CATHEDRAL

2022

ANNUAL REPORT

ANNUAL GENERAL MEETING

Shareholders are invited to attend the Annual General Meeting which will be held at 3:30 pm on May 11, 2023 at our Head Office 6030 – 3 Street SE, Calgary, Alberta.

MANAGEMENT'S DISCUSSION & ANALYSIS

This Management's Discussion and Analysis ("MD&A") for the year ended December 31, 2022 provides an analysis of the consolidated results of operations, financial position and cash flows of Cathedral Energy Services Ltd. (the "Company" or "Cathedral") and should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2022, as well as the Company's 2022 interim MD&A's. This MD&A is intended to assist the reader in the understanding and assessment of significant changes and trends, as well as the risks and uncertainties, related to the results of the operations and financial position of the Company. Currency amounts are in '000's of Canadian dollars, except for day rates and per share amounts. This MD&A is dated April 14, 2023.

NON-GAAP MEASUREMENTS

Cathedral uses certain performance measures throughout this document that are not defined under Canadian Generally Accepted Accounting Principles ("GAAP"). These non-GAAP measures do not have a standardized meaning prescribed under International Financial Reporting Standards ("IFRS"), and therefore may not be comparable to similar measures presented by other entities. These measures are Adjusted gross margin, Adjusted gross margin %, Adjusted EBITDAS, Adjusted EBITDAS margin %, Adjusted EBITDAS per share – diluted and Free cash flow. Management believes that these measures provide supplemental financial information that is useful in the evaluation of Cathedral's operations and are commonly used by other oilfield service companies. Investors should be cautioned, however, that these measures should not be construed as alternatives to measures determined in accordance with IFRS as an indicator of Cathedral's performance. Cathedral's method of calculating these measures may differ from that of other organizations, and accordingly, may not be comparable.

The specific measures being referred to include the following:

i) "Adjusted gross margin" - calculated as gross margin plus non-cash items (depreciation, 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" - defined as earnings before finance costs, unrealized foreign exchange on intercompany balances, taxes, depreciation, amortization, non-recurring costs (including acquisition and restructuring costs and non-cash provision for bad debts), write-down of property, plant and equipment, write-down of inventory and share-based compensation; provides supplemental information to earnings that is useful in evaluating the results of the Company's business activities before considering certain charges and how it is financed (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 of the Company's business activities before considering certain charges and how it is financed but measurement as a percentage of revenues (see tabular calculation);

v) "Adjusted EBITDAS per diluted share" - defined as Adjusted EBITDAS divided by weighted average shares outstanding – diluted; provides supplemental information to earnings that is useful in evaluating the results of the Company's business activities before considering certain charges and how it is financed but measurement on a per diluted share basis; and

vi) "Free cash flow" - defined as Cash flow - operating activities prior to changes in non-cash working capital, income taxes paid (refunded) and non-recurring costs less property, plant and equipment additions, excluding assets acquired in business combinations, cash lease payments offset by proceeds from disposition 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, debt repayment or other initiatives.

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

Adjusted gross margin

	Three months ended December 31		Year ended December 31	
	2022	2021	2022	2021
Gross margin	$ 24,589	$ 718	$ 54,982	$ (1,032)
Add non-cash items included in cost of sales:				
Depreciation and amortization	10,660	3,323	28,687	12,372
Share-based compensation	302	23	622	89
Adjusted gross margin	$ 35,551	$ 4,064	$ 84,291	$ 11,429
Adjusted gross margin %	28%	17%	28%	18%

Adjusted EBITDAS

		Three months ended December 31			Year ended December 31			
		2022		2021		2022		2021
Income (loss) before income taxes	$	15,553	$	(1,097)	$	22,961	$	(8,626)
Add:								
Depreciation and amortization included in cost of sales		10,660		3,323		28,687		12,372
Depreciation and amortization included in selling, general and administrative expenses		(635)		134		3,009		535
Share-based compensation included in cost of sales		302		23		622		89
Share-based compensation included in selling, general and administrative expenses		356		51		765		152
Finance costs		3,266		(53)		5,290		196
Finance costs - lease liabilities		200		189		784		794
Subtotal		29,702		2,570		62,118		5,512
Impairment expense (recovery)		107		(614)		107		(614)
Unrealized foreign exchange (gain) loss on intercompany balances		(709)		(136)		1,802		(366)
Non-recurring expenses (recoveries)		1,184		(688)		4,160		297
Adjusted EBITDAS	$	30,284	$	1,132	$	68,187	$	4,829
Adjusted EBITDAS margin %		24%		5%		23%		8%

Free Cash Flow

		Three months ended December 31			Year ended December 31			
		2022		2021		2022		2021
Cash flow - operating activities	$	14,360	$	601	$	23,960	$	(3,499)
Add (deduct):								
Changes in non-cash operating working capital		8,283		558		27,113		5,263
Income taxes (refunded) paid		(480)		(3)		(538)		87
Non-recurring expenses (recoveries)		1,184		(688)		4,160		297
Proceeds on disposal of property, plant and equipment		10,501		1,275		21,795		3,553
Less:								
Property, plant and equipment additions(1)		(12,152)		(2,818)		(30,894)		(5,617)
Repayments of lease liabilities		(1,018)		(610)		(3,134)		(2,234)
Free cash flow	$	20,678	$	(1,685)	$	42,462	$	(2,150)

(1) Property, plant and equipment additions exclude non-cash additions and assets acquired in business combinations

CORPORATE OVERVIEW

Cathedral Energy Services Ltd. (“LTD”) is a company domiciled in Canada. The Company is a publicly traded company listed on the Toronto Stock Exchange (“TSX”) under the symbol "CET". The consolidated financial statements of Company as at and for the year ended December 31, 2022 includes the following 100% owned subsidiaries for the period during which the subsidiaries were controlled:

- Cathedral Energy Services Inc. ("INC");
- 2438155 Alberta Ltd.;
- LEXA Drilling Technologies Inc. (LEXA”);
- CET Flight Holdco, Inc. ("Flight");
- Altitude Energy Holdco, LLC ("AEH"); and
- Altitude Energy Partners, LLC ("Altitude").

LTD along with the above noted subsidiaries together are referred to as the “Company” or “Cathedral”. The Company is primarily involved and engaged in the business of providing directional drilling services to oil and natural gas companies in western Canada and the United States (“U.S.”).

INC, Flight, AEH and Altitude are incorporated in the U.S. and their functional currency is United States dollars (“USD”).

FINANCIAL HIGHLIGHTS

Years ended December 31,		2022		2021		2020
Revenues	$	**298,401**	$	62,524	$	40,574
Gross margin %		**18%**		-2%		-25%
Adjusted gross margin % (1)		**28%**		18%		12%
Adjusted EBITDAS (1)	$	**68,187**	$	4,829	$	(116)
Adjusted EBITDAS margin % (1)		**23%**		8%		n.m.
Cash flow - operating activities	$	**23,960**	$	(3,499)	$	1,191
Free cash flow (1)	$	**42,462**	$	(2,150)	$	(3,777)
Impairment (expense) recovery	$	**(107)**	$	614	$	(6,822)
Net income (loss)	$	**18,347**	$	(8,626)	$	(27,731)
Basic and diluted per share	$	**0.11**	$	(0.13)	$	(0.56)
Weighted average shares outstanding						
Basic (000s)		**162,551**		65,031		49,468
Diluted (000s)		**166,129**		65,740		49,468
Working capital	$	**44,712**	$	14,117	$	7,680
Total assets	$	**353,990**	$	75,423	$	64,280
Loans and borrowings excluding current portion	$	**64,800**	$	5,035	$	1,560
Shareholders' equity	$	**153,897**	$	42,504	$	39,974

(1) Refer to MD&A: see "NON-GAAP MEASUREMENTS"

(2) n.m. – not meaningful

KEY TAKEAWAYS FOR FISCAL 2022 – CONSOLIDATION STRATEGY PRODUCES RECORD RESULTS

- Consolidated revenue of $298,401 in fiscal 2022 was a record for the Company's 25-year history and up 377% vs 2021.
- Adjusted EBITDAS for 2022 also posted a new record for the Company at $68,187, which compares to $4,829 in 2021.
- Adjusted EBITDAS margin % was 23%, up from 8% in 2021.
- Net income for the year was $18,347 as compared to a loss of $8,626 in 2021 – marking a return to profitability earlier than many companies in the energy service sector.
- Highest level of quarterly revenue for both the Canadian and U.S. divisions, bettering the individual records set in 2022 Q3.
- Fourth quarter 2022 Adjusted EBITDAS of $30,284 was the highest for any quarter, exceeding the prior record of $28,065 in 2022 Q3.
- The Company generated Free cash flow (see non-GAAP measurements) of $20,678 in the fourth quarter demonstrating the efficiency of a business model with lower capital intensity.
- Cathedral significantly increased its North American footprint and cemented one of the top positions in market share for the onshore U.S. directional drilling market with the acquisition in 2022 Q3 of Altitude Energy Partners ("Altitude") for $124,112. Cathedral also acquired U.S.-based Discovery Downhole Services in February for $20,892.
- Cathedral acquired Compass Directional in Canada as well as the Canadian operating assets and personnel of Ensign Energy Services' directional drilling business. Cathedral also signed a Marketing and Technology Alliance with Ensign, the second such alliance in Cathedral's portfolio.
- Canadian directional drilling market share hit a new high watermark in 2022 Q4, averaging 27.8% and up from 24.3% in 2022 Q3. Cathedral's Canadian market share was 18.1% in 2021.
- The Company closed 2022 with loans and borrowings less cash of $69,360 as compared to $81,786 as at September 30, 2022.
- The Board of Directors has approved a 2023 net capital expenditure budget of $46,000, increased from $35,000, which was preliminarily approved by the Board of Directors in 2022 Q4 to enable advance orders of strategic equipment for delivery in early 2023.
- A strengthened U.S. dollar also positively impacted results during fiscal 2022.

PRESIDENT'S MESSAGE

Comments from President & CEO Tom Connors:

The year 2022 was one of the most productive years in the Company's 25-year history. We continue to differentiate the company by building a strategic moat around the business through size and scale in the North American directional drilling market. Expanding on our first two consolidation-focused Canadian acquisitions in 2021, Cathedral made five additional acquisitions in 2022 - three in Canada and two in the U.S. The purchase of Compass Directional and the Canadian directional drilling assets and personnel from Ensign Energy Services were the third and fourth consolidation transactions in Canada, ones that pushed the Company's 2022 Q4 directional drilling to a record market share of 27.8% - up roughly ten percent from the previous year. Compass added market share and excellent people in the Montney, Canada's most important natural gas and gas liquids play, while Ensign added key people, new clients and a Marketing and Technology Alliance with a leading land driller. The third Canadian acquisition in 2022 was the purchase of Lexa Drilling Technologies, which added promising Measurement-While-Drilling ("MWD") technology for the U.S. marketplace.

While we made substantial strides in the growth of our Canadian business with several acquisitions, the most significant moves in 2022 were made in the U.S. The July acquisition of Altitude Energy Partners, LLC for $124,112 was the largest transaction in Cathedral's history and immediately added strong market share and excellent directional drilling personnel in several key resource plays such as the Permian, U.S. Rockies, the Bakken, and Haynesville. Altitude's executive leadership, based in Houston, also became the go-forward leadership team for Cathedral's legacy U.S. directional drilling business. A key synergy and significant incremental growth opportunity going forward is the ability to replace third-party MWD equipment rentals with Cathedral-sourced technology as Altitude built a successful business while renting MWD technology from third party service providers. Altitude also provided an entry for Cathedral into the U.S. rotary steerable market – one that is outgrowing the underlying directional drilling market and one that offers a much greater revenue capture opportunity for the Company going forward. Altitude enters 2023 with 16 rotary steerable systems ("RSS"), on the way to 20 by year-end 2023.

Another significant milestone in our U.S. growth strategy was the acquisition of the operating assets of Discovery Downhole Services for $20,892 in February 2022. Discovery's high-performance mud motor rental business and key people operate out of locations in North Dakota, Texas and Wyoming. Discovery provides a platform to expand our high-performance mud motor offering to a wider customer base by renting both direct to leading exploration and production ("E&P") customers and to our competitors that may lack the appropriate assets. Due to the demand for high performance mud motor technology, Discovery's fleet has maintained high levels of utilization, providing an attractive payback on our investment. With a common fleet of mud motors from the same original equipment manufacturer for both Discovery and Altitude, we will also benefit from operational synergies going forward.

We continue to pursue further scale through accretive transactions. Our shareholders will benefit through that expansion as we become more investible to a wider audience, drive margin expansion through lower unit costs, and further differentiate ourselves in the market through the development and sustainment of leading-edge technology. We view the companies we purchase as partners and key members of the Cathedral team with a vested interest in our continued growth and success. To encourage alignment, and enhance longer term returns, vendors take meaningful quantities of equity that vests over time. As we continue to seek out opportunities for growth, we are also always very mindful of the cyclical nature of our business and the importance of maintaining a conservative and flexible capital structure.

We continue to support organic growth initiatives in both Canada and the U.S. In Canada, we have deployed an alternative RSS tool that we believe will build an incremental market following as we build on a successful operational track record and introduce the tool to more clients and reservoir types. In the U.S., there is a sizable EBITDAS capture opportunity within Cathedral's U.S. operations as third party-rented MWD systems can get replaced with Cathedral-supplied systems. Beyond tool development, we also intend to work closely with our technology alliance partners – Precision Drilling and Ensign Energy Services. Both are attempting leading-edge solutions to better integrate directional drilling tools with the increasingly-automated operations of the drilling rig itself. The value capture arises from reducing the human footprint on a wellsite, adding margin for both the contract driller and Cathedral while contributing to reducing our carbon footprint on location.

Beyond the upside potential of executing on our company-specific strategy, we also believe in the strength of the macro backdrop in the coming years. It has become very clear that seven years of underinvestment in the global oil and natural gas business (years 2014 - 2021) is showing the underlying tightness of markets. The onset of the war in Ukraine has laid bare the vulnerabilities of global supply as countries now rush to re-order their domestic energy priorities, ones that will include the need for substantial oil and natural gas for decades at a minimum. Global LNG was already growing in importance and now its importance is accelerating. Canada will have its first major project - LNG Canada - in the coming two years while the U.S. is on pace to become the unchallenged global leader. Cathedral is extremely well-positioned to help develop the necessary supply in both major markets – an exciting long-term, organic growth opportunity. Notwithstanding the current volatility in financial markets generally and in the commodity markets more directly, we believe that any capital spending pullbacks by E&P companies will be relatively short-lived. The underlying supply-demand balance for oil and natural is simply too tight.

