CATHEDRAL

2021 Q3 INTERIM REPORT

FINANCIAL HIGHLIGHTS

Dollars in 000's except per share amounts

	Three months ended September 30		Nine months ended September 30	
	2021	2020	2021	2020
Revenues	$ 20,127	$ 4,990	$ 38,814	$ 33,126
Adjusted gross margin % (1)	27%	20%	18%	11%
Adjusted EBITDAS (1)	$ 5,170	$ 84	$ 3,305	$ 319
Basic and diluted per share	$ 0.07	$ -	$ 0.05	$ 0.01
As % of revenues	26%	2%	9%	1%
Cash flow - operating activities	$ (1,800)	$ 3,544	$ (4,100)	$ 960
Income (loss) from operating activities	$ 1,377	$ (4,448)	$ (6,874)	$ (13,594)
Basic and diluted per share	$ 0.02	$ (0.09)	$ (0.11)	$ (0.27)
Imapairments and direct w rite-dow ns	$ -	$ -	$ -	$ (6,994)
Net income (loss)	$ 403	$ (5,014)	$ (7,529)	$ (21,419)
Basic and diluted per share	$ 0.01	$ (0.10)	$ (0.13)	$ (0.43)
Equipment additions	$ (1,471)	$ (556)	$ (2,799)	$ (1,325)
Weighted average shares outstanding				
Basic (000s)	74,425	49,468	59,920	49,468
Diluted (000s)	75,359	49,468	60,420	49,468

	September 30 2021	December 31 2020
Working capital	$ 13,757	$ 7,680
Total assets	$ 73,783	$ 64,280
Loans and borrow ings excluding current portion	$ 3,430	$ 1,560
Shareholders' equity	$ 43,648	$ 39,974

(1) Refer to "NON-GAAP MEASUREMENTS"

MANAGEMENT'S DISCUSSION & ANALYSIS

This Management's Discussion & Analysis ("MD&A") for the three months ended September 30, 2021 should be read in conjunction with the annual audited consolidated financial statements and notes thereto for the year ended December 31, 2020, as well as the MD&A in the 2020 Annual Report of Cathedral Energy Services Ltd. (the "Company" or "Cathedral"). This MD&A has been prepared as of November 9, 2021. Dollar amounts are in '000's except for day rates and per share amounts.

2021 ACQUISITIONS

On July 23, 2021, the Company announced the closing of Cathedral's acquisition of Precision Drilling Corporation's ("Precision") directional drilling business (the "Transaction") for a purchase price of $6,350. The Transaction includes the operating assets and personnel of Precision's directional drilling business (including its operations facility in Nisku, Alberta), and a $3,000 cash investment by Precision to support growth and expansion of Cathedral, including continuing the buildout of RapidFire™ measurement-while-drilling guidance systems and nDurance™ drilling motors. Additionally, the Transaction is expected to enhance margins as expenses related to rental equipment used by Precision are replaced with proprietary Cathedral tools.

Cathedral issued 13,400,000 common shares (the "Consideration Shares") along with warrants to purchase an additional 2,000,000 common shares of Cathedral at a price of $0.60 per common share within a two-year period after closing. In addition to a 4-month statutory hold period on the Consideration Shares, the parties have agreed to contractual restrictions on resale as follows: 25% of the Consideration Shares are restricted until January 22, 2022; a further 25% of the Consideration Shares are restricted until July 22, 2022; and a further 50% of the Consideration Shares are restricted until July 22, 2023, subject to certain exceptions.

The Company has allocated the $6,350 purchase as follows:

- Cash $3,000
- Land and building $1,500; and
- Equipment $$1,850.

The Company has expensed $139 in costs related to the Transaction. As the acquired assets were integrated into Cathedral's existing directional drilling operations it is impracticable to break-out the revenue and profit or loss of the acquired assets since the acquisition.

As part of the Transaction, Cathedral and Precision have entered into a strategic marketing alliance (the “Alliance”), which is expected to produce new U.S. and Canadian customer opportunities for Cathedral as well as potential integrated service offerings for customers. The Alliance is expected to support both parties’ technology initiatives and lead the future of directional drilling. Precision’s market leading Alpha™ digital technologies (AlphaApps, AlphaAutomation and AlphaAnalytics) are focused on automation and drilling performance and pair well with Cathedral’s premium downhole equipment and directional drilling expertise.

In addition, on September 7, 2021 the Company completed the acquisition of the operating assets of Valiant Energy Services Ltd. (“Valiant”), an Alberta-based directional drilling company, for a purchase price of $1,500,000. The purchase price was satisfied through the issuance of 3,464,204 common shares of Cathedral to Valiant. These shares will be subject to a 4-month statutory hold period. The Company has expensed $41 in costs related to this acquisition. The principal owner of Valiant, Mr. Vaugn Spengler, has entered into a long-term performance-based agreement to remain with Cathedral and will continue to focus on opportunities to support and expand the existing customer base.

RESULTS OF OPERATIONS – THREE MONTHS ENDED SEPTEMBER 30

Revenues		2021		2020
Canada	$	16,118	$	1,328
United States		4,009		3,662
Total	$	20,127	$	4,990

Revenues 2021 Q3 revenues were $20,127, which represented an increase of $15,137 or 303% from 2020 Q3 revenues of $4,990.

Canadian revenues (excluding motor rental revenues) increased to 15,210 in 2021 Q3 from $848 in 2020 Q3; a 1,694% increase. This increase was the result of: i) a 1,682% increase in activity days to 2,067 in 2021 Q3 from 116 in 2020 Q3 and ii) a 1% increase in the average day rate to $7,359 in 2021 Q3 from $7,309 in 2020 Q3.

Based on publicly disclosed Canadian drilling and directional drilling days, Cathedral’s market share for 2021 Q3 was 17.7% compared to 3.0% in 2020 Q3.

U.S. revenues (excluding motor rental revenues) decreased 1% to $3,269 in 2021 Q3 from $3,301 in 2020 Q3. This decrease was the result of: i) a 6% increase in activity days to 367 in 2021 Q3 from 346 in 2020 Q3; net of ii) a 7% decrease in the average day rate to $8,906 in 2021 Q3 from $9,541 in 2020 Q3 (when converted to Canadian dollars).

The average active land rig count for the U.S. was up 100% in 2021 Q3 compared to 2020 Q3 (source: Baker Hughes). The Company experienced a 5% decline in activity resulting in a decrease in market share compared to 2020 Q3. Day rates in USD decreased 1% to $7,072 USD in 2021 Q3 from $7,159 USD in 2020 Q3.

Motor rentals increased in both Canada and the U.S. Combined rental revenues increased to $1,648 in 2021 Q3 compared to $841 in 2020 Q3. Rentals were up due to the industry increase in drilling activity.

Government grants The Company recognized the benefit from the Canada Emergency Wage Subsidy ("CEWS") program of $259 (2020 - $741) and in 2020 Q3 $992 from the U.S. Paycheck Protection Program (“PPP”) (2021 Q3 - $nil) which reduced salary expenses as follows:

- Cost of sales $154 (2020 - $1,271);
- Selling, general and administrative expenses $84 (2020 - $394); and
- Technology group expenses $21 (2020 - $122).

