Varel Oil and Gas Inc.

Consolidated Financial Statements
December 31, 2023 and 2022

Varel Oil and Gas Inc.
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December 31, 2023 and 2022

Report of Independent Auditors

To the Management of Varel Oil and Gas Inc.

Opinion

We have audited the accompanying consolidated financial statements of Varel Oil and Gas Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as of December 31, 2023 and 2022, and the related consolidated statements of loss and comprehensive loss, of changes in shareholders' equity and of cash flows for the years then ended, including the related notes (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern for at least, but not limited to, twelve months from the end of the reporting period, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

PricewaterhouseCoopers LLP

New Orleans, Louisiana
October 29, 2024

Varel Oil and Gas Inc.
Consolidated Statements of Financial Position
Years Ended December 31, 2023 and 2022

(in thousands of U.S. dollars)	Notes	2023	2022
Assets			
Noncurrent assets			
Property, Plant and Equipment	(9)	$ 28,512	$ 27,719
Right-of-use assets	(19)	8,074	5,842
Goodwill	(11)	8,420	8,475
Intangibles	(10)	11,226	13,342
Investments in affiliates		676	436
Deferred tax asset	(18)	4,037	3,613
Other assets		110	1,925
Total noncurrent assets		61,055	61,352
Current assets			
Cash		5,876	12,560
Trade receivables	(7)	37,017	33,834
Trade receivables, related parties	(6)	-	494
Income tax receivables		190	-
Inventories	(8)	62,171	53,027
Prepaids and other current assets		16,263	17,500
Total current assets		121,517	117,415
Total assets		$ 182,572	$ 178,767
Equity			
Share premium		$ 456,796	$ 430,380
Accumulated deficit		(415,281)	(404,944)
Accumulated other comprehensive income		12,983	11,517
Equity attributable to owners of Varel		54,498	36,953
Noncontrolling interests		(908)	2,503
Total equity		53,590	39,456
Liabilities			
Noncurrent liabilities			
Borrowings	(13)	29,556	27,139
Borrowings, related party	(20)	-	24,604
Lease liabilities	(19)	8,091	6,410
Deferred tax liabilities	(18)	1,098	1,948
Other liabilities		6,299	6,795
Total noncurrent liabilities		45,044	66,896
Current liabilities			
Trade payables		32,342	40,444
Trade payables, related parties		20	20
Income tax payable	(18)	2,125	1,825
Accrued liabilities		4,579	3,431
Provisions	(22)	406	4,191
Other current liabilities	(12)	18,649	14,671
Current portion of borrowings	(13)	9,790	6,303
Current portion of borrowings, related party	(20)	13,724	-
Current portion of lease liabilities	(19)	2,303	1,530
Total current liabilities		83,938	72,415
Total liabilities		128,982	139,311
Total shareholders' equity and liabilities		$ 182,572	$ 178,767

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

Varel Oil and Gas Inc.
Consolidated Statements of Loss and Comprehensive Loss
Years Ended December 31, 2023 and 2022

(in thousands of U.S. dollars)	**Notes**	**2023**	**2022**
Continuing Operations			
Revenue	(14)	$ 192,241	$ 179,272
Cost of revenue	(15)	(133,058)	(130,819)
Gross profit		59,183	48,453
Selling, general and administrative expenses	(15)	(58,717)	(55,867)
Other income	(17)	460	857
Operating profit/(loss)		926	(6,557)
Finance income	(16)	1,788	1,657
Finance costs	(16)	(10,961)	(6,182)
Loss before income tax		(8,247)	(11,082)
Income tax expense	(18)	(4,070)	(2,271)
Loss from continuing operations		(12,317)	(13,353)
Loss from discontinued operations	(5)	(3,268)	(2,664)
Loss for the period		(15,585)	(16,017)
Loss for the period from continuing operations attributable to:			
Owners of Varel		$ (9,247)	$ (12,381)
Non-controlling interests		(3,070)	(972)
		$ (12,317)	$ (13,353)
Other comprehensive income			
Items that are or may be reclassified subsequently to loss			
Foreign operations – foreign currency translation differences		1,220	1,445
Comprehensive income for the period		1,220	1,445
Total comprehensive loss for the period		$ (14,365)	$ (14,572)
Total comprehensive loss attributable to:			
Owners of Varel		$ (11,046)	$ (14,448)
Non-controlling interests - continuing operations		(3,319)	(124)
		$ (14,365)	$ (14,572)
Total comprehensive loss for the period attributable to the Owners of Varel:			
Continuing operations		$ (7,778)	$ (11,251)
Discontinued operations		(3,268)	(3,197)
		$ (11,046)	$ (14,448)

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

Varel Oil and Gas Inc.
Consolidated Statements of Changes in Equity
Years Ended December 31, 2023 and 2022

(in thousands of U.S. dollars)	**Shares Outstanding Amount** *(par value $0.01)*	**Share Premium**	**Accumulated Deficit**	**Accumulated Other Comprehensive Income (Loss)**	**Equity Attributable to Owners of Varel**	**Noncontrolling Interests**	**Total Equity**
Balance at December 31, 2021	1,000	$ 437,098	$ (386,727)	$ 7,206	$ 57,577	$ (4,540)	$ 53,037
Loss for the period	-	-	(12,381)	-	(12,381)	(972)	(13,353)
Other comprehensive income (loss)	-	-	-	1,130	1,130	315	1,445
Loss from discontinued operations	-	-	(3,197)	-	(3,197)	533	(2,664)
Sledgehammer acquisition	-	(7,167)	-	-	(7,167)	7,167	-
Other	-	449	(2,639)	3,181	991	-	991
Balance at December 31, 2022	1,000	430,380	(404,944)	11,517	36,953	2,503	39,456
Loss for the period	-	-	(9,247)	-	(9,247)	(3,070)	(12,317)
Other comprehensive income (loss)	-	-	-	1,468	1,468	(248)	1,220
Loss from discontinued operations	-	-	(3,268)	-	(3,268)	-	(3,268)
Capital contribution	-	26,325	-	-	26,325	-	26,325
Other	-	91	2,178	(2)	2,267	(93)	2,174
Balance at December 31, 2023	1,000	$ 456,796	$ (415,281)	$ 12,983	$ 54,498	$ (908)	$ 53,590

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

Varel Oil and Gas Inc.
Consolidated Statements of Cash Flows
Years Ended December 31, 2023 and 2022

(in thousands of U.S. dollars)	**Notes**	**2023**	**2022**
Cash flows from operating activities			
Loss for the period		$ (15,585)	$ (16,017)
Adjustments for			
Depreciation and amortization	(9), (10)	12,246	5,701
Depreciation of right-of-use assets	(19)	2,239	1,878
Amortization of deferred financing costs		381	366
Provision for doubtful accounts		(2,907)	(454)
(Gain) Loss on sale of equipment		1,061	855
(Gain) Loss on foreign currency	(17)	1,870	3,297
Deferred tax expense		(1,930)	(1,235)
Employee benefits		740	786
Net finance costs	(16)	9,173	4,875
Write off of intangibles		-	544
Changes in			
Trade receivables		(275)	6,267
Inventories		(9,144)	(17,119)
Prepaids and other assets		3,960	(7,066)
Trade and other payables		(5,902)	23,637
Other liabilities		3,290	(390)
Cash generated from operating activities		(783)	5,925
Interest paid		(3,600)	(2,177)
Income taxes paid		(4,887)	(735)
Net cash provided by (used in) operating activities - continuing operations		(9,270)	3,013
Net cash provided by operating activities - discontinued operations		237	366
Net cash provided by (used in) operating activities		(9,032)	3,379
Cash flows from investing activities			
Acquisition of Sledgehammer	(4)	60	(24,916)
Proceeds from sale of equipment		31	3,675
Acquisition of property and equipment	(9)	(11,465)	(6,785)
Net cash used in investing activities - continuing operations		(11,374)	(28,026)
Net cash used in investing activities - discontinued operations		2,007	(134)
Net cash used in investing activities		(9,367)	(28,160)
Cash flows from financing activities			
Proceeds from long-term borrowings	(13)	4,302	44,772
Proceeds from related party borrowings	(20)	12,000	-
Repayments of long-term borrowings	(13)	(1,063)	(14,955)
Payments of lease liabilities	(19)	(2,765)	(2,992)
Net cash provided by (used in) financing activities		12,475	26,825
Effect of exchange rate changes on cash		(760)	(4,217)
Net decrease in cash and cash equivalents		(6,684)	(2,173)
Cash and cash equivalents			
Beginning of year		12,560	14,733
End of year		$ 5,876	$ 12,560
Supplemental non-cash investing activities			
Change in accrued capital expenditures		$ 518	$ 4,678

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

(tables in thousands of U.S. dollars, except for share and per share amounts)

1. Nature of Operations

Varel Oil and Gas, Inc. ("Varel" or the "Company") was founded in 2019 as a Delaware Corporation domiciled in the United States of America. Varel primarily designs, manufactures, and supplies products to the drilling, well construction, and completion solutions businesses within the energy sector. The Company sells its products globally in the key markets of America, Europe, Asia, and the Middle East.

These Consolidated Financial Statements were authorized for issuance by the Board of Directors on October 29, 2024.

2. Summary of Material Accounting Policies

Basis of Presentation

The Consolidated Financial Statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS® Accounting Standards") as issued by the International Accounting Standards Board ("IASB").

