

Downhole Products UK Holdco Limited

Annual report and financial statements

Registered number SC340137

31 December 2020



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Directors' report

The directors present their report and the unaudited financial statements for the year ended 31 December 2020

Principal 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 (2019: £Nil).

Directors

The directors who held office during the year and subsequently were as follows:

G Cooper Appointed 8 February 2018 Resigned 12th July 2022
M Gandy Appointed 12th July 2022

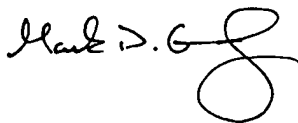
Political contributions

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 2020 audited.

By order of the board



Mark Gandy
Director

c/o Brodies LLP
Capital Square
58 Morrison Street
Edinburgh EH3 8BP

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 2020 the company was entitled to exemption from audit under section 401 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 Comprehensive Income
for the period ended 31 December 2020

		Year to 31 December 2020 £000	Year to 31 December 2019 £000
	<i>Note</i>		
Dividend Income	12	-	11,762
Operating profit / result		-	11,762
Profit / result before taxation		-	11,762
Tax on profit or loss		-	-
Profit / result for the financial year		-	11,762
Other comprehensive income		-	-
Total comprehensive income for the year		-	11,762

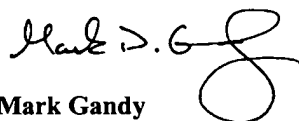
Balance sheet
at 31 December 2020

	Note	31 December 2020		31 December 2019	
		£000	£000	£000	£000
Fixed assets					
Investments	6		37,398		37,398
Current assets					
Debtors	7	736		736	
		<u>736</u>		<u>736</u>	
Creditors: amounts falling due within one year	8	<u>(29,625)</u>		<u>(29,625)</u>	
Net current asset / (liabilities)			<u>(28,889)</u>		<u>(28,889)</u>
Net Assets / (liabilities)			<u>8,509</u>		<u>8,509</u>
Capital and reserves					
Called up share capital	9	-	-	-	-
Capital contribution reserve		6,276		6,276	
Share premium account		-	-	-	-
Retained Earnings		2,223		2,233	
Shareholders' deficit			<u>8,509</u>		<u>8,509</u>

For the year ended 31 December 2020, 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 4th July 2023 and were signed on its behalf by:



Mark Gandy
Director

Company registered number SC340137

The notes on pages 7 to 12 form part of the financial statements.

Statement of changes in equity

	Called up share capital £000	Capital contributio n reserve £000	Profit and loss account £000	Share premium £000	Distributable reserve £000	Total Equity £000
Balance at 1 January 2019	-	6,276	(16,529)	7,000	-	(3,253)
Total comprehensive income for the period						
Result	-	-	11,762	-	-	11,762
Other comprehensive income	-	-	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total comprehensive income for the period	-	-	11,762	-	-	11,762
Reduction of share capital			7,000	(7,000)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December 2019	<hr/> - <hr/>	<hr/> 6,276 <hr/>	<hr/> 2,233 <hr/>	<hr/> - <hr/>	<hr/> - <hr/>	<hr/> 8,509 <hr/>

	Called up share capital £000	Capital contributio n reserve £000	Profit and loss account £000	Share premium £000	Distributable reserve £000	Total Equity £000
Balance at 1 January 2020	-	6,276	2,233	-	-	8,509
Total comprehensive income for the period						
Result	-	-	-	-	-	-
Other comprehensive income	-	-	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total comprehensive income for the period	-	-	-	-	-	-
Reduction of share capital				-	-	
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December 2020	<hr/> - <hr/>	<hr/> 6,276 <hr/>	<hr/> 2,233 <hr/>	<hr/> - <hr/>	<hr/> - <hr/>	<hr/> 8,509 <hr/>

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 sterling. 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 pounds sterling 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 parent undertaking Sandvik AB 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 AB and Nixon Energy hold minority shares.

The consolidated financial statements of Downhole Products Holdco Ltd are prepared in accordance with International Financial Reporting Standards and will be available but have not been prepared at the date of approval of the financial statements.

Standards, amendments and interpretations effective in the year

IFRS 16 is a new accounting standard that was effective for the year ended 31 December 2019 which had no material impact on the company.

Notes (continued)

1 Accounting policies (continued)

Going Concern

As at 31 December 2020, the Company has an intercompany payable balance with Downhole Products Limited of £29,230,785. The intercompany loan is unsecured, interest free and repayable on demand.

The director believes 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:

	2020	2019
	£000	£000
<i>Auditors' remuneration:</i>		
Audit of these financial statements (*)	9	9
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 director is also a director of a number of other companies within the group for which he carries on work; he is paid by Varel International (VIES).

4 Staff numbers and costs

The company has no employees (2019: nil).

Notes (continued)

5 Investments

Fixed asset investments

	2020 £000
<i>Investments in group companies</i>	
<i>At cost and net book value</i>	
Investment in Downhole Products Limited at beginning and end of year	37,398

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	15 Atholl Crescent, Edinburgh, EH3 8HA	Scotland	Ordinary 100%
Ian Hay (Engineering) Limited*	15 Atholl Crescent, Edinburgh, EH3 8HA	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*	E71, Block E, Megan Avenue I189, Jalan Tun Razak, 50400, Kuala Lumpur	Malaysia	Ordinary 100%
Downhole Products Middle East Fze*	JAFZA 16, Jebel Ali, Dubai	Dubai	Ordinary 100%

* - 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 2021. 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 2021 business unit budgets is expected to remain in line with 2020. Short term growth rates have been assumed of 16% per annum for 2022 and 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%.

