this will have on the global economy and the Group is challenging to predict accurately.

RISK FACTORS (II/VI)

1.3 Risk related to sanctions violations

The Group operates in multiple jurisdictions worldwide, which exposes it to various international sanctions regimes imposed by governments and international bodies. Compliance with these sanctions can be complex and subject to frequent changes. Potential violations could result in severe legal and financial penalties, including fines, restrictions on operations, and damage to the Group's reputation. Additionally, inadvertent dealings with sanctioned entities or individuals could disrupt business activities and supply chains. There is a risk that potential future exposure to sanctions regimes could adversely affect the Group's results of operations and thus reduce the value of the Bonds.

1.4 The Group is subject to rapid and unpredictable transitions in its industry

The pace and magnitude of the demand to shift from hydrocarbons to renewables remains unclear and difficult to predict. Civil society and numerous stakeholders (including governments) are increasingly encouraging the reduced consumption of carbon-based energy sources and the establishment of a more balanced energy mix, geared to low-carbon and renewable energy, to combat climate change. Increased social interest worldwide regarding the energy transition could potentially increase demand for renewables (as a partial or complete substitute for hydrocarbons). In this context, oil and gas companies may experience a shift in demand away from traditional oil and gas and toward lower-carbon sources of energy such as renewables. A major shift toward renewables could significantly impair the Group’s business by reducing demand for its products and services.

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.

1.5 The Group is dependent upon a limited number of key in-house manufacturers and suppliers

The Group is dependent upon a limited number of strategically located key in-house manufacturing facilities for the manufacturing of its products and supply of its services, which again is dependent on its suppliers in order to perform its services. Due to the highly specialized nature of some of the Group’s products, such local manufacturing facilities and/or suppliers may be challenging to replace if experiencing disruptions in production or supply. Additionally, the competitive advantages of the Group are to a large extent created through available product on-hand and product consistency. Consequently, the dependency on a limited number of manufacturing facilities and suppliers may also leave the Group more exposed to disruptions in production and/or shut down of its manufacturing facilities, which may significantly limit the Group’s ability to source its products and in turn deliver its own products and services, which could have a material adverse effect on the Group’s business, results of operations, financial condition and cash flows.

1.6 The Group is subject to competition and innovation

The Group is subject to competition affecting its ability to price its products and requiring the Group to continuously adapt its products and services to stay competitive. Certain of the Group's largest competitors can also offer full service capacity to its client, which may give them a competitive advantage in bidding. Should the Group’s competitors be able to offer their products or services at better terms, meet market changes more effectively, implement new technology quicker or develop products or services superior to those of the Group, this may have a significant and adverse effect on the Group’s financial performance and ability to service the Bonds.

1.7 The Group has material exposure to energy, personnel and raw material costs, which are determined by market forces

The costs for energy, personnel and raw materials (such as oil, copper, commodity metals etc.) have increased significantly the past few years. The causes of such increased prices include (inter alia) lower supply, higher demand, issues relating to environmental sustainability, strong price inflation in energy costs, transport and taxes. Should the Group be unable to pass on price increases it will have to absorb the increased costs, leading to a direct reduction in its profitability and potentially its ability to sell its products and services for profit, which could have a material adverse effect on the Group’s business, results of operations, financial condition and cash flows.

1.8 Management and labour force

The Group is dependent on the skill and judgement of its management team as well as the availability of suitably qualified and skilled labour. Failure to obtain or retain qualified and skilled labour may adversely impact the Groups ability to deliver its products and services and thus adversely impact the financial performance of the Group.

1.9 The Group is subject to taxation in many jurisdictions around the world

The Group operates production and delivery capacity in many jurisdictions around the world with increasingly complex tax laws and different laws may apply. The amounts of taxes, duty and tariffs the Group pays in these jurisdictions may depend on a variety of factors including changes in laws or their interpretations by the relevant authorities, which could have a material adverse effect on the Group’s liquidity and results of operations. In addition, those authorities could review the Group’s tax returns and impose additional taxes and penalties, which could be material.

