

NEWS RELEASE

**CATHEDRAL ENERGY SERVICES ACQUIRES DISCOVERY DOWNHOLE SERVICES, ADVANCING ITS CONSOLIDATION AND GROWTH STRATEGY**

CALGARY, AB, CANADA – February 11, 2022 – Cathedral Energy Services Ltd. (TSX:CET) (“Cathedral” or the “Company”) today announced the closing of its acquisition of the operating assets of Discovery Downhole Services (“Discovery”) for a purchase price of CAD \$20.8 million (the “Transaction”). Discovery is a privately-held, U.S.-based, high-performance mud motor technology rental business with operations in North Dakota, Texas, and Wyoming.

“Our acquisition of the Discovery assets adds valuable and strategic operations at a time when industry fundamentals are pointing to improving conditions. We are excited to welcome the Discovery personnel, customers, and suppliers to the Cathedral team,” said Tom Connors, Cathedral’s President and CEO. “This acquisition also increases our US market share and adds a high-quality customer base of oil and gas producers and directional drilling companies active in all the major U.S. land basins. We believe that the cash flow generated from this Transaction could enable us to pay back our investment in 2 – 2.5 years and significantly expands the cash flow profile of our US business. The technology rental model is evolving as a critical service in the directional drilling business, particularly in the U.S. market. Our collective capacity positions us to meet the growing demand for high-performance mud motors and provide ‘best-in-breed’ motor and measurement-while-drilling technology to a broader customer base. Additionally, in the face of ongoing global supply chain issues, we believe this access to critical motor technology provides the Company a competitive advantage and the opportunity to expand this service offering to the Canadian market.”

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.

Cathedral is focused on growing its operations, driving improved efficiency, and increasing cash flow generation. This acquisition aligns with Cathedral’s goals and follows two successful acquisitions completed in Canada in the third quarter of last year. Cathedral remains disciplined in its approach to acquisitions, only pursuing opportunities that provide strategic growth in select areas, that add value on a per-share basis and maintain a conservative balance sheet.

“Current industry conditions and valuations continue to support acquisitions and we are actively pursuing additional accretive opportunities in both Canada and the U.S.,” Connors said. “In addition to the attractive acquisition market, we expect to drive increased expansion across our business in the coming quarters through continued organic growth and leading-edge technology deployment.”

The 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 \$6.4 million (the “Private Placement”); and
- \$11.7 million 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 Transaction.

- Cathedral will pay customary fees and expenses at prevailing market rates to ATB as a condition of the Term Loan and the Credit Agreement.

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 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.

The Term Loan will be amortized over five years at 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. The Credit Agreement also includes the granting of a security interest over the assets acquired in the Transaction. At closing of the Transaction, Cathedral is in compliance with the terms and conditions of the Term Loan and Credit Agreement.

## **LEGAL**

The Purchase Price disclosed is based on a deemed price per share of \$0.50 for the Acquisition Shares issued, based on the closing price of the common shares on the Toronto Stock Exchange on February 10, 2022.

This news release does not constitute an offer to sell or a solicitation of an offer to sell any of securities in the United States. The securities have not been and will not be registered under the United States Securities Act of 1933, as amended (the "U.S. Securities Act") or any state securities laws and may not be offered or sold within the United States or to, for the account or benefit of, U.S. Persons (as such term is defined in Regulation S under the U.S. Securities Act) unless registered under the U.S. Securities Act and applicable state securities laws or an exemption from such registration is available. This news release shall not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of these securities, in any jurisdiction in which such offer, solicitation or sale would be unlawful.

Insiders of the Company subscribed for 4,771,000 (32.55%) of the Private Placement Shares, including 1,465,000 (9.99%) Private Placement Shares by directors and executive officers of the Company. The insider participation in the Private Placement is deemed to be a “related party transaction” as defined under Multilateral Instrument 61-101 - Protection of Minority Security Holders in Special Transactions (“MI 61-101”). The Company is relying on the exemptions from the formal valuation requirement and the minority shareholder approval requirement under sections 5.5(a) and 5.7(1)(a) of MI 61-101, on the basis that neither the fair market value of the subject matter of nor the consideration for the Private Placement, insofar as it involves the investing insiders, exceeds 25 percent of the Company’s market capitalization. The Company did not file a material change report more than 21 days before the closing date of the Private Placement because the details of the insider participation were not settled until shortly prior to closing and the Company wished to close on an expedited basis for commercial reasons.

## **ABOUT CATHEDRAL**

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](http://www.cathedralenergyservices.com)

## **FORWARD-LOOKING INFORMATION**

This press release contains statements and information that may constitute "forward-looking information" within the meaning of applicable securities legislation, including statements identified by the use of words such as "will", "expects", "positions", "believe", "potential" and similar words, including negatives thereof, or other similar expressions concerning matters that are not historical facts. Forward-looking information in this news release includes, but is not limited to, statements regarding: industry fundamentals pointing to improving conditions in North American energy markets; the growing demand for high-performance mud motors and measurement-while-drilling technology, including potential Canadian demand, and Cathedral's ability to meet such demand; anticipated successful integration of the Discovery assets and personnel; and Cathedral's business plans and strategies for growth. Such forward-looking information is based on various assumptions that may prove to be incorrect, including, but not limited to, assumptions with respect to: the benefits from the Transaction; the integration of the Discovery business into Cathedral's business; conditions in the oil and gas market; the ability of the Company to successfully implement its strategic plans and initiatives and whether such strategic plans and initiatives will yield the expected benefits. Although the Company believes that such assumptions are reasonable, the Company can give no assurance that such forward-looking statements will prove to be correct or that any of the events anticipated by such forward-looking statements will occur, or if any of them do so, what benefits the Company will derive there from. Actual results could differ materially due to a number of factors and risks including, but not limited to: the risk that Cathedral will not be able to integrate the Discovery business as anticipated or at all; the risk that the Discovery business will not yield operational or financial benefits as anticipated or at all; the risk that demand for Cathedral's services will not be as anticipated; conditions in the oil and gas and financial markets in Canada and the United States; the risk that Cathedral will not be able to identify and/or close on additional accretive opportunities in Canada and/or the U.S.; the ability of management to execute and fund its business strategy; and the impact of general economic conditions in Canada and the United States. Additional information regarding risks and uncertainties of the Company's business are contained under the heading "Risk Factors" in the Company's annual information form for the financial year ended December 31, 2020 and the Company's other public filings which are available under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com). The forward-looking information included in this news release is made as of the date of this news release and the Company does not undertake an obligation to publicly update such forward-looking information to reflect new information, future events or otherwise, except as required by applicable law.

This press release also contains financial outlook information ("FOFI") about prospective results of operations and cash flows, which are subject to the same assumptions, risk factors, limitations, and qualifications as set forth in the above paragraphs. FOFI contained in this press release was made as of

the date of this press release to provide information about management's current expectations and plans relating to the future. Readers are cautioned that such information may not appropriate for any other purpose. Cathedral disclaims any intention or obligation to update or revise any FOFI contained in this press release, whether as a result of new information, future events or otherwise, except as required by applicable law.

Requests for further information should be directed to:

Tom Connors, President & Chief Executive Officer

Ian Graham, Chief Financial Officer

Cathedral Energy Services Ltd.

6030 3 Street S.E.

Calgary, Alberta T2H 1K2

Telephone: 403.265.2560, Fax: 403.262.4682

[www.cathedralenergyservices.com](http://www.cathedralenergyservices.com)