CATHEDRAL

2023 Q3 INTERIM REPORT

FINANCIAL HIGHLIGHTS

Canadian dollars in 000's except for otherwise noted

	Three months ended September 30, 2023	Three months ended September 30, 2022	Nine months ended September 30, 2023	Nine months ended September 30, 2022
Revenues [(2)]	$ 145,591	$ 115,184	$ 399,878	$ 179,865
Gross margin % [(2)]	23%	26%	19%	21%
Adjusted gross margin % [(1)(2)]	31%	34%	27%	32%
Adjusted EBITDAS [(1)]	$ 30,106	$ 28,066	$ 63,515	$ 37,917
Adjusted EBITDAS margin % [(1)]	21%	24%	16%	21%
Cash flow - operating activities [(2)]	$ 9,128	$ 11,456	$ 53,395	$ 16,840
Free cash flow [(1)(2)]	$ 6,085	$ 16,814	$ 10,372	$ 8,326
Net income	$ 5,650	$ 8,658	$ 8,861	$ 8,077
Per share - basic and diluted	$ 0.02	$ 0.04	$ 0.04	$ 0.06
Weighted average shares outstanding:				
Basic (000s)	244,574	197,085	235,978	142,726
Diluted (000s)	267,449	199,163	245,957	145,158

As at	September 30, 2023	December 31, 2022
Working capital, excluding current portion of loans and borrowings [(1)]	$ 70,334	$ 60,447
Total assets	$ 412,566	$ 353,990
Loans and borrowings	$ 82,721	$ 80,535
Shareholders' equity	$ 181,344	$ 153,897

(1) Refer to the “Non-GAAP Measures” section in this MD&A.
(2) Refer to the “Reclassifications” section in this MD&A.

MANAGEMENT’S DISCUSSION & ANALYSIS

Cathedral Energy Services Ltd. (the “Company” or “Cathedral”) is a publicly traded company listed on the Toronto Stock Exchange (“TSX”) under the symbol “CET”. 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 United States (“U.S.”).

This Management’s Discussion & Analysis (“MD&A”) for the three and nine months ended September 30, 2023 is dated November 9, 2023 and should be read in conjunction with the Company’s unaudited condensed consolidated financial statements for the three and nine months ended September 30, 2023, the Company’s MD&A and audited consolidated financial statements for the year ended December 31, 2022, and Annual Information Form for the year ended December 31, 2022 dated April 14, 2023. These documents are filed on SEDAR (www.sedarplus.ca) and appear on the Company's website (www.cathedralenergyservices.com). Tabular amounts are in ‘000’s of Canadian dollars, except for otherwise noted.

Cathedral uses certain performance measures throughout this MD&A that are not defined under International Financial Reporting Standards (“IFRS”). See the “Non-GAAP Measures” section in this MD&A.

2023 Q3 KEY TAKEAWAYS

The Company achieved the following 2023 Q3 results and highlights:

- Industry leading active job count in Canada during the quarter.
- Increased U.S. activity days and job count versus 2022 Q3, despite a lower industry rig count.
- Revenue of $145.6 million in 2023 Q3 is the highest quarterly revenue in the Company's history and represents an increase of 26%, compared to $115.2 million in 2022 Q3.
- Adjusted EBITDAS of $30.1 million in 2023 Q3, an increase of 7%, compared to $28.1 million in 2022 Q3.
- Net income of $5.7 million in 2023 Q3, compared to $8.7 million in 2022 Q3.
- Cash flow - operating activities of $9.1 million in 2023 Q3, compared to $11.5 million in 2022 Q3.
- Free cash flow of $6.1 million in 2023 Q3, compared to $16.8 million in 2022 Q3.
- The Company purchased 2,434,900 common shares of Cathedral ("Common Shares") under its normal course issuer bid for a total amount of $2.2 million at an average price of $0.82 per common shares. Subsequent to September 30, 2023, the Company purchased 1,860,000 Common Shares for a total of $1.6 million at an average purchase price of $0.86 per Common Share.
- Loans and borrowings less cash of $71.5 million as at September 30, 2023, compared to $69.4 million as at December 31, 2022.
- The Company acquired Rime Downhole Technologies, LLC ("Rime"), a privately-held, Texas-based, engineering business that specializes in building products for the downhole measurement-while-drilling ("MWD") industry in exchange for approximately USD $41 million (refer to the "2023 Acquisition" section in this MD&A).
- The Company sees a significant opportunity for margin expansion in its U.S. business as it deploys its own MWD technology to reduce its rental expenses.

PRESIDENT'S MESSAGE

Comments from President & CEO Tom Connors:

"Despite the fact that North American industry rig counts were meaningfully lower year-over-year, particularly in the U.S., our activity levels and financial results showed continued strength in revenue and Adjusted EBITDAS and our activity levels demonstrated resiliency with stable to increasing job counts relative to the prior year. It is difficult to post growth in energy services against a backdrop of lower activity, but our resource play focus, customer mix, and high-performance offering helped to more than offset the slowdown. Size and scale remain an industry priority as our exploration and production ("E&P") clients continue to consolidate into larger entities and increasingly demand a more sophisticated offering from their service providers. In response to this continuing trend, Cathedral has grown to become the largest directional drilling service provider in Canada on a full year basis and one of the largest independent providers in the U.S.

"Our U.S. directional drilling job count remained resilient in the third quarter with an average active rig count of 54 versus a directional and horizontal land rig count that averaged 604 rigs on any given day (source: Enverus Daily Rig Count). This compares to the Baker Hughes land rig count, which was down 10% on average versus 2023 Q2 and down 15% year-over-year versus 2022 Q3. We believe that our U.S. operating entity, Altitude Energy Partners, LLC ("Altitude"), grew market share from early 2023, which is a testament to the strong leadership, operating performance and performance focus that this division continues to display. The acquisition and integration of Rime, announced on July 11, 2023, has proceeded according to plan. We continue to target the deployment of as many as thirty newly-developed Rime MWD packages by the end of the first half of 2024. The new MWD tool is made up of Rime technology already proven, tested, and performing on a significant number of U.S. land rigs. We continue to believe we have a significant opportunity for margin expansion and bolstered margin resiliency as we deploy our internally developed technology to reduce our reliance on third party rental technology. Adding an internally developed pulse MWD system to an operation of Altitude's scale could have a meaningful impact on our financial results as 2024 progresses.

"Cathedral's Canadian directional job counts averaged approximately 42 active rigs per day for the quarter, which was generally on par with a year ago, versus an industry directional and horizontal rig count which averaged approximately 174 rigs (Source: JWN Rig Locator), which was 6% lower than the same period last year, according to the broader Baker Hughes industry rig count. We continue to leverage our technical strength, expertise, and experience in the fast-growing multi-lateral market where we anticipate attractive customer economics will continue to propel growth into the future. We are currently gearing up for a very busy winter drilling season that should see activity levels surpass those of a year ago.

"Cathedral has a keen focus on generating high levels of free cash flow through the balance of 2023 and through 2024 with a target of reducing Loans and borrowings to less than 0.5x Adjusted EBITDAS by year-end 2024. A strong balance sheet will always be a priority as we continue to build size and scale going forward. In preparation for an active winter in Canada and a steadily improving rig count in the U.S. in 2024 the board has approved a preliminary capital budget of $15 million to allow for delivery of items with longer lead times and the timely build-out of our own MWD technology in the first half of the year" concluded Mr. Connors.

RECLASSIFICATIONS

The Company has changed the presentation of certain figures in the comparative period as follows:

i) Lost-in-hole proceeds and gain on disposal of equipment - reimbursements collected from customers related to lost-in-hole equipment and the corresponding derecognition of the property, plant and equipment ("PP&E") were: a) reclassified from proceeds on disposal of property, plant and equipment to revenues, b) recognized as a write-off of PP&E at the net book value of the equipment and c) included in the Company's cash flows - operating activities rather than cash flows - investing activities on the condensed consolidated statement of comprehensive income and the condensed consolidated statement of cash flows.

The Company has changed its judgement regarding equipment lost-in-hole events that are contracted with its customers in that these events are now considered to be part of its ordinary business activities. The changes are reflected in the current and prior periods, as described above.

ii) Cash paid on acquisition - cash paid on acquisition, net of cash acquired has been presented in aggregate rather than allocated to the individual net assets acquired on the condensed consolidated statement of cash flows.

These reclassifications are summarized below:

Condensed Consolidated Statement of Comprehensive Income (Excerpt)

	Three months ended September 30, 2022			Nine months ended September 30, 2022		
	Reported	Adjustment	Adjusted	Reported	Adjustment	Adjusted
Revenue [1][2]	$ 107,846	$ 7,338	$ 115,184	$ 169,883	$ 9,982	$ 179,865
Cost of sales [1]	(83,557)	(2,046)	(85,603)	(139,490)	(2,058)	(141,548)
Gross margin	24,289	5,292	29,581	30,393	7,924	38,317
Write-off of property, plant and equipment [1]	—	(857)	(857)	—	(1,486)	(1,486)
(Loss) gain on disposal of property, plant and equipment [1]	$ 4,435	$ (4,435)	$ —	$ 6,555	$ (6,438)	$ 117

[1] Related to adjustment i) Lost-in-hole proceeds and gain on disposal of equipment, as described above.
[2] The adjusted revenue related to the Canada segment of $1.5 million and $2.9 million and the U.S. segment of $5.8 million and $7.1 million for the three and nine months ended September 30, 2022, respectively.

Condensed Consolidated Statement of Cash Flows (Excerpt)

	Three months ended September 30, 2022			Nine months ended September 30, 2022		
	Reported	Adjustment	Adjusted	Reported	Adjustment	Adjusted
Cash flow provided by (used in):						
Operating activities						
Write-off of property, plant and equipment [1]	$ —	$ 857	$ 857	$ —	$ 1,486	$ 1,486
Loss (gain) on disposal of property, plant and equipment [1]	(4,435)	4,435	—	(6,555)	6,438	(117)
Non-cash working capital - cash paid on acquisition [2]	(11,310)	11,310	—	(11,310)	11,310	—
Changes in non-cash operating working capital [2]	(4,272)	(10,627)	(14,899)	(8,886)	(10,628)	(19,514)
Cash flow - operating activities	5,481	5,975	11,456	8,234	8,606	16,840
Investing activities						
Cash paid on acquisitions, net of cash acquired [2]	—	(81,703)	(81,703)	—	(103,793)	(103,793)
Equipment additions - normal course [1][2]	(7,730)	138	(7,592)	(17,252)	152	(17,100)
Equipment additions - cash paid on acquisition [2]	(54,276)	54,276	—	(76,436)	76,436	—
Intangible additions - cash paid on acquisition [2]	(28,284)	28,284	—	(28,284)	28,284	—
Proceeds on disposal of equipment [1]	6,970	(6,970)	—	11,294	(9,615)	1,679
Cash acquired on acquisition [2]	—	—	—	70	(70)	—
Cash flow - investing activities	$ (87,376)	$ (5,975)	$ (93,351)	$ (113,823)	$ (8,606)	$ (122,429)

[1] Related to adjustment i) Lost-in-hole proceeds and gain on disposal of equipment, as described above.
[2] Related to adjustment ii) Cash paid on acquisition, as described above.

