CATHEDRAL

NEWS RELEASE
March 10, 2022
Calgary, Alberta

CATHEDRAL ENERGY SERVICES REPORTS RESULTS FOR 2021 Q4

Cathedral Energy Services Ltd. (the "Company" or "Cathedral" / TSX: CET) announces its consolidated financial results for the three months and year ended December 31, 2021 and 2020.

Dollars in 000's except per share amounts.

This 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 "Forward-Looking Statements" later in this news release. This news release contains references to Adjusted gross margin (gross margin plus non-cash items of depreciation and share-based compensation), Adjusted gross margin % (adjusted gross margin divided by revenues) and Adjusted EBITDA (earnings before finance costs, unrealized foreign exchange on intercompany balances, taxes, depreciation, non-recurring costs (including severance and non-cash provision for bad debts), write-down of equipment, write-down of inventory and share-based compensation). These terms do not have standardized meanings prescribed under International Financial Reporting Standards (IFRS) and may not be comparable to similar measures used by other companies, see "Non-GAAP Measures" later in this news release.

2021 Q4 KEY TAKEAWAYS

- Grew Canadian market share in 2021 to 18.1% from 8.5% at the end of 2020;
- Completed a transformation of the executive leadership and US sales group in the second half of the year;
- Executed two acquisitions in Q3 as part of Cathedral's fundamental strategy of Consolidation
    - In July 2021 the Company completed the acquisition of Precision's Canadian-based directional drilling business for a purchase price of $6,350 which included a $3,000 cash investment by Precision to further grow Cathedral technology
    - The transaction also includes a marketing alliance focused on producing new U.S. and Canadian customer opportunities as well as potential integrated service offerings and technology initiatives
    - Finally, Shuja Goraya, Precision Drilling's Chief Technology Officer, joined the Cathedral Board of Directors
    - In September 2021 Cathedral acquired the assets of Valiant Energy Services for $1,500 which help solidify Cathedral's position as one of the top three directional drilling contractors in Canada by job count;
- These numerous initiatives translated into material financial results for H2-2021 vs H1-2021 as revenues were 135% higher, Adjusted Gross Margin was 471% higher, and Adjusted Gross Margin % improved to 21% from 9%
    - Q4 Adjusted Gross Margin % was lower than Q3 primarily due to non-recurring rental expenses;
- Cathedral remained committed to another core strategy of technology deployment through the introduction of the REACT motor and ongoing build-out of the Company's RapidFire Measurement-While-Drilling systems which will see 18 systems deployed by 2022 Q2;
- Strengthened the Company's financial flexibility and security via:
    - A successful non-brokered Private Placement in Q1 for $3,164 in proceeds
    - An amendment in Q2 to its credit facility that extends the facility to June 30, 2023, which also returned the facility to full $12,000 availability and added $1,000 in HASCAP financing;
- February 11, 2022 acquired Discovery Downhole Services for $20.8 million. Discovery is a U.S.-based, high-performance mud motor technology rental business with operations in North Dakota, Texas, and Wyoming. Discovery represents our initial step in expanding the US operations.

PRESIDENT'S MESSAGE

Comments from President & CEO Tom Connors:

2021 has been a year of significant transformation for both our industry and Cathedral. While industry activity increased versus the prior year due to rising commodity prices, improving cash flow projections, and expanded capital expenditure programs for many oil and gas producers, Cathedral's new management team and the completion of two key acquisitions in the last half of the year helped the Company outpace the overall sector recovery.

During 2021, our commitment to high-quality, reliable service with industry-leading technology paid off as customers increasingly turned to Cathedral for their directional drilling needs. Our market share grew significantly with Cathedral exiting 2021 among the highest performers in the industry at 18.1% of the Canadian market, up from 8.5% at the end of 2020.

Conditions were constructive in the fourth quarter of 2021, with Cathedral recording increased activity levels and day rates in our Canadian and the US operations over both the fourth quarter last year, and the third quarter of 2021.Our improved operating performance drove solid financial results in the quarter, with revenue more than tripling, and Adjusted EBITDAS growing almost 400% to $1.2 million, from the same quarter last year. Gross margins were lower in quarter versus 2021 Q3 due to differences in revenue mix related to the timing of our customers' winter drilling programs and a supply related delay in replacing short-term rental items and expenses related to our recent acquisitions. We anticipate gross margins will return to higher levels in 2022 Q1 as we replace the backlog of third-party rental equipment with Cathedral technology in the quarter.

