

# **Varel Oil and Gas Intermediate Holdings, Inc.**

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

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

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## **Report of Independent Auditors**

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

### ***Opinion***

We have audited the accompanying consolidated financial statements of Varel Oil and Gas Intermediate Holdings, Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as of December 31, 2025 and 2024, and the related consolidated statements of income (loss) and comprehensive income (loss), of changes in 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, 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 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.

### ***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 consolidated 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 consolidated 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.**  
**Consolidated Statements of Financial Position**  
**Years Ended December 31, 2025 and 2024**

<i>(in thousands of dollars)</i>	<b>Notes</b>	<b>2025</b>	<b>2024</b>
<b>Assets</b>			
Non-current assets			
Property, plant, and equipment	(8)	\$ 22,078	\$ 26,009
Right-of-use assets	(17)	4,218	6,805
Goodwill	(10)	10,666	7,985
Intangibles	(9)	12,518	9,683
Investments in affiliates		3,391	3,145
Deferred tax asset	(18)	2,837	4,370
Other assets		1,236	124
Total non-current assets		<u>56,944</u>	<u>58,121</u>
Current Assets			
Cash and cash equivalents		23,058	24,957
Trade receivables	(6)	34,846	41,700
Income tax receivables	(18)	198	193
Inventories	(7)	44,279	70,555
Prepays and other current assets		13,839	15,251
Total current assets		<u>116,220</u>	<u>152,656</u>
Total assets		<u>\$ 173,164</u>	<u>\$ 210,777</u>
<b>Shareholder's Equity</b>			
Share premium		\$ 463,873	\$ 463,873
Accumulated deficit		(436,861)	(412,148)
Accumulated other comprehensive income		8,852	8,009
Equity attributable to owners of Varel		<u>35,864</u>	<u>59,734</u>
Non-controlling interests		<u>(4,381)</u>	<u>(3,196)</u>
Total equity		<u>31,483</u>	<u>56,538</u>
<b>Liabilities</b>			
Non-current liabilities			
Borrowings	(12)	69,738	69,057
Borrowings, related party		540	540
Lease liabilities	(17)	5,262	7,585
Deferred tax liabilities	(18)	1,362	2,074
Other liabilities		5,766	5,488
Total non-current liabilities		<u>82,668</u>	<u>84,744</u>
Current liabilities			
Trade payables		15,999	21,418
Trade payables, related parties	(19)	-	20
Income tax payables	(18)	6,316	6,532
Accrued liabilities		1,724	5,161
Other current liabilities	(11)	7,590	10,991
Current portion of borrowings	(12)	4,379	4,480
Current portion of borrowings, related party	(19)	21,304	18,642
Current portion of lease liabilities	(17)	1,701	2,091
Total current liabilities		<u>59,013</u>	<u>69,495</u>
Total liabilities		<u>141,681</u>	<u>154,239</u>
Total shareholder's equity and liabilities		<u>\$ 173,164</u>	<u>\$ 210,777</u>

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

**Varel Oil and Gas Inc.**  
**Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)**  
**Years Ended December 31, 2025 and 2024**

<i>(in thousands of dollars)</i>	<b>Notes</b>	<b>2025</b>	<b>2024</b>
Revenue	(13)	\$ 183,540	\$ 204,665
Cost of revenue	(16)	<u>(121,954)</u>	<u>(128,086)</u>
<b>Gross profit</b>		61,586	76,579
Selling, general and administrative expenses	(16)	(58,151)	(53,396)
Impairment	(7),(8)	(11,150)	-
Loss on debt extinguishment	(12)	-	(376)
Other income (loss), net	(15)	<u>86</u>	<u>3,675</u>
<b>Operating profit (loss)</b>		(7,629)	26,482
Finance costs, net	(14)	<u>(13,977)</u>	<u>(11,561)</u>
<b>Income (loss) before income tax</b>		(21,606)	14,921
Income tax expense	(18)	<u>(4,094)</u>	<u>(8,256)</u>
<b>Income (loss) for the period</b>		(25,700)	6,665
<b>Income (loss) for the period attributable to:</b>			
Owners of Varel		(24,516)	6,632
Non-controlling interests		<u>(1,185)</u>	<u>33</u>
		<u>\$ (25,701)</u>	<u>\$ 6,665</u>
<b>Other comprehensive income (loss)</b>			
<i>Items that are or may be reclassified subsequently to loss</i>			
Foreign operations – foreign currency translation differences		<u>273</u>	<u>(2,804)</u>
<b>Comprehensive income (loss) for the period</b>		<u>273</u>	<u>(2,804)</u>
<b>Total comprehensive income (loss) for the period</b>		<u>\$ (25,428)</u>	<u>\$ 3,861</u>
Total comprehensive loss attributable to:			
Owners of Varel		\$ (24,242)	\$ 3,861
Non-controlling interests		<u>(1,185)</u>	<u>-</u>
		<u>\$ (25,427)</u>	<u>\$ 3,861</u>

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, 2025 and 2024**

(in thousands of U.S. dollars)