NON-GAAP MEASURES

Cathedral uses certain performance measures throughout this MD&A that are not defined under IFRS or Generally Accepted Accounting Principles (“GAAP”). These non-GAAP measures do not have a standardized meaning and may differ from that of other organizations, and accordingly, may not be comparable. Investors should be cautioned, however, that these measures should not be construed as alternatives to IFRS measures as an indicator of Cathedral’s performance.

These measures include the Adjusted gross margin, Adjusted gross margin %, Adjusted EBITDAS, Adjusted EBITDAS margin %, Adjusted EBITDAS per diluted share, Free cash flow and Working capital. Management believes these measures provide supplemental financial information that is useful in the evaluation of Cathedral’s operations.

These non-GAAP measures are defined as follows:

i) **"Adjusted gross margin"** - calculated as gross margin before non-cash costs (depreciation, amortization 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"** - calculated as net income before finance costs, unrealized foreign exchange on intercompany balances, income tax expense, depreciation, amortization, non-recurring costs (including acquisition and restructuring costs and provision), write-down of inventory and share-based compensation; provides supplemental information to earnings that is useful in evaluating the results and financing of the Company's business activities before considering certain charges (see tabular calculation);

iv) **"Adjusted EBITDAS margin %"** - calculated as Adjusted EBITDAS divided by revenues; provides supplemental information to earnings that is useful in evaluating the results and financing of the Company's business activities before considering certain charges as a percentage of revenues (see tabular calculation);

v) **"Adjusted EBITDAS per diluted share"** - calculated as Adjusted EBITDAS divided by the diluted weighted average shares outstanding; provides supplemental information to earnings that is useful in evaluating the results and financing of the Company's business activities before considering certain charges on a per diluted share basis; and

vi) **"Free cash flow" -** calculated as cash flow provided by (used in) operating activities prior to: i) changes in non-cash working capital, ii) income taxes paid (refunded) and iii) non-recurring costs less: i) property, plant and equipment additions, excluding assets acquired in business combinations, ii) required repayments on loans and borrowings, in accordance with the credit facility agreement, and iii) cash lease payments, offset by proceeds from dispositions of property, plant and equipment. Management uses this measure as an indication of the Company's ability to generate funds from its operations to support future capital expenditures, additional debt repayment or other initiatives (see tabular calculation).

The calculation of Free cash flow has been amended from the prior period to demonstrate a more appropriate representation of the Company's Free cash flow by deducting the Company's required repayments on loans and borrowings in the calculation compared to no adjustment included in the prior periods. It is of the Company's view that required repayments of loans and borrowings reduce its Free cash flow and, as such, should be deducted from the Free cash flow calculation.

In addition, there were reclassification adjustments relating to the cash flow from operating activities and proceeds on disposal of property, plant and equipment, as described in the "Reclassifications" section in this MD&A.

vii) **"Working capital"** - calculated as current assets less current liabilities, excluding the current portion of loans and borrowings. Management uses this measure as an indication of the Company's financial and cash liquidity position.

The following tables provide reconciliations from the IFRS measures to non-GAAP measures included in this MD&A.

Adjusted gross margin

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Gross margin [(1)]	$ 33,025	$ 29,581	$ 75,546	$ 38,317
Add non-cash items included in cost of sales:				
Inventory write-down	599	—	977	—
Depreciation and amortization	10,508	9,116	29,848	18,027
Share-based compensation	429	228	669	320
Adjusted gross margin	$ 44,561	$ 38,925	$ 107,040	$ 56,664
Adjusted gross margin %	31%	34%	27%	32%

[(1)] Refer to the "Reclassifications" section in this MD&A.

Adjusted EBITDAS

	Three months ended September 30, 2023	Three months ended September 30, 2022	Nine months ended September 30, 2023	Nine months ended September 30, 2022
Net income	$ 5,650	$ 8,658	$ 8,861	$ 8,077
Add (deduct):				
Income tax expense (recovery)	1,359	87	3,942	(669)
Depreciation and amortization included in cost of sales	10,508	9,116	29,848	18,027
Depreciation and amortization included in selling, general and administrative expenses	2,299	3,396	5,307	3,644
Share-based compensation included in cost of sales	429	228	669	320
Share-based compensation included in selling, general and administrative expenses	1,731	235	3,179	409
Finance costs - loans and borrowings	2,286	1,500	5,502	2,024
Finance costs - lease liabilities	215	200	634	584
	24,477	23,420	57,942	32,416
Unrealized foreign exchange (gain) loss on intercompany balances	(100)	2,048	(999)	2,511
Non-recurring expenses, including inventory write-down	5,729	2,598	6,572	2,990
Adjusted EBITDAS	$ 30,106	$ 28,066	$ 63,515	$ 37,917
Adjusted EBITDAS margin %	21%	24%	16%	21%

Free cash flow

	Three months ended September 30, 2023	Three months ended September 30, 2022	Nine months ended September 30, 2023	Nine months ended September 30, 2022
Cash flow - operating activities (1)	$ 9,128	$ 11,456	$ 53,395	$ 16,840
Add (deduct):				
Income tax paid (refund)	198	(30)	846	(58)
Changes in non-cash operating working capital (1)	17,200	14,899	7,213	19,514
Non-recurring expenses, excluding inventory write-down	839	2,598	1,304	2,990
Proceeds on disposal of property, plant and equipment (1)	70	—	733	1,679
Less:				
Property, plant and equipment additions(1)(2)	(15,385)	(7,592)	(37,850)	(17,100)
Required repayments on loans and borrowings(3)	(5,154)	(3,737)	(12,609)	(13,423)
Repayments of lease liabilities, net of finance costs	(811)	(780)	(2,660)	(2,116)
Free cash flow	$ 6,085	$ 16,814	$ 10,372	$ 8,326

(1) Refer to the "Reclassifications" section in this MD&A.
(2) Property, plant and equipment additions exclude non-cash additions and assets acquired in business combinations.
(3) Required repayments on loans and borrowings in accordance with the credit facility agreement. Excludes discretionary debt repayments.

2023 ACQUISITION

On July 11, 2023, Cathedral, through a wholly-owned subsidiary, acquired Rime, a privately-held, Texas-based, engineering business that specializes in building products for the downhole MWD industry (the "Rime acquisition") in exchange for approximately USD $41 million (approximately CAD $54.1 million) comprised of: (a) the payment of USD $21 million in cash (approximately CAD $28 million); and (b) the issuance of principal amount of USD $20 million (approximately CAD $26.4 million) of subordinated exchangeable promissory notes ("EP Notes") that are exchangeable into a maximum of 24,570,000 common shares in the capital of Cathedral ("EP Shares") at a deemed price of CAD $1.10 per common share. In accordance with IAS 32 and IFRS 13, the EP notes were determined to be a compound instrument and, accordingly, recognized at the fair value for its respective debt component of $23.4 million and equity component of $1.2 million totaling $24.6 million.

The EP Notes have a three-year term and accrue interest payable quarterly at a rate of 5% per annum. Any time prior to expiry of the EP Notes, if the 20-day volume weighted average trading price of the common shares of Cathedral ("Common Shares") equals or exceeds CAD $1.10 per Common Share, Cathedral may cause the exchange of the EP Notes for Common Shares. Cathedral and the holders of the EP Notes may agree to an earlier exchange of the EP Notes into Common Shares. In addition to the statutory hold periods applicable to the EP Shares under Canadian and U.S. securities laws, the parties agreed to contractual restrictions on resale of any EP Shares as follows: 33% of the EP Shares are restricted until July 11, 2024; a further 33% of the EP Shares are restricted until July 11, 2025; and a further 34% of the EP Shares are restricted until July 11, 2026, subject to certain exceptions contained in the terms governing the EP Notes. In connection with the Rime acquisition, the Company entered into a three-year term credit facility (the “Credit Facility”), replacing its existing credit facility with its syndicate of lenders led by ATB Financial (“ATB”) - refer to the “Liquidity and capital resources” section in this MD&A.

The purchase price allocation was recognized at fair value under IFRS 3 Business combinations as follows:

As at		July 11, 2023
Consideration:		
Cash	$	27,954
Exchangeable promissory notes		24,632
Total consideration	$	52,586
Purchase price allocation:		
Cash	$	528
Inventory		7,119
Other net working capital		3,373
Property, plant and equipment		3,817
Intangible assets		35,850
Right-of-use assets		492
Goodwill		1,899
Lease obligations		(492)
Total purchase price allocation	$	52,586

2022 ACQUISITIONS

In 2022, the Company executed five strategic acquisitions as detailed below:

- U.S.- based company, Altitude in July 2022 for total consideration of $124.1 million, comprised of a cash payment of $87.2 million and a common share issuance of $36.9 million, with the purchase price allocated primarily to working capital, property, plant and equipment, intangible assets and goodwill;
- U.S.- based operations, Discovery Downhole Services (“Discovery”) in February 2022 for total consideration of $20.9 million, comprised of a cash payment of $18.2 million and a common share issuance of $2.7 million, with the purchase price allocated primarily to inventory and property, plant and equipment;
- LEXA Drilling Technologies Inc. (“Lexa”) in June 2022 for total consideration of $1.8 million in exchange for intangible assets;
- Compass Directional Services (“Compass”) in June 2022 for total consideration of $8.3 million, comprised of a cash payment of $4.0 million and a common share issuance of $4.3 million, with the purchase price allocated primarily to inventory and property, plant and equipment; and
- the Canadian directional drilling business of Ensign Energy Services (“Ensign”) in October 2022 for total common share consideration of $6.0 million with the purchase price allocated primarily to inventory and property, plant and equipment.

In addition to the assets acquired as described above, there were certain other minor working capital, right-of-use assets and lease liabilities, and deferred tax liabilities recognized as part of the purchase price allocations.

RESULTS OF OPERATIONS

	Three months ended September 30, 2023	2022	Nine months ended September 30, 2023	2022
Revenues				
Canada [(2)]	$ 45,253	$ 38,073	$ 116,080	$ 77,937
United States [(2)]	100,338	77,110	283,798	101,928
Total revenues	145,591	115,184	399,878	179,865
Cost of sales				
Direct costs [(2)]	(101,629)	(76,259)	(293,815)	(123,201)
Depreciation and amortization	(10,508)	(9,116)	(29,848)	(18,027)
Share-based compensation	(429)	(228)	(669)	(320)
Cost of sales	(112,566)	(85,603)	(324,332)	(141,548)
Gross margin [(2)]	$ 33,025	$ 29,581	$ 75,546	$ 38,317
Gross margin % [(2)]	23%	26%	19%	21%
Adjusted gross margin % [(1)(2)]	31%	34%	27%	32%

(1) Refer to the "Non-GAAP Measures" section in this MD&A.
(2) Refer to the "Reclassifications" section in this MD&A.

Consolidated

The Company recognized $145.6 million of revenues in 2023 Q3, an increase of $30.4 million or 26%, compared to $115.2 million in 2022 Q3. The Company recognized $399.9 million of revenues in the nine months ended September 30, 2023, an increase of $220.0 million or 122%, compared to $179.9 million for the same period in 2022. The increase in revenues for the three and nine months ended September 30, 2023 are mainly attributed to acquisitions completed in 2022 and day rate increases in the Canadian segment.

