



CATHEDRAL

NEWS RELEASE

August 15, 2022

Calgary, Alberta

CATHEDRAL ENERGY SERVICES REPORTS RESULTS FOR 2022 Q2

Cathedral Energy Services Ltd. (the "Company" or "Cathedral" / TSX: CET) announces its consolidated financial results for the three and six months ended June 30, 2022 and 2021.

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 acquisition and restructuring costs 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.

FINANCIAL HIGHLIGHTS

Dollars in 000's except per share amounts

	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Revenues	\$ 27,652	\$ 7,322	\$ 62,037	\$ 18,687
Adjusted gross margin % ⁽¹⁾	19%	-6%	24%	11%
Adjusted EBITDAS ⁽¹⁾	\$ 2,865	\$ (2,477)	\$ 9,838	\$ (1,540)
Cash flow - operating activities	\$ 4,511	\$ (1,892)	\$ 2,753	\$ (2,300)
Income (loss) from operating activities	\$ (1,885)	\$ (5,483)	\$ 526	\$ (7,643)
Basic per share	\$ (0.01)	\$ (0.10)	\$ -	\$ (0.15)
Net income (loss)	\$ (2,824)	\$ (5,846)	\$ (581)	\$ (7,932)
Basic per share	\$ (0.02)	\$ (0.11)	\$ (0.01)	\$ (0.15)
Equipment additions - cash basis	\$ 6,218	\$ 737	\$ 9,522	\$ 1,328
Weighted average shares outstanding				
Basic (000s)	129,200	54,935	110,353	52,547
Diluted (000s)	131,898	55,721	112,969	52,873

	June 30	December 31
	2022	2021
Working capital	\$ 21,342	\$ 14,117
Total assets	\$ 123,373	\$ 75,423
Loans and borrowings, current and long-term	\$ 9,170	\$ 6,035
Shareholders' equity	\$ 82,190	\$ 42,504

(1) Refer to "NON-GAAP MEASUREMENTS"

2022 Q2 KEY TAKEAWAYS

- Revenue increased by \$20,330 in 2022 Q2 compared to 2021 Q2, representing growth of 278%;
- Adjusted EBITDAS increased to \$2,865 in 2022 Q2 from negative (\$2,477) in 2021 Q2, an improvement of \$5,342;
- 2022 Q2 had a loss of (\$2,824) compared to a loss of (\$5,846) in 2021 Q2, representing meaningful improvement amidst the normal seasonality of Canadian Q2 low activity;
- Canadian market share tallied over 15% in 2022 Q2 vs. approximately 7% one year ago and was the highest level for a second quarter in many years;
- The Company completed one of the first bought deals in the Canadian energy business since 2017, raising gross proceeds of over \$26,000 via a syndicate of Canadian investment dealers;
- The Company purchased 91% of LEXA Drilling Technologies and added highly regarded members of the management team with the proven technical expertise and track record of Axel Schmidt as SVP Engineering and Technology and a wealth of industry specific financial knowledge and experience with Chad Robinson, who subsequently accepted the role of Chief Financial Officer in the third quarter;
- Expanded into a strategic gas market in the Montney and added a complementary customer base with the completion of our fifth acquisition, Compass Directional, in the quarter; and
- Subsequent to 2022 Q2, the Company acquired Altitude Energy Partners for approximately \$128,000 CAD. With a presence in most major basins in the US and a 7% market share, the acquisition of Altitude significantly expands the Company's US footprint and establishes it as one of the larger providers of directional services in North America with an enhanced management and sales team.

PRESIDENT'S MESSAGE

Comments from President & CEO Tom Connors:

The second quarter of 2022 was an exciting time for the company as the benefits of our consolidation strategy continue to bear fruit with improved results and the completion of two additional key acquisitions. Cathedral posted the best top line in a second quarter since 2019 and the highest level of adjusted EBITDAS since the second quarter of 2014. The power of the Company's consolidation strategy is now showing itself in quarterly results, a trend we expect to continue as Cathedral gains a full quarter from Compass in Q3 and almost a full quarter from Altitude. On a pro forma basis, the inclusion of six acquisitions materially increases the EBITDA and free cash flow profile of Cathedral and positions the Company with a larger market profile which is more appealing to a broader audience of investors.

In order to ensure we are positioned to offer the most-competitive technology possible, we completed the purchase of LEXA Drilling Technologies, our first acquisition in the quarter, and fourth in twelve months. LEXA brings to the company a team of highly-capable people led by Axel Schmidt and Chad Robinson who were integral in growing one of Cathedral's largest Canadian competitors – Pacesetter Directional. Axel Schmidt built a reputation for being one of the foremost developers of downhole drilling technology in Western Canada and was subsequently named Senior Vice President, Engineering and Technology. Chad had the extensive financial background the company needed as it becomes a major, independent, North American Directional Drilling company. Chad has since been appointed CFO of the Company.

