CATHEDRAL

NEWS RELEASE

Cathedral Energy Services Ltd. Reports Third Quarter Results

November 9, 2023
Calgary, Alberta

Cathedral Energy Services Ltd.'s (the "Company" or "Cathedral") news release contains "forward-looking statements" within the meaning of applicable Canadian securities laws. For a full disclosure of forward-looking statements and the risks to which they are subject, see the "Forward-Looking Statements" section in this news release. This news release contains references to Adjusted gross margin, Adjusted gross margin %, Adjusted EBITDAS, Adjusted EBITDAS margin %, Free cash flow and Working capital. 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 the "Non-GAAP Measures" section in this news release for definitions and tabular calculations.

THIRD QUARTER HIGHLIGHTS

The Company achieved the following 2023 Q3 results and highlights:

- Industry leading active job count in Canada during the quarter.
- Increased U.S. activity days and job count versus 2022 Q3, despite a lower industry rig count.
- Revenue of $145.6 million in 2023 Q3 is the highest quarterly revenue in the Company's history and represents an increase of 26%, compared to $115.2 million in 2022 Q3.
- Adjusted EBITDAS of $30.1 million in 2023 Q3, an increase of 7%, compared to $28.1 million in 2022 Q3.
- Net income of $5.7 million in 2023 Q3, compared to $8.7 million in 2022 Q3.
- Cash flow - operating activities of $9.1 million in 2023 Q3, compared to $11.5 million in 2022 Q3.
- Free cash flow of $6.1 million in 2023 Q3, compared to $16.8 million in 2022 Q3.
- The Company purchased 2,434,900 common shares of Cathedral ("Common Shares") under its normal course issuer bid for a total purchase amount of $2.2 million at an average price of $0.82 per common shares. Subsequent to September 30, 2023, the Company purchased 1,860,000 Common Shares for a total of $1.6 million at an average purchase price of $0.86 per Common Share.
- Loans and borrowings less cash of $71.5 million as at September 30, 2023, compared to $69.4 million as at December 31, 2022.
- The Company acquired Rime Downhole Technologies, LLC ("Rime"), a privately-held, Texas-based, engineering business that specializes in building products for the downhole measurement-while-drilling ("MWD") industry in exchange for approximately USD $41 million (refer to the "2023 Acquisition" section in this News Release).
- The Company sees a significant opportunity for margin expansion in its U.S. business as it deploys its own MWD technology to reduce its rental expenses.

PRESIDENT'S MESSAGE

Comments from President & CEO Tom Connors:

"Despite the fact that North American industry rig counts were meaningfully lower year-over-year, particularly in the U.S., our activity levels and financial results showed continued strength in revenue and Adjusted EBITDAS and our activity levels demonstrated resiliency with stable to increasing job counts relative to the prior year. It is difficult to post growth in energy services against a backdrop of lower activity, but our resource play focus, customer mix, and high-performance offering helped to more than offset the slowdown. Size and scale remain an industry priority as our exploration and production ("E&P") clients continue to consolidate into larger entities and increasingly demand a more sophisticated offering from their service providers. In response to this continuing trend, Cathedral has grown to become the largest directional drilling service provider in Canada on a full year basis and one of the largest independent providers in the U.S.

“Our U.S. directional drilling job count remained resilient in the third quarter with an average active rig count of 54 versus a directional and horizontal land rig count that averaged 604 rigs on any given day (source: Enverus Daily Rig Count). This compares to the Baker Hughes land rig count, which was down 10% on average versus 2023 Q2 and down 15% year-over-year versus 2022 Q3. We believe that our U.S. operating entity, Altitude Energy Partners, LLC (“Altitude”), grew market share from early 2023, which is a testament to the strong leadership, operating performance and performance focus that this division continues to display. The acquisition and integration of Rime, announced on July 11, 2023, has proceeded according to plan. We continue to target the deployment of as many as thirty newly-developed Rime MWD packages by the end of the first half of 2024. The new MWD tool is made up of Rime technology already proven, tested, and performing on a significant number of U.S. land rigs. We continue to believe we have a significant opportunity for margin expansion and bolstered margin resiliency as we deploy our internally developed technology to reduce our reliance on third party rental technology. Adding an internally developed pulse MWD system to an operation of Altitude’s scale could have a meaningful impact on our financial results as 2024 progresses.

“Cathedral’s Canadian directional job counts averaged approximately 42 active rigs per day for the quarter, which was generally on par with a year ago, versus an industry directional and horizontal rig count which averaged approximately 174 rigs (Source: JWN Rig Locator), which was 6% lower than the same period last year, according to the broader Baker Hughes industry rig count. We continue to leverage our technical strength, expertise, and experience in the fast-growing multi-lateral market where we anticipate attractive customer economics will continue to propel growth into the future. We are currently gearing up for a very busy winter drilling season that should see activity levels surpass those of a year ago.

“Cathedral has a keen focus on generating high levels of free cash flow through the balance of 2023 and through 2024 with a target of reducing Loans and borrowings to less than 0.5x Adjusted EBITDAS by year-end 2024. A strong balance sheet will always be a priority as we continue to build size and scale going forward. In preparation for an active winter in Canada and a steadily improving rig count in the U.S. in 2024 the board has approved a preliminary capital budget of $15 million to allow for delivery of items with longer lead times and the timely build-out of our own MWD technology in the first half of the year” concluded Mr. Connors.

ORGANIZATIONAL UPDATE

Cathedral announces that James R. (J.R.) Boyles has resigned as a director effective November 10, 2023, to re-join the management team of Cathedral’s subsidiary, Altitude. Mr. Boyles is an original founder of Altitude where he held the role of CEO from March 2016 until he resigned from that role and was appointed executive chairman in January 2020. He joined the Cathedral board of directors shortly after the Company’s July 2022 acquisition of Altitude. We are delighted to have J.R. re-join the Company in a management capacity, his history with Altitude combined with his operational expertise and positive energy will be a significant benefit to Altitude and we welcome his interest in returning on a full-time basis to support this important business unit. Mr. Boyles added: “I am excited about contributing to the Cathedral group by returning to a full-time role with Altitude. Cathedral and its group of companies have world class operations and a disciplined growth strategy and I am excited to help with its continued growth.” Cathedral’s board of directors has a search firm retained and is currently conducting a North American-wide search for new board of director candidates.

FINANCIAL HIGHLIGHTS

Canadian dollars in 000's except for otherwise noted

	Three months ended September 30, 2023	Three months ended September 30, 2022	Nine months ended September 30, 2023	Nine months ended September 30, 2022
Revenues [(2)]	$ 145,591	$ 115,184	$ 399,878	$ 179,865
Gross margin % [(2)]	23%	26%	19%	21%
Adjusted gross margin % [(1)(2)]	31%	34%	27%	32%
Adjusted EBITDAS [(1)]	$ 30,106	$ 28,066	$ 63,515	$ 37,917
Adjusted EBITDAS margin % [(1)]	21%	24%	16%	21%
Cash flow - operating activities [(2)]	$ 9,128	$ 11,456	$ 53,395	$ 16,840
Free cash flow [(1)(2)]	$ 6,085	$ 16,814	$ 10,372	$ 8,326
Net income	$ 5,650	$ 8,658	$ 8,861	$ 8,077
Per share - basic and diluted	$ 0.02	$ 0.04	$ 0.04	$ 0.06
Weighted average shares outstanding:				
Basic (000s)	244,574	197,085	235,978	142,726
Diluted (000s)	267,449	199,163	245,957	145,158

As at	September 30, 2023	December 31, 2022
Working capital, excluding current portion of loans and borrowings [(1)]	$ 70,334	$ 60,447
Total assets	$ 412,566	$ 353,990
Loans and borrowings	$ 82,721	$ 80,535
Shareholders' equity	$ 181,344	$ 153,897

(1) Refer to the "Non-GAAP Measures" section

(2) Refer to the "Reclassifications" section in this News Release.

