2022 Q3 INTERIM REPORT

Amounts in 000's CAD except per share amounts or where noted that amount is in USD

FINANCIAL HIGHLIGHTS

	Three months ended September 30			Nine months ended September 30		
	2022	2021	% change	2022	2021	% change
Revenues	$ 107,846	$ 20,127	436%	$ 169,883	$ 38,814	338%
Adjusted gross margin % (1)	31%	27%		29%	19%	
Adjusted EBITDAS (1)	$ 28,065	$ 5,433	417%	$ 37,903	$ 3,365	1026%
Cash flow - operating activities	$ 5,481	$ (1,800)	n/m	$ 8,234	$ (4,100)	n/m
Free cash flow (1)	$ 22,870	$ 4,169	449%	$ 25,390	$ 827	2970%
Income (loss) from operating activities	$ 15,397	$ 1,708	801%	$ 15,923	$ (5,935)	n/m
Basic and diluted per share	$ 0.08	$ 0.02	300%	$ 0.11	$ (0.10)	n/m
Net income (loss)	$ 8,658	$ 403	2048%	$ 8,077	$ (7,529)	n/m
Basic and diluted per share	$ 0.04	$ 0.01	300%	$ 0.06	$ (0.13)	n/m
Equipment additions	$ (7,730)	$ (1,471)	425%	$ (17,252)	$ (2,799)	516%
Weighted average shares outstanding						
Basic (000s)	197,085	74,425		142,727	59,920	
Diluted (000s)	199,163	75,359		145,158	60,420	

	September 30 2022	December 31 2021
Working capital	$ 35,528	$ 14,117
Total assets	$ 336,429	$ 75,423
Loans and borrowings	$ 89,593	$ 6,035
Shareholders' equity	$ 139,701	$ 42,504

(1) Refer to "NON-GAAP MEASUREMENTS"

"n/m" = not meaningful

MANAGEMENT'S DISCUSSION & ANALYSIS

This Management's Discussion & Analysis ("MD&A") for the three months and nine months ended September 30, 2022 should be read in conjunction with the annual audited consolidated financial statements and notes thereto for the year ended December 31, 2021, as well as the MD&A in the 2021 Annual Report of Cathedral Energy Services Ltd. (the "Company" or "Cathedral"). This MD&A has been prepared as of November 14, 2022. Dollar amounts are in '000's except for day rates and per share amounts.

This MD&A contains references to Adjusted gross margin (gross margin plus non-cash items of depreciation and share-based compensation), Adjusted gross margin % (adjusted gross margin divided by revenues) and Adjusted EBITDA (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). These terms do not have standardized meanings prescribed under International Financial Reporting Standards (IFRS) and may not be comparable to similar measures used by other companies, see "Non-GAAP Measures" later in this MD&A.

2022 Q3 KEY TAKEAWAYS – CONSOLIDATION STRATEGY PRODUCES RECORD THIRD QUARTER RESULTS

- Consolidated revenue of $107,846 is the highest quarterly revenue in the Corporation's history.
- Adjusted EBITDAS also posted a new record for any quarter in Cathedral's 24-year history, reaching $28,065.
- 2022 Q3 achieved net income of $8,658 compared to $403 in 2021 Q3.
- Net income margin (net income divided by revenues) was over 10% for the first time in over six years.
- Highest level of quarterly revenue on record for the Canadian division.
- The highest level of revenue ever generated by the Company's US division.
- The Corporation generated free cash flow (see non-GAAP measurements) of $22,090 in the quarter.
- Cathedral significantly increased its North American footprint and cemented one of the top positions in market share for the onshore US directional drilling market with the acquisition of Altitude Energy Partners for $131,711.
- Canadian directional drilling market share averaged 24.3% in 2022 Q3 vs. 17.7% one year ago.
- U.S. directional drilling market share grew to 6.5% in the quarter due to the AEP acquisition.
- As a result of the AEP acquisition, the Company closed July 2022 with loans and borrows less cash of $91,180 which has subsequently been reduced to $81,786 by September 30, 2022.

- With a constructive outlook for 2023, the board has approved a preliminary net capex budget of $35,000 which will enable advance orders of strategic equipment.
- Subsequent to 2022 Q2, Cathedral furthered its consolidation strategy and announced the formation of a Marketing and Technology Alliance and acquisition of the operating assets and personnel of Ensign Energy Services' directional drilling business.
- The Marketing and Technology Alliance further differentiates Cathedral and represents a key alliance with a second major North American drilling contractor.
- A strengthened US dollar also positively impacted results during the third quarter.

PRESIDENT'S MESSAGE

Comments from President & CEO Tom Connors:

Since March of 2021, we have executed on our strategy of size and scale, focused on downhole directional drilling services and our proprietary technology rental product offering. Through September 2022, we have closed 6 transactions with a 7th transaction in October of 2022. These transactions have consolidated the industry, resulted in financial synergies, improved financial performance due to greater size and scale as well as strengthened our executive, management and operational team. We continue to be constructive on further execution of our strategy, focused on consolidation opportunities, technology development, and internal growth.

The third quarter of 2022 was a transformational one for the Company on both sides of the Canada-US border. Financial results are now starting to reflect the power of the combination of companies and people we have brought together. Revenue and Adjusted EBITDAS both hit new all-time records for Cathedral and that is before a full quarter of contribution from the Altitude acquisition in July and the acquisition of Ensign Energy Services Inc. ("Ensign") Canadian directional drilling business unit in October of 2022.

Our CAD $131,712 acquisition of Altitude Energy Partners, which closed on July 13, 2022, vaulted Cathedral into the position of being one of the largest independent directional drilling companies in the US. Altitude gives Cathedral roughly 9% market share in the Permian – considered widely to be one of the world's most important areas for oil and gas development. Altitude becomes the new US brand and platform for Cathedral's directional drilling business in the US alongside our US high-performance mud motor technology rental business – Discovery Downhole Services. The purchase of Altitude continued the now 15-month history by Cathedral of targeting and executing accretive, strategic acquisitions. Altitude was the sixth acquisition since July 2021, with each one adding key pieces of regional or national market share, people and technology to make Cathedral a formidable North American technology and service company in the directional space. Altitude also gives Cathedral a sizable platform in the US Rockies as well as immediate entry into the important Haynesville natural gas play – one that will be a chief supply area for the massive build-out of US LNG. Altitude has a strong leadership team, excellent market penetration with its RSS offering and the ability to generate substantial free cash flow going forward. The valuations were in line with our previous acquisitions and we are already witnessing the accretive nature of the transaction with an excellent performance in our first quarter together.

Cathedral continued its testing of the D-Tech RSS (rotary steerable system) tool in Canada and drilled a number of successful wells. We are currently evaluating the next phase of expansion of our RSS technology in Canada. In the US, Altitude's 16 Orbit RSS tools continue to drive performance for our customers and represent a significant mix of our US revenue and increased overall revenue rates on a per day basis. We expect Cathedral's service and technology offering will continue to differentiate itself in the North American directional market.

With increased size and scale and corresponding free cash flow we anticipate being able to fund capex and further differentiate ourselves in the market with the expansion of our technology platforms and make significant progress towards further reducing our debt levels in Q4 2022 and through 2023. The board has approved a preliminary net capital expenditures budget of $35,000 for 2023 which will allow for advanced orders of strategic equipment in anticipation of continued strong demand.

