2024 Q1 INTERIM REPORT

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 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 and related downhole technologies 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 months ended March 31, 2024 is dated May 9, 2024 and should be read in conjunction with the Company's unaudited condensed consolidated financial statements for the three months ended March 31, 2024, the Company's MD&A and audited consolidated financial statements for the year ended December 31, 2023, and Annual Information Form for the year ended December 31, 2023 dated March 26, 2024. 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 as issued by the International Accounting Standards Board ("IFRS Accounting Standards"). See the "Non-GAAP Measures" section in this MD&A.

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 the U.S. land rig count [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.

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

[1] Non-GAAP measures' section of this MD&A.
[2] Per Baker Hughes and Rig Locator.

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)

NON-GAAP MEASURES

Cathedral uses certain performance measures throughout this MD&A 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 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.

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 MD&A.

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

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 MD&A.

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)
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 MD&A.
[2] Property, plant and equipment additions exclude non-cash additions.
[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 $41.0 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.

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 MD&A.
[2] Refer to the ‘Reclassifications’ section in this MD&A.

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 $2.3 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 MD&A.

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 MD&A. 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 credit and revolving 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 and $15.0 million of the Revolving Operating Facility 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 Company'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 MD&A.

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.

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. The Company'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 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.

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 March 31, 2024, 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 March 31, 2024. 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:

		Three months ended March 31, 2024
Revenues	$	4,727
Net loss		(491)

		Balance, March 31, 2024
Current assets	$	17,516
Non-current assets		48,628
Current liabilities		3,686
Non-current liabilities		84
Capital purchase commitments		5,087

RISK FACTORS

The operations of Cathedral face a number of risks and uncertainties in the normal course of business that may be beyond its control, but which could have a material adverse effect on Cathedral's financial condition, results of operations and cash flows. Many of these risk factors and uncertainties are outlined in the annual information form ("AIF") of Cathedral for the year ended December 31, 2023, which is available on SEDAR+ at www.sedarplus.ca. Additional risks and uncertainties, including those that the Company does not know about now or that it currently deems immaterial, may also adversely affect its business, financial condition, results of operations or cash flows.

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 months ended March 31, 2024 were approved on May 9, 2024.

SUPPLEMENTARY INFORMATION

Additional information regarding the Company, including the Annual Information Form ("AIF"), is available on SEDAR+ at www.sedarplus.ca.

NEW AND FUTURE ACCOUNTING POLICIES

Changes in accounting policy

Effective January 1, 2024, IAS 1 - Presentation of Financial Statements, has been amended, resulting in changes to the classification of loans and borrowings as current or non-current. The amendment will help determine whether an entity has the right to defer settlement of a liability, that is subject to covenants, within twelve months following the reporting period. There was no material impact on the Company's financial statements for the adoption of this amended standard.

Other amended standards in the period include IFRS 7 Financial instruments: Disclosures, IFRS 16 Leases, and IAS 7 Statement of Cash Flows, none of which are expected to have a significant impact on the Company's financial statements.

Accounting standards and amendments not yet effective

Other accounting pronouncements issued, but not yet effective, in the period include IAS 21 The Effects of Changes in Foreign Exchange Rates, and is not expected to have a significant impact on the Company's financial statements.