Adding a complementary customer base and expanding our footprint in the highly-strategic Montney and Deep-Basin plays, Cathedral also completed the acquisition of Compass Directional, which has been a leading directional drilling company in the Canadian market since 1998. These two natural gas and liquids-focused areas represent the backbone of growth in western Canadian natural gas supply for the next decade principally driven by the LNG Canada project with related drilling activity starting up in 2023. The two acquisitions have key elements in common. They both bring a combination of accomplished people, excellent technology capability and strategic clients that will help the Company remain a top performer in Canadian market share going forward.

Post Q2-2022, Cathedral completed its sixth and largest acquisition in twelve months with the purchase of Altitude Energy Partners for approximately \$128,000 CAD. Altitude represents the largest acquisition in the Company's more-than-20-year history and provides a major platform for US growth in the quarters and years to come. Furthermore, Altitude instantly positions Cathedral as one of the largest independent directional drilling companies in North America. Altitude gives extensive geographic coverage of the US land drilling market, highlighted by its 9% market share in the most important U.S. play - the Permian. Altitude continues the trend of accretive acquisitions by Cathedral in key areas, where the highly-experienced management team joins the Company with significant equity going forward. More broadly, the seven-year downturn from 2014-2021 has created an imperative to become a large, focused supplier of services to an increasingly consolidated E&P sector. Size and scale have never mattered as much as they do today and Cathedral has used this as the organizing principle behind its acquisition strategy over the last year.

The management team of Cathedral believes that balance sheet strength is paramount, which is why the emphasis over the next several quarters will be to bring net debt levels down markedly. Operating cash flows are expected to exceed capital spending needs by a considerable margin such that improvements in leverage ratios will be quickly noticeable. The Company also continues to execute on its 2022 capital plan and strategically invest in areas that bring value to our customers and our business such as the addition of four rotary steerable systems for the Canadian market. With our combined strategy of growth through consolidation, differentiation through technology, and a fervent focus on operational excellence, the Company expects the culmination of those efforts will generate high levels of free cash flow, a strong balance sheet, and a robust Company into the future.

Finally, I want to take this opportunity to thank the many employees from Cathedral who have made these results and acquisitions happen and welcome our new partners from LEXA, Compass and Altitude. We will be much stronger with your contributions going forward.

2022 ACQUISITIONS

The purchase price allocation related to the acquisition is preliminary and may be subject to adjustments, which may be material, pending completion of final valuations. In a business combination, it generally takes time to obtain the information necessary to measure fair values of assets acquired and liabilities assumed. Changes in the provisional measurements of assets and liabilities acquired may be recorded as part of the purchase price allocation as new information is obtained, until the final measurements are determined no later than 12 months after the acquisition date. The Company is still in the process of identifying the assets acquired and liabilities assumed and assessing the fair value allocations relating to the inventory and intangible and capital assets acquired. Fair value is estimated using the latest available information as at the date of the financial statements. As a result, these preliminary allocations may change.

Discovery Downhole Services

On February 10, 2022, the Company announced the closing of Cathedral's acquisition of the operating assets of Discovery Downhole Services ("Discovery"). The Transaction includes the operating assets and non-executive personnel of Discovery's U.S.-based, high-performance mud motor technology rental business with operations in North Dakota, Texas, and Wyoming. The transaction will materially increase the Company's U.S. revenues and add a high-quality customer base of oil and gas producers and directional drilling companies active in all the major U.S. land basins.

Cathedral paid \$18,160 in cash funded by a new term loan from its existing bank along with funds raised in a common share private placement and issued 5,254,112 common shares (the "Consideration Shares"). The shares were valued at \$0.52 for accounting purposes (total of \$2,732). In addition to a 4-month statutory hold period on the Consideration Shares, the parties have agreed 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. Additionally, Cathedral assumed the leases at the three operating locations for lease liabilities of \$1,579. Total consideration paid was \$22,471.

While the purchase and sale agreement was structured as an asset sale, the Company has accounted for this transaction as a business combination. The amounts below are based on management's preliminary estimates of fair value at the time of preparation of these financial statements based on the best available information. Amendments may be made to these amounts as the values subject to estimation are finalized. The Company has allocated the purchase price as:

- Inventory \$3,283
- Right of use asset \$1,579; and
- Equipment \$17,609.

To date, the Company has expensed \$95 in costs related to the Transaction.