The headroom based on the assumptions above was £18m. A sensitivity analysis has been performed assuming a 1% reduction in the long-term growth rate and a 1% increase in the discount rate in order to assess the impact of reasonable possible changes to the assumptions used in the impairment review. Neither a 1% reduction in the long-term growth rate or a 1% increase in the discount rate would result in an impairment. As part of the annual impairment review, management has assessed whether there were any impairment triggers and none were identified.

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

	2020 £000	2019 £000
Amount due by group undertaking	736	736
	<u>736</u>	<u>736</u>

8 Creditors: amounts falling due within one year

	2020 £000	2019 £000
Amounts owed to group undertakings	29,625	29,625
	<u>29,625</u>	<u>29,625</u>

9 Called up share capital

	2020 £	2019 £
<i>Allotted and called up</i>		
101 (2018: 101) Ordinary shares of 1p each	1	1
	<u>1</u>	<u>1</u>

10 Controlling parties

The immediate parent undertaking is Investec Investments (UK) Limited.

The Company's ultimate parent undertaking is Bluewater Private Equity whilst Sandvik AB and Nixon Energy hold minority shares.

11 Share premium / reduction in share capital

On 15th July 2019, Downhole Products Holdco resolved by special resolution to transfer 100% of its £7,000k share premium account into distributable reserves which has been presented within profit and loss account in the Balance Sheet.

Notes (*continued*)

12 Dividend income

	2020	2019
	£000	£000
Dividend Revenue	-	11,762
	<hr/>	<hr/>
	-	11,762
	<hr/>	<hr/>
	-	11,762
	<hr/>	<hr/>

Varel Oil and Gas Intermediate Holdings, Inc.

**Consolidated Financial Statements
December 31, 2020**

Varel Oil and Gas Intermediate Holdings, Inc.
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December 31, 2020

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Report of Independent Auditors

To the Management and Board of Directors of Varel Oil and Gas Intermediate Holdings, Inc.

We have audited the accompanying consolidated financial statements of Varel Oil and Gas Intermediate Holdings, Inc. and its subsidiaries, which comprise the consolidated statement of financial position as of December 31, 2020, and the related consolidated statements of loss and comprehensive income, of changes in equity and of cash flows for the year then ended.

Management's Responsibility 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; this includes 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.

Auditors' Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

As discussed in Note 2, the accompanying consolidated financial statements are not presented in accordance with International Accounting Standard 1, *Presentation of Financial Statements*, as they do



not include comparative figures, which constitutes a departure from International Financial Reporting Standards as issued by the International Accounting Standards Board.

Qualified Opinion

In our opinion, except for the effects of the matter discussed in the Basis for Qualified Opinion section of our report, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Varel Oil and Gas Intermediate Holdings, Inc. and its subsidiaries as of December 31, 2020, and the results of their operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

A handwritten signature in black ink, appearing to read "Priscilla Handopoulos" followed by a stylized flourish.

March 1, 2023

Varel Oil and Gas Intermediate Holdings, Inc.
Consolidated Statement of Financial Position
December 31, 2020

<i>(in thousands of dollars)</i>	Notes	2020
Assets		
Current assets		
Cash and cash equivalents		\$ 32,188
Trade receivables, net	(5)	25,913
Trade receivables, related parties	(15)	4,785
Inventories, net	(6)	38,616
Income tax receivable	(14)	947
Prepays and other current assets		7,391
Total current assets		109,840
Noncurrent assets		
Property, plant, and equipment, net	(7)	30,060
Right-of-use assets, net	(15)	5,910
Intangibles, net		643
Deferred tax receivable	(14)	3,650
Other assets		1,181
Total noncurrent assets		41,444
Total assets		\$ 151,284
Shareholders' Equity		
Share premium	(19)	\$ 437,547
Accumulated deficit		(359,307)
Accumulated other comprehensive income		3,143
Equity attributable to owners of Varel		81,383
Noncontrolling interests		1,056
Total equity		82,439
Liabilities		
Current liabilities		
Trade payables		8,675
Trade payables, related parties	(16)	44
Income tax payable	(14)	1,943
Accrued liabilities		4,372
Provisions	(18)	2,904
Other current liabilities	(8)	8,054
Current portion of borrowings	(9)	3,749
Current portion of lease liabilities	(15)	2,179
Total current liabilities		31,920
Noncurrent liabilities		
Borrowings	(9)	21,054
Lease liabilities	(15)	3,848
Deferred tax liabilities	(14)	119
Provisions	(18)	7,114
Other liabilities		4,790
Total noncurrent liabilities		36,925
Total liabilities		68,845
Total shareholders' equity and liabilities		\$ 151,284

The accompanying notes are an integral part of these consolidated financial statements.

