VAREL ENERGY SOLUTIONS

Q1 2025

Unaudited Financial Report

BEYOND TECHNOLOGY • BEYOND NORMAL

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Disclaimer:

EXECUTIVE SUMMARY

Profitability

$7.5m adjusted EBITDA YTD Q1 2025

$44.5m adjusted EBITDA LTM Q1 2025

Cash

Cash / Cash equivalents of $15.2m as of Q1 2024

Net debt of $70.6m; Net Leverage of 1.8x

Operations

Completed acquisition of Ace Well Technology, expanding our portfolio of casing, cementing, and completions products.

International PDC market share gains in Oman and Kuwait with several performance records.

Sales run rate exceeding 2024 FY performance with strategic customers such as Halliburton, SLB, Exxon, and Mewbourne.

Letter from CEO

Derek Nixon
Chief Executive Officer

I am pleased to outline this CEO Statement following the 1st quarter of 2025 with a sense of pride about our company and the ~1,600 employees around the world. As I look back on the last four years, a period of profound volatility for the energy sector, it is remarkable how much we have accomplished, not only in terms of financial performance but in our steadfast dedication to becoming a leading value creator in downhole consumable products. To that end, the company delivered revenue of $48.8m and Adjusted EBITDA of $7.5m.

<u>Business Overview:</u>
Despite market headwinds, geopolitical uncertainty, and a softened drilling outlook continuing into 2025, I anticipate strong financial performance resulting from our continued efforts to optimize our organizational and cost structures to best meet the needs of our customers. In addition, our supply contracts across the Middle East and sales channels through our major oilfield service partners are expected to remain healthy.

In North America, we continue focus on high-value, high-return technology sales while driving maximum efficiency with our PDC drill bit rental fleet.

We recorded $23.0m of sales in the Middle East region, an increase of $2.1 million compared against Q1 2024. This performance is underpinned by our strong relationships with NOCs and our continued regional investment in manufacturing capacity and operational support.

Our North America Completions business continues to perform well notwithstanding headwinds from depressed completions market activity and competitive pressure. We generated $4.8 million of sales with average gross margins of 62% (remaining in the leading market share position) in Q1 2025.

The global production order pipeline remains strong at approximately $42m as of March 31. We have continued strong performance on plant absorption and efficiency. As we near the midpoint of the 2025 fiscal year, we maintain our initial targeted guidance of around $45.0m Adjusted EBITDA for the year. Throughout the remaining year, we will focus heavily on working capital efficiency and cash generation, while ensuring our operating model creates agility and discipline in an uncertain market climate over the next 9 – 12 months. I remain optimistic in our business achievement throughout 2025, driven primarily by strategic customer share gain, Middle East expansion, cost optimization, and new technology market adoption.

Furthermore, I continue to believe the market presents unique opportunities for our business to expand through potential acquisition, as evidenced by our recent acquisition of Ace Well Technology. We expect any potential opportunities would strengthen our commercial offering, production capability and customer value creation.

As always, the safety of our people will continue to be our number one priority. I am pleased that we continued our strong safety performance this quarter, delivering a TRIR of 0.00 with (0) Lost Time Incidents.

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CFO FINANCIAL STATEMENT

Operating Performance:

The consolidated income statement is shown on page 4 to these financial statements. Revenue was $48.8m and $50.2m for the three months ended March 31, 2025 and March 31, 2024, respectively.

Adjusted EBITDA was $7.4 and $10.1m for the quarters ended March 31, 2025 and 2024, respectively. A reconciliation between net profit per these financial statements and Adjusted EBITDA is set out below.

	Quarter ended Mar 31, 2025	Quarter ended Mar 31, 2024	LTM Ended Mar 31, 2025
Net profit (loss)	(1,834)	2,924	1,907
Transaction cost (debt)	556	-	2,421
Loss on debt extinguishment	-	-	376
Depreciation and amortization	3,161	2,988	12,815
Interest expense	3,304	1,302	11,698
Provision (benefit) for income taxes	967	1,950	7,273
EBITDA	6,154	9,164	36,490
Adjustments for the effects of:			
Restructuring & Severance	502	482	1,368
Other	821	498	6,619
Adjusted EBITDA *	7,477	10,144	44,478

* Does not reflect the pro forma impact of the Ace Well Technology acquisition

Borrowings:

During the second quarter of 2024, the Company completed the refinancing of its pre-existing debt facility through the issue of a new 4-year senior secured $60m Nordic Bond. This process was completed on April 4, 2024, with the proceeds being used to repay the aforementioned pre-existing debt facility amounting to $33.1m, fees associated with both the pre-existing debt facility and the bond process of $2.8m, the remaining purchase price related to our Indian acquisition in 2022 amounting to $6.6m which was finalized in September 2024, and other general corporate purposes. During the fourth quarter, Varel successfully issued subsequent bonds in the amount of $12m, increasing the total outstanding amount under the existing senior secured bond to $72m. Net proceeds from the subsequent bond issue were ultimately used for the acquisition of Ace Well Technology in January 2025.

Cashflow and Debt:

The consolidated statement of cash flows is show on page 6 of the financial statements. An analysis of the net debt for the quarter ending March 31, 2025, is set out below, with leverage at 1.8x. We are currently targeting net debt of approximately $50m by the end of 2025.