For the period of February 10 to June 30, 2022, the assets acquired generated revenues of \$12,181 and operating income before depreciation and interest of \$6,357. Revenues for the period of January 1 to February 9, 2022 were \$2,286 and operating profit before depreciation and interest for that period was \$717.

LEXA Drilling Technologies Inc.

On June 20, 2022, the Company purchased 90.98% of LEXA Drilling Technologies Inc. ("LEXA"), a Calgary-based, downhole technology company for equity consideration in Cathedral. LEXA is focused on the development and commercialization of high data rate positive pulse MWD technology. They are also focused on developing technology that enhances and enables drilling automation through remote downhole directional equipment. The addition of

high-performance pulse technology to Cathedral's industry leading electromagnetic technology will further strengthen the performance of Cathedral's existing MWD platform.

In exchange for 90.98% of the shares of LEXA, its technology and products in development, Cathedral issued 1,612,891 common shares, which will be subject to a four-month hold period. The shares were valued at \$0.63 for accounting purposes (total of \$1,016).

The Company has accounted for this transaction as a business combination. The amounts below are based on management's preliminary estimates of fair value at the time of preparation of these financial statements based on the best available information. Amendments may be made to these amounts as the values subject to estimation are finalized. The Company has allocated the purchase price as:

- Cash \$70;
- Net working capital \$180;
- Deferred tax liability (\$109);
- Intangibles \$1,052; and
- Non-controlling interest (\$177)

The deferred tax liability was subsequently offset by the benefit of unrecorded tax attributes.

To date, the Company has not expensed any costs related to the Transaction.

A director of Cathedral, Mr. Rod Maxwell, owns the remaining shares equating to 9.02% of LEXA, which were not purchased as part of the Transaction. Mr. Maxwell abstained from voting on the Transaction in accordance with Cathedral's corporate governance policies. On July 19 2022, the Company purchased the remaining 9.02% shares of LEXA by issuing 159,836 common shares of Cathedral.

As part of the transaction, Mr. Axel Schmidt has joined Cathedral as Senior Vice President, Engineering and Technology while Mr. Chad Robinson has joined as Chief Financial Officer. LEXA also brings an experienced engineering and development team.

Prior to the acquisition, Cathedral was the only revenue source for LEXA so there are no revenues or operating profit before depreciation and interest to report.

Compass Directional Services

On June 22, the Company acquired the operating assets of Compass Directional Services Ltd. ("Compass"). Compass is a privately-owned, Canadian directional drilling business operating in the Western Canadian Sedimentary Basin, with a focus on the high-activity Montney and Deep Basin plays.

As part of the Transaction, Cathedral has retained key Compass personnel under employment contracts to ensure a seamless customer service experience, successful integration and long-term alignment with Cathedral's strategy.

Cathedral paid \$4,000 in cash; and issued 6,253,475 common shares. The shares were valued at \$0.69 for accounting purposes (total of \$4,315). These shares will be subject to contractual restrictions with portions vesting at various periods over two years. Additionally, Cathedral assumed the leases at two locations for lease liabilities of \$316. Total consideration paid was \$8,631.

While the purchase and sale agreement was structured as an asset sale, the Company has accounted for this transaction as a business combination. The amounts below are based on management's preliminary estimates of fair value at the time of preparation of these financial statements based on the best available information. Amendments may be made to these amounts as the values subject to estimation are finalized. The Company has allocated the purchase price as:

- Inventory \$444
- Right of use asset \$316;
- Deferred tax liability (\$647); and
- Equipment \$8,518.

The deferred tax liability was subsequently offset by the benefit of unrecorded tax attributes.

To date, the Company has expensed \$4 in costs related to the Transaction.

Additionally, 1,389,664 shares were issued on an escrow arrangement and are subject to contractual restrictions over four years with ¼ of the shares vesting each year on the anniversary of the purchase. These shares are registered to Cathedral's 100% owned subsidiary, 2438155 Alberta Ltd., and are classified as Treasury shares and will be recognized as compensation when vested.

As the acquired assets were integrated into Cathedral's existing directional drilling operations it is impracticable to breakout the revenue and profit or loss of the acquired assets since the acquisition.

SUBSEQUENT EVENTS

On July 14, the Company closed its acquisition of Altitude Energy Partners, LLC ("Altitude") through a cash amount of \$62,675 USD (\$81,409 CAD) and the issuance of 67,031,032 common shares in of Cathedral. The shares will be valued at \$0.69 for accounting purposes (total of \$46,251 CAD) for a total value of approximately \$127,660 CAD. The total acquisition value is still being determined.