Varel Oil and Gas Intermediate Holdings, Inc.
Consolidated Statement of Loss and Comprehensive Loss
Year Ended December 31, 2020

<i>(in thousands of dollars)</i>	Notes	2020
Revenue	(10)	\$ 166,099
Cost of revenue	(11)	<u>(132,172)</u>
Gross profit		33,927
Selling, general and administrative expenses		<u>(61,298)</u>
Operating loss		(27,371)
Finance costs, net	(12)	(6,252)
Other losses, net	(13)	<u>(7,000)</u>
Loss before income tax		(40,623)
Income tax expense	(14)	<u>(594)</u>
Loss for the period		<u>(41,217)</u>
Other comprehensive income		
Items that are or may be reclassified subsequently to loss		
Foreign operations – foreign currency translation differences		<u>6,017</u>
Comprehensive income for the period		<u>6,017</u>
Total comprehensive loss for the period		<u>\$ (35,200)</u>
Loss attributable to		
Owners of Varel		\$ (40,457)
Non-controlling interests		<u>(760)</u>
Loss for the period		<u>\$ (41,217)</u>
Total comprehensive loss attributable to		
Owners of Varel		\$ (29,312)
Non-controlling interests		<u>(5,888)</u>
Total comprehensive loss for the period		<u>\$ (35,200)</u>

The accompanying notes are an integral part of these consolidated financial statements.

Varel Oil and Gas Intermediate Holdings, Inc.
Consolidated Statement of Changes in Equity
Year Ended December 31, 2020

<i>(in thousands of dollars, except for share amount and per share amounts)</i>	Shares Outstanding Amount <i>(par value \$0.01)</i>	Share Capital Amount	Share Premium	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Equity Attributable to Owners of Varel	Noncontrolling Interests	Total Equity
Balances at January 1, 2020	1	\$ -	\$ 99,736	\$ (318,850)	\$ (8,002)	\$ (227,116)	\$ 7,444	\$ (219,672)
Loss for the period	-	-	-	(40,457)	-	(40,457)	(760)	(41,217)
Other comprehensive income (loss)	-	-	-	-	11,145	11,145	(5,128)	6,017
Total comprehensive income (loss)	-	-	-	(40,457)	11,145	(29,312)	(5,888)	(35,200)
Cash dividends declared	-	-	-	-	-	-	(500)	(500)
Payments made for the purchase of shares	-	-	(11,349)	-	-	(11,349)	-	(11,349)
Conversion of preferred shares into common shares	-	-	(3)	-	-	(3)	-	(3)
Proceeds from Sandvik - BWE share issuance	-	-	349,163	-	-	349,163	-	349,163
Balances at December 31, 2020	1	\$ -	\$ 437,547	\$ (359,307)	\$ 3,143	\$ 81,383	\$ 1,056	\$ 82,439

The accompanying notes are an integral part of these consolidated financial statements.

Varel Oil and Gas Intermediate Holdings, Inc.
Consolidated Statement of Cash Flows
Year Ended December 31, 2020

<i>(in thousands of dollars)</i>	Notes	2020
Cash flows from operating activities		
Loss for the period		\$ (41,217)
Adjustments for		
Depreciation and amortization	(7)	6,181
Depreciation of right-of-use assets	(15)	3,297
Amortization of deferred financing costs	(9)	274
Provision for doubtful accounts		(39)
Gain on derivatives		(186)
Loss on sale of equipment		324
Loss on foreign currency	(13)	4,275
Provision for excess and obsolescence inventory or impairments	(6)	8,810
Severance costs		3,664
Net finance costs	(12)	6,252
Changes in		
Trade receivables		16,024
Inventories		17,204
Prepays and other assets		288
Trade and other payables		533
Other liabilities		(8,363)
Cash generated from operating activities		17,321
Interest paid		(5,273)
Income taxes paid		(350)
Net cash provided by operating activities		<u>11,698</u>
Cash flows from investing activities		
Acquisition of right-of-use assets		(1,500)
Proceeds from sale of equipment		295
Acquisition of property and equipment	(7)	(1,926)
Net cash used in investing activities		<u>(3,131)</u>
Cash flows from financing activities		
Proceeds from long-term borrowings	(9)	23,118
Proceeds from the Sandvik/BWE share insurance	(16)	349,163
Payments made for the purchase of shares		(11,349)
Repayment of related party debt		(345,817)
Cash dividends		(500)
Payments of lease liabilities	(15)	(1,331)
Net cash provided by financing activities		<u>13,284</u>
Effect of exchange rate changes on cash		<u>1,237</u>
Net increase in cash and cash equivalents		23,088
Cash and cash equivalents		
Beginning of year		<u>9,100</u>
End of year		<u>\$ 32,188</u>

The accompanying notes are an integral part of these consolidated financial statements.

Varel Oil and Gas Intermediate Holdings, Inc.
Notes to Consolidated Financial Statements
Year Ended December 31, 2020

(in thousands of 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 March 1, 2023.

Bluewater Transaction

The Company was formed in 2019 for the specific purpose to issue equity instruments for a transaction between the entity that held a controlling ownership in Varel prior to March 2, 2020, and the entity that holds a controlling equity interest in Varel after that date. On March 2, 2020, Bluewater Energy, LLP, through one of its subsidiaries, acquired control of the Company for cash consideration, net of certain adjustments of \$114,600 ("Bluewater transaction"). The Bluewater transaction was a transaction of entities under common control and was accounted for as a capital re-organization. As a result of this transaction, the assets and liabilities of the Company continue to be recorded at the historical cost.

Concurrent with the Bluewater transaction, the Company entered into a credit agreement as described in Note 10.

2. Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements of the Company have been prepared in accordance with International Financial Accounting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), except that they do not include comparative figures as required by International Accounting Standard 1, Presentation of Financial Statements, which constitutes a departure from IFRS.