OUTLOOK

Global oil prices rose considerably in the third quarter while U.S. natural gas prices also showed signs of strengthening. This combination will add considerably to the free cash flow of our North American E&P clients and may lead to a gradual increase in land rig counts throughout 2024. Specifically, West Texas Intermediate ("WTI") oil prices started 2023 Q3 just under U.S. $70.00 per barrel and peaked at over $94.00 per barrel late in the quarter – more than a 30% intra-quarter move. U.S. NYMEX natural gas prices began the quarter at approximately U.S. $2.70 per million cubic feet ("mmbtu") and nearly eclipsed U.S. $3.00 per mmbtu by quarter's end – slightly more than a 10% move. More importantly, the oil market futures curve has tipped decidedly into backwardation looking out the next few years – a sign that oil market futures traders see a tight supply and demand balance in the foreseeable future. The futures curve for U.S. natural gas has a twelve-month strip price well above U.S. $3.00 per mmbtu – another sign of renewed optimism around this critical growth commodity going forward.

The North American land rig count has been weaker than many industry observers have been forecasting – both in the U.S. and Canada. As we stated in our 2023 Q2 MD&A Outlook section, a group of six energy service equity analysts (Source: ATB Capital Markets, BMO Capital Markets, National Bank Financial, Peters & Co, Stifel, TD Securities) forecast a bottoming of the U.S. land rig count sometime in 2023 Q3 and then a turn higher in 2023 Q4 as improved E&P cash flows allowed drilling budgets to start being replenished. This group of analysts also forecast continued growth through 2024. The updated consensus outlook from this group suggests that the average U.S. land rig count forecast will fall to approximately 616 rigs in 2023 Q4 from an average of 630 rigs in 2023 Q3. Given the current count of under 600 active U.S. land rigs, this would imply a meaningful move higher in the final two months of 2023. Further, this group of analysts continues to forecast continuing growth in U.S. land drilling in each of the four quarters of 2024 (2024 Q1 average of 646 rigs, rising to 661, 676 and 683 rigs sequentially).

In Canada, the same group of six research analysts sees 2023 Q4 average active rigs numbering 178 rigs vs 181 rigs in 2023 Q3 – likely due to end-of-year E&P budget exhaustion. More encouragingly, in 2024, this group forecasts that the average first quarter Canadian drilling count will be 217 rigs as compared to 199 rigs in 2023 Q1, growth of 9% year-over-year. Through all four quarters of 2024, the Canadian drilling rig count is forecast to grow by 8% year-over-year. This contrasts with the full-year 2024 U.S. land rig forecast that is expected to fall by 0.9% year-over-year.

A recovery in drilling activity may be slower in the U.S. market as some private E&P players remain cautious. In Canada, drilling has accelerated as major producers begin to line up reserves and production volumes to supply the roughly 2 billion cubic feet ("bcf") per day LNG Canada project, which is set to begin exporting natural gas volumes in 2025. The build-out of various new U.S. LNG facilities also continues at a steady pace. In fact, U.S. natural gas export volumes are set to rise to nearly 21 bcf per day by the end of 2025 from just over 13 bcf per day today (Source: Energy Information Administration, U.S. Liquefaction Capacity Workbook, June 29, 2023). By 2027, a further 4.3 bcf per day of export capacity will come online based on current projects under construction (Source: EIA). This will result in almost a doubling of U.S. gas export volumes within four years. The growth in U.S. LNG export capacity is a reason we remain optimistic about consistent levels of oilfield service activity in the long-term.

Finally, Cathedral is also encouraged by a number of developments that should improve the longer-term outlook for Canadian oil and natural gas. Both the Trans Mountain oil pipeline and the Coastal Gaslink natural gas pipeline are set to be completed in 2024 and receive line pack and first export volumes over the course of the next twelve to eighteen months.

2023 ACQUISITION

On July 11, 2023, Cathedral, through a wholly-owned subsidiary, acquired Rime, a privately-held, Texas-based, engineering business that specializes in building products for the downhole MWD industry (the "Rime acquisition") in exchange for approximately USD $41 million (approximately CAD $54.1 million) comprised of: (a) the payment of USD $21 million in cash (approximately CAD $28 million); and (b) the issuance of principal amount of USD $20 million (approximately CAD $26.4 million) of subordinated exchangeable promissory notes ("EP Notes") that are exchangeable into a maximum of 24,570,000 common shares in the capital of Cathedral ("EP Shares") at a deemed price of CAD $1.10 per common share. In accordance with IAS 32 and IFRS 13, the EP notes were determined to be a compound instrument and, accordingly, recognized at the fair value for its respective debt component of $23.4 million and equity component of $1.2 million totaling $24.6 million.

The EP Notes have a three-year term and accrue interest payable quarterly at a rate of 5% per annum. Any time prior to expiry of the EP Notes, if the 20-day volume weighted average trading price of the common shares of Cathedral ("Common Shares") equals or exceeds CAD $1.10 per Common Share, Cathedral may cause the exchange of the EP Notes for Common Shares. Cathedral and the holders of the EP Notes may agree to an earlier exchange of the EP Notes into Common Shares. In addition to the statutory hold periods applicable to the EP Shares under Canadian and U.S. securities laws, the parties agreed to contractual restrictions on resale of any EP Shares as follows: 33% of the EP Shares are restricted until July 11, 2024; a further 33% of the EP Shares are restricted until July 11, 2025; and a further 34% of the EP Shares are restricted until July 11, 2026, subject to certain exceptions contained in the terms governing the EP Notes. In connection with the Rime acquisition, the Company entered into a three-year term credit facility (the "Credit Facility"), replacing its existing credit facility with its syndicate of lenders led by ATB Financial ("ATB") - refer to the "Liquidity and capital resources" section in this News Release.

The purchase price allocation was recognized at fair value under IFRS 3 Business combinations as follows:

As at		July 11, 2023
Consideration:		
Cash	$	27,954
Exchangeable promissory notes		24,632
Total consideration	$	52,586
Purchase price allocation:		
Cash	$	528
Inventory		7,119
Other net working capital		3,373
Property, plant and equipment		3,817
Intangible assets		35,850
Right-of-use assets		492
Goodwill		1,899
Lease obligations		(492)
Total purchase price allocation	$	52,586

2022 ACQUISITIONS

In 2022, the Company executed five strategic acquisitions as detailed below:

- U.S.- based company, Altitude in July 2022 for total consideration of $124.1 million, comprised of a cash payment of $87.2 million and a common share issuance of $36.9 million, with the purchase price allocated primarily to working capital, property, plant and equipment, intangible assets and goodwill;
- U.S.- based operations, Discovery Downhole Services ("Discovery") in February 2022 for total consideration of $20.9 million, comprised of a cash payment of $18.2 million and a common share issuance of $2.7 million, with the purchase price allocated primarily to inventory and property, plant and equipment;
- LEXA Drilling Technologies Inc. ("Lexa") in June 2022 for total consideration of $1.8 million in exchange for intangible assets;
- Compass Directional Services ("Compass") in June 2022 for total consideration of $8.3 million, comprised of a cash payment of $4 million and a common share issuance of $4.3 million, with the purchase price allocated primarily to inventory and property, plant and equipment; and
- the Canadian directional drilling business of Ensign Energy Services ("Ensign") in October 2022 for total common share consideration of $6 million with the purchase price allocated primarily to inventory and property, plant and equipment.