During the fourth quarter, our integration of the recent acquisitions continued smoothly, both of which significantly contributed to a strong expansion of our market share, complementary technology offerings, and additional experienced personnel in a tight labour market. We believe that further consolidation in the directional drilling industry is needed to create a sustainable, efficient sector that can thrive in the future, and we see numerous opportunities to add value for customers and shareholders in both Canada and the US. Already in 2022, we have successfully completed the acquisition of Discovery Downhole Services, providing us with strategic growth in the US motor technology rental business. We will continue to carefully evaluate prospects as they arise, selectively looking for ways to add value through accretive acquisitions that help us grow strategically while not placing undo pressure on our capital structure.

The combination of low levels of industry investment, an economic resurgence from the COVID-19 pandemic, further exacerbated by geopolitical events in Europe certainly appear to support a sustained period of higher commodity prices than we have witnessed for several years. While E&P Companies remain disciplined and spend smaller portions of their capital budgets on drilling programs versus historical norms, the higher levels of cash flow for the industry should ultimately translate to improved levels of oilfield service activity and pricing. While we expect industry conditions to remain strong in the near-to-medium term and anticipate increased demand for our services, Cathedral will continue to proceed with conservative price assumptions and a disciplined approach to spending. To meet the increased needs of our customers, we are re-investing in our business with a capital expenditure plan for 2022 of approximately $14.9 million, focused largely on adding new mud motors, and the completion of the 18 RapidFire™ Measurement-While-Drilling ("MWD") systems from our 2021 build program. We are pleased with the initial response from our Canadian customers to the introduction of our new REACT motor, which places the sensor readings closer the drill bit, and anticipate strong demand for the technology in specific areas such as the Clearwater and Viking formations as we go forward.

Cathedral remains well positioned to take advantage of robust industry conditions with a conservative balance sheet, high-quality assets and strong customer relationships, we look forward to the continued expansion of our market share in 2022 in Canada and the US through both organic growth and acquisitions. We are executing on our strategic plan of increasing size and scale through organic growth and accretive acquisitions focused on shareholder returns and increasing earnings per share.

FINANCIAL HIGHLIGHTS

	Three months ended December 31		Year ended December 31	
	2021	2020	2021	2020
Revenues	$ 23,710	$ 7,448	$ 62,524	$ 40,574
Adjusted gross margin % (1)	17%	16%	18%	12%
Adjusted EBITDAS (1)	$ 1,273	$ (435)	$ 4,520	$ (116)
Cash flow - operating activities	$ 601	$ 231	$ (3,499)	$ 1,191
Reversals of Impairments (Impairments and direct w rite-offs)	$ 614	$ 172	$ 614	$ (6,822)
Loss	$ (1,097)	$ (6,684)	$ (8,626)	$ (27,731)
Basic per share	$ (0.01)	$ (0.14)	$ (0.13)	$ (0.56)
Equipment additions - cash basis	$ 1,275	$ 184	$ 3,553	$ 2,603
Weighted average shares outstanding				
Basic (000s)	80,197	49,468	65,031	49,468
Diluted (000s)	81,425	49,468	65,740	49,468

	December 31 2021	December 31 2020
Working capital	$ 14,117	$ 7,680
Total assets	$ 75,423	$ 64,280
Loans and borrow ings excluding current portion	$ 5,035	$ 1,560
Shareholders' equity	$ 42,504	$ 39,974

(1) Refer to "NON-GAAP MEASUREMENTS"

RESULTS OF OPERATIONS – THREE MONTHS ENDED DECEMBER 31

Revenues	2021 Q4	2020 Q4
Canada	$ 18,535	$ 4,042
United States	5,175	3,406
Total	$ 23,710	$ 7,448

Revenues 2021 Q4 revenues were $23,710, which represented an increase of $16,262 or 218% from 2020 Q4 revenues of $7,448.

Canadian revenues (excluding motor rental revenues) increased to $17,637 in 2021 Q4 from $3,740 in 2020 Q4; a 372% increase. This increase was the result of: i) a 310% increase in activity days to 2,269 in 2021 Q4 from 553 in 2020 Q4 and ii) a 15% increase in the average day rate to $7,773 in 2021 Q4 from $6,764 in 2020 Q4.

Based on publicly disclosed Canadian drilling and directional drilling days, Cathedral's market share for 2021 Q4 was 18.1% compared to 7.7% in 2020 Q4. Day rates increased due to certain ancillary revenues along with overall change in client mix.

U.S. revenues (excluding motor rental revenues) increased 49% to $4,765 in 2021 Q4 from $3,201 in 2020 Q4. This increase was the result of: i) a 28% increase in activity days to 459 in 2021 Q4 from 359 in 2020 Q4; and ii) a 16% increase in the average day rate to $10,381 in 2021 Q4 from $8,915 in 2020 Q4 (when converted to Canadian dollars).

The average active land rig count for the U.S. was up 84% in 2021 Q4 compared to 2020 Q4 (source: Baker Hughes). The Company experienced a 28% increase in activity resulting in a decrease in market share compared to 2020 Q4. Day rates in USD increased 21% to $8,256 USD in 2021 Q4 from $6,843 USD in 2020 Q4. Revenue day rates increased due to an increase in revenues from providing RSS services which are rented from a 3rd party.