We enter 2023 – our 25th year as a company - with a strong opportunity set in front of us. We continue to examine ways to add further size and scale in key jurisdictions and with excellent companies, where the potential to be part of a leading consolidator is an attractive next step to an established player in the space. Most importantly, I want to finish by saying a tremendous thank you to all Cathedral staff - longstanding and new - who have helped make 2022 one for the record books. Strategy is one thing, but it takes a very strong team to deliver - and you delivered in 2022. I can't wait to see what we can achieve together in 2023 and the years to follow.

2022 ACQUISITIONS

A summary of the acquisitions for the year ended December 31, 2022 are as follows:

	Discovery	Compass	LEXA	Altitude	Ensign	Total
Consideration:						
Number of shares issues	5,254,112	6,253,475	1,772,727	67,031,032	7,017,988	87,329,334
Issue price	$ 0.52	$ 0.69	$ 0.63	$ 0.55	$ 0.85	
Common shares	$ 2,732	$ 4,315	$ 1,117	$ 36,867	$ 5,965	$ 50,996
Settlement of technology license from pre-existing relationship	-	-	644	-	-	644
Cash	18,160	4,000	-	87,245	-	109,405
Total consideration	$ 20,892	$ 8,315	$ 1,761	$ 124,112	$ 5,965	$ 161,045
Allocation of purchase price						
Cash	$ -	$ -	$ 70	$ 4,754	$ -	$ 4,824
Inventory	3,301	444	-	8,768	1,790	14,303
Other net w orking capital	-	-	291	(1,068)	-	(777)
Property, plant and equipment	17,591	8,518	-	43,667	4,175	73,951
Right of use assets	1,579	316	-	2,354	-	4,249
Lease liabilities assumed	(1,579)	(316)	-	(2,354)	-	(4,249)
Intangibles	-	-	1,574	35,720	-	37,294
Goodw ill	-	-	-	37,753	-	37,753
Deferred tax liability	-	(647)	(174)	(5,482)	-	(6,303)
Total	$ 20,892	$ 8,315	$ 1,761	$ 124,112	$ 5,965	$ 161,045

Due to the acquired assets related to the Discovery, Compass, and Ensign acqusitions being integrated in to Cathedral's existing directional drillng business it is impractical to disclose the total revenue and profit from all business acquisitons in 2022 as if the business combinations had been completed on January 1, 2022.

The following table details the changes to the allocation of purchase price for Altitude due to independent valuations, which impacted property, plant and equipment, intangibles and goodwill, along with the final net working capital adjustment:

Changes to Altitude allocation of purchase price		Final		As presented at 2022 Q3		Difference
Cash	$	4,754	$	4,754	$	-
Inventory		8,768		9,088		(320)
Other net working capital		(1,068)		(274)		(794)
Property, plant and equipment		43,667		45,393		(1,726)
Right-of-use assets		2,354		2,354		-
Lease liabilities		(2,354)		(2,354)		-
Intangibles		35,720		34,433		1,287
Goodwill		37,753		35,963		1,790
Deferred tax liability		(5,482)		(5,245)		(237)
Total	$	124,112	$	124,112	$	-

As discussed in the following LEXA section, the consideration and value of intangibles was increased $644 due to the settlement of a technology license ageement due to a pre-existing relationship. In addition there were insignificant changes to other acquisitions as the amounts were finalized in 2022 Q4.

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 acquisition 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.

Cathedral paid $18,160 in cash consideration funded by a new term loan and issued 5,254,112 common shares for a total consideration of $20,892. In addition to a four-month statutory hold period on the common shares, the parties have agreed to contractual restrictions on resale as follows: 25% are restricted until February 10, 2023; a further 25% are restricted until August 10, 2023; and a further 50% are restricted until February 10, 2024, subject to certain exceptions.

For the period from February 10, 2022 to December 31, 2022, the assets acquired generated revenues of $31,841 and operating income before depreciation and interest of $14,357. For the period from January 1, 2022 to February 9, 2022 revenue was $2,286 and operating profit before depreciation and interest was $717.

The Company has expensed $147 in costs related to this transaction.

Compass Directional Services

On June 22, 2022, 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.

Cathedral paid $4,000 in cash consideration and issued 6,253,475 common shares for a total consideration of $8,315. The common shares are subject to contractual restrictions of resale as follows: 25% are restricted until June 22, 2023; a further 25% are restricted until December 22, 2023; and a further 50% are restricted until June 22, 2024, subject to certain exceptions.

Additionally, 1,389,664 common shares were issued pursuant to an escrow arrangement and are subject to contractual restrictions over four years with one quarter of the shares vesting each year on the anniversary of the purchase. These common shares are registered to Cathedral's 100% owned subsidiary, 2438155 Alberta Ltd. (held in trust for the beneficiary) and are classified as Treasury shares and will be recognized as compensation expense over the vesting period. On issuance, these Treasury shares were valued at $959.

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

The Company has expensed $178 in costs related to this transaction.

LEXA Drilling Technologies Inc.

The Company purchased the shares 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 measure-while-drilling ("MWD") technology. They are also focused on developing technology that enhances and enables drilling automation through remote downhole directional equipment.

On June 17, 2022, the Company acquired 90.98% of the shares of LEXA, its technology and products in development, Cathedral issued 1,612,891 common shares, which were subject to a four-month restriction period. On July 19, 2022, the Company acquired the remaining 9.02% of the shares of LEXA in exchange for 159,836 common shares from Rod Maxwell, a director of Cathedral. These shares are also subject to a four-month hold period.

LEXA and Cathedral were parties to a technology licensing agreement under which LEXA allowed Cathedral access to specific technologies. This pre-existing relationship was effectively settled when Cathedral acquired LEXA, in accordance with IFRS 3 Business Combinations. The amount paid for the pre-existing contract was attributed to consideration transferred and recognized as an intangible asset. No gain or loss was recorded on this deemed settlement.

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.

Altitude Energy Partners, LLC

On July 13, 2022, the Company through its wholly owned U.S. subsidiary, Flight, closed the acquisition of Altitude through payment of cash in the amount of $87,245 and the issuance of 67,031,032 common shares in of Cathedral for total consideration of $124,112. Additionally, the Company assumed lease liabilities and a deferred tax liability. The common shares are subject to contractual restrictions on resale over a period of four to sixty months.

Altitude was 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. The Company continues to use the Altitude name and brand in the U.S. Cathedral's former U.S. directional drilling business has been integrated into Altitude's business.

The Company acquired intangible assets of $35,720 as part of the acquisition including customer relationships, non-compete agreements and brand name. The fair values of customer relationships, non-compete agreements and brand name acquired in the business acquisition were determined using an income approach. The customer relationships and non-compete agreements were fair valued using the multi-period excess earnings and with-and-without methods, respectively. The valuation methods are based on the discounted cash flows expected to be derived from the ownership of the assets. To estimate the fair value of the brand name acquired, the relief from royalty method was applied to forecast revenue using an appropriate notional royalty rate.

The goodwill of $37,753 recorded for the Altitude acquisition consists mainly of the value of the expertise and reputation of the assembled workforce acquired, future growth opportunities, the geographic location of the acquiree and potential synergies arising in the form of cost savings. For U.S. tax purposes, approximately 70% of the goodwill will be deducted over 15 years based on cash paid as consideration.

For the period of July 14 to December 31, 2022, the acquired entity generated revenues of $136,140 and operating income before interest of $18,135. Revenues and operating profit for the period of January 1 to July 13, 2022 were $130,518 and $16,659, respectively.

The Company has expensed $1,439 in costs related to this transaction.

Ensign Energy Services Canadian directional drilling business

On October 26, 2022, the Company acquired the operating assets and personnel of Ensign Energy Services' Canadian directional drilling business for a purchase price of $5,965 through the issuance of 7,017,988 common shares of Cathedral. In addition to a four-month statutory hold period, the common shares are subject to contractual restrictions of resale as follows: 25% were restricted until April 26, 2023; a further 25% were restricted until October 26, 2023; and a further 50% are restricted until October 26, 2024, subject to certain exceptions.

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

The Company has expensed $43 in costs related to this transaction.

OUTLOOK

The year 2023 has started with a weakening of key oil and natural gas pricing vs the last update provided in the Q3 MD&A. WTI oil prices spent most of 2022 above USD $75/bbl and bottomed in 2022 Q4 at approximately $71/bbl. The first quarter of 2023 has seen WTI trade in a general range between USD $65 and $80/bbl – a level that remains economic for the vast majority of our customer E&P companies. A somewhat slow return of Chinese economic activity from the COVID demand shock of 2020-2022 and oil market fears of aggressive central bank interest rate tightening regimes has caused a steady erosion of near-term confidence in oil pricing.

More importantly, the collapse of key North American natural gas pricing markers starting in late December 2022 and continuing to the end of March 2023 has raised fears that aggregate oilfield service sector demand will be impacted beyond the initial E&P re-allocation of capital expenditures from natural gas-focused programs to oil-focused programs. Specifically, U.S. NYMEX ended 2022 falling toward USD $4.50/mmbtu and then immediately breached that level in early 2023 to eventually test $2.06/mmbtu in February 2023 and $2.00/mmbtu toward the end of March. For context, the highwater mark for U.S. natural gas prices was over $10.00/mmbtu in August 2022 amidst fears of insufficient European natural gas in storage for the upcoming winter, a situation that did not materialize amidst a warm European winter. The effect of much lower U.S. NYMEX pricing has been a modest rollover in the U.S. land drilling rig count. Energy equities typically show weakness amidst falling commodity prices and rig counts due to fears of possible pricing weakness in various oilfield service subsectors.

More recently, the prospect of a U.S. regional banking crisis has invoked the ghosts of the global financial crisis of 2008-2009, which was not a kind event to global commodity prices. It is unclear what effect if any the failure of certain U.S. regional banks will have on investor confidence, interest rate policy by the U.S Federal Reserve and other global central banks, but for now commodity prices are reflecting nervousness around commodity demand. As noted earlier, the U.S. land rig count has fallen marginally since the beginning of the year – recently at 734 (Source: Baker Hughes) or down 4% from the year-ending 2022 level of 764 active rigs. Viewed instead through the lens of oil vs natural gas-directed drilling, the decline has been entirely on the "oil" side although occasionally some "oil-directed" rigs have economics more exposed to a fall in natural gas liquids (NGL) pricing. Declines in activity have shown up principally in the Permian, Haynesville and the Marcellus plays of the U.S. Broken down by E&P client-type, almost all of the drilling pull-back appears to be among private E&P companies (Source: Stifel FirstEnergy) who tend to be more commodity price-sensitive. Despite the recent minor weakening in field activity, on a year-to-date average basis through the first fourteen weeks, the U.S. land rig count has averaged 743 active rigs in 2023 Q1, up 19% from YTD in 2022 Q1 – much better than many observers realize.

In Canada, the first quarter has been very active for Cathedral and the industry. First quarter drilling levels are typically the strongest each year due to cold weather and favorable land access amidst newly-replenished E&P company capital budgets. The Western Canadian active rig count started the current year at less than 100 via the holiday season lull and rose quickly in January to over 250 before slowly rolling over in early March as first quarter E&P budgets were fully spent. Note that the peak of over 250 active rigs this winter compares favorably to 235 peak active Western Canadian rigs in 2022 Q1. Natural gas-directed drilling has been somewhat more prevalent this winter, with particular year over year growth in the natural gas and gas liquids prone Montney area - up 16% year over year. The Montney will be an important source area for the LNG Canada project set to ship first gas sometime in late-2024 or early-2025.

A consensus of seven Canadian-based energy research analysts points to approximately 17.5% growth in the Canadian drilling rig count in 2023 Q1 vs 2022 Q1 and approximately 23% year over year growth in the U.S. land rig count. [Source: ATB Capital, BMO Capital Markets, Stifel FirstEnergy, National Bank Financial, Peters & Co, Raymond James, TD Securities] For 2023 as a whole, this group of analysts sees an average Canadian rig count of 184 for 2023, up 13.5% from 162 in 2022. Similarly, the consensus of this group is 763 active U.S. land rigs in 2023 vs 705 in 2022, growth of 8.2%. We believe that an expanded North American footprint and diverse client base helps ensure limited changes in spending trends by select customers do not have an outsized impact. Cathedral also has the ability to move some of its assets within a broad national market such as Canada or the U.S. as well as cross-border if the need arises.

Notwithstanding the modest pull-back in U.S. land rig activity, Cathedral remains optimistic on the mid- and longer-term opportunity set in this market. Our strong position in the Permian and U.S. Rockies gives the company an excellent base to expand operations further in other active areas such as the Haynesville deep gas play once natural gas prices recover and as more U.S. LNG export projects receive a positive FID (final investment decision).

Cathedral remains very constructive on Canada as well, especially with the steady progress being made on the build-out of LNG Canada phase one (Trains I and II). Drilling activity has already increased as part of the significant effort needed to fill the plant with sufficient volumes by 2025. Cathedral has a very strong position in the Canadian Montney and Deep Basin, areas that are targeted for key, strategic LNG supply. In short, Cathedral has exposure to all the major growth plays in North America and we will continue to look for ways to grow that exposure in the quarters and years to come. Acquisition opportunities serve to accelerate growth beyond the organic potential already built within the current platform.

RESULTS OF OPERATIONS - 2022 COMPARED TO 2021

The Company has two operating segments based on its geographic operating locations of Canada and U.S. and a non-operating segment, for joint corporate costs ("Corporate services"). The Company determines its reportable segments based on internal information regularly reviewed by management to allocate resources and assess performance. The Corporate services segment is comprised of costs which are managed on a group basis and are not allocated to the operating segments. The Corporate services segment primarily consists of general and administrative expenses, foreign exchange gains (losses), interest expenses and acquisition and reorganization costs.

