CATHEDRAL

NEWS RELEASE

Cathedral Energy Services Ltd. Reports 2024 Q1 Interim Results

May 9, 2024
Calgary, Alberta

Cathedral Energy Services Ltd.'s (the "Company" or "Cathedral") news release contains "forward-looking statements" within the meaning of applicable Canadian securities laws. For a full disclosure of forward-looking statements and the risks to which they are subject, see the "Forward-Looking Statements" section in this news release. This news release contains references to Adjusted gross margin, Adjusted gross margin %, Adjusted EBITDAS, Adjusted EBITDAS margin %, Free cash flow, Working capital and Net capital expenditures. These terms do not have standardized meanings prescribed under International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS Accounting Standards") and may not be comparable to similar measures used by other companies. See the "Non-GAAP Measures" section in this news release for definitions and tabular calculations.

2024 Q1 KEY HIGHLIGHTS

The Company achieved the following 2024 Q1 results and highlights:

- Revenues of $165.0 million in 2024 Q1 is the highest quarterly revenues in the Company's history and represents an increase of 24%, compared to $132.9 million in 2023 Q1.
- Adjusted EBITDAS (1) of $28.8 million in 2024 Q1 increased 89%, compared to $15.2 million in 2023 Q1, and is among the highest levels achieved in any quarter for Cathedral.
- Canadian operating days increased 20% in 2024 Q1, compared to 2023 Q1, despite a 1% decline in the Western Canadian rig count (2). Cathedral remains extremely active in oil plays where wells tend to have a high multilateral count.
- U.S. operating days increased 11% in 2024 Q1, compared to 2023 Q1, despite a 19% decline of overall industry land rig counts (2).
- An increase in the Canadian average revenue per operating day of 2% in 2024 Q1, compared to 2023 Q1.
- Net income of $11.6 million in 2024 Q1, compared to $0.8 million in 2023 Q1.
- Cash flow - operating activities of $15.7 million in 2024 Q1, compared to $27.9 million in 2023 Q1, mainly attributable to the change in non-cash working capital.
- Free cash flow (1) of $3.5 million in 2024 Q1, compared to a Free cash flow deficit (1) of $0.8 million in 2023 Q1.
- The Company purchased 2,471,700 common shares of Cathedral under its normal course issuer bid ("NCIB") for a total amount of $2.1 million at an average price of $0.84 per common share.
- Loans and borrowings less cash was $75.6 million as at March 31, 2024, compared to $67.9 million as at December 31, 2023. The Company will remain focused on reducing its loans and borrowings and generating Free cash flow (1) for the remainder of 2024.
- The Company continues to see a significant opportunity for margin expansion in its U.S. directional business by using Rime Downhole Technologies ("Rime") supplied Measurement-While-Drilling ("MWD") systems to reduce its third-party rental costs. To date, ten Rime MWD systems have been deployed with an additional forty MWD systems expected to be deployed by the end of the year.
- The Company purchased three additional Rotary Steerable Systems ("RSS") Orbit tools, expanding its U.S. fleet to nineteen RSS tools.

(1) As defined in the "Non-GAAP measures" section of this news release.
(2) Per Baker Hughes and Rig Locator.

PRESIDENT'S MESSAGE

Comments from President & CEO Tom Connors:

“Cathedral achieved its highest quarterly revenue ever while generating its third consecutive quarter of strong Adjusted EBITDAS. Adjusted EBITDAS this quarter of $28.8 million was up 89% from the $15.2 million of a year ago driven by stable job counts in the U.S. relative to industry activity, an increase in higher value work utilizing RSS, an increase in lost-in-hole reimbursements from customers and record active job counts in the Canadian market.

“Our performance in the first quarter relative to industry activity in both the U.S. and Canada was a significant achievement leading to another consecutive quarter with consistently solid financial performance. Our U.S. division Altitude Energy Partners (“Altitude”) maintained its job count and activity levels throughout 2023 and into the first quarter of 2024 while the industry rig count bottomed near 620 rigs by the fourth quarter of 2023 from a peak of 775 rigs during the first quarter of 2023 (source: Baker Hughes). The increase in activity levels is much more noticeable on a year-over-year basis with operating days up almost 11% from the first quarter of 2023. Altitude’s continued strong presence with larger clients and in U.S. plays with better economics have helped it weather rapidly changing conditions. Overall equipment utilization was lower in 2024 Q1 as compared to 2023 Q4 in our mud motor technology rental business with the decline in activity levels impacting incremental demand for many of our competitors and customers.

“In Canada, Cathedral achieved very strong results driven by 20% growth in operating days on a year-over-year basis while the overall market activity was relatively flat during the same period. The expansion of multilateral drilling, propelled by attractive customer economics, plays to our strengths as a company and looks to remain one area of steady activity through the remainder of 2024.