(in thousands of dollars)		Mar 31, 2025	
Nordic Bonds	$	(72,000)	
Loan-Revolver		(4,565)	
Right of Use Liabilities		(9,059)	
Asset Finance Liabilities		(235)	
Cash		15,239	
Net Debt as of March 31, 2025	$	(70,620)	
Adjusted EBITDA TTM Q1 2025	$	40,139	*, **
Leverage		1.76x	

* restricted to 10% for debt leverage
** does not reflect Ace Well Technology pro forma EBITDA

FINANCIAL STATEMENTS

Consolidated Unaudited Profit and Loss

(in thousands of dollars)	Three Months Ended March 31 2025	Three Months Ended March 31 2024	Percent Change	LTM
Revenue	$ 48,821	$ 50,178	-3%	$ 203,308
Cost of revenue	(30,281)	(28,527)	6%	(124,085)
Gross profit	18,540	21,651	-14%	79,223
Selling, general and administrative expenses	(14,478)	(13,346)	8%	(52,546)
Operating profit	4,062	8,305	-51%	26,677
Loss on debt extinguishment	-	-	NM	(376)
Other income	615	(336)	NM	4,626
Add: Add-backs	2,800	2,175	29%	13,551
Adjusted EBITDA	7,477	10,144	-26%	44,478
Less: Add-backs	(2,800)	(2,175)	29%	(13,551)
Transaction cost (debt)	(556)	-	NM	(2,421)
Depreciation	(1,684)	(1,793)	-6%	(7,628)
Finance costs	(3,304)	(1,302)	154%	(11,698)
Income tax expense	(967)	(1,950)	-50%	(7,273)
Net profit (loss)	(1,834)	2,924	-163%	1,907

NM = Not Meaningful

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FINANCIAL STATEMENTS

Consolidated Unaudited Balance Sheets

(in thousands of dollars)	Mar. 31, 2025	Dec. 31, 2024
Assets		
Current assets		
Cash and cash equivalents	$ 15,239	$ 24,957
Trade receivables, net	41,501	41,700
Inventories, net	70,270	70,555
Income tax receivable	777	193
Other current assets	14,985	15,251
Total current assets	142,772	152,656
Noncurrent assets		
Property, Plant and Equipment, net	25,742	26,009
Right-of-use assets, net	6,175	6,805
Intangibles, net	14,331	9,683
Goodwill	9,933	7,985
Investments in affiliates	3,430	3,145
Deferred tax receivable	4,814	4,370
Other assets	123	124
Total noncurrent assets	64,548	58,121
Total assets	$ 207,320	$ 210,777

	Mar. 31, 2025	Dec. 31, 2024
Liabilities		
Current liabilities		
Trade payables	$ 18,213	$ 21,438
Income tax payable	7,165	6,532
Accrued liabilities	5,280	5,161
Provisions	-	160
Other current liabilities	13,682	10,991
Current portion of borrowings	24,098	23,122
Current portion of lease liabilities	1,921	2,091
Total current liabilities	70,359	69,495
Noncurrent liabilities		
Borrowings	69,608	69,597
Lease liabilities	7,137	7,585
Deferred tax liabilities	2,072	2,074
Other liabilities	4,716	5,488
Total noncurrent liabilities	83,533	84,744
Total liabilities	153,892	154,239
Equity		
Total equity	53,428	56,538
Total shareholders' equity and liabilities	$ 207,320	$ 210,777

FINANCIAL STATEMENTS

Consolidated Unaudited Cash Flow

Cash from operating activities increased $0.4 million from $1.0 million to $1.4 million for the three months ended March 31, 2025 and 2024, respectively. Cash flows from operating activities primarily result from earnings and are impacted by changes in operating assets and liabilities.

Cash used in investing activities increased $9.6 million from $0.6 million to $10.2 million for the three months ended March 31, 2025 and 2024, respectively. The increase was primarily due to the acquisition of Ace Well Technology for $9.8 million, net of cash acquired.

Financing cash flows changed $1.3 million from cash provided of $0.5 million to cash used of $0.9 million for the three months ended March 31, 2025 and 2024, respectively. This was primarily caused by a decrease in proceeds from long term borrowings and an increase in payments of lease liabilities.

	Three Months Ended March 31	
(in thousands of dollars)	**2025**	**2024**
Cash flows from operating activities		
Net profit (loss)	$ (1,834)	$ 2,924
Adjustments to net income:		
Depreciation & amortization	3,161	2,988
Amortization of deferred financing costs	250	99
Other non cash movements	2,706	1,661
Change in operating assets and liabilities:		
Decrease (increase) in trade receivables	3,536	(3,711)
Decrease (increase) in inventories	230	1,225
Decrease (increase) in other assets	(1,676)	(2,510)
Increase (decrease) in trade payables	(3,907)	(1,420)
Increase (decrease) in other liabilities	(735)	528
Cash generated (used in) operating activities	1,731	1,784
Interest paid	(382)	(516)
Income taxes paid	-	(282)
Net cash provided by operating activities	1,349	986
Cash flows from investing activities		
Acquisition of property and equipment	(417)	(589)
Acquisition of Ace	(9,798)	-
Net cash used in investing activities	(10,215)	(589)
Cash flows from financing activities	-	
Proceeds from long-term borrowings	332	1,063
Repayments of long-term borrowings	-	(276)
Payment of Lease Liabilities	(606)	(292)
Debt issuance costs	(239)	-
Joint venture contributions	(343)	-
Net cash (used in) provided by financing activities	(856)	495
Effect of exchange rate changes on cash	4	(25)
Net (decrease) increase in cash & cash equivalents	(9,718)	867
Cash and cash equivalents at beginning of year	24,957	5,876
Cash and cash equivalents at end of period	$ 15,239	$ 6,743

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FURTHER INFORMATION

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