Year ended December 31,		2022		2021
Revenue				
Canada	$	117,683	$	45,961
United States		180,718		16,563
Total revenue	$	298,401	$	62,524
Cost of sales		(243,419)		(63,556)
Gross margin	$	54,982	$	(1,032)
Gross margin %		18%		-2%
Adjusted gross margin (1)	$	84,291	$	11,429
Adjusted gross margin % (1)		28%		18%
Income (loss) before income taxes				
Canada	$	9,142	$	(1,711)
United States		31,108		(3,610)
Corporate services		(17,289)		(3,305)
Total	$	22,961	$	(8,626)

(1) Refer to "NON-GAAP MEASUREMENTS"

Revenues and cost of sales

2022 revenues were $298,401, which represented an increase of $235,877 or 377% from revenues of $62,524 in 2021. The increases were due to 2022 acquisitions, a full year's operation for 2021 acquisitions and internal growth.

Gross margin for 2022 was 18% compared to negative 2% in 2021. Adjusted gross margin (see Non-GAAP Measurements) for 2022 was $84,291 or 28% compared to $11,429 or 18% for 2021.

Adjusted gross margin, as a percentage of revenue, increased due to lower field labour and a reduction in fixed costs as percentage of revenue partially offset by increased third-party equipment rental costs.

Depreciation of equipment allocated to cost of sales increased to $28,687 in 2022 from $12,372 in 2021 due to capital additions, including from the acquisitions in 2022. Depreciation included in cost of sales as a percentage of revenue was 10% for 2022 and 20% in 2021.

Canadian segment

The Canadian segment has significantly increased its operating results due to internal growth, 2022 acquisitions and a full year of operation of the 2021 acquisitions.

Canadian revenues increased to $117,683 in 2022 from $45,961 in 2021; an increase of $71,722 or 156%. This increase was the result of: i) a 104% increase in activity days to 10,844 in 2022 from 5,325 in 2021 and ii) a 26% increase in the average day rate to $10,852 in 2022 from $8,631 in 2021.

Based on publicly disclosed Canadian drilling and directional drilling days, Cathedral's market share for 2022 was 22.5% compared to 18.1% in 2021. The increase in day rates was to compensate for escalating operating costs, including field labour rates.

Canadian adjusted gross margin, as a percentage of revenue increased to 28.5% from 26% as lower field labour, repairs, trucking and a reduction in fixed costs as percentage of revenue which were partially offset by increased third-party equipment rental costs.

U.S. segment

The U.S. segment has significantly increased as a result of acquisitions completed in 2022.

U.S. revenues increased to $180,718 in 2022 from $16,563 in 2021, an increase of $164,155 or 991%. This increase was the result of: i) an 435% increase in activity days to 6,818 in 2022 from 1,274 in 2021; and ii) a 104% increase in the average day rate to $26,506 in 2022 from $13,001 in 2021 (when converted to Canadian dollars). Day rates in USD increased to $19,986 compared to $10,385 primarily due to the change in client mix and type of work performed.

Based on publicly disclosed U.S. drilling rig activity, Cathedral's U.S. market share for 2022 was 3.4% compared to under 1% in 2021.

U.S. adjusted gross margin as a percentage of revenues was 28% in 2022 compared to negative 3% in 2021 due to lower field labour, repairs and a reduction in fixed costs as percentage of revenue, partially offset by higher third-party equipment rental expenses.

Selling, general and administrative ("SG&A") expenses SG&A expenses were $31,707 in 2022; an increase of $23,238 or 274% compared with $8,469 in 2021. Depreciation and amortization charged to SG&A was $3,009 (1% of revenues) compared to $535 (1% of revenues) in 2021. SG&A excluding non-cash items as percentage of revenue was 9% compared to 12% in 2021.

There were increases in SG&A wages, commissions, insurance and general increase in all other expenses, such as travel and promotion, which had been reduced to minimal levels due to COVID-19. Most year-over-year increases related to 2022 acquisitions.

Technology group expenses Technology group expenses were $1,271 in 2022; an increase of $524 compared with $747 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 $13,492 compared to $2,681 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 $21,795 (2021 - $3,553).

Finance costs Finance costs consisting of interest expenses on loans and borrowings and bank charges were $5,290 for 2022 compared to $196 for 2021. The Company incurred fees of $1,508 related to the Syndicated Facility of which was recognized as finance costs during the year ended December 31, 2022. The remaining increase is due to the increased debt level due to the acquisitions and increases in interest rates.

Finance costs lease liability Lease liability interest decreased slightly to $784 from $794.

Foreign exchange The Company had a foreign exchange loss of $2,180 in 2022 compared to a gain of $277 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 loss is an unrealized loss of $1,802 (2021 – gain of $366) related to intercompany balances.

Acquisition and restructuring costs Acquisition and restructuring costs were $4,174 in 2022 compared to $960 in 2021. These costs consist of professional and consulting fees incurred on business combinations and subsequent restructuring costs, including severance.

Impairment and direct write-downs In 2022, there was a write-down of inventory of $107 related to certain inventory items that were classified by management as slow moving. In 2021, there was a reversal on a U.S. right of use asset that was subleased in the amount of $768 and partially offset by write-down of inventory of $154 for a net reversal of $614. The inventory write-down relates to parts that are unlikely to be used to repair the Company's tools.

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

LIQUIDITY AND CAPITAL RESOURCES

Overview On an annualized basis, the Company's principal source of liquidity is cash generated from operations and proceeds from equipment lost-in-hole. In addition, the Company has the ability to fund liquidity requirements through its credit facility and the issuance of debt and/or equity. Cash flow – operating activities for the year ended December 31, 2022 was a source of cash of $23,960 compared to a use of cash of ($3,499) in 2021. This change was primarily due to increases in cash flow from improved drilling activity in 2022 and Cathedral's increase in Canadian and U.S. market share. Cathedral intends to use the free cash flow generated in 2023 to continue to pay down debt while remaining opportunistic in making strategic, accretive acquisitions.

Working capital At December 31, 2022, the Company had working capital of $44,712 (December 31, 2021 - $14,117).

Contractual commitments and contingencies As at December 31, 2022, the Company's contractual commitment to purchase property, plant and equipment is approximately $5,556. Cathedral anticipates expending these funds in 2023 Q1 and Q2 subject to supply chain delays. The Company also holds six letters of credit totaling $1,920 related to rent payments, corporate credit cards and a utilities deposit.

The following table outlines the anticipated payments related to contractual commitments subsequent to December 31, 2022:

	Total	2023	2024	2025	2026	2027	Thereafter
Property, plant and equipment purchase obligations	$ 5,556	$ 5,556	$ -	$ -	$ -	$ -	$ -
Loans and borrowings	80,535	14,900	14,900	50,100	100	100	435
Finance lease liabilities	17,880	3,631	3,054	3,001	2,614	1,477	4,103
Total	$ 103,971	$ 24,087	$ 17,954	$ 53,101	$ 2,714	$ 1,577	$ 4,538

The Company is involved in various 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 At April 14, 2023, the Company has 225,227,967 common shares, 19,377,667 common share purchase warrants and 18,302,400 options outstanding with a weighted average exercise price of $0.36.

Related party transactions Cathedral has determined that the key management personnel of the Company consists of its executive officers and directors. In addition to their salaries and director's fees, the Company also provides non-cash benefits to directors and executive officers including participation in the Company's share option program.

Certain executive officers have employment agreements. Upon resignation at the Company's request, they are entitled to termination benefits including: i) one to two times base salary; ii) one to two times average annual bonus over the past three years; and iii) health, dental, life insurance and disability coverage for twelve to twenty-four months.

Key management personnel (including directors) compensation comprised:

Year ended December 31,		2022		2021
Short-term employment benefits	$	3,135	$	2,033
Share-based compensation		693		198
Total expense recognized as share-based compensation	$	3,828	$	2,231

Directors and executive officers of the Company own approximately 21% (2021 - 7%) of the common shares of the Company. The CEO of the Company also held a loan owed to the Company related to a private placement of $130 as at December 31, 2022 which was subsequently repaid.

Prior to the acquisition of LEXA, in 2022, Cathedral paid LEXA consulting fees in the amount of $494, reimbursement of expenses of $16 and $692 for a technology licensing agreement under which LEXA allowed Cathedral access to specific technologies. As part of Cathedral's acquisition of LEXA, Rod Maxwell, a director of Cathedral, exchanged his 9.02% ownership of LEXA for 159,836 common shares of Cathedral.

The Company's wholly-owned subsidiary, Altitude, pays its landlord USD$11 per month (including property tax and insurance recovery) for an operating facility in Casper, Wyoming. The landlord is owned by three individuals who are either an employee, officer or director of Cathedral. The rental terms included in the underlying lease are at market rates and the lease expires October 1, 2023. As at December 31, 2022, there are no amounts owed by or due to the landlord.

There are no other transactions over the reporting period with key management personnel (2021 - nil), and no other outstanding balances exist as at period end (2021 - nil).

2022 CAPITAL PROGRAM

During the year ended December 31, 2022, the Company invested $31,282 (2021 - $5,617) in property, plant and equipment (excluding additions through acquisitions).

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

Year ended December 31,		2022		2021
Additions:				
Motors and related equipment	$	12,561	$	3,495
MWD and related equipment		14,491		2,107
Other		4,230		15
Total capital additions	$	31,282	$	5,617

The additions of $31,282 (2021 - $5,617) were partially funded by proceeds on disposal of property, plant and equipment of $21,795 (2021 - $3,553).

2023 CAPITAL PROGRAM

The Company's estimated 2023 net capital plan is $46,000, excluding any potential acquisitions. This represents an increase to preliminary guidance of $35,000 released in our 2022 Q3 interim report. The additional funds are targeted at growing our high-performance mud motor, MWD and rotary steerable technology in both Canada and the U.S. The increase in budget is reflective of the opportunities to deploy capital at rates of return that exceed our cost of capital and is evidence of our confidence around 2023 activity levels in North America. Cathedral intends to fund it's 2023 capital plan from cash flow from operating activities along with proceeds on equipment lost-in-hole.

RESULTS OF OPERATIONS – THREE MONTHS ENDED DECEMBER 31

Revenues and operating expenses

Three months ended December 31,		2022		2021
Revenue				
Canada	$	42,673	$	18,535
United States		85,845		5,175
Total revenue	$	128,518	$	23,710
Cost of sales		(103,929)		(22,992)
Gross margin	$	24,589	$	718
Gross margin %		19%		3%
Adjusted gross margin (1)	$	35,551	$	4,064
Adjusted gross margin % (1)		28%		17%
Income (loss) before income taxes				
Canada	$	3,882	$	(213)
United States		17,197		(14)
Corporate services		(5,526)		(870)
Total	$	15,553	$	(1,097)

(1) Refer to "NON-GAAP MEASUREMENTS"

Revenues and cost of sales

2022 Q4 revenues were $128,518, which represented an increase of $104,808 or 442% from 2021 Q4 revenues of $23,710. The increases were due to 2022 acquisitions and internal growth.

Gross margin for 2022 Q4 was 19% compared to 3% in 2021 Q4. Adjusted gross margin (see Non-GAAP Measurements) for 2022 Q4 was $35,551 or 28% compared to $4,064 or 17% for 2021 Q4.

Adjusted gross margin, as a percentage of revenue, increased due to lower field labour and a reduction in fixed costs as percentage of revenue partially offset by increased repairs and third-party equipment rental costs.

Depreciation of equipment allocated to cost of sales increased to $10,660 in 2022 Q4 from $3,323 in 2021 Q4 due to property, plant and equipment additions, including acquisitions in 2022. Depreciation included in cost of sales as a percentage of revenue was 8% for 2022 Q4 and 14% in 2021 Q4.

Canadian segment

The Canadian segment has significantly increased its operating results due to internal growth and 2022 acquisitions.

Canadian revenues increased to $42,673 in 2022 Q4 from $18,535 in 2021 Q4, an increase of $24,138 or 130%. This increase was the result of: i) a 83% increase in activity days to 3,617 in 2022 Q4 from 1,974 in 2021 Q4 and ii) a 26% increase in the average day rate to $11,798 in 2022 Q4 from $9,390 in 2021 Q4.

Based on publicly disclosed Canadian drilling and directional drilling days, Cathedral's market share for 2022 Q4 was 27.8% compared to 18.1% in 2021 Q4. The increase in day rates was due to an increase in day rates to compensate for escalating operating costs, including field labour rates.

Canadian adjusted gross margin as a percentage of revenue were 28% in 2022 Q4 compared to 21% in 2021 Q4. This increase was due to lower third-party equipment rental costs and a reduction in fixed costs as a percentage of revenue, partially offset by higher repair expenses.

U.S. segment

The U.S. segment has significantly increased as a result of acquisitions completed in 2022.

U.S. revenues increased to $85,845 in 2022 Q4 from $5,175 in 2021 Q4, an increase of $80,670 or 1,559%. This increase was the result of: i) an 769% increase in activity days to 3,205 in 2022 Q4 from 369 in 2021 Q4; and ii) a 91% increase in the average day rate to $26,785 in 2022 Q4 from $14,026 in 2021 Q4 (when converted to Canadian dollars).

Based on publicly disclosed U.S. drilling rig activity, Cathedral's U.S. market share for 2022 Q4 was 6.3% compared to under 1% in 2021 Q4. Day rates in USD increased to $19,721 compared to $11,152 primarily due to the change in client mix and type of work performed.

U.S. adjusted gross margin as a percentage of revenues were 28% in 2022 Q4 compared to 2% in 2021 Q4. This increase was due to due to lower field labour, repairs and a reduction in fixed costs as percentage of revenue, partially offset by higher third-party equipment rental expenses.

Selling, general and administrative ("SG&A") expenses SG&A expenses were $11,535 in 2022 Q4; an increase of $8,735 compared with $2,800 in 2021 Q4. Depreciation and amortization charged to SG&A was a recovery of $635 compared to expense of $134 in 2021 Q4. SG&A excluding depreciation and amortization as percentage of revenue was 9% compared to 11% in 2021 Q4.

There were increases in SG&A wages, commissions, insurance and general increase in all other expenses, such as travel and promotion, which had been reduced to minimal levels due to COVID-19. Most year-over-year increases related to 2022 acquisitions.

Technology group expenses Technology group expenses were $418 in 2022 Q4, an increase of $204 compared with $214 in 2021 Q4. Technology group expenses are related to new product development and supporting and upgrading existing technology. Technology group expenses consist of salaries and related benefits and burdens as well as shop supplies.