“We remain focused on the opportunity to deploy our internally developed MWD technology to further strengthen our U.S. business and drive meaningful margin expansion for a relatively modest capital investment. To date, we have deployed ten systems through our technology company, Rime, and expect to have a total of fifty systems built by the end of the year. Full deployment will happen in various stages throughout the year as the build-out continues, allowing us to partially offset third-party rental expense in 2024 and positioning the company to significantly reduce those expenses in 2025.

“Seasonally, the first quarter is typically the most active for the year in Canada and usually requires some working capital investments to fund increased levels of activity. With heightened activity levels in the first quarter, this year was no different and as such Cathedral saw a small increase in overall leverage versus year-end 2023 levels owing to those investments. We remain focused on the reduction of Loans and borrowings to less than 0.5x Adjusted EBITDAS by year-end 2024, which strengthens our balance sheet further and positions us well to pursue a number of options that drive shareholder value, including further growth through acquisition and/or a shareholder return strategy via a more defined return of capital program. Cathedral continued with its NCIB program, having bought 2.5 million shares in the quarter. Management believes that buying shares at current share price levels continues to represent good value and a sensible use of capital while also staying focused on executing our capital program weighted to the first half of the year and paying down debt built up from the strategic acquisitions of Altitude and Rime.

“With a relatively stable to positive outlook, the opportunity to expand our margins through internally developed technology, combined with relatively modest but reducing debt levels, 2024 presents a number of significant opportunities to further strengthen the Company and position us for growth into 2025.

“Becoming a significant player in the North American directional drilling space could not have happened without the combined efforts of the entire team, I would like to thank everyone for their dedication and effort as we continue our journey to build a great company that creates value for employees and shareholders alike,” stated Tom Connors, Cathedral’s President and Chief Executive Officer.

FINANCIAL HIGHLIGHTS

Canadian dollars in 000's except for otherwise noted

	Three months ended March 31, 2024	2023
Revenues [2]	$ 164,956	$ 132,948
Gross margin % [2]	22%	16%
Adjusted gross margin % [1][2]	29%	23%
Adjusted EBITDAS [1]	$ 28,752	$ 15,187
Adjusted EBITDAS margin % [1]	17%	11%
Cash flow - operating activities [2]	$ 15,746	$ 27,860
Free cash flow (deficit) [1][2]	$ 3,453	$ (826)
Net income	$ 11,584	$ 794
Per share - basic	$ 0.05	$ —
Per share - diluted	$ 0.04	$ —
Weighted average shares outstanding:		
Basic (000s)	240,679	224,561
Diluted (000s)	269,468	236,386

Balance,	March 31, 2024	December 31, 2023
Working capital, excluding current portion of loans and borrowings [1]	$ 82,276	$ 74,865
Total assets	$ 435,041	$ 403,733
Loans and borrowings	$ 82,528	$ 78,598
Shareholders' equity	$ 191,806	$ 179,468

(1) Refer to the "Non-GAAP Measures" section in this news release.

(2) Refer to the "Reclassifications" section in this news release.

OUTLOOK

The longer-term outlook for North American energy-related activity is positive and global demand continues to rise while geopolitical events continue to increase uncertainty around supply. In Canada, the initiation of the Trans Mountain pipeline expansion, followed by LNG Canada, will provide significant tidewater and global market access for both Canadian crude and natural gas. Both projects should translate to more consistent and slightly improved activity levels for oilfield service providers over time. LNG also represents a significant area of growth for the U.S. market as approximately 12 bcf per day of export capacity will be added in the coming years supporting incremental growth in drilling activity and less volatility in activity related to the cyclicality of domestic gas prices.

The overall 2024 outlook for activity in North America remains relatively flat. It is somewhat nuanced in that activity in the Canadian market in the next three quarters is anticipated to be biased upwards slightly over the same periods in 2023 and biased flat to slightly down in the U.S. market driven by a number of factors. Specific to the second quarter of 2024, Cathedral is seeing a continuation of roughly flattish activity trends in the U.S. combined with the typical seasonal slowdown in Canada related to spring break-up. Cathedral's 2024 Q2 U.S. job count remains generally consistent with Q1 levels. In Canada, the second quarter represents a seasonal low for the industry due to road bans, however, early rig counts for the sector in 2024 Q2 have been running in the 120 range (source: Rig Locator), which is up over 20% from levels for the same period last year. Accordingly, Cathedral's Canadian 2024 Q2 job count to date has also been markedly higher than one year ago and we believe this solid operating momentum will continue in the third quarter.

