

Varel Oil and Gas Inc.

**Separate Financial Statements
December 31, 2025 and 2024**

Varel Oil and Gas Inc.
Index
December 31, 2025 and 2024

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Report of Independent Auditors

To the Management of Varel Oil and Gas Inc.

Opinion

We have audited the accompanying financial statements of Varel Oil and Gas Inc. (the "Company"), which comprise the statements of financial position as of December 31, 2025 and 2024, and the related statements of loss, of changes in equity and of cash flows for the years then ended, including the related notes (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2025 and 2024, and the results of its operations and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one

resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

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

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

Other Information

Management is responsible for the other information included in the annual report. The other information comprises Management's report, but does not include the financial statements and our auditors' report thereon. Our opinion on the consolidated financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the consolidated financial statements or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.



April 30, 2026

Varel Oil and Gas Inc.
Statements of Financial Position
Years Ended December 31, 2025 and 2024

<i>(in thousands of U.S. dollars)</i>	Notes	2025	2024
Assets			
Noncurrent assets			
Investments in affiliates		\$ 125,473	\$ 125,473
Note receivable, affiliates	(8)	41,749	39,995
Total noncurrent assets		<u>167,222</u>	<u>165,468</u>
Current assets			
Cash		3,056	2,020
Other current assets		11	10
Receivables, affiliates		-	717
Total current assets		<u>3,067</u>	<u>2,747</u>
Total assets		<u>170,289</u>	<u>168,215</u>
Equity			
Share premium		114,124	114,124
Accumulated deficit		(46,140)	(34,031)
Total shareholder's equity		<u>67,984</u>	<u>80,093</u>
Liabilities			
Noncurrent liabilities			
Borrowings	(4)	69,738	69,057
Total noncurrent liabilities		<u>69,738</u>	<u>69,057</u>
Current liabilities			
Trade payables		140	2
Trade payables, affiliates		11,167	208
Accrued liabilities	(10)	2,205	2,462
Current portion of borrowings	(4)	-	-
Current portion of borrowings, affiliates	(4)	19,055	16,393
Total current liabilities		<u>32,567</u>	<u>19,065</u>
Total liabilities		<u>102,305</u>	<u>88,122</u>
Total shareholder's equity and liabilities		<u>\$ 170,289</u>	<u>\$ 168,215</u>

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

Varel Oil and Gas Inc.
Statements of Loss
Years Ended December 31, 2025 and 2024

<i>(in thousands of U.S. dollars)</i>	Notes	2025	2024
Continuing Operations			
Revenue		\$ -	\$ -
Cost of revenue		<u>-</u>	<u>-</u>
Gross profit		-	-
Selling, general and administrative expenses	(5)	(740)	(483)
Other income (expense), net	(6)	<u>(418)</u>	<u>(258)</u>
Operating loss		(1,158)	(741)
Finance income, affiliates		1,754	2,313
Finance costs, affiliates		(2,662)	(2,669)
Finance costs		(9,841)	(6,855)
Loss on debt extinguishment	(4)	<u>-</u>	<u>(376)</u>
Loss before income tax		(11,907)	(8,328)
Income tax expense	(7)	<u>(202)</u>	<u>(113)</u>
Comprehensive loss		<u>\$ (12,109)</u>	<u>\$ (8,441)</u>

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

Varel Oil and Gas Inc.
Statements of Changes in Equity
Years Ended December 31, 2025 and 2024

(in thousands of U.S. dollars)

	Share Premium	Accumulated Deficit	Total Equity
Balances at December 31, 2023	\$ 114,124	\$ (25,590)	\$ 88,534
Loss for the period	-	(8,441)	(8,441)
Balances at December 31, 2024	114,124	(34,031)	80,093
Loss for the period	-	(12,109)	(12,109)
Balances at December 31, 2025	\$ 114,124	\$ (46,140)	\$ 67,984

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

Varel Oil and Gas Inc.
Statements of Cash Flows
Years Ended December 31, 2025 and 2024