	Shares Outstanding Amount (par value \$0.01)	Share Premium	Accumulated Deficit	Accumulated Other Comprehensive Income	Equity Attributable to Owners of Varel	Noncontrolling Interests	Total Equity
<b>Balance at December 31, 2023</b>	<b>1,000</b>	<b>456,796</b>	<b>(415,281)</b>	<b>12,983</b>	<b>54,498</b>	<b>(908)</b>	<b>53,590</b>
Profit for the period	-	-	6,632	-	6,632	33	6,665
Other comprehensive loss	-	-	-	(2,804)	(2,804)	-	(2,804)
Acquisition of noncontrolling interest	-	7,167	(2,717)	(346)	4,104	(4,104)	-
Other	-	(90)	(782)	(1,824)	(2,696)	1,783	(913)
<b>Balance at December 31, 2024</b>	<b>1,000</b>	<b>\$ 463,873</b>	<b>\$ (412,148)</b>	<b>\$ 8,009</b>	<b>\$ 59,734</b>	<b>\$ (3,196)</b>	<b>\$ 56,538</b>
Profit for the period	-	-	(24,516)	-	(24,516)	(1,185)	(25,701)
Other comprehensive loss	-	-	-	285	285	-	285
Ace Acquisition	-	-	(94)	(12)	(106)	-	(106)
Other	-	-	(103)	570	467	-	467
<b>Balance at December 31, 2025</b>	<b>1,000</b>	<b>\$ 463,873</b>	<b>\$ (436,861)</b>	<b>\$ 8,852</b>	<b>\$ 35,864</b>	<b>\$ (4,381)</b>	<b>\$ 31,483</b>

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, 2025 and 2024**

<i>(in thousands of U.S. dollars)</i>	<b>Notes</b>	<b>2025</b>	<b>2024</b>
<b>Cash flows from operating activities</b>			
Profit (loss) for the period		\$ (25,701)	\$ 6,665
Adjustments for			
Depreciation and amortization	(8),(9)	9,936	5,231
Depreciation of right-of-use assets	(17)	2,157	2,518
Amortization of deferred financing costs	(12)	1,074	612
Change in provision for credit losses	(6)	874	51
Loss on derivative		-	79
(Gain) loss on sale of equipment		(19)	(1)
(Gain) loss on foreign currency	(15)	2,139	(3,133)
Loss on debt extinguishment	(12)	-	376
Provision for E&O Inventory or Impairments	(15)	11,063	-
Deferred taxes		671	1,088
Employee benefits		1,958	632
Net finance costs	(14)	13,268	10,870
Other		(105)	(43)
Changes in:			
Trade receivables		9,064	(4,867)
Inventories		15,136	(9,259)
Prepays and other assets		1,935	1,378
Trade and other payables		(8,476)	(10,416)
Other liabilities		(5,753)	3,816
Cash generated from (used in) operating activities		29,221	5,597
Interest paid		(10,410)	(6,255)
Income taxes paid		(3,625)	(2,814)
Net cash used in operating activities		15,186	(3,472)
<b>Cash flows from investing activities</b>			
Business acquisition	(4)	(10,206)	-
Acquisition of property and equipment	(8)	(3,987)	(2,560)
Acquisition of intangibles		(289)	-
Net cash used in investing activities		(14,482)	(2,560)
<b>Cash flows from financing activities</b>			
Proceeds from long-term borrowings	(12)	-	1,063
Proceeds from bond issuances	(12)	-	72,000
Repayments of long-term borrowings	(12)	190	(33,185)
Payments of lease liabilities	(17)	(2,143)	(2,345)
Acquisition of noncontrolling interest	(4)	-	(6,600)
Deferred financing costs	(12)	(308)	(3,699)
Joint venture contributions	(23)	-	(2,513)
Bond premium	(12)	-	300
Net cash provided by (used in) financing activities		(2,262)	25,021
Effect of exchange rate changes on cash		(341)	92
Net change in cash and cash equivalents		(1,899)	19,081
<b>Cash and cash equivalents</b>			
Beginning of year		24,957	5,876
End of year		\$ 23,058	\$ 24,957
<b>Supplemental non-cash investing activities</b>			
Change in accrued capital expenditures		\$ -	\$ 66

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

# Varel Oil and Gas Inc.

## Notes to Consolidated Financial Statements

### 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)

#### 1. Nature of Operations

Varel Oil and Gas Intermediate Holdings, Inc. (“Varel” or the “Company”) was founded in 2019 as a Delaware Corporation domiciled in the United States of America (“US”). The Company is a wholly owned subsidiary of Varel Oil and Gas Holdings, Inc. (“Parent”) who is also incorporated and domiciled in the US. Varel primarily designs, manufactures, and supplies products to the drilling, well construction, and completion solutions businesses within the energy sector and sells its products globally in the key markets of North America, South America, Europe, Asia, and the Middle East.

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

#### 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, 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.

# Varel Oil and Gas Inc.

## Notes to Consolidated Financial Statements

### 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)*

#### *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 requires 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.

#### **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.

# Varel Oil and Gas Inc.

## Notes to Consolidated Financial Statements

### 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)*

#### **Use of Estimates**

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

#### **Principles of Consolidation**

The accompanying Consolidated Financial Statements include the accounts of subsidiary companies in which the Company has a controlling interest. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and can affect those returns through its power over the investee. These entities are consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control 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 reportable 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

# Varel Oil and Gas Inc.

## Notes to Consolidated Financial Statements

### 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)*

#### **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 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 exists, the Company assesses 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 the 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**

##### ***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 are recognized in profit or loss.

##### ***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.

# Varel Oil and Gas Inc.

## Notes to Consolidated Financial Statements

### 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)*

#### **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.

#### **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.

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.

Based on the assessment of credit losses, the Company recognized expenses of \$1.2 and \$0.1 million in selling, general, and administrative expenses for the years ended December 31, 2025 and 2024, respectively.