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 $41.0 million (approximately CAD $54.1 million) comprised of: i) the payment of USD $21.0 million in cash (approximately CAD $28.0 million); and ii) the issuance of principal amount of USD $20.0 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 of Cathedral (“EP Shares”) at an issue price of CAD $1.10 per common share. In accordance with International Accounting Standards (“IAS”) 32 and IFRS 13, the EP notes were determined to be a compound instrument and, accordingly, recognized at the fair value of their respective debt component of $23.4 million and equity component of $1.2 million totaling $24.6 million.

RECLASSIFICATIONS

The Company has changed the presentation of certain figures in 2023 Q1 related to equipment lost-in-hole reimbursements collected from customers and the corresponding derecognition of the property, plant and equipment (“PP&E”).

More specifically, the Company reclassified its gain on disposal of PP&E as follows: a) reclassified the proceeds on disposal of PP&E, related to lost-in-hole equipment, to revenues and b) recognized a write-off of PP&E for the net book value of the lost-in-hole equipment on the condensed consolidated statement of comprehensive income. In addition, the lost-in-hole proceeds were reclassified from the Company’s cash flows - investing activities to the cash flows - operating activities on 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.

These reclassifications recognized in 2023 Q1 are summarized below:

Condensed Consolidated Statement of Comprehensive Income (Excerpt)

	Three months ended March 31, 2023		
	Reported	Adjustment	Adjusted
Revenues:			
United States	82,321	2,631	84,952
Canada	$ 45,344	$ 2,652	$ 47,996
Total revenues	127,665	5,283	132,948
Cost of sales	(110,601)	(1,339)	(111,940)
Gross margin	17,064	3,944	21,008
Write-off of PP&E	—	(976)	(976)
Gain on disposal of PP&E	$ 3,044	$ (2,968)	$ 76

Condensed Consolidated Statement of Cash Flows (Excerpt)

	Three months ended March 31, 2023		
	Reported	Adjustment	Adjusted
Cash flow provided by (used in):			
Operating activities			
Write-off of PP&E	$ —	$ 976	$ 976
Gain on disposal of PP&E	(3,044)	2,968	(76)
Cash flow - operating activities	23,916	3,944	27,860
Investing activities			
PP&E additions	(13,751)	1,329	(12,422)
Proceeds on disposal of PP&E	5,572	(5,278)	294
Cash flow - investing activities	(10,230)	(3,949)	(14,179)
Effect of exchange rate on changes on cash	$ (54)	$ 5	$ (49)

RESULTS OF OPERATIONS

	Three months ended March 31, 2024	2023
Revenues		
United States [2]	$ 106,562	$ 84,952
Canada [2]	58,394	47,996
Total revenues [2]	164,956	132,948
Cost of sales		
Direct costs [2]	(117,600)	(102,571)
Depreciation and amortization	(11,635)	(9,225)
Share-based compensation	(223)	(144)
Cost of sales	$ (129,458)	$ (111,940)
Gross margin [2]	$ 35,498	$ 21,008
Gross margin % [2]	22%	16%
Adjusted gross margin % [1][2]	29%	23%

[1] Refer to the "Non-GAAP Measures" section in this news release.
[2] Refer to the "Reclassifications" section in this news release.

SEGMENTED INFORMATION

United States

Revenues

U.S. revenues were $106.6 million in 2024 Q1, an increase of $21.6 million or 25%, compared to $85.0 million in 2023 Q1. The Company realized an 11% increase in operating days to 3,670 days in 2024 Q1, compared to 3,317 days in 2023 Q1. The increase is mainly related to the Company realizing higher activity, despite a declining market in 2024 Q1. The average revenue per operating day increased 13% to $29,036 per day in 2024 Q1, compared to $25,611 per day in 2023 Q1, mainly due to job mix and higher lost-in-hole reimbursements from customers in 2024 Q1.

Direct costs

U.S. direct costs included in cost of sales were $81.3 million in 2024 Q1, an increase of $13.3 million or 20%, compared to $68.0 million in 2023 Q1. The increase is mainly due to higher repairs, third-party rentals and labour costs. As a percentage of revenues, direct costs decreased to 76% in 2024 Q1, from 80% in 2023 Q1, mainly due to lower labour and equipment rental costs as a % of revenues.

Canadian

Revenues

Canadian revenues were $58.4 million in 2024 Q1, an increase of $10.4 million or 22%, compared to $48.0 million in 2023 Q1. The Company realized a 20% increase in operating days to 4,374 days in 2024 Q1, compared to 3,659 days in 2023 Q1. The increase in operating days is mainly attributable to higher market demand in the 2024 Q1. The average revenue per operating day increased 2% to $13,350 per day in 2024 Q1, compared to $13,117 per day in 2023 Q1. The increase in the average revenue per operating day is mainly attributed to a change in job mix, including higher charges for premium tools.