In addition to the assets acquired as described above, there were certain other minor working capital, right-of-use assets and lease liabilities, and deferred tax liabilities recognized as part of the purchase price allocations.

RECLASSIFICATIONS

The Company has changed the presentation of certain figures in the comparative period as follows:

i) Lost-in-hole proceeds and gain on disposal of equipment - reimbursements collected from customers related to lost-in-hole equipment and the corresponding derecognition of the property, plant and equipment ("PP&E") were: a) reclassified from proceeds on disposal of property, plant and equipment to revenues, b) recognized as a write-off of PP&E at the net book value of the equipment and c) included in the Company's cash flows - operating activities rather than cash flows - investing activities on the condensed consolidated statement of comprehensive income and the condensed consolidated statement of cash flows.

The Company has changed its judgement regarding equipment lost-in-hole events that are contracted with its customers in that these events are now considered to be part of its ordinary business activities. The changes are reflected in the current and prior periods, as described above.

ii) Cash paid on acquisition - cash paid on acquisition, net of cash acquired has been presented in aggregate rather than allocated to the individual net assets acquired on the condensed consolidated statement of cash flows.

These reclassifications are summarized below:

Condensed Consolidated Statement of Comprehensive Income (Excerpt)

	Three months ended September 30, 2022			Nine months ended September 30, 2022		
	Reported	Adjustment	Adjusted	Reported	Adjustment	Adjusted
Revenue [1][2]	$ 107,846	$ 7,338	$ 115,184	$ 169,883	$ 9,982	$ 179,865
Cost of sales [1]	(83,557)	(2,046)	(85,603)	(139,490)	(2,058)	(141,548)
Gross margin [1]	24,289	5,292	29,581	30,393	7,924	38,317
Write-off of PP&E [1]	—	(857)	(857)	—	(1,486)	(1,486)
(Loss) gain on disposal of PP&E [1]	$ 4,435	$ (4,435)	$ —	$ 6,555	$ (6,438)	$ 117

[1] Related to adjustment i) Lost-in-hole proceeds and gain on disposal of equipment, as described above.
[2] The adjusted revenue related to the Canada segment of $1.5 million and $2.9 million and the U.S. segment of $5.8 million and $7.1 million for the three and nine months ended September 30, 2022, respectively.

Condensed Consolidated Statement of Cash Flows (Excerpt)

	Three months ended September 30,			Nine months ended September 30,		
	Reported	Adjustment	Adjusted	Reported	Adjustment	Adjusted
Cash flow provided by (used in):						
Operating activities						
Write-off of property, plant and equipment [1]	$ —	$ 857	$ 857	$ —	$ 1,486	$ 1,486
Loss (gain) on disposal of property, plant and equipment [1]	(4,435)	4,435	—	(6,555)	6,438	(117)
Non-cash working capital - cash paid on acquisition [2]	(11,310)	11,310	—	(11,310)	11,310	—
Changes in non-cash operating working capital [2]	(4,272)	(10,627)	(14,899)	(8,886)	(10,628)	(19,514)
Cash flow - operating activities	5,481	5,975	11,456	8,234	8,606	16,840
Investing activities						
Cash paid on acquisitions, net of cash acquired [2]	—	(81,703)	(81,703)	—	(103,793)	(103,793)
Equipment additions - normal course [1][2]	(7,730)	138	(7,592)	(17,252)	152	(17,100)
Equipment additions - cash paid on acquisition [2]	(54,276)	54,276	—	(76,436)	76,436	—
Intangible additions - cash paid on acquisition [2]	(28,284)	28,284	—	(28,284)	28,284	—
Proceeds on disposal of equipment [1]	6,970	(6,970)	—	11,294	(9,615)	1,679
Cash acquired on acquisition [2]	—	—	—	70	(70)	—
Cash flow - investing activities	$ (87,376)	$ (5,975)	$ (93,351)	$(113,823)	$ (8,606)	$ (122,429)

[1] Related to adjustment i) Lost-in-hole proceeds and gain on disposal of equipment, as described above.
[2] Related to adjustment ii) Cash paid on acquisition, as described above.

RESULTS OF OPERATIONS

	Three months ended September 30, 2023	2022	Nine months ended September 30, 2023	2022
Revenues				
Canada (2)	$ 45,253	$ 38,073	$ 116,080	$ 77,937
United States (2)	100,338	77,110	283,798	101,928
Total revenues	145,591	115,184	399,878	179,865
Cost of sales:				
Direct costs (2)	(101,629)	(76,259)	(293,815)	(123,201)
Depreciation and amortization	(10,508)	(9,116)	(29,848)	(18,027)
Share-based compensation	(429)	(228)	(669)	(320)
Cost of sales	(112,566)	(85,603)	(324,332)	(141,548)
Gross margin (2)	$ 33,025	$ 29,581	$ 75,546	$ 38,317
Gross margin % (2)	23%	26%	19%	21%
Adjusted gross margin % (1)(2)	31%	34%	27%	32%

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

Consolidated

The Company recognized $145.6 million of revenues in 2023 Q3, an increase of $30.4 million or 26%, compared to $115.2 million in 2022 Q3. The Company recognized $399.9 million of revenues in the nine months ended September 30, 2023, an increase of $220.0 million or 122%, compared to $179.9 million for the same period in 2022. The increase in revenues for the three and nine months ended September 30, 2023 are mainly attributed to acquisitions completed in 2022 and day rate increases in the Canadian segment.

The Company recognized $112.6 million of cost of sales in 2023 Q3, an increase of $27.0 million or 31%, compared to $85.6 million in 2022 Q3. The Company recognized $324.3 million of cost of sales in the nine months ended September 30, 2023, an increase of $182.8 million or 129%, compared to $141.5 million for the same period in 2022.

The Gross margin % decreased to 23% and 19% in 2023 Q3 and the nine months ended September 30, 2023, compared to 26% and 21% for the same periods in 2022, respectively. The Adjusted gross margin % decreased to 31% and 27% in 2023 Q3 and the nine months ended September 30, 2023, compared to 34% and 32% for the same periods in 2022, respectively.

Gross margins and adjusted gross margins decreased due to continued inflationary costs on the business in 2023, higher than normal repair costs experienced in the first quarter of 2023 and higher labour and rental costs. In addition, margins were impacted by lower U.S. segment average day rates, offset by an increase in Canadian segment average day rates, mainly related to a change in job mix.

Depreciation and amortization expense included in cost of sales increased to $10.5 million and $29.8 million in 2023 Q3 and the nine months ended September 30, 2023, compared to $9.1 million and $18.0 million in the same periods in 2022, respectively, due to property, plant and equipment additions, including those related to the 2022 acquisitions.

Depreciation and amortization expense included in cost of sales as a percentage of revenue was 8% and 7% for the 2023 Q3 and the nine months ended September 30, 2023, compared to 8% and 10% for the same periods in 2022, respectively.

Canadian segment

Revenues

Canadian revenues were $45.3 million in 2023 Q3, an increase of $7.2 million or 19%, compared to $38.1 million in 2022 Q3, mainly due to acquisitions completed in 2022, including Ensign. The Company realized: i) a 2% increase in activity days to 3,388 days in 2023 Q3, compared to 3,311 days in 2022 Q3, and ii) a

16% increase in the average day rate to $13,357 per day in 2023 Q3, compared to $11,499 per day in 2022 Q3. The increase in day rates is mainly attributed to the mix of work including charges for premium tools as well as price increases implemented in late 2022.