The Consolidated Financial Statements have been prepared under the historical cost convention except for certain items measured at fair value.

New and amended standards adopted by the Company

The following new and amended standards were adopted by the Company in the year ended December 31, 2023:

IAS 1 - Disclosure of Accounting Policies: In February 2021, IASB issued 'Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)' which is intended to help entities in deciding which accounting policies to disclose in their financial statements. The amendments to IAS 1 require entities to disclose their material accounting policies rather than their significant accounting policies. Management has conducted an evaluation of the materiality of the accounting policies reported in its consolidated financial statements, considering both the materiality and nature of the transactions disclosed.

IAS 8 - Definition of Accounting Estimates: In February 2021, IASB issued 'Definition of Accounting Estimates (Amendments to IAS 8)' to help entities to distinguish between accounting policies and accounting estimates. The definition of a change in accounting estimates has been replaced with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". Entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty. The adoption of this amendment has no material impact on the Company's financial statements.

<u>New and revised standards issued but not effective</u>

The Company has not yet determined the impact of these revised standards on its financial statements that have been issued but are not yet effective:

- Amendments to IFRS 16 Lease Liability in a sale and Leaseback *
- Amendments to IAS 1 Non-current Liabilities with Covenants *

(tables in thousands of U.S. dollars, except for share and per share amounts)

- Amendments to IAS 1 Classification of Liabilities *
- Amendments to IAS 7 and IFRS 7 Supplier Finance Arrangements *
- Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates **

* Effective for annual periods beginning on or after January 1, 2024.

** Effective for annual periods beginning on or after January 1, 2025.

IFRS 16 - Lease Liability in a Sale and Leaseback

In September 2022, the IASB issued 'Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)' with amendments that clarify how a seller-lessee subsequently measures sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale and where the lease payments contain variable elements.

IAS 1 - Non-current Liabilities with Covenants

In October 2022, IASB issued 'Non-current Liabilities with Covenants (Amendments to IAS 1)' to clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability.

IAS 1 - Classification of Liabilities

In January 2020, IASB issued the final amendments in Classification of Liabilities as Current or Non-Current, which affect only the presentation of liabilities in the statement of financial position. They clarify that classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the "right" to defer settlement by at least twelve months. The classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability.

IAS 7 and IFRS 7 - Supplier Finance Arrangements

In May 2023, the IASB issued 'Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)' which require an entity to provide additional disclosures about supplier finance arrangements. Solely credit enhancements for the entity or instruments used by the entity to settle their dues, are not supplier finance arrangements. Entities will have to disclose information that enables users of financial statements to assess how these arrangements affect its liabilities and cash flows and to understand their effect on an its exposure to liquidity risk and how it might be affected if the arrangements were no longer available to it.

IAS 21 - The Effects of Changes in Foreign Exchange Rates

In August 2023, the IASB issued 'Lack of Exchangeability (Amendments to IAS 21)' to provide guidance to specify which exchange rate to use when the currency is not exchangeable. An entity must estimate the spot exchange rate as the rate that would have applied to an orderly transaction between market participants at the measurement date and that would faithfully reflect the economic conditions prevailing.

(tables in thousands of U.S. dollars, except for share and per share amounts)

Use of Estimates
The preparation of financial statements in conformity with IFRS Accounting Standards requires the use of estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses, as well as amounts included in the notes thereto, including discussion and disclosure of contingent liabilities. Although the Company uses its best estimates and judgments, actual results could differ from these estimates as future confirming events occur.

Principles of Consolidation
The accompanying Consolidated Financial Statements include the accounts of subsidiary companies in which the Company has a controlling interest. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and can affect those returns through its power over the investee. These entities are consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases. If the Company does not own all of the equity of an entity, noncontrolling interest reflects the share of the identifiable net assets not owned by the Company.

All intercompany transactions, balances, income, and expenses have been eliminated in consolidation.

Segment Information
The Company is organized into three operating segments which focus on the manufacturing of downhole drilling, cementing and completion products:

1. Eastern hemisphere
2. Western hemisphere
3. Advanced manufacturing partnerships

The three operating segments are aggregated into a single operating segment. The aggregation is based on analysis of the following considerations:

1. Economic characteristics
2. Nature of products and services
3. Production processes
4. Type of customer
5. Distribution methods

Based on the considerations included above, the Company concluded it has a single reportable segment.

Business Combinations

Upon acquisition, the Company determines if the transaction is a business combination, which is accounted for using the acquisition method. Under the acquisition method, once control is obtained of a business, the assets acquired, liabilities assumed, consideration transferred and amounts attributed to noncontrolling interests, are recorded at fair value. The Company uses its best estimates and assumptions to assign fair value to the tangible and intangible assets acquired, liabilities assumed, consideration transferred and amounts attributed to noncontrolling interests at the acquisition date. The determination of the fair values is based on estimates and judgments

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made by management. The Company's estimates of fair value are based upon assumptions it believes to be reasonable, but which are inherently uncertain and unpredictable.

When there is a right for the noncontrolling interest to put their shares to the parent or a forward contract to acquire the noncontrolling interests exist, the Company assess whether the noncontrolling interest has retained risks and rewards associated with the ownership of the shares. In such instances, noncontrolling interest is presented in equity in addition to recording the net present value of the redemption obligation as a liability (the "double credit method"). In other circumstances only a liability is recognized.

Measurement period adjustments are reflected at the time identified, up through the conclusion of the measurement period, which is the time at which all information for determination of the values of assets acquired, liabilities assumed, consideration transferred and noncontrolling interests is received, and is not to exceed one year from the acquisition date (the "Measurement Period"). During the Measurement Period, the Company may record adjustments to the assigned value with a corresponding offset to goodwill. Any adjustments identified outside of the Measurement Period are directly reflected in profit or loss.

Foreign currency Transactions and Translation
(1) Foreign currency transactions

Foreign currency transactions are translated into the respective functional currencies of Varel at the exchange rates prevailing when such transactions occur. All monetary assets and liabilities are remeasured into the respective functional currencies at the applicable exchange rates at the end of the reporting period. Gains or losses on exchange differences arising from settlement or remeasurement of monetary assets and liabilities is recognized in profit or loss.

(2) Foreign operations

All assets and liabilities of foreign subsidiaries, associates and joint ventures (collectively, "foreign operations") that use a functional currency other than the United States Dollar ("USD") are translated into USD at the exchange rates at the end of the reporting period. All revenues and expenses of foreign operations are translated into USD at the average exchange rate for the period unless the exchange rate fluctuates widely. Exchange differences arising from such translations are recognized in other comprehensive income and accumulated in other components of equity in the Consolidated Statement of Financial Position. When a foreign operation is disposed of, and control, significant influence or joint control over the foreign operation is lost, the cumulative amount of exchange differences relating to the foreign operation is reclassified from equity to profit or loss.

Cash and Cash Equivalents
Cash and cash equivalents include cash on hand, demand deposits, and other short-term investments with original maturities of three months or less from the acquisition date.

Trade Receivables
Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. Due dates are set on a contract-by-contract basis but are generally due for settlement within 30-90 days and therefore are classified as current assets. Trade receivables are recognized initially at the unconditional amount of consideration. Due to the short-term nature of trade receivables, the carrying amount approximates fair value.

(tables in thousands of U.S. dollars, except for share and per share amounts)

Expected Credit Losses
The Company measures expected credit losses using a lifetime expected loss allowance for all trade receivables. To measure the expected credit loss, trade receivables are reviewed on a case-by-case basis for credit risk characteristics such as days past due. The expected loss rate is determined based on the customer payment profile over the preceding 12 month period. The historical loss rate may be adjusted if there is reliable information which the Company determined could impact the customer's ability to settle their outstanding receivables.

Based on the assessment of credit losses, the Company reduced the provision for credit losses by $2.9 million and $11.9 million for the years ended December 31, 2023 and 2022, respectively.

Impairment and Risk Exposure
The Company's customers are independently rated and the credit ratings are used by the Company to evaluate the risk of the counterparty. If there is no independent rating, the Company assesses the credit quality of the customer, considering its financial position, experience, and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by management.

Inventories
Inventories are stated at lower of cost or net realizable value, which is the estimated selling price less cost to sell. Cost is determined using the specific identification method and comprised of the purchase price of materials and other directly related costs. Costs are calculated using the average cost method. At each reporting date, inventories are assessed for impairment. If inventory is impaired, the carrying amount is reduced to its selling price less costs to complete and sell, and an impairment loss is recognized in the Consolidated Statement of Loss and Comprehensive Loss.

Property, Plant and Equipment
Property, plant and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditures that are directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The Company adds to the carrying amount of property and equipment, renewals, and betterments when such items are expected to provide incremental future benefits. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to Cost of revenue as incurred.

Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets. Ranges of estimated useful lives are as follows:

Asset Category	Economic Life
Buildings	10 - 20 years
Furniture and fixtures	4 - 10 years
Property, plant and equipment	4 - 10 years
Rental Fleet	2 years
Vehicles	3 - 5 years
IT hardware	3 - 5 years

The Company regularly assesses the estimated useful lives of property, plant, and equipment. In December 2023, management completed an assessment of the useful lives of the rental fleet and

(tables in thousands of U.S. dollars, except for share and per share amounts)

revised the estimated useful life from less than one year, to two years, based on an analysis of current use, historical age patterns, and industry trends and practices. The change was accounted for as prospective change in accounting estimate, beginning on January 1, 2023. The change in estimate resulted in a decrease in depreciation of $0.6 million.