The consolidated financial statements have been prepared under the historical cost convention except for certain items measured at fair value.

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.

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

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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.

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. 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.

Expected Credit Losses

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been reviewed on a case-by-case basis for credit risk characteristics and the respective days past due. The expected loss rates are based on the payment profiles of sales over a period of 12 months before December 31, 2020, or January 1, 2021, respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

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The Company has a Provision for Doubtful Accounts of \$13,553 as of December 31, 2020.

Fair Value of Trade Receivables

Due to the short-term nature of trade receivables, their carrying amount is considered the same as the fair value.

Impairment and Risk Exposure

Customers are independently rated and 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 is comprised of the purchase price of materials and other directly related costs. Costs are calculated using either the standard or 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 Income.

Property, Plant and Equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and amortization. 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
Vehicles	3 - 5 years
IT hardware	3 - 5 years

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.

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For the purpose of testing impairment, the Company groups assets into 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 Income.

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	Economic Life
Patents and trademarks	10 - 20 years
Customer relationships	10 years
Software IT operations	3 years
Capitalized development cost	3 - 7 years

Trade Payables

Trade payables represent liabilities for goods and services provided to the Company before the end of the financial year. The amounts are unsecured and are usually paid within 90 days of recognition. Trade payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognized initially at their fair value and subsequently measured at amortized cost using the effective interest method. The carrying amounts of trade and other payables are considered the same as their fair values due to their short-term nature.

Other Payables

Other payables represent accrued liabilities, provisions, and income tax payable. The amounts are unsecured and are usually 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.

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 for liquidity services 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,

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including any noncash assets transferred or liabilities assumed, is recognized in the Consolidated Statement of Loss and Comprehensive Income as Other Income 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.

Provisions

A provision is recognized if, as a result of a past event, 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 obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be remote.

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;
- (iv) allocation of the transaction price to the performance obligation provided for in the contracts
- (v) recognition of revenue when the performance obligation is met. Revenue is recognized when there is no longer a performance obligation to be met by the Company.

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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.

The Company believes the impact of returns, delivery penalties, volume rebates or trade-ins to be historically minimal. The Company has not recorded a related return liability or right to recover returned goods asset as of December 31, 2020.

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.

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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.

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.

When a contract includes both lease and nonlease components, the Company applies IFRS 15 to allocate the consideration under the contract to the respective components.

Measurement of Right-of-use Assets

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 any 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.

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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.

Changes to IFRS Not Yet Adopted

Eleven new standards are effective for annual periods beginning after January 1, 2021, and earlier application is permitted; however, the Company has not early adopted the new or amended standards in preparing these consolidated financial statements.

Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)

The amendments specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous. The amendments apply for annual reporting periods beginning on or after January 1, 2022, to contracts existing at the date when the amendments are first applied. At the date of initial application, the cumulative effect of applying the amendments is recognized as an opening balance adjustment to retained earnings or other components of equity, as appropriate. Management is currently reviewing the adoption; the effects of this change on the Company's financial statements have not yet been determined.

Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction (Amendments to IAS 12)

The amendments narrow the scope of the initial recognition exemption to exclude transactions that give rise to equal and offsetting temporary differences – e.g., leases and decommissioning liabilities. The amendments apply for annual reporting periods beginning on or after January 1, 2023. For leases and decommissioning liabilities, the associated deferred tax asset and liabilities will need to be recognized from the beginning of the earliest comparative period presented, with any cumulative effect recognized as an adjustment to retained earnings or other components of equity at that date. For all other transactions, the amendments apply to transactions that occur after the beginning of the earliest period presented. Management is currently reviewing the adoption; the effects of this change on the Company's financial statements have not yet been determined.

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Interest Rate Benchmark Reform (Amendments to IFRS9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) – Phase 2

The Company will adopt LIBOR Phase 2 in 2021. In Phase 2 the IASB amended requirements related to changes in the basis for determining contractual cash flows of financial assets, financial liabilities, and lease liabilities, hedge accounting, and disclosures. These amendments apply to only changes required by the LIBOR reform to financial instruments. Management is currently reviewing the adoption; the effects of this change on the Company's financial statements have not yet been determined.

Presentation of Financial Statements (Amendments to IAS 1)

On February 12, 2021, IASB amended IAS 1 "Presentation of Financial Statements". The amendments require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendments clarify that accounting policy information may be material because of its nature, even if the related amounts are immaterial. The amendments also clarified that accounting policy information is material if users of an entity's financial statements would need it to understand other material information in the financial statements; and the amendments clarify that if an entity discloses immaterial accounting policy information, such information shall not obscure material accounting policy information. The amendment is effective for years beginning on or after January 1, 2023. Management is currently reviewing the adoption; the effects of this change on the Company's financial statements have not yet been determined.

Classification of Liabilities as Current or Noncurrent (Amendments to IAS 1)

The amendments clarified how an entity classifies as current or noncurrent any debt with covenants with which an entity is required to comply on or before the reporting date. In addition, an entity has to disclose information in the notes that enables users of financial statements to understand the risk that noncurrent liabilities with covenants could become repayable within twelve months. The amendments are effective for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted. Management is currently reviewing the adoption; the effects of this change on the Company's financial statements have not yet been determined.