In the beginning of the fourth quarter 2022, we completed another transaction and added a complementary customer base with the acquisition of the Canadian directional drilling assets of another major land driller, Ensign Energy Services Inc. In this transaction, we added some operating capacity with the addition of assets and welcomed into Cathedral some experienced key personnel. Similar to our previous acquisition of Precision's directional drilling business, Ensign's Canadian directional drilling business unit forms an excellent addition to Cathedral's existing platform and should help propel our market share in Canada above 25%. We are particularly excited about the quality of people we are gaining as well as a customer list, which is substantially additive to our own. We have also signed a Marketing and Technology alliance with Ensign that will help us build our client base and collaborate together on technology that supports the continuous improvement of drilling performance through Auto-Assisted drilling.

With the recent acquisition, we now have two strategic Marketing and Technology Alliances with both Precision Drilling and Ensign. These alliances are contributing to revenue growth, integration of directional drilling services with drill rig services, improved drilling performance, and reducing field labour costs.

Although we have been very busy in 2021 and 2022 and grown considerably, management believes that the Company still has considerable runway to build out a much larger North American technology business that has directional drilling as its core. We remained focused on our strategy and excited about the opportunity to grow Cathedral into one of North America's pre-eminent directional drilling contractors.

2022 ACQUISITIONS

The purchase price allocation related to the acquisition is preliminary and may be subject to adjustments, which may be material, pending completion of final valuations. In a business combination, it generally takes time to obtain the information necessary to measure fair values of assets acquired and liabilities assumed. Changes in the provisional measurements of assets and liabilities acquired may be recorded as part of the purchase price allocation as new information is obtained, until the final measurements are determined no later than 12 months after the acquisition date. The Company is still in the process of identifying the assets acquired and liabilities assumed and assessing the fair value allocations relating to the inventory and intangible and capital assets acquired. Fair value is estimated using the latest available information as at the date of the financial statements. As a result, these preliminary allocations may change.

A summary of the acquisitions for the year are as follows:

		Discovery		Compass		LEXA		Altitude		Total
Consideration:										
Cash	$	18,160	$	4,000	$	-	$	87,245	$	109,405
Common shares		2,732		4,315		1,117		36,867		45,031
Lease liabilities assumed		1,579		240		-		2,354		4,173
Deferred tax liabilities assumed		-		647		109		5,245		6,001
Total consideration	$	22,471	$	9,202	$	1,226	$	131,711	$	164,610
Allocation of purchase price										
Working capital	$	3,283	$	444	$	250	$	13,568	$	17,545
Equipment		17,609		8,518		-		45,393		71,520
Right of use assets		1,579		240		-		2,354		4,173
Intangibles		-		-		976		34,433		35,409
Goodwill		-		-		-		35,963		35,963
Total	$	22,471	$	9,202	$	1,226	$	131,711	$	164,610

LEXA Drilling Technologies Inc.

The Company purchased the shares of LEXA Drilling Technologies Inc. ("LEXA"), a Calgary-based, downhole technology company for equity consideration in Cathedral. LEXA is focused on the development and commercialization of high data rate positive pulse MWD technology. They are also focused on developing technology that enhances and enables drilling automation through remote downhole directional equipment. The addition of high-performance pulse technology to Cathedral's industry leading electromagnetic technology will further strengthen the performance of Cathedral's existing MWD platform. As part of the transaction, Mr. Axel Schmidt has joined Cathedral as Senior Vice President, Engineering and Technology while Mr. Chad Robinson has joined as Chief Financial Officer. LEXA also brings an experienced engineering and development team.

On June 20, 2022, the Company acquired 90.98% of the shares of LEXA, its technology and products in development, Cathedral issued 1,612,891 common shares, which are subject to a four-month hold period. On July 19, 2022, the Company acquired the remaining 9.02% of the shares of LEXA in exchange for 159,836 common shares from Rod Maxwell, a director of Cathedral. These shares are also subject to a four-month hold period.

The Company has accounted for this transaction as a business combination. The amounts below are based on management's preliminary estimates of fair value at the time of preparation of these financial statements based on the best available information. Amendments may be made to these amounts as the values subject to estimation are finalized. The Company has allocated the purchase price as:

- Cash $70;
- Net working capital $180;
- Deferred tax liability ($109); and
- Intangibles $976;

The deferred tax liability was subsequently offset by the benefit of unrecorded tax attributes.

To date, the Company has not expensed any costs related to the Transaction. Prior to the acquisition, Cathedral was the only revenue source for LEXA so there are no revenues or operating profit before depreciation and interest to report.

Altitude Energy Partners, LLC

On July 14, the Company through its wholly owned U.S. subsidiary, CET Flight Holdco, Inc., closed its acquisition of Altitude Energy Partners, LLC ("Altitude") through payment of cash in the amount of $87,245 and the issuance of 67,031,032 common shares in of Cathedral. Additionally, the Company assumed lease liabilities and a deferred tax liability. Total consideration was $131,711.

Altitude was a privately-held, U.S.-based, directional drilling services business with headquarters in Wyoming, executive leadership based in Houston, and significant operations in Texas, most prominently in the Permian Basin. The Company continues to use the Altitude name and brand in the US. Further, the Altitude management team and its people will lead and operate Cathedral's existing US directional drilling business.

The amounts below are based on management's preliminary estimates of fair value at the time of preparation of these financial statements based on the best available information. Amendments may be made to these amounts as the values subject to estimation are finalized. The Company has allocated the purchase price as:

- Working capital $13,568;
- Equipment $45,393;
- Right of use asset $2,354;
- Intangibles $34,433; and
- Goodwill $35,963.

The intangibles assets consist of customer relationships, non-compete agreements, brand names and an assembled workforce and will be amortized over periods from 1 to 6 years.

As the acquiring entity, Flight, is incorporated in the U.S. and its functional currency is USD, these amounts will be revalued at current rates at each reporting period.

To date, the Company has expensed $1,022 in costs related to the Transaction.

For the period of July 14 to September 30, 2022, the acquired entity generated revenues of $60,958 and operating income before interest of $5,540. Revenues for the period of January 1 to July 13, 2022 were $102,954 USD and operating profit for that period was $14,263 USD.

SUBSEQUENT EVENTS

On October 27, 2022 the Company announced its acquisition of the operating assets and personnel of Ensign's Canadian directional drilling business (the "Transaction") in exchange for 7,017,988 common shares of Cathedral. In addition to a 4-month statutory hold period on these shares, the parties have agreed to customary contractual restrictions on resale. Ensign did not own any securities of Cathedral prior to the transaction. Post-closing, Ensign owns approximately 3.15% of Cathedral's issued and outstanding common shares on a non-diluted basis.

As part of the Transaction, Cathedral and Ensign entered into a Marketing and Technology Alliance ("the Marketing Alliance") which will help support and expand the customer base of both companies in the Canadian market.

RESULTS OF OPERATIONS – THREE MONTHS ENDED SEPTEMBER 30

The Company has 2 operating segments based on its geographic operating locations of Canada and U.S. and a non-operating segment, for joint corporate costs ("Corporate services"). The Company determines its reportable segments based on internal information regularly reviewed by management to allocate resources and assess performance. The Corporate services segment is comprised of costs which are managed on a group basis and are not allocated to the operating segments. The Corporate services segment primarily consists of general and administrative expenses, foreign exchange gains (losses), interest expenses and acquisition and reorganization costs.

Revenues		2022		2021
Canada	$	36,520	$	16,118
United States		71,326		4,009
Total	$	107,846	$	20,127
Cost of sales		(83,557)		(18,131)
Gross margin	$	24,289	$	1,996
Gross margin %		23%		10%
Adjusted gross margin (1)	$	33,633	$	5,365
Adjusted gross margin % (1)		31%		27%
Income (loss) before income taxes				
Canada	$	6,986	$	2,030
United States		9,765		(463)
Corporate services		(8,006)		(1,164)
Total	$	8,745	$	403

(1) Refer to "NON-GAAP MEASUREMENTS"

Revenues and cost of sales 2022 Q3 revenues were $107,846, which represented an increase of $87,719 or 436% from 2021 Q3 revenues of $20,127.

