

Varel Oil and Gas, Inc.

**Half-yearly Report
June 30, 2025**

Varel Oil and Gas, Inc.
Consolidated Statements of Financial Position
As-of June 30, 2025 and December 31, 2024

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

Varel Oil and Gas, Inc.
Consolidated Statements of Financial Position
As-of June 30, 2025 and December 31, 2024

(in thousands of U.S. dollars)

	Notes	June 30, 2025	December 31, 2024
Assets			
Noncurrent assets			
Property, plant and equipment, net	(7)	\$ 24,653	\$ 26,009
Right-of-use assets, net		6,333	6,805
Goodwill	(4)	11,042	7,985
Intangibles, net		13,926	9,683
Investments in affiliates		3,490	3,145
Deferred tax asset		4,532	4,370
Other assets		118	124
Total noncurrent assets		64,094	58,121
Current assets			
Cash		\$ 14,675	\$ 24,957
Trade receivables, net		44,416	41,700
Income tax receivables		898	193
Inventories, net		65,354	70,555
Prepays and other current assets		16,641	15,251
Total current assets		141,984	152,656
Total assets		\$ 206,078	\$ 210,777
Equity			
Share premium		\$ 463,959	\$ 463,873
Accumulated deficit		(417,010)	(412,148)
Accumulated other comprehensive income		9,466	8,009
Equity attributable to Varel		56,415	59,734
Noncontrolling interests		(3,052)	(3,196)
Total shareholder's equity		53,363	56,538
Liabilities			
Noncurrent liabilities			
Borrowings	(5)	69,290	69,057
Borrowings, affiliates		540	540
Lease liabilities		7,010	7,585
Deferred tax liabilities		2,636	2,074
Other liabilities		4,667	5,488
Total noncurrent liabilities		84,143	84,744
Current liabilities			
Trade payables		18,583	21,418
Trade payables, affiliates		-	20
Income tax payable		6,846	6,532
Accrued liabilities		4,366	5,161
Provisions		-	160
Other current liabilities		12,110	10,991
Current portion of borrowings	(5)	4,371	4,480
Current portion of borrowings, affiliates	(5)	19,962	18,642
Current portion of lease liabilities		2,334	2,091
Total current liabilities		68,572	69,495
Total liabilities		152,715	154,239
Total shareholder's equity and liabilities		\$ 206,078	\$ 210,777

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

Varel Oil and Gas, Inc.

Consolidated Statements of Comprehensive Income (Loss)

		Three Months Ended June 30,		Six Months Ended June 30,	
	Notes	2025	2024	2025	2024
(in thousands of U.S. dollars)					
Continuing Operations					
Revenue	(6)	\$ 50,935	\$ 50,548	\$ 99,756	\$ 100,726
Cost of revenue		(34,455)	(28,668)	(66,129)	(58,009)
Gross profit		16,480	21,880	33,627	42,717
Selling, general and administrative expenses		(14,999)	(12,887)	(30,324)	(26,425)
Loss on debt extinguishment		-	-	-	-
Other income, net		563	1,108	1,178	772
Operating profit		2,044	10,101	4,481	17,064
Finance income		-	-	-	-
Finance costs, net	(5)	(3,921)	(3,604)	(7,225)	(4,906)
Profit (loss) before income tax		(1,877)	6,497	(2,744)	12,158
Income tax expense		(880)	(1,770)	(1,847)	(3,720)
Net income (loss)		(2,757)	4,727	(4,591)	8,438
Net income (loss) attributable to:					
Varel		\$ (2,778)	\$ 4,467	\$ (4,735)	\$ 7,506
Non-controlling interests		21	260	144	932
		<u>\$ (2,757)</u>	<u>\$ 4,727</u>	<u>\$ (4,591)</u>	<u>\$ 8,438</u>
Other comprehensive income (loss)					
<i>Items that are or may be reclassified subsequently to loss</i>					
Foreign currency translation differences		(43)	489	906	(1,180)
Comprehensive income (loss) for the period		(43)	489	906	(1,180)
Total comprehensive income (loss) for the period		<u>\$ (2,800)</u>	<u>\$ 5,216</u>	<u>\$ (3,685)</u>	<u>\$ 7,258</u>
Total comprehensive income (loss) attributable to:					
Varel		\$ (2,821)	\$ 4,956	\$ (3,829)	\$ 6,343
Noncontrolling interests		21	260	144	915
		<u>\$ (2,800)</u>	<u>\$ 5,216</u>	<u>\$ (3,685)</u>	<u>\$ 7,258</u>