Altitude is a privately-held, U.S.-based, directional drilling services business with headquarters in Wyoming, executive leadership based in Houston, and significant operations in Texas, most prominently in the Permian Basin.

Following the completion of the acquisition, the Company plans to continue to use the Altitude name and brand in the US. Further, the Altitude management team and its people will lead and operate Cathedral's existing US directional drilling business. Mr. Lee Harns, the current President and CEO of Altitude, will remain as President of the business unit. Joining Mr. Harns will be Tyler Clark, the current COO, and Alex Bougaieff, the current CFO, along with several other key long-standing employees and the entire Altitude operational team. In addition, Mr. J.R. Boyles, a director and founder of Altitude, will be appointed to Cathedral's board of directors

In connection with this transaction, the Company amended its banking agreement with ATB Financial as lead arranger and administrative agent, with Canadian Western Bank, HSBC Bank Canada and The Toronto Dominion Bank to provide the Company with committed financing by way of a three-year \$99,000 credit facility available at closing comprised of a \$74,000 term loan, a \$15,000 revolving borrowing base loan and a \$10,000 revolving line.

On July 19 2022, the Company purchased the remaining 9.02% shares of LEXA were acquired on the same terms as previously disclosed by issuing 159,836 common shares of Cathedral.

RESULTS OF OPERATIONS – THREE MONTHS ENDED JUNE 30

Revenues	2022		2021	
Canada	\$	13,091	\$	3,207
United States		14,561		4,115
Total	\$	27,652	\$	7,322

Revenues 2022 Q2 revenues were \$27,652, which represented an increase of \$20,330 or 278% from 2021 Q2 revenues of \$7,322.

Canadian revenues (excluding motor rental revenues) increased to \$12,214 in 2022 Q2 from \$3,012 in 2021 Q2; a 306% increase. This increase was the result of: i) a 218% increase in activity days to 1,442 in 2022 Q2 from 453 in 2021 Q2 and ii) a 27% increase in the average day rate to \$8,470 in 2022 Q2 from \$6,649 in 2021 Q2.

Based on publicly disclosed Canadian drilling and directional drilling days, Cathedral's market share for 2022 Q2 was 15.4% compared to 7.3% in 2021 Q2. Day rates increased due to an overall increases in day rates along with client mix changes.

U.S. revenues (excluding motor rental revenues) increased 35% to \$4,700 in 2022 Q2 from \$3,471 in 2021 Q2. This increase was the result of: i) an 18% increase in activity days to 498 in 2022 Q2 from 421 in 2021 Q2; and ii) a 14% increase in the average day rate to \$9,439 in 2022 Q2 from \$8,245 in 2021 Q2 (when converted to Canadian dollars).

The average active land rig count for the U.S. was up 59% in 2022 Q2 compared to 2021 Q2 (source: Baker Hughes). The Company experienced a 4% increase in rigs followed resulting in a decrease in market share to 0.7% compared to 1.0% in 2021 Q2. Day rates in USD increased 10% to \$7,401 USD in 2022 Q2 from \$6,722 USD in 2021 Q2. Revenue day rates increased primarily due to a change in client mix.

Motor rentals increased in both Canada and the U.S. Combined rental revenues increased to \$10,738 in 2022 Q2 compared to \$839 in 2021 Q2. Rentals were up due to the Discovery acquisition and the overall industry increase in drilling activity.

Gross margin and adjusted gross margin Gross margin for 2022 Q2 was 2% compared to (45%) in 2021 Q2. Adjusted gross margin (see Non-GAAP Measurements) for 2022 Q2 was \$5,245 or 19% compared to (\$428) or -6% for 2021 Q2.

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

Depreciation of equipment allocated to cost of sales increased to \$4,622 in 2022 Q2 from \$2,825 in 2021 Q2 due to the asset acquisitions in 2021 and 2022. Depreciation included in cost of sales as a percentage of revenue was 17% for 2022 Q2 and 39% in 2021 Q2.

Selling, general and administrative ("SG&A") expenses SG&A expenses were \$3,526 in 2022 Q2; an increase of \$1,428 compared with \$2,098 in 2021 Q2. There were increases in SG&A wages, commissions and reduced CEWS grants. As a percentage of revenue, SG&A was 13% in 2022 Q2 compared to 29% in 2021 Q2.

Technology group expenses Technology group expenses were \$231 in 2022 Q2; an increase of \$69 compared with \$162 in 2021 Q2. 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 2022 Q2, the Company had a gain on disposal of equipment of \$1,298 compared to \$56 in 2021 Q2. 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 2022 Q2, the Company received proceeds on disposal of equipment of \$3,091 (2021 Q2 - \$77).