Additionally, the Company received $133 (2020 - $nil) from the Canadian Emergency Rent Subsidy (“CERS”), which reduced cost of sales $110 (2020 - $nil) and selling, general and administrative $23 (2020 - $nil).

The 2021 Q3 CEWS and CERS claims were at reduced levels due to the increase in revenues in 2021 Q3.

Gross margin and adjusted gross margin Gross margin for 2021 Q3 was 10% compared to -50% in 2020 Q3. Adjusted gross margin (see Non-GAAP Measurements) for 2021 Q3 was $5,365 or 27% compared to $1,021 or 20% for 2020 Q3.

Adjusted gross margin, as a percentage of revenue, increased due to lower repairs and a reduction in fixed costs as percentage of revenue, partially offset by increases in field labour expenses and rentals. During 2021 Q3, the Company revised its repair process and this resulted in lower repair costs.

Depreciation of equipment allocated to cost of sales decreased to $3,337 in 2021 Q3 from $3,520 in 2020 Q3. Depreciation included in cost of sales as a percentage of revenue was 17% for 2021 Q3 and 71% in 2020 Q3.

Selling, general and administrative ("SG&A") expenses SG&A expenses were $2,209 in 2021 Q3; an increase of $10 compared with $2,199 in 2020 Q3. There were increases in SG&A wages, commissions and reduced CEWS grants partially offset by reduction in bad debts. As a percentage of revenue, SG&A was 11% in 2021 Q3 compared to 44% in 2020 Q3.

Technology group expenses Technology group expenses were $183 in 2021 Q3; an increase of $106 compared with $77 in 2020 Q3. Technology group expenses are related to new product development and supporting and upgrading existing technology. Technology group expenses consist of salaries and related benefits and burdens as well as shop supplies.

Gain on disposal of equipment During 2021 Q3, the Company had a gain on disposal of equipment of $1,773 compared to $344 in 2020 Q3. These gains are mainly related to equipment lost-in-hole. Proceeds from clients on lost-in-hole equipment are based on amounts specified in service agreements. The timing of lost-in-hole recoveries is not in the control of the Company and therefore can fluctuate significantly from quarter-to-quarter. In 2021 Q3, the Company received proceeds on disposal of equipment of $1,980 (2020 Q3 - $633).

Finance costs Finance costs consisting of interest expenses on loans and borrowings and bank charges were $60 for 2021 Q3 versus $113 for 2020 Q3.

Finance costs lease liability The lease liability interest decreased slightly to $195 from $223.

Foreign exchange The Company had a foreign exchange loss of ($719) in 2021 Q3 compared to a gain of $614 in 2020 Q3 due to the fluctuations of the Canadian dollar relative to the U.S. dollar. The Company’s foreign operations are denominated in USD and therefore, upon consolidation, gains and losses due to fluctuations in the foreign currency exchange rates are recorded as other comprehensive income on the balance sheet as a component of equity. However, gains and losses in the Canadian entity on U.S. denominated intercompany balances continue to be recognized in the statement of comprehensive income (loss). Included in the 2021 Q3 foreign currency loss are unrealized loss of $692 (2020 Q3 – gain of $611) related to intercompany balances.

Income tax Previously, Cathedral derecognized deferred tax assets due to a recent history of tax losses within both of Cathedral's legal entities. As a result of this, where there are losses in the Canadian entity that are not recognized as deferred taxes the effective tax rate is not meaningful.

Income tax expense is booked based upon expected annualized rates using the statutory rates of 25.5% for Canada and 23% for the U.S.

RESULTS OF OPERATIONS – NINE MONTHS ENDED SEPTEMBER 30

Revenues		2021		2020
Canada	$	27,426	$	9,794
United States		11,388		23,332
Total	$	38,814	$	33,126

Revenues 2021 revenues were $38,841, which represented an increase of $5,688 or 17% from 2020 revenues of $33,126.

Canadian revenues (excluding motor rental revenues) increased to $25,633 in 2021 from $7,363 in 2020; a 249% increase. This increase was the net result of: i) a 267% increase in activity days to 3,683 in 2021 from 1,005 in 2020 and ii) an 5% decrease in the average day rate to $6,968 in 2021 from $7,327 in 2020.

Based on publicly disclosed Canadian drilling and directional drilling days, Cathedral's market share for 2021 was 12.7% compared to 5.5% in 2020. The decrease in day rates was due to a reduction in certain ancillary revenues.

U.S. revenues (excluding motor rental revenues) decreased 58% to $9,446 in 2021 from $22,461 in 2020. This decrease was the result of: i) a 42% decrease in activity days to 1,067 in 2021 from 1,838 in 2020; and ii) a 28% decrease in the average day rate to $8,853 in 2021 from $12,221 in 2020 (when converted to Canadian dollars).

The average active land rig count for the U.S. was down 1% in 2021 compared to 2020 (source: Baker Hughes). The Company experienced a 44% decline in activity resulting in a decrease in market share compared to 2020. Day rates in USD decreased 21% to $7,087 USD in 2021 from $9,008 USD in 2020. The 2021 rate is down due to a decrease in revenues from providing rotary steerable system (RSS) services which are rented from a 3rd party and a reduction in certain ancillary revenues.

Motor rentals decreased in Canada but this was offset by increases in the U.S. Combined rental revenues increased to $3,705 in 2021 compared to $3,301 in 2020. The Canadian decrease is related to delays in customer drilling programs. U.S. rental revenues have increased due to a focus on expanding rental revenues.

Government grants The Company recognized the benefit from the CEWS program of $916 (2020 - $1,378) and $nil (2020 - $992) from PPP which reduced salary expenses as follows:

- Cost of sales $544 (2020 - $1,478);
- Selling, general and administrative expenses $298 (2020 - $659); and
- Technology group expenses $74 (2020 - $233).

Additionally, the Company received $518 (2020 - $nil) from CERS, which reduced cost of sales $424 (2020 - $nil) and selling, general and administrative $94 (2020 - $nil).

The 2021 CEWS claims were at reduced levels due to the increase in revenues in 2021.

Gross margin and adjusted gross margin Gross margin for 2021 was -5% compared to -24% in 2020. Adjusted gross margin (see Non-GAAP Measurements) for 2021 was $7,012 or 18% compared to $3,670 or 11% for 2020.

Adjusted gross margin improved due to a decrease in the fixed portion of cost of sales as a percentage of revenue and a reduction in third party equipment rentals partially offset by a decrease in revenue day rate and by increases repairs and field labour expenses.

Depreciation of equipment allocated to cost of sales decreased to $9,049 in 2021 from $11,436 in 2020. Depreciation included in cost of sales as a percentage of revenue was 23% for 2021 and 35% in 2020.

Selling, general and administrative ("SG&A") expenses SG&A expenses were $6,255 in 2021; a decrease of $568 compared with $6,823 in 2020. This decrease was primarily due to a reduction in bad debts in 2021 offset by lower wage assistance received in 2021. As a percentage of revenue, SG&A was 16% in 2021 compared to 21% in 2020.

Technology group expenses Technology group expenses were $533 in 2021; a decrease of $279 compared with $812 in 2020. Technology group expenses are related to new product development and supporting and upgrading existing technology. Technology group expenses consist of salaries and related benefits and burdens as well as shop supplies.