The Company recognized $112.6 million of cost of sales in 2023 Q3, an increase of $27.0 million or 31%, compared to $85.6 million in 2022 Q3. The Company recognized $324.3 million of cost of sales in the nine months ended September 30, 2023, an increase of $182.8 million or 129%, compared to $141.5 million for the same period in 2022.

The Gross margin % decreased to 23% and 19% in 2023 Q3 and the nine months ended September 30, 2023, compared to 26% and 21% for the same periods in 2022, respectively. The Adjusted gross margin % decreased to 31% and 27% in 2023 Q3 and the nine months ended September 30, 2023, compared to 34% and 32% for the same periods in 2022, respectively.

Gross margins and adjusted gross margins decreased due to continued inflationary costs on the business in 2023, higher than normal repair costs experienced in the first quarter of 2023 and higher labour and rental costs. In addition, margins were impacted by lower U.S. segment average day rates, offset by an increase in Canadian segment average day rates, mainly related to a change in job mix.

Depreciation and amortization expense included in cost of sales increased to $10.5 million and $29.8 million in 2023 Q3 and the nine months ended September 30, 2023, compared to $9.1 million and $18.0 million in the same periods in 2022, respectively, due to property, plant and equipment additions, including those related to the 2022 acquisitions.

Depreciation and amortization expense included in cost of sales as a percentage of revenue was 8% and 7% for the 2023 Q3 and the nine months ended September 30, 2023, compared to 8% and 10% for the same periods in 2022, respectively.

Canadian segment

Revenues

Canadian revenues were $45.3 million in 2023 Q3, an increase of $7.2 million or 19%, compared to $38.1 million in 2022 Q3, mainly due to acquisitions completed in 2022, including Ensign. The Company realized: i) a 2% increase in activity days to 3,388 days in 2023 Q3, compared to 3,311 days in 2022 Q3, and ii) a 16% increase in the average day rate to $13,357 per day in 2023 Q3, compared to $11,499 per day in 2022 Q3. The increase in day rates is mainly attributed to the mix of work including charges for premium tools as well as price increases implemented in late 2022.

Canadian revenues were $116.1 million in the nine months ended September 30, 2023, an increase of $38.1 million or 49%, compared to $77.9 million for the same period in 2022, mainly due to acquisitions completed in 2022, including Compass and Ensign. The Company realized: i) a 21% increase in activity days to 8,709 days in the nine months ended September 30, 2023, compared to 7,227 days the same period in 2022, and ii) a 24% increase in the average day rate to $13,329 per day in the nine months ended September 30, 2023, compared to $10,784 per day for the same period in 2022. The increase in average day rates is mainly attributed to the mix of work, including charges for premium tools as well as price increases implemented in late 2022.

Direct costs

Canadian direct costs included in cost of sales were $27.0 million in 2023 Q3, an increase of $4.4 million or 19%, compared to $22.6 million in 2022 Q3. The increase is mainly due to higher costs related to the 2022 acquisitions. As a percentage of revenues, direct costs were 60% in 2023 Q3, compared to 59% in 2022 Q3.

Canadian direct costs included in cost of sales were $77.6 million in the nine months ended September 30, 2023, an increase of $25.7 million or 49%, compared to $51.9 million for the same period in 2022. The increase is mainly due to higher costs related to the 2022 acquisitions. As a percentage of revenues, direct costs were 67% in the nine months ended September 30, 2023 and 2022.

United States segment

Revenues

U.S. revenues were $100.3 million in 2023 Q3, an increase of $23.2 million or 30%, compared to $77.1 million in 2022 Q3, mainly as a result of the acquisitions completed in 2022, including Altitude. The Company realized a 39% increase in activity days to 3,953 days in 2023 Q3, compared to 2,839 days in 2022 Q3. The average day rate decreased to $25,383 per day in 2023 Q3, compared to $27,161 per day in 2022 Q3, mainly as a result of the Altitude acquisition and a change in job mix.

U.S. revenues were $283.8 million in the nine months ended September 30, 2023, an increase of $181.9 million or 178%, compared to $101.9 million for the same period in 2022, mainly as a result of the acquisitions completed in 2022, including Discovery and Altitude. The Company realized a 211% increase in activity days to 11,233 days in the nine months ended September 30, 2023, compared to 3,613 days for the same period in 2022, mainly as a result of the Altitude acquisition. The average day rate decreased to $25,265 per day in the nine months ended September 30, 2023, compared to $28,212 per day for the same period in 2022, mainly as a result of the Altitude acquisition and a change in job mix.

Direct costs

U.S. direct costs included in cost of sales were $74.7 million in 2023 Q3, an increase of $21.0 million or 39%, compared to $53.7 million in 2022 Q3. The increase is mainly due to higher costs related to the 2022 acquisitions, including Altitude. As a percentage of revenues, direct costs also increased to 74% in 2023 Q3 from 70% in 2022 Q3, mainly due to higher labour, third-party equipment rental and other minor costs, offset by lower fixed costs as a percentage of revenues.

U.S. direct costs included in cost of sales were $216.2 million in the nine months ended September 30, 2023, an increase of $144.9 million or 203%, compared to $71.3 million for the same period in 2022. The increase is mainly due to higher costs related to the 2022 acquisitions, including Discovery and Altitude. As a percentage of revenues, direct costs also increased to 76% in the nine months ended September 30, 2023, compared to 70% in the same period in 2022, mainly due to higher labour and third-party equipment rental costs, offset by lower fixed costs as a percentage of revenues.

Selling, general and administrative ("SG&A") expenses

	Three months ended September 30, 2023	2022	Nine months ended September 30, 2023	2022
Selling, general and administrative expenses:				
Direct costs	$ 11,611	$ 9,293	$ 37,701	$ 16,119
Depreciation and amortization	2,299	3,396	5,307	3,644
Share-based compensation	1,731	235	3,179	409
Selling, general and administrative expenses	$ 15,641	$ 12,924	$ 46,187	$ 20,172

The Company recognized SG&A expenses of $15.6 million and $46.2 million in 2023 Q3 and the nine months ended September 30, 2023, an increase of $2.7 million and $26.0 million, compared to $12.9 million and $20.2 million in 2022 for the same periods, respectively. The increase is mainly due to the 2022 acquisitions and discretionary short-term incentive program payments, which were approved and recognized in 2023, compared to no discretionary incentive payments recognized in 2022. SG&A expenses as a percentage of revenues were 11% in 2023 Q3 and 2022 Q3 and 12% in the nine months ended September 30, 2023, compared to 11% for the same period in 2022.

Depreciation and amortization recognized in SG&A were $2.3 million and $5.3 million in 2023 Q3 and the nine months ended September 30, 2023, compared to $3.4 million and $3.6 million for the same periods in 2022, respectively. The 2022 Q3 was impacted by the intangible assets acquired from Altitude. The increase in the nine months ended September 30, 2023 mainly related to a full period of depreciation and amortization of Altitude assets in 2023 and amortization recognized in relation to the intangible assets acquired from Rime.

Stock-based compensation recognized in SG&A were $1.7 million and $3.2 million in 2023 Q3 and the nine months ended September 30, 2023, compared to $0.2 million and $0.4 million for the same periods in 2022, respectively. The increase is related to stock options granted in the period, including those related to the Rime acquisition.

Provision

The Company has recognized a provision of $6.1 million related to an ongoing U.S. tax audit matter. A portion of the provision was recognized as an expense of $4.3 million and a portion was recognized as property, plant and equipment and inventory of $1.8 million. The estimate was made by management using the latest information available and is subject to measurement uncertainty. Actual results may differ from this estimate.

Research and development (“R&D”) costs

The Company recognized R&D costs of $0.4 million and $1.4 million in 2023 Q3 and the nine months ended September 30, 2023, compared to $0.4 million and $0.9 million for the same periods in 2022, respectively. R&D costs are salaries, benefits and shop supply costs related to new product development and technology.

Write-off of property, plant and equipment

The Company recognized a write-off of property, plant and equipment of $1.6 million and $3.9 million in 2023 Q3 and the nine months ended September 30, 2023, compared to $0.9 million and $1.5 million for the same periods in 2022. The write-offs related to equipment lost-in-hole and equipment damaged beyond repair. Reimbursements on lost-in-hole equipment are based on service agreements held with clients and are recognized as revenues. Refer to the “Reclassifications” section of this MD&A.

Finance costs

Finance costs - loans and borrowings were $2.3 million in 2023 Q3, an increase of $0.8 million, compared to $1.5 million in 2022 Q3. Finance costs - loans and borrowings were $5.5 million in the nine months ended September 30, 2023, an increase of $3.5 million, compared to $2.0 million for the same period in 2022.

The higher costs are mainly due to the Company's increased debt levels as at September 30, 2022 of $89.6 million and as at September 30, 2023 of $106.8 million, which related to the 2022 acquisitions (refer to the “Liquidity and Capital Resources” section in this MD&A). In addition, interest rates increased in 2023 relative to 2022 contributing to the higher finance costs.

In addition, the Company had $0.2 million and $0.6 million of finance costs in 2023 Q3 and the nine months ended September 30, 2023 related to lease liabilities, compared to $0.2 million and $0.6 million for the same periods in 2022, respectively.

Foreign exchange

The Company recognized a foreign exchange loss of $0.8 million in 2023 Q3, compared to a foreign exchange loss of $2.4 million in 2022 Q3. The Company recognized a foreign exchange gain of $0.1 million in the nine months ended September 30, 2023, compared to a foreign exchange loss of $2.9 million for the same period in 2022. The impact of foreign exchange is due to fluctuations of the Canadian dollar relative to the U.S. dollar related to foreign currency transactions recognized in net income.

The Company recognized a foreign currency translation gain on foreign operations of $4.8 million in 2023 Q3, compared to a gain of $11.4 million in 2022 Q3. The Company recognized a foreign currency translation gain on foreign operations of $0.6 million in the nine months ended September 30, 2023, compared to a gain of $12.0 million for the same period in 2022. The Company’s foreign operations are denominated in USD and differences due to fluctuations in the foreign currency exchange rates are recorded in other comprehensive income.

Income tax

The Company recognized an income tax expense of $1.4 million and $3.9 million in 2023 Q3 and the nine months ended September 30, 2023, compared to an income tax expense of $0.1 million and income tax recovery of $0.7 million for the same periods in 2022, respectively.

Income tax expense is booked based upon expected annualized rates using the statutory rates of 23% for Canada and 21% for the U.S.

LIQUIDITY AND CAPITAL RESOURCES

Annually, the Company’s principal source of liquidity is cash generated from operations. In addition, the Company has the ability to fund liquidity requirements through its syndicated credit facility and the issuance of additional debt and/or equity, if available.

In order to facilitate the management of its liquidity, the Company prepares an annual budget, which is updated as necessary depending on varying factors, including changes in capital structure, execution of the Company’s business plan and general industry conditions. The annual budget is approved by the Board of Directors and updated forecasts are prepared as the fiscal year progresses with changes reviewed by the Board of Directors.