Gross margin for 2022 Q3 was 23% compared to 10% in 2021 Q3. Adjusted gross margin (see Non-GAAP Measurements) for 2022 Q3 was $33,633 or 31% compared to $5,365 or 27% for 2021 Q3.

Adjusted gross margin, as a percentage of revenue, increased due to lower field labour and a reduction in fixed costs as percentage of revenue partially offset by increased repairs and third party equipment rental costs.

Depreciation of equipment allocated to cost of sales increased to $9,116 in 2022 Q3 from $3,337 in 2021 Q3 due to the acquisitions in 2021 and 2022. Depreciation included in cost of sales as a percentage of revenue was 8% for 2022 Q3 and 17% in 2021 Q3.

Canadian segment

Canadian revenues increased to $36,520 in 2022 Q3 from $16,118 in 2021 Q3, an increase of $20,402 or 173%. This increase was the result of: i) a 77% increase in activity days to 3,311 in 2022 Q3 from 1,875 in 2021 Q3 and ii) a 28% increase in the average day rate to $11,030 in 2022 Q3 from $8,596 in 2021 Q3.

Based on publicly disclosed Canadian drilling and directional drilling days, Cathedral's market share for 2022 Q3 was 24.3% compared to 17.7% in 2021 Q3. Day rates in 2022 Q3 increased as 2021 was negatively impacted by lower drilling activity during COVID-19.

Canadian cost of sales, excluding non-cash items, as a percentage of revenue were 4% lower due to lower third party equipment rental costs and a reduction in fixed costs as a percentage of revenue, partially offset by higher field labour and repair expenses.

U.S. segment

The U.S. segment has significantly increased as a result of acquisitions completed in 2022.

U.S. revenues increased to $71,326 in 2022 Q3 from $4,009 in 2021 Q3, an increase of $67,317 or 1,679%. This increase was the result of: i) an 840% increase in activity days to 2,839 in 2022 Q3 from 302 in 2021 Q3; and ii) a 89% increase in the average day rate to $25,124 in 2022 Q3 from $13,275 in 2021 Q3 (when converted to Canadian dollars).

Based on publicly disclosed U.S. drilling rig activity, Cathedral's U.S. market share for 2022 Q3 was 6.5% compared to under 1% in 2021 Q3. Day rates in USD increased to $19,218 compared to $10,506 primarily due to the change in client mix.

U.S. cost of sales, excluding non-cash items, as a percentage of revenues decreased 23% due to due to lower field labour, repairs and a reduction in fixed costs as percentage of revenue, partially offset by higher third party equipment rental expenses.

Selling, general and administrative ("SG&A") expenses SG&A expenses were $12,924 in 2022 Q3; an increase of $11,046 compared with $1,878 in 2021 Q3. . Depreciation and amortization charged to SGA was $3,396 (3% of revenues) compared to $134 (0.7% of revenues) in 2021 Q3. SGA excluding depreciation and amortization as percentage of revenue was 9% compared to 8% in 2021 Q3.

There were increases in SG&A wages, commissions, insurance and general increase in all other expenses, such as travel and promotion, which had been reduced to minimal levels due to COVID-19.

Technology group expenses Technology group expenses were $403 in 2022 Q3; an increase of $220 compared with $183 in 2021 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 (loss) on disposal of equipment During 2022 Q3, the Company had a gain on disposal of equipment of $4,435 compared to $1,773 in 2021 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 2022 Q3, the Company received proceeds on disposal of equipment of $6,970 (2021 Q3 - $1,980).

Finance costs Finance costs consisting of interest expenses on loans and borrowings and bank charges were $1,500 for 2022 Q3 compared to $60 for 2021 Q3 due to the increased debt level due to the acquisitions and increases in interest rates.

Finance costs lease liability Lease liability interest increased slightly to $200 from $195.

Acquisition and restructuring costs Acquisition and restructuring costs were $2,598 in 2022 Q3 compared to $331 in 2021 Q3. These costs consist of professional and consulting fees on business combinations and subsequent restructuring costs including severance.

Foreign exchange The Company had a foreign exchange loss of ($2,354) in 2022 Q3 compared to a loss ($719) in 2021 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 2022 Q3 foreign currency gain is an unrealized loss of ($2,048) (2021 Q3 – loss of ($692)) related to intercompany balances.

Income tax Income tax expense is booked based upon expected annualized rates using the statutory rates of 23% for Canada and 22% for the U.S. The current period recovery relates to the offset of deferred tax liabilities related to acquisitions with tax pools for which the benefit had not been previously recognized.

RESULTS OF OPERATIONS – NINE MONTHS ENDED SEPTEMBER 30

Revenues		2022		2021
Canada	$	75,010	$	27,426
United States		94,873		11,388
Total	$	169,883	$	38,814
Cost of sales		(139,490)		(40,564)
Gross margin	$	30,393	$	(1,750)
Gross margin %		18%		-5%
Adjusted gross margin (1)	$	48,740	$	7,365
Adjusted gross margin % (1)		29%		19%
Income (loss) before income taxes				
Canada	$	5,260	$	(2,906)
United States		14,442		(2,899)
Corporate services		(12,294)		(1,724)
Total	$	7,408	$	(7,529)

(1) Refer to "NON-GAAP MEASUREMENTS"

Revenues and cost of sales 2022 revenues were $169,883, which represented an increase of $131,069 or 338% from 2021 revenues of $38,814.

Gross margin for 2022 was 18% compared to negative 5% in 2021. Adjusted gross margin (see Non-GAAP Measurements) for 2022 was $48,740 or 29% compared to $7,356 or 19% for 2021.

Adjusted gross margin, as a percentage of revenue, increased due to lower field labour, repairs and a reduction in fixed costs as percentage of revenue partially offset by increased third party equipment rental costs.

Depreciation of equipment allocated to cost of sales increased to $18,027 in 2022 from $9,049 in 2021 due to the acquisitions in 2021 and 2022. Depreciation included in cost of sales as a percentage of revenue was 11% for 2022 and 23% in 2021.

Canadian segment

Canadian revenues increased to $75,010 in 2022 from $27,426 in 2021, an increase of $47,584 or 173%. This increase was the result of: i) a 116% increase in activity days to 7,227 in 2022 from 3,351 in 2021 and ii) a 27% increase in the average day rate to $10,379 in 2022 from $8,184 in 2021.

Based on publicly disclosed Canadian drilling and directional drilling days, Cathedral's market share for 2022 was 20.6% compared to 12.7% in 2021. Day rates in 2022 increased as 2021 had been negatively impacted by lower drilling activity during COVID-19.

Canadian cost of sales, excluding non-cash items, as a percentage of revenue were overall unchanged, but the components changed with reductions in repairs and a reduction in fixed costs as a percentage of revenue, offset by higher field labour.

U.S. segment

The U.S. segment has significantly increased as a result of acquisitions completed in 2022.

U.S. revenues increased to $94,873 in 2022 from $11,388 in 2021, an increase of $83,485 or 773%. This increase was the result of: i) an 299% increase in activity days to 3,613 in 2022 from 905 in 2021; and ii) a 109% increase in the average day rate to $26,259 in 2022 from $12,583 in 2021 (when converted to Canadian dollars).

Based on publicly disclosed U.S. drilling rig activity, Cathedral's U.S. market share for 2022 was 6.5% compared to under 1% in 2021. Day rates in USD increased to $20,221 compared to $10,310 primarily associated with the change in client mix.

U.S. cost of sales, excluding non-cash items, as a percentage of revenues decreased 33% due to lower field labour, repairs and a reduction in fixed costs as percentage of revenue, partially offset by higher third party equipment rental expenses.