Canadian revenues were $116.1 million in the nine months ended September 30, 2023, an increase of $38.1 million or 49%, compared to $77.9 million for the same period in 2022, mainly due to acquisitions completed in 2022, including Compass and Ensign. The Company realized: i) a 21% increase in activity days to 8,709 days in the nine months ended September 30, 2023, compared to 7,227 days the same period in 2022, and ii) a 24% increase in the average day rate to $13,329 per day in the nine months ended September 30, 2023, compared to $10,784 per day for the same period in 2022. The increase in average day rates is mainly attributed to the mix of work, including charges for premium tools as well as price increases implemented in late 2022.

Direct costs

Canadian direct costs included in cost of sales were $27.0 million in 2023 Q3, an increase of $4.4 million or 19%, compared to $22.6 million in 2022 Q3. The increase is mainly due to higher costs related to the 2022 acquisitions. As a percentage of revenues, direct costs were 60% in 2023 Q3, compared to 59% in 2022 Q3.

Canadian direct costs included in cost of sales were $77.6 million in the nine months ended September 30, 2023, an increase of $25.7 million or 49%, compared to $51.9 million for the same period in 2022. The increase is mainly due to higher costs related to the 2022 acquisitions. As a percentage of revenues, direct costs were 67% in the nine months ended September 30, 2023 and 2022.

United States segment

Revenues

U.S. revenues were $100.3 million in 2023 Q3, an increase of $23.2 million or 30%, compared to $77.1 million in 2022 Q3, mainly as a result of the acquisitions completed in 2022, including Altitude. The Company realized a 39% increase in activity days to 3,953 days in 2023 Q3, compared to 2,839 days in 2022 Q3. The average day rate decreased to $25,383 per day in 2023 Q3, compared to $27,161 per day in 2022 Q3, mainly as a result of the Altitude acquisition and a change in job mix.

U.S. revenues were $283.8 million in the nine months ended September 30, 2023, an increase of $181.9 million or 178%, compared to $101.9 million for the same period in 2022, mainly as a result of the acquisitions completed in 2022, including Discovery and Altitude. The Company realized a 211% increase in activity days to 11,233 days in the nine months ended September 30, 2023, compared to 3,613 days for the same period in 2022, mainly as a result of the Altitude acquisition. The average day rate decreased to $25,265 per day in the nine months ended September 30, 2023, compared to $28,212 per day for the same period in 2022, mainly as a result of the Altitude acquisition and a change in job mix.

Direct costs

U.S. direct costs included in cost of sales were $74.7 million in 2023 Q3, an increase of $21.0 million or 39%, compared to $53.7 million in 2022 Q3. The increase is mainly due to higher costs related to the 2022 acquisitions, including Altitude. As a percentage of revenues, direct costs also increased to 74% in 2023 Q3 from 70% in 2022 Q3, mainly due to higher labour, third-party equipment rental and other minor costs, offset by lower fixed costs as a percentage of revenues.

U.S. direct costs included in cost of sales were $216.2 million in the nine months ended September 30, 2023, an increase of $144.9 million or 203%, compared to $71.3 million for the same period in 2022. The increase is mainly due to higher costs related to the 2022 acquisitions, including Discovery and Altitude. As a percentage of revenues, direct costs also increased to 76% in the nine months ended September 30, 2023, compared to 70% in the same period in 2022, mainly due to higher labour and third-party equipment rental costs, offset by lower fixed costs as a percentage of revenues.

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

		Three months ended September 30,			Nine months ended September 30,	
		2023	2022		2023	2022
Selling, general and administrative expenses:						
Direct costs	$	11,611	$ 9,293	$	37,701	$ 16,119
Depreciation and amortization		2,299	3,396		5,307	3,644
Share-based compensation		1,731	235		3,179	409
Selling, general and administrative expenses	$	15,641	$ 12,924	$	46,187	$ 20,172

The Company recognized SG&A expenses of $15.6 million and $46.2 million in 2023 Q3 and the nine months ended September 30, 2023, an increase of $2.7 million and $26.0 million, compared to $12.9 million and $20.2 million in 2022 for the same periods, respectively. The increase is mainly due to the 2022 acquisitions and discretionary short-term incentive program payments, which were approved and recognized in 2023, compared to no discretionary incentive payments recognized in 2022. SG&A expenses as a percentage of revenues were 11% in 2023 Q3 and 2022 Q3 and 12% in the nine months ended September 30, 2023, compared to 11% for the same period in 2022.

Depreciation and amortization recognized in SG&A were $2.3 million and $5.3 million in 2023 Q3 and the nine months ended September 30, 2023, compared to $3.4 million and $3.6 million for the same periods in 2022, respectively. The 2022 Q3 was impacted by the intangible assets acquired from Altitude. The increase in the nine months ended September 30, 2023 mainly related to a full period of depreciation and amortization of Altitude assets in 2023 and amortization recognized in relation to the intangible assets acquired from Rime.

Stock-based compensation recognized in SG&A were $1.7 million and $3.2 million in 2023 Q3 and the nine months ended September 30, 2023, compared to $0.2 million and $0.4 million for the same periods in 2022, respectively. The increase is related to stock options granted in the period, including those related to the Rime acquisition.

Provision

The Company has recognized a provision of $6.1 million related to an ongoing U.S. tax audit matter. A portion of the provision was recognized as an expense of $4.3 million and a portion was recognized as property, plant and equipment and inventory of $1.8 million. The estimate was made by management using the latest information available and is subject to measurement uncertainty. Actual results may differ from this estimate.

Research and development (“R&D”) costs

The Company recognized R&D costs of $0.4 million and $1.4 million in 2023 Q3 and the nine months ended September 30, 2023, compared to $0.4 million and $0.9 million for the same periods in 2022, respectively. R&D costs are salaries, benefits and shop supply costs related to new product development and technology.

Write-off of property, plant and equipment

The Company recognized a write-off of property, plant and equipment of $1.6 million and $3.9 million in 2023 Q3 and the nine months ended September 30, 2023, compared to $0.9 million and $1.5 million for the same periods in 2022. The write-offs related to equipment lost-in-hole. Reimbursements on lost-in-hole equipment are based on service agreements held with clients and are recognized as revenues. Refer to the “Reclassifications” section of this News Release.

Finance costs

Finance costs - loans and borrowings were $2.3 million in 2023 Q3, an increase of $0.8 million, compared to $1.5 million in 2022 Q3. Finance costs - loans and borrowings were $5.5 million in the nine months ended September 30, 2023, an increase of $3.5 million, compared to $2.0 million for the same period in 2022.

The higher costs are mainly due to the Company's increased debt levels as at September 30, 2022 of $89.6 million and as at September 30, 2023 of $106.8 million, which related to the 2022 acquisitions (refer to the "Liquidity and Capital Resources" section in this News release). In addition, interest rates increased in 2023 relative to 2022 contributing to the higher finance costs.

In addition, the Company had $0.2 million and $0.6 million of finance costs in 2023 Q3 and the nine months ended September 30, 2023 related to lease liabilities, compared to $0.2 million and $0.6 million for the same periods in 2022, respectively.

Foreign exchange

The Company recognized a foreign exchange loss of $0.8 million in 2023 Q3, compared to a foreign exchange loss of $2.4 million in 2022 Q3. The Company recognized a foreign exchange gain of $0.1 million in the nine months ended September 30, 2023, compared to a foreign exchange loss of $2.9 million for the same period in 2022. The impact of foreign exchange is due to fluctuations of the Canadian dollar relative to the U.S. dollar related to foreign currency transactions recognized in net income.

