

# PARETO STAUR ENERGY AS

## INFORMASJON OM PARETO STAUR ENERGY AS

Pareto Staur Energy AS (Selskapet) er et investeringsselskap hvis formål er å investere i globale energi og energi/hydro-service selskaper. Investeringene foretas gjennom det aktive forvaltningsmandat Pareto Staur Energy (PSE), hvor Pareto Asset Management AS er Kapitalforvalter.

Selskapsform		Aksjeselskap
Tidspunkt for selskapsetablering/første kapitalinnskudd		1. kvartal 2012
Levetid		6 år (opsjon 2 år)
Investeringsperiode		2 år (opsjon 1 år)
Total innbetalt egenkapital	31.12.2016	NOK 81 091 000
Total utbetalt egenkapital	31.12.2016	NOK 6 471 900
Total utbetalt egenkapital pr. aksje	31.12.2016	NOK 3 995
Estimert NAV pr. aksje	31.12.2016	NOK 34 203
Sist omsatt		Ingen omsetning

## INFORMASJON OM SELSKAPETS ANDEL AV KOMMITERT KAPITAL MV. I DET AKTIVE FORVALTNINGSMANDATET PARETO STAUR ENERGY

Kommitert kapital	31.12.2016	NOK 75 460 000
Innkalt kapital	31.12.2016	NOK 72 441 600
Uinnkalt kapital	31.12.2016	NOK 3 018 400

Denne rapporten er delvis basert på engelskspråklig kvartalsrapport for PSE-mandatet fra Kapitalforvalter, som ligger vedlagt til sist i denne kvartalsrapporten.

## VERDSETTELSE AV PARETO STAUR ENERGY AS PR. 31.12.2016

Verdsettelse av investeringene i Pareto Staur Energy AS legger til grunn siste mottatte rapport fra Pareto Asset Management AS. Verdsettelsen fra Pareto Asset Management AS er basert på EVCA-reglene (European Private Equity and Venture Capital Association Valuation), som er de allment anerkjente prinsippene for verdsetting i europeisk private equity. Verdien som rapporteres for Selskapet er beregnet som Net Asset Value (NAV). NAV beregnes som virkelig verdi av eiendeler fratrukket virkelig verdi av gjeld i selskapet.

NAV for Pareto Staur Energy AS er pr. 31.12.2016 estimert til NOK 34.203 pr. aksje, og er basert på verdier rapportert fra det aktive forvaltningsmandatet Pareto Staur Energy pr. 31.12.2016.

Nedenfor vises en oversikt over kostpris og virkelig verdi for Selskapets eiendeler og gjeld pr. 31.12.2016:

Pareto Staur Energy AS		Kostpris	Virkelig verdi
Petricore Ltd.	1)	21 013 336	20 301 596
Lithicon AS	2)	0	0
Pareto Staur SPV I AS	3)	27 124 067	21 537 656
West Indian Energy Holding AS	4)	14 855 152	4 484 000
Rentefond	5)	6 745 631	6 671 625
Fordring salg Lithicon AS	2)	285 862	402 277
Bankinnskudd		3 567 680	3 567 680
Gjeld		-1 555 666	-1 555 666
<b>Kostpris / Verdi</b>		<b>72 036 062</b>	<b>55 409 169</b>
Antall aksjer			1 620
<b>Verdi pr. aksje</b>			<b>34 203</b>

## PARETO STAUR ENERGY AS

## 1) Petricore Ltd. (tidl. Drilltek)

- Selskapet eier 92 964 aksjer i Petricore Ltd., til en gjennomsnittlig kostpris på NOK 226,04 (USD 28,77)
- Aksjene er verdsatt til NOK 218,38 per aksje (USD 25,33)
- For omregning fra NOK til USD er det benyttet valutakurs som er offentliggjort av Norges Bank

## 2) Lithicon AS

- Aksjene i Lithicon AS ble solgt i februar 2014
- Av salgsprovenyet er ca. 95 % utbetalt til de selgende aksjonærer. Resterende ca. 5 % vil evt. bli utbetalt etter utløpet av en garantiperiode på 36 måneder.