Gain (loss) on disposal of equipment During 2022 Q4, the Company had a gain on disposal of equipment of $6,937 compared to $664 in 2021 Q4. These gains are mainly related to equipment lost-in-hole. Proceeds from clients on lost-in-hole equipment are based on amounts specified in service agreements. The timing of lost-in-hole recoveries is not in the control of the Company and therefore can fluctuate significantly from quarter-to-quarter. In 2022 Q4, the Company received proceeds on disposal of equipment of $10,501 (2021 Q4 - $1,275).

Finance costs Finance costs consisting of interest expenses on loans and borrowings and bank charges were $3,266 for 2022 Q4 compared to net recovery ($53) for 2021. The Company incurred fees of $1,424 related to the Syndicated Facility of which was recognized as finance costs during the year ended December 31, 2022. The remaining increase is due to the increased debt level due to the acquisitions and increases in interest rates.

Finance costs lease liability Lease liability interest increased slightly to $200 from $189.

Foreign exchange The Company had a foreign exchange gain of $737 in Q4 2022 compared to $78 in Q4 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 Q4 foreign currency gain is an unrealized gain of $709 (2021 Q4 – $136) related to intercompany balances.

Acquisition and restructuring costs Acquisition and restructuring costs were $1,184 in 2022 Q4 compared to $21 in 2021 Q4. These costs consist of professional and consulting fees incurred on business combinations and subsequent restructuring costs, including severance.

Impairment and direct write-downs In 2022, there was a write-down of inventory of $107 related to certain inventory items that were classified by management as slow moving. In 2021, there was a reversal on a U.S. right of use asset that was subleased in the amount of $768 and partially offset by write-down of inventory of $154 for a net reversal of $614. The inventory write-down relates to parts that are unlikely to be used to repair the Company's tool.

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

SUMMARY OF QUARTERLY RESULTS

Three months ended	Dec 2022	Sept 2022	Jun 2022	Mar 2022	Dec 2021	Sep 2021	June 2021	Mar 2021
Revenues	$ 128,518	$ 107,846	$ 27,652	$ 34,385	$ 23,710	$ 20,127	$ 7,322	$ 11,365
Adjusted EBITDAS (1)	$ 30,284	$ 28,065	$ 2,865	$ 6,913	$ 1,273	$ 5,170	$ (2,683)	$ 825
Adjusted EBITDAS (1) per share - diluted	$ 0.13	$ 0.14	$ 0.02	$ 0.07	$ 0.02	$ 0.07	$ (0.05)	$ 0.02
Net income (loss)	$ 10,270	$ 8,658	$ (2,824)	$ 2,243	$ (1,097)	$ 403	$ (5,846)	$ (2,086)
Net income (loss) per share - diluted	$ 0.05	$ 0.04	$ (0.02)	$ 0.02	$ (0.01)	$ 0.01	$ (0.11)	$ (0.04)

(1) Refer to MD&A: see "NON-GAAP MEASURMENTS"

A portion of the Company's operations is carried on in western Canada where activity levels in the oilfield services industry are subject to a degree of seasonality. Operating activities in western Canada are generally lower during "spring breakup" which normally commences in mid to late March and continues through to mid to late May. Operating activities generally increase in the fall and peak in the winter months from December until early to mid-March. Additionally, volatility in the weather and temperatures not only during this period, but also year-round, can create additional unpredictability in operational results. Activity levels in the oil and natural gas basins in the U.S. are not subject to the seasonality to the same extent that it occurs in western Canada.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company's audited consolidated financial statements have been prepared in accordance with IFRS and significant accounting policies utilized by the Company are described in note 3 to the Company's audited consolidated financial statements. Management believes the accounting principles selected are appropriate under the circumstances and the Audit Committee of the Company has approved the policies selected.

Under IFRS, the Company is required to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the audited consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The estimates and assumptions utilized are based on experience and other information available to management at the time the estimate or assumption is made. The estimates and assumptions used by management are constantly evaluated for relevance under the circumstances and if circumstances on which the estimates or assumptions were based change, the impact is included in the results of operations for the period in which the change occurs. Management believes the estimates, judgments and assumptions involved in its financial reporting are reasonable.

The following accounting policies require management to make significant judgments and estimates in the preparation of the Company's audited consolidated financial statements, and as such, are considered critical.

(i) Fair value

A number of Cathedral’s accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Typically, fair values would be determined based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

The fair value of the share options and warrants is measured using the Black-Scholes option-pricing model. Measurement inputs include the share price on measurement date, the exercise price of the instrument, the expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), the weighted average expected life of the instruments, the expected dividends, forfeiture rate per annum and the risk-free interest rate (based on government bonds).

(ii) Acquisition accounting for property, plant and equipment goodwill, and intangible assets

The determination of fair value is estimated based on information available at the date of acquisition and requires management to make assumptions and estimates about future events. The assumptions and estimates with respect to determining the fair value of property, plant and equipment, intangible assets and right-of-use assets and associated lease obligations generally require significant judgment. Changes in any of the assumptions or estimates used in determining the fair value of acquired assets and liabilities could impact the amounts assigned to assets, liabilities, and goodwill. Future income (loss) will be affected as the fair value on initial recognition impacts future depreciation and amortization, asset impairment or reversal, or goodwill impairment.

The measurement of the estimated fair value of acquired property, plant, and equipment and certain acquired intangible assets is based on a combination of approaches including consideration for the estimated market value of the assets and market conditions at the date of acquisition. The value-in-use of certain intangible assets has been estimated using the forecasts prepared by management.

The key assumptions for the estimates are those regarding revenue growth, earnings before interest, taxes, depreciation and amortization margin, tax rates, discount rates, customer attrition, royalty rates and the level of working capital required to support the business. The income approach has been used to estimate the fair value of certain intangibles using the forecasts prepared by management.

With respect to the acquisition of Altitude Energy Partners, LLC, the Company engaged an independent third-party valuator to assist in estimating the fair value of the acquired property, plant and equipment. For Altitude Energy Partners, LLC and Discovery Downhole Services, the Company also engaged an independent third-party valuator to assist in estimating the fair value of the acquired intangible assets.

(iii) Income tax

The computation of income taxes involves many complex factors as well as the Company's interpretation of relevant tax legislation and regulations. The Company’s tax-filing positions are subject to review by taxation authorities who may successfully challenge the Company's interpretation of the applicable tax legislation and regulations.

The Company determines its deferred tax asset and liabilities using temporary differences between the accounting basis and the tax basis of its assets and liabilities, which are measured using substantively enacted tax rates and laws expected to apply when these differences reverse. As a result, an estimated projection of taxable income, as well as an assumption of the ultimate recovery/settlement period for the temporary differences is required.

The Company must also determine if various tax pool amounts should be recorded as a deferred tax asset based on their availability for future use and future tax status based on management's expectations. The Company also reviews all tax assessments to determine which are deemed more likely than not to result in a change in provision. As such, the provisions for current and deferred income taxes are subject to measurement uncertainty.

(iv) Contingent liabilities

Provisions are recognized in accrued liabilities when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period and are discounted to present value as applicable. As well, the Company performs reviews to identify onerous contracts and, where applicable, records provisions for such contracts.

(v) Impairments

Property, plant and equipment, goodwill and intangibles are assessed for impairment when there is indication their carrying amounts may exceed the recoverable amounts. Significant judgement is required to assess when indicators of impairment exist, and impairment testing is required. The assessment of indicators of impairment is based on management's judgment of whether there are internal and external factors. These factors include future cash flows, expected industry activity levels, commodity price developments and market capitalization. Goodwill is tested on an annual basis.

Impairment tests are carried out at the level of the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit", or "CGU"). The determination of a CGU is also based on management's judgment. The asset composition of a CGU can directly impact the recoverability of assets included within the CGU. Management has determined that the appropriate CGUs for the Company are the Canadian Operations and the U.S. Operations. The recoverable amounts of each CGU requires estimates and assumptions that are subject to change as new information becomes available. These include estimates of future cash flows, growth rates, pre-tax discount rates as well as various estimates and assumptions used in the preparation of revenues and expenses used in the cash flow analysis.

Goodwill is allocated to a CGU or group of CGUs for impairment testing based upon the level at which it is monitored by management, and not at a level higher than an operating segment.

The Company's corporate assets do not generate separate cash inflows and cash outflows are allocated to CGUs. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

Inventory is reviewed periodically in order to determine if there is obsolescence. A detailed impairment test is performed if indicators of impairment are present such as a fixed asset impairment test has been performed due to changes in the operating environment including industry down-turn or Company specific activity decreases; the useful life of an asset class has been lowered as that may indicate that assets are in less demand and could lead to concerns over inventory turn-over; or a significant new product line has been introduced and it is expected that an existing asset class's utilization will be impacted. In assessing any impairment, management considers historic use of the inventory item as well as estimates of future demand.

(v) Credit losses

Trade accounts receivable require estimates to be made regarding the financial stability of the Company's customers and the environment in which they operate in order to assess if accounts receivable balances will be received. Credit risks for outstanding accounts receivable are assessed regularly and an allowance for doubtful accounts is recorded based upon specific customer information and experience as well as for groups of similar assets.

CONTROLS AND PROCEDURES

In order to ensure that information with regard to reports filed or submitted under securities legislation present fairly in all material respect the financial information of the Company, management including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") are responsible for establishing and maintaining disclosure controls and procedures, as well as internal controls over financial reporting based upon The Committee of Sponsoring Organizations of the Treadway Commission (2013 framework).

Disclosure controls and procedures The Company's disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Company is reported within the time periods specified under securities laws, and include controls and procedures that are designed to ensure that information is communicated to management of the Company, including the CEO and CFO, to allow timely decisions regarding required disclosure. An evaluation of the effectiveness of the Company's disclosure controls and procedures (as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual Financial and Interim Filings) was conducted as at December 31, 2022. Based on this evaluation, the CEO and CFO of Cathedral have concluded that the design and operation of the Company's disclosure controls and procedures were effective as at December 31, 2022.

Internal controls over financial reporting Management is responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The CEO and CFO have designed or have caused such internal controls over financial reporting (as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual Financial and Interim Filings) to be designed under their supervision to provide reasonable assurance regarding the reliability of financial reporting and preparation of the Company's financial statements for external purposes in accordance with IFRS. In addition, the CEO and CFO directed the assessment of the design and operating effectiveness of the Company's internal controls over financial reporting as at December 31, 2022 and based upon that assessment determined that the Company's internal controls over financial reporting were, in all material respects, appropriately designed and operating effectively.

Management of the Company believe that "cost effective" disclosure controls and procedures and internal controls over financial reporting, no matter how well conceived or implemented, can only provide reasonable assurance, and not absolute assurance, that the objective of controls and procedures are met. Because of inherent limitations, disclosure controls and procedures and internal control over financial reporting may not prevent errors or fraud.

Cathedral has limited the scope of design of DC&P and ICFR to exclude controls, policies and procedures of Altitude Energy Partners, LLC which was acquired on July 13, 2022, the financial performance of which is included in the December 31, 2022 audited consolidated financial statements. The scope limitation is in accordance with section 3.3(1)(b) of NI 52-109 which allows an issuer to limit its design of DC&P and ICFR to exclude controls, policies and procedures of a business that the issuer acquired not more than 365 days before the end of the fiscal period.

The table below presents the summary of financial information of Altitude:

		Period from July 13 to December 31, 2022
Revenue	$	136,140
Net income		12,057
Current assets		87,873
Non-current assets		125,936
Current liabilities		66,280
Non-current liabilities		11,117
Capital purchase commitments		4,282

There has been no change in the Company's internal controls over financial reporting during the year ended December 31, 2022 that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

RISK FACTORS

The operations of Cathedral face a number of risks and uncertainties in the normal course of business that may be beyond its control, but which could have a material adverse effect on Cathedral's financial condition, results of operations and cash flows. Many of these risk factors and uncertainties are outlined in the annual information form ("AIF") of Cathedral for the year ended December 31, 2022, which is available on SEDAR at www.sedar.com. Additional risks and uncertainties, including those that the Company does not know about now or that it currently deems immaterial, may also adversely affect its business, financial condition, results of operations or cash flows.

GOVERNANCE

The Audit Committee of the Board of Directors has reviewed this MD&A and the related audited consolidated financial statements and recommended they be approved by the Board of Directors. Following a review by the full Board, the MD&A and audited consolidated financial statements were approved.

SUPPLEMENTARY INFORMATION

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

FORWARD LOOKING STATEMENTS

This MD&A contains certain forward-looking statements and forward-looking information (collectively referred to herein as "forward-looking statements") within the meaning of applicable Canadian securities laws. All statements other than statements of present or historical fact are forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "anticipate", "achieve", "believe", "plan", "intend", "objective", "continuous", "ongoing", "estimate", "outlook", "expect", "may", "will", "project", "should" or similar words suggesting future outcomes. In particular, this MD&A contains forward-looking statements relating to, among other things: future commitments; the 2023 capital program and financing of the program; adding promising MWD technology for U.S. market with LEXA Drilling Technologies acquisition; synergies and significant incremental growth opportunity going forward with the ability to replace third-party MWD equipment rentals with Cathedral-sourced technology in U.S. market; expected revenue capture opportunity for the Company going forward with the addition of Altitude's RSS fleet including four RSS to be added in 2023; expected attractive payback on Discovery acquisition; synergies expected with both Altitude and Discovery operating the same equipment manufacturers tools; benefit for shareholders through acquisitions as Cathedral becomes more investible to a wider audience, able to drive margin expansion through lower unit costs, and further differentiate ourselves in the market through the development and sustainment of leading-edge technology; expected alignment and enhanced longer term returns with vendors taking meaningful quantities of equity that vests over time; intention work with technology partners and resulting value capture; strength of the macro backdrop in the coming years; Cathedral's position to help develop the necessary LNG supply in Canada and U.S. and expected benefits to Cathedral; belief that any capital spending pullbacks by E&P companies will be relatively short-lived; examine ways to add further size and scale in key jurisdictions and with excellent companies, where the potential to be part of a leading consolidator is an attractive next step to an established player in the space; 2023 Q1 activity levels for Cathedral and the industry; growth in the Canadian drilling rig count in 2023 Q1 vs 2022 Q1; growth in the U.S. land rig count; analyst's projections for Canadian and U.S. rig activity for 2023 versus 2022; belief that an expanded North American footprint and diverse client base helps ensure limited changes in spending trends by select customers do not have an outsized impact; the LNG Canada project is set to ship first gas sometime in late-2024 or early-2025; will continue to look for ways to grow that exposure in the quarters and years to come; ability for acquisition opportunities will serve to accelerate growth beyond the organic potential already built within the current platform; expected timing for payment of capital assets commitments; and intent to use free cash flow to pay down debt while remaining opportunistic in making strategic, accretive acquisitions.