These assets are reviewed for impairment whenever a triggering event is identified to determine whether events or circumstances provide objective evidence that suggests the carrying amount of an asset has suffered an impairment loss. An asset's carrying amount is written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

For the purpose of testing impairment, the Company groups assets into the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets called Cash Generating Units ("CGU") to estimate the fair value less cost of disposal. Future cash flows are based on expected earnings and estimated operating expenses over the remaining useful life of the CGU.

Gains and losses on disposals and retirements are determined by comparing the proceeds with the carrying amount and are recognized in the Consolidated Statement of Loss and Comprehensive Loss.

Intangible Assets
Intangible assets with finite lives are carried at cost less accumulated amortization. Amortization is computed using the straight-line method over the estimated useful lives of the intangible assets. Ranges of estimated useful lives are as follows:

Asset Category	Amortization Method	Economic Life
Patents and trademarks	Straight-line	10 - 20 years
Customer relationships	Straight-line	10 years
Software IT operations	Straight-line	3 years
Capitalized development cost	Straight-line	3 - 7 years

Trade Payables
Trade payables represent liabilities incurred by the Company for the procurement of goods and services. The amounts are unsecured and are paid within 90 days of recognition. Trade payables are presented as current liabilities, initially recognized at fair value and subsequently measured at amortized cost using the effective interest method. Due to the short-term nature, the carrying amount approximates fair value.

Other Payables
Other payables represent accrued liabilities, provisions and income tax payable. The amounts are unsecured and are typically paid within 90 days of recognition. Other payables are presented as current liabilities in the Consolidated Statement of Financial Position unless payment is not due within 12 months after the reporting period.

Borrowings
Borrowings are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost.

(tables in thousands of U.S. dollars, except for share and per share amounts)

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a prepayment within Borrowings and amortized over the period of the facility.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any noncash assets transferred or liabilities assumed, is recognized in the Consolidated Statement of Loss and Comprehensive Loss as Other income/(losses) or Finance cost.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months following the balance sheet date.

The Company considers interest expense calculated by the effective interest method, finance charges in respect of finance leases, and exchange differences arising from adjustments to foreign currency borrowing as borrowing costs. General and specific borrowing costs attributable to the acquisition, construction, or production of a qualifying asset are capitalized during the period required to complete and prepare the asset for its intended use or sale. Qualifying assets are ones that take over 12 months to prepare for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization. Other borrowing costs are expensed in the period in which they are incurred.

Provisions
A provision is recognized when the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses. Where there are several similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of the obligation as a whole.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

Revenue Recognition
The Company recognizes revenue when it satisfies a performance obligation by transferring a promised good to a customer. The transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods to a customer. The Company considers the terms of the contracts with customers for the relevant period to determine the transaction price.

The Company recognizes revenue based on the five-step model:

(i) identification of contracts with customers;

(ii) identification of performance obligations in contracts;

(iii) determination of the price of the transaction;

(tables in thousands of U.S. dollars, except for share and per share amounts)

(iv) allocation of the transaction price to the performance obligation provided for in the contracts;

(v) recognition revenue when, (or as), the Company satisfies a performance obligation by transferring a promised good (or service) to a customer

Downhole Product Sales
Sales of downhole products are recognized at a point in time when control has been transferred to the customer. To assess when the control has been transferred, indicators such as, but not limited to, significant risks and rewards of ownership, transferred physical possession, acceptance of the asset by the customer and a present right to payment and legal title of goods and services are considered. For the sale of goods, the transfer of control usually occurs when the significant risks and rewards are transferred in accordance with the transactions shipping terms. Payment is due between 30 and 90 days from the transfer of control. In some contracts, short-term advances are required before the equipment is delivered.

Income Taxes
The Company is a corporation for U.S. federal and state income tax purposes, and accordingly, the Company records taxes in profit or loss, except to the extent that it relates to items recognized in Other Comprehensive Income or directly in equity. The Company also has certain subsidiaries that are subject to foreign income taxes.

The current income tax provision is calculated based on tax rates and laws enacted or substantively enacted on the reporting date in the countries where the Company's subsidiaries operate and generate taxable income.

The Company recognizes deferred tax assets to the extent that it believes it is probable the assets will be realized.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except for deferred income tax liabilities where the timing of reversal of the temporary differences is controlled by the Group and it is probable that the temporary differences will not reverse in the near future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Leases
Lessee: The Company assesses at contract inception whether a contract is or contains a lease. That is, if the contract conveys the right to control the use of an identified asset for a period in exchange for consideration.

Leases are recognized at the commencement of the lease at the present value of the minimum lease payments. Each lease payment is apportioned between the liability and finance charges using the effective interest method.

Rental obligations, net of finance charges, are included in lease liabilities in the balance sheet. The property, plant and equipment acquired under leases is depreciated over the shorter of the asset's useful life or the lease term if there is no reasonable certainty that the Company will obtain ownership at the end of the lease term.

(tables in thousands of U.S. dollars, except for share and per share amounts)

Lessor: The Company classifies leases for which it is a lessor as either a finance lease or an operating lease. Whenever the terms of a lease substantially transfer all of the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When the Company is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts. The sublease is classified as a finance or operating lease based on the right-of-use asset arising from the head lease.

Lease income from operating leases is recognized on a straight-line basis over the term of the relevant lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are gained. Initial direct costs incurred while negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized using the same basis as the lease income.

Consideration is allocated to lease and non-lease components, the Company applies IFRS Accounting Standards 15 to allocate the consideration under the contract to the respective components.

Measurement of Right-of-use Assets
The Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less accumulated amortization, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. The recognized right-of-use assets are amortized on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Fair Value Measurement
Fair Value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its nonperformance risk.

The Company classifies the fair value of assets and liabilities according to the following fair value hierarchy based on the amount of observable inputs used to value the instrument:

Level 1 Fair value is based on unadjusted quoted prices in active markets for identical assets or liabilities as of the reporting date.

Level 2 Fair value is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

Level 3 Fair value is based on inputs for the asset or liability that are not based on observable market data.

3. Critical Accounting Estimates and Judgments

The preparation of the Consolidated Financial Statements in conformity with IFRS Accounting Standards requires management to make judgments, estimates and assumptions that affect the application of accounting policies, the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Actual results could differ from these estimates. These estimates and underlying assumptions are reviewed on a continuous basis. Changes in these accounting estimates are recognized in the period in which the estimates were revised and in any future periods affected.

Information about important estimation and judgments that have significant effects on the amounts recognized in the Consolidated Financial Statements is as follows:

Impairment of Property, Plant, and Equipment
We evaluate our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may no longer be recoverable. Events that trigger a test for recoverability include material adverse changes in projected revenues or expenses, present cash flow losses combined with a history of cash flow losses and a forecast that demonstrates significant continuing and significant negative expectation of economic growth. When a triggering event occurs, a test for recoverability is performed. To determine whether an impairment has occurred, and the extent of any impairment loss or its reversal, the key assumptions management uses in estimating the risk-adjusted future cash flows for value in use are estimates of future operating profits, the terminal value, and the discounted present value of both future operating profits and the terminal value. In addition, management uses other assumptions and judgements. These assumptions and judgements are subject to change as information becomes available. Changes in assumptions could affect the carrying amounts of assets, and impairments and reversals will affect the financial results. Changes in economic conditions can affect the rate used for the discount rate used to discount future cash flow estimates and risk-adjustment in future cash flows. Judgment is applied to conclude whether changes in assumptions or economic conditions are an indicator that an asset CGU may be impaired, or that an impairment loss recognized in prior periods may no longer exist or may have decreased.

Impairment of Goodwill
Goodwill represents the excess of the purchase price over the fair value of net tangible and intangible assets acquired in a business combination. The Company allocates goodwill to the applicable CGU and evaluates goodwill for impairment annually and whenever events or circumstances make it more likely than not that impairment may have occurred. A CGU to which goodwill has been allocated is tested for impairment by comparing the carrying amount of the unit, including the goodwill, with the recoverable amount of the unit. If the recoverable amount of the unit exceeds the carrying amount of the unit, the unit and the goodwill allocated to that unit shall be regarded as not impaired. If the carrying amount of the unit exceeds the recoverable amount of the unit, the entity shall recognize an impairment loss. Income tax effects from any tax-deductible goodwill on the carrying amount of the reporting unit are considered when measuring the goodwill impairment loss, if applicable.

Leases
Determination of the lease term is subject to judgment and has an impact on the measurement of the lease liability and related right-of-use assets. The Company judgmentally determines lease terms for lease agreements that include optional lease periods where it is reasonably certain the Company will either exercise an option to extend the lease or not exercise the option to terminate the lease. When assessing the lease term at the commencement date, the Company considers the broader economics of the contract. Reassessment of the lease term is performed upon changes in circumstances that affect the probability that an option to extend or terminate a lease will be exercised.

(tables in thousands of U.S. dollars, except for share and per share amounts)

Where the implicit rate in the lease is not readily available, an incremental borrowing rate is applied. This incremental borrowing rate reflects the rate of interest the lessee would have to pay to borrow over a similar term, with a similar security, the funds necessary to obtain an asset of a similar nature and value to the right-of-use asset in a similar economic environment. Determination of the incremental borrowing rate requires estimation.