#### **Inventories**

Inventories primarily consist of raw materials, work in process, and finished goods and are stated at the lower of cost or net realizable value, which is the estimated selling price less cost to sell. Cost is determined using the average cost method. For work in process and finished goods, the cost consists of the purchase price of materials and other directly related costs. 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 Comprehensive Income (Loss). The Company recognized \$10.6 million related to the impairment of inventory in Other income (loss), net on the Consolidated Statement of Comprehensive Income (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:

**Varel Oil and Gas Inc.**  
**Notes to Consolidated Financial Statements**  
**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)*

<b>Asset Category</b>	<b>Economic Life</b>
Buildings	10 - 20 years
Furniture and fixtures	4 - 10 years
Machinery 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. There have been no changes in estimates related to property, plant, and equipment in the current or comparable periods.

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. An asset's estimated recoverable amount is the higher of the cash generating unit's ("CGU") fair value less costs of disposal and its value in use.

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 the 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 Comprehensive Income (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:

<b>Asset Category</b>	<b>Amortization Method</b>	<b>Economic Life</b>
Patents and trademarks	Straight-line	10 - 20 years
Customer relationships	Straight-line	10 years

**Trade Payables**

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

# Varel Oil and Gas Inc.

## Notes to Consolidated Financial Statements

### 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)*

#### **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.

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 Consolidated Statement of Comprehensive Income (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, 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.

# Varel Oil and Gas Inc.

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#### **Revenue Recognition**

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

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

- (i) identification of contracts with customers;
- (ii) identification of performance obligations in contracts;
- (iii) determination of the price of the transaction;
- (iv) allocation of the transaction price to the performance obligation provided for in the contracts;
- (v) recognition of revenue when, (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 transaction's 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 US 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.

# Varel Oil and Gas Inc.

## Notes to Consolidated Financial Statements

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#### **Leases**

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

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

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

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

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

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

When a contract includes both lease and 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 or 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:

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- 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 Long-lived Assets**

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 judgments. 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.

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#### **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 is 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.

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.

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**Inventories**

Inventories, which primarily consist of raw materials, work in process, and finished goods, are stated at the lower of cost and net realizable value. Net realizable value represents the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. The determination of net realizable value requires significant management judgment and is based on the most reliable evidence available at the time the estimate is made, including recent commodity price fluctuations and prevailing economic conditions.

We evaluate our inventory for impairment and obsolescence on a continuous basis, assessing factors such as physical damage, declines in market demand, or changes in the technical and operational utility of materials. In instances where the net realizable value falls below the carrying amount, the inventory is written down, and the resulting loss is recognized immediately in the consolidated statement of operations. During the current period, the Company recognized inventory impairments of \$10.4 million to adjust the carrying value of certain inventory groups to their net realizable value. Future changes in assumptions regarding market prices or anticipated selling and processing costs could result in further adjustments to the carrying amount of inventories in subsequent periods.

**4. Acquisitions, Dispositions, and other Transactions**

**Acquisition of Ace Well**

On January 3, 2025, the Company, through its wholly owned subsidiary Downhole Products Limited, acquired 100% of the outstanding stock of Ace Well Technology AS (“Ace Well”) and its wholly owned subsidiary Ace Distribution and Services US Inc (collectively “Ace”). Ace develops, produces, and sells tools and solutions related to downhole technology for the oil and gas industry. The total purchase price for Ace was \$11.1 million, which, after giving effect to \$0.9 million of cash acquired, resulted in total consideration transferred of \$10.2 million.

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 such as the value of expected future synergies, the value of the assembled workforce, and other market factors.

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

<u>Ace Identified Intangibles</u>	<u>Balance Sheet Location</u>	<u>Fair Value</u>	<u>Valuation Methodology</u>	<u>Estimated Useful Life</u>	<u>Discount Rate</u>
Customer Relationships	Intangibles, net \$	3,172	Multi-Period Excess Earnings Method - Income Approach	10 Years	19.00%
Trademark	Intangibles, net \$	493	Relief from Royalty Method - Income Approach	10 Years	18.00%
Technology	Intangibles, net \$	995	Relief from Royalty Method - Income Approach	10 Years	18.00%

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The following table presents the preliminary allocation of the purchase price to the assets acquired and liabilities assumed as recorded in the Company's Consolidated Statements of Financial Position as of the Acquisition Date:

Cash and cash equivalents	\$	885
Trade receivables		3,545
Inventories		1,385
Other current assets		70
Property, plant and equipment		191
Goodwill		3,064
Identified intangible asset:		
Customer relationships		3,172
Trademark		493
Technology		995
Trade payables		(1,092)
Non-operating liabilities		(564)
Other current liabilities		(1,065)
	<u>\$</u>	<u>11,079</u>

Ace contributed revenues of \$9.4 million and profits of \$1.1 million for the period ended December 31, 2025.

**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 Company, 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 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 with the Company's immediate parent, the Company, and with DPL for \$23.4 million at a 12.5% coupon rate (refer to Note 19).

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The second tranche for the remaining 22% interest in SOTPL closed on September 18, 2024 (the “Tranche Two Acquisition Date”) along with 11% and 7% minority shares in its joint venture operations: Sledgehammer Gulf LLC and Sledgehammer Oil Tools International Company, respectively. The second tranche payment was completed in two parts: (i) \$6.6 million, representing the remaining 22% of the \$30.0 million enterprise value, on June 28, 2022; and (ii) the receipt of 390.5 million INR in relation to the sale of non-operating assets. The payment of the \$6.6 million was financed through the issuance of the Nordic Bonds (refer to Note 13). The acquisition of the remaining 22% interest in SOTPL is a change in ownership without a loss in control, and consequently, the acquired 22% noncontrolling interest is treated as an equity transaction, reclassifying the noncontrolling interest balance at the Tranche Two Acquisition Date to the Company’s accumulated deficit without any gain or loss recognized in the Statements of Comprehensive Income (loss).