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

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

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

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

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

MANAGEMENT'S REPORT

The consolidated financial statements have been prepared by the management in accordance with International Financial Reporting Standards ("IFRS") which is the basis for Canadian generally accepted accounting principles and, where appropriate, reflect estimates based upon management's judgment. Financial information contained elsewhere in the annual report has been prepared on a consistent basis with that in the consolidated financial statements. Additionally, management prepares the Management's Discussion and Analysis ("MD&A"). The MD&A is based on the Company's financial results prepared in accordance with IFRS. The MD&A compares the audited financial results for the years ended December 31, 2022 and December 31, 2021.

Management is also responsible for a system of internal controls which is designed to provide reasonable assurance that the Company's assets are safeguarded and accounting systems provide timely, accurate financial reports.

The Audit Committee of the Board of Directors, which is comprised of four independent directors who are not employees of the Company, has reviewed in detail the consolidated financial statements with management and the external auditor. The Board of Directors has approved the consolidated financial statements on the recommendation of the Audit Committee.

KPMG LLP, an independent firm of chartered professional accountants, have examined the Company's consolidated financial statements in accordance with Canadian generally accepted auditing standards and provided an independent professional opinion. The auditors have full and unrestricted access to the Audit Committee to discuss their audit and their related findings as to the integrity of the financial reporting process.

Signed: *"Tom Connors"*
Tom Connors
President and Chief Executive Officer
Cathedral Energy Services Ltd.

Signed: *"Scott MacFarlane"*
P. Scott MacFarlane
Interim Chief Financial Officer
Cathedral Energy Services Ltd.

KPMG LLP
205 5th Avenue SW
Suite 3100
Calgary AB T2P 4B9
Tel 403-691-8000
Fax 403-691-8008
www.kpmg.ca

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Cathedral Energy Services Ltd.

Opinion

We have audited the consolidated financial statements of Cathedral Energy Services Ltd. ("the Entity"), which comprise:

- the consolidated statements of financial position as at December 31, 2022 and December 31, 2021;
- the consolidated statements of comprehensive income (loss) for the years then ended;
- the consolidated statements of changes in shareholders' equity for the years then ended;
- the consolidated statements of cash flows for the years then ended;
- and notes to the consolidated financial statements, including a summary of significant accounting policies.

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2022 and December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS) as Issued by the International Accounting Standards Board (IASB).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditor's Responsibilities for the Audit of the Financial Statements***" section of our auditor's report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our auditor's report.

Evaluation of the acquisition-date fair values of property, plant and equipment ("PP&E") acquired through business combinations

Description of the matter

We draw attention to Notes 2, 3 and 4 to the consolidated financial statements. The Entity acquired PP&E through business combinations in 2022. The acquisition date fair value of PP&E was $17,591 thousand for Discovery Downhole Services ("Discovery"), $8,518 thousand for Compass Directional Services Ltd. ("Compass"), $43,667 thousand for Altitude Energy Partners, LLC ("Altitude"), and $4,175 thousand for Ensign Energy Services' ("Ensign") Canadian directional drilling business. The measurement of the estimated fair value of acquired property, plant, and equipment is based on a combination of approaches, including the market approach, which applies significant assumptions related to the price at which comparable assets would be sold.

The Entity engaged an independent third-party valuator to estimate the fair value of the PP&E for the acquisition of Altitude at the acquisition date. The Entity used appraisals available for comparable assets in estimating the fair value of the acquired PP&E for Discovery, Compass and Ensign at the acquisition date.

Why the matter is a key audit matter

We identified the evaluation of the acquisition date fair values of PP&E acquired through business combinations as a key audit matter. Significant auditor judgment was required to evaluate the results of our audit procedures regarding the application of the approach and significant assumptions with respect to the estimated acquisition date fair value of PP&E. In addition, specialized skills and knowledge were required in evaluating the results of our audit procedures.

How the matter was addressed in the audit

The primary procedures we performed to address this key audit matter included the following:

- We evaluated the competence, capabilities and objectivity of the independent third-party valuator engaged by the Entity.
- We involved our valuation professionals with specialized skills and knowledge who assisted in assessing the appropriateness of the application of the valuation approach and the appropriateness of the significant assumptions with respect to the fair values of PP&E estimated by the Entity by comparing the Entity's estimate of acquisition date fair value of acquired PP&E to a depreciated replacement cost that was independently developed using market data for comparable assets.

Evaluation of the acquisition-date fair value of intangible assets acquired through the Altitude business combination

Description of the matter

We draw attention to Notes 2, 3 and 4 to the consolidated financial statements. The Entity acquired Altitude for total consideration of $124,112 thousand. As a result of the transaction, the Entity acquired customer relationships, brand names, non-compete agreements and rotary steerable system technology (collectively, the intangible assets). The acquisition-date fair value of the intangible assets was $35,720 thousand. The fair values of customer relationships, brand names, and non-compete agreements were determined using an income approach. Use of the income approach required the Entity to make significant assumptions about the future cash flows associated with the acquired assets, discount rates, customer attrition rates, and royalty rates. Minor changes to these assumptions could have resulted in a significant impact to the fair value of intangible assets acquired.

The Entity engaged an independent third-party valuator for the acquisition of Altitude to assist in estimating the fair value of intangible assets acquired.

Why the matter is a key audit matter

We identified the evaluation of the acquisition-date fair value of intangible assets acquired through the Altitude business combination as a key audit matter. This matter represented an area of significant risk of material misstatement as minor changes to the significant assumptions could have resulted in a significant impact on the fair value of intangible assets acquired. As a result, significant auditor judgment and the involvement of those with specialized skills and knowledge were required in evaluating the results of our audit procedures.

How the matter was addressed in the audit

The primary procedures we performed to address this key audit matter included the following:

We evaluated the competence, capabilities and objectivity of the independent third-party valuator engaged by the Entity.

We compared the Entity's future cash flows to Altitude's historical actual results and estimated customer attrition rates to Altitude's historical customer attrition data. We took into account the changes in conditions to assess the appropriateness of the Entity's cash flow forecasts.

We involved valuation professionals with specialized skills and knowledge, who assisted in:

- Evaluating the appropriateness of the valuation approach and valuation methods used by the Entity to calculate the fair value of the intangible assets.
- Evaluating the appropriateness of the royalty rates used by comparing them against publicly available market data for comparable entities.
- Evaluating the appropriateness of the discount rates used by comparing them against a discount rate range developed by our valuation professionals using publicly available market data for comparable peers.

Assessment of the recoverable amount of goodwill within the U.S. Operations cash generating unit

We draw attention to Notes 2, 3, 4 and 7 to the consolidated financial statements. The Entity acquired Altitude for total consideration of $124,112 thousand. As a result of the transaction, the Entity recorded Goodwill totaling $37,753 thousand. Goodwill is tested for impairment at least annually or more frequently if there is an indicator that a cash generating unit ("CGU") or group of CGUs to which the goodwill relates may be impaired. When the carrying amount of a CGU or group of CGUs to which the goodwill relates exceeds its recoverable amount the goodwill with respect thereto is considered impaired and its carrying amount is reduced to its recoverable amount. The Entity completed the annual goodwill impairment test on the U.S. Operations CGU, which includes the goodwill related to Altitude, for the year-ended December 31, 2022, and determined that goodwill was not impaired. Total goodwill at December 31, 2022 pertaining to the U.S. Operations CGU was $39,395 thousand.

Determining the recoverable amount of a CGU requires the use of estimates and significant assumptions that are subject to change as new information becomes available. The estimated recoverable amount of the U.S. Operations CGU involves certain significant assumptions including the:

- Forecasted revenue growth rate
- Forecasted operating margin before interest, tax, depreciation and amortization ("operating margin")
- Discount rate

Why the matter is a key audit matter

We identified the assessment of the recoverable amount of goodwill within the U.S. Operations CGU as a key audit matter. Significant auditor judgment was required to evaluate the results of our audit procedures regarding the Entity's significant assumptions. In addition, specialized skills and knowledge were required in evaluating the results of our audit procedures.

How the matter was addressed in the audit

The primary procedures we performed to address this key audit matter included the following:

We evaluated the appropriateness of the forecasted revenue growth rate and operating margin used in the estimate of the recoverable amount for the U.S. Operations CGU by:

- Comparing the forecasted 2023 revenue growth rate and operating margin for the U.S. Operations CGU to the 2023 budget for the U.S. Operations CGU to assess consistency with other significant assumptions used by the Entity in other estimates used in the financial statements.
- Comparing the forecasted revenue growth rate and operating margin for the U.S. Operations CGU to historical results and to market metrics and other external data. We took into account changes in conditions and events affecting the U.S. Operations CGU to assess the adjustments, or lack of adjustments, made by the Entity in arriving at the forecasted revenue growth rates and operating margin.

We involved valuation professionals with specialized skills and knowledge, who assisted in:

- Evaluating the appropriateness of the discount rate used by comparing it against a discount rate range developed by our valuation professionals using publicly available market data for comparable peers.

- Assessing the reasonableness of the Entity's estimate of the recoverable amount for the U.S. Operations CGU by comparing the Entity's estimates to market metrics and other external data.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis to be filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditor's report thereon, included in a document entitled "2022 Annual Report".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis and the information, other than the financial statements and the auditor's report thereon, included in the 2022 Annual Report filed with the relevant Canadian Securities Commissions as at the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional scepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.
- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this auditor's report is Jason Grodziski.

KPMG LLP

Chartered Professional Accountants

Calgary, Canada

April 14, 2023

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2022 and 2021
Canadian dollars in '000s

	2022	2021
Assets		
Current assets:		
Cash	$ 11,175	$ 2,898
Trade receivables	113,477	15,609
Prepaid expenses	4,529	1,438
Inventories (note 5)	26,195	8,423
Total current assets	155,376	28,368
Property, plant and equipment (note 6)	108,530	35,044
Intangible assets (note 7)	38,511	1,491
Right of use assets (note 8)	12,178	10,520
Goodwill (note 7)	39,395	-
Total non-current assets	198,614	47,055
Total assets	$ 353,990	$ 75,423
Liabilities and Shareholders' Equity		
Current liabilities:		
Trade and other payables	90,389	11,069
Current taxes payable	909	55
Loans and borrowings, current (note 9)	15,735	1,000
Lease liabilities, current (note 8)	3,631	2,127
Total current liabilities	110,664	14,251
Loans and borrowings (note 9)	64,800	5,035
Lease liabilities, long-term (note 8)	14,249	13,633
Deferred tax liability (note 13)	10,380	-
Total non-current liabilities	89,429	18,668
Total liabilities	200,093	32,919
Shareholders' equity:		
Share capital (note 10)	180,484	98,918
Treasury shares (note 10)	(959)	-
Contributed surplus	15,854	11,793
Accumulated other comprehensive income	17,389	9,011
Deficit	(58,871)	(77,218)
Total shareholders' equity	153,897	42,504
Total liabilities and shareholders' equity	$ 353,990	$ 75,423

See accompanying notes to consolidated financial statements.

Approved by the Directors:

Signed: *"Tom Connors"*
Tom Connors
Director

Signed: *"Ian Brown"*
Ian Brown
Director and Chair of the Audit Committee

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Years ended December 31, 2022 and 2021

Canadian dollars in '000s except per share amounts

	2022	2021
Revenues (note 15)	$ 298,401	$ 62,524
Cost of sales (notes 5 and 12):		
Direct costs	(214,110)	(51,095)
Depreciation and amortization	(28,687)	(12,372)
Share-based compensation	(622)	(89)
Total cost of sales	(243,419)	(63,556)
Gross margin	54,982	(1,032)
Selling, general and administrative expenses (note 12):		
Direct costs	(27,933)	(7,782)
Depreciation and amortization	(3,009)	(535)
Share-based compensation	(765)	(152)
Total selling, general and administrative expenses	(31,707)	(8,469)
Technology group expenses (note 12)	(1,271)	(747)
Gain on disposal of property, plant and equipment	13,492	2,681
Income (loss) from operating activities	35,496	(7,567)
Finance costs	(5,290)	(196)
Finance costs - lease liabilities (note 8)	(784)	(794)
Foreign exchange gain (loss)	(2,180)	277
Acquisition and restructuring costs	(4,174)	(960)
Impairment (expense) recoveries	(107)	614
Income (loss) before income taxes	22,961	(8,626)
Income tax expense (note 13):		
Current	(762)	-
Deferred tax	(3,852)	-
Total income tax expense	(4,614)	-
Net income (loss)	18,347	(8,626)
Other comprehensive income (loss):		
Foreign currency translation differences for foreign operations	8,378	(329)
Total comprehensive income (loss)	$ 26,725	$ (8,955)
Net income (loss) per share (note 11)		
Basic and diluted	$ 0.11	$ (0.13)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Years ended December 31, 2022 and 2021
Canadian dollars in '000s

	Share capital	Treasury shares	Contributed surplus	Accumulated other comprehensive income	Deficit	Total shareholders' equity
Balance at December 31, 2020	**$ 88,155**	**$ -**	**$ 11,071**	**$ 9,340**	**$ (68,592)**	**$ 39,974**
Total comprehensive loss for year ended December 31, 2021	-	-	-	(329)	(8,626)	(8,955)
Issued pursuant to private placements, net of share issue costs (note 10)	3,342	-	34	-	-	3,376
Consideration for business combinations, net of issuance costs (notes 4 and 10)	5,896	-	454	-	-	6,350
Consideration for asset acquisition (notes 4 and 10)	1,500	-	-	-	-	1,500
Issued pursuant to stock option exercise (note 10)	25	-	(7)	-	-	18
Share-based compensation expense	-	-	241	-	-	241
Balance at December 31, 2021	**$ 98,918**	**$ -**	**$ 11,793**	**$ 9,011**	**$ (77,218)**	**$ 42,504**
Total comprehensive income for year ended December 31, 2022	-	-	-	8,378	18,347	26,725
Issued pursuant to private placements, net of share issue costs (note 10)	27,813	-	3,075	-	-	30,888
Consideration for business combinations, net of issuance costs (notes 4 and 10)	51,955	(959)	-	-	-	50,996
Issued pursuant to stock option exercise (note 10)	678	-	(221)	-	-	457
Issued pursuant to warrant exercise (note 10)	1,120	-	(180)	-	-	940
Share-based compensation expense	-		1,387	-	-	1,387
Balance at December 31, 2022	**$ 180,484**	**$ (959)**	**$ 15,854**	**$ 17,389**	**$ (58,871)**	**$ 153,897**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2022 and 2021