Cash flow - operating activities was $9.1 million and $53.4 million in 2023 Q3 and the nine months ended September 30, 2023, compared to $11.5 million and $16.8 million for the same periods in 2022, respectively. Cathedral intends to use any free cash flow generated in the remainder of 2023 to continue to pay down debt and fund the normal course issuer bid while remaining opportunistic in making strategic and accretive acquisitions.

At September 30, 2023, the Company had working capital, excluding current portion of loans and borrowings of $70.3 million (December 31, 2022 - $60.4 million).

Warrants

During the nine months ended September 30, 2023, 17,731,888 of the April 2022 bought deal offering warrants, 575,000 of the February 2021 private placement warrants and 2,000,000 of the warrants related to the Precision Drilling acquisition were exercised at $0.85 per warrant, $0.24 per warrant and $0.60 per warrant totaling $15.1 million, $0.1 million, and $1.2 million in gross cash proceeds, respectively. On April 26, 2023, the remaining 55,462 of the April 2022 bought deal offering warrants expired.

Normal course issuer bid

On July 3, 2023, the Company received approval from the TSX to purchase up to 12,160,008, or 5%, of the 243,200,173 issued and outstanding common shares of the Company ("Common Shares") under the NCIB. The ability to purchase Common Shares under the NCIB commenced on July 17, 2023, and will terminate no later than July 16, 2024. The actual number of Common Shares purchased under the NCIB, the timing of purchases and the price at which the Common Shares are purchased will be subject to management's discretion.

Under the TSX rules, the Company is entitled to purchase up to the greater of: 25% of the average daily trading volume of the respective class of shares; or 1,000 shares on any trading day; or a larger amount of shares per calendar week, subject to the maximum number that may be acquired under the NCIB, if the transaction meets the block purchase exception rule under TSX rules. Accordingly, unless a block purchase meets the block purchase exception under TSX rules, the Company is entitled to purchase up to 99,621 Common Shares on any trading day.

During the nine months ended September 30, 2023, 2,434,900 Common Shares were purchased under the NCIB for a total purchase amount of $2.2 million. A portion of the purchase amount reduced share capital by $2 million and the residual purchase amount of $0.2 million was recorded to the deficit.

In connection with the NCIB, the Company has established an automatic securities purchase plan ("the Plan") for the Common Shares. Accordingly, the Company may repurchase its Common Shares under the Plan on any trading day during the NCIB, including during regulatory restrictions or self-imposed trading blackout periods. The Plan commenced on July 17, 2023 and will terminate on July 16, 2024. As at September 30, 2023, the Company recognized $1.8 million as an accrued liability ($1.7 million reduced share capital and $0.1 million was recorded to the deficit) for the maximum Common Shares to be purchased under the Plan subsequent to September 30, 2023. Subsequent to September 30, 2023, the Company purchased 1,860,000 Common Shares for a total purchase amount of $1.6 million at an average purchase price of $0.86 per Common Share.

Syndicated credit facility

During the three months ended September 30, 2023, the Company entered into a three-year term credit facility, replacing its existing credit facility with its syndicate of lenders led by ATB related to the acquisition of Rime. The Credit Facility provides an approximate $137 million principal amount comprised of: i) a $59.2 million Syndicated Term Facility (replacing the existing Syndicated Term Facility), ii) a new USD $21 million term loan, repayable in equal quarterly installments over a five-year amortization period, iii) a $35 million Syndicated Operating Facility (previously $15 million), and iv) a $15 million Revolving Operating Facility (previously $10 million). The Credit Facility was utilized to replace and repay Cathedral's existing credit facility. The interest rate and financial covenants were unchanged under the new Credit Facility.

During the nine months ended September 30, 2023, the Company also repaid its balance owing on the Syndicated Operating Facility of $13 million. In addition, the Company made contractual repayments totaling $11.1 million related to its Syndicated Term Facility reducing the carrying value to $55.0 million as at September 30, 2023.

As at September 30, 2023, the $35 million Syndicated Operating Facility and the $15 million Revolving Operating Facility remained undrawn. In addition, the Company continues to hold a Highly Affected Sectors Credit Availability Program ("HASCAP") loan.

At September 30, 2023, the Company was in compliance with its financial covenants, which were as follows:

- Consolidated Funded Debt to Consolidated Credit Agreement EBITDA ratio shall not exceed 2.5.0:1; and
- Consolidated Fixed Charge Coverage ratio shall not be less than 1.25:1

Contractual obligations and contingencies

As at September 30, 2023, the Company's commitment to purchase property, plant and equipment is approximately $7.6 million, which is expected to take place over the next six months.

The Company also holds six letters of credit totaling $1.9 million related to rent payments, corporate credit cards and a utilities deposit.

The Company is involved in various other legal claims associated with the normal course of operations. The Company believes that any liabilities that may arise pertaining to such matters would not have a material impact on its financial position.

Share capital

As at November 9, 2023, the Company has 241,655,057 common shares, no warrants, 22,581,000 stock options and EP Notes that are exchangeable into a maximum of 24,570,000 common shares outstanding.

Change of Transfer Agent

Effective July 11, 2023, Cathedral has replaced Computershare Trust Company, as the registrar and transfer agent of the Company's common shares, with Odyssey Trust Company. Shareholders do not need to take any action with respect to the change in registrar and transfer agent services. All inquiries and correspondence related to shareholder records, transfers of shares, lost certificates and changes of address should now be directed to Odyssey Trust Company, through their offices in Calgary, Vancouver and Toronto: https://odysseytrust.com/.

CAPITAL EXPENDITURES

The following table details the property, plant and equipment additions:

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Motors and related equipment [1]	$ 10,139	$ 2,736	$ 22,786	$ 8,832
MWD and related equipment	4,446	4,843	9,854	8,231
Shop and automotive equipment	334	—	2,084	—
Other	471	13	3,109	37
Capital expenditures	$ 15,390	$ 7,592	$ 37,833	$ 17,100

[1] Refer to the "Reclassifications" section in this MD&A.

The Company's 2023 net capital budget is expected to be approximately between $27 million and $32 million, excluding any potential acquisitions. The net capital budget is targeted at growing Cathedral's high-performance mud motor and MWD in both Canada and the U.S. Cathedral intends to fund its 2023 capital plan from cash flow provided by operating activities. The net capital budget is defined as gross capital expenditures less reimbursements from customers for equipment lost-in-hole.

OUTLOOK

Global oil prices rose considerably in the third quarter while U.S. natural gas prices also showed signs of strengthening. This combination will add considerably to the free cash flow of our North American E&P clients and may lead to a gradual increase in land rig counts throughout 2024. Specifically, West Texas Intermediate ("WTI") oil prices started 2023 Q3 just under U.S. $70.00 per barrel and peaked at over $94.00 per barrel late in the quarter – more than a 30% intra-quarter move. U.S. NYMEX natural gas prices began the quarter at approximately U.S. $2.70 per million cubic feet ("mmbtu") and nearly eclipsed U.S. $3.00 per mmbtu by quarter's end – slightly more than a 10% move. More importantly, the oil market futures curve has tipped decidedly into backwardation looking out the next few years – a sign that oil market futures traders see a tight supply and demand balance in the foreseeable future. The futures curve for U.S. natural gas has a twelve-month strip price well above U.S. $3.00 per mmbtu – another sign of renewed optimism around this critical growth commodity going forward.

The North American land rig count has been weaker than many industry observers have been forecasting – both in the U.S. and Canada. As we stated in our 2023 Q2 MD&A Outlook section, a group of six energy service equity analysts (Source: ATB Capital Markets, BMO Capital Markets, National Bank Financial, Peters & Co, Stifel, TD Securities) forecast a bottoming of the U.S. land rig count sometime in 2023 Q3 and then a turn higher in 2023 Q4 as improved E&P cash flows allowed drilling budgets to start being replenished. This group of analysts also forecast continued growth through 2024. The updated consensus outlook from this group suggests that the average U.S. land rig count forecast will fall to approximately 616 rigs in 2023 Q4 from an average of 630 rigs in 2023 Q3. Given the current count of under 600 active U.S. land rigs, this would imply a meaningful move higher in the final two months of 2023. Further, this group of analysts continues to forecast continuing growth in U.S. land drilling in each of the four quarters of 2024 (2024 Q1 average of 646 rigs, rising to 661, 676 and 683 rigs sequentially).

In Canada, the same group of six research analysts sees 2023 Q4 average active rigs numbering 178 rigs vs 181 rigs in 2023 Q3 – likely due to end-of-year E&P budget exhaustion. More encouragingly, in 2024, this group forecasts that the average first quarter Canadian drilling count will be 217 rigs as compared to 199 rigs in 2023 Q1, growth of 9% year-over-year. Through all four quarters of 2024, the Canadian drilling rig count is forecast to grow by 8% year-over-year. This contrasts with the full-year 2024 U.S. land rig forecast that is expected to fall by 0.9% year-over-year.

A recovery in drilling activity may be slower in the U.S. market as some private E&P players remain cautious. In Canada, drilling has accelerated as major producers begin to line up reserves and production volumes to supply the roughly 2 billion cubic feet ("bcf") per day LNG Canada project, which is set to begin exporting natural gas volumes in 2025. The build-out of various new U.S. LNG facilities also continues at a steady pace. In fact, U.S. natural gas export volumes are set to rise to nearly 21 bcf per day by the end of 2025 from just over 13 bcf per day today (Source: Energy Information Administration, U.S. Liquefaction Capacity Workbook, June 29, 2023). By 2027, a further 4.3 bcf per day of export capacity will come online based on current projects under construction (Source: EIA). This will result in almost a doubling of U.S. gas export volumes within four years. The growth in U.S. LNG export capacity is a reason we remain optimistic about consistent levels of oilfield service activity in the long-term.

Finally, Cathedral is also encouraged by a number of developments that should improve the longer-term outlook for Canadian oil and natural gas. Both the Trans Mountain oil pipeline and the Coastal Gaslink natural gas pipeline are set to be completed in 2024 and receive line pack and first export volumes over the course of the next twelve to eighteen months.

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 IFRS.

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.

No material change in the Company's DC&P and its ICFR were identified during the three months ended September 30, 2023 that have materially affected, or are reasonably likely to materially affect the Company's ICFR.

Cathedral has limited the scope of design of DC&P and ICFR to exclude controls, policies and procedures of Rime which was acquired on July 11, 2023, the financial performance of which is included in the unaudited condensed consolidated financial statements for the three months ended September 30, 2023. The scope limitation is in accordance with section 3.3(1)(b) of NI 52-109 which allows an issuer to limit its design of DC&P and ICFR to exclude controls, policies and procedures of a business that the issuer acquired not more than 365 days before the end of the fiscal period.

The tables below presents the summary of financial information of Rime:

	Period from July 11, 2023 to September 30, 2023	
Revenues	$	5,445
Net income		943

	As at September 30, 2023	
Current assets	$	15,753
Non-current assets		44,351
Current liabilities		2,663
Non-current liabilities		335
Capital purchase commitments		4,377

RISK FACTORS

Risk factors associated with the Company are included in the Company's Annual Information Form for the year ended December 31, 2022 dated April 14, 2023, which is available on SEDAR at www.sedarplus.ca and on the Company's website (www.cathedralenergyservices.com). Those risk factors remain in effect as at September 30, 2023.