Gain on disposal of equipment During 2021, the Company had a gain on disposal of equipment of $2,017 compared to $1,863 in 2020. These gains mainly related to equipment lost-in-hole. Proceeds from clients on lost-in-hole equipment are based on amounts specified in service agreements. The timing of lost-in-hole recoveries is not in the control of the Company and therefore can fluctuate significantly from quarter-to-quarter. In 2021, the Company received proceeds on disposal of equipment of $2,278 (2020 - $2,419).

Finance costs Finance costs consisting of interest expenses on loans and borrowings and bank charges were $249 for 2021 versus $231 for 2020.

Finance costs lease liability The lease liability interest decreased slightly to $605 from $700.

Foreign exchange The Company had a foreign exchange gain of $199 in 2021 compared to a loss of ($715) in 2020 due to the fluctuations of the Canadian dollar relative to the U.S. dollar. The Company's foreign operations are denominated in USD and therefore, upon consolidation, gains and losses due to fluctuations in the foreign currency exchange rates are recorded as other comprehensive income on the balance sheet as a component of equity. However, gains and losses in the Canadian entity on U.S. denominated intercompany balances continue to be recognized in the statement of comprehensive income (loss). Included in the 2021 foreign currency loss are unrealized gain of $230 (2020 - loss of $749) related to intercompany balances.

Impairment and direct write-downs There were no impairments or direct write-downs in 2021.

Due to the decline in projected drilling activity in 2020 the Company determined that indicators of impairment existed as at March 31, 2020. The Company made a provision as a result of impairment test and direct write-downs of $6,994 in 2020 Q1 to right of use assets ($6,834) and intangibles ($160). As part of the Company's response to changes in drilling activity, the decision was made to consolidate its repair activities and close or significantly reduce activities at certain locations. The right of use asset for these locations was written down to $nil. There were $160 intangible projects in progress where it was uncertain when or if staff resources would be available to bring the projects to commercialization. As such these projects were written down to $nil. There were no impairments or direct write-downs in 2021.

Income tax Previously, Cathedral derecognized deferred tax assets due to a recent history of tax losses within both of Cathedral's legal entities. As a result of this, where there are losses in the Canadian entity that are not recognized as deferred taxes the effective tax rate is not meaningful.

Income tax expense is booked based upon expected annualized rates using the statutory rates of 25.5% for Canada and 23% for the U.S.

LIQUIDITY AND CAPITAL RESOURCES

Overview On an annualized basis, the Company's principal source of liquidity is cash generated from operations and proceeds from equipment lost-in-hole. In addition, the Company has the ability to fund liquidity requirements through its credit facility and the issuance of debt and/or equity. Cash flow - operating activities in 2021 was a use of cash of ($4,100) compared to a source of cash $960 in 2020. The change was the net impact of improved operations in 2021 offset by increases in working capital.

Working capital At September 30, 2021, the Company had working capital of $13,757 (December 31, 2020 - $7,680).

Credit facilities

Bank facility

The Company's Facility consists of a $12,000 extendible revolving credit facility with a single lender which was amended and extended in 2021 Q2 to expire June 30, 2023. The Facility is secured by a general security agreement over all present and future personal property. The Facility provides a definition of EBITDA ("Credit Agreement EBITDA") to be used in calculation of financial covenants. The Facility bears interest at the financial institution's prime rate plus 1.75% to 3.25% or bankers' acceptance rate plus 3.00% to 4.25% with interest payable monthly. Interest rate spreads for the Facility depend on the level of funded debt compared to the 12 month trailing Credit Agreement EBITDA. The Facility provides a means to lock in a portion of the debt at interest rates through bankers' acceptance ("BA") based on the interest rate spread on the date the BA was entered into.

In June 2021, the Company amended and extended its credit facility (the "Facility").

Commencing with the fiscal period ending September 30, 2021 ("2021 Q3") and ending with the fiscal period ending March 31, 2022 ("2022 Q1"), the definition of Credit Agreement EBITDA will be based on pro-rating Credit Agreement EBITDA to a 12-month equivalent (Consolidated EBITDA Annualization Period"). The calculations are as follows:

- For the fiscal period ending 2021 Q3, the Credit Agreement EBITDA is the calculated amount for the 3 months of 2021 Q3 times four;
- For the fiscal period ending December 31, 2021 ("2021 Q4"), the Credit Agreement EBITDA is the calculated amount for the 3 months of 2021 Q3 plus the 3 months of 2021 Q4 times two;
- For the fiscal period ending 2022 Q1, the Credit Agreement EBITDA is the calculated amount for the 3 months of 2021 Q3 plus the 3 months of 2021 Q4 plus the 3 months of 2022 Q1 divided by 3 and then times 4;
- During the Consolidated EBITDA Annualization Period, the Facility will bear interest at the maximum rates for the ranges noted;
- The Company, at its one-time option can choose to exit the Consolidated EBITDA Annualization Period and revert back to the original definition of Credit Agreement EBITDA and the Facility will bear interest at the applicable rates. For the fiscal period ending June 30, 2022 ("2022 Q2"), the Credit Agreement EBITDA will revert back to the trailing 12-month calculation.

The Facility also features the following amendments:

- There is no cap in place and the Company has access to the full $12,000 facility;
- Aggregate capital expenditures (excluding non-cash utilization of existing inventory) for the fiscal year ended December 31, 2021, are not to exceed $9,000; and
- Consolidated funded debt to tangible net worth ("TNW") ratio will no longer be tested after 2021 Q2.

The financial covenants associated with the Facility that will be tested commencing 2021 Q3 are:

- Consolidated funded debt to consolidated Credit Agreement EBITDA ratio shall not exceed 3.0:1; and
- Consolidated Credit Agreement EBITDA to consolidated interest ratio shall not be less than 2.5:1.

Compliance with Facility covenants

At September 30, 2021, the Company had drawn $3,430 of its bank facility and had $2,446 in cash. Consolidated funded debt of $4,249 includes six outstanding letters of credit ("LOC") totaling $1,827. For the period ended September 30, 2019, Annualized Credit Agreement EBITDA was $18,952 and Bank Funded Debt was $3,714.

The calculation of the financial covenants under the Facility as at September 30, 2021 is as follows:

Covenant	Actual Ratio	Required Ratio
Consolidated funded debt to consolidated Annualized Credit Agreement EBITDA	0.2	3.0 (maximum)
Consolidated Annualized Credit Agreement EBITDA to consolidated interest ratio	61.3	2.5 (minimum)

The Company was in compliance with all covenants at September 30, 2021.

Current facility - Highly Affected Sectors Credit Availability Program ("HASCAP")

In conjunction with the credit amendment and extension referenced above, the Company applied for and received a further $1,000 of liquidity from HASCAP. The incremental $1,000 non-revolving loan is fully drawn and further augments Cathedral's liquidity to $13,000 in combination with the Company's ability to access the full $12,000 Facility. The demand loan has an interest rate of 4% and is amortized over a ten-year period. Repayment terms are interest only for the first year, and principal plus interest for the remaining nine years, payable on a monthly basis. The HASCAP Loan is secured by a general security interest over all present and after acquired personal property of the Company granted in favour of ATB.