3. Critical Accounting Estimates and Judgments

The preparation of the consolidated 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 consolidated financial statements is as follows:

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Impairment of Property, Plant, and Equipment

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. 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. Judgement 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 judgement 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 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 judgement as to the ultimate outcome, which can change over time depending on facts and circumstances. Judgements 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 judgement 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 Consolidated Statement of Loss and Comprehensive Income in the period in which the change occurs.

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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.

Foreign Exchange Risk

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. The carrying value of the Company's monetary assets and liabilities subject to foreign exchange risk as of December 31, 2020, is as follows:

	December 31, 2020
<i>(in thousands of US dollar)</i>	
Assets	\$ 113,844
Liabilities	53,332

The Company regularly monitors the changes in foreign currency internally. A sensitivity analysis on the above assets and liabilities assuming a 10% increase and 10% decrease in foreign currency rates (before tax effect) as of December 31, 2020, is as follows:

	10% Increase in U.S. Dollar Against Foreign Currency		10% Decrease in U.S. Dollar Against Foreign Currency	
	Net Income	Shareholders	Net Income	Shareholders
<i>(in thousands of US dollar)</i>	(Loss)	Equity	(Loss)	Equity
Attributable to owners of Varel	\$ (5,939)	\$ (5,939)	\$ 5,939	\$ 5,939
Noncontrolling interests	(112)	(112)	112	112

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.

At December 31, 2020, 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 loss model; trade receivables.

The Company applies the simplified approach to measuring expected credit losses ("ECL"), which uses a lifetime expected loss allowance for all trade receivables.

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The carrying amount of trade receivables and other financial assets represents the maximum exposure to credit risks. Credit risks are as follows:

	2020
Trade receivables, net	\$ 25,913
Trade receivables, related parties	<u>4,785</u>
Financial assets subject to ECL	<u>\$ 30,698</u>

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. 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, 2020, is as follows:

<i>(in thousands of US dollar)</i>	<u>1% increase</u>		<u>1% decrease</u>	
	<u>Net Income</u> <u>(Loss)</u>	<u>Shareholders</u> <u>Equity</u>	<u>Net Income</u> <u>(Loss)</u>	<u>Shareholders</u> <u>Equity</u>
Attributable to owners of Varel	\$ (20)	\$ (20)	\$ 20	\$ 20

The Company noted a minimal impact on noncontrolling interests for the year ended December 31, 2020.

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.

Management monitors rolling forecasts of the Company's liquidity reserve comprising its borrowing facility (Note 11), and cash and cash equivalents 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:

	2020
Line of credit available for general use	\$ 10,000

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

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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, 2020	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	\$ 23,910	\$ 8,912	\$ 4,748	\$ -	\$ 37,570	\$ 38,015
Borrowings	5,812	3,655	23,674	-	33,141	24,803
Lease liabilities	1,964	1,546	1,855	867	6,232	6,027
Nonderivative liabilities	<u>\$ 31,686</u>	<u>\$ 14,113</u>	<u>\$ 30,277</u>	<u>\$ 867</u>	<u>\$ 76,943</u>	<u>\$ 68,845</u>

There were no outstanding derivative arrangements as of December 31, 2020.

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 debt-to-equity ratios were as follows:

	2020
Net borrowings (9)	\$ 24,803
Total equity	82,439
Debt to equity ratio	30.09 %

Capital 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. Trade Receivables

Trade receivables relate primarily to sales of drill bits and downhole equipment. The trade receivables balance was comprised of:

	2020
Trade receivables	\$ 34,628
Accrued income	4,838
Provision for doubtful accounts	(13,553)
Trade receivables, net	<u>\$ 25,913</u>

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6. Inventories

	2020
Raw materials	\$ 8,513
Work in process	5,387
Finished goods	39,604
Excess and obsolete reserve	<u>(14,888)</u>
Inventories, net	<u>\$ 38,616</u>

In 2020, \$8,810 was recognized as an expense due to excess and obsolete reserves during the year and included in Cost of revenue and operating expenses.

7. Property, Plant, and Equipment

	Buildings	Plant and Machinery	Computer Software and Hardware	Vehicles	Assets Under Construction	Other	Total
Cost							
<u>At beginning of year 2020</u>	\$ 7,409	\$ 48,694	\$ 8,752	\$ 2,017	\$ 3,884	\$ 725	\$ 71,481
Additions	-	747	328	201	1,021	57	2,354
Disposals	(220)	(1,895)	68	(299)	(288)	(24)	(2,658)
Transfers	-	2,455	-	-	(2,455)	-	-
<u>At end of year 2020</u>	<u>7,189</u>	<u>50,001</u>	<u>9,147</u>	<u>1,919</u>	<u>2,162</u>	<u>758</u>	<u>71,176</u>
Accumulated Depreciation							
<u>At beginning of year 2020</u>	(3,991)	(23,543)	(6,833)	(1,680)	-	(581)	(36,629)
Charge for year	(1,034)	(4,309)	(861)	(19)	-	8	(6,216)
Disposals	-	1,579	106	30	-	14	1,728
Transfers	-	-	-	-	-	-	-
<u>At end of Year 2020</u>	<u>(5,025)</u>	<u>(26,274)</u>	<u>(7,589)</u>	<u>(1,669)</u>	<u>-</u>	<u>(559)</u>	<u>(41,116)</u>
Net Book Value							
<u>At 31 December 2020</u>	<u>\$ 2,164</u>	<u>\$ 23,727</u>	<u>\$ 1,558</u>	<u>\$ 250</u>	<u>\$ 2,162</u>	<u>\$ 199</u>	<u>\$ 30,060</u>

Noncash Investing Activity

The Company acquired fixed assets through a noncash financing agreement for \$82 for the year ended December 31, 2020.