The Company recognized a foreign currency translation gain on foreign operations of $4.8 million in 2023 Q3, compared to a gain of $11.4 million in 2022 Q3. The Company recognized a foreign currency translation gain on foreign operations of $0.6 million in the nine months ended September 30, 2023, compared to a gain of $12.0 million for the same period in 2022. The Company's foreign operations are denominated in USD and differences due to fluctuations in the foreign currency exchange rates are recorded in other comprehensive income.

Income tax

The Company recognized an income tax expense of $1.4 million and $3.9 million in 2023 Q3 and the nine months ended September 30, 2023, compared to an income tax expense of $0.1 million and income tax recovery of $0.7 million for the same periods in 2022, respectively.

Income tax expense is booked based upon expected annualized rates using the statutory rates of 23% for Canada and 21% for the U.S.

LIQUIDITY AND CAPITAL RESOURCES

Annually, the Company's principal source of liquidity is cash generated from operations. In addition, the Company has the ability to fund liquidity requirements through its syndicated credit facility and the issuance of additional debt and/or equity, if available.

In order to facilitate the management of its liquidity, the Company prepares an annual budget, which is updated as necessary depending on varying factors, including changes in capital structure, execution of the Company's business plan and general industry conditions. The annual budget is approved by the Board of Directors and updated forecasts are prepared as the fiscal year progresses with changes reviewed by the Board of Directors.

Cash flow - operating activities was $9.1 million and $53.4 million in 2023 Q3 and the nine months ended September 30, 2023, compared to $11.5 million and $16.8 million for the same periods in 2022, respectively. Cathedral intends to use any free cash flow generated in the remainder of 2023 to continue to pay down debt and fund the normal course issuer bid while remaining opportunistic in making strategic and accretive acquisitions.

At September 30, 2023, the Company had working capital, excluding current portion of loans and borrowings of $70.3 million (December 31, 2022 - $60.4 million).

Warrants

During the nine months ended September 30, 2023, 17,731,888 of the April 2022 bought deal offering warrants, 575,000 of the February 2021 private placement warrants and 2,000,000 of the warrants related to the Precision Drilling acquisition were exercised at $0.85 per warrant, $0.24 per warrant and $0.60 per warrant totaling $15.1 million, $0.1 million, and $1.2 million in gross cash proceeds, respectively. On April 26, 2023, the remaining 55,462 of the April 2022 bought deal offering warrants expired.

Normal course issuer bid

On July 3, 2023, the Company received approval from the TSX to purchase up to 12,160,008, or 5%, of the 243,200,173 issued and outstanding common shares of the Company ("Common Shares") under the NCIB. The ability to purchase Common Shares under the NCIB commenced on July 17, 2023, and will terminate no later than July 16, 2024. The actual number of Common Shares purchased under the NCIB, the timing of purchases and the price at which the Common Shares are purchased will be subject to management's discretion.

Under the TSX rules, the Company is entitled to purchase up to the greater of: 25% of the average daily trading volume of the respective class of shares; or 1,000 shares on any trading day; or a larger amount of shares per calendar week, subject to the maximum number that may be acquired under the NCIB, if the transaction meets the block purchase exception rule under TSX rules. Accordingly, unless a block purchase meets the block purchase exception under TSX rules, the Company is entitled to purchase up to 99,621 Common Shares on any trading day.

During the nine months ended September 30, 2023, 2,434,900 Common Shares were purchased under the NCIB for a total purchase amount of $2.2 million. A portion of the purchase amount reduced share capital by $2 million and the residual purchase amount of $0.2 million was recorded to the deficit.

In connection with the NCIB, the Company has established an automatic securities purchase plan ("the Plan") for the Common Shares. Accordingly, the Company may repurchase its Common Shares under the Plan on any trading day during the NCIB, including during regulatory restrictions or self-imposed trading blackout periods. The Plan commenced on July 17, 2023 and will terminate on July 16, 2024. As at September 30, 2023, the Company recognized $1.8 million as an accrued liability ($1.7 million reduced share capital and $0.1 million was recorded to the deficit) for the maximum Common Shares to be purchased under the Plan subsequent to September 30, 2023. Subsequent to September 30, 2023, the Company purchased 1,860,000 Common Shares for a total purchase amount of $1.6 million at an average purchase price of $0.86 per Common Share.

Syndicated credit facility

During the three months ended September 30, 2023, the Company entered into a three-year term credit facility, replacing its existing credit facility with its syndicate of lenders led by ATB related to the acquisition of Rime. The Credit Facility provides an approximate $137 million principal amount comprised of: i) a $59.2 million Syndicated Term Facility (replacing the existing Syndicated Term Facility), ii) a new USD $21 million term loan, repayable in equal quarterly installments over a five-year amortization period, iii) a $35 million Syndicated Operating Facility (previously $15 million), and iv) a $15 million Revolving Operating Facility (previously $10 million). The Credit Facility was utilized to replace and repay Cathedral's existing credit facility. The interest rate and financial covenants were unchanged under the new Credit Facility.

During the nine months ended September 30, 2023, the Company also repaid its balance owing on the Syndicated Operating Facility of $13 million. In addition, the Company made contractual repayments totaling $11.1 million related to its Syndicated Term Facility reducing the carrying value to $55.0 million as at September 30, 2023.

As at September 30, 2023, the $35 million Syndicated Operating Facility and the $15 million Revolving Operating Facility remained undrawn. In addition, the Company continues to hold a Highly Affected Sectors Credit Availability Program ("HASCAP") loan.

At September 30, 2023, the Company was in compliance with its financial covenants, which were as follows:

- Consolidated Funded Debt to Consolidated Credit Agreement EBITDA ratio shall not exceed 2.5.0:1; and
- Consolidated Fixed Charge Coverage ratio shall not be less than 1.25:1

Contractual obligations and contingencies

As at September 30, 2023, the Company's commitment to purchase property, plant and equipment is approximately $7.6 million, which is expected to take place over the next six months.

The Company also holds six letters of credit totaling $1.9 million related to rent payments, corporate credit cards and a utilities deposit.

The Company is involved in various other legal claims associated with the normal course of operations. The Company believes that any liabilities that may arise pertaining to such matters would not have a material impact on its financial position.

Share capital

As at November 9, 2023, the Company has 241,655,057 common shares, no warrants, 22,581,000 stock options and EP Notes that are exchangeable into a maximum of 24,570,000 common shares outstanding.

Change of Transfer Agent

Effective July 11, 2023, Cathedral has replaced Computershare Trust Company, as the registrar and transfer agent of the Company's common shares, with Odyssey Trust Company. Shareholders do not need to take any action with respect to the change in registrar and transfer agent services. All inquiries and correspondence related to shareholder records, transfers of shares, lost certificates and changes of address should now be directed to Odyssey Trust Company, through their offices in Calgary, Vancouver and Toronto: https://odysseytrust.com/.

CAPITAL EXPENDITURES

The following table details the property, plant and equipment additions:

	Three months ended September 30,		Nine months ended September 30,	
	2023	2022	2023	2022
Motors and related equipment	$ 10,139	$ 2,736	$ 22,786	$ 8,832
MWD and related equipment	4,446	4,843	9,854	8,231
Shop and automotive equipment	334	—	2,084	—
Other	471	13	3,109	37
Capital expenditures	$ 15,390	$ 7,592	$ 37,833	$ 17,100

The Company's 2023 net capital budget is expected to be approximately between $27 million and $32 million, excluding any potential acquisitions. The net capital budget is targeted at growing Cathedral's high-performance mud motor and MWD in both Canada and the U.S. Cathedral intends to fund its 2023 capital plan from cash flow provided by operating activities. The net capital budget is defined as gross capital expenditures less reimbursements from customers for equipment lost-in-hole.