Taxes
Tax liabilities are recognized when it is considered probable that there will be a future outflow of funds to a taxing authority. In such cases, provision is made for the amount expected to be settled, where this can be reasonably estimated. Provisions for uncertain income tax positions or treatments are measured at the most likely amount or the expected value, whichever method is more appropriate. Generally, uncertain tax treatments are assessed individually, except where they are expected to be settled collectively. It is assumed that taxing authorities will examine positions taken if they have the right to do so and that they have full knowledge of the relevant information. A change in the estimate of the likelihood of a future outflow and/or in the expected amount to be settled would be recognized in the results of operations in the period in which the change occurs. This requires the application of judgment as to the ultimate outcome, which can change over time depending on facts and circumstances. Judgments relate to transfer pricing, including inter-company financing, expenditure deductible for tax purposes and taxation arising at disposal.

Deferred tax assets are recognized only to the extent it is considered probable those assets will be recovered. This involves an assessment of when those assets are likely to reverse and a judgment as to whether there will be sufficient taxable profits available to offset the assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. To the extent assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized as deferred tax assets.

4. Acquisition of Sledgehammer

On June 3, 2022, the Company through its wholly owned subsidiary, Downhole Products Limited (“DPL”), entered into an agreement to acquire Sledgehammer Oil & Tools Private Ltd. (“SOTPL”) in two tranches. SOTPL is a manufacturer and supplier of oil tools, oil rig equipment and other engineering products in India.

The first tranche for a 78% controlling interest in SOTPL, along with 38% and 26% minority shares in its joint venture operations- Sledgehammer Gulf LLC and Sledgehammer Oil Tools International, respectively, closed on June 28, 2022 (the “Tranche One Acquisition Date”). The first tranche payment was completed in two parts: (i) $23.4 million, representing a 78% of the $30.0 million enterprise value, on June 28, 2022; and (ii) $1.6 million of working capital and other adjustments, effective September 28, 2022. The payment of $23.4 million was financed through related party convertible loans by the parent of the Company, which subsequently executed a series of Intra-Group Loan Agreements the Company’s immediate parent, the Company and with DPL for $23.4 million at a 10% coupon rate (refer to Note 20).

Subsequent to December 31, 2023, the Company completed the acquisition of the second tranche for the remaining 22% equity investment from the minority shareholders of SOTPL. Refer to footnote 26, Subsequent Events, for additional information related to the Tranche Two Acquisition.

The deferred purchase consideration, net of discount, as of December 31, 2023, was $1.8 million. The effective discount resulting from the deferred purchase consideration will be recorded as interest expense over the payment period using the effective interest method. The Company

(tables in thousands of U.S. dollars, except for share and per share amounts)

recorded interest expense on the discount of $0.1 million and $0.1 million as of December 31, 2023 and 2022, respectively.

The following table summarizes the purchase price for SOTPL as of the Acquisition Date.

Purchase Price

Cash consideration paid for 78% of shares and debt instruments	$	23,400
Deferred Consideration:		
Tranche 1 fair value of deferred consideration paid		1,516
Tranche 2 fair value of deferred consideration		1,552
Foreign currency translation adjustment		80
Total deferred consideration		3,148
Total purchase price	$	26,548

The purchase price was allocated to the net assets acquired and liabilities assumed based on management's determination of their estimated fair values using available information as of the Acquisition Date. The excess of purchase consideration over the net assets acquired is recorded as goodwill, which primarily reflects the existence of intangible assets not recognized under IFRS Accounting Standards such as the value of expected future synergies, the value of the assembled workforce and other market factors.

SOTPL contributed revenues of $9.9 million and profit of $0.03 million for the period from June 3, 2022 to December 31, 2022. If the acquisition had occurred on January 1, 2022, SOTPL would have contributed revenues of $21.2 million and a loss of $3.8 million for the year ended December 31, 2022.

The following table presents the allocation of the purchase price to the assets acquired and liabilities assumed as recorded in the Company's consolidated balance sheet as of the acquisition date:

Cash and cash equivalents	$	2,153
Trade receivables		6,926
Inventories		2,840
Other current assets		2,906
Non-operating assets		3,556
Property, plant and equipment		2,559
Non-current investment		458
Goodwill		8,475
Identified intangible assets:		
Customer relationships		7,368
Trademark		6,606
Trade payables		(3,365)
Non-operating liabilities		(4,960)
Other current liabilities		(4,049)
Borrowings		(4,925)
	$	26,548

(tables in thousands of U.S. dollars, except for share and per share amounts)

The fair value, valuation methodologies, estimated useful lives, and significant assumptions of the identifiable intangibles acquired in the SOTPL acquisition are summarized in the table below:

		June 28, 2022			
SOTPL Identified Intangibles	**Balance Sheet Location**	**Fair Value**	**Valuation Methodology**	**Estimated Useful Life**	**Discount Rate**
Customer Relationships	Intangibles, net	$ 7,368	Multi-Period Excess Earnings Method - Income Approach	10 Years	14.50%
Trademark	Intangibles, net	$ 6,606	Relief from Royalty Method - Income Approach	10 Years	14.00%

5. Discontinued Operations

On August 20, 2010, the Company, through its wholly owned subsidiary, entered into a Limited Liability Operating Agreement with MMS Holdings to form a 50:50 Joint Venture entity called Varel Newtech CIS, which had a 100% owned subsidiary, Varel NTS, LLC (“VNTS”), whose main activities are tool making; production of special equipment for drilling and workover of oil and gas wells; and provision of services for repair of equipment for oil and gas wells drilling in Russia.

In 2022, due to the escalating war between Russia and Ukraine which resulted in US sanctions on companies doing business in Russia, Varel and its Joint Venture partner MMS Holdings re-evaluated their operations in Russia. At a meeting of the shareholders of Varel on April 13, 2022, a decision was made to sell the interest in the Russian Joint Venture operations. Subsequently, on April 26, 2022, Varel entered into a Termination Agreement with its Joint Venture partner, MMS Holdings, to sell its 50% share of Varel Newtech CIS and VNTS, for a negligible amount, to the MMS Holdings Group.

As these subsidiaries represent a major line of business and geographical area of operations, they have been classified as Discontinued Operations. Revenues from Varel Newtech CIS and VNTS for the period up to the disposal date was $1.5 million for the year ended December 31, 2022, and reported under the geographic segment of Commonwealth of Independent States (“CIS”) (refer Note 14), representing 55.2% of CIS’s revenue in 2022.

On October 6, 2023, the Company , through its wholly owned subsidiary,, entered into a Share Purchase Agreement (“SPA”) to sell its share in ESIP Energy S.A. (“ESIP”), equal to 75% of the total equity, for a negligible amount to the minority shareholders. The disposal of the shares resulted in the discontinuation of the Company’s interest in this foreign subsidiary. The Company obtained Promissory Notes for the payment of amounts due under this SPA, with partial proceeds received on October 3, 2023 and the remaining amount receivable on December 31, 2023. ESIP’s total revenues for 2023 were $0.2 million and reported under the geographic region of Latin America, representing 6.3% of Latin America’s revenue in 2023.

The results of the Discontinued Operations have been presented separately in the Statement of Comprehensive Income as a single item. An analysis of the foregoing single amount representing

(tables in thousands of U.S. dollars, except for share and per share amounts)

discontinued operations is presented below, along with prior year comparative information for the 2022 VNTS Russia Discontinued Operations:

Discontinued Operations Income Statement	2023	2022
Revenues	$ 260	$ 1,491
COGS	(113)	(1,284)
SG&A	(93)	(94)
Other Income/(Expense)	(583)	(849)
Pre-tax Operating Loss	(529)	(736)
(Loss) on Disposal	(2,738)	(1,928)
(Loss) on Discontinued Operations	$ (3,268)	$ (2,664)

6. Financial Risk management

Financial Risk Factors

The Company's activities expose it to a variety of financial risks: market risk, credit risk, and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance.

Foreign Exchange Risk

The Company operates internationally and is exposed to foreign exchange risk on sales and purchases that are denominated in currencies other than the USD which primarily relate to the Indian Rupee, Saudi Riyal, Canadian Dollar, and United Arab Emirates Dirham. The carrying value of the Company's monetary assets and liabilities subject to foreign exchange risk is as follows:

	December 31, 2023	2022
Assets	$ 70,129	$ 83,993
Liabilities	58,379	57,808

The Company regularly monitors the changes in foreign currency internally. A sensitivity analysis on assets and liabilities assuming a 10% increase and 10% decrease in foreign currency rates (before tax effect) as of December 31, 2023, is as follows:

	10% Increase in U.S. Dollar Against Foreign Currency		10% Decrease in U.S. Dollar Against Foreign Currency	
	Net Income (Loss)	Shareholders Equity	Net Income (Loss)	Shareholders Equity
Attributable to owners of Varel	$ (885)	$ (885)	$ 885	$ 885
Noncontrolling interests	(289)	(289)	289	289

A sensitivity analysis on assets and liabilities assuming a 10% increase and 10% decrease in foreign currency rates (before tax effect) as of December 31, 2022, is as follows:

(tables in thousands of U.S. dollars, except for share and per share amounts)

	10% Increase in U.S. Dollar Against Foreign Currency		10% Decrease in U.S. Dollar Against Foreign Currency	
	Net Income (Loss)	**Shareholders Equity**	**Net Income (Loss)**	**Shareholders Equity**
Attributable to owners of Varel	$ (2,341)	$ (2,341)	$ 2,341	$ 2,341
Noncontrolling interests	(210)	$ (210)	210	210

Credit Risk
Credit risk arises from cash and cash equivalents, derivative financial instruments, and deposits with banks and financial institutions, as well as credit exposure to the Company's customers, including outstanding receivables.