**5. 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 Mexican Peso, Indian Rupee, and Canadian Dollar. The carrying value of the Company’s monetary assets and liabilities subject to foreign exchange risk is as follows:

	<b>2025</b>		<b>2024</b>	
Assets	\$	79,747	\$	86,555
Liabilities		36,332		44,634

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, 2025, is as follows:

	<b>10% Increase in U.S. Dollar Against Foreign Currency</b>		<b>10% Decrease in U.S. Dollar Against Foreign Currency</b>	
	<b>Net Income (Loss)</b>	<b>Shareholders Equity</b>	<b>Net Income (Loss)</b>	<b>Shareholders Equity</b>
Attributable to owners of Varel	(4,141)	(4,141)	4,141	4,141
Noncontrolling interests	(200)	(200)	200	200

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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, 2024, 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	(4,192)	(4,192)	4,192	4,192

No changes in foreign currency were attributable to noncontrolling owners for 2024.

**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. 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.

**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 represents the maximum exposure to credit risks. Credit risks are as follows:

	2025		2024	
Trade receivables, net	\$	34,846	\$	41,700

**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, 2025, is as follows:

	1% Increase		1% Decrease	
	Net Income (Loss)	Shareholders Equity	Net Income (Loss)	Shareholders Equity
Attributable to owners of Varel	(41)	(41)	41	41
Noncontrolling interests	(2)	(2)	2	2

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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, 2024, is as follows:

	1% increase		1% decrease	
	Net Income (Loss)	Shareholders Equity	Net Income (Loss)	Shareholders Equity
Attributable to owners of Varel \$	(41)	\$ (41)	\$ 41	\$ 41

There were no long-term, third-party borrowings subject to variable interest rates attributable to noncontrolling interests in 2024.

**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 12), 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 has access to the following lines of credit:

	2025	2024
Lines of credit available for general use <sup>1</sup>	\$ 5,600	\$ 5,900

<sup>1</sup> USD amount calculated using 500 million INR and the year-end exchange rate

\$1.3 million and \$1.8 million on the lines of credit were available as of December 31, 2025 and 2024, respectively.

**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.

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## Notes to Consolidated Financial Statements

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Financial liabilities are as follows:

	Less Than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total Contractual Cash Flows	Carrying Amount
<b>At December 31, 2025</b>						
<b>Nonderivatives</b>						
Trade and other payables	\$ 31,292	\$ -	\$ -	\$ -	\$ 31,292	\$ 31,292
Borrowings	25,143	-	72,540	-	97,683	95,421
Lease Liabilities	1,701	1,498	1,623	2,141	6,963	6,963
Nonderivative liabilities	<u>\$ 58,136</u>	<u>\$ 1,498</u>	<u>\$ 74,163</u>	<u>\$ 2,141</u>	<u>\$ 135,938</u>	<u>\$ 133,676</u>
<b>At December 31, 2024</b>						
<b>Nonderivatives</b>						
Trade and other payables	\$ 47,448	\$ -	\$ -	\$ -	\$ 47,448	\$ 47,448
Borrowings	23,122	-	72,540	-	95,662	92,179
Lease Liabilities	2,091	1,286	7,097	-	10,474	9,676
Nonderivative liabilities	<u>\$ 72,661</u>	<u>\$ 1,286</u>	<u>\$ 79,637</u>	<u>\$ -</u>	<u>\$ 153,584</u>	<u>\$ 149,303</u>

There were no outstanding derivative arrangements as of December 31, 2025 and 2024, 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 net borrowings divided by total equity. The debt-to-equity ratios were as follows:

	2025	2024
Total borrowings (external and related party)	\$ 95,961	\$ 92,719
Total equity	31,483	56,538
Debt to equity ratio	304.80%	163.99%

#### 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.

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**6. Trade Receivables, net**

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

	<b>2025</b>	<b>2024</b>
Trade Receivables, gross	\$ 30,348	\$ 37,244
Accrued Income	5,928	4,691
Provision for doubtful accounts	<u>(1,430)</u>	<u>(235)</u>
Trade receivables, net	<u>\$ 34,846</u>	<u>\$ 41,700</u>

The changes in the provision for doubtful accounts for the years ending December 31 are as follows:

	<b>2025</b>	<b>2024</b>
Beginning balance January 1	\$ (235)	\$ (226)
Recoveries net of charge-offs	(412)	42
Current provision charges	<u>(874)</u>	<u>(51)</u>
Ending balance December 31	<u>\$ (1,521)</u>	<u>\$ (235)</u>

**7. Inventories, net**

	<b>2025</b>	<b>2024</b>
Raw materials	\$ 23,321	\$ 30,769
Work in process	3,630	22,168
Finished goods	20,041	20,289
Excess and obsolete reserve	<u>(2,713)</u>	<u>(2,671)</u>
Inventories, net	<u>\$ 44,279</u>	<u>\$ 70,555</u>

During the year ended December 31, 2025, the Company recognized an inventory write down of \$10.4 million to net realizable value. The write-down was primarily driven by a combination of (i) reduced market demand and (ii) the reassessment of certain finished goods and raw materials that are no longer expect to be sold or utilized in production.

For these materials, the Company determined that recovery would be through disposal as scrap, and accordingly estimated net realizable value based on expected scrap proceeds, less costs to sell. As a result, the carrying value of these items was reduced to their estimated scrap value.

Separately the Company recognized less than \$0.1 million of expense related to excess and obsolete inventory in accordance with its provisioning policies.

Management's assessment was based on updated sales forecasts, expected usage of materials, and observable market data for scrap values. Based on this analysis, the carrying value of certain inventory items exceeded their estimated net realizable value, and write-downs were recorded accordingly.

