VAREL ENERGY SOLUTIONS

Q2 2025
Unaudited Financial Report

BEYOND TECHNOLOGY • BEYOND NORMAL

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EXECUTIVE SUMMARY

Profitability

$17.1m adjusted EBITDA YTD Q2 2025

$40.9m adjusted EBITDA LTM Q2 2025

Cash

Cash / Cash equivalents of $14.7m as of Q2 2025

Net debt of $71.0m; Net Leverage of 2.05x

Operations

Several international PCE purchase orders awarded, strengthening our foothold in share position and production backlog. Successfully ran “new technology” field trials in North America and the Middle East, increasing our portfolio offering.

International drill bit market share gains in Oman and Kuwait with several performance records. Revenue per rig increased by 56% across Q2.

Completions PDC drill bits emerging as a U.S. market leader, growing ~98% in sales over Q1.

Letter from CEO

Derek Nixon
Chief Executive Officer

I am pleased to outline this CEO Statement following the 2nd quarter of 2025 with a strong sense of confidence in our trajectory and in the capabilities of our ~1,600 employees worldwide. In Q2, the company delivered revenue of $50.9m and Adjusted EBITDA of $9.6m, reflecting solid execution and continued commercial traction across key markets.

Business Overview:
Despite market headwinds, geopolitical uncertainty, and a softened drilling outlook forecasted through the end of 2025, I am pleased to state we grew revenue in the Middle East region (excluding KSA) by 18% on a YTD basis. Our expanding partnerships with major customers in the region are strengthening our long-term positioning and support a disciplined path to sustained profitability in a priority growth market.

To reinforce this momentum and meet evolving customer expectations, we are proactively optimizing our production footprint and streamlining our raw material inventory levels. These initiatives enhance our agility, lower structural costs, and improve responsiveness to dynamic end-market demands.

Specifically, we are rightsizing our production capacity to align with anticipated demand trends while adopting leaner inventory practices to boost supply chain flexibility and working capital efficiency.

The global production order pipeline remains strong at approximately $34m as of June 30. As we near the midpoint of the 2025 fiscal year, we revise our targeted guidance to a range of $30 million - $40 million Adjusted EBITDA for the year.

Throughout the remainder of the year, we will maintain a strong focus on working capital efficiency and cash generation, while ensuring our operating model remains agile and disciplined in navigating an uncertain macro environment over the next 9-12 months.

I remain optimistic about our performance in the second half of 2025 and into 2026, supported by continued strategic customer share gains, expansion in the Middle East, disciplined cost optimization and working capital focus, and adoption of our technologies across new market segments.

In addition, I see compelling opportunities for growth through strategic acquisitions, as demonstrated by our recent acquisition of Ace Well Technology. We believe any future opportunities will further strengthen our commercial offering, enhance production capabilities, and create greater value for our customers.

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 TIR of 0.01 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 $50.9m and $50.5m for the three months ended June 30, 2025 and June 30, 2024, respectively.

Adjusted EBITDA was $9.6 and $13.5m for the quarters ended June 30, 2025 and 2024, respectively. A reconciliation between net profit per these financial statements and Adjusted EBITDA is set out below.

	Quarter ended		Six Months Ended		LTM Ended
	Jun 30, 2025	Jun 30, 2024	Jun 30, 2025	Jun 30, 2024	Jun 30, 2025
Net profit (loss)	(2,757)	4,727	(4,591)	8,438	(6,364)
Transaction cost (debt)	(375)	-	181	326	1,720
Debt extinguishment					376
Depreciation and amortization	3,139	2,704	6,300	5,672	13,270
Interest expense	3,921	3,604	7,225	4,906	12,015
Provision (benefit) for income taxes	880	1,770	1,847	3,720	6,383
Inventory revaluation	2,962	-	2,962	-	4,390
EBITDA	7,770	12,805	13,924	23,062	31,790
Adjustments for the effects of:					
Restructuring & Severance	344	206	846	1,230	964
Other	1,473	474	2,294	429	8,162
Adjusted EBITDA	9,587	13,485	17,064	24,721	40,916

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 5 of the financial statements. An analysis of the net debt for the quarter ending June 30, 2025, is set out below, with leverage at 2.05x.

Leverage Ratio Table

(in thousands of dollars)		Jun 30, 2025	
Nordic Bonds	$	(72,000)	
Loan-Revolver		(4,262)	
Right of Use Liabilities		(9,344)	
Asset Finance Liabilities		(109)	
Cash		14,675	
Net Debt as of June 30, 2025	$	(71,040)	
Adjusted EBITDA TTM Q2 2025	$	34,603	*, **
Leverage		2.05x	