8. Other Current Liabilities

	2020
Compensation and benefits	\$ 2,423
Miscellaneous recurring accruals	1,570
Royalty accrual	1,362
Accrued interest	644
Taxes payable	631
Severance accrual	463
Commission accrual	429
Other	<u>532</u>
Total other current liabilities	<u>\$ 8,054</u>

Varel Oil and Gas Intermediate Holdings, Inc.
Notes to Consolidated Financial Statements
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(in thousands of dollars, except for share and per share amounts)

9. Borrowings

	Current	Noncurrent	Total
External loans	\$ 4,104	\$ 22,001	\$ 26,105
Paid-in-kind	-	279	279
Debt issuance costs	<u>(355)</u>	<u>(1,226)</u>	<u>(1,581)</u>
Borrowings at December 31, 2020	<u>\$ 3,749</u>	<u>\$ 21,054</u>	<u>\$ 24,803</u>

External Loans

On March 2, 2020, the Company entered into a loan agreement with Investec Bank which allows it to draw funds up to \$8,500 through to March 2025. The loan accrues interest at the LIBOR plus 6.5 basis points per annum. Payments are due quarterly after a 12-month grace period and the loan matures on March 2, 2025. The debt issuance costs of \$451 are presented as a direct deduction from the debt liability and are amortized over the life of the loan. As of December 31, 2020, the Company had an outstanding balance of \$8,200, net of debt issuance costs.

On March 2, 2020, the Company entered into a loan agreement with Investec Bank which allows the Company to draw funds up to \$16,500 through to March 2025. The loan accrues interest at the LIBOR plus 6.5 basis points per annum plus 2% capitalized PIK. A bullet payment is due when the loan matures on March 2, 2025. The debt issuance costs of \$876 are presented as a direct deduction from the debt liability and are amortized over the life of the loan. As of December 31, 2020, the Company had an outstanding balance of \$15,900, net of debt issuance costs.

On March 2, 2020, the Company entered into a loan agreement with Investec Bank which allows the Company to draw funds up to \$10,000 through to March 2025. The loan accrues Drawn interest at the LIBOR plus 6.5 basis points per annum plus and Undrawn 2.275% basis points per annum. A bullet payment is due when the loan matures on March 2, 2025. The debt issuance costs of \$530 are presented as a direct deduction from the debt liability and are amortized over the life of the loan. As of December 31, 2020, the Company had an outstanding balance of (\$442) for the net debt issuance costs.

See subsequent events note regarding changes in debt covenants.

For the year ended December 31, 2020, interest of \$1,990 was incurred on external loans. The whole of the property (including uncalled capital), has been provided as collateral for the borrowings.

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.

Debt Covenants

The Company has certain financial covenants for its loans to maintain a minimum debt to equity ratio of 2 to 1 and minimum cash and cash equivalents ratio of 1 to 1.

The Company was in compliance with all covenants as of December 31, 2020.

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Reconciliation of liabilities arising from financial activities for the year ended December 31, 2020:

	Beginning of Year	Cash Flow	Amortization of Deferred Financing Costs	Lease Addition	End of Year
Long term borrowings	\$ 1,411	\$ 23,118	\$ 274	\$ -	\$ 24,803
Lease liabilities	7,358	(2,831)	-	1,500	6,027
Total liabilities in financing activities	<u>\$ 8,770</u>	<u>\$ 20,287</u>	<u>\$ 274</u>	<u>\$ 1,500</u>	<u>\$ 30,830</u>

Sandvik, Inc. Cash Pool Arrangement

The previous owners, Sandvik, Inc, instituted a cash pool management program. The Company historically ended each period in a net payable position. The Company settled a \$345,817 related party payable during the year ended December 31, 2020. The movement was considered a financing activity per the Consolidated Statement of Cash Flow, noting the reduction as payment of related party debt.

10. Revenue

The Company derives revenue from contracts with customers and lease revenue, both recognized at a point in time.

Revenue Recognized at a Point in Time	2020
Product sales revenue	\$ 149,728
Lease revenue	16,371
Total revenue recognized at a point in time	<u>\$ 166,099</u>

11. Expenses by Nature

	2020
Inventory materials	\$ 85,026
Employee compensation and benefits	20,722
Consumables	4,076
Freight and customs	6,218
Provision for excess and obsolescence inventory or impairments	8,810
Depreciation and amortization - nonrental	2,549
Rental fleet depreciation	6,753
Other	(1,982)
Total cost of revenue	<u>\$ 132,172</u>

Varel Oil and Gas Intermediate Holdings, Inc.
Notes to Consolidated Financial Statements
Year Ended December 31, 2020

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12. Finance Costs, Net

	2020
Interest and finance charges paid/payable	\$ 5,973
Amount capitalized	<u>279</u>
Finance costs, net	<u>\$ 6,252</u>

The Company recorded \$391 in lease interest during the year. The amount of borrowing costs capitalized is the actual interest on specific loans for the items capitalized.