Contractual obligations In the normal course of business, the Company incurs contractual obligations and those obligations are disclosed in the

Company's annual financial statements for the year ended December 31, 2020. As at September 30, 2021, the Company has commitments to purchase equipment of $391 which is expected to be incurred in 2021 Q4 and 2022 Q1.

The Company has issued the following six LOC:

- three securing rent payments on property leases and renew annually with the landlords. Two LOCs total $700 CAD for the first ten years of the lease and then reduce to $500 for the last five years of the leases. The third LOC is currently for $629 USD and increases annually based upon annual changes in rent;
- two securing the Company's corporate credit cards in the amounts of $75 CAD and $175 USD; and
- one in lieu of cash deposit for utilities in the amounts of $55 CAD.

Share capital At November 9, 2021, the Company has 80,198,153 common shares, 2,575,000 common share purchase warrants outstanding with a weighted average exercise price of $0.52 and 6,494,400 options outstanding with a weighted average exercise price of $0.35.

In 2021, the Company has issued 4,881,100 stock options to staff with exercise prices ranging from $0.18 to $0.50 per option.

2021 CAPITAL PROGRAM

During the nine months ended September 30, 2021, the Company invested $2,799 (2020 - $1,325) in equipment. The following table details the current period's net equipment additions:

		Nine months ended September 30, 2021
Equipment additions:		
Motors	$	1,708
MWD		1,076
Other		15
Total cash additions	$	2,799

The Company's 2021 capital plan is approximately $9,000, some of which may carry-over into 2022. The focus of 2021 capital plan will be motor power section additions for premium lines and addition of RapidFire™ Measurement-While-Drilling dual telemetry systems tools. The additions of $2,799 were partially funded by proceeds on disposal of equipment of $2,278.

OUTLOOK

The macro-environment for oilfield services in North America has shown steady improvement throughout 2021.

Canadian rig count levels for 2021 Q3 are significantly off the lows of 2020 and now comparable to the five year pre-COVID average for this time of year. Industry analysts project Canada's 2022 rig count to continue climbing and average above 150 in 2022, approximating to 56,000 activity days for the industry in 2022 compared to an estimated 44,700 days in 2021, a 25% improvement. In the USA, led by the Permian and Haynesville plays, the rig count has also improved markedly, although it lags Canada on a % increase basis and trails its own five year pre-COVID average. Projections for the USA in 2022 anticipate an average of close to 600 active rigs, approximately 100 rigs higher than 2021 (source: Peters & Co).

Commodity prices on both sides of the border have shown a similarly dramatic rise, achieving highs not seen since 2014. Analysts forecast these oil and gas prices to persist into the fourth quarter and to next year. This has bolstered the energy producers cash flows materially over the last 18 months, although they continue to prioritize balance sheet strength and returning funds to shareholders over capital expenditures at this time. As these companies' financial health improves, a greater share of free cash flow could be directed to capital spending in the coming quarters.

Active COVID-19 cases in Canada and the USA continue to decline while vaccination rates continue to improve. US unemployment has reached its lowest level since the pandemic began at 4.6% at the end of October (source: US Department of Labor) while in Canada unemployment rates are now below pre-pandemic levels at 6.7% for the same time period (source: Statistics Canada). These statistics are clearly evidenced in the labour shortages and supply chain constraints facing oilfield services companies at the moment and these conditions will likely persist into 2022.

An ongoing combination of improved sector activity, stronger commodity prices but constrained labour and material resources should translate to a constructive pricing environment for service businesses in 2022.

CONTROLS AND PROCEDURES

The Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") are responsible for designing disclosure controls and procedures ("DC&P") and internal controls over financial reporting ('ICFR') as defined in National Instrument 52-109 Certification of Disclosure in Issuer's Annual and Interim Filings ("52-109"), or causing them to be designed under their supervision, in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

Cathedral's DC&P have been designed to provide reasonable assurance that material information relating to Cathedral is made known to the CEO and the CFO by others and that information required to be disclosed by Cathedral in its annual filings, interim filings or other reports filed or submitted by Cathedral under securities legislation is recorded, processed, summarized and reported within the time periods specified in applicable securities legislation.

Because of their inherent limitations, DC&P and ICFR may not prevent or detect all misstatements, errors or fraud. Control systems, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control systems are met.

The CEO and CFO have concluded that there have been no changes in internal controls for the period ended on September 30, 2021 that have materially affected, or are reasonably likely to materially affect, Cathedral's ICFR.

RISK FACTORS

The MD&A for the year ended December 31, 2020, which is included in the Company's 2020 Annual Report, includes an overview on risk factors associated with the Company and its operating entities. Those risk factors remain in effect as at September 30, 2021.

GOVERNANCE

The Audit Committee of the Board of Directors has reviewed this MD&A and the related unaudited condensed consolidated interim financial statements and recommended they be approved to the Board of Directors. Following a review by the full Board, the MD&A and financial statements were approved.

NEW AND FUTURE ACCOUNTING POLICIES

There were no new or amended standards issued during the period ended September 30, 2021 that are applicable to the Company in future periods.

SUMMARY OF QUARTERLY RESULTS

Three month periods ended	Sep 2021	June 2021	Mar 2021	Dec 2020	Sep 2020	Jun 2020	Mar 2020	Dec 2019
Revenues	$ 20,127	$ 7,322	$ 11,365	$ 7,448	$ 4,990	$ 8,841	$ 19,295	$ 19,299
Adjusted EBITDAS (1)	$ 5,170	$ (2,683)	$ 825	$ (435)	$ 84	$ (823)	$ 1,057	$ (702)
Adjusted EBITDAS (1) per share - diluted	$ 0.07	$ (0.05)	$ 0.02	$ (0.01)	$ 0.00	$ (0.02)	$ 0.02	$ (0.01)
Net income (loss)	$ 403	$ (5,846)	$ (2,086)	$ (6,171)	$ (5,014)	$ (3,815)	$ (12,590)	$ (6,068)
Net income (loss) per share - diluted	$ 0.01	$ (0.11)	$ (0.04)	$ (0.12)	$ (0.10)	$ (0.08)	$ (0.25)	$ (0.12)

(1) Refer to MD&A: see "NON-GAAP MEASURMENTS"

FORWARD LOOKING STATEMENTS

This MD&A contains certain forward-looking statements and forward-looking information (collectively referred to herein as "forward-looking statements") within the meaning of applicable Canadian securities laws. All statements other than statements of present or historical fact are forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "anticipate", "achieve", "believe", "plan", "intend", "objective", "continuous", "ongoing", "estimate", "outlook", "expect", "may", "will", "project", "should" or similar words suggesting future outcomes. In particular, this MD&A contains forward-looking statements relating to, among other things: future industry activity levels and rig counts; commodity pricing; potential activity increases; the potential for labour shortages; potential for pricing improvements; and projected capital expenditures and commitments and the timing and financing thereof.

The Company believes the expectations reflected in such forward-looking statements are reasonable as of the date hereof but no assurance can be given that these expectations will prove to be correct and such forward-looking statements should not be unduly relied upon.