Selling, general and administrative ("SG&A") expenses SG&A expenses were $20,172 in 2022; an increase of $14,503 compared with $5,669 in 2021. Depreciation and amortization charged to SGA was $3,644 (2% of revenues) compared to $401 (1% of revenues) in 2021. SGA excluding depreciation and amortization as percentage of revenue was 9.5% compared to 13% in 2021.

There were increases in SG&A wages, commissions, insurance and general increase in all other expenses, such as travel and promotion, which had been reduced to minimal levels due to COVID-19.

Technology group expenses Technology group expenses were $853 in 2022; an increase of $320 compared with $533 in 2021. 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 (loss) on disposal of equipment During 2022, the Company had a gain on disposal of equipment of $6,555 compared to $2,017 in 2021. 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 2022, the Company received proceeds on disposal of equipment of $11,294 (2021 - $2,278).

Finance costs Finance costs consisting of interest expenses on loans and borrowings and bank charges were $2,024 for 2022 compared to $249 for 2021 due to the increased debt level due to the acquisitions and increases in interest rates.

Finance costs lease liability Lease liability interest decreased slightly to $584 from $605.

Acquisition and restructuring costs Acquisition and restructuring costs were $2,990 in 2022 compared to $939 in 2021. These costs consist of professional and consulting fees on business combinations and subsequent restructuring costs including severance.

Foreign exchange The Company had a foreign exchange loss of ($2,917) in 2022 compared to a gain of $199 in 2021 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 2022 foreign currency gain is an unrealized loss of ($2,511) (2021 – gain of $230) related to intercompany balances.

Income tax Income tax expense is booked based upon expected annualized rates using the statutory rates of 23% for Canada and 22% for the U.S. The current period recovery relates to the offset of deferred tax liabilities related to acquisitions with tax pools for which the benefit had not been previously recognized.

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 - operations for the three and nine months ended September 30, 2022 was a source of cash of $5,481 and $8,234 respectively compared to a use of cash of ($1,800) and ($4,100) in 2021. This change was primarily due to increases in cash flow from improved drilling activity in 2022 and Cathedral's increase in Canadian and U.S. market share.

Working capital At September 30, 2022 the Company had working capital of $35,528 (December 31, 2021 - $14,117).

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, 2021.

As at September 30, 2022, the Company's has a commitment to purchase equipment of $770 which is expected to be incurred in 2022 and Q4.

The Company has issued the following six letters of credit ("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 $630 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 14, 2022, the Company has 222,908,916 common shares, 21,468,350 common share purchase warrants and 20,661,568 options outstanding with a weighted average exercise price of $0.53.

In 2022, the Company issued the following stock options to staff:

- 2022 Q2 - 380,000 stock options with an exercise price of $0.77; and
- 2022 Q3 - 12,320,300 stock options with an exercise price of $0.60.

2022 CAPITAL PROGRAM

During the nine months ended September 30, 2022, the Company invested $17,252 (2021 - $2,799) in equipment, excluding acquisitions. The following table details the current period's net equipment additions:

		Nine months ended September 30, 2022
Equipment additions:		
Motors	$	14,701
MWD		2,512
Other		39
Total cash additions	$	17,252

The additions of $17,252 were partially funded by proceeds on disposal of equipment of $11,294. Due to the acquisitions in the year, the 2022 capital plan has been expanded to approximately $30,000. However, due to supply chain issues some of this spend may not be delivered until 2023.

With a constructive outlook for 2023, the board has approved a preliminary net capex budget of $35,000 which will enable advance orders of strategic equipment.

OUTLOOK

Financial markets are in a turbulent phase against a backdrop of increasing pressure from central banks to bring down key inflation rates. Oil and natural gas prices have reflected this underlying backdrop of high volatility and have mostly traded lower as a result. WTI oil prices started the quarter near US $108/bbl and declined roughly 26% to near $80 by quarter end. Natural gas prices rose rapidly and then declined from around US $5.75/MMBtu to start the quarter to roughly $9.00 by mid-quarter to $6.75 by quarter end. While the absolute levels of both oil and natural gas prices remained strong in an historical context (and remain strong today), the volatility has pushed energy investors into more skittish behavior as evidenced by continued low valuations of oilfield service sector equities.

Notwithstanding underlying commodity price volatility, the energy service sub-index and broad energy indices continue to outperform the underlying market. Investors may be slowly realizing that there is duration to this upcycle despite the risk of recession in major economies worldwide. Most oil and gas analyst research puts field-level cash flow reinvestment rates at between 30-40%, which is vastly lower than the +/- 100% levels seen for many decades. As a result, reinvestment in new oil supply is not happening at the same rate that it has in prior upcycles. The extreme tightness in labour markets has also made it very difficult to find the skilled people for energy service providers to grow quickly. These reinvestment and supply chain issues are leading to a much more muted production response (especially on the oil side), which ultimately creates a better base for Cathedral to grow in 2023 and the years forward.

Consensus analyst forecasts point to approximately 3% growth in the Canadian drilling rig count in Q4-22 vs Q3-22 and approximately 2% sequential growth in the US count. Turning to 2023, analysts are slightly more bullish on the US drilling market. The average of seven Canadian-based investment banks' drilling activity forecasts is 768 active US rigs in 2023 vs 704 in 2022, growth of 9.0%. In Canada by contrast, the same seven analysts see an average Canadian rig count of 185 for 2023, up 8.4% from 171 in 2022. [Rig Count forecasts: ATB Capital, BMO Capital Markets, Stifel FirstEnergy, National Bank Financial, Peters & Co, Raymond James, TD Securities] The advantage to Cathedral of building a major cross-border platform is that we are able to take advantage of the strength in both markets and sometimes the markets themselves have different major drivers. For example, the US has become a major swing supplier into global oil markets, with much of that activity happening in the Permian – an area of great strength for Cathedral after the Altitude acquisition. As well, US LNG exports will rely on significant growth from the Haynesville deep gas play where Altitude also gives Cathedral a solid position for growth. In Canada, LNG-related natural gas drilling is starting to grow and will become a major driver in the next few years. Cathedral has a very strong position in the Canadian Montney and deep basin, areas that are targeted for key, strategic LNG supply. In short, Cathedral has exposure to all the major growth plays in North America and we will continue to look for ways to grow that exposure in the quarters and years to come.

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, 2022 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, 2021, which is included in the Company's 2021 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, 2022.

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 three months ended September 30, 2022 that are applicable to the Company in future periods.

SUMMARY OF QUARTERLY RESULTS

Three month periods ended	Sept 2022	Jun 2022	Mar 2022	Dec 2021	Sep 2021	June 2021	Mar 2021	Dec 2020
Revenues	$ 107,846	$ 27,652	$ 34,385	$ 23,710	$ 20,127	$ 7,322	$ 11,365	$ 7,448
Adjusted EBITDAS (1)	$ 28,065	$ 2,865	$ 6,913	$ 1,273	$ 5,170	$ (2,683)	$ 825	$ (435)
Adjusted EBITDAS (1) per share - diluted	$ 0.14	$ 0.02	$ 0.07	$ 0.02	$ 0.07	$ (0.05)	$ 0.02	$ (0.01)
Net income (loss)	$ 8,658	$ (2,824)	$ 2,243	$ (1,097)	$ 403	$ (5,846)	$ (2,086)	$ (6,171)
Net income (loss) per share - basic and diluted	$ 0.04	$ (0.02)	$ 0.02	$ (0.01)	$ 0.01	$ (0.11)	$ (0.04)	$ (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: subsequent events; we continue to be constructive on further execution of our strategy, focused on consolidation opportunities, technology development, and internal growth; we expect Cathedral's service and technology offering will continue to differentiate itself in the North American directional market; with increased size and scale and corresponding free cash flow we anticipate being able to fund capex and further differentiate ourselves in the market with the expansion of our technology platforms and make significant progress towards further reducing our debt levels in Q4 2022 and through 2023; Ensign's Canadian directional drilling business unit forms an excellent addition to Cathedral's existing platform and should help propel our market share in Canada above 25%; most oil and gas analyst research puts field-level cash flow reinvestment rates at between 30-40%; drilling activity forecasts for the remainder of 2022 and for 2023 and their impacts on Cathedral; and projected capital expenditures and commitments and the 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;
- the ongoing impact of the global health crisis and COVID-19;
- 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 to obtain sufficient insurance coverage to mitigate operational risks;
- currency exchange and interest rates;
- risks associated with future foreign operations;
- the ability of Cathedral to integrate its transactions and the benefits of any 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);