13. Other Losses, Net

	2020
Net foreign exchange losses	\$ 4,275
Net other losses	<u>2,725</u>
Other losses, net	<u>\$ 7,000</u>

14. 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 year ended December 31, 2020:

Accounting profit before tax	\$ 40,403
US statutory tax rate of the reporting entity	<u>21.00 %</u>
Expected total tax income	8,485
Reconciling items	
Expenses not deductible for tax purposes	912
Effect of different tax rates in countries in which the entity operates	(831)
Unrecognized deferred taxes	9,305
Other	<u>(307)</u>
Total current and deferred tax expense	<u>\$ 17,564</u>

The tax effect of temporary differences that give rise to significant portions of the net deferred tax assets at December 31, 2020 is as follows:

Varel Oil and Gas Intermediate Holdings, Inc.
Notes to Consolidated Financial Statements
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Deferred tax assets	
IFRS 16 leases	\$ 347
Property, plant & equipment	412
Reserves for obsolescence and receivables	769
Accrued liabilities	780
Net operating loss carryforwards	262
Other foreign deferred tax assets	961
	<hr/>
Deferred tax assets	\$ 3,531

The Company has a total of \$8,429 unused tax losses. Of this amount, only \$262 has been recognized for deferred tax purposes, no deferred tax asset has been recognized for the remaining \$8,167. The Company is not aware of any open tax examinations with authorities or any other uncertain tax positions that exist as of December 31, 2020.

15. 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:

Varel Oil and Gas Intermediate Holdings, Inc.
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	2020
Right-of-use assets	
Right-of-use, building	\$ 10,428
Right-of-use, land	29
Right-of-use, plant and machinery	67
Right-of-use, vehicles	770
Right-of-use, office equipment	481
Right-of-use, furnitures and fixtures	197
Accumulated depreciation right-of-use, building	(5,216)
Accumulated depreciation right-of-use, land	(7)
Accumulated depreciation right-of-use, plant and machinery	(38)
Accumulated depreciation right-of-use, vehicles	(450)
Accumulated depreciation right-of-use, office equipment	(222)
Accumulated depreciation right-of-use, furnitures and fixtures	(129)
Total right-of-use assets, net	<u>\$ 5,910</u>
Lease liabilities	
Current	\$ 2,179
Noncurrent	<u>3,848</u>
Total lease liabilities	<u>\$ 6,027</u>

Additions to the right-of-use assets during the year ended December 31, 2020, were \$1,500. The total cash outflows for leases in 2020 were \$1,280. The Company recorded \$391 in lease interest during the year.

Depreciation expense on right-of-use assets for the year ended December 31, 2020, were as follows:

Depreciation on right-of-use assets	
Depreciation right-of-use, building	\$ 3,064
Depreciation right-of-use, land	5
Depreciation right-of-use, plant and machinery	18
Depreciation right-of-use, furnitures and fixtures	82
Depreciation right-of-use, vehicles	17
Depreciation right-of-use, office equipment	111
Total depreciation on right-of-use assets	<u>\$ 3,297</u>

Lessor Arrangements

The Company subleases office space and a warehouse under operating lease agreements which expire at various dates through 2023. Sublease rental income recognized during 2020 was \$114.

At December 31, 2020, the estimated undiscounted minimum lease payments to be received were as follows:

Varel Oil and Gas Intermediate Holdings, Inc.
Notes to Consolidated Financial Statements
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	2020
Less than one year	\$ 106,524
One to two years	101,556
Two to three years	<u>25,553</u>
Minimum lease payments to be received	<u>\$ 233,633</u>

16. Related Party Transactions

Transactions with Terelion, LLC

Varel International Energy Services, Inc. ("Varel International") entered a Purchase, Supply and Manufacturing Agreement, effective as of June 1, 2019, with Terelion, LLC (formerly "Varel Mining and Industrial, LLC.") for the purchase of Roller Cone Drill Bits amounting to total sales of \$24,800 with an outstanding accounts receivable of \$4,750 as of December 31, 2020. Terelion, LLC. is a wholly owned subsidiary of the Company's noncontrolling owner of Sandvik, Inc. (30% owner).

In accordance with the agreement, there is a provision for Varel International Energy Services, Inc. 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, 2020, Varel International noted \$2,300 in reimbursements for late delivery penalties and overhead under absorption outside of the original agreement.

Transactions with Bluewater Energy, LLC.

The controlling ownership in the Company entered an equity transaction on March 2, 2020, with Bluewater Energy, LLC. for the transfer of control in the Company. The transaction was classified as a common control transaction and accounted for as a capital re-organization (Note 1). In accordance with the agreement, the Company reimbursed the share issuance costs of Bluewater Energy, LLC for \$3,700 and recorded a recharge of expenses for \$17 for the period ended December 31, 2020.

Transactions for Raw Materials

The Company entered a purchase agreement with Sandvik Coromant Company and Sandvik Materials Technologies, AB. during the period. The entities are wholly owned subsidiaries of the Company's noncontrolling owner of Sandvik, Inc. (30% owner). The transactions resulted in cash outflows of \$100 and \$30, respectively as of December 31, 2020. The Company noted an outstanding payable of \$44 as of December 31, 2020.

Sandvik, Inc. Cash Pool Arrangement

The previous owners, Sandvik, Inc, instituted a cash pool management arrangement. The Company historically ended each period in a net payable position. The Company settled a \$345,000 related party payable during the year ended December 31, 2020. Refer to FN 9 for the Consolidated Statement of Cash Flows considerations.