**Varel Oil and Gas Inc.**  
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**8. Property, Plant and Equipment, net**

	Buildings	Plant and Machinery	Computer Software and Hardware	Vehicles	Other	Assets Under Construction	Total
<b>Cost</b>							
<b>At beginning of year 2025</b>	11,839	55,642	6,759	231	958	2,598	78,027
Additions	58	7,588	230	-	91	661	8,628
Internal Reclass/Adjustments	2	(1,679)	12	218	(3)	1,283	(167)
CTA	1,042	377	38	(1)	(17)	141	1,580
Disposals	-	(9,127)	-	(63)	(5)	(2,486)	(11,681)
Transfers	-	1,922	-	-	-	(1,934)	(12)
<b>At end of year 2025</b>	12,941	54,723	7,039	385	1,024	263	76,375
<b>Accumulated Depreciation</b>							
<b>At beginning of year 2025</b>	(6,342)	(38,154)	(6,405)	(220)	(703)	-	(51,824)
Charge for year	(671)	(3,226)	(202)	(3)	(88)	-	(4,190)
Internal Reclass/Adjustments	-	83	(0)	(55)	5	-	33
CTA	(594)	(120)	(36)	(0)	80	-	(670)
Impairment	-	(731)	-	-	-	-	(731)
Disposals	-	3,021	-	59	3	-	3,084
Transfers	-	-	-	-	-	-	-
<b>At end of year 2025</b>	(7,607)	(39,127)	(6,643)	(219)	(703)	-	(54,297)
<b>Net Book Value</b>							
<b>At 31 December 2025</b>	5,334	15,597	396	167	321	263	22,078

	Buildings	Plant and Machinery	Computer Software and Hardware	Vehicles	Other	Assets Under Construction	Total
<b>Cost</b>							
<b>At January 1, 2024</b>	\$ 13,374	\$ 42,263	\$ 6,685	\$ 233	\$ 873	\$ 3,718	\$ 67,146
Additions	52	4,457	42	-	62	1,154	5,767
Currency translation adjustments	(1,584)	(813)	(77)	(4)	(8)	(162)	(2,648)
Transfers	-	392	43	-	-	(435)	-
<b>At December 31, 2024</b>	11,842	46,299	6,693	229	927	4,275	70,265
<b>Accumulated Depreciation</b>							
<b>At January 1, 2024</b>	\$ (6,563)	\$ (28,063)	\$ (6,099)	\$ (216)	\$ (638)	\$ -	\$ (41,579)
Depreciation	(637)	(2,903)	(323)	(6)	(68)	-	(3,937)
Currency translation adjustments	860	335	54	4	7	-	1,260
<b>At December 31, 2024</b>	(6,340)	(30,631)	(6,368)	(218)	(699)	-	(44,256)
<b>Net Book Value</b>							
<b>At December 31, 2024</b>	\$ 5,502	\$ 15,668	\$ 325	\$ 11	\$ 228	\$ 4,275	\$ 26,009

During the year ended December 31, 2025, the Company recognized an impairment loss of \$0.7 million related to certain rental assets within property, plant and equipment.

The impairment was driven by a combination of (i) reduced market demand and (ii) a reassessment of the expected recoverable value of certain assets within the rental fleet.

For certain assets, the Company determined that recovery would be primarily through disposal rather than continued use. Accordingly, the recoverable amount was estimated based on fair value less costs of disposal, incorporating observable market data for secondary market sales and scrap values where applicable. As a result, the carrying value of these assets was reduced to their estimated recoverable amount.

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Management's assessment was based on updated utilization forecasts, expected future cash flows, and market data for asset dispositions. Based on this analysis, the carrying value of certain rental assets exceeded their recoverable amount, and an impairment loss was recognized accordingly.

**9. Intangibles, net**

The Company recognized various amortizable intangible assets in connection with the SOTPL and Ace acquisitions, including customer relationships, trademarks, and patents.

The following tables provide additional information for our intangible assets:

	December 31, 2025			December 31, 2024	
	Customer Relationships	Tradenames & Patents	Technology	Customer Relationships	Tradenames & Patents
<b>Gross Carrying Amount</b>					
Beginning balance	\$ 6,786	\$ 6,217	\$ -	\$ 6,972	\$ 6,383
Additions	\$ 3,171	\$ 493	\$ 1,348		
Exchange rate impact	(253)	(291)	-	(186)	(166)
Ending balance	\$ 9,704	\$ 6,419	\$ 1,348	\$ 6,786	\$ 6,217
<b>Accumulated Amortization</b>					
Beginning balance	\$ (1,697)	\$ (1,623)	\$ -	\$ (1,046)	\$ (1,040)
Amortization expense	(1,021)	(625)	(177)	(693)	(624)
Exchange rate impact	113	77	-	42	41
Ending balance	\$ (2,605)	\$ (2,171)	\$ (177)	\$ (1,697)	\$ (1,623)

**As of December 31, 2025**

Weighted average amortization period (years) 7.4 years

As of December 31, 2024, the estimated future amortization of intangibles is as follows:

2026	\$ 1,737
2027	\$ 1,737
2028	\$ 1,737
2029	\$ 1,737
2030	\$ 1,737
Thereafter	\$ 3,833
Total	\$ 12,518

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**10. Goodwill**

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

	<b>2025</b>	<b>2024</b>
Balance, January 1	\$ 7,985	\$ 8,420
Additions	3,064	-
Effect of movements in foreign exchange rates	(383)	(435)
Balance, December 31	<u>\$ 10,666</u>	<u>\$ 7,985</u>

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. All the goodwill is allocated to the Eastern Hemisphere segment.