Motor rentals increased in both Canada and the U.S. Combined rental revenues increased to $1,308 in 2021 Q4 compared to $507 in 2020 Q4. Rentals were up due to the industry increase in drilling activity.

Government grants The Company did not qualify for CEWS and CERS claims in Q4 of 2021 due to the increase in revenues for the quarter.

In Q4 of 2020 the Company recognized $399 of CEWS benefits which reduced salary expenses as follows:

- Cost of sales $187;
- Selling, general and administrative expenses $154; and
- Technology group expenses $58.

In Q4 of 2020 , the Company recognized the benefit from the CERS program of $280 which reduced cost of sales $221 and selling, general and administrative $59.

Gross margin and adjusted gross margin Gross margin for 2021 Q4 was 3% compared to -32% in 2020 Q4. Adjusted gross margin (see Non-GAAP Measurements) for 2021 Q4 was $4,047 or 17% compared to $1,199 or 16% for 2020 Q4.

Adjusted gross margin, as a percentage of revenue, increased due to lower repairs and a reduction in fixed costs as percentage of revenue, partially offset by increases in field labour expenses and rentals.

Depreciation of equipment allocated to cost of sales decreased to $3,323 in 2021 Q4 from $3,560 in 2020 Q4 due to the aging of the assets as the Company uses a declining-balance depreciation for most items. Depreciation included in cost of sales as a percentage of revenue was 14% for 2021 Q4 and 48% in 2020 Q4.

Selling, general and administrative ("SG&A") expenses SG&A expenses were $2,804 in 2021 Q4; an increase of $732 compared with $2,072 in 2020 Q4. There were increases in SG&A wages, commissions and reduced CEWS grants partially offset by recovery of bad debts in 2021 Q4 compared to expense in 2020 Q4. As a percentage of revenue, SG&A was 12% in 2021 Q4 compared to 28% in 2020 Q4.

Technology group expenses Technology group expenses were $214 in 2021 Q4; an increase of $74 compared with $140 in 2020 Q4. Technology group expenses are related to new product development and supporting and upgrading existing technology. Technology group expenses consist of salaries and related benefits and burdens as well as shop supplies.

Gain (loss) on disposal of equipment During 2021 Q4, the Company had a gain on disposal of equipment of $664 compared to a loss of ($183) in 2020 Q4. These gains are mainly related to equipment lost-in-hole. Proceeds from clients on lost-in-hole equipment are based on amounts specified in service agreements. The timing of lost-in-hole recoveries is not in the control of the Company and therefore can fluctuate significantly from quarter-to-quarter. In 2021 Q4, the Company received proceeds on disposal of equipment of $1,275 (2020 Q4 - $184).

Finance costs Finance costs consisting of interest expenses on loans and borrowings and bank charges net of interest charged on past due accounts receivable were a net revenue of ($53) for 2021 Q4 versus expense of $60 for 2020 Q4. Included in 2021 Q4 amount was interest revenue of $172 (2020 Q4 - $nil).

Finance costs lease liability The lease liability interest decreased slightly to $189 from $218.

Foreign exchange The Company had a foreign exchange gain of $78 in 2021 Q4 compared to $1,686 in 2020 Q4 due to the fluctuations of the Canadian dollar relative to the U.S. dollar. The Company's foreign operations are denominated in USD and therefore, upon consolidation, gains and losses due to fluctuations in the foreign currency exchange rates are recorded as other comprehensive income on the balance sheet as a component of equity. However, gains and losses in the Canadian entity on U.S. denominated intercompany balances continue to be recognized in the statement of comprehensive income (loss). Included in the 2021 Q4 foreign currency loss are unrealized gain of $136 (2020 Q4 –$1,678) related to intercompany balances.

Impairment and direct write-downs In 2021 there was a reversal on a U.S. right of use asset that was subleased in the amount of $768 which was partially offset by write-down of inventory of $154 for a net reversal of $664. The inventory write-down relates to parts that are unlikely to be used to repair the Company's tools.

In 2020 Q4, the Company entered into a sub-lease for one of the properties previously written down and reversed $549 equal to the sublease asset. Additionally, in 2020 Q4 there was a write-down on slow moving inventory of $377 for a net reversal of $172.

Income tax Previously, Cathedral derecognized deferred tax assets due to a recent history of tax losses within both of Cathedral's legal entities.

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

RESULTS OF OPERATIONS – YEAR ENDED DECEMBER 31

Revenues		2021		2020
Canada	$	45,961	$	13,837
United States		16,563		26,737
Total	$	62,524	$	40,574

Revenues 2021 revenues were $62,524, which represented an increase of $21,950 or 54% from 2020 revenues of $40,574.