GOVERNANCE

The Audit Committee of the Board of Directors has reviewed this MD&A and the related unaudited condensed consolidated financial statements and recommended they be approved to the Board of Directors. Following a review by the Board of Directors, the MD&A and the unaudited condensed consolidated financial statements for the three and nine months ended September 30, 2023 were approved on November 9, 2023.

NEW AND FUTURE ACCOUNTING POLICIES

There were new standards effective on January 1, 2023, including: IFRS 17 Insurance contract, IAS 12 Income taxes and IAS 8 Accounting policies, changes in accounting estimates and errors. There was no material impact on the Company's financial statements for the adoption of these standards.

There are certain accounting pronouncements issued but not yet effective in the period, including: IFRS 7 Financial instruments: Disclosures, IFRS 10 Consolidated Financial Statements, IAS 21 The effects of changes in foreign exchange rates, IFRS 16 Leases, IAS 1 Presentation of Financial Statements, IAS 7 Statement of Cash Flows and IAS 28 Investments in Associates and Joint Ventures. None of the new or amended standards issued are expected to have a significant impact on the Company's financial statements.

SUMMARY OF QUARTERLY RESULTS

Three months ended	Sep 2023	Jun 2023	Mar 2023	Dec 2022	Sep 2022	Jun 2022	Mar 2022	Dec 2021
Revenues [2]								
Reported	$ 145,591	$ 115,058	$ 127,665	$ 128,518	$ 107,846	$ 27,652	$ 34,385	$ 23,710
Adjustment	—	6,281	5,283	10,600	7,338	1,416	1,229	844
Adjusted	$ 145,591	$ 121,339	$ 132,948	$ 139,118	$ 115,184	$ 29,068	$ 35,614	$ 24,554
Adjusted EBITDAS [1]	$ 30,106	$ 18,222	$ 15,187	$ 30,284	$ 28,065	$ 2,865	$ 6,944	$ 1,273
Adjusted EBITDAS [1] per share - diluted	$ 0.11	$ 0.08	$ 0.06	$ 0.13	$ 0.14	$ 0.02	$ 0.07	$ 0.02
Net income (loss)	$ 5,650	$ 2,416	$ 794	$ 10,270	$ 8,658	$ (2,824)	$ 2,243	$ (1,097)
Net income (loss) per share - diluted	$ 0.02	$ 0.01	$ —	$ 0.05	$ 0.04	$ (0.02)	$ 0.02	$ (0.01)

[1] Refer to the “Non-GAAP Measures” section in this MD&A.

[2] Refer to the “Reclassifications” section in this MD&A.

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 same level of seasonality that occurs in the Western Canada region.

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 commitments;
- The 2023 capital program and financing of the program;
- We believe that our U.S. operating entity, Altitude, grew market share from early 2023, which is a testament to the strong leadership, operating performance and performance focus that this division continues to display;
- We continue to target the deployment of as many as thirty newly-developed Rime MWD packages by the end of the first half of 2024;
- We continue to believe we have a significant opportunity for margin expansion and bolstered margin resiliency as we deploy our internally developed technology to reduce our reliance on third party rental technology;
- Adding an internally developed pulse MWD system to an operation of Altitude’s scale could have a meaningful impact on our financial results as 2024 progresses;
- We continue to leverage our technical strength, expertise, and experience in the fast-growing multi-lateral market where we anticipate attractive customer economics will continue to propel growth into the future;
- We are currently gearing up for a very busy winter drilling season that should see activity levels surpass those of a year ago;
- Cathedral has a keen focus on generating high levels of free cash flow through the balance of 2023 and through 2024 with a target of reducing Loans and borrowings to less than 0.5x Adjusted EBITDAS by year-end 2024;
- In preparation for an active winter in Canada and a steadily improving rig count in the U.S. in 2024 the board has approved a preliminary capital budget of $15 million to allow for delivery of items with longer lead times and the timely build-out of our own MWD technology in the first half of the year;
- Global oil prices rose considerably in the third quarter while U.S. natural gas prices also showed signs of strengthening. This combination will add considerably to the free cash flow of our North American E&P clients and may lead to a gradual increase in land rig counts throughout 2024;
- The oil market futures curve has tipped decidedly into backwardation looking out the next few years – a sign that oil market futures traders see a tight supply and demand balance in the foreseeable future;
- The futures curve for U.S. natural gas has a twelve-month strip price well above U.S. $3.00 per mmbtu – another sign of renewed optimism around this critical growth commodity going forward;
- A group of six energy service equity analysts (Source: ATB Capital Markets, BMO Capital Markets, National Bank Financial, Peters & Co, Stifel, TD Securities) forecast a bottoming of the U.S. land rig count sometime in 2023 Q3 and then a turn higher in 2023 Q4 as improved E&P cash flows allowed drilling budgets to start being replenished. This group of analysts also forecast continued growth through 2024;
- The updated consensus outlook from this group suggests that the average U.S. land rig count forecast will fall to approximately 616 rigs in 2023 Q4 from an average of 630 rigs in 2023 Q3;
- Given the current count of under 600 active U.S. land rigs, this would imply a meaningful move higher in the final two months of 2023;

- Further, this group of analysts continues to forecast continuing growth in U.S. land drilling in each of the four quarters of 2024 (2024 Q1 average of 646 rigs, rising to 661, 676 and 683 rigs sequentially);
- In Canada, the same group of six research analysts sees 2023 Q4 average active rigs numbering 178 rigs vs 181 rigs in 2023 Q3 – likely due to end-of-year E&P budget exhaustion;
- In 2024, this group forecasts that the average first quarter Canadian drilling count will be 217 rigs as compared to 199 rigs in 2023 Q1, growth of 9% year-over-year;
- Through all four quarters of 2024, the Canadian drilling rig count is forecast to grow by 8% year-over-year. This contrasts with the full-year 2024 U.S. land rig forecast that is expected to fall by 0.9% year-over-year;
- A recovery in drilling activity may be slower in the U.S. market as some private E&P players remain cautious;
- In Canada, drilling has accelerated as major producers begin to line up reserves and production volumes to supply the roughly 2 bcf per day LNG Canada project, which is set to begin exporting natural gas volumes in 2025;
- The build-out of various new U.S. LNG facilities also continues at a steady pace. In fact, U.S. natural gas export volumes are set to rise to nearly 21 bcf per day by the end of 2025 from just over 13 bcf per day today (Source: Energy Information Administration, U.S. Liquefaction Capacity Workbook, June 29, 2023);
- By 2027, a further 4.3 bcf per day of export capacity will come online based on current projects under construction. This will result in almost a doubling of U.S. gas export volumes within four years (Source: EIA);
- The growth in U.S. LNG export capacity is a reason we remain optimistic about consistent levels of oilfield service activity in the long-term;
- Both the Trans Mountain oil pipeline and the Coastal Gaslink natural gas pipeline are set to be completed in 2024 and receive line pack and first export volumes over the course of the next twelve to eighteen months.

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 attract and retain key management personnel;
- 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;
- obsolescence 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.sedarplus.ca and the Company's website (www.cathedralenergyservices.com

Notice of No Auditor Review of Unaudited Condensed Consolidated Interim Financial Statements for the three and nine months ended September 30, 2022

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 for the period ending three and nine months ended September 30, 2022 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 FINANCIAL POSITION

As at September 30, 2023 and December 31, 2022
Canadian dollars in ‘000s
(unaudited)

As at	September 30, 2023	December 31, 2022
Assets		
Current assets:		
Cash	$ 11,172	$ 11,175
Trade receivables	108,529	113,477
Prepaid expenses	2,409	4,529
Inventories	49,139	26,195
Total current assets	171,249	155,376
Property, plant and equipment (note 5)	118,781	108,530
Intangible assets (note 6)	70,235	38,511
Right-of-use assets (note 7)	10,886	12,178
Goodwill (note 6)	41,415	39,395
Total non-current assets	241,317	198,614
Total assets	$ 412,566	$ 353,990
Liabilities and Shareholders' Equity		
Current liabilities:		
Trade and other payables	$ 93,167	$ 90,389
Current taxes payable	4,328	909
Loans and borrowings, current (note 8)	21,176	15,735
Lease liabilities, current (note 7)	3,420	3,631
Total current liabilities	122,091	110,664
Loans and borrowings, long-term (note 8)	61,545	64,800
Exchangeable promissory notes (note 4)	24,063	—
Lease liabilities, long-term (note 7)	13,406	14,249
Deferred tax liability	10,117	10,380
Total non-current liabilities	109,131	89,429
Total liabilities	231,222	200,093
Shareholders' equity:		
Share capital (note 9)	197,344	180,484
Treasury shares	(709)	(959)
Exchangeable promissory notes (note 4)	1,274	—
Contributed surplus	15,768	15,854
Accumulated other comprehensive income	17,980	17,389
Deficit	(50,313)	(58,871)
Total shareholders' equity	181,344	153,897
Total liabilities and shareholders' equity	$ 412,566	$ 353,990

See accompanying notes to the unaudited condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Three and nine months ended September 30, 2023 and 2022
Canadian dollars in '000s except per share amounts
(unaudited)

	Three months ended September 30, 2023	Three months ended September 30, 2022	Nine months ended September 30, 2023	Nine months ended September 30, 2022
		(Revised - note 3)		(Revised - note 3)
Revenues (note 11)	$ 145,591	$ 115,184	$ 399,878	$ 179,865
Cost of sales:				
Direct costs	(101,629)	(76,259)	(293,815)	(123,201)
Depreciation and amortization	(10,508)	(9,116)	(29,848)	(18,027)
Share-based compensation	(429)	(228)	(669)	(320)
Total cost of sales	(112,566)	(85,603)	(324,332)	(141,548)
Gross margin	33,025	29,581	75,546	38,317
Selling, general and administrative expenses:				
Direct costs	(11,611)	(9,293)	(37,701)	(16,119)
Depreciation and amortization	(2,299)	(3,396)	(5,307)	(3,644)
Share-based compensation	(1,731)	(235)	(3,179)	(409)
Total selling, general and administrative expenses	(15,641)	(12,924)	(46,187)	(20,172)
Provision (note 12)	(4,291)	—	(4,291)	—
Research and development costs	(427)	(403)	(1,437)	(853)
Write-off of property, plant and equipment (note 5)	(1,555)	(857)	(3,924)	(1,486)
Gain on disposal of property, plant and equipment (note 5)	5	—	390	117
Income from operating activities	11,116	15,397	20,097	15,923
Finance costs - loans and borrowings	(2,286)	(1,500)	(5,502)	(2,024)
Finance costs - lease liabilities	(215)	(200)	(634)	(584)
Foreign exchange (loss) gain	(767)	(2,354)	146	(2,917)
Acquisition and restructuring costs	(839)	(2,598)	(1,304)	(2,990)
Income before income taxes	7,009	8,745	12,803	7,408
Income tax (expense) recovery:				
Current	(3,687)	(87)	(4,248)	(87)
Deferred	2,328	—	306	756
Total income tax (expense) recovery	(1,359)	(87)	(3,942)	669
Net income	5,650	8,658	8,861	8,077
Other comprehensive income				
Foreign currency translation differences on foreign operations	4,842	11,380	591	12,007
Total comprehensive income	**$ 10,492**	**$ 20,038**	**$ 9,452**	**$ 20,084**
Net income per share - basic and diluted (note 10)	$ 0.02	$ 0.04	$ 0.04	$ 0.06