Direct costs

Canadian direct costs included in cost of sales were $36.3 million in 2024 Q1, an increase of $1.7 million or 5%, compared to $34.6 million in 2023 Q1. The increase is mainly due to higher labour costs, offset by lower repair costs and third-party rental costs in 2024 Q1. As a percentage of revenues, direct costs were 62% in 2024 Q1, compared to 72% in 2023 Q1.

CONSOLIDATED

The Company recognized $165.0 million of revenues in 2024 Q1, an increase of $32.1 million or 24%, compared to $132.9 million in 2023 Q1. The increase is due to a 15% increase in operating days (2024 -

8,044; 2023 - 6,976) and an 8% increase in the average revenue per operating day (2024 - $20,507; 2023 - $19,058).

The Company recognized $129.5 million of cost of sales in 2024 Q1, an increase of $17.6 million or 16%, compared to $111.9 million in 2023 Q1. The increase is mainly due to higher repairs and labour costs related to the increase in operating days and the inclusion of manufacturing costs related to Rime (acquired in July 2023). Cost of sales as a percentage of revenues decreased to 78% in 2024 Q1 from 84% in 2023 Q1.

The Gross margin % increased to 22% in 2024 Q1, compared to 16% in 2023 Q1. The Adjusted gross margin % increased to 29% in 2024 Q1, compared to 23% in 2023 Q1. The increase in Adjusted gross margins, as noted above, were mainly related to decreased labour, third-party rentals and repairs costs as a percentage of revenues.

Depreciation and amortization expense included in cost of sales increased to $11.6 million in 2024 Q1, compared to $9.2 million in 2023 Q1, mainly due to a change in depreciation methodology, as described below.

In 2024 Q1, the Company assessed its depreciation methodology related to its property, plant and equipment. As a result, the Company determined that using a straight-line method of depreciation, rather than the declining balance method, more accurately reflects the future economic benefits of the related assets. The depreciation expense included in cost of sales increased, mainly due to a one-time adjustment of $5.7 million recognized in 2024 Q1 due to the change in methodology.

Depreciation and amortization expense included in cost of sales as a percentage of revenues was 7% in 2024 Q1 and 2023 Q1.

Selling, general and administrative (“SG&A”) expenses

	Three months ended March 31, 2024	2023
Selling, general and administrative expenses:		
Direct costs	$ 16,026	$ 14,086
Depreciation and amortization	2,347	1,509
Share-based compensation	930	775
Selling, general and administrative expenses	$ 19,303	$ 16,370

The Company recognized SG&A expenses of 19.3 million in 2024 Q1, an increase of $2.9 million, compared to $16.4 million in 2023 Q1. The increase is mainly due to increase SG&A related to the Rime acquisition. SG&A expenses as a percentage of revenues were 12% in 2024 Q1 and 2023 Q1.

Depreciation and amortization included in SG&A were $2.5 million in 2024 Q1, compared to $1.5 million in 2023 Q1 mainly related to the Company’s change of depreciation methodology in 2024 Q1, as described previously. In addition, the amortization expense increased in 2024 Q1 related to amortization recognized in relation to the intangible assets acquired in the Rime transaction.

Stock-based compensation included in SG&A were $0.9 million in 2024 Q1, compared to $0.8 million in 2023 Q1.

Research and development (“R&D”) costs

The Company recognized R&D costs of $0.6 million in 2024 Q1 and 2023 Q1. 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 in 2024 Q1, compared to $1.0 million in 2023 Q1. The write-offs related to equipment lost-in-hole and damaged beyond repair. Reimbursements on lost-in-hole equipment and damage beyond repair are based on service agreements held with clients and are recognized as revenues. Refer to the “Reclassifications” section of this news release.

Finance costs

Finance costs - loans and borrowings were $2.5 million in 2024 Q1, an increase of $0.8 million, compared to $1.7 million in 2023 Q1. The increase is mainly due to a higher outstanding balance of loans and borrowing in 2024 Q1 compared to 2023 Q1. In addition, the increase related to higher finance costs related to the Company’s EP notes issued in 2023 Q3 and higher interest rates in 2024.

In addition, the Company had $0.2 million of finance costs in 2024 Q1 and 2023 Q1 related to lease liabilities.

Foreign exchange

The Company recognized a foreign exchange gain of $2.0 million in 2024 Q1. The impact of foreign exchange is due to fluctuations of the Canadian dollar relative to the USD related to foreign currency transactions recognized in net income.