The following key assumptions were used in the goodwill impairment assessment for 2025:

	<b>Sledgehammer</b>	<b>Ace</b>
Discount rate	11.76%	17.90%
Terminal year growth rate (FY 2029)	2.00%	2.00%
Tax rate	17.00%	22.00%

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.

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

**11. Other Current Liabilities**

	<b>2025</b>	<b>2024</b>
Compensation and benefits	\$ 204	\$ 671
Accrued expenses	683	2,422
Purchasing	-	1,275
Accrued interest	2,698	2,709
Taxes payable	2,109	2,407
Non Operating Liability	1,336	-
Other	560	1,507
Total other current Liabilities	<u>\$ 7,590</u>	<u>\$ 10,991</u>

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**12. Borrowings**

	<b>2025</b>	<b>2024</b>
External Borrowings	\$ 76,379	\$ 76,480
Related Party Borrowings	21,304	18,642
Bond Premium	219	300
Debt Issuance Costs	<u>(2,481)</u>	<u>(3,243)</u>
Total Borrowings	95,421	92,179
Less current portion of borrowings	<u>(25,683)</u>	<u>(23,122)</u>
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 an initial nominal value of \$125,000 and are registered on the Euronext Securities Oslo, the Norwegian Central Securities Depository (the “CSD”) in book-entry form. The Nordic Bonds have an initial maturity date of April 7, 2028 and bear an interest rate of 12.25% per annum. Interest payments are payable bi-annually commencing October 8, 2024 and the final interest payment on the maturity date of April 7, 2028. The Nordic Bonds are guaranteed by the Parent, Company’s subsidiary Varel International Energy Services, Inc, 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 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 (see Note 4 for further details) 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 reduction to interest expense. The proceeds of the Tap Issue were used for the acquisition of Ace. See Note 4 for further details.

At December 31, 2025 \$72.0 million of Nordic Bonds were outstanding with the remaining \$18.0 million available for future issuances. The Company was in compliance with all financial covenant requirements during and as of December 31, 2025.

In connection with the Nordic Bonds the Company recognized \$3.8 million in issuance costs to be amortized over the life of the Nordic Bonds. \$2.5 million was remaining as of December 31, 2025 and shown as a net deduction on the outstanding balance. \$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 respectively.

# Varel Oil and Gas Inc.

## Notes to Consolidated Financial Statements

### Years Ended December 31, 2025 and 2024

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#### 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 to 1 through April 7, 2026 and a leverage ratio of less than 2.5 to 1 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 and the Company must maintain a minimum 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 Consolidated Statements of Comprehensive Income (Loss).

#### Other Facilities

On July 25, 2022, SOTPL entered into a working capital facility which allows SOTPL to draw funds up to 500,000,000 INR (approximately \$6 million USD). 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, 2025, and 2024, the Company, through its wholly owned subsidiary SOTPL, had an outstanding balance of \$4.3 million and \$4.1 million, respectively.

For the years ended December 31, 2025, and 2024, interest expense of \$9.4 million and \$8.2 million, respectively, were incurred on external loans.

Refer to Footnote 19, Related Party Transactions, for information on the current and long-term portions of borrowings, related parties.

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	Lease Addition	Bond Premium	FX	Other	End of Year
Borrowings	\$ 73,537	\$ 190	\$ 766	\$ -	\$ (81)	\$ (210)	\$ (85)	\$ 74,117
Lease Liabilities	9,676	(2,235)	-	1,061	-	-	(1,539)	6,963
Total liabilities in financing activities	\$ 83,213	\$ (2,045)	\$ 766	\$ 1,061	\$ (81)	\$ (210)	\$ (1,624)	\$ 81,080

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	Lease Addition	Bond Premium	End of Year
External borrowings	\$ 36,557	\$ 36,068	\$ 612	\$ -	\$ 300	\$ 73,537
Lease liabilities	10,394	(2,345)	-	1,627	-	9,676
Total liabilities in financing activities	\$ 46,951	\$ 33,723	\$ 612	\$ 1,627	\$ 300	\$ 83,213

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**13. Revenue**

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

<b>Revenue from Contracts with Customers</b>	<b>2025</b>	<b>2024</b>
Completion	\$ 26,467	\$ 20,339
Primary Cementing Equipment	73,011	78,514
Polycrystalline Diamond Compact	31,477	45,745
Roller Cones	52,585	60,067
<b>Total</b>	<b>\$ 183,540</b>	<b>\$ 204,665</b>

<b>Revenue by Geographic Location</b>	<b>2025</b>	<b>2024</b>
United States (US)	\$ 75,878	\$ 84,247
Middle East and North Africa (MENA)	38,626	46,173
Kingdom of Saudi Arabia (KSA)	28,466	41,541
Asia	19,000	21,011
Commonwealth of Independent States (CIS)	1,914	1,875
Europe	14,394	5,699
Canada	1,239	1,430
Latin America (LATAM)	2,916	2,099
Other	1,107	589
<b>Total</b>	<b>\$ 183,540</b>	<b>\$ 204,665</b>

**14. Finance Costs, net**

	<b>2025</b>	<b>2024</b>
Interest expense	\$ 14,092	\$ 11,578
Interest income	(115)	(17)
<b>Finance costs, net</b>	<b>\$ 13,977</b>	<b>\$ 11,561</b>

**15. Other Income (Losses), net**

	<b>2025</b>	<b>2024</b>
Net foreign exchange gains (losses)	\$ (2,139)	\$ 3,133
Net other income	2,225	542
<b>Other income, net</b>	<b>\$ 86</b>	<b>\$ 3,675</b>