Canadian revenues (excluding motor rental revenues) increased to $43,300 in 2021 from $11,104 in 2020; a 290% increase. This increase was the result of: i) a 282% increase in activity days to 5,952 in 2021 from 1,558 in 2020 and ii) a 2% increase in the average day rate to $7,275 in 2021 from $7,127 in 2020.

Based on publicly disclosed Canadian drilling and directional drilling days, Cathedral's market share for 2021 was 14.3% compared to 5.5% in 2020. The increase in day rates was due to an increase in day rates to compensate for escalating operating costs, including field labour rates.

U.S. revenues (excluding motor rental revenues) decreased 45% to $14,211 in 2021 from $25,662 in 2020. This decrease was the result of: i) 31% decrease in activity days to 1,526 in 2021 from 2,197 in 2020; and ii) a 20% decrease in the average day rate to $9,312 in 2021 from $11,680 in 2020 (when converted to Canadian dollars).

Cathedral's U.S. business pre-COIVID was primarily concentrated in Oklahoma in the Anadarko basin and this region experienced a disproportionately severe down-turn due the COVID-19 pandemic. In response, the Company made the strategic decision to reposition its business in Houston to focus on Texas and the Permian basin. This required a new management and sales team which was in place by 2021 Q3. While Cathedral U.S. recovery has lagged the industry as a result of these significant changes, 2021 second half revenues increased by 30% over the first six month of the year.

The average active land rig count for the U.S. was up 10% in 2021 compared to 2020 (source: Baker Hughes). The Company experienced a 34% decline in activity resulting in a decrease in market share compared to 2020. Day rates in USD decreased 14% to $7,439 USD in 2021 from $8,654 USD in 2020. The 2021 rate is down due to a decrease in revenues from providing rotary steerable system (RSS) services which are rented from a 3rd party and a reduction in certain ancillary revenues.

Motor rentals for Canada were roughly at the same level as 2020, but this was augmented by increases in the U.S. Combined rental revenues increased to $5,014 in 2021 compared to $3,808 in 2020. U.S. rental revenues have increased due to a focus on increasing sales for this business line.

Government grants The Company recognized the benefit from the Canadian Emergency Wage Subsidy ("CEWS") program of $916 (2020 - $1,776) and $nil (2020 - $992) from U.S. Paycheck Protection Program ("PPP") which reduced salary expenses as follows:

- Cost of sales $544 (2020 - $1,665);
- Selling, general and administrative expenses $298 (2020 - $812); and
- Technology group expenses $74 (2020 - $291).

Additionally, the Company received $518 (2020 - $280) from Canadian Emergency Rent Subsidy ("CERS"), which reduced cost of sales $424 (2020 - $221) and selling, general and administrative $94 (2020 - $59).

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

Gross margin and adjusted gross margin Gross margin for 2021 was -2% compared to -25% in 2020. Adjusted gross margin (see Non-GAAP Measurements) for 2021 was $11,059 or 18% compared to $4,869 or 12% for 2020.

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

Depreciation of equipment allocated to cost of sales decreased to $12,372 in 2021 from $14,996 in 2020 due to the aging of the assets as the Company uses a declining-balance depreciation for most items. Depreciation included in cost of sales as a percentage of revenue was 20% for 2021 and 37% in 2020.

Selling, general and administrative ("SG&A") expenses SG&A expenses were $9,059 in 2021; an increase of $164 compared with $8,895 in 2020. This increase was primarily due to a reduction/recovery of bad debts in 2021 offset by increased wages and lower wage assistance received in 2021. As a percentage of revenue, SG&A was 14% in 2021 compared to 22% in 2020.

Technology group expenses Technology group expenses were $747 in 2021; a decrease of $205 compared with $952 in 2020. Technology group expenses are related to new product development and supporting and upgrading existing technology. Technology group expenses consist of salaries and related benefits and burdens as well as shop supplies.

Gain on disposal of equipment During 2021, the Company had a gain on disposal of equipment of $2,681 compared to $1,680 in 2020. These gains mainly related to equipment lost-in-hole. Proceeds from clients on lost-in-hole equipment are based on amounts specified in service agreements. The timing of lost-in-hole recoveries is not in the control of the Company and therefore can fluctuate significantly from quarter-to-quarter. In 2021, the Company received proceeds on disposal of equipment of $3,553 (2020 - $2,603).

Finance costs Finance costs consisting of interest expenses on loans and borrowings and bank charges net of interest charged on past due accounts receivable were $196 for 2021 versus $291 for 2020. Included in 2021 amount was interest revenue of $173 (2020 - $nil).

Finance costs lease liability The lease liability interest decreased slightly to $794 from $918.