Finance costs Finance costs consisting of interest expenses on loans and borrowings and bank charges were \$295 for 2022 Q2 compared to \$106 for 2021 Q2 due to the increase in debt level and increases in interest rates.

Finance costs lease liability Lease liability interest decreased slightly to \$195 from \$201.

Acquisition and restructuring costs Acquisition and restructuring costs were \$332 in 2022 Q2 compared to \$528 in 2021 Q2. These costs consist of professional and consulting fees on business combinations and subsequent restructuring costs including severance.

Foreign exchange The Company had a foreign exchange loss of (\$873) in 2022 Q2 compared to a gain \$472 in 2021 Q2 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 2022 Q2 foreign currency gain is an unrealized loss of (\$758) (2021 Q2 – gain of \$478) related to intercompany balances.

Income tax Income tax expense is booked based upon expected annualized rates using the statutory rates of 23% for Canada and 22% for the U.S. The current period recovery relates to the offset of deferred tax liabilities related to acquisitions with tax pools for which the benefit had not been previously recognized.

RESULTS OF OPERATIONS – SIX MONTHS ENDED JUNE 30

Revenues	2022		2021	
Canada	\$	38,490	\$	11,308
United States		23,547		7,379
Total	\$	62,037	\$	18,687

Revenues 2022 revenues were \$62,037, which represented an increase of \$43,350 or 232% from 2021 revenues of \$18,687.

Canadian revenues (excluding motor rental revenues) increased to \$36,681 in 2022 from \$10,452 in 2021; a 251% increase. This increase was the result of: i) a 178% increase in activity days to 4,495 in 2022 from 1,616 in 2021 and ii) a 26% increase in the average day rate to \$8,160 in 2022 from \$6,468 in 2021.

Based on publicly disclosed Canadian drilling and directional drilling days, Cathedral's market share for 2022 was 18.2% compared to 9.3% in 2021. Day rates increased due to certain ancillary revenues along with overall increases in day rates and changes in client mix.

U.S. revenues (excluding motor rental revenues) increased 42% to \$8,767 in 2022 from \$6,177 in 2021. This increase was the result of: i) a 32% increase in activity days to 924 in 2022 from 700 in 2021; and ii) a 8% increase in the average day rate to \$9,488 in 2022 from \$8,825 in 2021 (when converted to Canadian dollars).

The average active land rig count for the U.S. was up 62% in 2022 compared to 2021 (source: Baker Hughes). The Company experienced a 15% increase in rigs which resulted in a decrease in market share to 0.7% in 2022 compared to 1.0% in 2021. Day rates in USD increased 5% to \$7,464 USD in 2022 from \$7,095 USD in 2021. Revenue day rates increased due to primarily an increase in client mix.

Motor rentals increased in both Canada and the U.S. Combined rental revenues increased to \$16,588 in 2022 compared to \$2,057 in 2021. Rentals were up due to the Discovery acquisition and the overall industry increase in drilling activity.

Gross margin and adjusted gross margin Gross margin for 2022 was 10% compared to (20%) in 2021. Adjusted gross margin (see Non-GAAP Measurements) for 2022 was \$15,107 or 24% compared to \$2,000 or 11% for 2021.

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

Depreciation of equipment allocated to cost of sales increased to \$8,911 in 2022 from \$5,712 in 2021 due to the asset acquisitions in 2021 and 2022. Depreciation included in cost of sales as a percentage of revenue was 14% for 2022 and 31% in 2021.

Selling, general and administrative ("SG&A") expenses SG&A expenses were \$7,248 in 2022; an increase of \$3,457 compared with \$3,791 in 2021. There were increases in SG&A wages, commissions and reduced CEWS grants. As a percentage of revenue, SG&A was 12% in 2022 compared to 20% in 2021.

Technology group expenses Technology group expenses were \$450 in 2022; an increase of \$100 compared with \$350 in 2021. 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 2022, the Company had a gain on disposal of equipment of \$2,120 compared to \$244 in 2021. 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 2022, the Company received proceeds on disposal of equipment of \$4,324 (2021 - \$298).

Finance costs Finance costs consisting of interest expenses on loans and borrowings and bank charges were \$524 for 2022 compared to \$189 for 2021 due to the increase in debt level and increases in interest rates.

Finance costs lease liability Lease liability interest decreased slightly to \$384 from \$410.

Acquisition and restructuring costs Acquisition and restructuring costs were \$392 in 2022 compared to \$608 in 2021. These costs consist of professional and consulting fees on business combinations and subsequent restructuring costs including severance.