Various material factors and assumptions are typically applied in drawing conclusions or making the forecasts or projections set out in forward-looking statements. Those material factors and assumptions are based on information currently available to the Company, including information obtained from third party industry analysts and other third party sources. In some instances, material assumptions and material factors are presented elsewhere in this MD&A in connection with the forward-looking statements. You are cautioned that the following list of material factors and assumptions is not exhaustive. Specific material factors and assumptions include, but are not limited to:

- the performance of Cathedral's business
- impact of economic and social trends;
- oil and natural gas commodity prices and production levels;
- capital expenditure programs and other expenditures by Cathedral and its customers;
- the ability of Cathedral to retain and hire qualified personnel;
- the ability of Cathedral to obtain parts, consumables, equipment, technology, and supplies in a timely manner to carry out its activities;
- the ability of Cathedral to maintain good working relationships with key suppliers;
- the ability of Cathedral to retain customers, market its services successfully to existing and new customers and reliance on major customers;
- risks associated with technology development and intellectual property rights;
- obsolesce of Cathedral's equipment and/or technology;
- the ability of Cathedral to maintain safety performance;
- the ability of Cathedral to obtain adequate and timely financing on acceptable terms;
- the ability of Cathedral to comply with the terms and conditions of its credit facility;
- the ability of Cathedral to continue as a going concern in the future;
- the ability to obtain sufficient insurance coverage to mitigate operational risks;
- currency exchange and interest rates;
- risks associated with future foreign operations;
- risks associated with acquisitions, dispositions and business development efforts;
- environmental risks;
- business risks resulting from weather, disasters and related to information technology;
- changes under governmental regulatory regimes and tax, environmental, climate and other laws in Canada and the U.S.; and
- competitive risks.

Forward-looking statements are not a guarantee of future performance and involve a number of risks and uncertainties some of which are described herein. Such forward-looking statements necessarily involve known and unknown risks and uncertainties, which may cause the Company's actual performance and financial results in future periods to differ materially from any projections of future performance or results expressed or implied by such forward-looking statements. These risks and uncertainties include, but are not limited to, the risks identified in this MD&A and in the Company's Annual Information Form under the heading "Risk Factors". Any forward-looking statements are made as of the date hereof and, except as required by law, the Company assumes no obligation to publicly update or revise such statements to reflect new information, subsequent or otherwise.

All forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement. Further information about the factors affecting forward-looking statements is available in the Company's current Annual Information Form that has been filed with Canadian provincial securities commissions and is available on www.sedar.com.

NON-GAAP MEASUREMENTS

Cathedral uses certain performance measures throughout this document that are not defined under GAAP. Management believes that these measures provide supplemental financial information that is useful in the evaluation of Cathedral's operations and are commonly used by other oilfield companies. Investors should be cautioned, however, that these measures should not be construed as alternatives to measures determined in accordance with GAAP as an indicator of Cathedral's performance. Cathedral's method of calculating these measures may differ from that of other organizations, and accordingly, may not be comparable.

The specific measures being referred to include the following:

i) "Adjusted gross margin" - calculated as gross margin plus non-cash items (depreciation and share-based compensation); is considered a primary indicator of operating performance (see tabular calculation);

ii) "Adjusted gross margin %" - calculated as adjusted gross margin divided by revenues; is considered a primary indicator of operating performance (see tabular calculation); and

iii) "Adjusted EBITDAS" - defined as earnings before finance costs, unrealized foreign exchange on intercompany balances, taxes, depreciation, non-recurring costs (including severance and non-cash provision for bad debts), write-down of equipment, write-down of inventory and share-based compensation; is considered an indicator of the Company's ability to generate funds flow from operations prior to consideration of how activities are financed, how the results are taxed and measured and non-cash expenses (see tabular calculation).

The following tables provide reconciliations from GAAP measurements to non-GAAP measurements referred to in this MD&A:

Adjusted gross margin

	Three months ended September 30		Nine months ended September 30	
	2021	2020	2021	2020
Gross margin	$ 1,953	$ (2,516)	$ (2,146)	$ (7,822)
Add non-cash items included in cost of sales:				
Depreciation	3,380	3,520	9,092	11,436
Share-based compensation	32	17	66	56
Adjusted gross margin	$ 5,365	$ 1,021	$ 7,012	$ 3,670
Adjusted gross margin %	27%	20%	18%	11%

Adjusted EBITDAS

	Three months ended September 30		Nine months ended September 30	
	2021	2020	2021	2020
Loss before income taxes	$ 403	$ (4,170)	$ (7,529)	$ (22,234)
Add:				
Depreciation included in cost of sales	3,337	3,520	9,049	11,436
Depreciation included in selling, general and administrative expenses	134	147	401	426
Share-based compensation included in cost of sales	32	17	66	56
Share-based compensation included in selling, general and administrative expenses	52	42	101	129
Finance costs	60	113	249	231
Finance costs lease liabilities	195	223	605	700
Subtotal	4,213	(108)	2,942	(9,256)
Impairment and direct write-downs	-	-	-	6,994
Unrealized foreign exchange (gain) loss on intercompany balances	692	(611)	(230)	749
Non-recurring expenses	265	803	593	1,832
Adjusted EBITDAS	$ 5,170	$ 84	$ 3,305	$ 319

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

September 30, 2021 and December 31, 2020
Dollars in '000s
(unaudited)

	September 30 2021	December 31 2020
Assets		
Current assets:		
Cash	$ 2,446	$ 1,034
Trade receivables	15,219	4,784
Prepaid expenses	723	709
Inventories	7,843	8,118
Total current assets	26,231	14,645
Equipment (note 5)	35,467	35,620
Intangible assets	1,679	2,244
Right of use asset (note 6)	10,406	11,771
Total non-current assets	47,552	49,635
Total assets	$ 73,783	$ 64,280
Liabilities and Shareholders' Equity		
Current liabilities:		
Trade and other payables	$ 9,228	$ 4,425
Current taxes payable	52	140
Loans and borrowings, current	1,000	-
Lease liabilities, current (note 6)	2,156	2,247
Liability for settlements, current	38	153
Total current liabilities	12,474	6,965
Loans and borrowings (note 8)	3,430	1,560
Lease liabilities, long-term (note 6)	14,231	15,781
Total non-current liabilities	17,661	17,341
Total liabilities	30,135	24,306
Shareholders' equity:		
Share capital (note 9)	98,915	88,155
Contributed surplus	11,720	11,071
Accumulated other comprehensive income	9,134	9,340
Deficit	(76,121)	(68,592)
Total shareholders' equity	43,648	39,974
Total liabilities and shareholders' equity	$ 73,783	$ 64,280

See accompanying notes to condensed consolidated interim financial statements.