## 3) Pareto Staur SPV I AS (PS SPV I)

- Pareto Staur Energy AS har en eierandel i Pareto Staur SPV I AS på ca. 20,3 %
- Aksjene er verdsatt til NOK 8.183 per aksje
- Dette selskapet har investert i aksjer og lån i/til Acona Invest AS, lån til Aqualyng Holding AS og lån til Petricore Ltd.

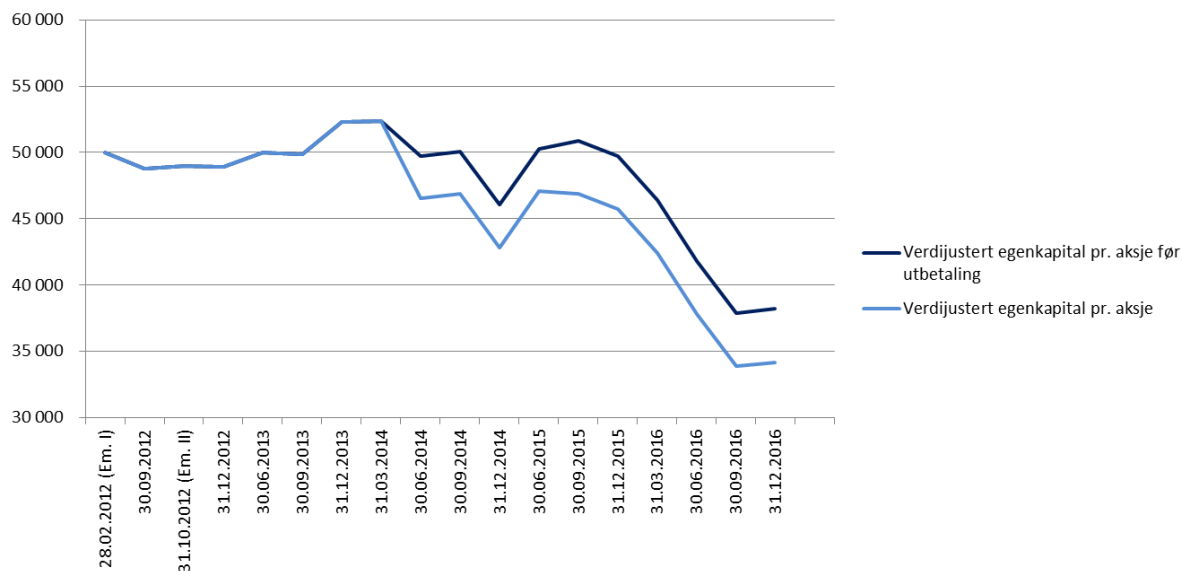
## 4) West Indian Energy Holding AS (WIEH)

- Pareto Staur Energy AS har en eierandel i West Indian Energy Holding AS på ca. 20,1 %
- Aksjene er verdsatt til NOK 2.242 per aksje
- Dette selskapet har investert i aksjer i Steeldrum Oil Company Ltd.

## 5) Rentefond

- Plassering av likviditet i Skagen Høyrente (kost NOK 3 862 000) og Pareto Høyrente (kost NOK 2 883 000)

## VERDIUTVIKLING FOR PARETO STAUR ENERGY AS



## PARETO STAUR ENERGY AS

**INFORMASJON OM PORTEFØLJEINVESTERINGENE**

Vi viser til vedlagte rapport om porteføljeinvesteringene utarbeidet av Pareto Asset Management AS.

**OMSETNING AV SELSKAPETS AKSJER I ANNENHÅNDSMARKEDET**

Investorer som har interesse for kjøp eller salg av Selskapets aksjer, bes kontakte sin investeringsrådgiver i Pareto Wealth Management AS (PWM). De som ikke har et direktenummer kan ta kontakt med PWMs BackOffice i Stavanger på telefon: 51 77 97 00 eller e-post: [pwm@pareto.no](mailto:pwm@pareto.no).