<i>(in thousands of U.S. dollars)</i>	Notes	2025	2024
Cash flows from operating activities			
Loss for the period		\$ (12,109)	\$ (8,441)
Adjustments for			
Amortization of deferred financing costs	(4)	989	612
Other		-	(43)
Loss (gain) on foreign currency	(6)	12	9
Finance income, affiliates		(1,754)	(2,313)
Finance costs		11,511	8,913
Loss on debt extinguishment	(4)	-	376
Changes in:			
Prepays and other assets		(1)	(10)
Trade and other payables		125	(1,508)
Other liabilities		(285)	193
Accounts receivable, affiliates		11,217	8,695
Accounts payable, affiliates		459	(105)
Cash generated from (used in) operating activities		<u>10,164</u>	<u>6,378</u>
Interest paid		(8,820)	(4,324)
Income taxes paid	(7)	-	(113)
Net cash provided by (used in) operating activities		<u>1,344</u>	<u>1,941</u>
Cash flows from investing activities			
Net cash provided by investing activities		-	-
Cash flows from financing activities			
Proceeds from borrowings	(4)	-	1,063
Proceeds from borrowings, affiliates	(4)	-	-
Repayments of borrowings	(4)	-	(32,175)
Bond premium	(4)	-	300
Proceeds from bond issuance	(4)	-	72,000
Deferred financing costs	(4)	(308)	(3,699)
Long-term note receivables, affiliates	(8)	-	(37,683)
Net cash (used in) provided by financing activities		<u>(308)</u>	<u>(194)</u>
Net increase in cash and cash equivalents		1,036	1,747
Cash and cash equivalents			
Beginning of year		<u>2,020</u>	<u>273</u>
End of year		<u>\$ 3,056</u>	<u>\$ 2,020</u>
Supplemental non-cash financing activities			
Capital contribution from Parent		\$ -	\$ -

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

Varel Oil and Gas Inc.

Notes to Financial Statements

Years Ended December 31, 2025 and 2024

(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 (“US”). The Company is a wholly owned subsidiary of Varel Oil and Gas Intermediate Holdings, Inc. (“Parent” or “VOGIH”) who is also incorporated and domiciled in the US. The Parent is a wholly owned subsidiary of Varel Oil and Gas Holdings, Inc. (“Ultimate Parent”) who is also incorporated and domiciled in the US. Through its subsidiaries the Company 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 North America, South America, Europe, Asia, and the Middle East.

These financial statements of the Company were authorized for issuance by the Board of Directors on April 30, 2026.

2. Summary of Significant Accounting Policies

Basis of Presentation

The Financial Statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS Accounting Standards”) as issued by the International Accounting Standards Board (“IASB”). The exemption from consolidation under 4(a) of IFRS 10 has been used and these Financial Statements are separate financial statements.

The Financial Statements have been prepared on a going concern basis. In making this assessment, management has considered the Company’s dependence on distributions from its subsidiaries and has a reasonable expectation that the Company will have adequate resources to continue in operational existence for the foreseeable future.

The Financial Statements have been prepared under the historical cost convention except for certain items measured at fair value. The Company’s investments in subsidiaries are accounted for at historical cost. Any dividends declared by the investments are recognized when declared. No dividends were declared in 2025 or 2024.

Varel Oil and Gas Inc.

Notes to Financial Statements

Years Ended December 31, 2025 and 2024

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

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, 2025:

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. The adoption of this amendment had no material impact on the Company's financial statements.

The following new and amended standards were adopted by the Company in the year ended December 31, 2024:

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. The adoption of this amendment had no material impact on the Company's financial statements.

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. The adoption of this amendment had no material impact on the Company's financial statements.

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. The standard also clarified that if there is convertible debt where the conversion option is exercisable such debt would require classification as a current liability unless it meets the "fixed for fixed" criteria under IAS 32. The adoption of this amendment had no material impact on the Company's financial statements.

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 its exposure to liquidity risk and how it might be affected if the arrangements were no longer available to it. The adoption of this amendment had no material impact on the Company's financial statements.

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Years Ended December 31, 2025 and 2024

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

New and Revised Standards Issued but not Effective

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

IFRS 9 and 7 – Classification and Measurement of Financial Instruments

In May 2024, the IASB issued amendments to IFRS 9, 'Financial Instruments', and IFRS 7, 'Financial Instruments: Disclosures' that clarify the requirements for the timing of recognition and derecognition of some financial assets and liabilities and add further guidance for assessing whether a financial asset meets the solely payments principal and interest criterion. The amendments also added new disclosures for certain instruments with contractual terms that can change cash flow and updated disclosures for equity instruments designated at Fair Value through Other Comprehensive Income. This standard is effective for annual reporting periods beginning on or after January 1, 2026.