SUMMARY OF QUARTERLY RESULTS

Three months ended	Mar 2024	Dec 2023	Sep 2023	Jun 2023	Mar 2023	Dec 2022	Sep 2022	Jun 2022
Revenues (2)								
Revenues - reported	$ 164,956	$ 145,419	$ 145,591	$ 115,058	$ 127,665	$ 128,518	$ 107,846	$ 27,652
Adjustment	$ —	$ —	$ —	$ 6,281	$ 5,283	$ 10,630	$ 7,337	$ 1,416
Revenues - adjusted	$ 164,956	$ 145,419	$ 145,591	$ 121,339	$ 132,948	$ 139,148	$ 115,183	$ 29,068
Adjusted EBITDAS (1)	$ 28,752	$ 27,369	$ 30,106	$ 18,222	$ 15,187	$ 30,284	$ 28,065	$ 2,894
Adjusted EBITDAS per share - diluted (1)	$ 0.11	$ 0.10	$ 0.11	$ 0.08	$ 0.06	$ 0.13	$ 0.14	$ 0.02
Net income (loss)	$ 11,584	$ 1,767	$ 5,651	$ 2,416	$ 794	$ 10,270	$ 8,658	$ (2,824)
Net income (loss) per share - diluted	$ 0.04	$ 0.01	$ 0.02	$ 0.01	$ —	$ 0.05	$ 0.04	$ (0.02)

(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 2024 Net capital expenditure budget and financing thereof;
- 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 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 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).

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 (note 4)	118,671	113,853
Intangible assets (note 5)	70,340	66,366
Right-of-use assets (note 6)	10,081	10,138
Goodwill (note 5)	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 (note 7)	21,131	21,023
Lease liabilities, current (note 6)	3,692	3,441
Total current liabilities	133,923	119,550
Loans and borrowings, long-term (note 7)	61,397	57,575
Exchangeable promissory notes	24,682	23,923
Lease liabilities, long-term (note 6)	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 (note 8)	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

Contractual obligations and contingencies (note 11)

See accompanying notes to the unaudited condensed consolidated financial statements.

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
		(Revised - note 3)
Revenues (note 10)	$ 164,956	$ 132,948
Cost of sales:		
Direct costs	(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 (note 4)	(1,635)	(976)
Gain on disposal of property, plant and equipment	—	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 (note 9)	$ 0.05	$ —
Net income per share - diluted (note 9)	$ 0.04	$ —

See accompanying notes to the unaudited condensed consolidated financial statements.

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	Exchangeable 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 (note 8)	(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

See accompanying notes to the unaudited condensed consolidated financial statements.

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	Three months ended March 31, 2023
		(Revised - note 3)
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	1,635	976
Gain on disposal of property, plant and equipment	—	(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	(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 costs	223	888
Cash flow - financing activities	(1,835)	(5,719)
Effect of exchange rate on changes on cash	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

See accompanying notes to the unaudited condensed consolidated financial statements.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. REPORTING ENTITY

Cathedral Energy Services Ltd. ("LTD") is a company domiciled in Canada, and along with its 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 months ended March 31, 2024 are comprised of the following 100% owned subsidiaries:

- 2438155 Alberta Ltd.;
- LEXA Drilling Technologies Inc. ("LEXA");
- CET Holdco Inc. ("Holdco");
- CET Flight Holdco, Inc. ("Flight");
- Cathedral Energy Services Inc. ("INC");
- 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 and related downhole technologies to oil and natural gas companies in Western Canada and the United States ("U.S.").

LTD has a functional currency of Canadian dollars ("CAD") while Holdco, Flight, INC, Rime, AEH and Altitude are incorporated in the U.S. and have a functional currency of 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 as issued by the International Accounting Standards Board ("IFRS Accounting Standards"). 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, 2023.

Except as noted below, 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, 2023.

The unaudited condensed consolidated financial statements were authorized for issue by the Board of Directors on May 9, 2024.

These unaudited condensed consolidated financial statements for the three months ended March 31, 2024 are presented in CAD (tabular amounts in thousands), except for per share and warrant amounts, which is the Company's presentation and functional currency.

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, 2023, except for a change in depreciation methodology as described in note 4.

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, 2023.