**Varel Oil and Gas Inc.**  
**Notes to Consolidated Financial Statements**  
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**16. Expenses by Nature**

	<b>2025</b>	<b>2024</b>
Inventory materials	\$ 62,162	\$ 60,942
Employee compensation and benefits	26,054	30,531
Consumables	8,185	10,656
Freight and customs	8,870	10,935
Provision for excess and obsolescence inventory or impairments	(56)	(91)
Depreciation and amortization - nonrental	10,001	5,755
Rental fleet depreciation	3,713	4,905
Liquidating damages	96	501
Other	2,929	3,952
Total cost of revenue	<u>\$ 121,954</u>	<u>\$ 128,086</u>

	<b>2025</b>	<b>2024</b>
General administrative	\$ 3,309	\$ 4,020
Insurance	1,705	1,436
Information technology	7,191	1,582
Professional and legal fees	7,312	4,298
Research and development	122	2,695
Employee compensation and benefits	36,845	36,073
Amortization and depreciation	2,381	2,099
Other	(714)	1,193
Total selling, general, and administrative	<u>\$ 58,151</u>	<u>\$ 53,396</u>

**17. 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.

The Consolidated Statements of Financial Position include the following amounts relating to right-of-use assets:

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	<b>2025</b>	<b>2024</b>
Right-of-use, building	\$ 11,714	\$ 13,339
Right-of-use, land		
Right-of-use, plant and machinery	37	37
Right-of-use, vehicles	482	777
Right-of-use, office equipment	646	626
Right-of-use, furnitures and fixtures	0	15
Accumulated depreciation right-of-use, building	(7,909)	(6,897)
Accumulated depreciation right-of-use, land	-	-
Accumulated depreciation right-of-use, plant and machinery	(35)	(23)
Accumulated depreciation right-of-use, vehicles	(147)	(544)
Accumulated depreciation right-of-use, office equipment	(570)	(515)
Accumulated depreciation right-of-use, furnitures and fixtures	-	(10)
	<u>4,218</u>	<u>6,805</u>

The Consolidated Statements of Financial Position include the following amounts related to lease liabilities:

	<b>2025</b>	<b>2024</b>
Current	\$ 1,701	\$ 2,091
Noncurrent	<u>5,262</u>	<u>7,585</u>
Total lease liabilities	<u>\$ 6,963</u>	<u>\$ 9,676</u>

Additions to the right-of-use assets during the years ended December 31, 2025, and 2024 were \$1.1 million and \$1.7 million, respectively. The total cash outflows for leases in 2025 and 2024 were \$2.2 million and \$2.3 million, respectively. The Company recorded \$0.8 million and \$1.0 million in lease interest during the years ended December 31, 2025, and 2024, respectively.

Depreciation expense on right-of-use assets for the years ended December 31, 2025 and 2024 was as follows:

	<b>2025</b>	<b>2024</b>
Depreciation right-of-use, building	\$ 1,722	\$ 2,069
Depreciation right-of-use, plant and machinery	13	13
Depreciation right-of-use, vehicles	375	382
Depreciation right-of-use, office equipment	48	54
Total depreciation on right-of-use assets	<u>\$ 2,157</u>	<u>\$ 2,518</u>

**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, 2025, and 2024 was as follows:

	<b>2025</b>	<b>2024</b>
Rental Revenue	\$ 15,872	\$ 21,845

**Varel Oil and Gas Inc.**  
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**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, 2025, and 2024, respectively:

	<b>2025</b>	<b>2024</b>
Accounting profit (loss) before tax	\$ (20,607)	\$ 14,921
US statutory tax rate of the reporting entity	<u>21.00%</u>	<u>21.00%</u>
Expected total tax income (benefit)	(4,537)	3,133
<b>Reconciling items</b>		
Expenses not deductible for tax purposes	68	(307)
Effect of different tax rates in countries in which the entity operates	217	1,413
Unrecognized deferred tax benefit	7,206	2,055
State Taxes	222	-
Foreign Taxation	242	1,424
Prior year Adjustments	-	99
Other	<u>676</u>	<u>439</u>
Total current and deferred tax expense	<u>\$ 4,094</u>	<u>\$ 8,256</u>

The tax effect of temporary differences that give rise to significant portions of the net deferred tax assets at December 31, 2025, and 2024 is as follows:

	<b>2025</b>	<b>2024</b>
<b>Deferred Tax Assets</b>		
IFRS 16 Leases	\$ (10)	\$ 53
Property, plant and equipment	1,906	1,712
Intangible assets	(3,044)	(2,459)
Reserves for obsolescence and receivables	889	404
Accrued liabilities	1,038	1,615
Accounts payable	72	68
Net operating loss carryforwards	286	876
Other foreign deferred tax assets	<u>338</u>	<u>27</u>
Net deferred tax asset	<u>\$ 1,475</u>	<u>\$ 2,296</u>

The Company has a total of \$26.9 million and \$17.6 million of unused tax losses at December 31, 2025 and 2024, respectively. Of this amount, only \$0.3 million and \$0.9 million have been recognized for deferred tax purposes at December 31, 2025 and 2024, respectively. Additionally, the Company has \$1.2 and \$1.2 million of capital loss carryforwards and \$7.3 and \$4.8 million of interest expense carry forwards at December 31, 2025 and 2024, respectively, 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, 2025 or December 31, 2024.

# Varel Oil and Gas Inc.

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

#### 19. 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 \$26.0 million and \$25.5 million for the years ended December 31, 2025 and 2024, respectively, with an outstanding accounts receivable of \$3.7 million and \$1.4 million as of December 31, 2025 and 2024, 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, 2025, and 2024, respectively, Varel International noted \$0.0 million and \$0.3 million, 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 less than \$0.1 million for both of the years ended December 31, 2025, and 2024.