Foreign exchange The Company had a foreign exchange gain of $277 in 2021 compared to $971 in 2020 due to the fluctuations of the Canadian dollar relative to the U.S. dollar. The Company's foreign operations are denominated in USD and therefore, upon consolidation, gains and losses due to fluctuations in the foreign currency exchange rates are recorded as other comprehensive income on the balance sheet as a component of equity. However, gains and losses in the Canadian entity on U.S. denominated intercompany balances continue to be recognized in the statement of comprehensive income (loss). Included in the 2021 foreign currency gains are unrealized gains of $366 (2020 - $929) related to intercompany balances.

Impairment and direct write-downs In 2021 there was a reversal on a U.S. right of use asset that was subleased in the amount of $768 and partially offset by write-down of inventory of $154 for a net reversal of $664. The inventory write-down relates to parts that are unlikely to be used to repair the Company's tools.

In the prior year, due to the decline in projected drilling activity in 2020 the Company determined that indicators of impairment existed. . In Q1, the Company, as a result of the impairment test wrote-down our assets in the amount of $6,994. The write- down was associated with our right of use assets ($6,834) and intangibles ($160). As part of the Company's response to changes in drilling activity, the decision was made to consolidate its repair activities and close or significantly reduce activities at certain locations. The right of use asset for these locations was written down to $nil. There were $160 intangible projects in progress where it was uncertain when or if staff resources would be available to bring the projects to commercialization. As such these projects were written down to $nil.

Income tax Previously, Cathedral derecognized deferred tax assets due to a recent history of tax losses within both of Cathedral's legal entities.

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

LIQUIDITY AND CAPITAL RESOURCES

Overview On an annualized basis, the Company's principal source of liquidity is cash generated from operations and proceeds from equipment lost-in-hole. In addition, the Company has the ability to fund liquidity requirements through its credit facility and the issuance of debt and/or equity. Cash flow - operations in 2021 decreased to a use of cash of ($3,499) compared to a source of cash of $1,991 in 2020. The decrease in 2021 was primarily due to fund the 84% increase in working capital resulting from the improvement in North American oilfield service activity, partially offset by increases in cash flow from improved drilling activity in 2021 and Cathedral's increase in Canadian market share.

Working capital At December 31, 2021, the Company had working capital of $14,117 (December 31, 2020 - $7,680).

Credit facility

Bank facility

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

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

- For the fiscal period ending 2021 Q3, the Credit Agreement EBITDA is the calculated amount for the 3 months of 2021 Q3 times four;

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

The Facility also features the following amendments:

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

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

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

Compliance with Facility covenants

At December 31, 2021, the Company had drawn $5,035 of its bank facility and had $2,898 in cash. The Company was in compliance with all covenants at December 31, 2021.

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

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

Contractual obligations In the normal course of business, the Company incurs contractual obligations and those obligations are disclosed in the Company's annual financial statements for the year ended December 31, 2021.

As at December 31, 2021, the Company's has a commitment to purchase equipment of $362 which is expected to be incurred in 2022 Q1.

The Company has issued the following six letters of credit ("LOC"):

- three securing rent payments on property leases and renew annually with the landlords. Two LOCs total $700 CAD for the first ten years of the lease and then reduce to $500 for the last five years of the leases. The third LOC is currently for $630 USD and increases annually based upon annual changes in rent;
- two securing the Company's corporate credit cards in the amounts of $75 CAD and $175 USD; and
- one in lieu of cash deposit for utilities in the amounts of $55 CAD.

Subsequent events On February 11, the Company announced the closing of its acquisition of the operating assets of Discovery Downhole Services ("Discovery") for a purchase price of $20,800 (the "Discovery Transaction"). The Discovery Transaction was funded by:

- the issuance of 5,254,112 common shares of Cathedral (the "Acquisition Shares") to Discovery;
- a non-brokered private placement of 14,659,000 common shares of Cathedral ("Private Placement Shares") at a price of $0.44 per share for gross proceeds of $6,450 (the "Private Placement");
- $11,710 cash financed by a term loan from Cathedral's existing primary bank lender ATB (the "Term Loan") as part of the Company's amended and restated credit agreement (the "Credit Agreement") entered into by the Company and ATB concurrently with the closing of the Discovery Transaction. This is in addition to existing $12,000 Facility; and
- Additionally, Cathedral will pay customary fees and expenses at prevailing market rates to ATB as a condition of the Term Loan and the Credit Agreement.

Cathedral has retained key Discovery personnel under employment and consulting contracts to ensure a seamless customer service experience, successful integration and long-term alignment with Cathedral's strategy.