iii) "Adjusted EBITDAS" - defined as earnings before finance costs, unrealized foreign exchange on intercompany balances, taxes, depreciation, non-recurring costs (including acquisition and restructuring costs 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 non-cash expenses (see tabular calculation); and

iv) "Free cash flow" - defined as Cash flow - operating activities prior to changes in non-cash working capital, income taxes paid and non-recurring expenses less cash equipment additions, excluding business combinations or assets added through acquisitions and cash payments on lease liabilities and adding proceeds from disposition of equipment. Management uses this measure as an indication of the Company's ability to generate funds from its operations to support capital expenditures, debt repayment or other initiatives.

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	
	2022	2021	2022	2021
Gross margin	$ 24,289	$ 1,996	$ 30,393	$ (1,750)
Add non-cash items included in cost of sales:				
Depreciation	9,116	3,337	18,027	9,049
Share-based compensation	228	32	320	66
Adjusted gross margin	$ 33,633	$ 5,365	$ 48,740	$ 7,365
Adjusted gross margin %	31%	27%	29%	19%

Adjusted EBITDAS

	Three months ended September 30		Nine months ended September 30	
	2022	2021	2022	2021
Income (loss) before income taxes	$ 8,745	$ 403	$ 7,408	$ (7,529)
Add:				
Depreciation included in cost of sales	9,116	3,337	18,027	9,049
Depreciation included in selling, general and administrative expenses	3,396	134	3,644	401
Share-based compensation included in cost of sales	228	32	320	66
Share-based compensation included in selling, general and administrative expenses	235	52	409	101
Finance costs	1,500	60	2,024	249
Finance costs lease liabilities	200	195	584	605
Subtotal	23,420	4,213	32,416	2,942
Unrealized foreign exchange (gain) loss on intercompany balances	2,048	692	2,511	(230)
Non-recurring expenses	2,597	528	2,976	653
Total Adjusted EBITDAS	$ 28,065	$ 5,433	$ 37,903	$ 3,365

Free Cash Flow

	Three months ended September 30		Nine months ended September 30	
	2022	2021	2022	2021
Cash flow - operating activities	$ 2,880	$ (1,800)	$ 5,633	$ (4,100)
Add (deduct):				
Non-cash working capital - cash paid on acquisition (note 3)	11,310	-	11,310	-
Changes in non-cash operating working capital	6,873	4,885	11,487	4,705
Income taxes paid	(30)	47	(58)	90
Non-recurring expenses	2,597	528	2,976	653
Proceeds on disposal of equipment	6,970	1,980	11,294	2,278
Less:				
Equipment additions - normal course	(7,730)	(1,471)	(17,252)	(2,799)
Repayments on lease liabilities	(780)	(459)	(2,116)	(1,624)
Free cash flow	$ 22,090	$ 3,710	$ 23,274	$ (797)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

September 30, 2022 and December 31, 2021
Dollars in '000s
(unaudited)

	September 30 2022	December 31 2021
Assets		
Current assets:		
Cash	$ 7,807	$ 2,898
Trade receivables	100,065	15,609
Prepaid expenses	6,515	1,438
Inventories	23,622	8,423
Current tax recoveries	-	-
Total current assets	138,009	28,368
Equipment (notes 3 and 4)	109,007	35,044
Right of use asset (notes 3 and 5)	12,710	10,520
Intangible assets (note 3)	38,414	1,491
Goodw ill (note 3)	38,289	-
Total non-current assets	198,420	47,055
Total assets	$ 336,429	$ 75,423
Liabilities and Shareholders' Equity		
Current liabilities:		
Trade and other payables	$ 82,967	$ 11,069
Current taxes payable	106	55
Loans and borrow ings, current (note 6)	15,763	1,000
Lease liabilities, current (note 5)	3,645	2,127
Total current liabilities	102,481	14,251
Loans and borrow ings (note 6)	73,830	5,035
Lease liabilities, long-term (note 5)	14,833	13,633
Deferred tax liability	5,584	-
Total non-current liabilities	94,247	18,668
Total liabilities	196,728	32,919
Shareholders' equity:		
Share capital (notes 3 and 7)	173,332	98,918
Treasury shares (notes 3 and 7)	(959)	-
Contributed surplus	15,451	11,793
Accumulated other comprehensive income	21,018	9,011
Deficit	(69,141)	(77,218)
Total shareholders' equity	139,701	42,504
Total liabilities and shareholders' equity	$ 336,429	$ 75,423

See accompanying notes to consolidated 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, 2022 and 2021
Dollars in ‘000s except per share amounts
(unaudited)

	Three months ended September 30		Nine months ended September 30	
	2022	2021	2022	2021
Revenues (notes 8 and 9)	$ 107,846	$ 20,127	$ 169,883	$ 38,814
Cost of sales:				
Direct costs	(74,213)	(14,762)	(121,143)	(31,449)
Depreciation	(9,116)	(3,337)	(18,027)	(9,049)
Share-based compensation	(228)	(32)	(320)	(66)
Total cost of sales	(83,557)	(18,131)	(139,490)	(40,564)
Gross margin	24,289	1,996	30,393	(1,750)
Selling, general and administrative expenses:				
Direct costs	(9,293)	(1,692)	(16,119)	(5,167)
Depreciation and amortization	(3,396)	(134)	(3,644)	(401)
Share-based compensation	(235)	(52)	(409)	(101)
Total selling, general and administrative expenses	(12,924)	(1,878)	(20,172)	(5,669)
Technology group expenses	(403)	(183)	(853)	(533)
Gain on disposal of equipment	4,435	1,773	6,555	2,017
Income (loss) from operating activities	15,397	1,708	15,923	(5,935)
Finance costs	(1,500)	(60)	(2,024)	(249)
Finance costs lease liabilities	(200)	(195)	(584)	(605)
Acquistion and restructuring costs	(2,598)	(331)	(2,990)	(939)
Foreign exchange gain (loss)	(2,354)	(719)	(2,917)	199
Income (loss) before income taxes (note 8)	8,745	403	7,408	(7,529)
Income tax recovery (expense):				
Current	(87)	-	(87)	-
Deferred	-	-	756	-
Total income tax recovery (expense)	(87)	-	669	-
Net income (loss)	8,658	403	8,077	(7,529)
Other comprehensive income (loss):				
Foreign currency translation differences for foreign operations	11,380	723	12,007	(206)
Total comprehensive income (loss)	$ 20,038	$ 1,126	$ 20,084	$ (7,735)
Net income (loss) per share				
Basic and diluted	$ 0.04	$ 0.01	$ 0.06	$ (0.12)

See accompanying notes to consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Nine months ended September 30, 2022 and 2021
Dollars in '000s
(unaudited)