The Company recognized a foreign currency translation gain on foreign operations of $1.5 million in 2024 Q1, compared to a loss of $0.4 million in 2023 Q1. 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 $1.7 million in 2024 Q1, compared to an income tax expense of $0.4 million in 2023 Q1. Income tax expense is booked based upon expected annualized rates using the statutory rates of 23% for both Canada and the U.S. The Company’s effective tax rate in 2024 Q1 was 13%, which is lower than the statutory rate of 23%, mainly due to the Canadian segment income tax expense being offset by its tax pools in the period.

LIQUIDITY AND CAPITAL RESOURCES

Annually, the Company’s principal source of liquidity is cash generated from its operations. In addition, the Company has the ability to fund liquidity requirements through its 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 $15.7 million in 2024 Q1, compared to $27.9 million in 2023 Q1. Cathedral remains focused on reducing its loans and borrowings and generating Free cash flow, as defined in the ‘Non-GAAP measures’ section of this news release. In addition, the Company will remain opportunistic in executing its NCIB and making strategic and accretive acquisitions.

At March 31, 2024, the Company had working capital, excluding current portion of loans and borrowings of $82.3 million (December 31, 2023 - $74.9 million).

Normal course issuer bid

In 2024 Q1, 2,471,700 common shares were purchased under the NCIB for a total purchase amount of $2.1 million at an average price of $0.84 per common share. A portion of the purchase amount reduced share capital by $2.0 million and the residual purchase amount of $0.1 million was recorded to the deficit.

Syndicated and revolving credit facility

In 2024 Q1, the Company withdrew $10.0 million of its Syndicated Operating Facility and repaid $1.6 million of its Revolving Operating Facility. As at March 31, 2024, $25.0 million of the $35.0 million Syndicated

Operating Facility remained undrawn. As at March 31, 2024, the $15.0 million Revolving Operating Facility also remained undrawn.

In 2024 Q1, the Company made contractual repayments totaling $3.7 million related to its CAD Syndicated Term Facility, and $1.4 million related to its USD Syndicated Term Facility, reducing the carrying values to $47.7 million and $24.0 million, respectively, as at March 31, 2024. The carrying values of the CAD Syndicated Term Facility and the USD Syndicated Term Facility are net of unamortized upfront financing fees of $0.4 million and $0.2 million, respectively, as at March 31, 2024.

In addition, the Company held its Highly Affected Sectors Credit Availability Program ("HASCAP") loan with a balance of $0.8 million.

At March 31, 2024, 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 2.5:1; and
- Consolidated Fixed Charge Coverage ratio shall not be less than 1.25:1.

Contractual obligations and contingencies

As at March 31, 2024, the Company's commitment to purchase property, plant and equipment is approximately $9.0 million, which is expected to be incurred in the remainder of 2024.

The Company also holds six letters of credit totaling $1.7 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.

The following table outlines the anticipated payments related to contractual commitments subsequent to March 31, 2024:

	Carrying amount	One year	1-2 years	3-5 years	Thereafter
Loans and borrowings - principal	$ 83,066	$ 21,017	$ 20,220	$ 41,829	$ —
EP Notes - principal	27,080	—	—	27,080	—
Interest payments on loans and borrowings and EP Notes	12,239	6,487	4,740	1,012	—
Lease liabilities - undiscounted	15,223	4,421	3,206	6,719	877
Trade and other payables	106,349	106,349	—	—	—
Total	$ 243,957	$ 138,274	$ 28,166	$ 76,640	$ 877

Capital structure

As at May 9, 2024, the Company has 240,337,390 common shares, 21,866,967 stock options and EP Notes that are exchangeable into a maximum of 24,570,000 common shares outstanding.

NET CAPITAL EXPENDITURES

The following table details the Corporation's Net capital expenditures:

	Three months ended March 31, 2024	2023
Motors and related equipment	$ 7,206	$ 7,416
MWD and related equipment	7,911	3,183
Shop and automotive equipment	233	778
Other	569	1,538
Gross capital expenditures	$ 15,919	$ 12,915
Less: lost-in-hole equipment reimbursements	(10,646)	(5,517)
Net capital expenditures (1)	$ 5,273	$ 7,398

(1) Refer to the "Non-GAAP Measures" section in this news release.

The Company's 2024 Net capital expenditure budget is expected to be approximately $30 million to $35 million (2023 - $27 million to $32 million), excluding any potential acquisitions. The Net capital expenditure budget is targeted at growing Cathedral's high-performance mud motors, MWD in both Canada and the U.S., and RSS in the U.S. Cathedral intends to fund its 2024 capital plan from cash flow - operating activities.