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Varel Oil and Gas, Inc.

Consolidated Statements of Changes in Equity

(in thousands of U.S. dollars)

	Shares Outstanding Amount (par value \$0.01)	Share Premium	Accumulated Deficit	Accumulated Other Comprehensive Income	Equity Attributable to Owner of Varel	Noncontrolling Interests	Total Equity
Balance at December 31, 2024	1,000	463,873	(412,148)	8,009	59,734	(3,196)	56,538
Profit for the period	-	-	(4,735)	-	(4,735)	144	(4,591)
Other comprehensive loss	-	-	-	906	906	-	906
Acquisition of noncontrolling interest	-	-	-	-	-	-	-
Other	-	86	(127)	551	510	-	510
Balance at June 30, 2025	1,000	\$ 463,959	\$ (417,010)	\$ 9,466	\$ 56,415	\$ (3,052)	\$ 53,363

(in thousands of U.S. dollars)

	Shares Outstanding Amount (par value \$0.01)	Share Premium	Accumulated Deficit	Accumulated Other Comprehensive Income	Equity Attributable to Owner of Varel	Noncontrolling Interests	Total Equity
Balance at December 31, 2023	1,000	\$ 456,796	\$ (415,281)	\$ 12,983	\$ 54,498	\$ (908)	\$ 53,590
Profit for the period	-	-	7,506	-	7,506	932	8,438
Other comprehensive income (loss)	-	-	-	(1,180)	(1,180)	-	(1,180)
Other	-	-	-	-	-	561	561
Balance at June 30, 2024	1,000	456,796	(407,775)	11,803	60,824	585	61,409

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

Varel Oil and Gas, Inc.
Consolidated Statements of Cash Flows
Six Months Ended June 30, 2025 and 2024

		Six Months Ended June 30,	
	Notes	2025	2024
(in thousands of U.S. dollars)			
Cash flows from operating activities			
Profit (loss) for the period		\$ (4,591)	\$ 8,438
Adjustments for			
Depreciation and amortization		5,038	4,336
Depreciation of right-of-use assets		1,260	1,352
Amortization of deferred financing costs		535	-
Change in provision for credit losses		256	-
(Gain) loss on sale of equipment		(9)	-
(Gain) loss on foreign currency		705	-
Deferred taxes		50	-
Net finance costs		6,691	4,906
Other		985	(2,070)
Changes in:			
Trade receivables		402	(2,816)
Inventories		6,637	(5,900)
Prepays and other assets		(1,714)	2,268
Trade and other payables		(4,549)	(12,333)
Other liabilities		(2,820)	(2,824)
Cash generated from (used in) operating activities		8,876	(4,643)
Interest paid		(5,215)	(1,132)
Income taxes paid		-	-
Net cash used in operating activities		3,661	(5,775)
Cash flows from investing activities			
Acquisition of ROU assets		-	-
Acquisition of property and equipment		(2,508)	(4,709)
Acquisition of Ace	(4)	(9,815)	-
Net cash used in investing activities		(12,323)	(4,709)
Cash flows from financing activities			
Proceeds from long-term borrowings	(5)	-	60,000
Repayments of long-term borrowings	(5)	(116)	(31,992)
Payments of lease liabilities		(1,116)	-
Deferred financing costs		(302)	-
Net cash provided by financing activities		(1,534)	28,008
Effect of exchange rate changes on cash		(86)	(3,272)
Net change in cash and cash equivalents		(10,282)	14,252
Cash and cash equivalents			
Beginning of year		24,957	6,413
End of year		\$ 14,675	\$ 20,665

