Q4 2024
Unaudited Financial Report

BEYOND TECHNOLOGY • BEYOND NORMAL

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EXECUTIVE SUMMARY

Profitability

$43.7m adjusted EBITDA FY 2024

Net profit of $9.4m FY
- ($12.3m) loss for FY 2023

Cash

Cash / Cash equivalents of $24.9m through to December 31, 2024.

Net debt of $60.4m; Net Leverage of 1.48x

Operations

Expansion of new Saudi Arabia drill bit technology, yielding a stronger competitive position.

An average of 25% growth with major oilfield service customers year over year – SLB representing the most significant expansion at ~42%.

Production output records for roller cone drill bits and primary cementing equipment in Mexico and India.

VAREL ENERGY SOLUTIONS

Letter from CEO

Derek Nixon
Chief Executive Officer

I am pleased to outline this CEO Statement following the 4rd quarter of 2024 with a sense of pride about our company and the ~1,800 employees around the world. As I look back on the last four years a period of profound volatile and economic period 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 in line revenue of $51.8m and Adjusted EBITDA of $10.6m.

Business Overview:
With approximately 45% of our global business generated from the Middle East region, we recorded near record high sales of $23.4m, in the region. This performance is underpinned by our strong investments in Saudi Arabia both in manufacturing capacity and operational support where we experienced year over year growth across our key business lines of drill bits and cementing products.

Despite early headwinds signaling a softening drilling outlook and competitive pricing pressure, I anticipate our major supply contracts across the Middle East region and secured sales channels with our major oilfield service partners will generate a stronger financial performance than our peers.

In North America, we continue to focus on high-value, high-return technology sales while driving maximum efficiency with our PDC drill bit rental fleet. Our Completions business continues to perform well notwithstanding headwinds from depressed completions market activity and competitive pressure. We generated $19.7m of sales with average gross margins of 63% (remaining in the leading market share position). This is another example of Varel rapidly bringing practical innovation to market and immediately adding incremental value to the enterprise and our customers.

As we enter 2025, we are targeting Adjusted EBITDA of around $45m for the year. I anticipate cautious optimism and a moderately stable climate over the next 18 months for this enterprise, driven primarily by strategic customer share gain, Middle East expansion, and new technology market adoption.

Furthermore, I believe the market presents unique opportunities for our business to expand through potential acquisition as evidenced by the strategic acquisition of Ace Well Technology in January 2025, strengthening 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 0.20 for the year.

CFO FINANCIAL STATEMENT

Operating Performance:

The consolidated income statement is shown on page 4 to these financial statements. Revenue was $51.8m and $52.7m for the quarters ended December 31 and September 30, 2024, respectively with adjusted net profit being $6.0 and $4.0m for the same periods.

Adjusted EBITDA was $10.6m and $10.6m for the quarters ended December 31 and September 30, 2024, respectively. A reconciliation between net profit per these financial statements and Adjusted EBITDA is set out below.

	Quarter ended Dec. 31, 2024	Nine Months Ended Sept. 30, 2024	Twelve Months Ended Dec. 31, 2024
Net (loss) profit	118	9,240	9,358
Transaction cost (debt)	961	904	1,865
Loss on debt extinguishment	376	-	376
Depreciation and amortization	2,810	4,927	7,737
Interest expense	(2,471)	11,061	8,590
Provision (benefit) for income taxes	3,874	5,250	9,124
EBITDA	5,667	31,382	37,049
Adjustments for the effects of:*			
Foreign currency (gains) losses	650	(650)	-
Restructuring & Severance	118	1,230	1,348
Other	4,197	1,078	5,275
Adjusted EBITDA	10,632	33,041	43,673

Borrowings:

During the second quarter, 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, fees associated with both the pre-existing debt facility and the bond process, the remaining purchase price related to our Indian acquisition in 2022 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 based out of Norway..

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 December 31, 2024, is set out below, with leverage at 1.48x. We are currently targeting net debt of approximately $50m by the end of 2025.