NON-GAAP MEASURES

Cathedral uses certain performance measures throughout this news release that are not defined under IFRS Accounting Standards 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 that these measures should not be construed as alternatives to IFRS Accounting Standards 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, Working capital and Net capital expenditures. 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 (write-down of inventory, 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, write-down of inventory and share-based compensation; provides supplemental information to net income 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 net income 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 common shares outstanding; provides supplemental information to net income that is useful in evaluating the results and financing of the Company's business activities before considering certain charges on a per diluted common share basis;

vi) "Free cash flow" - calculated as cash flow - operating activities prior to: i) changes in non-cash working capital, ii) income tax paid (refund) and iii) non-recurring costs less: i) PP&E and intangible asset additions, excluding assets acquired in business combinations, ii) required repayments on loans and borrowings, in accordance with the Company's credit facility agreement, and iii) repayments of lease liabilities, net of finance costs, offset by proceeds on disposal of PP&E. Management uses this measure as an indication of the Company's ability to generate funds from its operations to support future capital expenditures, additional repayments of loans and borrowings or other initiatives (see tabular calculation).

The Company has deducted intangible asset additions from its Free cash flow calculation in 2024 Q1, compared to being excluded in prior periods. The change of the calculation is mainly due to more significant additions in the period as the Company expanded its RSS tool fleet and the related licenses, as well as expected cash outflows in the future related to intangible assets as the Company expands its technology offerings. In addition, there were reclassification adjustments related to the cash flow - operating activities, proceeds on disposal of PP&E and PP&E additions, as described in the "Reclassifications" section in this news release.

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.

viii) "Net capital expenditures" - calculated as the gross capital expenditures less reimbursements from customers and insurance proceeds related to equipment lost-in-hole and damaged beyond repair, net of payments to vendors for insurance coverage and third-party rental equipment lost-in-hole or damaged beyond repair - refer to the "Capital expenditures" section of this news release.

The following tables provide reconciliations from the IFRS Accounting Standards measures to non-GAAP measures.

Adjusted gross margin

	Three months ended March 31,	
	2024	2023
Gross margin [1]	$ 35,498	$ 21,008
Add non-cash items included in cost of sales:		
Write-down of inventory included in cost of sales	7	378
Depreciation and amortization	11,635	9,225
Share-based compensation	223	144
Adjusted gross margin	$ 47,363	$ 30,755
Adjusted gross margin %	29%	23%

[1] Refer to the "Reclassifications" section in this news release.

Adjusted EBITDAS

	Three months ended March 31,	
	2024	2023
Net income	$ 11,584	$ 794
Add (deduct):		
Income tax expense	1,665	407
Depreciation and amortization - cost of sales	11,635	9,225
Depreciation and amortization - selling, general and administrative expenses	2,347	1,509
Share-based compensation - cost of sales	223	144
Share-based compensation - selling, general and administrative expenses	930	775
Finance costs - loans and borrowings	2,465	1,730
Finance costs - lease liabilities	205	214
Unrealized foreign exchange (gain) loss on intercompany balances	(2,309)	11
Write-down of inventory included in cost of sales	7	378
Adjusted EBITDAS	$ 28,752	$ 15,187
Adjusted EBITDAS margin %	17%	11%

Free cash flow

	Three months ended March 31,	
	2024	2023
Cash flow - operating activities [1]	$ 15,746	$ 27,860
Add (deduct):		
Income tax paid (refund)	160	(169)
Changes in non-cash operating working capital [1]	14,481	(11,604)
Non-recurring expenses	—	—
Proceeds on disposal of property, plant and equipment [1]	—	294
Less:		
Property, plant and equipment and intangible asset additions[1][2]	(20,886)	(12,544)
Required repayments on loans and borrowings[3]	(5,149)	(3,728)
Repayments of lease liabilities, net of finance costs	(899)	(935)
Free cash flow (deficit)	$ 3,453	$ (826)

[1] Refer to the "Reclassifications" section in this news release.
[2] PP&E additions exclude non-cash additions.
[3] Required repayments on loans and borrowings in accordance with the credit facility agreement. Excludes discretionary debt repayments.

FORWARD LOOKING STATEMENTS

This news release 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 news release contains forward-looking statements relating to, among other things:

- Future commitments;
- The 2024 Net capital expenditure budget and financing thereof;
- To date, we have deployed ten systems through our technology company, Rime, and expect to have a total of fifty systems built by the end of the year. Full deployment will happen in various stages

throughout the year as the build-out continues, allowing us to partially offset third-party rental expense in 2024 and positioning the company to significantly reduce those expenses in 2025.