Varel Oil and Gas Intermediate Holdings, Inc.
Notes to Consolidated Financial Statements
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17. Commitments and Contingencies

The Company is now and may in the future be involved as a party to various legal proceedings. Management, after consultation with legal counsel, does not believe that the outcome of these actions will have a material impact on the consolidated financial statements of the Company as of December 31, 2020.

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 in the property (including uncalled capital) and undertakings of the Company.

18. Provisions

	Current Restructuring	Saudi Provision	Noncurrent Royalty Accrual	Noncurrent Total
Balances at January 1, 2020	\$ 16	\$ 3,934	\$ -	\$ 3,934
Provisions made during the year	2,907	-	3,800	3,800
Provisions used during the year	(19)	-	(620)	(620)
Balances at December 31, 2020	<u>\$ 2,904</u>	<u>\$ 3,934</u>	<u>\$ 3,180</u>	<u>\$ 7,114</u>

Restructuring

During 2020, a provision was made to cover the costs associated with restructuring the Company's manufacturing facility in France. Estimated restructuring costs primarily include severance for a reduction in workforce and are based on a detailed plan. The restructuring was completed by March 31, 2021.

Saudi Provision

This provision relates to a customer internal audit. The Company expects to settle the majority of the liability in 2022 and the remainder in early 2023.

Royalty Accrual

Based on a supplier internal audit, an additional leaching royalty provision was required. This provision was completed in June 2022.

19. Capital and Reserves

	Common Shares
Outstanding at January 1, 2020	1
Issued in business transaction at closing	-
Outstanding at December 31, 2020	<u>1</u>
Authorized - par value per share, USD \$	0.01

Varel Oil and Gas Intermediate Holdings, Inc.
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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 \$500 of dividends for the year ended December 31, 2020.

20. 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 in 2020 (including salaries, benefits, and severance) was \$3,609.

21. Material Subsidiaries and Associate

Below is a list of material subsidiaries and associates of the Company and the method of consolidation.

	Entity	Ownership in %	
		Country	%
2015	Downhole Products UK Holdco II Limited	United Kingdom	100 %
2010	Downhole Products UK Holdco Limited	United Kingdom	100 %
8000	Down Hole Products Limited	United Kingdom	100 %
8100	Aberdeen Products, Inc.	United States	100 %
8200	Downhole Products Middle East	The United Arab Emirates	100 %
8250	Down Hole Products Asia	Malaysia	100 %
8700	Ian Hay Engineering Limited	United Kingdom	100 %
4800	Varel (UK) Limited	United Kingdom	100 %
3000	Varel International Industries, LLC	United States	100 %
4000	Varel Europe SAS.	Europe	100 %
3600	Varel International de Mexico SA de c.v.	Mexico	100 %
3701	Varel Gas y Petroleo de Mexico s de RL CV	Mexico	100 %
3800	Varel Rock Bits Canada, Inc.	Canada	100 %
4100	Varel International Engineering Resources SA	Switzerland	100 %
4200	Varel International Nigeria Limited	Nigeria	75 %
4250	Varel Gabon SARL	Gabon	100 %
4400	Varel (Beijing) Trading Co., Ltd.	China	100 %
4500	Varel Arabia Company Limited	Saudi Arabia	75 %
4600	Varel International (for Oil Products & Services)	Egypt	100 %
2900	Varel Newtech CIS, LLC	United States	50 %
9000	Varel Newtech 000	Russia	50 %
3750	ESIP Energy SA	Argentina	50 %
2020	Varel Holdings	United States	100 %
2000	Varel International Energy Services, Inc.	United States	100 %
2003	Varel Oil and Gas, Inc.	United States	100 %
2002	Varel Oil and Gas Intermediate, Inc.	United States	100 %

22. Subsequent Events

The Company has evaluated subsequent events through March 1, 2023, the date that the consolidated financial statements were available for issuance. The Company noted the following:

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Sledgehammer Acquisition

On June 29, 2022, the Company entered into an agreement to acquire 78% of the share capital of Sledgehammer Oil & Tools Private Ltd. for consideration of \$23,400, financed by convertible loan notes to Blue Water Energy Fund II, L.P. \$20,200 and Nixon V2 1, LLC \$3,200. Both loans are subject to a 12.5% Paid-in-kind interest rate. The acquisition closed in the second quarter of 2022.

The Enterprise value of Sledgehammer Oil & Tools Private Ltd. is \$30,000 (100% Basis) on a debt, cash and tax-free basis to normalized working capital, financed as follows: \$23,400 initial payment at closing (78% of share capital) \$6,600 deferred payment at the second anniversary of closing (22% of share capital).

Discontinued Operations – France

The Company discontinued manufacturing operations within our French entity, Varel Europe SAS. The Company recorded a provision for \$8,400 during the first quarter of 2021 when the closure was announced. The closure was completed during the first quarter of 2022.

Amended Credit Facility

On July 17, 2022, The Company amended facilities with Investec Bank (London) which waived the covenants set by Investec for the periods ended June 30, 2021, September 30, 2021, December 31, 2021, and March 31, 2022, and reinstated the covenants for the period ended June 30, 2022, onwards. The amendment included a backstop rate switch clause that became effective for the first interest payment following the executed agreement noted above.

Significant Contracts

On September 9, 2022, the Company sold a property in Odessa, Texas to a third-party and entered into a 20-year leaseback arrangement. Total proceeds to the Seller was \$2,984.