**KONTAKTINFORMASJON**

For spørsmål knyttet til selskapet, er det bare å ta kontakt med undertegnede.

Med vennlig hilsen,  
for Pareto Business Management AS

Hans Gunnar Martinsen  
Business Manager  
Tel: + 47 22 01 58 88  
Faks: + 47 22 87 88 00  
E-post: [hgm@pareto.no](mailto:hgm@pareto.no)

# Pareto Staur Energy

Fourth quarter 2016

## General information

This quarterly report provides general portfolio updates to investors in Pareto Staur Energy ("PSE"). Investors invested directly under discretionary portfolio management agreements can access their individual reports (portfolio overview, tax, returns and transaction history) by logging into [www.paretoam.com](http://www.paretoam.com) and "Min Side". Investors in Pareto Staur Energy AS ("the feeder company") will be provided reports or further information from the facilitator, Pareto Wealth Management ([www.pareto.no/ParetoWealthManagement](http://www.pareto.no/ParetoWealthManagement) or +47 22 87 87 00).

### Investment period and exit

PSE is fully invested with 96% of committed capital drawn down. In February 2014, PSE successfully sold Lithicon AS, 95% of the sale proceed has been repaid.

### Portfolio valuation

Fair value Dec. 2016		
Company	Segment	Value in NOK
<b>Petricore</b>	Oil service	
- Value per ordinary share		172
- Value per preferred share		369
<b>Lithicon</b>	Oil service	
- Distributed to Investors (Feb. 2014)		80% of sales price
- Distributed to investors (June 2015)		15% of sales price
- Special escrow (36 months, max 5%)		Low pay-out expected
<b>Pareto Staur SPV I</b>	Oil/hydro service	
- Value per share		8 183
<b>West Indian Energy Holding</b>	Energy	
- Value per share		2 242

\* Pareto Staur SPV I AS is a holding company invested in Aqualyng Holding, Acona (incl. ResQ).

### Portfolio headlines

The portfolio had a mix quarter with an underlying positive trend.

- Petricore: Higher activity and an improving pipeline, but still a challenging market.
- Aqualyng: The merger with EarthWater Group has been put on hold while finalizing a term sheet with a new merger candidate.
- Acona: Extreme cost focus, challenging market conditions. Bank debt successfully restructured.
- ResQ: Gaining market share, reducing cost even further.
- West Indian Energy: The rig has been completed and is working according to plan. Well #1 has been drilled, test results expected during first quarter 2017. Well #2 expected to be drilled in February.

Investments in primarily small/mid-cap energy & hydro/energy services companies

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- Primarily non-listed companies
- Duration: 6 years (+1+1)
- Investment period: 2 years (+1)
- Management fee: 2% p.a., Success fee 20% above a preferred return of 8% p.a.

The managers/active owners  
co-invest ~ NOK 139m

### Key Men

Staur Private Equity AS:

Bernt Østhus

Pareto Asset Management AS:

Ola Lyngstad, Christian Helland

### Active Portfolio Management

Pareto Staur Energy is structured under Pareto Asset Management's license to allow investors a high degree of investor protection. Pareto Asset Management is regulated by the Financial Supervisory Authority of Norway.

### Valuation principles

Portfolio valuation is performed twice a year (30/06 and 31/12) with quarterly adjustments (i.e. extraordinary events, exchange rates).

The Portfolio valuation is based upon the Private Equity and Venture Capital Association (EVCA). EVCA bases its principles upon "fair value" assessment.

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## Petricore Ltd (“Drilling Technologies Ltd”)

### Company summary

Petricore Ltd (former Drilling Technologies Ltd) is a company registered in Great Britain with operations in South and Central America, US and the Middle East. Petricore focuses on core analysis, mud-logging and drilling materials. The company was founded by some of the managers running Reservoir Laboratories, a successful business developed and funded by, among others, Staur.