RISK FACTORS (III/VI)

1.10 Product failure may have a significant impact on the business in terms of reputation and potential claims

Product failure may have a significant impact on the business in terms of reputation and potential claims. 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, or other factors including the operating conditions in which the products are used. The Group's products are used in various critical applications and therefore product failure could lead to reputational damage or legal and financial claims which may be material in terms of potential financial impact and adversely affect the Issuer's ability to meet its obligations under the bonds.

1.11 Accounting, estimates and judgements could prove wrong

In the process of preparing accounts, projections and estimates the Group and its management make a number of assessments, estimates and judgements, including but not limited to assessments on the value of its inventory, order book, investments, goodwill and trade claims. These assessments, estimates and judgements can we wrong or the assumptions on which they were made may change. This may result in the accounts, projections and/or estimates being wrong (including those contained in this Investor Presentation) which may result in challenges in satisfying financial undertaking contained in the Group's financial arrangements, poorer financial performance than anticipated and/or business decisions made on the basis of such accounts, projections and/or estimates being wrong, resulting in losses for the Group.

1.12 Business in jurisdictions with inherent risks relating to fraud, bribery and corruption

The Group does business in various jurisdictions around the world. Some of these jurisdictions have an inherent risk relating to fraud, bribery and 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.

1.13 The Group is exposed to risks relating to cyber-attacks

The Group relies on technology and data systems in order to conduct its operations. The Group's software, technology, data, websites or networks, as well as those of third parties, are vulnerable to security breaches, including unauthorised access, computer viruses or other cyber threats that could have a security impact. The Group may not be able to prevent cyber-attacks, such as phishing and hacking, or prevent breaches caused by employee error, in a timely manner or at all. If such events occur, unauthorised persons may access or manipulate confidential and proprietary information of the Group, destroy or cause interruptions in the Group's data systems which in turn could adversely hamper the Group's ability to execute projects and otherwise conduct its business. Consequently, cyber-attacks or breaches negatively affecting the Group's data systems could have a material adverse effect on the Group's business, financial condition and results of operations.

1.14 Customer risk

The Group's top 5 customers accounted for 46% of revenues in 2023. The activity levels of those clients and/or their demand for the Group's products and services may vary between years, and the loss of any of those customers could, at least on a short-term basis, have an adverse effect on the Group's results of operations and cash flows.

1.15 The Group is dependent on its current and future contracts

The Group's financial condition is dependent on its current and future contracts. There is a risk that the Group's backlog may not be ultimately realized. The contracts in place give the Group access to the customers, but are no guarantee of cash flow, as the Group remains dependent on the activity level of the customers. Contracts may also be subject to early termination due to certain events, e.g., in the case of sub-performance by the Group. In order to maintain its financial condition, the Group is dependent on its ability to renew and extend existing contracts, and its ability to win new contracts. When bidding for future contracts, there may be unforeseen or unanticipated risks, costs or timing which the Group has not taken into consideration. Such unforeseen or unanticipated factors may, if they materialize, reduce the profitability of the contracts.

If the activity level is lower than expected under relevant contracts, or the Group's current contracts are terminated, not renewed or extended, or the Group is not able to win new contracts, it could, at least on a short-term basis, have an adverse effect on the Group's results of operations and cash flows.

1.16 Claims and litigation

The Group is and may in the future become involved in different disputes in connection with its business and operations. The Group is currently subject to a lawsuit from NOV, who claims that they and certain other drillbit manufacturers have breached a patent license covering a portfolio of patents with varying expiration dates. The Group has entered into a joint defence agreement with those other manufacturer to jointly defend against the lawsuit. Although the Group is of the opinion that the chances of successfully defending against the lawsuit is high, there is a risk that the Group may not be successful and become liable to pay royalties to NOV for an amount of approximately USD 4 million per year from October 2021 onwards to January 2031.

RISK FACTORS (IV/VI)

2 RISKS RELATING TO THE GROUP'S FINANCIAL SITUATION

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

The Group has 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 entering 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) as permitted pursuant to the Bond Terms. 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.