Leverage Ratio Table

(in thousands of dollars)		Dec 31, 2024
Nordic Bonds	$	(72,000)
Loan-Revolver		(3,346)
Right of Use Liabilities		(9,676)
Asset Finance Liabilities		(319)
Cash		24,957
Net Debt as of December 31, 2024	$	(60,384)
EBITDA YTD Q4 2024	$	40,754 *
Leverage		1.48x

* restricted to 10% for debt leverage

FINANCIAL SCOREBOARD

$51.8 million

Q4 2024 Net Sales and Revenue

Strong Sales and
SG&A Cost Control
leading to:

20%

Above Plan Adjusted EBITDA

Cash Flow improvement from operating activities for FY 2024, versus FY 2023

4Q24 over 4Q23

13% Improvement in Revenue
247% Improvement in Operating Profit
63% Improvement in Adjusted EBITDA

$25.0 million

Current Cash Balance

Q4 2024 Profitability

$2.4m

Operating Profit

$10.6m

Adjusted EBITDA

$0.1m

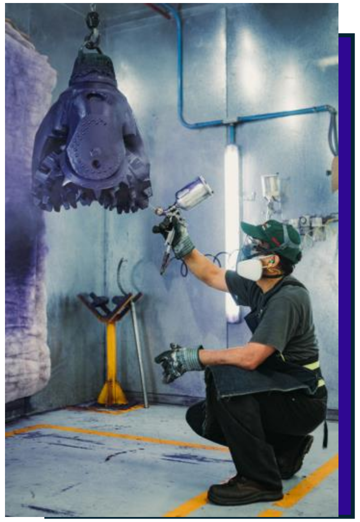
Net Income

4Q24 over 4Q23

Operating Profit exhibited a significant improvement of **$4.0m or 247%.**

$8.4 million YoY

Reduction in 2024 Costs with
7% in Cost of Sales;
SG&A remained flat



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FINANCIAL STATEMENTS

Consolidated Unaudited Profit and Loss

(in thousands of dollars)	Three Months Ended December 31 2024	Three Months Ended December 31 2023	Three Months Ended December 31 Percent Change	Twelve Months Ended December 31 2024	Twelve Months Ended December 31 2023	Twelve Months Ended December 31 Percent Change
Revenue	$ 51,798	$ 45,871	13%	$ 205,228	$ 192,241	7%
Cost of revenue	(35,244)	(34,398)	2%	(119,963)	(128,378)	-7%
Gross profit	16,554	11,473	44%	85,265	63,863	34%
Selling, general and administrative expenses	(14,189)	(13,087)	8%	(52,626)	(52,465)	0%
Operating profit	2,365	(1,614)	-247%	32,639	11,398	186%
Loss on debt extinguishment	(376)	-	NM	(376)	-	NM
Other income	3,678	2,997	23%	4,786	460	940%
Add: Add-backs	4,964	5,141	-3%	6,623	9,580	-31%
Adjusted EBITDA	10,631	6,524	63%	43,672	21,438	104%
Less: Add-backs	(4,964)	(5,141)	-3%	(6,623)	(9,580)	-31%
Transaction cost (debt)	(1,336)	(209)	539%	(2,240)	(497)	351%
Depreciation	(2,810)	(5,622)	-50%	(7,737)	(10,932)	-29%
Finance income	-	1,788	-100%	-	1,788	-100%
Finance costs	2,471	(3,780)	-165%	(8,591)	(10,464)	-18%
Income tax expense	(3,874)	(1,027)	277%	(9,123)	(4,070)	124%
Net profit (loss)	118	(7,467)	-102%	9,358	(12,317)	-176%

FINANCIAL STATEMENTS

Consolidated Unaudited Balance Sheets

(in thousands of dollars)	Dec. 31, 2024	Dec. 31, 2023
Assets		
Current assets		
Cash and cash equivalents	$ 24,957	$ 5,876
Trade receivables, net	41,700	37,017
Inventories, net	71,983	62,171
Income tax receivable	193	190
Other current assets	18,526	16,263
Total current assets	157,360	121,517
Noncurrent assets		
Property, Plant and Equipment, net	26,009	28,512
Right-of-use assets, net	6,805	8,074
Intangibles, net	9,683	11,226
Goodwill	7,985	8,420
Investments in affiliates	3,145	676
Deferred tax receivable	3,075	4,037
Other assets	124	110
Total noncurrent assets	56,826	61,055
Total assets	$ 214,186	$ 182,572