### Why Petricore

- Management is well known to the Key Men
- A proven and highly successful track record of a similar company
- Demand for an independent player in this segment

### Source

A privately negotiated deal with major shareholders in the company (Staur Private Equity AS, Geological Investments Ltd and Hauken Invest AS)

### Financials/valuation

Even though activity is low, Petricore still predicts a positive EBITDA for 2016. A significant downturn in the market price of Petricore’s listed comparable has resulted in a lower valuation also for Petricore during 2016.

### News

- Petricore is experiencing increasing demand from clients after years with lacklustre order intakes
- The USA lab has reported eleven new clients, of which three are listed under secured revenue and eight under probable revenue
- The Middle East lab has reported seven new clients, of which one is listed under secured revenue and six under probable revenue
- Petricore is on the ground to cater for new players in Mexico where Petricore is aligned with CNH, which is a governmental body who collect and archive core samples. During the fourth quarter, three newcomers have commenced activities through the CNH cooperation.
- The Colombian wellsite services has three cabins deployed plus one more which started at year end, which makes this business unit profitable again
- On an aggregate basis, Petricore has USD 12m in secured contracts, USD 22m in probable contracts and an additional USD 29m in possible contracts (2017)
- Petricore expects revenue of USD 35m for 2017 with a strong organic growth over the next three years given more optimistic market outlooks.
- Accordingly, the EBITDA-expectations for 2017 is USD 8m
- In order to mitigate the revenue shortfall in 2016, Petricore has during the course of 2016 executed substantial cost cutting measures (10 – 25 %) in all three main regions
- We expect three new license rounds to be announced first half of 2017, which could boost the growth further



Core analysis, mud-logging and  
drilling materials

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Private deal source and lead role



### Main shareholders (consolidated)

Pareto Staur Energy:	40%
Petricore (employees):	17%
Pareto Energy Solutions:	13%
Staur:	12%
Hauken Inv. (Hjelmeland):	12%

Shareholder agreement: Yes

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Source/photo: Petricore

Please visit [www.petricore.com](http://www.petricore.com) for more information.

## General information and specification of the Pareto Staur Energy mandate

Certain investments may be done through Special Purpose Vehicles (SPV's) and Holding Companies.

The SPV will be considered a Portfolio Company. Pareto Asset Management will ensure that the SPV has exposure towards companies as set out in the Active Portfolio Management Agreement. SPVs may be used if it is considered to be in the best interest of the Investors of the mandate. The below list contains examples of circumstances where Pareto Asset Management considers it to be in the best interest of the Investors to use SPVs and/or Holding Companies:

### Examples

- The SPV acts as one investor. Certain investments (e.g. a co-investment with IFC in Aqualyng and a co-investment with CapMan in Acona) require significant due diligence of the shareholders. A significant due diligence of the investors may not be a preferred solution and may delay, complicate and in certain cases prevent an investment from taking place.
- Simplified structure and increased flexibility. Certain investments can be a combination of equity, warrants and loans, which in certain cases can be challenging to own directly and may not align interests with other shareholders.
- Exit. It may be more beneficial for the investors to sell the SPVs shares instead of several smaller holdings. An SPV can increase the probability of a successful sale, giving Pareto Staur flexibility when negotiating (e.g. allowing certain guarantees).
- The yearly costs of an SPV will primarily be a third party administration fee of approximately NOK 0.1 million p.a. No compensations are made to the board members or board observers. By acting as one investor instead of several, we expect lower transaction costs in connection with the investments.

## Pareto Staur SPV I AS & West Indian Energy Holding AS

Pareto Staur SPV I AS and West Indian Energy Holding AS are Norwegian registered companies 100% owned by the Pareto Staur Energy investors. The SPVs invest primarily in non-listed energy and energy service companies that are not available to Pareto Staur Energy investors, or practically difficult for them to own directly. The chairman of the holding companies is Stig Even Jakobsen, who is also the chairman of Pareto Asset Management AS.