Future Accounting Pronouncements

There were new standards effective on January 1, 2024, including: IFRS 7 Financial instruments: Disclosures, IFRS 16 Leases, IAS 1 Presentation of Financial Statements, and IAS 7 Statement of Cash Flows. 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 IAS 21 The Effects of Changes in Foreign Exchange Rates. This amended standard is not 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 three months ended March 31, 2023 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 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, proceeds on disposal of property, plant and equipment 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 the three months ended March 31, 2023 are summarized below:

Condensed Consolidated Statement of Comprehensive Income (Excerpt)

	Three months ended March 31, 2023		
	Reported	Adjustment	Adjusted
Revenues:			
Canada	$ 45,344	$ 2,652	$ 47,996
United States	82,321	2,631	84,952
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 property, plant and equipment	—	(976)	(976)
Gain on disposal of property, plant and equipment	$ 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 property, plant and equipment	$ —	$ 976	$ 976
Gain on disposal of property, plant and equipment	(3,044)	2,968	(76)
Cash flow - operating activities	23,916	3,944	27,860
Investing activities			
Property, plant and equipment additions	(13,751)	1,329	(12,422)
Proceeds on disposal of property, plant and equipment	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)

4. PROPERTY, PLANT AND EQUIPMENT

Cost	Directional drilling equipment	Shop and automotive equipment	Other	Total
Balance, December 31, 2023	$ 195,604	$ 10,739	$ 6,740	$ 213,083
Additions	15,117	233	569	15,919
Disposals and write-offs	(2,765)	—	(126)	(2,891)
Effects of movements in exchange rates	1,628	158	130	1,916
Balance, March 31, 2024	$ 209,584	$ 11,130	$ 7,313	$ 228,027

Accumulated depreciation	Directional drilling equipment	Shop and automotive equipment	Other	Total
Balance, December 31, 2023	$ 93,909	$ 3,974	$ 1,347	$ 99,230
Depreciation	9,550	945	390	10,885
Disposals and write-offs	(1,215)	—	(41)	(1,256)
Effects of movements in exchange rates	434	43	20	497
Balance, March 31, 2024	$ 102,678	$ 4,962	$ 1,716	$ 109,356

Net book values	Directional drilling equipment	Shop and automotive equipment	Other	Total
Balance, December 31, 2023	$ 101,695	$ 6,765	$ 5,393	$ 113,853
Balance, March 31, 2024	$ 106,906	$ 6,168	$ 5,597	$ 118,671

During the three months ended March 31, 2024, the Company recognized a write-off of property, plant and equipment of $1.6 million (2023 - $1.0 million) related to equipment lost-in-hole and damaged beyond repair.

During the three months ended March 31, 2024, 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 change in depreciation method was applied prospectively.

As a result of the change in methodology, the depreciation expense included in cost of sales increased $3.1 million during the three months ended March 31, 2024. The depreciation expense included in selling, general, and administrative expenses decreased $0.1 million during the three months ended March 31, 2024 as a result of the change in methodology.

The estimated impact on the depreciation expense included in cost of sales and selling, general, and administrative expenses is a decrease of $4.8 million and $0.2 million, respectively, during the year ended December 31, 2024.

The depreciation rates applied under the declining balance method in prior years and the estimated useful lives applied under the straight-line method prospectively are as follows:

	Declining balance method	Straight-line method
	Depreciation rates	Expected lives
Drilling directional equipment	25% - 37%	4 - 8 years
Shop and automotive equipment	20% - 30%	5 - 10 years
Leasehold improvements [1]	20%	Lease term
Office and computer equipment [1]	20 - 55%	5 years

[1] Included in the “Other” property, plant and equipment category.