Foreign exchange The Company had a foreign exchange loss of (\$563) in 2022 compared to a gain of \$918 in 2021 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 2022 foreign currency gain is an unrealized loss of (\$463) (2021 – gain of \$922) related to intercompany balances.

Income tax Income tax expense is booked based upon expected annualized rates using the statutory rates of 23% for both Canada and 22% for the U.S. The current period recovery relates to the offset of deferred tax liabilities related to acquisitions with tax pools for which the benefit had not been previously recognized.

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 2022 was a source of cash of \$2,753 compared to a use of cash of (\$2,300) in 2021. This change was primarily due to increases in cash flow from improved drilling activity in 2022 and Cathedral's increase in Canadian market share.

Working capital At June 30, 2022 the Company had working capital of \$21,342 (December 31, 2021 - \$14,117).

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 June 30, 2022, the Company's has a commitment to purchase equipment of \$1,268 which is expected to be incurred in 2022 Q3 and Q4.

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.

Share capital At August 9, 2022, the Company has 214,934,195 common shares, 21,468,350 common share purchase warrants and 18,613,468 options outstanding with a weighted average exercise price of \$0.53.

In 2022 Q1, the Company issued 380,000 stock options to staff with an exercise price of \$0.77 per option.

2022 CAPITAL PROGRAM

During the six months ended June 30, 2022, the Company invested \$9,522 (2021 - \$591) in equipment, excluding acquisitions. The following table details the current period's net equipment additions:

	Six months ended June 30, 2022	
Equipment additions:		
Motors	\$	2,825
MWD		6,671
Other		26
Total cash additions	\$	9,522

The additions of \$9,522 were partially funded by proceeds on disposal of equipment of \$4,324.

The Company's estimated 2022 gross capital plan consists of legacy capital plans that is unchanged at \$14,900, excluding any potential acquisitions and replacement of equipment lost-in-hole and has been increased by capital additions on the Altitude acquisition of approximately \$11,000 USD. It is anticipated that a portion of the \$11,000 USD additions for Altitude could be carried over into the 2023 capital plan.

OUTLOOK

Financial markets are currently trying to assess the extent of any US and global recession as well as any resulting impact on oil and natural gas demand. Over the summer, there has been ample volatility in various commodity markets, but oil and natural gas prices have proved stubbornly resistant to any material fall-off. Years of underinvestment in the global oil business combined with the pull-back in spending on the natural gas side via Covid-19 shut-downs have created a situation of considerable undersupply of both critically important commodities in the global economy. The war in Ukraine has added further pressure on supplies especially into Europe. Heading into the fall and winter, the supply situation is growing increasingly troublesome and major economies in Europe may face severe rationing leading to economic contraction.

Notwithstanding the considerable uncertainties in global oil and gas markets, the E&P spending backdrop in North America remains very constructive. A recent industry analysis of E&P cash flow vs capital spending levels revealed a dramatically lower reinvestment rate versus investment levels over the last decade. E&P companies have pursued balance sheet repair, share buy-backs and growing dividends vs major levels of field reinvestment, which should add considerable duration to the current upcycle. Commentary from many energy service companies is that in this upcycle, the pursuit is higher margins and not equipment capacity. This is an important reason Cathedral remains optimistic that the back half of 2022 and 2023 will be strong for the Company.

Current Canadian rig count forecasts range from an average of 155-175 rigs working in 2022 (up roughly 30% y/y) moving to an average of 195-210 rigs working in 2023 (up another 10-15%). On the U.S. side, analyst estimates are consolidating around an average of 700 rigs working in 2022 (up over 50% y/y) and almost 800 average rigs working in 2023 (up 13% y/y). Cathedral estimates that 92-95% of wells are directionally drilled in the current North American drilling marketplace. As such, rig count forecasts correlate very tightly to directional drilling activity levels. On the pricing side, management expects continued strengthening through the balance of 2022 and into 2023 as part of a tight supply/demand balance for equipment (and most importantly) field personnel. [Rig Count forecasts: ATB Capital, BMO Capital Markets, Stifel FirstEnergy, National Bank Financial, Peters & Co, Raymond James, TD Securities]

On the corporate side, Cathedral plans to introduce its own rotary steerable offering into the Canadian marketplace as a direct competitor to the incumbent provider. Rotary steerable is an important growth market and Cathedral is optimistic that it will be very competitive going forward. Growth in Montney and Deep Basin activity should also begin in the coming quarters and years around a longer-term ramp-up of Canadian natural gas production for LNG Canada (Late 2024/25 first gas export). Finally, Cathedral begins the third quarter with a very busy Altitude operation in the US. The Permian remains one of the world's most important areas for growth in oil and natural gas liquids and Altitude has a significant presence there as well as in the other major U.S. oil and gas plays. Cathedral aims to begin making its broader technology capabilities available across its large North American platform in order to begin realizing the inherent synergies of our six acquisitions.