	Share capital	Treasury shares	Contributed surplus	Accumulated other comprehensive income	Deficit	Total shareholders' equity
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**
Balance at December 31, 2021	**$ 98,918**	**$ -**	**$ 11,793**	**$ 9,011**	**$ (77,218)**	**$ 42,504**
Total comprehensive loss for nine months ended September 30, 2022	-	-	-	12,007	8,077	20,084
Issue of shares on private placement	27,950	-	3,075	-	-	31,025
Issue of shares on business acquistions	45,990	(959)	-	-	-	45,031
Issue of shares from option exercise	474	-	(146)	-	-	328
Share-based compensation	-	-	729	-	-	729
Balance at September 30, 2022	**$ 173,332**	**$ (959)**	**$ 15,451**	**$ 21,018**	**$ (69,141)**	**$ 139,701**

See accompanying notes to condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Three and nine months ended September 30, 2022 and 2021
Dollars in '000s
(unaudited)

	Three months ended September 30		Nine months ended September 30	
	2022	2021	2022	2021
Cash provided by (used in):				
Operating activities:				
Net income (loss)	$ 8,658	$ 403	$ 8,077	$ (7,529)
Items not involving cash				
Depreciation	12,512	3,471	21,671	9,450
Share-based compensation	463	84	729	167
Income tax expense (recovery)	87	-	(669)	-
Gain on disposal of equipment	(4,435)	(1,773)	(6,555)	(2,017)
Finance costs	1,500	60	2,024	249
Finance costs lease liability	200	195	584	605
Unrealized foreign exchange (gain) loss on intercompany balances	2,048	692	2,511	(230)
Cash flow - continuing operations	21,033	3,132	28,372	695
Non-cash working capital - cash paid on acquisition (note 3)	(11,310)	-	(11,310)	-
Changes in non-cash operating working capital	(4,272)	(4,885)	(8,886)	(4,705)
Income taxes paid	30	(47)	58	(90)
Cash flow - operating activities	5,481	(1,800)	8,234	(4,100)
Investing activities:				
Equipment additions - normal course	(7,730)	(1,471)	(17,252)	(2,799)
Equipment additions - cash paid on acquisition (note 3)	(54,276)	-	(76,436)	-
Intangible additions - normal course	(1,456)	-	(1,456)	-
Intangible additions - cash paid on acquisition (note 3)	(28,284)	-	(28,284)	-
Proceeds on disposal of equipment	6,970	1,980	11,294	2,278
Cash acquired on acquisition	-	-	70	-
Changes in non-cash investing working capital	(2,600)	(531)	(1,759)	(649)
Cash flow - investing activities	(87,376)	(22)	(113,823)	(1,170)
Financing activities:				
Advances of loans and borrowings	87,291	2,345	107,150	6,004
Repayments on loans and borrowings	(6,868)	(1,219)	(23,591)	(3,134)
Proceeds on share issuance	218	3,014	31,378	6,407
Repayments on lease liabilities	(780)	(459)	(2,116)	(1,624)
Payment on settlements	-	(38)	-	(113)
Interest paid	(1,700)	(255)	(2,608)	(854)
Cash flow - financing activities	78,161	3,388	110,213	6,686
Effect of exchange rate on changes on cash	229	25	285	(4)
Change in cash	(3,505)	1,591	4,909	1,412
Cash, beginning of period	11,312	855	2,898	1,034
Cash, end of period	$ 7,807	$ 2,446	$ 7,807	$ 2,446

See accompanying notes to consolidated financial statements.

1. Reporting entity

Cathedral Energy Services Ltd. 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 ended September 30, 2022 comprise the Company, the following 100% owned subsidiaries:

- Cathedral Energy Services Inc. ("INC");
- 2438155 Alberta Ltd.;
- LEXA Drilling Technologies Inc. (LEXA");
- CET Flight Holdco, Inc. ("Flight");
- Altitude Intermediate HoldCo, LLC ("AIH");
- Altitude Energy Holdco, LLC ("AEH"); and
- Altitude Energy Partners, LLC ("Altitude").

The Company along with the above noted subsidiaries together are referred to as the "Company" or "Cathedral". The Company is 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. The Company is 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.

INC, Flight, AIH, AEH and Altitude are incorporated in the United States of America ("U.S.") and their functional currency is U.S. dollars ("USD").

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, 2021, which are included in the Company's 2021 Annual Report.

The unaudited condensed consolidated interim financial statements were authorized for issue by the Board of Directors on November 14, 2022.

(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) Future Accounting Pronouncements

There were no new or amended standards issued during the period ended September 30, 2022 that are applicable to the Company in future periods.

(e) 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, 2021.

Significant estimates and judgements used in the preparation of these condensed interim consolidated financial statements remained unchanged from those disclosed in the Corporation's consolidated audited annual financial statements for the year ended December 31, 2021. As described in Note 3 (d) of the consolidated audited annual financial statements for the year ended December 31, 2021, due to the outbreak of COVID-19 and the resulting impact on the economy and in particular the prices of oil and natural gas, the estimates and judgements used to prepare these financial statements were subject to a higher degree of measurement uncertainty.

(f) Comparative figures

Certain comparative figures have been reclassified to conform to current year presentation.

3. Acquisitions

The purchase price allocation related to the acquisition is preliminary and may be subject to adjustments, which may be material, pending completion of final valuations. In a business combination, it generally takes time to obtain the information necessary to measure fair values of assets acquired and liabilities assumed. Changes in the provisional measurements of assets and liabilities acquired may be recorded as part of the purchase price allocation as new information is obtained, until the final measurements are determined no later than 12 months after the acquisition date. The Company is still in the process of identifying the assets acquired and liabilities assumed and assessing the fair value allocations relating to the inventory and intangible and capital assets acquired. Fair value is estimated using the latest available information as at the date of the financial statements. As a result, these preliminary allocations may change.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

A summary of the acquisitions for the year are as follows:

		Discovery		Compass		LEXA		Altitude		Total
Consideration:										
Cash	$	18,160	$	4,000	$	-	$	87,245	$	109,405
Common shares		2,732		4,315		1,117		36,867		45,031
Lease liabilities assumed		1,579		240		-		2,354		4,173
Deferred tax liabilities assumed		-		647		109		5,245		6,001
Total consideration	$	22,471	$	9,202	$	1,226	$	131,711	$	164,610
Allocation of purchase price										
Working capital	$	3,283	$	444	$	250	$	13,568	$	17,545
Equipment		17,609		8,518		-		45,393		71,520
Right of use assets		1,579		240		-		2,354		4,173
Intangibles		-		-		976		34,433		35,409
Goodwill		-		-		-		35,963		35,963
Total	$	22,471	$	9,202	$	1,226	$	131,711	$	164,610

Discovery Downhole Services

On February 10, 2022, the Company announced the closing of Cathedral’s acquisition of the operating assets of Discovery Downhole Services (“Discovery”). The Transaction includes the operating assets and non-executive personnel of Discovery's U.S.-based, high-performance mud motor technology rental business with operations in North Dakota, Texas, and Wyoming. The transaction will materially increase the Company's U.S. revenues and add a high-quality customer base of oil and gas producers and directional drilling companies active in all the major U.S. land basins.

Cathedral paid $18,160 in cash funded by a new term loan from its existing bank along with funds raised in a common share private placement and issued 5,254,112 common shares (the “Consideration Shares”). The shares were valued at $0.52 for accounting purposes (total of $2,732). 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% are restricted until February 10, 2023; a further 25% of are restricted until August 10, 2023; and a further 50% are restricted until February 10, 2024, subject to certain exceptions. Additionally, Cathedral assumed the leases at the three operating locations for lease liabilities of $1,579. Total consideration paid was $22,471.