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Notes to Consolidated Financial Statements

June 2025 Half-yearly Report

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

1. Nature of Operations

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

2. Summary of Material Accounting Policies

Basis of Presentation

The interim 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 interim report does not include all the information required for full annual consolidated financial statements in an Annual Report and should be read in conjunction with the Annual Report of the Company for 2024. The accounting policies applied in the interim financial statements are the same as those described in the Annual Report for 2024.

The consolidated interim financial statements are prepared in accordance with IAS 34 Interim Financial Reporting. The interim financial statements are unaudited.

The Annual Report for 2024 is available at www.varel.com

3. Judgments, Estimates and Assumptions

In applying the accounting policies, management makes judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. The estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revision to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

In preparing this interim financial statement, the significant judgments made by management in applying the Company's accounting policies and the key sources of uncertainty in the estimates were consistent with those applied to the consolidated financial statements as at and for the period ended December 31, 2024. Please refer to the 2024 Annual Report for additional information.

4. Acquisitions

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") for a preliminary purchase price of \$10.7 million. Ace develops, produces, and sells tools and solutions related to downhole technology for the oil and gas industry.

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The following table summarizes the purchase price for Ace as of the Acquisition Date:

Cash consideration paid for Ace	\$	10,701
Deferred Payments:		
Working capital adjustment		203
Release of holdback		175
Total deferred payments		378
Total purchase price	\$	11,079

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:

Ace Identified Intangibles	Balance Sheet Location	Fair Value	Valuation Methodology	Estimated Useful Life	Discount Rate
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%

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 assets:		
Customer relationships		3,171
Trademark		493
Technology		995
Trade payables		(1,092)
Non-operating liabilities		(564)
Other current liabilities		(1,064)
	\$	11,079

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Ace contributed revenues of \$3.7 million and \$4.8 million for the three and six month periods ended June 30, 2025 respectively. Ace contributed profits of \$1.4 million and \$1.0 million for the three and six month periods ended June 30, 2025 respectively.

5. Borrowings

	June 30, 2025	December 31, 2024
<i>Dollars in thousands</i>		
External borrowings	\$ 76,371	\$ 76,480
Borrowings, affiliates	20,502	19,182
Bond premium	300	300
Paid-in-kind interest	-	-
Deferred financing costs	(3,010)	(3,243)
Total borrowings	94,163	92,719
Less current portion of borrowings	(24,333)	(23,122)
Borrowings	\$ 69,830	\$ 69,597

External Borrowings

Nordic Bonds

On April 8, 2024 the Company entered into an agreement to issue a series of Bonds ("Nordic Bonds") up to a maximum amount of \$90 million (the "Nordic Bonds Agreement"). The initial issuance consisted of \$60 million of senior secured bonds ("Initial Issuance") at a nominal value of \$125,000. The Nordic Bonds have a maturity date of April 7, 2028 and bear an interest rate of 12.25% per annum. Interest payments are payable bi-annually in October and April commencing October 8, 2024 and the final interest payment on the maturity date of April 7, 2028. The Nordic Bonds are guaranteed by the Parent and certain subsidiaries as defined under the terms of the Nordic Bonds Agreement. The Nordic Bonds Agreement includes a 2-year call protection with the first eligible call date of April 8, 2026. The redemption price at any such call date is determined under the terms of the Nordic Bonds Agreement. The 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 SOPTL (see Note 3 for further details) and other operational needs.

On April 4, 2025, the Company completed the necessary listing requirements and filed its prospectus with the Financial Supervisory Authority of Norway ("NFSA") for the listing of the \$72 million in Nordic Bonds on the Oslo Stock Exchange.