The Acquisition Shares and Private Placement Shares will be subject to a four-month statutory hold period under applicable Canadian securities laws, in addition to such other restrictions as may apply under applicable securities laws of jurisdictions outside of Canada. The Acquisition Shares will be subject to further contractual restrictions on resale as follows: 25% are restricted until February 10, 2023; a further 25% of are restricted until August 10, 2023; and a further 50% are restricted until February 10, 2024, subject to certain exceptions.

While the Term Loan will be amortized over five years it has a maturity of June 2023 as with the existing Facility. The amortization will be based on a variable interest rate consistent with the Company's existing credit facility interest rates with required monthly payments of principal and interest. Cathedral will be subject to a quarterly fixed charge coverage ratio as defined in the Credit Agreement which shall not be less than 1.25. The consolidated interest coverage ratio will no longer be tested after 2021 Q4 and the limit on aggregate capital expenditures has been eliminated for 2022 and beyond. The Credit Agreement also includes the granting of a security interest over the assets acquired in the Discovery Transaction. At closing of the Discovery Transaction, Cathedral is in compliance with the terms and conditions of the Term Loan and Credit Agreement.

Share capital At March 10, 2022, the Company has 100,135,265 common shares, 2,575,000 common share purchase warrants and 6,638,700 options outstanding with a weighted average exercise price of $0.35.

2021 CAPITAL PROGRAM

During the year ended December 31, 2021 the Company invested $5,617 (2020 - $2,474) in equipment (excluding non-cash additions).

The following table details the current period's net equipment additions:

		Year ended December 31, 2021
Equipment additions:		
Motors and related equipment	$	3,495
MWD and related equipment		2,107
Other		15
Total cash additions	$	5,617

The additions of $5,617 were partially funded by proceeds on disposal of equipment of $3,553.

2022 CAPITAL PROGRAM

The Company's estimated 2022 gross capital plan is approximately $14,900, excluding any potential acquisitions. The primary additions under the 2022 capital plan will be approximately $9,500 for new mud motors and related parts with the remaining $5,400 on MWD and ancillary assets.

OUTLOOK

Industry fundamentals continue to signal a positive North American oilfield services market for 2022.

Rig count figures for Canada at the end of 2021 were directly in line with the five-year pre-COVID average for that time of year. Analysts are consistently modifying their 2022 projections upwards with consensus now close to 57,000 activity days for the Western Canadian Sedimentary Basin ("WCSB"), a better than 27% increase over 2021. While most basins in the U.S. are just now reaching pre-COVID rig count ranges, the Permian has matched and the Haynesville has surpassed their five-year pre-COVID averages. These two plays have driven the U.S. land rig count in 2021 and projections for 2022 have also been adjusted higher. Consensus now sees an average active U.S. land rig count of almost 640 rigs for the coming year vs. the 2021 count of 464 rigs, a 37% year-over-year improvement. (source: ATB Capital Markets, Baker Hughes Company, BMO Capital Markets, Peters & Co Limited, Raymond James Ltd., Stifel Canada and TD Securities Inc.)

Although recent North American headlines regarding inflation and the Russian invasion of the Ukraine have increased the volatility of the hydrocarbon indexes, most are trading at 5-7 year highs. These commodity prices are bolstering the balance sheets of the energy producers globally including the Company\s customers in both Canada and the U.S. To date, they have used the free cash flow generated by these price levels to prioritize debt reduction and the return of proceeds to shareholders. However, growing rig counts and analyst estimates appear to indicate that Cathedral's customers will start to direct a greater share of these funds to capital spending in 2022.

Labour continues to be the primary bottleneck for the service sector, as oilfield service companies are challenged to crew all the equipment they presently have demand for. This scenario could persist for much of the coming year. As noted previously, the ongoing combination of improved sector activity and stronger commodity prices coupled with constrained labour and supply chains, should translate to a constructive pricing environment for service businesses in 2022.

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: industry fundamentals continue to signal a positive North American oilfield services market for 2022; analysts are consistently modifying their 2022 projections upwards with consensus now close to 57,000 activity days for the Western Canadian Sedimentary Basin ("WCSB"), a better than 27% increase over 2021; projections for 2022 U.S. land rig count have also been adjusted higher; consensus now sees an average active U.S. land rig count of almost 640 rigs for the coming year vs. the 2021 count of 464 rigs, a 37% year-over-year ; growing rig counts and analyst estimates appear to indicate that E&Ps will start to direct a greater share of these funds to capital spending in 2022; the ongoing combination of improved sector activity and stronger commodity prices coupled with constrained labour and supply chains, should translate to a constructive pricing environment for service businesses in 2022; industry conditions and valuations continue to support acquisitions and we believe additional consolidation opportunities for Cathedral exist; we are optimistic for improved performance in 2022; we will continue to advance our growth plans, with targeted market share in Canada of 18% or more, and a more significant market share ranging in 5-10% in the U.S. in the next one to two years; commitments; 2022 capital program and financing of the program.