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: subsequent events; the emphasis over the next several quarters will be to bring net debt levels down markedly; operating cash flows are expected to exceed capital spending needs by a considerable margin such that improvements in leverage ratios will be quickly noticeable; the Company expects the culmination of those efforts will generate high levels of free cash flow, a strong balance sheet, and a robust Company into the future; heading into the fall and winter, the supply situation is growing increasingly troublesome and major economies in Europe may face severe rationing leading to economic contraction; the E&P spending backdrop in North America remains very constructive; Cathedral remains optimistic that the back half of 2022 and 2023 will be strong for the Company; current Canadian rig count forecasts range from an average of 155-175 rigs working in 2022 moving to an average of 195-210 rigs working in 2023; on the U.S. side, analyst estimates are consolidating around an average of 700 rigs working in 2022 and almost 800 average rigs working in 2023; on the pricing side, management expects continued strengthening through the balance of 2022 and into 2023 as part of a tight supply/demand balance for equipment (and most importantly) field personnel; Cathedral plans to introduce its own rotary steerable offering into the Canadian marketplace; growth in Montney and Deep Basin activity should also begin in the coming quarters and years around a longer-term ramp-up of Canadian natural gas production for LNG Canada (late 2024/25 first gas export); Cathedral aims to begin making its broader technology capabilities available across its large North American platform in order to begin realizing the inherent synergies of our six acquisitions; and projected capital expenditures and commitments and the financing thereof.

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;
- 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.sedar.com.

NON-GAAP MEASUREMENTS

Cathedral uses certain performance measures throughout this document that are not defined under GAAP. 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 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:

- "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);
- "Adjusted gross margin %" - calculated as adjusted gross margin divided by revenues; is considered a primary indicator of operating performance (see tabular calculation);
- "Adjusted EBITDAS" - defined as earnings before finance costs, unrealized foreign exchange on intercompany balances, taxes, depreciation, non-recurring costs (including acquisition and restructuring costs 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 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 June 30		Six months ended June 30	
	2022	2021	2022	2021
Gross margin	\$ 574	\$ (3,279)	\$ 6,104	\$ (3,746)
Add non-cash items included in cost of sales:				
Depreciation	4,622	2,825	8,911	5,712
Share-based compensation	49	26	92	34
Adjusted gross margin	\$ 5,245	\$ (428)	\$ 15,107	\$ 2,000
Adjusted gross margin %	19%	-6%	24%	11%

Adjusted EBITDAS

	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Income (loss) before income taxes	\$ (3,580)	\$ (5,846)	\$ (1,337)	\$ (7,932)
Add:				
Depreciation included in cost of sales	4,622	2,825	8,911	5,712
Depreciation included in selling, general and administrative expenses	124	133	248	267
Share-based compensation included in cost of sales	49	26	92	34
Share-based compensation included in selling, general and administrative expenses	83	28	174	49
Finance costs	295	106	524	189
Finance costs lease liabilities	195	201	384	410
Subtotal	1,788	(2,527)	8,996	(1,271)
Unrealized foreign exchange (gain) loss on intercompany balances	758	(478)	463	(922)
Non-recurring expenses	319	528	379	653
Total Adjusted EBITDAS	\$ 2,865	\$ (2,477)	\$ 9,838	\$ (1,540)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2022 and 2021
Dollars in '000s
(Unaudited)

	June 30	December 31
	2022	2021
Assets		
Current assets:		
Cash	\$ 11,312	\$ 2,898
Trade receivables	23,845	15,609
Prepaid expenses	968	1,438
Inventories	12,731	8,423
Current tax recoveries	170	-
Total current assets	49,026	28,368
Equipment	61,074	35,044
Intangible assets	2,167	1,491
Right of use asset	11,106	10,520
Total non-current assets	74,347	47,055
Total assets	\$ 123,373	\$ 75,423
Liabilities and Shareholders' Equity		
Current liabilities:		
Trade and other payables	\$ 15,567	\$ 11,069
Current taxes payable	-	55
Loans and borrowings, current	9,170	1,000
Lease liabilities, current	2,947	2,127
Total current liabilities	27,684	14,251
Loans and borrowings	-	5,035
Lease liabilities, long-term	13,499	13,633
Total non-current liabilities	13,499	18,668
Total liabilities	41,183	32,919
Shareholders' equity:		
Share capital	136,046	98,918
Treasury shares	(959)	-
Contributed surplus	15,087	11,793
Accumulated other comprehensive income	9,638	9,011
Deficit	(77,799)	(77,218)
Non-controlling interest	177	-
Total shareholders' equity	82,190	42,504
Total liabilities and shareholders' equity	\$ 123,373	\$ 75,423