See accompanying notes to unaudited condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Nine months ended September 30, 2023 and 2022
Canadian dollars in '000s
(unaudited)

	Share capital	Treasury shares	Contributed surplus	Accumulated other comprehensive income	Deficit	Total shareholders' equity
Balance, December 31, 2021	$ 98,918	$ —	$ 11,793	$ 9,011	$ (77,218)	$ 42,504
Comprehensive income for the period	—	—	—	12,007	8,077	20,084
Issued pursuant to private placements, net of share issue costs	27,950	—	3,075	—	—	31,025
Consideration for business combination, net of share issue costs	45,031	—	—	—	—	45,031
Treasury shares issued for business combination	959	(959)	—	—	—	—
Issued pursuant to stock option exercises	474	—	(146)	—	—	328
Share-based compensation	—	—	729	—	—	729
Balance, September 30, 2022	$ 173,332	$ (959)	$ 15,451	$ 21,018	$ (69,141)	$ 139,701

	Share capital	Treasury shares	Exchangeable promissory ("EP") notes	Contributed surplus	Accumulated other comprehensive income	Deficit	Total shareholders' equity
Balance, December 31, 2022	$ 180,484	$ (959)	$ —	$ 15,854	$ 17,389	$ (58,871)	$ 153,897
Comprehensive income for the period	—	—	—	—	591	8,861	9,452
Purchased pursuant to normal course issuer bid	(1,987)	—	—	—	—	(303)	(2,290)
Accrued purchases pursuant to normal course issuer bid	(1,669)	—	—	—	—	—	(1,669)
EP Notes issued for business combination (note 4)	—	—	1,274	—	—	—	1,274
Contributed surplus on vesting of treasury shares	—	250	—	(250)	—	—	—
Issued pursuant to warrant exercises	19,843	—	—	(3,433)	—	—	16,410
Issued pursuant to stock option exercises	673	—	—	(251)	—	—	422
Share-based compensation	—	—	—	3,848	—	—	3,848
Balance, September 30, 2023	$ 197,344	$ (709)	$ 1,274	$ 15,768	$ 17,980	$ (50,313)	$ 181,344

See accompanying notes to unaudited condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Three and nine months ended September 30, 2023 and 2022
Canadian dollars in ‘000s
(unaudited)

	Three months ended September 30, 2023	Three months ended September 30, 2022	Nine months ended September 30, 2023	Nine months ended September 30, 2022
		(Revised - note 3)		(Revised - note 3)
Cash provided by (used in):				
Operating activities:				
Net income	$ 5,650	$ 8,658	$ 8,861	$ 8,077
Non-cash adjustments:				
Income tax expense (recovery)	1,359	87	3,942	(669)
Depreciation and amortization	12,807	12,512	35,155	21,671
Share-based compensation	2,160	463	3,848	729
Gain on disposal of property, plant and equipment	(5)	—	(390)	(117)
Write-off of property, plant and equipment	1,555	857	3,924	1,486
Write-down of inventory included in cost of sales	599	—	977	—
Finance costs - loans and borrowings	2,286	1,500	5,502	2,024
Finance costs - lease liabilities	215	200	634	584
Income tax (paid) refund	(198)	30	(846)	58
Unrealized foreign exchange (gain) loss on intercompany balances	(100)	2,048	(999)	2,511
	26,328	26,355	60,608	36,354
Changes in non-cash operating working capital	(17,200)	(14,899)	(7,213)	(19,514)
Cash flow - operating activities	9,128	11,456	53,395	16,840
Investing activities:				
Cash paid on acquisition, net of cash acquired (note 4)	(27,426)	(81,703)	(27,426)	(103,793)
Property, plant and equipment additions	(15,385)	(7,592)	(37,850)	(17,100)
Intangible asset additions (note 6)	(14)	(1,456)	(158)	(1,456)
Proceeds on disposal of property, plant and equipment	70	—	733	1,679
Changes in non-cash investing working capital	4,023	(2,600)	2,268	(1,759)
Cash flow - investing activities	(38,732)	(93,351)	(62,433)	(122,429)
Financing activities:				
Advances of loans and borrowings, net of upfront financing fees	27,298	87,291	27,298	107,150
Repayments on loans and borrowings	(5,471)	(6,868)	(25,926)	(23,591)
Payments on lease liabilities, net of finance costs	(811)	(780)	(2,660)	(2,116)
Interest paid	(2,500)	(1,700)	(6,136)	(2,608)
Common shares purchased pursuant to normal course issuer bid	(3,955)	—	(3,955)	—
Proceeds on common share issuances	1,465	218	16,832	31,378
Changes in non-cash financing working capital	1,765	—	1,765	—
Cash flow - financing activities	17,791	78,161	7,218	110,213
Effect of exchange rate on changes on cash	2,862	229	1,817	285
Change in cash	(8,951)	(3,505)	(3)	4,909
Cash, beginning of period	20,123	11,312	11,175	2,898
Cash, end of period	$ 11,172	$ 7,807	$ 11,172	$ 7,807

See accompanying notes to unaudited condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Reporting entity

Cathedral Energy Services Ltd. ("LTD") is a company domiciled in Canada, along with the below noted subsidiaries, together, are referred to as the "Company" or "Cathedral". The Company is a publicly traded company listed on the Toronto Stock Exchange ("TSX") under the symbol "CET". The unaudited condensed consolidated financial statements of the Company as at and for the three and nine months ended September 30, 2023 are comprised the following 100% owned subsidiaries:

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

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 United States ("U.S.").

LTD has a functional currency of Canadian dollars while INC, Flight, Rime, AEH and Altitude are incorporated in the U.S. and their functional currency is United States dollars ("USD").

2. Basis of preparation

These unaudited condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* ("IAS 34") using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Accordingly, certain information and note disclosures normally included in the annual financial statements, prepared in accordance with IFRS, have been omitted or condensed.

These unaudited condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2022.

These unaudited condensed consolidated financial statements were prepared using accounting policies and methods of their application consistent with those used in the preparation of the Company's consolidated audited annual financial statements for the year ended December 31, 2022.

The unaudited condensed consolidated financial statements were authorized for issue by the Board of Directors on November 9, 2023.

These unaudited condensed consolidated financial statements for the three and nine months ended September 30, 2023 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 million, except for tabular information, which is presented in thousands of dollars as well as share and per share amounts.

Use of estimates and judgements

The preparation of the unaudited condensed consolidated financial statements 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 have not changed significantly since December 31, 2022.

Significant estimates and judgements used in the preparation of these unaudited condensed consolidated financial statements remained unchanged from those disclosed in the Company's consolidated audited annual financial statements for the year ended December 31, 2022, with the exception of those described in note 4 and note 12 related to the Rime acquisition and provision.

Future Accounting Pronouncements

There were new standards effective on January 1, 2023, including: IFRS 17 Insurance contract, IAS 12 Income taxes and IAS 8 Accounting policies, changes in accounting estimates and errors. There was no material impact on the Company's financial statements for the adoption of these standards.

There are certain accounting pronouncements issued but not yet effective in the period, including: IFRS 7 Financial instruments: Disclosures, IFRS 10 Consolidated Financial Statements, IAS 21 The effects of changes in foreign exchange rates, IFRS 16 Leases, IAS 1 Presentation of Financial Statements, IAS 7 Statement of Cash Flows and IAS 28 Investments in Associates and Joint Ventures. None of the new or amended standards issued are expected to have a significant impact on the Company's financial statements.

3. Reclassifications

The Company has changed the presentation of certain figures in the comparative period as follows:

i) Lost-in-hole proceeds and gain on disposal of equipment - reimbursements collected from customers related to lost-in-hole equipment and the corresponding derecognition of the property, plant and equipment ("PP&E") were: a) reclassified from proceeds on disposal of property, plant and equipment to revenues, b) recognized as a write-off of PP&E at the net book value of the equipment and c) included in the Company's cash flows - operating activities rather than cash flows - investing activities on the condensed consolidated statement of comprehensive income and the condensed consolidated statement of cash flows.

The Company has changed its judgement regarding equipment lost-in-hole events that are contracted with its customers in that these events are now considered to be part of its ordinary business activities. The changes are reflected in the current and prior periods, as described above.

ii) Cash paid on acquisition - cash paid on acquisition, net of cash acquired has been presented in aggregate rather than allocated to the individual net assets acquired on the condensed consolidated statement of cash flows.

These reclassifications are summarized below:

Condensed Consolidated Statement of Comprehensive Income (Excerpt)

	Three months ended September 30, 2022			Nine months ended September 30, 2022		
	Reported	Adjustment	Adjusted	Reported	Adjustment	Adjusted
Revenue [1][2]	$ 107,846	$ 7,338	$ 115,184	$ 169,883	$ 9,982	$ 179,865
Cost of sales [1]	(83,557)	(2,046)	(85,603)	(139,490)	$ (2,058)	(141,548)
Gross margin [1]	24,289	5,292	29,581	30,393	7,924	38,317
Write-off of property, plant and equipment [1]	—	(857)	(857)	—	(1,486)	(1,486)
(Loss) gain on disposal of property, plant and equipment [1]	$ 4,435	$ (4,435)	$ —	$ 6,555	$ (6,438)	$ 117

[1] Related to adjustment i) Lost-in-hole proceeds and gain on disposal of equipment, as described above.
[2] The adjusted revenue related to the Canada segment of $1.5 million and $2.9 million and the U.S. segment of $5.8 million and $7.1 million for the three and nine months ended September 30, 2022, respectively.

Condensed Consolidated Statement of Cash Flows (Excerpt)

	Three months ended September 30, 2022			Nine months ended September 30, 2022		
	Reported	Adjustment	Adjusted	Reported	Adjustment	Adjusted
Cash flow provided by (used in):						
Operating activities						
Write-off of property, plant and equipment [1]	$ —	$ 857	$ 857	$ —	$ 1,486	$ 1,486
Loss (gain) on disposal of property, plant and equipment [1]	(4,435)	$ 4,435	—	(6,555)	6,438	(117)
Non-cash working capital - cash paid on acquisition [2]	(11,310)	11,310	—	(11,310)	11,310	—
Changes in non-cash operating working capital [2]	(4,272)	(10,627)	(14,899)	(8,886)	(10,628)	(19,514)
Cash flow - operating activities	5,481	5,975	11,456	8,234	8,606	16,840
Investing activities						
Cash paid on acquisitions, net of cash acquired [2]	—	(81,703)	(81,703)	—	(103,793)	(103,793)
Equipment additions - normal course [1][2]	(7,730)	138	(7,592)	(17,252)	152	(17,100)
Equipment additions - cash paid on acquisition [2]	(54,276)	54,276	—	(76,436)	76,436	—
Intangible additions - cash paid on acquisition [2]	(28,284)	28,284	—	(28,284)	28,284	—
Proceeds on disposal of equipment [1]	6,970	(6,970)	—	11,294	(9,615)	1,679
Cash acquired on acquisition [2]	—	—	—	70	(70)	—
Cash flow - investing activities	$ (87,376)	$ (5,975)	$ (93,351)	$ (113,823)	$ (8,606)	$ (122,429)

[1] Related to adjustment i) Lost-in-hole proceeds and gain on disposal of equipment, as described above.
[2] Related to adjustment ii) Cash paid on acquisition, as described above.