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

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

- the performance of Cathedral's business
- impact of economic and social trends;
- oil and natural gas commodity prices and production levels;
- the ongoing impact of the global health crisis and COVID-19;
- capital expenditure programs and other expenditures by Cathedral and its customers;
- the ability of Cathedral to retain and hire qualified personnel;
- the ability of Cathedral to obtain parts, consumables, equipment, technology, and supplies in a timely manner to carry out its activities;
- the ability of Cathedral to maintain good working relationships with key suppliers;
- the ability of Cathedral to retain customers, market its services successfully to existing and new customers and reliance on major customers;
- risks associated with technology development and intellectual property rights;
- obsolesce of Cathedral's equipment and/or technology;
- the ability of Cathedral to maintain safety performance;
- the ability of Cathedral to obtain adequate and timely financing on acceptable terms;
- the ability of Cathedral to comply with the terms and conditions of its credit facility;

- the ability to obtain sufficient insurance coverage to mitigate operational risks;
- currency exchange and interest rates;
- risks associated with future foreign operations;
- the ability of Cathedral to integrate its transactions and the benefits of any acquisitions, dispositions and business development efforts;
- environmental risks;
- business risks resulting from weather, disasters and related to information technology;
- changes under governmental regulatory regimes and tax, environmental, climate and other laws in Canada and the U.S.; and
- competitive risks

Forward-looking statements are not a guarantee of future performance and involve a number of risks and uncertainties some of which are described herein. Such forward-looking statements necessarily involve known and unknown risks and uncertainties, which may cause the Company's actual performance and financial results in future periods to differ materially from any projections of future performance or results expressed or implied by such forward-looking statements. These risks and uncertainties include, but are not limited to, the risks identified in this 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.sedar.com.

NON-GAAP MEASUREMENTS

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

The specific measures being referred to include the following:

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

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

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

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

Adjusted gross margin

	Three months ended December 31		Year ended December 31	
	2021	2020	2021	2020
Gross margin	$ 701	$ (2,368)	$ (1,402)	$ (10,190)
Add non-cash items included in cost of sales:				
Depreciation	3,323	3,560	12,372	14,996
Share-based compensation	23	7	89	63
Adjusted gross margin	$ 4,047	$ 1,199	$ 11,059	$ 4,869
Adjusted gross margin %	17%	16%	18%	12%

Adjusted EBITDAS

	Three months ended December 31		Year ended December 31	
	2021	2020	2021	2020
Loss before income taxes	$ (1,097)	$ (3,183)	$ (8,626)	$ (25,417)
Add:				
Depreciation included in cost of sales	3,323	3,560	12,372	14,996
Depreciation included in selling, general and administrative expenses	134	146	535	572
Share-based compensation included in cost of sales	23	7	89	63
Share-based compensation included in selling, general and administrative expenses	51	15	152	144
Finance costs	(53)	60	196	291
Finance costs lease liabilities	189	218	794	918
Subtotal	2,570	823	5,512	(8,433)
Impairments and direct write-downs	(614)	(172)	(614)	6,822
Unrealized foreign exchange (gain) loss on intercompany balances	(78)	(1,678)	(366)	(929)
Non-recurring expenses	(605)	592	(12)	2,424
Adjusted EBITDAS	$ 1,273	$ (435)	$ 4,520	$ (116)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2021 and 2020
Dollars in '000s
(Unaudited)

	December 31 2021	December 31 2020
Assets		
Current assets:		
Cash	$ 2,898	$ 1,034
Trade receivables	15,609	4,784
Prepaid expenses	1,438	709
Inventories	8,423	8,118
Total current assets	28,368	14,645
Equipment	35,044	35,620
Intangible assets	1,491	2,244
Right of use assets	10,520	11,771
Total non-current assets	47,055	49,635
Total assets	$ 75,423	$ 64,280
Liabilities and Shareholders' Equity		
Current liabilities:		
Trade and other payables	$ 11,069	$ 4,425
Current taxes payable	55	140
Loans and borrowings, current	1,000	-
Lease liabilities, current portion	2,127	2,247
Liability for settlements, current	-	153
Total current liabilities	14,251	6,965
Loans and borrowings	5,035	1,560
Lease liabilities, long-term	13,633	15,781
Total non-current liabilities	18,668	17,341
Total liabilities	32,919	24,306
Shareholders' equity:		
Share capital	98,918	88,155
Contributed surplus	11,793	11,071
Accumulated other comprehensive income	9,011	9,340
Deficit	(77,218)	(68,592)
Total shareholders' equity	42,504	39,974
Total liabilities and shareholders' equity	$ 75,423	$ 64,280

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

Three months and year ended December 31, 2021 and 2020
Dollars in '000s except per share amounts
(Unaudited)