While the purchase and sale agreement was structured as an asset sale, the Company has accounted for this transaction as a business combination. The amounts below are based on management’s preliminary estimates of fair value at the time of preparation of these financial statements based on the best available information. Amendments may be made to these amounts as the values subject to estimation are finalized. The Company has allocated the purchase price as:

- Inventory $3,283
- Right of use asset $1,579; and
- Equipment $17,609.

To date, the Company has expensed $227 in costs related to the Transaction.

For the period of February 10 to September 30, 2022, the assets acquired generated revenues of $21,176 and operating income before depreciation and interest of $9,058. Revenues for the period of January 1 to February 9, 2022 were $2,286 and operating profit before depreciation and interest for that period was $717.

LEXA Drilling Technologies Inc.

The Company purchased the shares of LEXA Drilling Technologies Inc. (“LEXA”), a Calgary-based, downhole technology company for equity consideration in Cathedral. LEXA is focused on the development and commercialization of high data rate positive pulse MWD technology. They are also focused on developing technology that enhances and enables drilling automation through remote downhole directional equipment. The addition of high-performance pulse technology to Cathedral’s industry leading electromagnetic technology will further strengthen the performance of Cathedral's existing MWD platform. As part of the transaction, Mr. Axel Schmidt has joined Cathedral as Senior Vice President, Engineering and Technology while Mr. Chad Robinson has joined as Chief Financial Officer. LEXA also brings an experienced engineering and development team.

On June 20, 2022, the Company acquired 90.98% of the shares of LEXA, its technology and products in development, Cathedral issued 1,612,891 common shares, which are subject to a four-month hold period. On July 19, 2022, the Company acquired the remaining 9.02% of the shares of LEXA in exchange for 159,836 common shares from Rod Maxwell, a director of Cathedral. These shares are also subject to a four-month hold period.

The Company has accounted for this transaction as a business combination. The amounts below are based on management’s preliminary estimates of fair value at the time of preparation of these financial statements based on the best available information. Amendments may be made to these amounts as the values subject to estimation are finalized. The Company has allocated the purchase price as:

- Cash $70;
- Net working capital $180;
- Deferred tax liability ($109); and
- Intangibles $976;

The deferred tax liability was subsequently offset by the benefit of unrecorded tax attributes.

To date, the Company has not expensed any costs related to the Transaction. Prior to the acquisition, Cathedral was the only revenue source for LEXA so there are no revenues or operating profit before depreciation and interest to report.

Compass Directional Services

On June 22, 2022, the Company acquired the operating assets of Compass Directional Services Ltd. ("Compass"). Compass is a privately-owned, Canadian directional drilling business operating in the Western Canadian Sedimentary Basin, with a focus on the high-activity Montney and Deep Basin plays.

As part of the Transaction, Cathedral has retained key Compass personnel under employment contracts to ensure a seamless customer service experience, successful integration and long-term alignment with Cathedral's strategy.

Cathedral paid $4,000 in cash; and issued 6,253,475 common shares. The shares were valued at $0.69 for accounting purposes (total of $4,315). These shares will be subject to contractual restrictions with portions vesting at various periods over two years. Additionally, Cathedral assumed the leases at two locations for lease liabilities of $316. Total consideration paid was $8,631.

While the purchase and sale agreement was structured as an asset sale, the Company has accounted for this transaction as a business combination. The amounts below are based on management's preliminary estimates of fair value at the time of preparation of these financial statements based on the best available information. Amendments may be made to these amounts as the values subject to estimation are finalized. The Company has allocated the purchase price as:

- Inventory $444
- Right of use asset $316;
- Deferred tax liability ($647); and
- Equipment $8,518.

The deferred tax liability was subsequently offset by the benefit of unrecorded tax attributes.

To date, the Company has expensed $41 in costs related to the Transaction.

Additionally, 1,389,664 shares were issued on an escrow arrangement and are subject to contractual restrictions over four years with ¼ of the shares vesting each year on the anniversary of the purchase. These shares are registered to Cathedral's 100% owned subsidiary, 2438155 Alberta Ltd., and are classified as Treasury shares and will be recognized as compensation when vested.

As the acquired assets were integrated into Cathedral's existing directional drilling operations it is impracticable to breakout the revenue and profit or loss of the acquired assets since the acquisition.

Altitude Energy Partners, LLC

On July 14, the Company through its wholly owned U.S. subsidiary, CET Flight Holdco, Inc., closed its acquisition of Altitude Energy Partners, LLC ("Altitude") through payment of cash in the amount of $87,245 and the issuance of 67,031,032 common shares in of Cathedral. Additionally, the Company assumed lease liabilities and a deferred tax liability. Total consideration was $131,711.

Altitude was a privately-held, U.S.-based, directional drilling services business with headquarters in Wyoming, executive leadership based in Houston, and significant operations in Texas, most prominently in the Permian Basin. The Company continues to use the Altitude name and brand in the US. Further, the Altitude management team and its people will lead and operate Cathedral's existing US directional drilling business.

The amounts below are based on management's preliminary estimates of fair value at the time of preparation of these financial statements based on the best available information. Amendments may be made to these amounts as the values subject to estimation are finalized. The Company has allocated the purchase price as:

- Working capital $13,568;
- Equipment $45,393;
- Right of use asset $2,354;
- Intangibles $34,433; and
- Goodwill $35,963.

The intangibles assets consist of customer relationships, non-compete agreements, brand names and an assembled workforce and will be amortized over periods from 1 to 6 years.

As the acquiring entity, Flight, is incorporated in the U.S. and its functional currency is USD, these amounts will be revalued at current rates at each reporting period.

To date, the Company has expensed $1,022 in costs related to the Transaction.

For the period of July 14 to September 30, 2022, the acquired entity generated revenues of $60,958 and operating income before interest of $5,540. Revenues for the period of January 1 to July 13, 2022 were $102,954 USD and operating profit for that period was $14,263 USD.

4. Equipment

For the nine months ended September 30, 2022, there were additions to drilling equipment of $17,252 (2021 - $2,799), excluding acquisitions and non-cash amounts. Total additions were $88,607 (2021 - $2,799).

On April 7, 2022 the Company accepted an offer to purchase its land and building for gross proceeds of $2,150. This land and building was acquired in 2021 in the purchase of assets from Precision Drilling Corporation. Pursuant to a side letter to the purchase and sale agreement, Cathedral is allocated the first $1,500 of proceeds and any selling expenses and the excess proceeds were allocated 25% to Cathedral and 75% to Precision. The Company recorded a gain on disposition related to this property of $151.

5. Right of use asset and lease liabilities

Right of use asset - Real Property	September 30 2022	December 31 2021
Balance, start of period	$ 10,520	$ 11,771
Additions	4,173	-
Depreciation	(2,303)	(2,007)
Reversals of impairments	-	768
Effects of movements in exchange rates	320	(12)
Balance, end of period	$ 12,710	$ 10,520

Lease liabilities

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

In one year or less	$ 3,956
In more than one year, but not more than five years	13,042
In more than five years	10,066
Total	$ 27,064

6. Loans and borrowings

	September 30 2022	December 31 2021
Operating facility	$ 3,330	$ 5,035
Syndicated Operating facility	15,000	$ -
Syndicated Term facility	70,300	-
HASCAP loan	963	1,000
Total loans and borrow ings	89,593	6,035
Less HASCAP loan current portion	(963)	(1,000)
Less Term facility current portion	(14,800)	-
Loans and borrow ings, current portion	(15,763)	(1,000)
Loans and borrow ings, long-term	$ 73,830	$ 5,035

In July 2022, the Company amended its banking agreement (the "Facility") with ATB Financial as lead arranger and administrative agent, with Canadian Western Bank, HSBC Bank Canada and The Toronto Dominion Bank to provide the Company with committed financing by way of a three-year $99,000 credit facility available at closing comprised of a $74,000 term loan, a $15,000 revolving borrowing base loan and a $10,000 revolving line, which expires in July 2025. 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 1.5% to 2.25% or bankers' acceptance rate plus 2.5% to 3.25% 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' acceptances ("BA") based on the interest rate spread on the date the BA was entered into.