4. Acquisitions

i) Rime Downhole Technologies, LLC

On July 11, 2023, Cathedral, through a wholly-owned subsidiary, acquired Rime, a privately-held, Texas-based, engineering business that specializes in building products for the downhole measurement-while-drilling ("MWD") industry (the "Rime acquisition") in exchange for approximately USD $41 million (approximately CAD $54.1 million) comprised of: (a) the payment of USD $21 million in cash (approximately CAD $28 million); and (b) the issuance of principal amount of USD $20 million (approximately CAD $26.4 million) of subordinated exchangeable promissory notes ("EP Notes") that are exchangeable into a maximum of 24,570,000 common shares in the capital of Cathedral ("EP Shares") at a deemed price of CAD $1.10 per common share. In accordance with IAS 32 and IFRS 13, the EP notes were determined to be a compound instrument and, accordingly, recognized at the fair value for its respective debt component of $23.4 million and equity component of $1.2 million totaling $24.6 million.

The EP Notes have a three-year term and accrue interest payable quarterly at a rate of 5% per annum. Any time prior to expiry of the EP Notes, if the 20-day volume weighted average trading price of the common shares of Cathedral ("Common Shares") equals or exceeds CAD $1.10 per Common Share, Cathedral may cause the exchange of the EP Notes for Common Shares. Cathedral and the holders of the EP Notes may agree to an earlier exchange of the EP Notes into Common Shares. In addition to the statutory hold periods applicable to the EP Shares under Canadian and U.S. securities laws, the parties agreed to contractual restrictions on resale of any EP Shares as follows: 33% of the EP Shares are restricted until July 11, 2024; a further 33% of the EP Shares are restricted until July 11, 2025; and a further 34% of the EP Shares are restricted until July 11, 2026, subject to certain exceptions contained in the terms governing the EP Notes.

The fair value of the EP notes of $24.6 million was determined by an independent valuation expert using the Monte Carlo valuation method and the geometric Brownian motion under two scenarios: 1) the issuer will convert the EP notes when the share price reaches $1.10 per Common Share and 2) the EP notes are held until maturity and settled in cash. Key inputs and assumptions, such as a the Company's credit spread and the volatility of the Common Shares, were applied in the valuation model. The EP notes will be recognized using the amortized cost method subsequent to initial recognition.

The purchase price allocation was recognized at fair value under IFRS 3 Business combinations as follows:

As at		July 11, 2023
Consideration:		
Cash	$	27,954
Exchangeable promissory notes		24,632
Total consideration	$	52,586
Purchase price allocation:		
Cash	$	528
Accounts receivable		6,041
Inventory		7,119
Other net working capital		(2,668)
Property, plant and equipment		3,817
Intangible assets		35,850
Right-of-use assets		492
Goodwill		1,899
Lease obligations		(492)
Total purchase price allocation	$	52,586

The fair values of the intangible assets were determined by a valuation expert in accordance with IFRS 13 as summarized below.

Intangible assets	Fair value	Valuation technique	Key inputs and assumptions
Technology	$ 28,480	With and without income approach	– Incremental technology sales and gross margins – Research and development costs and contributory asset charges
Customer relationships	6,890	Multi-period excess earnings method	– Forecasted revenues, margins and contributory asset charges – Customer attrition, discount and income tax rates
Brand name	290	Relief from royalty method	– Forecasted cash flows attributed to the brand name – Royalty, discount and income tax rates
Non-compete agreements	190	With and without income approach	– Forecasted cash flows with and without competition – Probability of competition – Discount and income tax rates
Total	$ 35,850		

The accounts receivable was recognized at fair market value and are deemed to be fully collectible within the next twelve months. As such, the acquired accounts receivable have been classified as a current asset.

The goodwill recognized is related to expected synergies with the Company's existing operations, including the use and development of components for the Company's downhole MWD product offering. The goodwill is fully deductible over fifteen years for tax purposes.

During the period from July 11, 2023 to September 30, 2023, Rime generated revenues of USD $4 million and net income of USD $1 million. Transactions costs of $0.8 million were expensed related to the acquisition.

Assuming the Rime acquisition was effective on January 1, 2023, Rime generated revenues of USD $20 million and net income of USD $4 million for the nine months ended September 30, 2023. The estimates and judgements used to prepare these figures may not be representative of actual results.

ii) Discovery Downhole Services

On February 10, 2022, the Company acquired the operating assets of Discovery Downhole Services ("Discovery"). The acquisition included the operating assets and non-executive personnel of Discovery's U.S.- based, high-performance mud motor technology rental business. Cathedral paid $18.2 million in cash consideration and issued 5,254,112 common shares valued at $0.52 per common share for total consideration of $20.9 million. In addition to a four-month statutory hold period on the common shares, the parties have agreed to contractual restrictions on resale as follows: 25% were restricted until February 10, 2023; a further 25% are restricted until August 10, 2023; and a further 50% are restricted until February 10, 2024, subject to certain exceptions.

iii) LEXA Drilling Technologies Inc.

On June 17, 2022, the Company purchased 90.98% of LEXA Drilling Technologies Inc. ("LEXA"), a Calgary-based, downhole technology company for equity consideration in Cathedral. On July 19, 2022, the Company purchased the remaining 9.02% shares of LEXA. In total 1,772,727 common shares were issued, valued at $0.63 per common share for total consideration of $1.1 million. In addition, the Company recognized settlement of a technology license from a pre-existing relationship for consideration of $0.6 million.

iv) Compass Directional Services Ltd.

On June 22, 2022, the Company acquired the operating assets of Compass Directional Services Ltd. ("Compass"). Cathedral paid $4 million in cash consideration and issued 6,253,475 common shares valued at $0.69 per common share for total consideration of $8.3 million. Of the total share consideration, 1,389,664 common shares are subject to contractual restrictions vesting over four years. As such, these common shares are classified as treasury shares and a set portion vest each year on the anniversary of the acquisition. The compensation expense related to these treasury shares will be recognized over the vesting period.

v) Altitude Energy Partners, LLC

On July 13, 2022, the Company through its wholly owned U.S. subsidiary, Flight, closed the acquisition of Altitude through payment of cash in the amount of $87.2 million and the issuance of 67,031,032 common shares in of Cathedral for total consideration of $124.1 million. Additionally, the Company assumed lease liabilities and a deferred tax liability. The common shares are subject to contractual restrictions on resale over a period of four to sixty months.

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 U.S. Cathedral's former U.S. directional drilling business has been integrated into Altitude's business.

The Company acquired intangible assets of $35.7 million as part of the acquisition including customer relationships, non-compete agreements and brand name. The goodwill of $37.8 million recorded for the Altitude acquisition consists mainly of the value of the expertise and reputation of the assembled workforce acquired, future growth opportunities, the geographic location of the acquiree and potential synergies arising in the form of cost savings.

5. Property, Plant and Equipment

Cost	Directional drilling equipment	Shop and automotive equipment	Other	Total
Balance, December 31, 2022	$ 164,816	$ 9,265	$ 2,213	$ 176,294
Additions	32,640	2,086	3,107	37,833
Acquisition (note 4)	3,278	—	539	3,817
Disposals and write-offs	(7,271)	(448)	—	(7,719)
Effects of movements in exchange rates	337	30	40	407
Balance, September 30, 2023	$ 193,800	$ 10,933	$ 5,899	$ 210,632

Accumulated depreciation	Directional drilling equipment	Shop and automotive equipment	Other	Total
Balance, December 31, 2022	$ 64,373	$ 2,794	$ 597	$ 67,764
Depreciation	25,794	1,148	494	27,436
Disposals and write-offs	(3,243)	(222)	—	(3,465)
Effects of movements in exchange rates	103	8	5	116
Balance, September 30, 2023	$ 87,027	$ 3,728	$ 1,096	$ 91,851

Net book value	Directional drilling equipment	Shop and automotive equipment	Other	Total
Balance, December 31, 2022	$ 100,443	$ 6,471	$ 1,616	$ 108,530
Balance, September 30, 2023	$ 106,773	$ 7,205	$ 4,803	$ 118,781

During the nine months ended September 30, 2023, the Company recognized a write-off of property, plant and equipment of $3.9 million (2022 - $1.5 million) related to equipment lost-in-hole and equipment damaged beyond repair and a gain on disposal of property, plant and equipment of $0.4 million (2022 - $0.1 million).

6. Intangibles and goodwill

Cost	Customer Relationships	Brand Name	Non-Compete Agreements	RSS Licenses	Technology	Total	Goodwill
Balance, December 31, 2022	$ 22,500	$ 7,048	$ 779	$ 8,419	$ 5,386	$ 44,132	$ 39,395
Acquisition (note 4)	6,890	290	190	—	28,480	35,850	1,899
Additions	—	—	—	—	158	158	—
Effects of movements in exchange rates	235	20	7	14	813	1,089	121
Balance, September 30, 2023	$ 29,625	$ 7,358	$ 976	$ 8,433	$ 34,837	$ 81,229	$ 41,415

Accumulated amortization	Customer Relationships	Brand Name	Non-Compete Agreements	RSS Licenses	Technology	Total	Goodwill
Balance, December 31, 2022	$ 1,743	$ 219	$ 72	$ 464	$ 3,123	$ 5,621	$ —
Amortization	3,110	363	125	783	943	5,324	—
Effects of movements in exchange rates	32	3	1	8	5	49	—
Balance, September 30, 2023	$ 4,885	$ 585	$ 198	$ 1,255	$ 4,071	$ 10,994	$ —

Net book value	Customer Relationships	Brand Name	Non-Compete Agreements	RSS Licenses	Technology	Total	Goodwill
Balance, December 31, 2022	$ 20,757	$ 6,829	$ 707	$ 7,955	$ 2,263	$ 38,511	$ 39,395
Balance, September 30, 2023	$ 24,740	$ 6,773	$ 778	$ 7,178	$ 30,766	$ 70,235	$ 41,415
Remaining amortization in years	4.9	12.9	4.07	6.8	12.2	7.5	n/a

7. Right-of-use assets and lease liabilities

Right-of-use assets

Balance, December 31, 2022	$	12,178
Acquisition (note 4)		492
Additions		1,189
Derecognition		(97)
Depreciation		(2,396)
Impact of leasehold incentives		(495)
Effects of movements in exchange rates		15
Balance, September 30, 2023	$	10,886

Lease liabilities

Balance, December 31, 2022	$	17,880
Acquisition (note 4)		492
Additions		1,232
Derecognition		(97)
Interest		634
Payments		(3,331)
Effects of movements in exchange rates		16
Balance, September 30, 2023		16,826
Less: lease liabilities, current		(3,420)
Lease liabilities, long-term	$	13,406