	Three months ended December 31		Year ended December 31	
	2021	2020	2021	2020
Revenues	$ 23,710	$ 7,448	$ 62,524	$ 40,574
Cost of sales:				
Direct costs	(19,663)	(6,249)	(51,465)	(35,705)
Depreciation	(3,323)	(3,560)	(12,372)	(14,996)
Share-based compensation	(23)	(7)	(89)	(63)
Total cost of sales	(23,009)	(9,816)	(63,926)	(50,764)
Gross margin	701	(2,368)	(1,402)	(10,190)
Selling, general and administrative expenses:				
Direct costs	(2,619)	(1,911)	(8,372)	(8,179)
Depreciation	(134)	(146)	(535)	(572)
Share-based compensation	(51)	(15)	(152)	(144)
Total selling, general and administrative expenses	(2,804)	(2,072)	(9,059)	(8,895)
Technology group expenses	(214)	(140)	(747)	(952)
Gain (loss) on disposal of equipment	664	(183)	2,681	1,680
Loss from operating activities	(1,653)	(4,763)	(8,527)	(18,357)
Finance costs	53	(60)	(196)	(291)
Finance costs lease liabilities	(189)	(218)	(794)	(918)
Foreign exchange gain	78	1,686	277	971
Reversals of impairments (impairments and direct w rite-dow ns	614	172	614	(6,822)
Loss before income taxes	(1,097)	(3,183)	(8,626)	(25,417)
Income tax recovery (expense):				
Current	-	(854)	-	333
Derecognition of deferred tax asset	-	(2,647)	-	(2,647)
Total income tax recovery (expense)	-	(3,501)	-	(2,314)
Loss	(1,097)	(6,684)	(8,626)	(27,731)
Other comprehensive loss:				
Foreign currency translation differences for foreign operations	(123)	(1,835)	(329)	(594)
Total comprehensive loss	$ (1,220)	$ (8,519)	$ (8,955)	$ (28,325)
Loss per share				
Basic	$ (0.01)	$ (0.14)	$ (0.13)	$ (0.56)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Three months and year ended December 31, 2021 and 2020
Dollars in '000s
(Unaudited)

	Three months ended December 31		Year ended December 31	
	2021	2020	2021	2020
Cash provided by (used in):				
Operating activities:				
Loss	$ (1,097)	$ (6,312)	$ (8,626)	$ (27,731)
Items not involving cash				
Depreciation	3,457	3,706	12,907	15,568
Share-based compensation	74	22	241	207
Income tax (recovery) expense	-	3,129	-	2,314
Gain on disposal of equipment	(664)	183	(2,681)	(1,680)
Finance costs	(53)	60	196	291
Finance costs lease liabilities	189	218	794	918
(Reversals of impairments) impairments and direct w rite	(614)	(172)	(614)	6,822
Unrealized foreign exchange gain on intercompany balances	(136)	(1,678)	(366)	(929)
Cash flow - continuing operations	1,156	(844)	1,851	(4,220)
Changes in non-cash operating w orking capital	(558)	907	(5,263)	5,343
Income taxes paid	3	168	(87)	68
Cash flow - operating activities	601	231	(3,499)	1,191
Investing activities:				
Equipment additions	(2,818)	(1,149)	(5,617)	(2,474)
Intangible asset additions	-	(39)	-	(251)
Cash received related to acquisition	3,000	-	3,000	-
Proceeds on disposal of equipment	1,275	184	3,553	2,603
Changes in non-cash investing w orking capital	590	1,131	(59)	768
Cash flow - investing activities	2,047	127	877	646
Financing activities:				
Proceeds on share issue	(3,013)	-	3,394	-
Repayments on lease liabilities	(610)	(548)	(2,234)	(2,110)
Payment on settlements	(38)	(51)	(151)	(173)
Interest paid	(136)	(278)	(990)	(1,209)
Advances of loans and borrow ings	2,395	946	8,399	946
Repayments on loans and borrow ings	(790)	-	(3,924)	(5,386)
Cash flow - financing activities	(2,192)	69	4,494	(7,932)
Effect of exchange rate on changes on cash	(4)	(211)	(8)	(94)
Change in cash and cash equivalents	452	216	1,864	(6,189)
Cash, beginning of period	2,446	818	1,034	7,223
Cash, end of period	$ 2,898	$ 1,034	$ 2,898	$ 1,034

NOT FOR DISSEMINATION IN THE UNITED STATES OF AMERICA

Requests for further information should be directed to:

Tom Connors, President, Chief Executive Officer, Ian Graham Chief Financial Officer or Randy Pustanyk, Executive Vice President

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Cathedral Energy Services Ltd., based in Calgary, Alberta is incorporated under the Business Corporations Act (Alberta) and operates in the U.S. under Cathedral Energy Services Inc. Cathedral is 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. 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.