* 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 June 30 2025	Three Months Ended June 30 2024	Percent Change	Six Months Ended June 30 2025	Six Months Ended June 30 2024	Percent Change	LTM
Revenue	$ 50,935	$ 50,548	1%	$ 99,756	$ 100,726	-1%	$ 203,695
Cost of revenue[1]	(33,125)	(27,274)	21%	(63,406)	(55,014)	15%	(130,723)
Gross profit	17,810	23,274	-23%	36,350	45,712	-20%	72,972
Selling, general and administrative expenses	(14,708)	(12,690)	16%	(29,186)	(25,710)	14%	(54,890)
Operating profit	3,102	10,584	-71%	7,164	20,002	-64%	18,082
Loss on debt extinguishment	-	-	NM	-	-	NM	(376)
Other income	563	1,108	-49%	1,178	772	53%	4,081
Add: Add-backs[1]	5,922	1,793	230%	8,722	3,947	121%	19,129
Adjusted EBITDA	9,587	13,485	-29%	17,064	24,721	-31%	40,916
Less: Add-backs	(5,922)	(1,793)	230%	(8,722)	(3,947)	121%	(19,129)
Transaction cost (debt)	375	-	NM	(181)	(326)	NM	(1,720)
Depreciation	(1,996)	(1,591)	25%	(3,680)	(3,384)	9%	(8,033)
Finance costs	(3,921)	(3,604)	9%	(7,225)	(4,906)	47%	(12,015)
Income tax expense	(880)	(1,770)	-50%	(1,847)	(3,720)	-50%	(6,383)
Net profit (loss)	(2,757)	4,727	-158%	(4,591)	8,438	-154%	(6,364)

NM = Not Meaningful

[1] Rental Fleet depreciation and inventory revaluation expenses are included in cost of revenue and add-backs; see the detailed amounts on the reconciliation between net profit and Adjusted EBITDA on page 2

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Consolidated Unaudited Balance Sheets

(in thousands of dollars)	Jun. 30, 2025	Dec. 31, 2024
Assets		
Current assets		
Cash and cash equivalents	$ 14,675	$ 24,957
Trade receivables, net	44,416	41,700
Inventories, net	65,354	70,555
Income tax receivable	898	193
Other current assets	16,641	15,251
Total current assets	141,984	152,656
Noncurrent assets		
Property, Plant and Equipment, net	24,653	26,009
Right-of-use assets, net	6,333	6,805
Intangibles, net	13,926	9,683
Goodwill	11,042	7,985
Investments in affiliates	3,490	3,145
Deferred tax receivable	4,532	4,370
Other assets	118	124
Total noncurrent assets	64,094	58,121
Total assets	$ 206,078	$ 210,777

	Jun. 30, 2025	Dec. 31, 2024
Liabilities		
Current liabilities		
Trade payables	$ 18,583	$ 21,438
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	24,333	23,122
Current portion of lease liabilities	2,334	2,091
Total current liabilities	68,572	69,495
Noncurrent liabilities		
Borrowings	69,830	69,597
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
Total liabilities	152,715	154,239
Equity		
Total equity	53,363	56,538
Total shareholders' equity and liabilities	$ 206,078	$ 210,777

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FINANCIAL STATEMENTS

Consolidated Unaudited Cash Flow

Cash from operating activities increased $9.4 million from cash used in operations of $5.8 million to cash generated in operations of $3.7 million for the six months ended June 30, 2024 and 2025, respectively. Cash flows from operating activities primarily result from earnings and are impacted by changes in operating assets and liabilities. Consistent with our strong focus on working capital efficiency, reductions in inventories contributed $6.6 million of operating cash flow in the six months ended June 30, 2025.

Cash used in investing activities increased $7.6 million from $4.7 million to $12.3 million for the six months ended June 30, 2024 and 2025, 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 $29.5 million from cash provided of $28.0 million to cash used of $1.5 million for the six months ended June 30, 2024 and 2025, respectively.

	Six Months Ended June 30	
(in thousands of dollars)	2025	2024
Cash flows from operating activities		
Net profit (loss)	$ (4,591)	$ 8,438
Adjustments to net income:		
Depreciation & amortization	6,298	5,688
Amortization of deferred financing costs	535	-
Net Finance Costs	6,691	4,906
Other non cash movements	1,988	(2,070)
Change in operating assets and liabilities:		
Decrease (increase) in trade receivables	402	(2,816)
Decrease (increase) in inventories	6,637	(5,900)
Decrease (increase) in other assets	(1,715)	2,268
Increase (decrease) in trade payables	(4,549)	(12,333)
Increase (decrease) in other liabilities	(2,820)	(2,824)
Cash generated (used in) operating activities	8,876	(4,643)
Interest paid	(5,215)	(1,132)
Net cash provided by operating activities	3,661	(5,775)
Cash flows from investing activities		
Acquisition of property and equipment	(2,508)	(4,709)
Acquisition of Ace	(9,815)	-
Net cash used in investing activities	(12,323)	(4,709)
Cash flows from financing activities		
Proceeds from long-term borrowings	-	60,000
Repayments of long-term borrowings	(116)	(31,992)
Payment of Lease Liabilities	(1,116)	-
Debt issuance costs	(302)	-
Net cash (used in) provided by financing activities	(1,534)	28,008
Effect of exchange rate changes on cash	(86)	(3,272)
Net (decrease) increase in cash & cash equivalents	(10,282)	14,252
Cash and cash equivalents at beginning of year	24,957	6,413
Cash and cash equivalents at end of period	$ 14,675	$ 20,665

FURTHER INFORMATION

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COMSUMABLE DOWNHOLE PRODUCTS