5. INTANGIBLE ASSETS AND GOODWILL

Intangible assets

Cost	Customer Relationships	Brand Name	Non-Compete Agreements	RSS Licenses	Developed Technology	Total
Balance, December 31, 2023	$ 28,896	$ 7,177	$ 952	$ 8,226	$ 34,216	$ 79,467
Additions	—	—	—	4,908	59	4,967
Effects of movements in exchange rates	648	161	21	171	660	1,661
Balance, March 31, 2024	$ 29,544	$ 7,338	$ 973	$ 13,305	$ 34,935	$ 86,095

Accumulated amortization	Customer Relationships	Brand Name	Non-Compete Agreements	RSS Licenses	Developed Technology	Total
Balance, December 31, 2023	$ 5,995	$ 700	$ 240	$ 1,482	$ 4,684	$ 13,101
Amortization	1,253	130	48	363	625	2,419
Effects of movements in exchange rates	139	16	6	34	40	235
Balance, March 31, 2024	$ 7,387	$ 846	$ 294	$ 1,879	$ 5,349	$ 15,755

Net book values	Customer Relationships	Brand Name	Non-Compete Agreements	RSS Licenses	Developed Technology	Total
Balance, December 31, 2023	$ 22,901	$ 6,477	$ 712	$ 6,744	$ 29,532	$ 66,366
Balance, March 31, 2024	$ 22,157	$ 6,492	$ 679	$ 11,426	$ 29,586	$ 70,340
Remaining amortization in years	4.4	12.4	3.6	6.9	12.0	6.9

Goodwill

The Company has goodwill related to acquisitions. The goodwill carrying value increased by $0.9 million due to the effects of movements in exchange rates during the three months ended March 31, 2024. The goodwill carrying value was $40.9 million and $40.0 million as at March 31, 2024 and December 31, 2023, respectively.

6. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

Right-of-use assets

Balance, December 31, 2023	$ 10,138
Additions	545
Amortization	(678)
Effects of movements in exchange rates	76
Balance, March 31, 2024	$ 10,081

Lease liabilities

Balance, December 31, 2023	$ 15,764
Additions	545
Interest	205
Payments	(1,104)
Effects of movements in exchange rates	168
Balance, March 31, 2024	$ 15,578
Less: current portion	(3,692)
Lease liabilities, long-term	$ 11,886

The Company holds leases related to certain operations and office facilities. During the three months ended March 31, 2024 the Company entered into a lease agreement related to an operation facility in Conroe, Texas with a lease term of three years. The leases have various expiry dates ranging from January 2025 to March 2030.

7. LOANS AND BORROWINGS

Balance,	March 31, 2024	December 31, 2023
Revolving Operating Facility	$ —	$ 1,560
Syndicated Operating Facility	10,000	—
CAD Syndicated Term Facility, net of unamortized upfront financing fees	47,742	51,386
USD Syndicated Term Facility, net of unamortized upfront financing fees	23,989	24,829
HASCAP loan	797	823
Total loans and borrowings	$ 82,528	$ 78,598
Less: HASCAP loan, current	(797)	(823)
Less: CAD Syndicated Term Facility, current	(13,534)	(13,619)
Less: USD Syndicated Term Facility, current	(6,800)	(6,581)
Loans and borrowings, current	$ (21,131)	$ (21,023)
Loans and borrowings, long-term	$ 61,397	$ 57,575

Syndicated and Revolving Operating Facility

During the three months ended March 31, 2024, the Company withdrew $10 million of its Syndicated Operating Facility. As at March 31, 2024, $25.0 million of the $35.0 million Syndicated Operating Facility remained undrawn.

During the three months ended March 31, 2024, the Company repaid $1.6 million of its Revolving Operating Facility. As at March 31, 2024, the $15.0 million Revolving Operating Facility remained undrawn.

CAD and USD Syndicated Term Facility

During the three months ended March 31, 2024, 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 CAD Syndicated Term Facility and the USD Syndicated Term Facility carrying values are net of unamortized upfront financing fees of $0.4 million and $0.2 million, respectively, as at March 31, 2024.

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.

8. SHARE CAPITAL

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

	Number (000s)	Amount
Balance, December 31, 2023	241,655	$ 197,380
Repurchased pursuant to normal course issuer bid	(2,472)	(2,019)
Issued pursuant to stock option exercises	551	223
Contributed surplus on options exercised	—	135
Balance, March 31, 2024	239,734	$ 195,719

Normal course issuer bid

During the three months ended March 31, 2024, 2,471,700 (2023 - nil) common shares were purchased under the Normal Course Issuer Bid (“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.