Canadian dollars in '000s

	2022	2021
Cash provided by (used in):		
Operating activities:		
Net income (loss)	$ 18,347	$ (8,626)
Items not involving cash		
Depreciation and amortization	31,696	12,907
Share-based compensation	1,387	241
Gain on disposal of property, plant and equipment	(13,492)	(2,681)
Finance costs	5,290	196
Finance costs - lease liabilities	784	794
Impairment expense (recoveries)	107	(614)
Income tax expense	4,614	-
Unrealized foreign exchange (gain) loss on intercompany balances	1,802	(366)
Subtotal	50,535	1,851
Changes in non-cash operating working capital (note 14)	(27,113)	(5,263)
Income tax refunded (paid)	538	(87)
Cash flow - operating activities	23,960	(3,499)
Investing activities:		
Cash paid on acquisitions, net of cash acquired (note 4)	(104,581)	3,000
Property, plant and equipment additions	(30,894)	(5,617)
Intangible asset additions (note 7)	(1,464)	-
Proceeds on disposal of property, plant and equipment	21,795	3,553
Changes in non-cash investing working capital (note 14)	(660)	(59)
Cash flow - investing activities	(115,804)	877
Financing activities:		
Proceeds on unit and common share issue (note 10)	32,285	3,394
Repayments on lease liabilities	(3,134)	(2,234)
Interest paid including lease liabilities	(6,074)	(990)
Repayments of loans and borrowings	(41,438)	(3,924)
Advances on loans and borrowings	115,939	8,399
Payment on settlements	-	(151)
Cash flow - financing activities	97,578	4,494
Effect of exchange rate on changes on cash	2,543	(8)
Change in cash	8,277	1,864
Cash, beginning of year	2,898	1,034
Cash, end of year	$ 11,175	$ 2,898

See accompanying notes to consolidated financial statements.

1. Reporting entity

Cathedral Energy Services Ltd. (“LTD”) is a company domiciled in Canada. The Company is a publicly traded company listed on the Toronto Stock Exchange (“TSX”) under the symbol "CET". The consolidated financial statements of Company as at and for the year ended December 31, 2022 comprise LTD and the following 100% owned subsidiaries:

- Cathedral Energy Services Inc. ("INC");
- 2438155 Alberta Ltd.;
- LEXA Drilling Technologies Inc. (LEXA”);
- CET Flight Holdco, Inc. ("Flight");
- Altitude Energy Holdco, LLC ("AEH"); and
- Altitude Energy Partners, LLC ("Altitude").

LTD along with the above noted subsidiaries together are referred to as the “Company” or “Cathedral”. The Company is primarily involved and engaged in the business of providing directional drilling services to oil and natural gas companies in western Canada and the United States (“U.S.”).

INC, Flight, AEH and Altitude are incorporated in the U.S. and their functional currency is United States dollars (“USD”).

2. Basis of preparation

Statement of compliance

The consolidated financial statements for the years ended December 31, 2022 and 2021 (the “financial statements”) have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (“IASB”). The financial statements were authorized for issue by the Board of Directors on April 14, 2023.

Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis. Certain figures in the comparative year have been reclassified to conform with the current year presentation.

Functional and presentation currency

These financial statements are presented in Canadian dollars ("CAD"), which is the Company’s presentation and functional currency.

Use of estimates and judgments

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Areas that require management to make significant judgment and estimates in determining the amounts recognized in these financial statements include, but are not limited to the following:

(i) Fair value

A number of Cathedral’s accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Typically, fair values would be determined based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

The fair value of the share options and warrants is measured using the Black-Scholes option-pricing model. Measurement inputs include the share price on measurement date, the exercise price of the instrument, the expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), the weighted average expected life of the instruments, the expected dividends, forfeiture rate per annum and the risk-free interest rate (based on government bonds).

(ii) Acquisition accounting for property, plant and equipment goodwill, and intangible assets

The determination of fair value is estimated based on information available at the date of acquisition and requires management to make assumptions and estimates about future events. The assumptions and estimates with respect to determining the fair value of property, plant and equipment, intangible assets, right-of-use assets and associated lease obligations, and deferred tax assets and liabilities generally require significant judgment. Future income (loss) will be affected as the fair value on initial recognition impacts future depreciation and amortization, asset impairment or reversal, or goodwill impairment.

The measurement of the estimated fair value of acquired property, plant, and equipment is based on a combination of approaches, including the market approach, which applies significant assumptions related to the price at which comparable assets would be sold. Minor changes to these assumptions could have resulted in a significant impact to the fair value of property, plant and equipment acquired.

The income approach has been used to estimate the fair value of certain intangibles using the forecasts prepared by management. The measurement of the estimated fair value of acquired intangible assets is based on several significant assumptions including future cash flows associated with the acquired assets, discount rates, customer attrition rates and royalty rates. Minor changes to these assumptions could have resulted in a significant impact to the fair value of intangible assets acquired.

With respect to the acquisition of Altitude Energy Partners, LLC, the Company engaged an independent third-party valuator to assist in estimating the fair value of the acquired property, plant and equipment. The Company used appraisals available for comparable assets in estimating the fair value of the acquired property, plant and equipment for Discovery, Compass, and Ensign at the acquisition date. For Altitude Energy Partners, LLC and Discovery Downhole Services the Company also engaged an independent third-party valuator to assist in estimating the fair value of the acquired intangible assets.

(iii) Income tax

The computation of income taxes involves many complex factors as well as the Company's interpretation of relevant tax legislation and regulations. The Company's tax-filing positions are subject to review by taxation authorities who may successfully challenge the Company's interpretation of the applicable tax legislation and regulations.

The Company determines its deferred tax asset and liabilities using temporary differences between the accounting basis and the tax basis of its assets and liabilities, which are measured using substantively enacted tax rates and laws expected to apply when these differences reverse. As a result, an estimated projection of taxable income, as well as an assumption of the ultimate recovery/settlement period for the temporary differences is required.

The Company must also determine if various tax pool amounts should be recorded as a deferred tax asset based on their availability for future use and future tax status based on management's expectations. The Company also reviews all tax assessments to determine which are deemed more likely than not to result in a change in provision. As such, the provisions for current and deferred income taxes are subject to measurement uncertainty.

(iv) Contingent liabilities

Provisions are recognized in accrued liabilities when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the end of the reporting period and are discounted to present value as applicable. As well, the Company performs reviews to identify onerous contracts and, where applicable, records provisions for such contracts.

(v) Impairments

Property, plant and equipment, goodwill and intangibles are assessed for impairment when there is indication their carrying amounts may exceed the recoverable amounts. Significant judgement is required to assess when indicators of impairment exist, and impairment testing is required. The assessment of indicators of impairment is based on management's judgment of whether there are internal and external factors. These factors include future cash flows, expected industry activity levels, commodity price developments and market capitalization. Goodwill is tested on an annual basis.

Impairment tests are carried out at the level of the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit", or "CGU"). The determination of a CGU is also based on management's judgment. The asset composition of a CGU can directly impact the recoverability of assets included within the CGU. Management has determined that the appropriate CGUs for the Company are the Canadian Operations and the U.S. Operations. The recoverable amounts of each CGU requires estimates and assumptions that are subject to change as new information becomes available. These include estimates of forecasted operating margin before interest, tax, depreciation and amortization; revenue growth rates, pre-tax discount rates as well as various estimates and assumptions used in the preparation of revenues and expenses used in the cash flow analysis.

Goodwill is allocated to a CGU or group of CGUs for impairment testing based upon the level at which it is monitored by management, and not at a level higher than an operating segment.

The Company's corporate assets do not generate separate cash inflows and cash outflows are allocated to CGUs. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

Inventory is reviewed periodically in order to determine if there is obsolescence. A detailed impairment test is performed if indicators of impairment are present such as a fixed asset impairment test has been performed due to changes in the operating environment including industry down-turn or Company specific activity decreases; the useful life of an asset class has been lowered as that may indicate that assets are in less demand and could lead to concerns over inventory turn-over; or a significant new product line has been introduced and it is expected that an existing asset class's utilization will be impacted. In assessing any impairment, management considers historic use of the inventory item as well as estimates of future demand.

(v) Credit losses

Trade accounts receivable require estimates to be made regarding the financial stability of the Company's customers and the environment in which they operate in order to assess if accounts receivable balances will be received. Credit risks for outstanding accounts receivable are assessed regularly and an allowance for doubtful accounts is recorded based upon specific customer information and experience as well as for groups of similar assets. See note 18 "Credit risk" for further details.

3. Significant accounting policies

The accounting policies set out below have been applied consistently by the Company to all periods presented in these financial statements unless otherwise indicated.

Consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries. All inter-company balances and transactions are eliminated on consolidation.

Business combinations

Business combinations are accounted for using the acquisition method at the acquisition date, which is the date that control is transferred to the Company. In assessing control, the Company takes into consideration potential voting rights that are currently exercisable.

Goodwill is measured as the excess of the sum of the fair value of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of any previously held equity interest in the acquiree over the net of the acquisition date fair value of the identifiable assets acquired and the liabilities assumed. If the excess is negative, a bargain purchase gain is recognized immediately in earnings. Transaction costs, other than those associated with the issuance of debt or equity, are recognized in earnings as incurred.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not re-measured, and settlement is accounted for in equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognized in earnings.

When the initial accounting for a business combination has not been finalized by the end of the reporting period in which the combination occurs, the Company reports provisional amounts for the items for which the accounting has not been finalized. These provisional amounts are adjusted during the measurement period, which does not exceed one year from the acquisition date, to reflect new information obtained about facts and circumstances that existed at the acquisition date.

Goodwill

Goodwill arising in a business combination is recognized as an asset at the date that control is acquired. Goodwill is subsequently measured at cost less accumulated impairment losses. Goodwill is not amortized but is tested for impairment at least annually, or more frequently if certain indicators arise that indicate the assets might be impaired. Goodwill is allocated to CGUs or group of CGUs that are expected to benefit from the acquisition.

Foreign currency

(i) Foreign currency transactions

Foreign currency transactions are initially recorded in the Company’s functional currency by applying the appropriate daily rate which best approximates the actual foreign exchange rate of transaction.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the Company’s functional currency at the foreign exchange rate at that date. All differences are recognized in the consolidated statement of comprehensive income.

Non-monetary items are not adjusted and continue to be measured at the foreign exchange rate at the date of the transaction.

(ii) Foreign operations

The assets and liabilities of foreign operations are translated to the Company’s functional currency at foreign exchange rates at the reporting date. The income and expenses of foreign operations are translated to the Company’s functional currency at foreign exchange rates at the dates of the transactions.

Foreign currency differences are recognized in other comprehensive income and cumulative amounts have been recognized in accumulated other comprehensive income (“AOCI”). When a foreign operation is disposed of, the relevant amount in AOCI is transferred to profit or loss.

Financial instruments

Financial assets and liabilities within the scope of IFRS 9 are classified as financial instruments at amortized cost, fair value through profit or loss or fair value through other comprehensive income, as appropriate. The Company determines the classification of its financial instruments at initial recognition, based on trade date. All financial instruments are recognized initially at fair value. The Company’s financial assets and liabilities include cash, trade receivables, operating loan, trade and other payables, leases liability and loans and borrowings. All financial instruments are subsequently measured at amortized cost.

When measuring fair value of a financial instrument, fair values are categorized into three levels based on the valuation technique as follows:

- Level one – quoted prices that are available in active markets for identical financial instruments.
- Level two – observable inputs other than quoted market prices are used to value the financial instruments. Level two valuations are based on inputs which can be substantially observed or corroborated in the marketplace.
- Level three – valuations are those with inputs for the financial instruments that are not based on observable market data.

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the effective interest rate ("EIR") method. Gains and losses are recognized in the consolidated statements of earnings when the liabilities are derecognized as well as through the EIR method amortization process. The EIR amortization is included in interest expense in the consolidated statements of earnings.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statements of earnings.

Financial instruments are offset and the net amount reported in the consolidated statements of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Property, plant and equipment

Property, plant and equipment is measured at cost less accumulated depreciation and accumulated impairment losses. Costs include expenditures that are directly attributable to the acquisition or construction of the assets. Directly attributable costs include related software, materials and labour, among other costs that may be incurred to bring the assets to their intended use and borrowing costs on qualifying assets.

Major components of property, plant and equipment which have different useful lives are accounted for separately. The replacement cost of a component is capitalized if it is probable that the future economic benefits exist and can be reliably estimated. The carrying amount of the replaced part is derecognized. Property, plant and equipment repair and maintenance costs are recognized in profit or loss as incurred.

Depreciation is calculated over the depreciable amount, which is the accumulated cost of an asset or component less its residual value. Depreciation is recognized in profit or loss on either a straight-line or declining balance basis over the estimated useful lives.

Items of property, plant and equipment are depreciated from the date that they are installed and are available for use, or in respect of internally constructed assets, from the date that the asset is completed and available for use.

The estimated useful lives, depreciation rates and depreciation methods for the current and comparative periods are as follows:

	Estimated life in years	Depreciation rates	Depreciation method
Directional drilling equipment	5 to 8	25 to 37.5%	Declining balance
Office and computer equipment	3.0 to 11.5	20 to 55%	Declining balance
Automotive equipment	8 to 11.5	20 to 30%	Declining balance
Leasehold improvements	5	20%	Straight-line

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized net within other income in profit or loss.

Intangible assets

Intangible assets which arise from the acquisition of businesses, including customer relationships, brand name, non-compete agreements and rotary steerable system (“RSS”) licenses have finite lives and are measured at cost less accumulated amortization and any accumulated impairment losses.

Development costs incurred internally related to the design of new or substantially improved products are capitalized if they can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and Cathedral intends to and has sufficient resources to complete development and to use or sell the asset. The intangible asset includes the cost of materials, direct labour, overhead costs that are directly attributable to preparing the asset for its intended use, and borrowing costs on qualifying assets. Expenditures on research activities undertaken with the prospect of gaining technical knowledge or other development activities are recognized in profit or loss as incurred.