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 as described in Note 4.

At June 30, 2025 and December 31, 2024, \$72.0 million of Nordic Bonds were outstanding with the remaining \$18.0 million available for future issuances.

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In connection with the Nordic Bonds the Company recognized \$4.0 million in deferred financing costs to be amortized over the life of the Nordic Bonds. As of June 30, 2025 and December 31, 2024, approximately \$2.9 million and \$3.2 million of unamortized deferred financing costs were included as a reduction to Borrowings on the Consolidated Statements of Financial Position. For the three and six months ended June 30, 2025, \$0.3 million and \$0.5 million of amortized debt issuance costs related to the Nordic Bonds was included in interest expense. No amortization was charged to interest expense during the three and six month periods ended June 30, 2024.

Nordic Bond Covenants

Under the terms of the Nordic Bonds Agreement the Company has certain financial covenant requirements on a quarterly basis to maintain a leverage ratio of less than 3.00 to 1.00 through April 7, 2026 and a leverage ratio of less than 2.50 to 1.00 from April 8, 2026 to the maturity date. Other covenant requirements include restriction on issuance of dividends or distributions by the Company and limitations on other indebtedness. The Company may not acquire or dispose of any entity that would have material adverse effect on the Company. The Company must also maintain a minimum balance of \$5 million of cash and cash equivalents. The Company was in compliance with the covenant requirements as of June 30, 2025.

Other Facilities

On July 25, 2022, our wholly owned subsidiary, 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 June 30, 2025 and December 31, 2024, the Company, through SOTPL, had an outstanding balance of \$4.3 million and \$4.1 million, respectively.

6. Revenue

We disaggregate our revenue from customers by product type and geographic region as we believe it best depicts how the nature, amount, timing and uncertainty of our revenue and cash flows are affected by economic factors.

Revenue by product type was as follows:

<i>Dollars in thousands</i> Revenue from Contracts with Customers	Three Months Ended June 30,		Six Months Ended June 30,	
	2025	2024	2025	2024
Completion	\$ 8,802	\$ 5,030	\$ 15,134	\$ 10,019
Primary Cementing Equipment	17,805	19,070	36,419	37,593
Polycrystalline Diamond Compact	10,314	13,147	20,124	25,313
Roller Cones	14,014	13,301	28,079	27,801
Total revenue	\$ 50,935	\$ 50,548	\$ 99,756	\$ 100,726

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Revenue by geographic region was as follows:

<i>Dollars in thousands</i> Revenue by Geographic Location	Three Months Ended June 30,		Six Months Ended June 30,	
	2025	2024	2025	2024
United States (US)	\$ 21,084	\$ 20,830	\$ 40,435	\$ 41,447
Middle East and North Africa (MENA)	12,900	9,825	23,496	19,810
Kingdom of Saudi Arabia (KSA)	8,325	11,715	18,224	21,016
Europe	4,249	1,085	6,279	3,963
Asia	2,664	5,800	8,188	11,427
Commonwealth of Independent States (CIS)	591	327	1,116	1,090
Latin America (LATAM)	711	600	1,244	1,164
Canada	411	366	774	809
Total revenue	<u>\$ 50,935</u>	<u>\$ 50,548</u>	<u>\$ 99,756</u>	<u>\$ 100,726</u>

7. Segment Information

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

<i>Dollars in thousands</i>	June 30, 2025	December 31, 2024
United States (US)	\$ 14,843	\$ 17,219
Kingdom of Saudi Arabia (KSA)	1,414	1,398
Asia	23,773	24,068
Europe	9,240	1,119
Latin America (LATAM)	10,290	9,356
Other	4,534	4,961
Total noncurrent assets	<u>\$ 64,094</u>	<u>\$ 58,121</u>

8. Subsequent Events

No events have occurred after the reporting date, that are of significant impact to the Company's financial position or results of operations.

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