Notice of No Auditor Review of Unaudited Condensed Consolidated Interim Financial Statements
Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated interim financial statements of Cathedral Energy Services Ltd. (the "Company") have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these unaudited condensed consolidated interim financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

Three and nine months ended September 30, 2021 and 2020
Dollars in ‘000s except per share amounts
(unaudited)

	Three months ended September 30		Nine months ended September 30	
	2021	2020	2021	2020
Revenues (note 8)	$ 20,127	$ 4,990	$ 38,814	$ 33,126
Cost of sales:				
Direct costs	(14,762)	(3,969)	(31,802)	(29,456)
Depreciation	(3,337)	(3,520)	(9,049)	(11,436)
Share-based compensation	(32)	(17)	(66)	(56)
Total cost of sales	(18,131)	(7,506)	(40,917)	(40,948)
Gross margin	1,996	(2,516)	(2,103)	(7,822)
Selling, general and administrative expenses:				
Direct costs	(2,023)	(2,010)	(5,753)	(6,268)
Depreciation	(134)	(147)	(401)	(426)
Share-based compensation	(52)	(42)	(101)	(129)
Total selling, general and administrative expenses	(2,209)	(2,199)	(6,255)	(6,823)
	(213)	(4,715)	(8,358)	(14,645)
Technology group expenses	(183)	(77)	(533)	(812)
Gain on disposal of equipment	1,773	344	2,017	1,863
Income (loss) from operating activities	1,377	(4,448)	(6,874)	(13,594)
Finance costs	(60)	(113)	(249)	(231)
Finance costs lease liabilities	(195)	(223)	(605)	(700)
Foreign exchange gain (loss)	(719)	614	199	(715)
Impairment and direct w rite-dow ns	-	-	-	(6,994)
Income (loss) before income taxes	403	(4,170)	(7,529)	(22,234)
Income tax recovery (expense):				
Current	-	-	-	1,187
Deferred	-	(844)	-	(372)
Total income tax recovery (expense)	-	(844)	-	815
Net income (loss)	403	(5,014)	(7,529)	(21,419)
Other comprehensive income (loss):				
Foreign currency translation differences for foreign operations	723	(810)	(206)	1,241
Total comprehensive income (loss)	$ 1,126	$ (5,824)	$ (7,735)	$ (20,178)
Net income (loss) per share				
Basic	$ 0.01	$ (0.10)	$ (0.13)	$ (0.43)
Diluted	$ 0.01	$ (0.10)	$ (0.12)	$ (0.43)

See accompanying notes to condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Three and nine months ended September 30, 2021 and 2020
Dollars in '000s
(unaudited)

	Share capital	Contributed surplus	Accumulated other comprehensive income	Deficit	Total shareholders' equity
Balance at December 31, 2019	**$ 88,155**	**$ 10,864**	**$ 9,934**	**$ (40,861)**	**$ 68,092**
Total comprehensive loss for nine months					
ended September 30, 2020	-	-	1,241	(21,419)	(20,178)
Share-based compensation	-	185	-	-	185
Balance at September 30, 2020	**$ 88,155**	**$ 11,049**	**$ 11,175**	**$ (62,280)**	**$ 48,099**
Balance at December 31, 2020	**$ 88,155**	**$ 11,071**	**$ 9,340**	**$ (68,592)**	**$ 39,974**
Total comprehensive loss for nine months					
ended September 30, 2021	-	-	(206)	(7,529)	(7,735)
Issue of shares on private placement	3,342	34	-	-	3,376
Issue of shares on business acquistion	5,896	454			6,350
Issue of shares on asset acquisition	1,500				1,500
Issue of shares from option exercise	22	(6)			16
Share-based compensation	-	167	-	-	167
Balance at September 30, 2021	**$ 98,915**	**$ 11,720**	**$ 9,134**	**$ (76,121)**	**$ 43,648**

See accompanying notes to condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Three and nine months ended September 30, 2021 and 2020
Dollars in '000s
(unaudited)

	Three months ended September 30		Nine months ended September 30	
	2021	2020	2021	2020
Cash provided by (used in):				
Operating activities:				
Net income (loss)	$ 403	$ (5,014)	$ (7,529)	$ (21,419)
Items not involving cash				
Depreciation	3,471	3,667	9,450	11,862
Share-based compensation	84	59	167	185
Income tax expense (recovery)	-	844	-	(815)
Gain on disposal of equipment	(1,773)	(344)	(2,017)	(1,863)
Finance costs	60	113	249	231
Finance costs lease liability	195	223	605	700
Unrealized foreign exchange (gain) loss on intercompany balances	692	(611)	(230)	749
Impairment and direct write-downs	-	-	-	6,994
Cash flow - continuing operations	3,132	(1,063)	695	(3,376)
Changes in non-cash operating working capital	(4,885)	4,677	(4,705)	4,436
Income taxes paid	(47)	(70)	(90)	(100)
Cash flow - operating activities	(1,800)	3,544	(4,100)	960
Investing activities:				
Equipment additions	(1,471)	(556)	(2,799)	(1,325)
Intangible asset additions	-	-	-	(212)
Proceeds on disposal of equipment	1,980	633	2,278	2,419
Changes in non-cash investing working capital	(531)	(305)	(649)	(363)
Cash flow - investing activities	(22)	(228)	(1,170)	519
Financing activities:				
Repayments on lease liabilities	(459)	(352)	(1,624)	(1,562)
Proceeds on share issuance	3,014	-	6,407	-
Advances of loans and borrowings	2,345	-	6,004	-
Repayments on loans and borrowings	(1,219)	(5,386)	(3,134)	(5,386)
Payment on settlements	(38)	(80)	(113)	(122)
Interest paid	(255)	(336)	(854)	(931)
Cash flow - financing activities	3,388	(6,154)	6,686	(8,001)
Effect of exchange rate on changes on cash	25	(91)	(4)	117
Change in cash	1,591	(2,929)	1,412	(6,405)
Cash, beginning of period	855	3,747	1,034	7,223
Cash, end of period	$ 2,446	$ 818	$ 2,446	$ 818

See accompanying notes to condensed consolidated interim financial statements.

1. Reporting entity

Cathedral Energy Services Ltd. (the “Company” or “Cathedral”) is a company domiciled in Canada. The Company is a publicly traded company listed on the Toronto Stock Exchange under symbol "CET". The consolidated financial statements of the Company as at and for the period September 30, 2021 comprise the Company and its 100% owned subsidiary, Cathedral Energy Services Inc. ("INC"), (together referred to as “Cathedral”). INC is incorporated in the United States of America ("U.S.") and its functional currency is U.S. dollars ("USD").

The Company and INC are primarily involved and engaged in the business of providing directional drilling services to oil and natural gas companies in western Canada and the U.S.

2. Basis of preparation

(a) Statement of compliance

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* ("IAS 34") ("IFRS" or "GAAP").

Accordingly, certain information and footnote disclosures normally included in the annual financial statements prepared in accordance with IFRS, as issued by the International Accounting Standards Board ("IASB"), have been omitted or condensed. It also requires management to exercise judgment in applying the Company's accounting policies. These unaudited condensed consolidated interim financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2020, which are included in the Company's 2020 Annual Report.

The unaudited condensed consolidated interim financial statements were authorized for issue by the Board of Directors on November 9, 2021.

(b) Basis of measurement

The unaudited condensed consolidated interim financial statements have been prepared on the historical cost basis.

(c) Functional and presentation currency

These unaudited condensed consolidated interim financial statements are presented in Canadian dollars ("CAD"), which is the Company’s functional currency. All financial information presented in dollars has been rounded to the nearest thousand except for share and per share amounts.