IFRS 18 – Presentation and Disclosure in Financial Statements

In May 2024, the IASB issued 'Presentation and Disclosure in Financial Statements' to introduce a defined structure for the statement of profit or loss and enhanced principles of aggregation and disaggregation in the financial statements and notes focused on grouping items based on their shared characteristics. The new standard will also require disclosure of management-defined performance measures with a reconciliation to the related financial statement line item. This standard is effective for annual reporting periods beginning on or after January 1, 2027.

Use of Estimates

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

Cash

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.

Receivables, Affiliates

Receivables, Affiliates are amounts due from subsidiaries for services performed on their behalf in the ordinary course of business. Due dates are generally due for settlement within 30 days and therefore are classified as current assets. Receivables are recognized initially at the unconditional amount of consideration. The Company holds the receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortized cost using the effective interest method. Due to the short-term nature of receivables, the carrying amount approximates fair value.

Trade Payables

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

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

Borrowings

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

Fees paid on the establishment of the borrowing 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 borrowing.

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

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 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.

Notes Receivable, Affiliates

The Company classifies its notes receivable at amortized cost only if both of the following criteria are met:

- i. the asset is held within a business model whose objective is to collect the contractual cash flows, and
- ii. the contractual terms give rise to cash flows that are solely payments of principal and interest.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income ("OCI"). For investments in equity instruments that are not held for trading, this will depend on whether the Company has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

Regular way purchases and sales of notes are recognized on the trade date, being the date on which the Company commits to purchase or sell the asset. Notes are derecognized when the rights to receive cash flows from the note have expired or have been transferred and the Company has transferred substantially all the risks and rewards of ownership.

At initial recognition, the Company measures a note at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVPL"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

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Notes to Financial Statements

Years Ended December 31, 2025 and 2024

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

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 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.

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.

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 Company 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.

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:

Varel Oil and Gas Inc.

Notes to Financial Statements

Years Ended December 31, 2025 and 2024

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

- 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. Financial Risk Management

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

Credit Risk

Credit risk arises from cash and cash equivalents, derivative financial instruments, and deposits with banks and financial institutions.

Cash maintained in banks at times may exceed the Federal Deposit Insurance Corporation coverage of \$250,000. During the years ending December 31, 2025 and 2024, 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.

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 long-term external borrowings (Note 4), 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

There was no availability on the line of credit as of December 31, 2025 and 2024. The line of credit was terminated with the repayment of the Senior Facilities in 2024 (Note 4).

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Notes to Financial Statements
Years Ended December 31, 2025 and 2024

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

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:

At December 31, 2025	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	\$ 2,345	\$ -	\$ -	\$ -	\$ 2,345	\$ 2,345
Borrowings	19,055	-	72,000	-	91,055	88,793
Nonderivative liabilities	<u>\$ 21,400</u>	<u>\$ -</u>	<u>\$ 72,000</u>	<u>\$ -</u>	<u>\$ 93,400</u>	<u>\$ 91,138</u>

At December 31, 2024	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	\$ 2,464	\$ -	\$ -	\$ -	\$ 2,464	\$ 2,464
Borrowings	16,393	-	72,300	-	88,693	85,450
Nonderivative liabilities	<u>\$ 18,857</u>	<u>\$ -</u>	<u>\$ 72,300</u>	<u>\$ -</u>	<u>\$ 91,157</u>	<u>\$ 87,914</u>

There were no outstanding derivative arrangements as of December 31, 2025 and 2024.