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. There was no active Plan in place as at March 31, 2024.

Stock options

A summary of the Company’s stock options during the three months ended March 31, 2024 is as follows:

	Number (000’s)	Weighted average exercise price
Balance, December 31, 2023	23,075	$ 0.71
Exercised	(551)	0.41
Balance, March 31, 2024	22,524	$ 0.72
Exercisable, March 31, 2024	10,036	$ 0.61

The range of exercise prices for the options outstanding as at March 31, 2024 is as follows:

	Outstanding			Exercisable		
Exercise price range	Number of units (000’s)	Weighted Average Remaining Life (years)	Weighted average exercise price	Number of units (000’s)	Weighted Average Remaining Life (years)	Weighted average exercise price
$0.26 to $0.50	2,135	0.31	$ 0.44	2,135	0.31	$ 0.44
$0.51 to $0.87	18,139	1.65	$ 0.72	7,759	1.32	$ 0.65
$0.87 to $1.18	2,250	2.00	$ 0.99	142	1.72	$ 1.18
Total	22,524	1.56	$ 0.72	10,036	1.11	$ 0.61

9. NET INCOME PER SHARE

Three months ended March 31,	2024	2023
Net income	$ 11,584	$ 794
(000's)		
Outstanding common shares, beginning of the period	241,655	224,124
Effect of purchased common shares	(1,318)	—
Effect of common shares issued	342	437
Weighted average common shares (basic)	240,679	224,561
Effect of outstanding stock options and warrants	4,209	11,825
Effect of outstanding EP Notes	24,580	—
Weighted average common shares (diluted)	269,468	236,386
Net income per share - basic	$ 0.05	$ —
Net income per share - diluted	$ 0.04	$ —

During the three months ended March 31, 2024, 2,250,000 stock options (2023 – 3,745,766 stock options and warrants) were excluded from the diluted weighted average number of common shares calculation as their effect was anti-dilutive.

10. 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), finance costs and acquisition and reorganization costs.

	Three months ended March 31, 2024				Three months ended March 31, 2023			
	Canada	U.S.	Corporate services	Total	Canada	U.S.	Corporate services	Total
Revenues (note 3)	$ 58,394	$ 106,562	$ —	$ 164,956	$ 47,996	$ 84,952	$ —	$ 132,948
Income (loss) before income taxes	$ 9,641	$ 8,317	$ (4,709)	$ 13,249	$ 4,578	$ 3,056	$ (6,433)	$ 1,201

	As at March 31, 2024				As at December 31, 2023			
	Canada	U.S.	Corporate services	Total	Canada	U.S.	Corporate services	Total
Total liabilities	$ 112,537	$ 130,698	$ —	$ 243,235	$ 107,878	$ 116,387	$ —	$ 224,265
Total assets	$ 112,815	$ 322,226	$ —	$ 435,041	$ 109,780	$ 293,953	$ —	$ 403,733
Property, plant and equipment	$ 46,458	$ 71,621	$ 592	$ 118,671	$ 50,947	$ 62,442	$ 464	$ 113,853

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.

11. CONTRACTUAL OBLIGATIONS AND CONTINGENCIES

As at March 31, 2024, the Company's commitment to purchase property, plant and equipment is approximately $9.0 million (December 31, 2023 - $8.1 million), which is expected to be incurred over the remainder of 2024.

The Company also holds six letters of credit totaling $1.7 million (December 31, 2023 - $1.7 million) related to rent payments, corporate credit cards and a utilities deposit.

Provision

The Company has recognized a provision of $7.6 million, included in trade and other payables, related to a U.S. tax audit matter. A portion of the provision was recognized as an expense of $5.4 million and a portion was recognized as property, plant and equipment and inventory of $2.2 million during the year ended December 31, 2023. 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.