- We remain focused on the reduction of Loans and borrowings to less than 0.5x Adjusted EBITDAS by year-end 2024, which strengthens our balance sheet further and positions us well to pursue a number of options that drive shareholder value, including further growth through acquisition and/or a shareholder return strategy via a more defined return of capital program.
- Management believes that buying shares at current share price levels continues to represent good value and a sensible use of capital while also staying focused on executing our capital program weighted to the first half of the year and paying down debt built up from the strategic acquisitions of Altitude and Rime.
- With a relatively stable to positive outlook, the opportunity to expand our margins through internally developed technology, combined with relatively modest but reducing debt levels, 2024 presents a number of significant opportunities to further strengthen the Company and position us for growth into 2025.
- The longer-term outlook for North American energy-related activity is positive and global demand continues to rise while geopolitical events continue to increase uncertainty around supply.
- In Canada, the initiation of the Trans Mountain pipeline expansion, followed by LNG Canada, will provide significant tidewater and global market access for both Canadian crude and natural gas.
- Both projects should translate to more consistent and slightly improved activity levels for oilfield service providers over time.
- LNG also represents a significant area of growth for the U.S. market as approximately 12 bcf per day of export capacity will be added in the coming years supporting incremental growth in drilling activity and less volatility in activity related to the cyclicality of domestic gas prices.
- The overall 2024 outlook for activity in North America remains relatively flat.
- It is somewhat nuanced in that activity in the Canadian market in the next three quarters is anticipated to be biased upwards slightly over the same periods in 2023 and biased flat to slightly down in the U.S. market driven by a number of factors.
- Specific to the second quarter of 2024, Cathedral is seeing a continuation of roughly flattish activity trends in the U.S. combined with the typical seasonal slowdown in Canada related to spring break-up. Our 2024 Q2 U.S. job count remains generally consistent with Q1 levels.
- In Canada, the second quarter represents a seasonal low for the industry due to road bans, however, early rig counts for the sector in 2024 Q2 have been running in the 120 range, which is up over 20% from levels for the same period last year.
- Accordingly, Cathedral's Canadian 2024 Q2 job count to date has also been markedly higher than one year ago and we believe this solid operating momentum will continue in the third quarter.

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 news release 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 news release 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 news release 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).

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at March 31, 2024 and December 31, 2023

Canadian dollars in ‘000s

(unaudited)

As at	March 31, 2024	December 31, 2023
Assets		
Current assets:		
Cash	$ 6,965	$ 10,731
Trade receivables	140,137	111,846
Prepaid expenses	3,749	5,839
Inventories	44,217	44,976
Total current assets	195,068	173,392
Property, plant and equipment	118,671	113,853
Intangible assets	70,340	66,366
Right-of-use assets	10,081	10,138
Goodwill	40,881	39,984
Total non-current assets	239,973	230,341
Total assets	$ 435,041	$ 403,733
Liabilities and Shareholders’ Equity		
Current liabilities:		
Trade and other payables	$ 106,349	$ 93,661
Current taxes payable	2,751	1,425
Loans and borrowings, current	21,131	21,023
Lease liabilities, current	3,692	3,441
Total current liabilities	133,923	119,550
Loans and borrowings, long-term	61,397	57,575
Exchangeable promissory notes	24,682	23,923
Lease liabilities, long-term	11,886	12,323
Deferred tax liability	11,347	10,894
Total non-current liabilities	109,312	104,715
Total liabilities	243,235	224,265
Shareholders’ equity:		
Share capital	195,719	197,380
Treasury shares	(709)	(709)
Exchangeable promissory notes	1,242	1,242
Contributed surplus	18,020	17,002
Accumulated other comprehensive income	14,543	13,088
Deficit	(37,009)	(48,535)
Total shareholders’ equity	191,806	179,468
Total liabilities and shareholders’ equity	$ 435,041	$ 403,733

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Three months ended March 31, 2024 and 2023

Canadian dollars in ‘000s except per share amounts
(unaudited)

	Three months ended March 31, 2024	2023
Revenues [1]	$ 164,956	$ 132,948
Cost of sales:		
Direct costs [1]	(117,600)	(102,571)
Depreciation and amortization	(11,635)	(9,225)
Share-based compensation	(223)	(144)
Total cost of sales	(129,458)	(111,940)
Gross margin	35,498	21,008
Selling, general and administrative expenses:		
Direct costs	(16,026)	(14,086)
Depreciation and amortization	(2,347)	(1,509)
Share-based compensation	(930)	(775)
Total selling, general and administrative expenses	(19,303)	(16,370)
Research and development costs	(611)	(552)
Write-off of property, plant and equipment [1]	(1,635)	(976)
Gain on disposal of property, plant and equipment [1]	—	76
Income from operating activities	13,949	3,186
Finance costs - loans and borrowings	(2,465)	(1,730)
Finance costs - lease liabilities	(205)	(214)
Foreign exchange gain (loss)	1,970	(41)
Income before income taxes	13,249	1,201
Income tax expense:		
Current	(1,453)	(36)
Deferred	(212)	(371)
Income tax expenses	(1,665)	(407)
Net income	11,584	794
Other comprehensive income (loss)		
Foreign currency translation differences on foreign operations	1,455	(425)
Total comprehensive income	**$ 13,039**	**$ 369**
Net income per share - basic	$ 0.05	$ —
Net income per share - diluted	$ 0.04	$ —