Capital Risk Management

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

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

	2025	2024
Total net borrowings	\$ 88,793	\$ 85,450
Total equity	67,984	80,093
Debt-to-equity ratio	130.61 %	106.69 %

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Notes to Financial Statements
Years Ended December 31, 2025 and 2024

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

4. Borrowings

	2025	2024
Borrowings	\$ 72,000	\$ 72,000
Borrowings, affiliates	19,055	16,393
Bond premium	219	300
Paid-in-kind interest	-	-
Deferred financing costs	(2,481)	(3,243)
Total borrowings	88,793	85,450
Less current portion of borrowings	(19,055)	(16,393)
Borrowings	<u>\$ 69,738</u>	<u>\$ 69,057</u>

External Borrowings

Nordic Bonds

On April 8, 2024 the Company entered into an agreement to issue a series of Bonds (“Nordic Bonds”) up to a maximum amount of \$90 million (the “Nordic Bonds Agreement”). The initial issuance consisted of \$60 million of senior secured bonds (“Initial Issuance”) at a nominal value of \$125,000. The Nordic Bonds have a maturity date of April 7, 2028 and bear an interest rate of 12.25% per annum. Interest payments are payable bi-annually in October and April commencing October 8, 2024 and the final interest payment on the maturity date of April 7, 2028. Interest payable is recognized in Other Current Liabilities on the Statements of Financial Position. The Nordic Bonds are guaranteed by the Parent and certain subsidiaries as defined under the terms of the Nordic Bonds Agreement. The Nordic Bonds Agreement includes a 2-year call protection with the first eligible call date of April 8, 2026. The redemption price at any such call date is determined under the terms of the Nordic Bonds Agreement. The Company has one year from the date of the Initiation Issuance to file and register the Nordic Bonds on the Euronext Securities Osle, the Norwegian Central Securities Depository (the “CSD”). The proceeds of the Initial Issuance were used to repay the A Facility, B Facility and Revolver, as discussed below, for the purchase of the remaining 22% of Sledgehammer by a subsidiary and other operational needs.

On December 11, 2024 the Company issued an additional series of bonds (“Tap Issue”) of \$12.0 million in accordance with the terms of the Nordic Bonds Agreement. The Tap Issue contained a 2.5% premium resulting in the recognition of a bond premium of \$300,000 in connection with the Tap Issue. The bond premium is amortized over the life of the bond and recognized as a reduction to interest expense. The proceeds of the Tap Issue were used for an acquisition completed in January 2025. See Note 11 for further details on the acquisition.

At December 31, 2025 \$72.0 million of Nordic Bonds were outstanding with the remaining \$18.0 million available for future issuances.

In connection with the Nordic Bonds the Company recognized \$3.8 million in deferred financing costs to be amortized over the life of the Nordic Bonds. \$2.5 million remained as of December 31, 2025 and is shown as a deduction on the outstanding borrowings on the Statements of Financial Position. \$1.1 million and \$0.1 million of amortized debt issuance costs related to the Nordic Bonds was included in interest expense for the years ended December 31, 2025 and 2024.

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

Nordic Bond Covenants

Under the terms of the Nordic Bonds Agreement the Company has certain financial covenant requirements on a quarterly basis to maintain a leverage ratio of less than 3.00 to 1.00 through April 7, 2026 and a leverage ratio of less than 2.5 to 1.00 from April 8, 2026 to the maturity date. Other covenant requirements include restriction on issuance of dividends or distributions by the Company and limitations on other indebtedness. The Company may not acquire or dispose of any entity that would have material adverse effect on the Company. The Company must also maintain a minimum balance of \$5 million of cash and cash equivalents. The Company was in compliance with the covenant requirements as of December 31, 2025.

Senior Facilities

On April 10, 2024 the Company repaid the \$33.2 million outstanding balance on the Senior Facilities. In connection with the repayment, the Company recognized a loss on debt extinguishment of \$0.4 million related to the unamortized debt issuance costs at the time of repayment in the Statements of Comprehensive Income (Loss).