8. Loans and borrowings

As of		September 30, 2023		December 31, 2022
Syndicated Operating Facility	$	—	$	13,000
CAD Syndicated Term Facility, net of unamortized upfront financing fees		55,032		66,600
USD Syndicated Term Facility, net of unamortized upfront financing fees		26,837		—
HASCAP loan		852		935
Total loans and borrowings		82,721		80,535
Less: HASCAP loan, current		(852)		(935)
Less: CAD Syndicated Term Facility, current		(13,658)		(14,800)
Less: USD Syndicated Term Facility, current		(6,666)		—
Loans and borrowings, current		(21,176)		(15,735)
Loans and borrowings, long-term	$	61,545	$	64,800

On July 11, 2023, in connection with the Rime acquisition, the Company entered into a three-year term credit facility (the “Credit Facility”), replacing its existing credit facility with its syndicate of lenders led by ATB Financial (“ATB”). The Credit Facility provides an approximate $137 million principal amount comprised of: i) a $59 million Syndicated Term Facility (replacing the existing Syndicated Term Facility) (“CAD Syndicated Term Facility”), ii) a new USD $21 million term loan (CAD $27.1 million) (“USD Syndicated Term Facility”), repayable in equal quarterly installments over a five-year amortization period, iii) a $35 million Syndicated Operating Facility (previously $15 million), and iv) a $15 million Revolving Operating Facility (previously $10 million). The Credit Facility was utilized to replace and repay Cathedral’s existing credit facility. The interest rate and financial covenants remained unchanged from the existing credit facility.

During the nine months ended September 30, 2023, the Company also repaid its balance owing on the Syndicated Operating Facility of $13 million. In addition, the Company made contractual repayments totaling $11.1 million related to its Syndicated Term Facility reducing the carrying value to $55.0 million as at September 30, 2023. The carrying values of the CAD Syndicated Term Facility and the USD Syndicated Term Facility are net of unamortized upfront financing fees as at September 30, 2023.

As at September 30, 2023, the $35 million Syndicated Operating Facility and the $15 million Revolving Operating Facility remained undrawn. In addition, the Company continues to hold a Highly Affected Sectors Credit Availability Program (“HASCAP”) loan.

At September 30, 2023, the Company was in compliance with its financial covenants, which were as follows:

- Consolidated Funded Debt to Consolidated Credit Agreement EBITDA ratio shall not exceed 2.5.0:1; and
- Consolidated Fixed Charge Coverage ratio shall not be less than 1.25:1

9. Share capital

An unlimited number of Common Shares and preferred shares (issuable in series) are authorized.

	Number (000s)		Amount
Balance, December 31, 2022	224,124	$	180,484
Purchased under the normal course issuer bid	(2,435)		(1,987)
Accrued purchases under the normal course issuer bid	—		(1,669)
Issued on exercise of warrants	20,307		16,410
Contributed surplus on warrants exercised	—		3,433
Issued on exercise of stock options	1,482		422
Contributed surplus on options exercised	—		251
Balance, September 30, 2023	243,478	$	197,344

On July 3, 2023, the Company received approval from the TSX to purchase up to 12,160,008, or 5%, of the 243,200,173 issued and outstanding common shares of the Company ("Common Shares") under the normal course issuer bid ("NCIB"). The ability to purchase Common Shares under the NCIB commenced on July 17, 2023, and will terminate no later than July 16, 2024. The actual number of Common Shares purchased under the NCIB, the timing of purchases and the price at which the Common Shares are purchased will be subject to management's discretion.

Under the TSX rules, the Company is entitled to purchase up to the greater of: 25% of the average daily trading volume of the respective class of shares; or 1,000 shares on any trading day; or a larger amount of shares per calendar week, subject to the maximum number that may be acquired under the NCIB, if the transaction meets the block purchase exception rule under TSX rules. Accordingly, unless a block purchase meets the block purchase exception under TSX rules, the Company is entitled to purchase up to 99,621 Common Shares on any trading day.

During the nine months ended September 30, 2023, 2,434,900 Common Shares were purchased under the NCIB for a total purchase amount of $2.2 million at an average price of $0.82 per Common Share. A portion of the purchase amount reduced share capital by $2 million and the residual purchase amount of $0.2 million was recorded to the deficit.

In connection with the NCIB, the Company has established an automatic securities purchase plan ("the Plan") for the Common Shares. Accordingly, the Company may repurchase its Common Shares under the Plan on any trading day during the NCIB, including during regulatory restrictions or self-imposed trading blackout periods. The Plan commenced on July 17, 2023 and will terminate on July 16, 2024. As at September 30, 2023, the Company recognized $1.8 million as an accrued liability ($1.7 million reduced share capital and $0.1 million was recorded to the deficit) for the maximum Common Shares to be purchased under the Plan. Subsequent to September 30, 2023, the Company purchased 1,860,000 Common Shares for a total purchase amount of $1.6 million at an average purchase price of $0.86 per Common Share.

Stock options

A summary of the Company's outstanding stock options as at September 30, 2023 is as follows:

	Number (000s)		Weighted average exercise price
Balance, December 31, 2022	20,672	$	0.61
Granted	6,348	$	0.89
Exercised	(1,482)		0.28
Forfeitures	(2,738)		0.59
Balance, September 30, 2023	22,800		0.71
Exercisable, September 30, 2023	6,178	$	0.52

During the nine months ended September 30, 2023, the Company granted 1,825,000 and 100,000 stock options to certain officers and employees at exercise prices of $0.95 per stock option and $0.84 per stock option, respectively. These stock options are set to expire on April 26, 2026 and May 9, 2026, respectively. The stock options will vest in one-third tranches twelve months, eighteen months and twenty-four months from the grant date, respectively.

In addition, on August 21, 2023, the Company granted 4,422,568 stock options to certain employees related to the Rime acquisition at an exercise price of $0.86 per stock option. These stock options are set to expire on August 21, 2026. The stock options will vest in one-third tranches twelve months, eighteen months and twenty-four months from the grant date, respectively.

The range of exercise prices for the options outstanding as at September 30, 2023 is as follows:

	Outstanding				Exercisable			
Exercise price range	Number (000s)	Weighted average remaining life (years)		Weighted average exercise price	Number (000s)	Weighted average remaining life (years)		Weighted average exercise price
$0.12 to $0.25	162	0.04	$	0.12	162	0.04	$	0.12
$0.26 to $0.50	2,649	0.79	$	0.43	2,591	0.78	$	0.43
$0.51 to $0.87	17,739	2.12	$	0.72	3,425	1.78	$	0.61
$0.87 to $1.18	2,250	2.51	$	0.99	—	—	$	—
Total	22,800	1.99	$	0.71	6,178	1.32	$	0.52

Warrants

A summary of the Company's warrants granted related to acquisitions and private placements as at September 30, 2023 is as follows:

	Number (000s)		Weighted average exercise price
Balance, December 31, 2022	20,362	$	0.81
Exercise of warrants	(20,307)		0.81
Expiry of warrants	(55)		(0.85)
Balance, September 30, 2023	—	$	—

During the nine months ended September 30, 2023, 17,731,888 of the April 2022 bought deal offering warrants, 575,000 of the February 2021 private placement warrants and 2,000,000 of the warrants related to the Precision Drilling acquisition were exercised at $0.85 per warrant, $0.24 per warrant and $0.60 per warrant totaling $15.1 million, $0.1 million, and $1.2 million in gross cash proceeds, respectively. On April 26, 2023, the remaining 55,462 of the April 2022 bought deal offering warrants expired.

10. Net income per share

	Three months ended September 30,				Nine months ended September 30,			
		2023		2022		2023		2022
Net income	$	5,650	$	8,658	$	8,861	$	8,077
Outstanding shares, beginning of the period		243,200		147,559		224,124		80,200
Effect of purchased share capital during the period		(323)		—		(109)		—
Effect of share capital issued during the period		1,697		49,526		11,963		62,526
Weighted average common shares (basic)		244,574		197,085		235,978		142,726
Effect of outstanding stock options and warrants		1,234		2,078		2,659		2,432
Effect of outstanding EP Notes		21,641		—		7,320		—
Weighted average common shares (diluted)		267,449		199,163		245,957		145,158
Net income per share - basic and diluted	$	0.02	$	0.04	$	0.04	$	0.06

During the three and nine months ended September 30, 2023, 15,466,233 and 4,050,766 stock options and warrants, respectively (2022 – 15,164,767 and 15,164,767) were excluded from the diluted weighted average number of common shares calculation as their effect was anti-dilutive.

11. Operating segments

The Company has two 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.

	Three months ended September 30, 2023				Three months ended September 30, 2022			
	Canada	U.S.	Corporate services	Total	Canada	U.S.	Corporate services	Total
Revenues (note 3)	$ 45,253	$ 100,338	$ —	$ 145,591	$ 38,073	$ 77,110	$ —	$ 115,183
Income (loss) before income taxes	$ 9,631	$ 4,411	$ (7,033)	$ 7,009	$ 6,298	$ 9,645	$ (7,198)	$ 8,745

	Nine months ended September 30, 2023				Nine months ended September 30, 2022			
	Canada	U.S.	Corporate services	Total	Canada	U.S.	Corporate services	Total
Revenues (note 3)	$ 116,080	$ 283,798	$ —	$ 399,878	$ 77,937	$ 101,928	$ —	$ 179,865
Income (loss) before income taxes	$ 12,238	$ 17,958	$ (17,393)	$ 12,803	$ 3,636	$ 14,031	$ (10,259)	$ 7,408

	As at September 30, 2023				As at December 31, 2022			
	Canada	U.S.	Corporate services	Total	Canada	U.S.	Corporate services	Total
Total liabilities	$ 109,014	$ 122,208	$ —	$ 231,222	$ 119,148	$ 80,945	$ —	$ 200,093
Total assets	$ 107,967	$ 304,599	$ —	$ 412,566	$ 110,683	$ 243,307	$ —	$ 353,990
Property, plant and equipment	$ 53,407	$ 65,374	$ —	$ 118,781	$ 58,575	$ 49,704	$ 251	$ 108,530

There are no material differences in the basis of accounting or the measurement of income, assets and liabilities between the Company 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.

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 same level of seasonality that occurs in the Western Canada region.

12. Contractual obligations and contingencies

As at September 30, 2023, the Company's commitment to purchase property, plant and equipment is approximately $7.6 million, which is expected to take place over the next six months.

The Company also holds six letters of credit totaling $1.9 million related to rent payments, corporate credit cards and a utilities deposit.

Provision

The Company has recognized a provision of $6.1 million related to a recent U.S. tax audit matter. A portion of the provision was recognized as an expense of $4.3 million and a portion was recognized as property, plant and equipment and inventory of $1.8 million. The estimate was made by management using the latest information available and is subject to measurement uncertainty. Actual results may differ from this estimate.

The Company is also involved in various other legal claims associated with the normal course of operations. The Company believes that any liabilities that may arise pertaining to such matters would not have a material impact on its financial position.