Cash maintained in US banks at times may exceed the FDIC coverage of $250,000.
On December 31, 2023, or 2022, the Company has not experienced losses on these cash accounts and management believes that the credit risk with regard to these deposits is not significant.

Impairment of Financial Assets
The Company has one type of financial asset that is subject to the expected credit losses ("ECL") model; trade receivables.

The Company applies the simplified approach to measure its ECL, which uses a lifetime expected loss allowance for all trade receivables. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECL's at each reporting date. The Company does not expect any credit losses.

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

	2023	**2022**
Trade receivables	$ 37,017	$ 33,834
Trade receivables, related parties	-	494
Financial assets subject to ECL	$ 37,017	$ 34,328

Interest Rate Risk
The Company has certain long-term, third-party borrowings subject to variable interest rate indices such as the Secured Overnight Financing Rate ("SOFR"). The Company regularly monitors the changes in interest rate risk. A sensitivity analysis on the Company's long-term borrowings and debentures assuming a 1% increase and 1% decrease in interest rates, before tax effect, as of December 31, 2023, is as follows:

	1% increase		1% decrease	
	Net Income (Loss)	**Shareholders Equity**	**Net Income (Loss)**	**Shareholders Equity**
Attributable to owners of Varel	$ (39)	$ (39)	$ 39	$ 39
Noncontrolling interests	$ (10)	$ (10)	$ 10	$ 10

(tables in thousands of U.S. dollars, except for share and per share amounts)

A sensitivity analysis on the Company's long-term borrowings and debentures assuming a 1% increase and 1% decrease in interest rates, before tax effect, as of December 31, 2022, is as follows:

	1% increase				1% decrease			
	Net Income (Loss)		Shareholders Equity		Net Income (Loss)		Shareholders Equity	
Attributable to owners of Varel	$	(57)	$	(57)	$	57	$	57
Noncontrolling interests	$	(5)	$	(5)	$	5	$	5

Liquidity Risk
Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities, and the ability to meet contractual terms of derivative positions.

The Company monitors rolling forecasts of the liquidity reserve comprising its borrowing facility (Note 13), and cash based on expected cash flow. In addition, the Company's liquidity management policy involves projecting cash flows and considering the level of liquid assets necessary to meet future obligations, monitoring balance sheet liquidity ratios against internal and external regulatory requirements and maintaining debt financing plans while taking into consideration the Company's debt covenant compliance to ensure it does not breach its covenants.

Financial Arrangements
The Company had access to the following undrawn line of credit:

	2023		2022	
Line of credit available for general use	$	16,000	$	16,000

Maturity of Financial Liabilities
The table below analyzes the Company's undiscounted financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period on the balance sheet to the contractual maturity date. The interest element of borrowings is based on the actual rate or the rate at the closing date if not available. Early payments or additional borrowings on financial liabilities are not reflected.

Financial liabilities are as follows:

(tables in thousands of U.S. dollars, except for share and per share amounts)

At December 31, 2023	Less Than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total Contractual Cash Flows	Carrying Amount
Nonderivatives						
Trade and other payables	$ 58,121	$ -	$ 7,564	$ -	$ 65,467	$ 65,685
Borrowings	24,416	29,556	-	-	53,972	53,070
Lease liabilities	2,303	1,143	7,384	69	10,899	10,394
Nonderivative liabilities	$ 84,840	$ 30,699	$ 14,730	$ 69	$ 130,338	$ 129,149

At December 31, 2022	Less Than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total Contractual Cash Flows	Carrying Amount
Nonderivatives						
Trade and other payables	$ 64,582	$ -	$ 8,743	$ -	$ 73,325	$ 73,325
Borrowings	28,710	2,167	21,450	-	52,327	58,046
Lease liabilities	1,580	1,749	758	1,052	5,139	5,139
Nonderivative liabilities	$ 71,606	$ 4,673	$ 27,873	$ 1,052	$ 130,791	$ 136,510

There were no outstanding derivative arrangements as of December 31, 2023 or 2022, respectively.

Capital Risk Management

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. To maintain or adjust the capital structure, the Company may return capital to shareholders.

Consistent with others in the industry, the Company monitors capital based on the debt-to-equity ratio. The ratio is calculated as borrowings divided by total equity. The debt-to-equity ratios were as follows:

	2023	2022
Total borrowings (external and related party)	$ 53,070	$ 58,046
Total equity	53,590	39,456
Debt to equity ratio	99.03 %	147.12 %

Price Risk Management

The Company is exposed to risks arising from increased costs due to commodity price fluctuations, such as iron and steel, precious metals and nonferrous alloys used in manufacturing. The Company controls the price risk associated with the purchase of those commodities by maintaining inventory at the minimum level.

7. Trade Receivables

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

(tables in thousands of U.S. dollars, except for share and per share amounts)

	2023	2022
Trade receivables, gross	$ 33,479	$ 33,542
Accrued income	3,763	3,425
Provision for doubtful accounts	(226)	(3,133)
Trade receivables, net	$ 37,017	$ 33,834

8. Inventories

	2023	2022
Raw materials	$ 32,025	$ 21,285
Work in process	12,297	11,369
Finished goods	18,230	23,292
Excess and obsolete reserve	(381)	(2,919)
Inventories, net	$ 62,171	$ 53,027

(tables in thousands of U.S. dollars, except for share and per share amounts)

9. Property, Plant, and Equipment

	Buildings	Plant and Machinery	Computer Software and Hardware	Vehicles	Other	Assets Under Construction	Total
Cost							
At beginning of year 2022	**$ 7,119**	**$ 50,386**	**$ 9,070**	**$ 2,148**	**$ 765**	**$ 666**	**$ 70,154**
Additions	389	7,693	472	1,674	890	2,904	14,022
CTA	238	(663)	(19)	(13)	(28)	69	(416)
Disposals	(2,053)	(10,387)	(132)	(3,543)	(102)	(14)	(16,231)
Transfers/ Other	7,646	(7,118)	-	-	(227)	(301)	-
At end of year 2022	**13,339**	**39,911**	**9,391**	**266**	**1,298**	**3,324**	**67,529**
Accumulated Depreciation							
At beginning of year 2022	**$ (5,277)**	**$ (28,000)**	**$ (7,902)**	**$ (2,080)**	**$ (541)**	**$ -**	**$ (43,800)**
Charge for year	(764)	(5,597)	(604)	(659)	(235)	-	(7,859)
CTA	(93)	371	3	10	17	-	308
Disposals	2,250	6,583	132	2,493	83	-	11,541
Transfers/ Other	(2,171)	2,171	-	-	-	-	-
At end of year 2022	**(6,055)**	**(24,472)**	**(8,371)**	**(236)**	**(676)**	**-**	**(39,810)**
Net Book Value							
At 31 December 2022	**$ 7,284**	**$ 15,439**	**$ 1,020**	**$ 30**	**$ 622**	**$ 3,324**	**$ 27,719**

	Buildings	Plant and Machinery	Computer Software and Hardware	Vehicles	Other	Assets Under Construction	Total
Cost							
At beginning of year 2023	**$ 13,282**	**$ 39,778**	**$ 9,380**	**$ 265**	**$ 1,340**	**$ 3,324**	**$ 67,369**
Additions	362	10,495	161	-	215	750	11,983
CTA	1,282	672	52	35	20	92	2,153
Disposals	(1,558)	(1,453)	(2,903)	(34)	(748)	-	(6,696)
Transfers	-	2,141	-	-	38	(2,129)	50
At end of year 2023	**13,368**	**51,633**	**6,690**	**266**	**865**	**2,037**	**74,859**
Accumulated Depreciation							
At beginning of year 2023	**$ (6,036)**	**$ (24,419)**	**$ (8,389)**	**$ (237)**	**$ (604)**	**$ -**	**$ (39,685)**
Charge for year	(1,251)	(9,051)	(604)	-	(19)	-	(10,925)
CTA	(584)	(631)	33	55	168	-	(959)
Disposals	1,308	831	2,951	34	49	-	5,173
Transfers/ Other	-	49	-	-	-	-	49
At end of year 2023	**(6,563)**	**(33,221)**	**(6,009)**	**(148)**	**(406)**	**-**	**(46,347)**
Net Book Value							
At 31 December 2023	**$ 6,805**	**$ 84,854**	**$ 681**	**$ 118**	**$ 459**	**$ 2,037**	**$ 28,512**

Noncash Investing Activity

The Company acquired fixed assets through a noncash financing agreement for $0 and $28,000 for the years ended December 31, 2023 and 2022, respectively.