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

Three and six months ended June 30, 2022 and 2021

Dollars in '000s except per share amounts

(Unaudited)

	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Revenues	\$ 27,652	\$ 7,322	\$ 62,037	\$ 18,687
Cost of sales:				
Direct costs	(22,407)	(7,750)	(46,930)	(16,687)
Depreciation	(4,622)	(2,825)	(8,911)	(5,712)
Share-based compensation	(49)	(26)	(92)	(34)
Total cost of sales	(27,078)	(10,601)	(55,933)	(22,433)
Gross margin	574	(3,279)	6,104	(3,746)
Selling, general and administrative expenses:				
Direct costs	(3,319)	(1,937)	(6,826)	(3,475)
Depreciation	(124)	(133)	(248)	(267)
Share-based compensation	(83)	(28)	(174)	(49)
Total selling, general and administrative expenses	(3,526)	(2,098)	(7,248)	(3,791)
Technology group expenses	(231)	(162)	(450)	(350)
Gain on disposal of equipment	1,298	56	2,120	244
Income (loss) from operating activities	(1,885)	(5,483)	526	(7,643)
Finance costs	(295)	(106)	(524)	(189)
Finance costs lease liabilities	(195)	(201)	(384)	(410)
Acquisition and restructuring costs	(332)	(528)	(392)	(608)
Foreign exchange gain (loss)	(873)	472	(563)	918
Loss before income taxes	(3,580)	(5,846)	(1,337)	(7,932)
Deferred tax recovery	756	-	756	-
Loss	(2,824)	(5,846)	(581)	(7,932)
Other comprehensive income (loss):				
Foreign currency translation differences for foreign operations	983	(476)	627	(929)
Total comprehensive income (loss)	\$ (1,841)	\$ (6,322)	\$ 46	\$ (8,861)
Loss per share				
Basic	\$ (0.02)	\$ (0.11)	\$ (0.01)	\$ (0.15)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Three and six months ended June 30, 2022 and 2021

Dollars in '000s

(Unaudited)

	Three months ended June 30		Six months ended June 30	
	2022	2021	2022	2021
Cash provided by (used in):				
Operating activities:				
Loss	\$ (2,824)	\$ (5,846)	\$ (581)	\$ (7,932)
Items not involving cash				
Income tax provision	(756)	-	(756)	-
Depreciation	4,746	2,958	9,159	5,979
Share-based compensation	132	54	266	83
Gain on disposal of equipment	(1,298)	(56)	(2,120)	(244)
Finance costs	295	106	524	189
Finance costs lease liability	195	201	384	410
Unrealized foreign exchange (gain) loss on intercompany balances	758	(478)	463	(922)
Cash flow - continuing operations	1,248	(3,061)	7,339	(2,437)
Changes in non-cash operating working capital	3,243	1,212	(4,614)	180
Income taxes paid	20	(43)	28	(43)
Cash flow - operating activities	4,511	(1,892)	2,753	(2,300)
Investing activities:				
Equipment additions in normal course	(6,218)	(737)	(9,522)	(1,328)
Cash paid on acquisitions	(4,000)	-	(22,160)	-
Proceeds on disposal of equipment	3,091	77	4,324	298
Cash acquired on acquisition	70	-	70	-
Changes in non-cash investing working capital	1,046	271	841	(118)
Cash flow - investing activities	(6,011)	(389)	(26,447)	(1,148)
Financing activities:				
Proceeds on share issue	24,686	3,163	31,160	3,393
Advances on loans and borrowings	-	1,586	19,859	3,659
Repayments on loans and borrowings	(10,779)	(1,915)	(16,723)	(1,915)
Repayments of lease liabilities	(733)	(585)	(1,336)	(1,165)
Interest paid	(490)	(307)	(908)	(599)
Payment on settlements	-	(37)	-	(75)
Cash flow - financing activities	12,684	1,905	32,052	3,298
Effect of exchange rate on changes on cash	87	(15)	56	(29)
Change in cash	11,271	(391)	8,414	(179)
Cash, beginning of period	41	1,246	2,898	1,034
Cash, end of period	\$ 11,312	\$ 855	\$ 11,312	\$ 855

NOT FOR DISSEMINATION IN THE UNITED STATES OF AMERICA

Requests for further information should be directed to:

Tom Connors, President, Chief Executive Officer, Chad Robinson, 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.