#### Related Party Borrowings

##### *Varel Arabia Borrowings*

Beginning in 2017, the Company’s subsidiary Varel Arabia Company Limited signed a series of loan agreements with its shareholders Arabian Inspection (25% interest) (“Arabian Inspection”) and Survey Co. Ltd., and Varel Europe S.A.S (75% interest) to finance working capital requirements. The loans accrue interest at 4% per annum with maturity dates 3 years from the date of funding and repayment terms over 24 months beginning 3 months after the date of funding. The repayment of the loans is subject to the working capital requirements of the subsidiary. The 75% proportionate loan from Varel Europe S.A.S and the related interest expense are eliminated upon consolidation. The 25% proportionate loan from Arabian Inspection is reflected as related party borrowings in the Consolidated Statements of Financial Position. As of December 31, 2025, and 2024, the Company had an outstanding balance of \$2.8 million owed to Arabia Inspection. The Company recognized \$0.1 million and \$0.1 million in interest expense for the years ending December 31, 2025, and 2024, respectively.

##### *Intra-Group Loan Agreements*

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 on 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.

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## Notes to Consolidated Financial Statements

### Years Ended December 31, 2025 and 2024

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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 on 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. On 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, was incurred on the Intra-Group Loans.

#### **Transactions for Raw Materials and Other Expenses**

The Company entered into immaterial purchase agreements with Sandvik Coromant Company and Sandvik Materials Technologies, AB during the years ended December 31, 2025, and 2024. The entities are wholly owned subsidiaries of the Company’s non-controlling owner, Sandvik, Inc. (30% owner).

## **20. 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.

The Company is currently facing a lawsuit from National Oilwell Varco (NOV), which claims that the Company and certain other drill bit manufacturers have breached a patent license covering a portfolio of patents with varying expiration dates. NOV asserts that the Company is specifically liable for past and future royalties. The Company has entered into a joint defense agreement with those other manufacturers to jointly defend against the lawsuit. Although the Company is of the opinion that the likelihood of successfully defending against the lawsuit is high, there is a risk of an unfavorable outcome, which may result in the Company being liable to pay royalties to NOV from October 2021 onwards to January 2031. The Company recently obtained a favorable judgment at the district court level, and NOV has appealed this judgment.

Where appropriate, Varel may establish a financial provision for such proceedings. Varel also maintains insurance to mitigate certain 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, 2025 or 2024, respectively

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

**21. Capital and Reserves**

The Company has 3,000 shares of common stock authorized with a \$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, 2025, and 2024, respectively.

	<b>2025</b>	<b>2024</b>
Outstanding at January 1	1,000	1,000
Issued	-	-
Outstanding at December 31	<u>1,000</u>	<u>1,000</u>

**22. 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 for the years ended December 31, 2025, and 2024 were as follows:

	<b>2025</b>	<b>2024</b>
Salaries	\$ 1,358	\$ 1,630
Short Term Employee Benefits	1,572	1,252
Pension / 401K Matching	30	74
Termination Benefits	284	434
Social Security Benefits	44	63
Total Key management compensation	<u>\$ 3,288</u>	<u>\$ 3,453</u>

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**23. Material Subsidiaries and Associates**

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 (“GBP”). Below is a list of material subsidiaries and associates of the Company and ownership share as of December 31, 2024.

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

Through its wholly owned subsidiary, SOPTL, the Company participates in two joint ventures: SledgeHammer Gulf – LLC and SledgeHammer Oil Tools International Company, with a 49% and 33%, respectively, equity interest. The joint ventures are accounted for as equity method investments. The Company is in the process of exiting both joint venture arrangements.

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The activity in the joint ventures for the years ending December 31, 2025, and 2024 was as follows:

Balance, January 1, 2024	\$ 676
Contributions	\$ 2,513
Effect of movements in foreign exchange rates	(44)
Balance, December 31, 2024	<u>3,145</u>
Contributions	360
Effect of movements in foreign exchange rates	(114)
Balance, December 31, 2025	<u>\$ 3,391</u>

**24. Segment Information**

Reportable segment assets are based on the physical location of the asset. Noncurrent assets by geographic location were as follows:

	2025	2024
United States (US)	\$ 13,304	\$ 17,219
Kingdom of Saudi Arabia (KSA)	826	1,398
Asia	21,750	24,068
Europe	9,033	1,119
Latin America (LATAM)	8,979	9,356
Other	2,738	4,961
Total noncurrent assets	<u>\$ 56,630</u>	<u>\$ 58,121</u>

The Company has two customers, Terelion, LLC (see Note 19 for additional details on this related party) and Saudi Aramco, that account for approximately 14% of down hole product revenue for the year ended December 31, 2025, and approximately 18% and 13% of down hole product revenue for the year ended December 31, 2024, 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, 2025, or 2024.

**25. Subsequent Events**

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

**Intra-Group Loan Amendments**

As discussed in Note 19, 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.

**Middle East Conflict**

On February 28, 2026, a significant military conflict commenced in the Middle East. The related events have resulted in a sharp increase in benchmark crude oil prices and created uncertainty regarding the stability of global supply chains and energy infrastructure in the region.

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The Company is closely monitoring this highly fluid situation and its potential impact to the business. Due to the unpredictable nature of the conflict and the uncertainty regarding its duration and eventual outcome, the Company is currently unable to estimate the long-term impact on the business. As of the date these consolidated financial statements were authorized for issuance, the Company has not recognized any material adjustments related to this event.