(d) Significant accounting policies

These unaudited condensed interim consolidated financial statements have been prepared in accordance with IFRS using the same accounting policies as outlined in note 3 of the consolidated financial statements for the year ended December 31, 2020 and have been applied consistently by the Company.

(e) Future Accounting Pronouncements
There were no new or amended standards issued during the period ended September 30, 2021 that are applicable to the Company in future periods.

(f) Use of estimates and judgements

The preparation of the condensed consolidated interim financial statements in conformity with GAAP requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. The significant judgements made by management in applying the Company’s accounting policies and the information used in assessing uncertainty and have not changed significantly since December 31, 2020.

3. Acquisitions

On July 23, 2021, the Company announced the closing of Cathedral’s acquisition of Precision Drilling Corporation's ("Precision") directional drilling business (the “Transaction”) for a purchase price of $6,350. The Transaction includes the operating assets and personnel of Precision’s directional drilling business (including its operations facility in Nisku, Alberta), and a $3,000 cash investment by Precision to support growth and expansion of Cathedral, including continuing the buildout of RapidFire™ measurement-while-drilling guidance systems and nDurance™ drilling motors. Additionally, the Transaction is expected to enhance margins as expenses related to rental equipment used by Precision are replaced with proprietary Cathedral tools.

Cathedral issued 13,400,000 common shares (the “Consideration Shares”) along with warrants to purchase an additional 2,000,000 common shares of Cathedral at a price of $0.60 per common share within a two-year period after closing. In addition to a 4-month statutory hold period on the Consideration Shares, the parties have agreed to contractual restrictions on resale as follows: 25% of the Consideration Shares are restricted until January 22, 2022; a further 25% of the Consideration Shares are restricted until July 22, 2022; and a further 50% of the Consideration Shares are restricted until July 22, 2023, subject to certain exceptions.

The Company has allocated the $6,350 purchase as follows:

- Cash $3,000
- Land and building $1,500; and
- Equipment $$1,850.

The Company has expensed $139 in costs related to the Transaction. As the acquired assets were integrated into Cathedral's existing directional drilling operations it is impracticable to break-out the revenue and profit or loss of the acquired assets since the acquisition.

In addition, on September 7, 2021 the Company completed the acquisition of the operating assets of Valiant Energy Services Ltd. (“Valiant”), an Alberta-based directional drilling company, for a purchase price of $1,500,000. The purchase price was satisfied through the issuance of 3,464,204 common shares of Cathedral to Valiant. These shares will be subject to a 4-month statutory hold period. The Company has expensed $41 in costs related to this acquisition. The principal owner of Valiant, Mr. Vaugn Spengler, has entered into a long-term performance-based agreement to remain with Cathedral and will continue to focus on opportunities to support and expand the existing customer base.

4. Equipment

During the period, there were additions to drilling equipment of $2,799 (2020 - $1,325).

5. Right of use asset and lease liabilities

Right of use asset - Real Property		September 30 2021		December 31 2020
Balance, start of period	$	11,771	$	19,590
Depreciation		(1,361)		(1,848)
Impairments and direct write-downs		-		(6,285)
Exchange adjustments		(4)		314
Balance, end of period	$	10,406	$	11,771

Lease liabilities

Lease liabilities		Vehicles		Real Property		Total
Balance, December 31, 2020	$	17	$	18,011	$	18,028
Interest		-		605		605
Disposals		(2)		-		(2)
Payments		(6)		(2,222)		(2,228)
Exchange adjustments		-		(16)		(16)
Subtotal	$	9	$	16,378	$	16,387
Less current portion		(9)		(2,147)		(2,156)
Lease liabilities, long-term	$	-	$	14,231	$	14,231

The maturity analysis of the undiscounted contractual balances of the lease liabilities is as follows:

In one year or less	$	2,801
In more than one year, but not more than five years		10,610
In more than five years		9,895
Total	$	23,306

6. Loans and borrowings

Bank facility

The Company's Facility consists of a $12,000 extendible revolving credit facility with a single lender which was amended and extended in 2021 Q2 to expire June 30, 2023. The Facility is secured by a general security agreement over all present and future personal property. The Facility provides a definition of EBITDA (“Credit Agreement EBITDA”) to be used in calculation of financial covenants. The Facility bears interest at the financial institution’s prime rate plus 1.75% to 3.25% or bankers’ acceptance rate plus 3.00% to 4.25% with interest payable monthly. Interest rate spreads for the Facility depend on the level of funded debt compared to the 12 month trailing Credit Agreement EBITDA. The Facility provides a means to lock in a portion of the debt at interest rates through bankers' acceptance (“BA”) based on the interest rate spread on the date the BA was entered into.

In June 2021, the Company amended and extended its credit facility (the "Facility").

Commencing with the fiscal period ending September 30, 2021 (“2021 Q3”) and ending with the fiscal period ending March 31, 2022 (“2022 Q1”), the definition of Credit Agreement EBITDA will be based on pro-rating Credit Agreement EBITDA to a 12-month equivalent (Consolidated EBITDA Annualization Period”). The calculations are as follows:

- For the fiscal period ending 2021 Q3, the Credit Agreement EBITDA is the calculated amount for the 3 months of 2021 Q3 times four;
- For the fiscal period ending December 31, 2021 (“2021 Q4”), the Credit Agreement EBITDA is the calculated amount for the 3 months of 2021 Q3 plus the 3 months of 2021 Q4 times two;
- For the fiscal period ending 2022 Q1, the Credit Agreement EBITDA is the calculated amount for the 3 months of 2021 Q3 plus the 3 months of 2021 Q4 plus the 3 months of 2022 Q1 divided by 3 and then times 4;
- During the Consolidated EBITDA Annualization Period, the Facility will bear interest at the maximum rates for the ranges noted;
- The Company, at its one-time option can choose to exit the Consolidated EBITDA Annualization Period and revert back to the original definition of Credit Agreement EBITDA and the Facility will bear interest at the applicable rates. For the fiscal period ending June 30, 2022 (“2022 Q2”), the Credit Agreement EBITDA will revert back to the trailing 12-month calculation.

The Facility also features the following amendments:

- There is no cap in place and the Company has access to the full $12,000 facility;
- Aggregate capital expenditures (excluding non-cash utilization of existing inventory) for the fiscal year ended December 31, 2021, are not to exceed $9,000; and
- Consolidated funded debt to tangible net worth (“TNW”) ratio will no longer be tested after 2021 Q2.

The financial covenants associated with the Facility that will be tested commencing 2021 Q3 are:

- Consolidated funded debt to consolidated Credit Agreement EBITDA ratio shall not exceed 3.0:1; and
- Consolidated Credit Agreement EBITDA to consolidated interest ratio shall not be less than 2.5:1.

Compliance with Facility covenants

At September 30, 2021, the Company had drawn $3,430 of its bank facility and had $2,446 in cash. Consolidated funded debt of $4,249 includes six outstanding letters of credit ("LOC") totaling $1,827. For the period ended September 30, 2019, Annualized Credit Agreement EBITDA was $18,952 and Bank Funded Debt was $3,714.