10. Intangibles

The Company recognized various amortizable intangible assets in connection with the SOTPL acquisition, including customer relationships, trademark, and patents. The following tables provide additional information for our intangible assets:

(tables in thousands of U.S. dollars, except for share and per share amounts)

		Customer Relationships		Trademark and Patents
Balance, January 1 2022	$	100	$	144
Acquisitions (note 4)		7,368		6,606
Accumulated Amortization		(446)		(430)
Net book amount, December 31 2022	$	7,022	$	6,320
Balance, January 1 2023		7,022		6,320
Acquisitions (note 4)		-		-
Effect of movements in foreign exchange rates		27		64
Accumulated Amortization		(1,118)		(1,089)
Net book amount, December 31 2023	$	5,931	$	5,295

	As of December 31, 2023
Weighted average amortization period (years)	8.5 years

The following table presents estimated future amortization of intangible assets:

Year ending December 31,		
2024	$	1,321
2025		1,321
2026		1,321
2027		1,321
2028		1,321
2029		1,321
2030		1,321
2031		1,321
2032		660
	$	11,226

11. Goodwill

The changes in the carrying amount of goodwill are as follows:

		2023		2022
Balance, January 1	$	8,475	$	-
Acquisitions		-		8,475
Foreign currency translation adjustments		(55)		-
Balance, December 31, gross		8,420		8,475
Accumulated impairment losses		-		-
Balance, December 31, net	$	8,420	$	8,475

(tables in thousands of U.S. dollars, except for share and per share amounts)

(i) Impairment testing for CGUs containing goodwill

For purposes of impairment testing, goodwill is allocated to a CGU representing the lowest level within the Company at which goodwill is monitored for internal management purposes, and which is not higher than the Company’s operating segment before aggregation. Goodwill is allocated to the Eastern Hemisphere segment.

(ii) Key assumptions used for value-in-use calculations

The estimates below were used in the goodwill impairment assessment:

	Sledgehammer
Discount rate	11.76%
Terminal year growth rate (FY 2028)	5%
Tax rate	25.17%

The key assumptions in the value-in-use impairment tests are estimated post-tax cash flows, terminal year growth rate, and discount rate based on historical experience.

(iii) Impairment charge for goodwill

Management’s assessment of impairment did not result in any impairment, as the recoverable amount exceeds its carrying value.

(tables in thousands of U.S. dollars, except for share and per share amounts)

12. Other Current Liabilities

	2023	2022
Compensation and benefits	$ 369	$ 950
Accrued liabilities	5,664	3,445
Other Taxes payable	1,783	1,754
Deferred Consideration	1,770	
Non-operating liability	4,913	4,968
Other	4,150	3,554
Total other current liabilities	$ 18,649	$ 14,671

13. Borrowings

	Current	Noncurrent	Total
External loans	$ 10,192	$ 28,442	$ 38,634
Paid-in-kind interest	-	1,189	1,189
Debt issuance costs	(402)	(75)	(477)
Borrowings at December 31, 2023	$ 9,790	$ 29,556	$ 39,346

	Current	Noncurrent	Total
External loans	$ 6,682	$ 25,210	$ 31,892
Paid-in-kind interest	-	2,407	2,407
Debt issuance costs	(379)	(478)	(857)
Borrowings at December 31, 2022	$ 6,303	$ 27,139	$ 33,442

External Loans

BWE entered in a Senior Facility Agreement with Investec Bank PLC on October 28, 2019 ("Senior Facility Agreement"). The Senior Facility Agreement ensured funding up to $35 million allocated between an A Facility, B Facility and a Revolver. The Company further entered into a Floating Charge Agreement with Investec Bank PLC on May 29, 2020, to secure the obligations set forth within the Senior Facilities Agreement.

On August 31, 2023, the Company amended the Senior Facilities Agreement, which in addition to certain other terms, waived the Company's covenant requirements from March 31, 2022 through to March 31, 2023, and provided a moratorium on amortization payments for the quarters ending September 30, 2023 and December 31, 2023. The Company was in compliance with all covenants from April 1, 2023, to December 31, 2023. As part of the amendment, the Company engaged a debt advisor in September 2023 and agreed to complete the refinancing of the Senior Facilities Agreement by March 31, 2024.

A Facility

On March 2, 2020, the Company entered into a loan agreement with Investec Bank PLC which allows it to draw funds up to $8.5 million through March 2025. The loan accrues interest at SOFR plus 6.5 basis points per annum. Payments are due quarterly following a 12-month grace period and the loan matures on March 2, 2025. The debt issuance costs of $451,000 are presented as a direct deduction from Borrowings amortized over the life of the loan. As of December 31, 2023 and

(tables in thousands of U.S. dollars, except for share and per share amounts)

2022, the Company had an outstanding balance of $2.8 million and $3.8 million, net of debt issuance costs of $34,000 and $101,000, respectively.

B Facility

On March 2, 2020, the Company entered into a loan agreement with Investec Bank PLC which allows the Company to draw funds up to $16.5 million through to March 2025. The loan accrues interest at SOFR plus 6.5 basis points per annum plus 2% Paid-in-kind (“PIK”) interest. A bullet payment is due when the loan matures on March 2, 2025. The debt issuance costs of $875,000 are presented as a direct deduction from Borrowings amortized over the life of the loan. As of December 31, 2023 and 2022, the Company had an outstanding balance of $16.3 million and $15.2 million, net of debt issuance costs of $311,000 and $548,000, respectively.

Revolver Facility

On March 2, 2020, the Company entered into a revolving loan agreement with Investec Bank PLC which allows the Company to draw funds up to $10.0 million through March 2025. The loan accrues Drawn interest at SOFR plus 6.5 basis points per annum plus and 2.275% basis points on the undrawn funds per annum. A bullet payment is due when the loan matures on March 2, 2025. The debt issuance costs of $530,000 are presented as a direct deduction from Borrowings amortized over the life of the loan. As of December 31, 2023 and 2022, the Company had an outstanding balance of $11.8 million and $9.8 million, respectively.

Other Facilities

During 2017, the Company signed a loan agreement with shareholder Arabian Inspection and Survey Co. Ltd. to finance working capital requirements. The loan accrues interest at 4% per annum. During the year ended December 31, 2021, the Company restructured the maturity of the loan from August 2023 through March 2025, therefore, the loan remains on the Company’s Consolidated Financial Statements as long-term debt. As of December 31, 2023, and 2022, the Company had an outstanding balance of $2.8 million and $1.3 million, respectively.

On July 25, 2022, SOTPL entered into a working capital facility which allows SOTPL to draw funds up to 500,000,000 INR. Based on the use of funds, export orders, letters of credit, working capital, or buyers credit, the interest rate fluctuates based on SOFR plus 2.8 basis points or the marginal cost of fund based lending rate (“MCLR”) plus 1.4 basis points. As of December 31, 2023, and 2022, the Company, through its wholly owned subsidiary SOTPL, had an outstanding balance of $4.5 million and $3.2 million, respectively.

For the years ended December 31, 2023, and 2022, interest expense of $6.8 million and $4.3 million, respectively, were incurred on external loans.

Refer to Footnote 20, Related Party Transactions, for information on intercompany borrowings. On April 10, 2024, the Company repaid $32.0 million. Refer to Footnote 27, Subsequent Events, for additional information on the repayments.

Fair Value of Borrowings
As the Company’s borrowings are issued with floating rates of interest and the Company’s exposure to risk has remained materially unchanged, the carrying value of borrowings approximates its fair value.

(tables in thousands of U.S. dollars, except for share and per share amounts)

Debt Covenants
The Company has certain financial covenants for its loans to maintain a minimum debt to equity ratio of 2.60 to 1 and cash flow shall not be less than negative $1.8 million in any quarter-end periods.

The Company was in compliance with all covenants for the years ended December 31, 2023 and 2022. The Company was in compliance with all covenants from April 1, 2023, to December 31, 2023.

Reconciliation of liabilities arising from financial activities for the year ended December 31, 2023:

	Beginning of Year	Cash Flow	Interest	Amortization of Deferred Financing Costs	PIK	Sledgehammer Acquisition	Lease Addition	End of Year
Long term borrowings	$ 33,440	$ 3,240	1989	$ 381	$ 301	$ -	$ -	$ 39,352
Lease liabilities	7,940	2,424	-	-	-	-	30	10,394
Total liabilities in financing activities	$ 41,380	$ 5,664	$ 1,989	$ 381	$ 301	$ -	$ 30	$ 49,746

Reconciliation of liabilities arising from financial activities for the year ended December 31, 2022:

	Beginning of Year	Cash Flow	Interest	Amortization of Deferred Financing Costs	PIK	Sledgehammer Acquisition	Lease Addition	End of Year
Long term borrowings	$ 21,454	$ 6,417	$ -	$ 366	280	$ 4,924	$ -	$ 33,440
Lease liabilities	5,139	(1,922)	-	-	-	-	4,723	7,940
Total liabilities in financing activities	$ 26,593	$ 27,895	$ -	$ 366	$ 1,793	$ 4,924	$ 4,723	$ 41,380

14. Revenue

The Company derives revenue from contracts with customers recognized at a point in time.