Reconciliation of external liabilities arising from financial activities for the year ended December 31, 2025:

	Beginning of Year	Cash Flow	Amortization of Deferred Financing Costs	Bond Premium	End of Year
Borrowings	\$ 69,057	\$ (308)	\$ 1,070	\$ (81)	\$ 69,738

Reconciliation of external liabilities arising from financial activities for the year ended December 31, 2024:

	Beginning of Year	Cash Flow	Amortization of Deferred Financing Costs	Bond Premium	End of Year
Borrowings	\$ 30,939	\$ 37,206	\$ 612	\$ 300	\$ 69,057

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5. Selling, General, and Administrative Expenses

	2025	2024
General administrative	\$ 47	\$ 80
Information technology	-	5
Professional and legal fees	693	398
Total selling, general, and administrative	<u>\$ 740</u>	<u>\$ 483</u>

6. Other Income (Losses), net

	2025	2024
Net foreign exchange (losses) gains	\$ (12)	\$ (9)
Net other (expense) income	(406)	(249)
Other income (expense), net	<u>\$ (418)</u>	<u>\$ (258)</u>

7. Income Taxes

	2025	2024
Loss before tax	\$ (11,907)	\$ (8,328)
US statutory tax rate	21%	21%
Expected total tax benefit	(2,500)	(1,749)
Reconciling items		
Expenses not deductible for tax purposes	-	53
Unrecognized deferred tax benefit	2,500	1,696
Other	202	113
Total current and deferred tax expense	<u>\$ 202</u>	<u>\$ 113</u>

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8. Related Party Transactions

Intercompany Loans

On June 30, 2022, the Company's Parent executed an Intra-Group Loan Agreement with the Company, transferring \$23.4 million to the Company at 12.5% 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 Statement of Changes in Equity on June 28, 2023.

On March 11, 2023, 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 Intra-Group Loan Agreement was amended March 9, 2024 extending the maturity date to March 8, 2025 with no other changes to the agreement. On March 8 2025, the Intra-Group Loan was amended to extend the maturity date to March 7, 2026 with no other changes to the agreement. On March 7, 2026, the Intra-Group Loan was amended to extend the maturity date to March 10, 2027, with no other changes to the agreement.

On June 12, 2023, 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 Intra-Group Loan Agreement was amended March 9, 2024 extending the maturity date to June 10, 2025 with no other changes to the agreement. On March 8 2025, the Intra-Group Loan was amended to extend the maturity date to June 9, 2026 with no other changes to the agreement. March 7, 2026, the Intra-Group Loan was amended to extend the maturity date to June 11, 2027, with no other changes to the agreement.

For the years ended December 31, 2025 and 2024, interest expense of \$2.7 million and \$2.7 million, respectively, were incurred on the Intra-Group Loans.

Notes Receivable, Affiliates

The fixed-rate intercompany notes are recorded at amortized cost, which approximates their fair value due to the nature of the terms and prevailing interest rates in the market. The interest rates on these notes are consistent with market rates for similar instruments, reflecting the credit quality and liquidity of the counterparties involved. The Company did not incur transaction costs with the notes, as they are with affiliates of the Company. The Company had notes receivable from the following affiliates:

	2025	2024
Varel International Ind., LLC	\$ 33,770	\$ 32,825
Downhole Products Limited	<u>7,979</u>	<u>7,170</u>
	<u>\$ 41,749</u>	<u>\$ 39,995</u>

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9. Material Subsidiaries and Associates

Functional currencies of the Company's subsidiaries, other than the USD, include Mexican Peso ("MXN"), Canadian Dollar ("CAD"), Central African CFA Franc ("XAF"), Chinese Yuan ("CNY"), Indian Rupee ("INR"), United Arab Emirates Dirham ("AED"), Malaysian Ringgit ("MYR"), and Pound Sterling ("GBP"). Below is a list of material subsidiaries and associates of the Company and ownership share as of December 31, 2025.

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 Arabia Company Limited	Saudi Arabia	75%	USD
Varel International (for Oil Products & Services)	Egypt	100%	USD
SledgeHammer Oil Tools Pvt. Ltd.	India	100%	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
Ace Well Technology AS	Norway	100%	USD
Ace Distribution and Services US Inc.	United States	100%	USD

10. Accrued Expenses

	2025	2024
Professional fees	\$ -	\$ 285
Bond interest	2,205	2,177
Total accrued expenses	<u>\$ 2,205</u>	<u>\$ 2,462</u>

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11. Subsequent Events

The Company has evaluated subsequent events through April 30, 2026, the date that the Financial Statements were available for issuance.

Intra-Group Loan Amendments

As discussed in Note 8, the March 11, 2023, and June 12, 2023, Intra-Group Loans were amended on March 7, 2026, to extend the respective maturity dates to March 10, 2027, and June 11, 2027, respectively.