NON-GAAP MEASURES

Cathedral uses certain performance measures throughout this News Release that are not defined under IFRS or Generally Accepted Accounting Principles ("GAAP"). These non-GAAP measures do not have a standardized meaning and may differ from that of other organizations, and accordingly, may not be comparable. Investors should be cautioned, however, that these measures should not be construed as alternatives to IFRS measures as an indicator of Cathedral's performance.

These measures include the Adjusted gross margin, Adjusted gross margin %, Adjusted EBITDAS, Adjusted EBITDAS margin %, Adjusted EBITDAS per diluted share, Free cash flow and Working capital. Management believes these measures provide supplemental financial information that is useful in the evaluation of Cathedral's operations.

These non-GAAP measures are defined as follows:

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

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

iii) **“Adjusted EBITDAS”** - calculated as net income before finance costs, unrealized foreign exchange on intercompany balances, income tax expense, depreciation, amortization, non-recurring costs (including acquisition and restructuring costs and provision), write-down of inventory and share-based compensation; provides supplemental information to earnings that is useful in evaluating the results and financing of the Company’s business activities before considering certain charges (see tabular calculation);

iv) **“Adjusted EBITDAS margin %”** - calculated as Adjusted EBITDAS divided by revenues; provides supplemental information to earnings that is useful in evaluating the results and financing of the Company’s business activities before considering certain charges as a percentage of revenues (see tabular calculation);

v) **“Adjusted EBITDAS per diluted share”** - calculated as Adjusted EBITDAS divided by the diluted weighted average shares outstanding; provides supplemental information to earnings that is useful in evaluating the results and financing of the Company’s business activities before considering certain charges on a per diluted share basis; and

vi) **“Free cash flow” -** calculated as cash flow provided by (used in) operating activities prior to: i) changes in non-cash working capital, ii) income taxes paid (refunded) and iii) non-recurring costs less: i) property, plant and equipment additions, excluding assets acquired in business combinations, ii) required repayments on loans and borrowings, in accordance with the credit facility agreement, and iii) cash lease payments, offset by proceeds from dispositions of property, plant and equipment. Management uses this measure as an indication of the Company's ability to generate funds from its operations to support future capital expenditures, additional debt repayment or other initiatives (see tabular calculation).

The calculation of Free cash flow has been amended from the prior period to demonstrate a more appropriate representation of the Company’s Free cash flow by deducting the Company’s required repayments on loans and borrowings in the calculation compared to no adjustment included in the prior periods. It is of the Company’s view that required repayments of loans and borrowings reduce its Free cash flow and, as such, should be deducted from the Free cash flow calculation.

In addition, there were reclassification adjustments relating to the cash flow from operating activities and proceeds on disposal of property, plant and equipment, as described in the “Reclassifications” section in this News Release.

vii) **“Working capital”** - calculated as current assets less current liabilities, excluding the current portion of loans and borrowings. Management uses this measure as an indication of the Company’s financial and cash liquidity position.

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

Adjusted gross margin

	Three months ended September 30, 2023	Three months ended September 30, 2022	Nine months ended September 30, 2023	Nine months ended September 30, 2022
Gross margin [(1)]	$ 33,025	$ 29,581	$ 75,546	$ 38,317
Add non-cash items included in cost of sales:				
Inventory write-down	599	—	977	—
Depreciation and amortization	10,508	9,116	29,848	18,027
Share-based compensation	429	228	669	320
Adjusted gross margin	$ 44,561	$ 38,925	$ 107,040	$ 56,664
Adjusted gross margin %	31%	34%	27%	32%

(1) Refer to the “Reclassifications” section in this News release.

Adjusted EBITDAS

	Three months ended September 30, 2023	Three months ended September 30, 2022	Nine months ended September 30, 2023	Nine months ended September 30, 2022
Net income	$ 5,650	$ 8,658	$ 8,861	$ 8,077
Add (deduct):				
Income tax expense (recovery)	1,359	87	3,942	(669)
Depreciation and amortization included in cost of sales	10,508	9,116	29,848	18,027
Depreciation and amortization included in selling, general and administrative expenses	2,299	3,396	5,307	3,644
Share-based compensation included in cost of sales	429	228	669	320
Share-based compensation included in selling, general and administrative expenses	1,731	235	3,179	409
Finance costs - loans and borrowings	2,286	1,500	5,502	2,024
Finance costs - lease liabilities	215	200	634	584
	24,477	23,420	57,942	32,416
Unrealized foreign exchange (gain) loss on intercompany balances	(100)	2,048	(999)	2,511
Inventory write-down and non-recurring expenses	5,729	2,598	6,572	2,990
Adjusted EBITDAS	$ 30,106	$ 28,066	$ 63,515	$ 37,917
Adjusted EBITDAS margin %	21%	24%	16%	21%

Free cash flow

	Three months ended September 30, 2023	Three months ended September 30, 2022	Nine months ended September 30, 2023	Nine months ended September 30, 2022
Cash flow - operating activities (3)	$ 9,128	$ 11,456	$ 53,395	$ 16,840
Add (deduct):				
Income tax paid (refund)	198	(30)	846	(58)
Changes in non-cash operating working capital (3)	17,200	14,899	7,213	19,514
Non-recurring expenses, excluding inventory write-down	839	2,598	1,304	2,990
Proceeds on disposal of property, plant and equipment (3)	70	—	733	1,679
Less:				
Property, plant and equipment additions (1)(3)	(15,385)	(7,592)	(37,850)	(17,100)
Required repayments on loans and borrowings (2)	(5,154)	(3,737)	(12,609)	(13,423)
Repayments of lease liabilities, net of finance costs	(811)	(780)	(2,660)	(2,116)
Free cash flow	$ 6,085	$ 16,814	$ 10,372	$ 8,326

(1) Property, plant and equipment additions exclude non-cash additions and assets acquired in business combinations.
(2) Required repayments on loans and borrowings in accordance with the credit facility agreement. Excludes discretionary debt repayments.
(3) Refer to the "Reclassifications" section in this News Release.

FORWARD LOOKING STATEMENTS

This news release contains certain forward-looking statements and forward-looking information (collectively, referred to herein as "forward-looking statements") within the meaning of applicable Canadian securities laws. All statements other than statements of present or historical fact are forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "anticipate", "achieve", "believe", "plan", "intend", "objective", "continuous", "ongoing", "estimate", "outlook", "expect", "may", "will", "project", "should" or similar words suggesting future outcomes. In particular, this news release contains forward-looking statements relating to, among other things:

- Future commitments;