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

Amortization is calculated on the cost of the asset less its residual value. Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. Amortization methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

Intangibles are amortized over the following useful lives:

- Customer relationships – six years
- Brand name – fifteen years
- Non-compete agreements – five years
- RSS licenses - eight years
- Product development – five years

Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the first in, first out cost principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Impairment

(i) Financial assets

A financial asset other than those carried at fair value through profit or loss is assessed for indicators of impairment at each reporting date. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be reliably estimated.

The Company applies the simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. Trade receivables are written off when there is no reasonable expectation of recovery.

(ii) Non-financial assets

The carrying amounts of Cathedral’s non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset’s or CGUs recoverable amount is estimated.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

The Company’s corporate assets do not generate separate cash inflows and cash outflows are allocated to CGUs. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of a CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

Goodwill is tested on an annual basis. An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Employee benefits

(i) Termination benefits

Termination benefits are recognized as an expense when Cathedral is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan either to terminate employment before the normal retirement date, or to provide termination benefits because of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if Cathedral has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than one year after the reporting period, then they are discounted to their present value.

(ii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if Cathedral has a present legal or constructive obligation to pay this amount because of past service provided by the employee, and the obligation can be estimated reliably.

(iii) Share-based payment transactions

The grant date fair value of share-based payment awards granted to employees, directors and consultants is recognized as an expense, with a corresponding increase in equity, over the vesting period. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met.

Share-based payment arrangements in which Cathedral receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions measured at fair market value.

Revenue

Cathedral primarily generates its revenue by providing directional drilling services which includes providing personnel and equipment. Services are provided based upon a price book or bid on a day rate or footage/meterage rate. The Company recognizes revenue as the services are performed and is considered earned as services are rendered on a per day or per foot/meter basis under the terms of the services engagement with the customer. It is the Company's view that its performance obligation is providing directional drilling services on a per day or per foot/meter basis and our customers benefit from each day of drilling. The Company may also charge for mobilization/demobilization of personnel and equipment as well as materials and consumbles used in the services and cost of equipment that is involuntarily damaged or lost-in-hole. In cases where the customer terminates the service engagement early, the Company has an enforceable right to payment for services rendered to date. The Company's performance obligation is generally short-term in nature, ranging from a few days to multiple weeks. Customers are issued invoices upon the completion of a well with payment terms ranging from 30 to 60 days of the customer's reciept of an invoice.

Finance income and costs

Finance costs comprise interest expense on borrowings, bank charges and other interest and foreign exchange gains or losses. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method. Foreign currency gains and losses are reported on a net basis.

Leases

(i) Lessee

At the inception of a contract, the Company assesses whether a contract is or contains a lease. The Company then determines if the Company has the right to direct the use of the identified assets throughout the period of use. The term of the lease is defined as the non-cancellable period of the lease, plus periods in which there is reasonable certainty that the Company will exercise and option to extend or to cancel the lease.

When a lease is identified, a right-of-use asset and a lease liability are recognized at the present value of the lease payments discounted using the interest rate implicit in the lease or if that rate is not determinable at the Company's incremental rate of borrowing. Payments on the lease have a finance cost component, which are reported on the consolidated statement of comprehensive income.

The initial cost of right of use assets are adjusted for any lease incentives received and any initial direct costs. Right-of-use assets are depreciated over the shorter of the lease term or the useful life of the assets. Right-of-use assets are presented net of accumulated depreciation and impairment losses.

Management has utilized exemptions for certain low-value items and short-term leases whereby the lease term is less than one year.

(ii) Lessor

Leases, including subleases, which transfer substantially all the risks and benefits of ownership of the property to the lessee are accounted for as finance leases, while all other leases are accounted for as operating leases.

Finance leases are recorded as a net investment in a finance lease. The present value of minimum lease receivable under such arrangements are recorded as an investment in finance lease and the finance income is recognized in a manner that produces a consistent rate of return on the investment in the finance lease and is included in revenue.

Operating lease and sublease income are recognized in the consolidated statement of comprehensive income as it is earned over the term of the lease.

Income tax

Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax is not recognized for differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is also recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable income will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. However, as the Company's Canadian entity has a history of recent tax losses, the Company only recognizes deferred tax assets to the extent that there is convincing other evidence that sufficient taxable income will be available to realize the tax pools.

Earnings per share

Basic and diluted earnings per share ("EPS") is calculated by dividing the net income or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for own shares held, for the effects of all dilutive potential common shares, which comprise share options granted to employees, directors and consultants and share warrants.

Accounting standards and amendments not yet effective

The IASB has issued several new standards and amendments to existing standards that will become effective for periods subsequent to December 31, 2022. Accordingly, these new standards and amendments were not applied in preparing these consolidated financial statements. Cathedral is in the process of assessing the impact these new standards and amendments will have on its consolidated financial statements.

4. Acquisitions

A summary of the acquisitions for the year ended December 31, 2022 are as follows:

	Discovery	Compass	LEXA	Altitude	Ensign	Total
Consideration:						
Number of shares issues	5,254,112	6,253,475	1,772,727	67,031,032	7,017,988	87,329,334
Issue price	$ 0.52	$ 0.69	$ 0.63	$ 0.55	$ 0.85	
Common shares	$ 2,732	$ 4,315	$ 1,117	$ 36,867	$ 5,965	$ 50,996
Settlement of technology license from pre-existing relationship	-	-	644	-	-	644
Cash	18,160	4,000	-	87,245	-	109,405
Total consideration	$ 20,892	$ 8,315	$ 1,761	$ 124,112	$ 5,965	$ 161,045
Allocation of purchase price						
Cash	$ -	$ -	$ 70	$ 4,754	$ -	$ 4,824
Inventory	3,301	444	-	8,768	1,790	14,303
Other net working capital	-	-	291	(1,068)	-	(777)
Property, plant and equipment	17,591	8,518	-	43,667	4,175	73,951
Right of use assets	1,579	316	-	2,354	-	4,249
Lease liabilities assumed	(1,579)	(316)	-	(2,354)	-	(4,249)
Intangibles	-	-	1,574	35,720	-	37,294
Goodwill	-	-	-	37,753	-	37,753
Deferred tax liability	-	(647)	(174)	(5,482)	-	(6,303)
Total	$ 20,892	$ 8,315	$ 1,761	$ 124,112	$ 5,965	$ 161,045

Due to the acquired assets related to the Discovery, Compass, and Ensign acqusitions being integrated in to Cathedral’s existing directional drillng business it is impractical to disclose the total revenue and profit from all business acquisitons in 2022 as if the business combinations had been completed on January 1, 2022.

The following table details the changes to the allocation of purchase price for Altitude due to independent valuations, which impacted property, plant and equipment, intangibles and goodwill, along with the final net working capital adjustment:

Changes to Altitude allocation of purchase price	Final	As presented at 2022 Q3	Difference
Cash	$ 4,754	$ 4,754	$ -
Inventory	8,768	9,088	(320)
Other net w orking capital	(1,068)	(274)	(794)
Property, plant and equipment	43,667	45,393	(1,726)
Right-of-use assets	2,354	2,354	-
Lease liabilities	(2,354)	(2,354)	-
Intangibles	35,720	34,433	1,287
Goodw ill	37,753	35,963	1,790
Deferred tax liability	(5,482)	(5,245)	(237)
Total	$ 124,112	$ 124,112	$ -

As discussed in the following LEXA section, the consideration and value of intangibles was increased $644 due to the settlement of a technology license ageement due to a pre-existing relationship. In addition there were insignificant changes to other acquisitions as the amounts were finalized in 2022 Q4.

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 acquisition 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.

Cathedral paid $18,160 in cash consideration funded by a new term loan (note 9) and issued 5,254,112 common shares for a total consideration of $20,892. In addition to a four-month statutory hold period on the common shares, the parties have agreed to contractual restrictions on resale as follows: 25% are restricted until February 10, 2023; a further 25% are restricted until August 10, 2023; and a further 50% are restricted until February 10, 2024, subject to certain exceptions.

For the period from February 10, 2022 to December 31, 2022, the assets acquired generated revenues of $31,841 and operating income before depreciation and interest of $14,357. For the period from January 1, 2022 to February 9, 2022 revenue was $2,286 and operating profit before depreciation and interest was $717.

The Company has expensed $147 in costs related to this transaction.

Compass Directional Services

On June 22, 2022, 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.

Cathedral paid $4,000 in cash consideration and issued 6,253,475 common shares for a total consideration of $8,315. The common shares are subject to contractual restrictions of resale as follows: 25% are restricted until June 22, 2023; a further 25% are restricted until December 22, 2023; and a further 50% are restricted until June 22, 2024, subject to certain exceptions.

Additionally, 1,389,664 common shares were issued pursuant to an escrow arrangement and are subject to contractual restrictions over four years with one quarter of the shares vesting each year on the anniversary of the purchase. These common shares are registered to Cathedral's 100% owned subsidiary, 2438155 Alberta Ltd. (held in trust for the beneficiary) and are classified as Treasury shares (note 10) and will be recognized as compensation expense over the vesting period. On issuance, these Treasury shares were valued at $959.

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

The Company has expensed $178 in costs related to this transaction.

LEXA Drilling Technologies Inc.

The Company purchased the shares 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 measure-while-drilling ("MWD") technology. They are also focused on developing technology that enhances and enables drilling automation through remote downhole directional equipment.

On June 17, 2022, the Company acquired 90.98% of the shares of LEXA, its technology and products in development, Cathedral issued 1,612,891 common shares, which were subject to a four-month restriction period. On July 19, 2022, the Company acquired the remaining 9.02% of the shares of LEXA in exchange for 159,836 common shares from Rod Maxwell, a director of Cathedral. These shares are also subject to a four-month hold period.

LEXA and Cathedral were parties to a technology licensing agreement under which LEXA allowed Cathedral access to specific technologies. This pre-existing relationship was effectively settled when Cathedral acquired LEXA, in accordance with IFRS 3 Business Combinations. The amount paid for the pre-existing contract was attributed to consideration transferred and recognized as an intangible asset. No gain or loss was recorded on this deemed settlement.

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.

Altitude Energy Partners, LLC

On July 13, 2022, the Company through its wholly owned U.S. subsidiary, Flight, closed the acquisition of Altitude through payment of cash in the amount of $87,245 and the issuance of 67,031,032 common shares in of Cathedral for total consideration of $124,112. Additionally, the Company assumed lease liabilities and a deferred tax liability. The common shares are subject to contractual restrictions on resale over a period of four to sixty months.

Altitude was 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. The Company continues to use the Altitude name and brand in the U.S. Cathedral's former U.S. directional drilling business has been integrated into Altitude's business.

Intangible assets primarily consist of acquired customer relationships, brand names, non-competition agreements and RSS technology. The fair values of customer relationships, non-compete agreements and brand name acquired in the business acquisition were determined using an income approach. The customer relationships and non-compete agreements were fair valued using the multi-period excess earnings and with-and-without methods, respectively. The valuation methods are based on the discounted cash flows expected to be derived from the ownership of the assets. To estimate the fair value of the brand name acquired, the relief from royalty method was applied to forecast revenue using an appropriate notional royalty rate.

The goodwill of $37,753 recorded for the Altitude acquisition consists mainly of the value of the expertise and reputation of the assembled workforce acquired, future growth opportunities, the geographic location of the acquiree and potential synergies arising in the form of cost savings. For U.S. tax purposes, approximately 70% of the goodwill will be deducted over 15 years based on cash paid as consideration.

For the period of July 14 to December 31, 2022, the acquired entity generated revenues of $136,140 and operating income before interest of $18,135. Revenues and operating profit for the period of January 1 to July 13, 2022 were $130,518 and $16,659, respectively.

The Company has expensed $1,439 in costs related to this transaction.

Ensign Energy Services Canadian directional drilling business

On October 26, 2022, the Company acquired the operating assets and personnel of Ensign Energy Services' Canadian directional drilling business for a purchase price of $5,965 through the issuance of 7,017,988 common shares of Cathedral. In addition to a four-month statutory hold period, the common shares are subject to contractual restrictions of resale as follows: 25% were restricted until April 26, 2023; a further 25% were restricted until October 26, 2023; and a further 50% are restricted until October 26, 2024, subject to certain exceptions.

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

The Company has expensed $43 in costs related to this transaction.

Precision Drilling directional drilling business

On July 23, 2021, the Company announced the closing of Cathedral's acquisition of Precision Drilling Corporation's ("Precision") directional drilling business for a purchase price of $6,350. This acquisition includes the operating assets and personnel of Precision's directional drilling business. Cathedral issued 13,400,000 common shares, along with warrants to purchase an additional 2,000,000 common shares of Cathedral at a price of $0.60 per common share within a two-year period after closing. In addition to a four-month statutory hold period on the common shares, the parties have agreed to contractual restrictions on resale as follows: 25% of the common shares were restricted until January 22, 2022; a further 25% of the common shares were restricted until July 22, 2022; and a further 50% of the common shares are restricted until July 22, 2023, subject to certain exceptions.

The Company allocated the $6,350 purchase as follows:

- Cash $3,000
- Land and building $1,500; and
- Property, plant and equipment $1,850.

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

Valiant Energy Services

On September 7, 2021, the Company completed the acquisition of the operating assets of Valiant Energy Services Ltd. ("Valiant"), an Alberta-based directional drilling company, for a purchase price of $1,500 through the issuance of 3,464,204 common shares of Cathedral. These shares were subject to a four-month statutory hold period. The purchase price was allocated to property, plant and equipment for $1,485 and $15 to inventory.

5. Inventories

The Company's inventories comprise of raw materials and consumables. The Company does not have finished goods inventories. For the year ended December 31, 2022, raw materials and consumables recognized as cost of sales were $29,013 (2021 - $6,425). For the year ended December 31, 2022, the Company recorded a provision for obsolete inventory of $107 (2021 – $154).