### Overview

Pareto Staur SPV I AS has invested/committed capital to:

- Aqualyng Holding AS: NOK 72 million invested
- Acona AS: NOK 54 million invested

West Indian Energy Holding AS has invested/committed capital to:

- West Indian Energy: NOK 75 million invested

Please find further information about the investments below.



## Pareto Staur SPV I (Aqualyng Holding AS)

### Company summary

Aqualyng is a one-stop-shop for water providing projects, products and services for the water industry. Specialising in desalination and treatment of difficult water, Aqualyng and its subsidiaries have delivered water solutions to sectors like oil/gas, power, mining and other industrial applications since 1996. The company operates in Singapore, India, Norway, China, Australia, Spain and the UAE.

### Why Aqualyng

- A company well known to the Key Men
- Verified technology with strong growth opportunities
- Preferred capital (last in – first out)

### Source

Aqualyng is a privately negotiated investment (Pareto Energy Solutions and Staur Private Equity are already investors in the company). The investment decision is based on detailed third party due diligence (legal, financial and technical reports by specialised national and international companies).

### Financials/valuation

The valuation is based on the termsheet less a 35% risk/liquidity rebate.

### News

Due to significant delays and challenging renegotiations with Earth Water Group, Aqualyng has initiated and had advanced discussions with ACWA. ACWA is UK based company with operations in Asia, Europe and the Middle East. The company is a leading provider of industrial and municipal wastewater treatment technologies and services, established in 1986.

Aqualyng and ACWA signed during the fourth quarter a non-binding termsheet and are currently finalizing their due diligence. We believe Aqualyng and ACWA fundamentally complement each other in a good way. The combined company will have a scalable business model within water treatment for municipalities, the industrial sector, power industry and mining.

The goal is a sizeable and profitable company with a clear ambition of industrial sale or IPO in 2018 / 2019. A more stable cash flow and clear cut strategy with strong presence in defined areas will reduce the risk for Aqualyng. We also believe that CLSA (as a main shareholder) keeps the momentum in shaping Aqualyng towards the exit.

As previously mentioned, Aqualyng received approximately USD 6 million from the sale of assets in China. The final amount has now been received and has for all practical purposes made Aqualyng debt free. Aqualyng is currently delivering positive cash flow from operations.



Industrial water treatment  
Desalination and O&M

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Shareholder agreement: Yes

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Source/Photo: AquaLyng & ACWA

Please visit [www.aqualyng.com](http://www.aqualyng.com) and  
[www.acwa.co.uk](http://www.acwa.co.uk) for more information

## Pareto Staur SPV I (Acona & ResQ)

### Company summary

Acona Invest AS, the holding company for Acona Group and ResQ.

Acona Group is a leading provider of expertise to the global oil and gas industry, supplying leading experts within a wide range of specialties ranging from drill and well management to E&P technology and services. Acona has grown to become one of Norway's leading consultancy firms, providing not only specialist skills to clients, but also large integrated project management services in the North Sea.

ResQ is a national provider of safety and emergency response training. ResQ AS was established in 2001 and has since experienced major growth with safety centers in Haugesund, Stavanger and Kristiansund. ResQ's customers come primarily from oil and gas operators, rig and oil service companies. We also have customers from shipping, the military and governmental departments.

### Why Acona & ResQ

- One of the leading players within its sector in Norway
- Quality of employees and a clear business plan

### Source

Semi-private. Pareto Staur and CapMan co-invest pari passu. CapMan is the majority shareholder; Pareto Staur owns 8% of the company.

### Financials/valuation

The investment is financed with equity and external loans. Net interest bearing bank debt is currently NOK 280m (reduced from NOK 365m in 2012). Acona Invest AS holds 100% of the shares in both Acona and ResQ. The investment is valued at 0.1 times cost.

### News

Acona Invest AS was successfully restructured during the fourth quarter. A highly challenging drilling market in the North Sea has resulted in few wells and low rig activity. In close cooperation with the bank, the shareholder guarantee was used to negotiate a preferable solution extending the loan to 2021 (without down-payments). Assuming a recovery in the drilling business during 2018, the business plan depicts an interesting recovery in the value proposition given a very lean and competent Acona structure.