Revenue Recognized at a Point in Time	**2023**	**2022**
Completion	$ 20,650	$ 20,397
Primary Cementing Equipment	65,219	52,345
Polycrystiline Diamond Compact	28,755	27,735
Roller Cones	54,101	55,135
Total	$ 168,725	$ 155,612

Revenue by Geographic Location	**2023**	**2022**
United States (USA)	$ 73,848	$ 69,862
Middle East and North Africa (MENA)	31,401	35,548
Kingdom of Saudi Arabia (KSA)	31,135	17,058
Asia	18,167	17,694
Commonwealth of Independent States (CIS)	3,568	2,657
Europe	4,861	4,534
Latin America (LATAM)	4,009	6,571
Other	1,736	1,687
Total revenue	$ 168,725	$ 155,612

(tables in thousands of U.S. dollars, except for share and per share amounts)

15. Expenses by Nature

	2023	2022
Inventory materials	$ 75,079	$ 75,248
Employee compensation and benefits	27,971	26,158
Consumables	5,091	5,980
Freight and customs	6,392	8,758
Provision for excess and obsolescence inventory or impairments	(3,476)	(8,420)
Depreciation and amortization - nonrental	7,548	5,843
Rental fleet depreciation	4,680	6,805
Liquidating damages	793	665
Other	8,979	9,782
Total cost of revenue	$ 133,058	$ 130,819
General administrative	4,170	4,584
Insurance	1,652	1,558
Information technology	1,783	1,732
Other	1,023	2,240
Professional and legal fees	7,194	4,870
Research and development	2,460	1,808
Employee compensation and benefits	38,178	37,353
Amortization	1,321	704
Depreciation	936	1,018
Total selling, general, and administrative	$ 58,717	$ 55,867

16. Finance Costs

	2023	2022
Interest and finance charges	$ 10,362	$ 6,932
Amount capitalized	(1,189)	(2,407)
Finance costs, net	$ 9,173	$ 4,525

The amount of borrowing costs capitalized is the actual interest on specific loans for the items capitalized.

17. Other Losses

	2023	2022
Net foreign exchange gains (losses)	$ (1,870)	$ (3,297)
Net other income (losses)	2,330	4,154
Other income (losses), net	$ 460	$ 857

(tables in thousands of U.S. dollars, except for share and per share amounts)

18. Income Taxes

The table below reconciles the Company's income taxes computed by applying the statutory federal income tax rate to earnings before income taxes to its effective tax provision for the years ended December 31, 2023 and 2022, respectively:

	2023	2022
Accounting profit before tax	$ (8,247)	$ (11,082)
US statutory tax rate of the reporting entity	21.00 %	21.00 %
Expected total tax income	(1,732)	(2,465)
Reconciling items		
Expenses not deductible for tax purposes	84	206
Effect of different tax rates in countries in which the entity operates	112	(15)
Unrecognized deferred tax benefit	4,208	3,621
Foreign Taxation	1,052	799
Prior year adjustments	281	-
Other	65	125
Total current and deferred tax expense	$ 4,070	$ 2,271

The tax effect of temporary differences that give rise to significant portions of the net deferred tax assets at December 31, 2023, and 2022 is as follows:

	2023	2022
Deferred tax assets		
IFRS 16 leases	$ 6	$ 41
Property, plant & equipment	2,202	1,374
Intangible assets	(2,828)	(3,155)
Reserves for obsolescence and receivables	1,194	1,063
Accrued liabilities	1,690	1,665
Accounts payable	172	
Net operating loss carryforwards	210	539
Interest expense carryforward	-	-
Other foreign deferred tax assets	-	138
Unrecognized deferred taxes	294	-
Deferred tax assets	$ 2,939	$ 1,665

The Company has a total of $18.0 million and $8.5 million of unused tax losses at December 31, 2023 and 2022, respectively. Of this amount, only $0.2 and $0.5 million have been recognized for deferred tax purposes at December 31, 2023 and 2022, respectively. Additionally, the Company has $1.3 million of capital loss carryforwards and $3.0 million of interest expense carry forwards at December 31, 2023 for which no deferred tax has been recognized.

The Company is not aware of any open tax examinations with authorities or any other uncertain tax positions that existed as of December 31, 2023 or December 31, 2022.

(tables in thousands of U.S. dollars, except for share and per share amounts)

19. Leases

The Company leases buildings, land, machinery, vehicles, office equipment, and furniture and fixtures. The leased assets are included as part of Right-of-Use Assets, net. Lease liabilities were recorded at the time the lease contracts were signed and the obligations were based on the Company's incremental borrowing rate at the time. The liabilities remaining at the reporting date represent the outstanding principal of the assumed liabilities. Generally, under the terms of our lease agreements, the rights to the leased assets revert to the lessor in the event of default.

Amounts Recognized in the Consolidated Statement of Financial Position
The Consolidated Statement of Financial Position includes the following amounts relating to right-of-use assets:

	2023	2022
Right-of-use assets		
Right-of-use, building	$ 11,346	$ 9,495
Right-of-use, land	118	96
Right-of-use, plant and machinery	37	22
Right-of-use, vehicles	1,206	917
Right-of-use, office equipment	219	479
Right-of-use, furnitures and fixtures	51	15
Accumulated depreciation right-of-use, building	(3,804)	(4,337)
Accumulated depreciation right-of-use, land	(222)	(52)
Accumulated depreciation right-of-use, plant and machinery	(28)	(21)
Accumulated depreciation right-of-use, vehicles	(670)	(328)
Accumulated depreciation right-of-use, office equipment	(176)	(441)
Accumulated depreciation right-of-use, furnitures and fixtures	(3)	(3)
Total right-of-use assets, net	$ 8,074	$ 5,842
Lease liabilities		
Current	$ 2,303	$ 1,530
Noncurrent	8,091	6,410
Total lease liabilities	$ 10,394	$ 7,940

Additions to the right-of-use assets during the years ended December 31, 2023 and 2022 were $4.5 million and $4.7 million, respectively. The total cash outflows for leases in 2023 and 2022 were $1.8 million and $2.0 million, respectively. The Company recorded $0.8 million and $0.8 million in lease interest during the years ended December 31, 2023 and 2022, respectively.

(tables in thousands of U.S. dollars, except for share and per share amounts)

Depreciation expense on right-of-use assets for the years ended December 31, 2023 and 2022 were as follows:

	2023	2022
Depreciation on right-of-use assets		
Depreciation right-of-use, building	$ 1,820	$ 1,496
Depreciation right-of-use, plant and machinery	12	9
Depreciation right-of-use, vehicles	347	261
Depreciation right-of-use, office equipment	60	112
Depreciation right-of-use, furnitures and fixtures	-	-
Total depreciation on right-of-use assets	$ 2,239	$ 1,878

Lessor Arrangements
The Company subleases office space and a warehouse under operating lease agreements which expire at various dates through 2024. Sublease rental income recognized during 2023 and 2022 was $126,000 and $87,000, respectively.

At December 31, 2023, the estimated undiscounted minimum lease payments to be received were as follows:

	2023	2022
Less than one year	$ 102	$ 126
One to two years	24	126
Minimum lease payments to be received	$ 126	$ 252

Sale and Leaseback Arrangement
On September 6, 2022, Varel International Industries (“VIES”), a wholly owned subsidiary of the Company, sold a property comprising of land and buildings to the Trio Fund for $2.9 million, resulting in a gain of sale of $2.7 million.

On September 9, 2022, VIES entered into a 20 year lease with an option for four 5-year renewal periods on the same property. The initial rent payment of the lease was $214,720 including an annual rent increase of 2.5%. Of the $2.7 million gain on sale, $0.7 million was recognized during the year ended December 31, 2022 and the balance of $2.0 million will not be recognized since VIES retained the right to use the office building.

Rental Revenue
The Company recognizes rental revenue from operating leases on a straight-line basis over the term of the lease. The rental revenue for the years ended December 31, 2023, and 2022 were as follows:

	2023	2022
Rental revenue	$ 23,516	$ 23,660

(tables in thousands of U.S. dollars, except for share and per share amounts)

20. Related Party Transactions

Transactions with Terelion, LLC
Varel International Energy Services, Inc. ("Varel International"), a wholly owned subsidiary of Varel, entered a Purchase, Supply and Manufacturing Agreement, effective June 1, 2019, with Terelion, LLC (formerly "Varel Mining and Industrial, LLC") for the sale of roller cone drill bits, resulting in total revenue of $29.5 million and $28.2 million for the years ended December 31, 2023 and 2022, respectively, with an outstanding accounts receivable of $0.1 million and $0.5 million as of December 31, 2023 and 2022, respectively. Terelion, LLC. is a wholly owned subsidiary of the Company's noncontrolling owner, Sandvik, Inc. (30% owner).

In accordance with the agreement, there is a provision for Varel International to receive a reimbursement of expenses (including late delivery penalties, overhead under absorption, and substitute products) equal to the proven excess of aggregate purchase price of the substitute product, including all costs related to shipping and customs, over the aggregate purchase price of goods for which the buyer would have paid for pursuant to the original agreement. As of December 31, 2023 and 2022, respectively, Varel International noted $465,306 and $178,269, respectively, in reimbursements for late delivery penalties and overhead under absorption outside of the original agreement.

Transactions with Bluewater Energy, LLC.
The Company recorded a recharge of expenses of $201,000 and $206,072 for the year ended December 31, 2023 and 2022, respectively.

Intercompany Loans
On June 30, 2022, the Company's immediate parent, Varel Oil and Gas Intermediate Holdings, Inc. ("VOIGH") executed an Intra-Group Loan Agreement with the Company, transferring $23.4 million to the Company at 10% coupon payable within a year. The Intra-Group loan was forgiven by VOIGH, and as a result the payable was reclassified as a capital contribution on the Consolidated Statement of Changes in Equity on June 28, 2023.