- The 2023 capital program and financing of the program;
- We believe that our U.S. operating entity, Altitude, grew market share from early 2023, which is a testament to the strong leadership, operating performance and performance focus that this division continues to display;
- We continue to target the deployment of as many as thirty newly-developed Rime MWD packages by the end of the first half of 2024;
- We continue to believe we have a significant opportunity for margin expansion and bolstered margin resiliency as we deploy our internally developed technology to reduce our reliance on third party rental technology;
- Adding an internally developed pulse MWD system to an operation of Altitude's scale could have a meaningful impact on our financial results as 2024 progresses;
- We continue to leverage our technical strength, expertise, and experience in the fast-growing multi-lateral market where we anticipate attractive customer economics will continue to propel growth into the future;
- We are currently gearing up for a very busy winter drilling season that should see activity levels surpass those of a year ago;
- Cathedral has a keen focus on generating high levels of free cash flow through the balance of 2023 and through 2024 with a target of reducing Loans and borrowings to less than 0.5x Adjusted EBITDAS by year-end 2024;
- In preparation for an active winter in Canada and a steadily improving rig count in the U.S. in 2024 the board has approved a preliminary capital budget of $15 million to allow for delivery of items with longer lead times and the timely build-out of our own MWD technology in the first half of the year;
- Global oil prices rose considerably in the third quarter while U.S. natural gas prices also showed signs of strengthening. This combination will add considerably to the free cash flow of our North American E&P clients and may lead to a gradual increase in land rig counts throughout 2024;
- The oil market futures curve has tipped decidedly into backwardation looking out the next few years – a sign that oil market futures traders see a tight supply and demand balance in the foreseeable future;
- The futures curve for U.S. natural gas has a twelve-month strip price well above U.S. $3.00 per mmbtu – another sign of renewed optimism around this critical growth commodity going forward;
- A group of six energy service equity analysts (Source: ATB Capital Markets, BMO Capital Markets, National Bank Financial, Peters & Co, Stifel, TD Securities) forecast a bottoming of the U.S. land rig count sometime in 2023 Q3 and then a turn higher in 2023 Q4 as improved E&P cash flows allowed drilling budgets to start being replenished. This group of analysts also forecast continued growth through 2024;
- The updated consensus outlook from this group suggests that the average U.S. land rig count forecast will fall to approximately 616 rigs in 2023 Q4 from an average of 630 rigs in 2023 Q3;
- Given the current count of under 600 active U.S. land rigs, this would imply a meaningful move higher in the final two months of 2023;
- Further, this group of analysts continues to forecast continuing growth in U.S. land drilling in each of the four quarters of 2024 (2024 Q1 average of 646 rigs, rising to 661, 676 and 683 rigs sequentially);
- In Canada, the same group of six research analysts sees 2023 Q4 average active rigs numbering 178 rigs vs 181 rigs in 2023 Q3 – likely due to end-of-year E&P budget exhaustion;
- In 2024, this group forecasts that the average first quarter Canadian drilling count will be 217 rigs as compared to 199 rigs in 2023 Q1, growth of 9% year-over-year;
- Through all four quarters of 2024, the Canadian drilling rig count is forecast to grow by 8% year-over-year. This contrasts with the full-year 2024 U.S. land rig forecast that is expected to fall by 0.9% year-over-year;
- A recovery in drilling activity may be slower in the U.S. market as some private E&P players remain cautious;
- In Canada, drilling has accelerated as major producers begin to line up reserves and production volumes to supply the roughly 2 bcf per day LNG Canada project, which is set to begin exporting natural gas volumes in 2025;
- The build-out of various new U.S. LNG facilities also continues at a steady pace. In fact, U.S. natural gas export volumes are set to rise to nearly 21 bcf per day by the end of 2025 from just over 13 bcf per day today (Source: Energy Information Administration, U.S. Liquefaction Capacity Workbook, June 29, 2023);

- By 2027, a further 4.3 bcf per day of export capacity will come online based on current projects under construction. This will result in almost a doubling of U.S. gas export volumes within four years (Source: EIA);
- The growth in U.S. LNG export capacity is a reason we remain optimistic about consistent levels of oilfield service activity in the long-term;
- Both the Trans Mountain oil pipeline and the Coastal Gaslink natural gas pipeline are set to be completed in 2024 and receive line pack and first export volumes over the course of the next twelve to eighteen months.

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

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

- the performance of Cathedral's business;
- impact of economic and social trends;
- oil and natural gas commodity prices and production levels;
- capital expenditure programs and other expenditures by Cathedral and its customers;
- the ability of Cathedral to attract and retain key management personnel;
- the ability of Cathedral to retain and hire qualified personnel;
- the ability of Cathedral to obtain parts, consumables, equipment, technology, and supplies in a timely manner to carry out its activities;
- the ability of Cathedral to maintain good working relationships with key suppliers;
- the ability of Cathedral to retain customers, market its services successfully to existing and new customers and reliance on major customers;
- risks associated with technology development and intellectual property rights;
- obsolescence of Cathedral’s equipment and/or technology;
- the ability of Cathedral to maintain safety performance;
- the ability of Cathedral to obtain adequate and timely financing on acceptable terms;
- the ability of Cathedral to comply with the terms and conditions of its credit facility;
- the ability to obtain sufficient insurance coverage to mitigate operational risks;
- currency exchange and interest rates;
- risks associated with future foreign operations;
- the ability of Cathedral to integrate its transactions and the benefits of any acquisitions, dispositions and business development efforts;
- environmental risks;
- business risks resulting from weather, disasters and related to information technology;
- changes under governmental regulatory regimes and tax, environmental, climate and other laws in Canada and the U.S.; and
- competitive risks.

Forward-looking statements are not a guarantee of future performance and involve a number of risks and uncertainties some of which are described herein. Such forward-looking statements necessarily involve known and unknown risks and uncertainties, which may cause the Company's actual performance and financial results in future periods to differ materially from any projections of future performance or results expressed or implied by such forward-looking statements. These risks and uncertainties include, but are not limited to, the risks identified in this news release and in the Company's Annual Information Form under the heading "Risk Factors". Any forward-looking statements are made as of the date hereof and, except as required by law, the Company assumes no obligation to publicly update or revise such statements to reflect new information, subsequent or otherwise.

All forward-looking statements contained in this news release are expressly qualified by this cautionary statement. Further information about the factors affecting forward-looking statements is available in the Company's current Annual Information Form that has been filed with Canadian provincial securities commissions and is available on www.sedarplus.ca and the Company's website (www.cathedralenergyservices.com).

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at September 30, 2023 and December 31, 2022
Canadian dollars in ‘000s
(unaudited)

As at	September 30, 2023	December 31, 2022
Assets		
Current assets:		
Cash	$ 11,172	$ 11,175
Trade receivables	108,529	113,477
Prepaid expenses	2,409	4,529
Inventories	49,139	26,195
Total current assets	171,249	155,376
Property, plant and equipment	118,781	108,530
Intangible assets	70,235	38,511
Right-of-use assets	10,886	12,178
Goodwill	41,415	39,395
Total non-current assets	241,317	198,614
Total assets	$ 412,566	$ 353,990
Liabilities and Shareholders' Equity		
Current liabilities:		
Trade and other payables	$ 93,167	$ 90,389
Current taxes payable	4,328	909
Loans and borrowings, current	21,176	15,735
Lease liabilities, current	3,420	3,631
Total current liabilities	122,091	110,664
Loans and borrowings, long-term	61,545	64,800
Exchangeable promissory notes	24,063	—
Lease liabilities, long-term	13,406	14,249
Deferred tax liability	10,117	10,380
Total non-current liabilities	109,131	89,429
Total liabilities	231,222	200,093
Shareholders' equity:		
Share capital	197,344	180,484
Treasury shares	(709)	(959)
Exchangeable promissory notes	1,274	—
Contributed surplus	15,768	15,854
Accumulated other comprehensive income	17,980	17,389
Deficit	(50,313)	(58,871)
Total shareholders' equity	181,344	153,897
Total liabilities and shareholders' equity	$ 412,566	$ 353,990

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Three and nine months ended September 30, 2023
Canadian dollars in '000s except per share amounts
(unaudited)