While the term facility will be amortized over five years it has a maturity of June 2025 as with the existing Facility. The amortization will be based on a variable interest rate consistent with the Company's existing operating facility interest rates with required quarterly payments of $3,700 for principal plus prevailing interest.

The financial covenants associated with the Facility that will be tested commencing 2022 are:

- Consolidated Funded Debt to Consolidated Credit Agreement EBITDA ratio shall not exceed 3.0:1; and
- Consolidated Fixed Charge Coverage ratio shall not be less than 1.25:1.

At September 30, 2022, the Company was in compliance with all covenants at September 30, 2022.

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

In June 2021, 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 is in addition to the Company's 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, 2022 Number		Amount
Issued, beginning of period	80,200,153	$	98,918
Issued on private placements	52,445,700		27,951
Issued on acquisitions	80,311,346		45,031
Issued into escrow	1,389,664		959
Issued on exercise of options	1,263,598		327
Contributed surplus on options exercised			146
Issued, end of period	215,610,461	$	173,332

Cathedral entered into a non-brokered private placement of 14,659,000 common shares at a price of $0.44 per share in conjunction with the Discovery acquisition and issued 5,254,112 shares for the Discovery acquisition. These transactions closed February 10, 2022.

On April 5, 2022, the Company announced and subsequently closed on April 25, 2022 a bought deal financing of 37,786,700 Units at a price of $0.70 per Unit, for aggregate gross proceeds of $26,451. Net of issue costs, the Company received $24,636 Each Unit is comprised of one common share in the capital of the Company (a "Common Share") and one-half of one Common Share purchase warrant (each whole Common Share purchase warrant, a "Warrant"). Each Warrant will be exercisable to acquire one additional Common Share (a "Warrant Share") for a period of 12 months following the closing of the Offering at an exercise price of $0.85 per Warrant Share, subject to adjustment in certain events. The Warrants began trading on April 25, 2022 on the Toronto Stock Exchange (the "TSX") under the symbol "CET.WT". Based on relative fair values, $21,561 of the net proceeds were allocated to shares and $3,075 were allocated to the share purchase warrants.

Pursuant to the financing agreement, $8,777 of the bought deal financing proceeds were used to reduce the term loan.

As detailed in note 3, the following shares were issued on acquisitions:

- Discovery - 5,254,112 common shares
- LEXA - 1,612,891 common shares
- Compass - 6,253,475 common shares
- Altitude - 67,031,032 common shares

In connection with the Compass acquisition, 1,389,664 shares were issued on an escrow arrangement and are subject to contractual restrictions over four years with ¼ of the shares vesting each year on the anniversary of the purchase. These shares are registered to Cathedral's 100% owned subsidiary, 2438155 Alberta Ltd., and are classified as Treasury shares and will be recognized as compensation when vested.

1,263,598 common shares were issued as a result of the exercise of vested options. Options were exercised at an average strike price of $0.26 per option. All issued shares are fully paid.

Basic earnings (loss) per share

The calculation of basic earnings per share for the three and nine months ended September 30, 2022 was based on the income (loss) attributable to common shareholders of $8,658 and $8,077 (2021 – $403 and ($7,529)) 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	
	2022	2021	2022	2021
Issued, beginning of period	147,559,327	63,325,949	80,200,153	49,468,117
Effect of shares issued in the period	49,525,262	11,099,358	62,526,403	10,451,774
Weighted average number of common shares at end of period	197,084,589	74,425,307	142,726,556	59,919,891

Diluted earnings (loss) per share

The calculation of basic earnings per share for the three and nine months ended September 30, 2022 was based on the income (loss) attributable to common shareholders of $8,658 and $8,077 (2021 – $403 and ($7,529)). 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	
	2022	2021	2022	2021
Weighted average number of common shares (basic)	197,084,589	74,425,307	142,726,556	59,919,891
Effect of dilutive securities on issue	2,078,410	933,381	2,431,919	500,011
Weighted average number of common shares (diluted) at end of period	199,162,999	75,358,688	145,158,475	60,419,902

At September 30, 2022, 15,164,767 options (2021 – 3,246,100 options) for the three months ended September 30 and 15,164,767 options (2021 – 1,669,000 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 six months ended September 30, 2022, the Company granted the following options:

- 380,000 options were granted to employees at an exercise price of $0.77 which expire March 16, 2025; and
- 12,320,300 options were granted to employees at an exercise price of $0.60 which expire July 19, 2025

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 of 1.5% to 3.1%;
- Expected share price volatility (weighted average) of 102% to 104%; and
- Forfeiture rate for employees is 10%; for officers and directors this is 0%.

The resultant fair value of the options is $0.39 to $0.49.

8. Segmented information

The Company has 2 operating segments based on its geographic operating locations of Canada and U.S. and a non-operating segment, for joint corporate costs ("Corporate services"). The Company determines its reportable segments based on internal information regularly reviewed by management to allocate resources and assess performance. The Corporate services segment is comprised of costs which are managed on a group basis and are not allocated to the operating segments. The Corporate services segment primarily consists of general and administrative expenses, foreign exchange gains (losses), interest expenses and acquisition and reorganization costs.

	2022				2021			
For the three months ended September 30	Canada	U.S.	Corporate services	Total	Canada	U.S.	Corporate services	Total
Revenues	$ 36,520	$ 71,326	$ -	$ 107,846	$ 16,118	$ 4,009	$ -	$ 20,127
Income before income taxes	$ 6,986	$ 9,765	$ (8,006)	$ 8,745	$ 2,030	$ (463)	$ (1,164)	$ 403
For the nine months ended September 30								
Revenues	$ 75,010	$ 94,872	$ -	$ 169,882	$ 27,426	$ 11,388	$ -	$ 38,814
Income before income taxes	$ 5,260	$ 14,442	$ (12,294)	$ 7,408	$ (2,906)	$ (2,899)	$ (1,724)	$ (7,529)
Equipment, net book value	$ 57,328	$ 51,362	$ 317	$ 109,007	$ 33,346	$ 1,343	$ 1,855	$ 36,544

There are no material differences in the basis of accounting or the measurement of income (loss), assets and liabilities between the Corporation and reported segment information. Revenues and expenses are attributed to geographical areas based on the location in which the services are rendered. The segment presentation of assets is based on legal owner of the assets which bears the related depreciation and amortization expenses.

9. Revenue - 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 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 the seasonality to the same extent that it occurs in the western Canada region.

10. Commitments

In the normal course of business, the Company incurs contractual obligations. As at September 30, 2022, the Company's has a commitment to purchase equipment of $770 which is expected to be incurred in 2022 and Q4.

The Company has issued the following six letters of credit ("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 $630 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.

11. Subsequent event

On October 27, 2022 the Company announced its acquisition of the operating assets and personnel of Ensign's Canadian directional drilling business (the "Transaction") in exchange for 7,017,988 common shares of Cathedral. In addition to a 4-month statutory hold period on these shares, the parties have agreed to customary contractual restrictions on resale. Ensign did not own any securities of Cathedral prior to the transaction. Post-closing, Ensign owns approximately 3.15% of Cathedral's issued and outstanding common shares on a non-diluted basis.

As part of the Transaction, Cathedral and Ensign entered into a Marketing and Technology Alliance ("the Marketing Alliance") which will help support and expand the customer base of both companies in the Canadian market.