2.2 The Group's credit arrangements contain, and future credit agreements may contain, financial covenants which the Group could fail to meet.

The Bond Terms require the Group to satisfy a maximum leverage ratio test and a minimum liquidity test. In addition, future credit agreements entered into by the Group may require it to satisfy similar and potentially additional financial covenants. The ability of the Group to comply with these tests may be affected by events beyond its control, and the Group cannot assure that it will continue to meet these tests. The failure of the Group to comply with these obligations could lead to a default under these credit agreements or the Bonds, unless the Group can obtain waivers or consents in respect of any breaches of these obligations. The Group cannot guarantee that any such waivers or consents will be granted. In the event of any default under these credit arrangements, the lenders under these agreements could elect to declare all outstanding borrowings and indebtedness, together with accrued interest, fees and other amounts due thereunder, to be immediately due and payable. Any event of default under these credit agreements or the Bonds can trigger cross default clauses in other financing arrangements. If any indebtedness of the Group were to be accelerated, the Group cannot guarantee that the Group's assets would be sufficient to repay such debt in full. This may in turn have a material adverse effect on the Group's financial position and results, and possibly lead to insolvency or insolvency related proceedings and financial restructuring.

2.3 Fluctuating working capital requirements

The company's expansion in the Middle East, particularly with National oil companies ("**NOC**"), entails a heightened risk associated with extended payment terms. While the typical customer payment terms range from 45-60 days, engagements with NOC customers in the Middle East may involve payment terms stretching up to 90 days. This extended credit period in combination with the Group's growth ambitions in the Middle East poses potential short-term liquidity challenges, impacting the company's cash flow, working capital, and overall financial flexibility.

3 RISKS RELATED TO ACQUISITIONS

3.1 Risks related to future acquisitions

There is a risk that acquisitions of companies or operations outside the Group will present certain financial, managerial and operational risks. Acquisitions are always exposed to a number of risks and considerable uncertainty with respect to ownership, other rights, assets, liabilities, licenses and permits, claims, legal proceedings, restrictions imposed by competition law, financial resources, environmental and other aspects. There is also a risk that the acquisition will lead to difficulties when integrating or separating businesses from existing operations and challenges presented by acquisitions which does not achieve sales levels and profitability that justify the investments made by the Group. If the acquisition of the relevant acquisition targets are not successfully integrated, there is a risk that the Group's business, financial condition and results of operations will be adversely affected.

RISK FACTORS (V/VI)

3.2 Risk of negative synergies after acquisitions

Following a potential future acquisition, expected cost savings and synergies may not materialize, and considerable management time and efforts may be diverted away from the business of the Group itself, and significant cost overruns may result from the integration of the businesses. Any of these events could have a material adverse effect on the Group's business, financial position, results of operations, cash flows, time to market and prospects.

4 RISKS RELATING TO THE BONDS

4.1 Risk of being unable to repay the Bonds

During the lifetime of the Bonds, the Issuer will be 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 future financial performance of the Group. If the Group is unable to service its indebtedness, it will be forced to adopt an alternative strategy that may include actions such as reducing or delaying capital expenditures, selling assets, restructuring or refinancing indebtedness or seeking equity capital. The Group's ability to e.g. successfully refinance such debt is dependent on the financial condition of the Group and conditions of the financial markets in general at such time. The Group cannot assure investors that any of these alternative strategies could be effectuated on satisfactory terms, if at all, or that they would yield sufficient funds to make required payments on the Bonds and our other indebtedness. In addition, any failure to make scheduled payments of interest and principal on outstanding indebtedness is likely to result in a reduction of credit rating, which could harm the ability to incur additional indebtedness on acceptable terms.

4.2 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 entail redemption or repurchase with a premium, either voluntarily or mandatorily. The latter will be the case, inter alia, upon the occurrence of a change of control event (as described in the Term Sheet), whereby each individual holder of Bonds (a "Bondholder") has a right to require that the Issuer purchases all or some of the Bonds at 101% of par value (plus accrued interest). There can be no assurance that the Issuer will have sufficient funds at the time of such event to make the required repurchase of the Bonds, should a mandatory repurchase event occur.