	Dec. 31, 2024	Dec. 31, 2023
Liabilities		
Current liabilities		
Trade payables	$ 21,438	$ 32,362
Income tax payable	6,532	2,125
Accrued liabilities	5,161	4,579
Provisions	160	406
Other current liabilities	14,157	18,649
Current portion of borrowings	23,662	23,514
Current portion of lease liabilities	2,091	2,303
Total current liabilities	73,201	83,938
Noncurrent liabilities		
Borrowings	69,057	29,556
Lease liabilities	7,585	8,091
Deferred tax liabilities	1,648	1,098
Other liabilities	5,488	6,299
Total noncurrent liabilities	83,778	45,044
Total liabilities	156,979	128,982
Equity		
Total equity	57,207	53,590
Total shareholders' equity and liabilities	$ 214,186	$ 182,572

VAREL ENERGY SOLUTIONS

FINANCIAL STATEMENTS

Consolidated Unaudited Cash Flow

Cash from operating activities improved through December 31, 2024 as compared to December 31, 2023.

As part of the $60m bond raise, a portion of the funding was used for general corporate purposes. We allocated approximately $10m of funds to our strategic vendor base to solidify stronger and more reliable supply chain execution; as a result, our overall vendor relationships and trade payable position are at its healthiest in years. We are now beginning to realize more favorable terms with some of our key vendors with expectations of additional benefits over the course of 2025.

Enhanced relationships and working capital position allowed us to purchase raw material in bulk (i.e., steel mill runs) at reduced, more competitive prices to enable increased margins. We expect the increased inventory levels to be utilized over the course of 2025.

We experienced growth in receivables and unbilled revenue due to certain process changes from some of our larger Middle East customers. Progress was made over the course of both Q424 and Q125 with efforts continuing over the course of Q225.

Absent the above, we would have experienced significant positive cash flows from operating activities.

Condensed Consolidated Statements of Cash Flow (Unaudited)

	Twelve Months Ended December 31	
(in thousands of dollars)	**2024**	**2023**
Cash flows from operating activities		
Net profit (loss)	$ 9,358	$ (15,585)
Adjustments to net income:		
Depreciation & amortization	7,749	14,485
Amortization of deferred financing costs	612	381
Other non cash movements	8,035	8,007
Change in operating assets and liabilities:		
Increase in trade receivables	(4,872)	(275)
Increase in inventories	(10,687)	(9,144)
Increase in other assets	(531)	3,960
Decrease in trade payables	(10,416)	(5,902)
Increase in other liabilities	7,454	3,290
Cash generated (used in) operating activities	6,702	(783)
Interest paid	(6,316)	(3,600)
Income taxes paid	(2,690)	(4,887)
Net cash provided by operating activities - discontinued operations	-	237
Net cash used in operating activities	(2,304)	(9,033)
Cash flows from investing activities		
Acquisition of property and equipment	(2,560)	(11,465)
Proceeds from sale of equipment	-	31
Acquisition of Sledgehammer	-	60
Net cash provided by investing activities - discontinued operations	-	2,007
Net cash used in investing activities	(2,560)	(9,366)
Cash flows from financing activities		
Proceeds from long-term borrowings	73,063	16,302
Repayments of long-term borrowings	(34,066)	(1,063)
Payment of Lease Liabilities	(2,345)	(2,765)
Acquisition of noncontrolling interest	(6,600)	-
Debt issuance costs	(3,699)	-
Joint venture contributions	(2,513)	-
Net cash provided by financing activities	23,840	12,474
Effect of exchange rate changes on cash	104	(760)
Net increase (decrease) in cash & cash equivalents	19,081	(6,684)
Cash and cash equivalents at beginning of year	5,876	12,560
Cash and cash equivalents at end of period	$ 24,957	$ 5,876

FURTHER INFORMATION

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