	Three months ended September 30, 2023	Three months ended September 30, 2022	Nine months ended September 30, 2023	Nine months ended September 30, 2022
Revenues [1]	$ 145,591	$ 115,184	$ 399,878	$ 179,865
Cost of sales:				
Direct costs [1]	(101,629)	(76,259)	(293,815)	(123,201)
Depreciation and amortization	(10,508)	(9,116)	(29,848)	(18,027)
Share-based compensation	(429)	(228)	(669)	(320)
Total cost of sales	(112,566)	(85,603)	(324,332)	(141,548)
Gross margin	33,025	29,581	75,546	38,317
Selling, general and administrative expenses:				
Direct costs	(11,611)	(9,293)	(37,701)	(16,119)
Depreciation and amortization	(2,299)	(3,396)	(5,307)	(3,644)
Share-based compensation	(1,731)	(235)	(3,179)	(409)
Total selling, general and administrative expenses	(15,641)	(12,924)	(46,187)	(20,172)
Provision	(4,291)	—	(4,291)	—
Research and development costs	(427)	(403)	(1,437)	(853)
Write-down of property, plant and equipment [1]	(1,555)	(857)	(3,924)	(1,486)
Gain on disposal of property, plant and equipment [1]	5	—	390	117
Income from operating activities	11,116	15,397	20,097	15,923
Finance costs - loans and borrowings	(2,286)	(1,500)	(5,502)	(2,024)
Finance costs - lease liabilities	(215)	(200)	(634)	(584)
Foreign exchange (loss) gain	(767)	(2,354)	146	(2,917)
Acquisition and restructuring costs	(839)	(2,598)	(1,304)	(2,990)
Income before income taxes	7,009	8,745	12,803	7,408
Income tax (expense) recovery:				
Current	(3,687)	(87)	(4,248)	(87)
Deferred	2,328	—	306	756
Total income tax (expense) recovery	(1,359)	(87)	(3,942)	669
Net income	5,650	8,658	8,861	8,077
Other comprehensive income:				
Foreign currency translation differences on foreign operations	4,842	11,380	591	12,007
Total comprehensive income	**$ 10,492**	**$ 20,038**	**$ 9,452**	**$ 20,084**
Net income per share - basic and diluted	$ 0.02	$ 0.04	$ 0.04	$ 0.06

(1) Refer to the "Reclassifications" section of this News release

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Nine months ended September 30, 2023 and 2022
Canadian dollars in ‘000s
(unaudited)

	Share capital	Treasury shares	Contributed surplus	Accumulated other comprehensive income	Deficit	Total shareholders' equity
Balance, December 31, 2021	$ 98,918	$ —	$ 11,793	$ 9,011	$ (77,218)	$ 42,504
Comprehensive income for the period	—	—	—	12,007	8,077	20,084
Issued pursuant to private placements, net of share issue costs	27,950	—	3,075	—	—	31,025
Consideration for business combination, net of share issue costs	45,031	—	—	—	—	45,031
Treasury shares issued for business combination	959	(959)	—	—	—	—
Issued pursuant to stock option exercises	474	—	(146)	—	—	328
Share-based compensation	—	—	729	—	—	729
Balance, September 30, 2022	$ 173,332	$ (959)	$ 15,451	$ 21,018	$ (69,141)	$ 139,701

	Share capital	Treasury shares	EP notes	Contributed surplus	Accumulated other comprehensive income	Deficit	Total shareholders' equity
Balance, December 31, 2022	$ 180,484	$ (959)	$ —	$ 15,854	$ 17,389	$ (58,871)	$ 153,897
Comprehensive income for the period	—	—	—	—	591	8,861	9,452
Purchased pursuant to normal course issuer bid	(1,987)	—	—	—	—	(303)	(2,290)
Accrued purchases pursuant to normal course issuer bid	(1,669)	—	—	—	—	—	(1,669)
EP Notes issued for business combination	—	—	1,274	—	—	—	1,274
Contributed surplus on vesting of treasury shares	—	250	—	(250)	—	—	—
Issued pursuant to warrant exercises	19,843	—	—	(3,433)	—	—	16,410
Issued pursuant to stock option exercises	673	—	—	(251)	—	—	422
Share-based compensation	—	—	—	3,848	—	—	3,848
Balance, September 30, 2023	$ 197,344	$ (709)	$ 1,274	$ 15,768	$ 17,980	$ (50,313)	$ 181,344

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Three and nine months ended September 30, 2023 and 2022
Canadian dollars in '000s (unaudited)

	Three months ended September 30, 2023	Three months ended September 30, 2022	Nine months ended September 30, 2023	Nine months ended September 30, 2022
Cash provided by (used in):				
Operating activities:				
Net income	$ 5,650	$ 8,658	$ 8,861	$ 8,077
Non-cash adjustments:				
Income tax expense (recovery)	1,359	87	3,942	(669)
Depreciation and amortization	12,807	12,512	35,155	21,671
Share-based compensation	2,160	463	3,848	729
Gain on disposal of property, plant and equipment[(1)]	(5)	—	(390)	(117)
Write-down of property, plant and equipment [(1)]	1,555	857	3,924	1,486
Write-down of inventory included in cost of sales	599	—	977	—
Finance costs - loans and borrowings	2,286	1,500	5,502	2,024
Finance costs - lease liabilities	215	200	634	584
Income tax refund (paid)	(198)	30	(846)	58
Unrealized foreign exchange loss (gain) on intercompany balances	(100)	2,048	(999)	2,511
	26,328	26,355	60,608	36,354
Changes in non-cash operating working capital	(17,200)	(14,899)	(7,213)	(19,514)
Cash flow - operating activities	9,128	11,456	53,395	16,840
Investing activities:				
Cash paid on acquisition, net of cash acquired	(27,426)	(81,703)	(27,426)	(103,793)
Property, plant and equipment additions	(15,385)	(7,592)	(37,850)	(17,100)
Intangible asset additions	(14)	(1,456)	(158)	(1,456)
Proceeds on disposal of property, plant and equipment[(1)]	70	—	733	1,679
Changes in non-cash investing working capital	4,023	(2,600)	2,268	(1,759)
Cash flow - investing activities	(38,732)	(93,351)	(62,433)	(122,429)
Financing activities:				
Advances of loans and borrowings, net of upfront financing fees	27,298	87,291	27,298	107,150
Repayments on loans and borrowings	(5,471)	(6,868)	(25,926)	(23,591)
Payments on lease liabilities, net of finance costs	(811)	(780)	(2,660)	(2,116)
Interest paid	(2,500)	(1,700)	(6,136)	(2,608)
Common shares purchased pursuant to NCIB	(3,955)	—	(3,955)	—
Proceeds on common share issuances	1,465	218	16,832	31,378
Changes in non-cash financing working capital	1,765	—	1,765	—
Cash flow - financing activities	17,791	78,161	7,218	110,213
Effect of exchange rate on changes on cash	2,862	229	1,817	285
Change in cash	(8,951)	(3,505)	(3)	4,909
Cash, beginning of period	20,123	11,312	11,175	2,898
Cash, end of period	$ 11,172	$ 7,807	$ 11,172	$ 7,807

(1) *Refer to the "Reclassifications" section of this News Release*

NOT FOR DISSEMINATION IN THE UNITED STATES OF AMERICA

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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 Discovery Downhole Services, a division of Cathedral Energy Services Inc., Altitude Energy Partners, LLC and Rime Downhole Technologies, LLC. Cathedral's Common Shares are publicly-traded on the TSX 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.