[1] Refer to the “Reclassifications” section of this news release

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Three months ended March 31, 2024 and 2023

Canadian dollars in '000s

(unaudited)

	Share capital	Treasury shares	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 (loss) income	—	—	—	(425)	794	369
Issued pursuant to warrant exercises	997	—	(160)	—	—	837
Issued pursuant to stock option exercises	82	—	(31)	—	—	51
Share-based compensation	—	—	919	—	—	919
Balance, March 31, 2023	$ 181,563	$ (959)	$ 16,582	$ 16,964	$(58,077)	$ 156,073

	Share capital	Treasury shares	Exchange-able promissory ("EP") notes	Contributed surplus	Accumulated other comprehensive income	Deficit	Total shareholders' equity
Balance, December 31, 2023	$197,380	$ (709)	$ 1,242	$ 17,002	$ 13,088	$(48,535)	$ 179,468
Comprehensive income	—	—	—	—	1,455	11,584	13,039
Repurchased pursuant to normal course issuer bid	(2,019)	—	—	—	—	(58)	(2,077)
Issued pursuant to stock option exercises	358	—	—	(135)	—	—	223
Share-based compensation	—	—	—	1,153	—	—	1,153
Balance, March 31, 2024	$195,719	$ (709)	$ 1,242	$ 18,020	$ 14,543	$(37,009)	$ 191,806

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Three months ended March 31, 2024 and 2023

Canadian dollars in ‘000s

(unaudited)

	Three months ended March 31, 2024	2023
Cash provided by (used in):		
Operating activities:		
Net income	$ 11,584	$ 794
Non-cash adjustments:		
Income tax expense	1,665	407
Depreciation and amortization	13,982	10,734
Share-based compensation	1,153	919
Write-off of property, plant and equipment [1]	1,635	976
Gain on disposal of property, plant and equipment [1]	—	(76)
Write-down of inventory included in cost of sales	7	378
Finance costs - loans and borrowings	2,465	1,730
Finance costs - lease liabilities	205	214
Income tax (paid) refund	(160)	169
Unrealized foreign exchange (gain) loss on intercompany balances	(2,309)	11
	30,227	16,256
Changes in non-cash operating working capital	(14,481)	11,604
Cash flow - operating activities	15,746	27,860
Investing activities:		
Property, plant and equipment additions [1]	(15,919)	(12,422)
Intangible asset additions	(4,967)	(122)
Proceeds on disposal of property, plant and equipment	—	294
Changes in non-cash investing working capital	2,758	(1,929)
Cash flow - investing activities	(18,128)	(14,179)
Financing activities:		
Advances of loans and borrowings, net of upfront financing fees	10,000	—
Repayments on loans and borrowings	(6,709)	(3,728)
Payments on lease liabilities, net of finance costs	(899)	(935)
Interest paid	(2,373)	(1,944)
Common shares repurchased pursuant to normal course issuer bid	(2,077)	—
Proceeds on common share and warrant issuances, net of issuance	223	888
Cash flow - financing activities	(1,835)	(5,719)
Effect of exchange rate on changes on cash [1]	451	(49)
Change in cash	(3,766)	7,913
Cash, beginning of period	10,731	11,175
Cash, end of period	$ 6,965	$ 19,088

[1] Refer to the “Reclassifications” section of this news release

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Requests for further information should be directed to: *Tom Connors, President, Chief Executive Officer or Scott MacFarlane, Interim Chief Financial Officer - 6030 3 Street S.E., Calgary, Alberta T2H 1K2; Telephone: 403.265.2560 Fax: 403.262.4682 www.cathedralenergyservices.com*

Cathedral Energy Services Ltd., based in Calgary, Alberta, Canada, is incorporated under the Business Corporations Act (Alberta) and operates in Canada under Cathedral Energy Services and in the U.S. under Discovery Downhole Services, a division of Cathedral Energy Services Inc., Altitude Energy Partners, LLC and Rime Downhole Technologies, LLC. Cathedral's common shares are publicly-traded on the Toronto Stock Exchange under the symbol "CET". Cathedral is a trusted partner to North American energy companies requiring high performance directional drilling services and related downhole technologies. We work in partnership with our customers to tailor our equipment and expertise to meet their specific geographical and technical needs. Our experience, technologies and responsive personnel enable our customers to achieve higher efficiencies and lower project costs. For more information, visit www.cathedralenergyservices.com.