As previously mentioned Acona has secured more or less the only well management project available with Bayerngas. The contract is important, but not enough to put Acona Invest into positive territory. Acona Invest AS ended 2016 with an EBITDA result of NOK – 7 million (Acona Group, NOK – 15m, ResQ, NOK 8m).

ResQ has in a challenging market been able to secure profitable work and lowered the cost base even further (from NOK 197m in 2013 to NOK 105m as the expected run-rate in 2017). EBITDA increased from NOK 3,5m in 2015 to NOK 7,8m in 2016. ResQ has a comfortable cash position, several new services added and a handful of new customers secured going into 2017.



Well management

&

safety and emergency  
preparedness

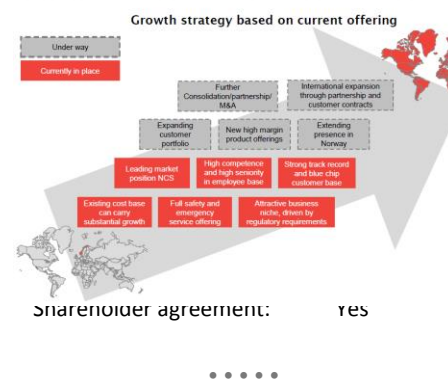
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Semi-private deal source and  
co-investment role

Top tier Norwegian & int. customers



ResQ – unique growth platform



Source/Photo: Acona

Visit [www.acona.com](http://www.acona.com) & [www.resq.no](http://www.resq.no)



## Steeldrum Oil Company (“West Indian Energy”)

### Company history

Steeldrum oil company is the owner of the Inniss Trinity field, South Erin and Cory Moruga field. All three assets are on-shore, oil producing fields located in the southern region of Trinidad. The Inniss Trinity field has historically produced 23 million barrels (“bbl”) of oil. Texaco abandoned the field in the 1980’s, leaving an estimated 10-25 million bbl of oil recoverable.

The recovery targets are in most areas shallow, 1,000–5,000 feet, and the expected paybacktime is low. West Indian Energy is the local operator with a skilled management team located in Trinidad.

### Why West Indian Energy

- Strong local management with low overhead costs

### Source

A privately negotiated deal with a local management team in Trinidad.

### Financials

West Indian Energy Holding AS (“WIEH”) is a Norwegian holding company 100% owned by the Pareto Staur Energy investors. West Indian Energy AS owns 57.3% of Steeldrum Oil Company after a small equity issue in December 2016 where Key Management invested significantly relative to their salary.

### News

Several important milestones reach during the fourth quarter:

- WIEH has successfully finalized the completion of the rig.
- The rig was during December mobilized to well site #1 on Inniss Trinity.
- The new rig with the new rig crew (experienced, but new to this rig) finalized the drilling of well #1 to targeted depth on budget. The logs showed some interesting sand zones, but the actual test production will not take place before end of January.
- The rig will now be moved to the next well with targeted results in February.

WIEH has with a very limited budget been able to secure a strong rig and negotiated favourable drilling services in order to drill minimum three to four wells during 2017. Further growth will depend on the success on the wells, the performance/marketing of the rig and the capital markets/oil price.

Even though the oil price has picked up, the listed companies on Trinidad remain at “bankruptcy pricing”. The reason is the increased political risk mentioned in the earlier reports and their balance sheets.

WIEH has built a strong and scalable platform showing robustness by not losing money in 2016 even at a low oil price. The short term goal is to get production above 400 bpd. The valuation is slightly down due to a conservatively priced equity issue in December directed towards Key Men in the company.



Challenge the need for high oil prices

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Drill it! Pump it! Run it!

Private deal source

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### Shareholders of West Indian Energy Holding AS (fully diluted):

Pareto Staur Energy investors: 100%

Shareholder agreement: No

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Source/Photo: WIEG

Please visit [www.westindianenergy.com](http://www.westindianenergy.com) for more information

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