On March 11, 2023, the Company's immediate parent, VOIGH, executed an Intra-Group Loan Agreement with the Company, transferring a $5.4 million note payable to the Company with a maturity date of March 10, 2024 ("March 11, 2023 Intra-Group Loan"). The loan accrues interest at 18% per annum. The Company settled the March 11 Intra-Group Loan in 2024.

On June 12, 2023, the Company's immediate parent, VOIGH, executed an Intra-Group Loan Agreement with the Company, transferring a $6.6 million note payable to the Company with a maturity date of June 11, 2024 ("June 12, 2023 Intra-Group Loan"). The loan accrues interest at 25% per annum. The Company settled the June 12, 2023 Intra-Group Loan in 2024.

For the years ended December 31, 2023 and 2022, interest expense of $2.9 million and $1.2 million, respectively, were incurred on intercompany loans.

Transactions for Raw Materials and Other Expenses
During 2022 and 2023, the Company entered into purchase agreements with Sandvik Coromant Company and Sandvik Materials Technologies, AB. The entities are wholly owned subsidiaries of the Company's non-controlling owner, Sandvik, Inc. (30% owner). During the years ended December 31, 2023 and 2022 the transactions resulted in cash outflows of $217,623 and $317,446, respectively.

(tables in thousands of U.S. dollars, except for share and per share amounts)

21. Commitments and Contingencies

Varel, in its global operations, is involved from time to time in legal and regulatory proceedings, which may be material in the future. The outcome of proceedings, lawsuits and claims may differ from our expectations and estimated liabilities, leading Varel to change estimates of liabilities and related insurance receivables.

Legal and regulatory proceedings, whether with or without merit, and associated internal investigations, may be time-consuming and expensive to prosecute, defend or conduct, may divert management's attention and other resources, inhibit our ability to sell our products, result in adverse judgments for damages, injunctive relief, penalties and fines, and otherwise negatively affect our business.

Where appropriate, Varel may establish financial reserves for such proceedings. Varel also maintains insurance to mitigate certain of such risks. Costs for legal services are generally expensed as incurred. The Company did not record a financial reserve for legal or regulatory proceedings at December 31,2023 or 2022, respectively

The wholly owned subsidiary of Downhole Products Limited entered into a Floating Charge Agreement with Investec Bank PLC on May 29, 2020, to secure the obligations set forth within the Senior Facilities Agreement signed October 28, 2019, with the collateral comprising the property and undertakings of the Downhole Products Limited.

22. Provisions

	Restructuring	Saudi Provision	Royalty Accrual	Total
Balance at January 1, 2022	$ 5,741	$ 3,934	$ 1,623	$ 11,298
Provisions made during the year	1,640	-	-	1,640
Provisions used during the year	(5,500)	(1,624)	(1,624)	(8,748)
Balance at December 31, 2022	$ 1,881	$ 2,310	$ (1)	$ 4,190
Provisions made during the year	-	-	-	-
Provisions used during the year	(1,474)	(2,310)	-	(3,784)
Balance at December 31, 2023	$ 407	$ -	$ (1)	$ 406
Balance at December 31, 2022				
Current Provisions	$ 1,881	$ 2,310	$ -	$ 4,191
Non-Current Provisions	-	-	-	-
Total Provisions	$ 1,881	$ 2,310	$ -	$ 4,191
Balance at December 31, 2023				
Current Provisions	$ 407	$ -	$ (1)	$ 406
Non-Current Provisions	-	-	-	-
Total Provisions	$ 407	$ -	$ (1)	$ 406

Restructuring

During 2021, the Company recorded a provision for $5.7 million after the Company formally announced the closure of the Varel Europe S.A.S. manufacturing plant. An additional $1.6 million

(tables in thousands of U.S. dollars, except for share and per share amounts)

provision was recorded in 2022. Estimated restructuring costs primarily include severance for a reduction in workforce and are based on a detailed plan. This provision was completed and paid in 2022.

Saudi Provision
This provision relates to an internal customer audit. The Company settled $1.6 million of the liability in 2022 and the remaining $2.3 million in 2023.

Royalty Accrual
Based on the results of an internal audit from a supplier, an additional leaching royalty provision was required. The provision was fully utilized in June of 2022.

23. Capital and Reserves

	2023	2022
Common Shares		
Outstanding at January 1	1,000	1,000
Issued in business transaction at closing	-	-
Outstanding at December 31	1,000	1,000
Authorized - par value per share	$ 0.01	$ 0.01

Common Shares

The Company has 3,000 shares of common stock authorized with $0.01 par value. Holders of these shares are entitled to dividends as declared from time to time and are entitled to one vote per share at the general meetings of the Company. The Company declared and paid dividends of $0 for the years ended December 31, 2023 and 2022, respectively.

24. Key Management Compensation

Key management personnel are those people who have authority and responsibility for planning, directing, and controlling the activities of the entity, directly or indirectly. The total remuneration of directors and key management personnel, including salaries, benefits, and severance was $3.3 million and $3.0 million for the years ended December 31, 2023 and 2022, respectively.

25. Material Subsidiaries and Associate

Functional currencies of the Company other than the USD include Mexican Peso (“MXN”), Canadian Dollar (“CAD”), Central African CFA Franc (“XAF”), Chinese Yuan (“CNY”), Indian Rupee (“INR”), United Arab Emirates Dirham (“AED”), Malaysian Ringgit (“MYR”), and Pound Sterling

(tables in thousands of U.S. dollars, except for share and per share amounts)

("GBP"). Below is a list of material subsidiaries and associates of the Company and ownership share as of December 31, 2023.

Entity	Country	Ownership	Currency
Varel International Energy Services, Inc.	United States	100%	USD
DHP Varel, Inc.	United States	100%	USD
Downhole Products UK Holdco Limited	United Kingdom	100%	USD
Downhole Products UK Holdco II Limited	United Kingdom	100%	USD
Varel International Holdings, LLC	United States	100%	USD
Varel International Industries, LLC	United States	100%	USD
Varel Energy Oil Field Equipment Trading L.L.C	Dubai	100%	USD
Varel International de Mexico S.A. de C.V.	Mexico	100%	MXN
Varel Gas y Petroleo de Mexico S de RL CV	Mexico	100%	MXN
Varel Rock Bits Canada, Inc.	Canada	100%	CAD
Varel Europe S.A.S.	Europe	100%	USD
Varel International Engineering Resources SA	Switzerland	100%	USD
Varel Gabon SARL	Gabon	100%	XAF
Varel (Beijing) Trading Co., Ltd.	China	100%	CNY
Varel Arabia Company Limited	Saudi Arabia	75%	USD
Varel International (for Oil Products & Services)	Egypt	100%	USD
Varel Europe Pakistan Branch Office	Pakistan	100%	USD
SledgeHammer Oil Tools Pvt. Ltd.	India	78%	INR
SledgeHammer Gulf - LLC	India	49%	INR
SledgeHammer Oil Tools International Company	India	33%	INR
SledgeHammer Gulf DMCC	Dubai	100%	INR
SledgeHammer Americas Inc.	Texas	100%	INR
Down Hole Products Limited	United Kingdom	100%	USD
Aberdeen Products, Inc.	United States	100%	USD
Downhole Products Middle East	The United Arab Emirates	100%	AED
Down Hole Products Asia	Malaysia	100%	MYR
Ian Hay Engineering Limited	United Kingdom	100%	GBP
Smooth Team Investments Limited	Hong Kong	100%	GBP

26. Segment information

Reportable segment assets are based on the physical location of the asset.

Noncurrent assets by Geographic Location	2023	2022
United States (USA)	$ 18,489	$ 15,812
Kingdom of Saudi Arabia (KSA)	1,581	2,633
Asia	24,011	25,571
Europe	2,055	5,150
Latin America (LATAM)	11,543	10,205
Other	3,376	1,981
Total noncurrent assets	$ 61,055	$ 61,352

The Company has a single customer, Terelion, LLC (see Note 20 for additional details), that accounts for approximately 17% and 18% of down hole product revenue for the years ended

(tables in thousands of U.S. dollars, except for share and per share amounts)

December 31, 2023 and 2022, respectively. The loss of any significant customer or contract could have a material adverse short-term effect; however, it is not likely that the loss of any significant customer or contract would materially impact the Company's performance as such customers could be replaced by other customers with similar terms and conditions. No other customers accounted for more than 10% or more of the Company's revenue for the year ended December 31, 2023 or 2022.

27. Subsequent Events

The Company has evaluated subsequent events through October 29, 2024, the date that the Consolidated Financial Statements were available for issuance.

Bond Issuance
On April 4, 2024, the Company issued four-year $60.0 million Senior Secured Bonds (the "bonds"). The bonds carry a fixed coupon of 12.25%, payable semi-annually. The net proceeds from the bonds were used to repay existing debt and finance the Tranche Two Acquisition.

Repayment of Borrowings
In connection with the issuance of the Bonds, on April 10, 2024, the Company used a portion of the proceeds to repay $32.0 million of the Senior Facility Agreement.

Final Closing of Sledgehammer
On June 28, 2024, The SOTPL Acquisition was amended to extend the Tranche Two Acquisition closing to September 18, 2024, for final consideration of $30 million. The difference between the estimated deferred consideration of $1.8 million at December 31, 2023 and the final consideration will be recognized as a loss on the consolidated statement of loss and comprehensive loss for the year ended December 31, 2024.