4.3 There are restrictions on the transferability of the Bonds

As the Group is relying upon exemptions from registration under the U.S. Securities Act, applicable state securities laws, UK and EU securities laws in the placement of the Bonds, the Bonds may only be transferred in a transaction registered under or exempt from the registration or prospectus requirements of such legislation in the future. 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 sell its Bonds as desired.

4.4 There is presently no active trading market for the Bonds

Pursuant to the Bond Terms, the Issuer has an obligation to list the Bonds on the Oslo Stock Exchange or any other regulated market (as defined under MiFID II and MiFIR) within 12 months of the first issue date (being 8 April 2024). Even if the Bonds are admitted to trading, active trading in the Bonds may not occur and a liquid market for trading in the Bonds may not be available even if the Bonds are listed. For example, if the Issuer fails to comply with the various obligations and standards of conduct which follow the listing of the Bonds, this may lead to the exclusion of the Bonds from trading. As a result, 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.

4.5 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 and will be entitled to payments of their claims from the assets of such subsidiaries before these assets are made available for distribution to the Issuer, as a direct or indirect shareholder, in each case 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 such subsidiaries and 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., and may therefore receive payment ahead of the Bonds in an enforcement scenario.

RISK FACTORS (VI/VI)

4.6 Limitations on guarantees and security interests

The guarantors 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 and there might also be requirements to receive corporate benefit as consideration for granting financial assistance. Furthermore, there may be certain legal limitations on the maximum secured amount of a security interest or guarantee. The Bond Terms contain several agreed security principles pursuant to which the members of the Group will not be required to grant security and/or guarantees to the extent that would be in 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. It is possible that such limitations will reduce the value of the security package and negatively affect the Bondholders.

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

The Bonds will be secured by guarantees from certain material members of the Group located in the EEA, the US, the UK and Canada as well as by security interests in assets owned by those members of the Group. 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 by to the Bondholders.

The Bonds will be 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. Any intercreditor agreement will also contain certain provisions regulating instruction rights, including instructions as to enforcement. Upon certain conditions being met, such instruction right 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, there can be no assurance that the value of the security will 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.

Security will only be granted by members of the Group which qualify as material group companies and which are incorporated in certain eligible jurisdictions. The Bond Terms also contain agreed security principles pursuant to which the members of the Group will not be required to grant security and/or guarantees to the extent that would be in 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. It is possible that such limitations will reduce the value of the security package and negatively affect the Bondholders.

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 jurisdictions, 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.

4.8 The Issuer is predominantly a holding company and is dependent upon cash flow from its subsidiary to meet its obligations, in general and under the bonds

The Issuer depends on obtaining cash from its subsidiaries in order to generate the funds necessary to pay the principal of and interest on the Bonds and to meet its other obligations. The ability of the subsidiaries to pay distributions, dividends and other payments to the Issuer may be restricted by, among other things, the availability of cash flows from operations, contractual restrictions in its debt instruments, applicable corporate and other laws and other agreements of the subsidiaries. Some of the subsidiaries will guarantee the Issuer's obligations under the Bonds, however, the insolvency or bankruptcy of a guarantor could result in their guarantees not being honoured and thereby the amounts recovered from the subsidiaries may not be sufficient to cover the Issuer's and/or the guarantors' payment obligations under the Bonds.

4.9 Individual Bondholders do not have a right of action against the Issuer

In accordance with the Bond Terms, the bond trustee will represent 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 and they will instead need to wait until a requisite majority of Bondholders agrees to take such action. The bond trustee will 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.

4.10 Bondholders may be overruled by majority votes taken in Bondholders' meetings

The Bond Terms include certain provisions regarding Bondholders' meetings and written procedures. Such meetings and procedures may be used to reach decisions on matters relating to the Bondholders' interests. The Bond Terms will 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. Consequently, 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.

FURTHER INFORMATION

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