The calculation of the financial covenants under the Facility as at September 30, 2021 is as follows:

Covenant	Actual Ratio	Required Ratio
Consolidated funded debt to consolidated Annualized Credit Agreement EBITDA	0.2	3.0 (maximum)
Consolidated Annualized Credit Agreement EBITDA to consolidated interest ratio	61.3	2.5 (minimum)

The Company was in compliance with all covenants at September 30, 2021.

Current facility - Highly Affected Sectors Credit Availability Program ("HASCAP")

In conjunction with the credit amendment and extension referenced above, the Company applied for and received a further $1,000 of liquidity from HASCAP. The incremental $1,000 non-revolving loan is fully drawn and further augments Cathedral's liquidity to $13,000 in combination with the Company's ability to access the full $12,000 Facility. The demand loan has an interest rate of 4% and is amortized over a ten-year period. Repayment terms are interest only for the first year, and principal plus interest for the remaining nine years, payable on a monthly basis. The HASCAP Loan is secured by a general security interest over all present and after acquired personal property of the Company granted in favour of ATB.

7. Share capital

Authorized: An unlimited number of common shares and an unlimited number of preferred shares (issuable in series).

Common shares issued:

	Nine months ended September 30, 2021	
	Number	Amount
Issued, beginning of period	49,468,117	$ 88,155
Issued on private placements	13,804,500	3,342
Issue of shares on business acquistion	13,400,000	5,896
Issue of shares on asset acquisition	3,464,204	1,500
Issued on exercise of options	53,332	22
Issued, end of period	80,190,153	$ 98,915

Issuance of common shares

53,332 common shares were issued as a result of the exercise of vested options arising from grants to employees in 2019. Options were exercised at an average strike price of $0.30 per option. All issued shares are fully paid.

1,150,000 were issued on February 8, 2021 on a bought deal basis (the "Bought Deal"). Shares were issued at $0.17 per share. There were no share issue costs that have been deducted against the gross proceeds of $196.

12,654,500 shares were issued on May 31, 2021 on a Bought Deal. Shares were issued at $0.25 per share. There were $16 in share issue costs that have been deducted against the gross proceeds of $3,162.

13,400,000 shares were issued July 22, 2021 related to the Precision Transaction. The shares were issued at $0.44 per share. As this is accounted for as a business combination, there are no issue costs deducted against the proceeds.

3,464,204 shares were issued September 7, 2021 related to the Valiant asset acquisition. The shares were issued at $0.43 per share. There are no issue costs deducted against the proceeds.

Basic earnings (loss) per share

The calculation of basic earnings per share for the three and nine months ended September 30, 2021 was based on the net income (loss) attributable to common shareholders of $403 and ($7,529) (2020 – ($5,014) and ($21,419)) and a weighted average number of common shares outstanding as follows:

Weighted average number of ordinary shares

	Three months ended September 30		Nine months ended September 30	
	2021	2020	2021	2020
Issued, beginning of period	63,325,949	49,468,117	49,468,117	49,468,117
Effect of shares issued	11,099,358	-	10,451,774	-
Weighted average number of common shares at end of period	74,425,307	49,468,117	59,919,891	49,468,117

Diluted earnings (loss) per share

The calculation of diluted earnings per share for the three months ended September 30, 2021 was based on the net earnings attributable to common shareholders of $403. There is no calculation of diluted earnings per share in all other periods as the Company was in loss positions. The weighted average number of common shares outstanding after adjustment for the effects of all dilutive potential common shares as follows:

Weighted average number of common shares (diluted)

	Three months ended September 30		Nine months ended September 30	
	2021	2020	2021	2020
Weighted average number of common shares (basic)	74,425,307	49,468,117	59,919,891	49,468,117
Effect of share options on issue	933,381	-	500,011	-
Weighted average number of common shares (diluted) at end of period	75,358,688	49,468,117	60,419,902	49,468,117

At September 30, 2021, 3,246,100 options (2020 – 1,669,000 options) for the three months ended September 30 and 1,669,000 options (2020 – 2,420,500 options) for the nine months ended September 30 were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive. The average market value of the Company's common shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period during which the options were outstanding.

During the period ended September 30, 2021, the Company granted the following options:

- 600,000 stock options were granted to the new President, CEO and Director, with an exercise price or $0.18 per option which will expire February 8, 2024;
- 335,000 were granted to other employees at an exercise price of $0.26 which expire February 15, 2024;
- 700,000 were granted to other employees at an exercise price of $0.27 of which 200,000 expire on August 31, 2022 and 500,000 expire April 19, 2024;
- 450,000 were granted to other employees at an exercise price of $0.31 which expire May 26, 2024; and
- 2,796,100 were granted to officers, directors and employees as the annual option grant at an exercise price of $0.50 which expire August 12, 2024.

The following is a summary of other assumptions used in applying the Black-Scholes model for the options issued as well as the resulting fair value:

- Expected annual dividend per share is $0;
- Risk free interest rate ranges from 0.2% to 0.4%;
- Expected share price volatility (weighted average) ranges from 94% to 127%; and
- Forfeiture rate for employees is 10%; for officers and directors this is 0%.

The resultant fair values of the options range from $0.11 to $0.30.

8. Revenue

a) Disaggregation of revenue

The following table reconciles revenue by geographic location:

	Three months ended September 30		Nine months ended September 30	
	2021	2020	2021	2020
Canada	$ 16,118	$ 1,328	$ 27,426	$ 9,794
United States	4,009	3,662	11,388	23,330
Total	$ 20,127	$ 4,990	$ 38,814	$ 33,124

b) Seasonality of operations

A portion of the Company's operations are carried on in western Canada where activity levels in the oilfield services industry are subject to a degree of seasonality. Operating activities in western Canada are generally lower during "spring breakup" which normally commences in mid to late March and continues through to May. Operating activities generally decrease in the fall and peak in the winter months from December until mid to late March. Additionally, volatility in the weather and temperatures not only during this period, but year round, can create additional unpredictability in operational results. Activity levels in the oil and natural gas basins in the U.S. are not subject to seasonality to the same extent that it occurs in the western Canada region.

9. Government grants

For the three and nine months ended September 30, 2021, the Company recognized the benefit from the CEWS program of $259 and $916 (2020 - $741 three months and $1,378 nine months and $nil (2020 - $992) from PPP which reduced salary expenses as follows:

- Cost of sales $154 and $544 (2020 - $1,271 and $1,478);
- Selling, general and administrative expenses $84 and $298 (2020 - $394 and $659); and
- Technology group expenses $21 and $74 (2020 - $122 and $233).

10. Commitments

In the normal course of business, the Company incurs contractual obligations and those obligations are disclosed in the Company's MD&A for the year ended December 31, 2020. As at September 30, 2021, the Company's commitments to purchase equipment of $391 which are expected to be incurred in 2021 Q4 and 2022 Q1.

The Company has issued the following six LOC:

- three securing rent payments on property leases and renew annually with the landlords. Two LOCs total $700 CAD for the first ten years of the lease and then reduce to $500 for the last five years of the leases. The third LOC is currently for $629 USD and increases annually based upon annual changes in rent;
- two securing the Company's corporate credit cards in the amounts of $75 CAD and $175 USD; and
- one in lieu of cash deposit for utilities in the amounts of $55 CAD.