6. Property, plant and equipment

Cost	Balance December 31, 2020	Regular Additions	Acquisitions	Disposals	Effects of movements in exchange rates	Balance December 31, 2021
Directional Drilling equipment	$ 72,016	$ 5,495	$ 3,335	$ (4,058)	$ (48)	$ 76,740
Automotive equipment	642	107	-	(109)	1	641
Office and computer equipment	701	15	-	(8)	-	708
Leasehold improvements	438	-	-	-	-	438
Land and building	-	-	1,500	-	-	1,500
Total	$ 73,797	$ 5,617	$ 4,835	$ (4,175)	$ (47)	$ 80,027

Accumulated depreciation	Balance December 31, 2020	Additions	Disposals	Effects of movements in exchange rates	Balance December 31, 2021
Directional Drilling equipment	$ 37,028	$ 9,959	$ (3,190)	$ (33)	$ 43,764
Automotive equipment	461	73	(106)	(3)	425
Office and computer equipment	290	97	(8)	-	379
Leasehold improvements	398	17	-	-	415
Total	$ 38,177	$ 10,146	$ (3,304)	$ (36)	$ 44,983

Cost	Balance December 31, 2021	Regular Additions	Acquisitions	Disposals	Effects of movements in exchange rates	Balance December 31, 2022
Directional Drilling equipment	$ 76,740	$ 29,525	$ 72,010	$ (9,168)	$ 1,948	$ 171,055
Automotive equipment	641	876	1,407	-	103	3,027
Office and computer equipment	708	253	534	(29)	26	1,492
Leasehold improvements	438	628	-	(358)	12	720
Land and building	1,500	-	-	(1,500)	-	-
Total	$ 80,027	$ 31,282	$ 73,951	$ (11,055)	$ 2,089	$ 176,294

Accumulated depreciation	Balance December 31, 2021	Additions	Disposals	Effects of movements in exchange rates	Balance December 31, 2022
Directional Drilling equipment	$ 43,764	$ 24,559	$ (2,055)	$ 97	$ 66,365
Automotive equipment	425	352	-	25	802
Office and computer equipment	379	166	(28)	1	518
Leasehold improvements	415	18	(358)	4	79
Total	$ 44,983	$ 25,095	$ (2,441)	$ 127	$ 67,764

Net book values	Balance December 31, 2022	Balance December 31, 2021
Directional Drilling equipment	$ 104,690	$ 32,976
Automotive equipment	2,225	216
Office and computer equipment	974	329
Leasehold improvements	641	23
Land and building	-	1,500
Total	$ 108,530	$ 35,044

As at December 31, 2022 and 2021, management determined no indicators of impairment existed.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. Intangible assets and goodwill

Cost		Technology		Total Intangibles
Balance, January 1, 2021	$	3,763	$	3,763
Additions		-		-
Balance, December 31, 2021	$	3,763	$	3,763

Accumulated amortization		Technology		Total Intangibles
Balance, January 1, 2021	$	1,519	$	1,519
Amortization for year		753		753
Balance, December 31, 2021	$	2,272	$	2,272
Net book value, December 31, 2021	$	1,491	$	1,491

Cost		Customer Relationships		Brand Name		Non-Compete Agreements		RSS Licenses		Technology		Total Intangibles		Goodwill
Balance, January 1, 2022	$	-	$	-	$	-	$	-	$	3,763	$	3,763	$	-
Additions - normal course		-		-		-		1,429		49		1,478		-
Additions - from acquisitions (note 4)		21,562		6,754		747		6,657		1,574		37,294		37,753
Other comprehensive income		938		294		32		333		-		1,597		1,642
Balance, December 31, 2022	$	22,500	$	7,048	$	779	$	8,419	$	5,386	$	44,132	$	39,395

Accumulated amortization		Customer Relationships		Brand Name		Non-Compete Agreements		RSS Licenses		Technology		Total Intangibles		Goodwill
Balance, January 1, 2022	$	-	$	-	$	-	$	-	$	2,272	$	2,272	$	-
Amortization for year		1,697		213		71		452		851		3,284		-
Other comprehensive income		46		6		1		12		-		65		-
Balance, December 31, 2022	$	1,743	$	219	$	72	$	464	$	3,123	$	5,621	$	-
Net book value December 31, 2022	$	20,757	$	6,829	$	707	$	7,955	$	2,263	$	38,511	$	39,395
Remaining amortization in years		5.5		14.5		4.5		7.5		4.5				

The Company acquired $35,720 of intangible assets through the acquisition of Altitude, including customer relationships, brand name, non-compete agreements and RSS licenses. In addition, the Company acquired $1,574 of technology through the acquisition of LEXA.

The Company recognized $37,753 of goodwill related to the acquisition of Altitude.

An impairment test on goodwill was carried out as at December 31, 2022. The goodwill has been allocated entirely to the Company's U.S. Operations CGU. The recoverable amount of this CGU was based on the value-in-use method, estimated using discounted cash flows. The fair value measurement was categorized as level three fair value based on the inputs in the valuation technique used.

The key assumptions used in the estimation of the recoverable amount are as follows: cash flows from the estimated budget for the next ten years; pre-tax discount rate of 25.9%; and future growth rate of 0%. The discount rate used was based on the Company's estimated after-tax weighted average cost of capital of 19.7%.

8. Right of use assets and lease liabilities

Right-of-use assets		2022		2021
Balance, beginning of year	$	10,520	$	11,771
Additions		447		-
Acquisitions		4,249		768
Amortization		(3,317)		(2,007)
Effects of movements in exchange rates		279		(12)
Balance, end of year	$	12,178	$	10,520

Lease liabilities

	Vehicles	Real Property	2021
Balance, December 31, 2020	$ 17	$ 18,011	$ 18,028
Lease buy-outs	(2)	-	(2)
Interest	-	794	794
Payments	(8)	(3,020)	(3,028)
Effects of movements in exchange rates	-	(32)	(32)
Balance, December 31, 2021	$ 7	$ 15,753	$ 15,760
Less current portion	(7)	(2,120)	(2,127)
Lease liabilities, long-term	$ -	$ 13,633	$ 13,633

	Vehicles	Real Property	2022
Balance, December 31, 2021	$ 7	$ 15,753	$ 15,760
Acquisitions	-	4,249	4,249
Additions	40	447	487
Interest	-	784	784
Payments	(22)	(3,960)	(3,982)
Effects of movements in exchange rates	-	582	582
Balance, December 31, 2022	$ 25	$ 17,855	$ 17,880
Less current portion	(25)	(3,606)	(3,631)
Lease liabilities, long-term	$ -	$ 14,249	$ 14,249

The Company holds leases related to certain rental facilities. The leases have various expiry dates ranging from February 2023 to March 2030.

9. Loans and borrowings

	2022	2021
Operating Facility	$ -	$ 5,035
Syndicated Operating Facility	13,000	$ -
Syndicated Term Facility	66,600	-
HASCAP loan	935	1,000
Total loans and borrowings	80,535	6,035
Less HASCAP loan current portion	(935)	(1,000)
Less Term Facility current portion	(14,800)	-
Loans and borrowings, current portion	(15,735)	(1,000)
Loans and borrowings, long-term	$ 64,800	$ 5,035

Banking Facility January 2021 to February 2022

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

Banking Facility February 2022 to July 2022

In February 2022, the Company entered into an Amended and Restated Credit Agreement (the "2022 Facility") with ATB which consisted of a $12,000 operating facility and a term loan in the amount of the Canadian equivalent of $14,250 USD. The term loan portion of the facility was fully drawn on closing. The 2022 Facility was to expire June 30, 2023. The 2022 Facility was secured by a general security agreement over all present and future personal property. The 2022 Facility provided a definition of EBITDA (“Credit Agreement EBITDA”) to be used in calculation of financial covenants.

The 2022 Facility bore interest at the financial institution’s prime rate plus 1.75% to 3.25% or bankers’ acceptance rate plus 3.00% to 4.25% with interest payable monthly. Interest rate spreads for the 2022 Facility depend on the level of funded debt compared to the 12-month trailing Credit Agreement EBITDA. The 2022 Facility provided a means to lock in a portion of the debt at interest rates through bankers' acceptances (“BA”) based on the interest rate spread on the date the BA was entered into.

The term loan was amortized over five years with monthly principal repayments of $303.

Syndicated Banking Facility July 2022 to December 2022

On July 13, 2022, the Company amended its banking agreement with ATB as lead arranger and administrative agent, with Canadian Western Bank, HSBC Bank Canada and The Toronto Dominion Bank (the "Syndicated Facility"). The Syndicated Facility provides the Company with committed financing by way of a three-year $99,000 credit facility comprised of a $74,000 term loan (“Syndicated Term Facility”), a $15,000 revolving borrowing base loan ("Syndicated Operating Facility") and a $10,000 revolving operating facility ("Operating Facility"), which expires in July 2025. The Syndicated Facility is secured by a general security agreement over all present and future personal property of the Company. The Syndicated Term Facility is subject to quarterly principal payments of $3,700. On July 13, 2022, the Company fully drew down its $74,000 Syndicated Term Facility to fund the Altitude acquisition. The Company incurred fees of $1,508 related to the Syndicated Facility which were recognized as finance costs during the year ended December 31, 2022.

The Syndicated Facility bears interest at the financial institution’s prime rate plus 1.5% to 2.25% or bankers’ acceptance rate plus 2.5% to 3.25% with interest payable monthly. Interest rate spreads depend on the level of funded debt compared to the twelve-month trailing Credit Agreement EBITDA, as defined by the agreement. The agreement provides a means to lock in a portion of the debt at interest rates through bankers' acceptances (“BA”) based on the interest rate spread on the date of the BA.

The financial covenants associated with the Syndicated Facility are:

- Consolidated Funded Debt to Consolidated Credit Agreement EBITDA ratio shall not exceed 3.0:1; and
- Consolidated Fixed Charge Coverage ratio shall not be less than 1.25:1.

At December 31, 2022, the Company was in compliance with its covenants.

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

In June 2021, the Company withdrew $1,000 from its HASCAP loan. The HASCAP loan is subject to an interest rate of 4% and monthly principal repayments made over a ten-year period following a one-year grace period. The HASCAP Loan is secured by a general security interest over all present and after acquired personal property of the Company granted in favour of ATB.

10. Share capital

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

Common shares issued:

	2022			2021		
	Number of shares		Amount	Number of shares		Amount
Issued, beginning of period	80,200,153	$	98,918	49,468,117	$	88,155
Issued on private placement	52,445,700		32,901	13,804,500		3,358
Less value allocated to share purchase warrants	-		(3,075)	-		-
Less private placement issue costs	-		(2,013)	-		(16)
Issue of shares on business acquisition (note 4)	87,329,334		50,996	13,400,000		5,896
Issue of shares on asset acquisition	-		-	3,464,204		1,500
Issued into escrow (note 4)	1,389,664		959	-		-
Issued on exercise of options	1,653,265		457	63,332		25
Contributed surplus on options exercised	-		221	-		-
Issued on exercise of warrants	1,106,000		940	-		-
Contributed surplus on warrants exercised	-		180	-		-
Issued, end of period	224,124,116	$	180,484	80,200,153	$	98,918

Private Placements

On February 10, 2022, Cathedral entered into a non-brokered private placement of 14,659,000 common shares at a price of $0.44 per share in conjunction with the Discovery acquisition for gross proceeds of $6,450. Net proceeds after deducting issue costs of $40 were $6,410.

On April 25, 2022, Cathedral completed a bought deal and issued 37,786,700 units at a price of $0.70 per unit, for gross proceeds of $26,451. Each unit consists of one Cathedral common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share at an exercise price of $0.85 per common share for a period of one year from the closing date of the private placement. Based on relative fair values, $23,376 of the gross proceeds were allocated to common shares and $3,075 was allocated to the warrants. Issue costs of $1,973 were netted against common shares.

Pursuant to the 2022 Facility agreement, $8,777 of the bought deal financing proceeds were used to repay a portion of the term loan (note 9).

On February 8, 2021, Cathedral issued a non-brokered private placement of 500,000 units to its CEO and President and Director, at a subscription price of $0.20 per unit for an amount of $100. Each unit consists of one Cathedral common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share at an exercise price of $0.24 per common share for a period of three years from the closing date of the private placement. In addition, the Company issued 650,000 additional units under the same terms to its CEO and president and director for $130 proceeds, for which the Company provided a loan subject to commercial terms. The loan associated with this private placement was repaid in full, with accrued interest, subsequent to December 31, 2022.

On May 10, 2021, 12,654,500 shares were issued on a non-brokered private placement at $0.25 per share for net proceeds of $3,146.

Treasury shares

In relation to the acquisition of Compass (note 4), 1,389,664 common shares were issued pursuant to an escrow arrangement and are subject to contractual restrictions over four years with one quarter of the shares vesting each year on the anniversary of the Compass purchase. These common shares are registered to Cathedral's 100% owned subsidiary, 2438155 Alberta Ltd. (held in trust for the beneficiary) and are classified as Treasury shares (note 10) and will be recognized as compensation expense over the vesting period. On issuance, these Treasury shares were valued at $959.

Shares issued on exercise of options and warrants

In addition, 1,653,265 (2021 - 63,332) common shares were issued as a result of the exercise of vested options during the year ended December 31, 2022. Options were exercised at an average strike price of $0.28 per option (2021 - $0.28). 1,106,000 common shares were issued as a result of exercise of share purchase warrants during the year ended December 31, 2022. Warrants were exercised at an average price of $0.85 per warrant.

Shares issued on acquisitions - 2021

The details on shares issued for acquisitions in 2022 are disclosed in note 4.

The following shares were issued on acquisitions in 2021:

- 13,400,000 shares were issued July 23, 2021 related to the Precision acquisition. The shares were issued at $0.44 per share for net consideration of $5,896.
- 3,464,204 shares were issued September 7, 2021 related to the Valiant asset acquisition. The shares were issued at $0.43 per share for net consideration of $1,500.

Share options

The Company's share-based compensation option plan is subject to authorized option grants up to 10% of the number of common shares outstanding at a point in time.

The exercise price of each option at the date of issuance equals the volume adjusted weighted average trading value of the Company's common shares for the five days prior to the grant. The options generally vest over a period of two years and expire in three years.

A summary of the status of the Company's share option plan as at December 31, 2022 and 2021, and changes during the years ended is presented below:

	2022			2021		
	Number		Weighted average exercise price	Number		Weighted average exercise price
Outstanding, beginning of year	6,660,700	$	0.35	2,552,600	$	0.41
Granted	16,646,066		0.68	5,053,400		0.40
Exercised	(1,653,265)		0.28	(63,332)		0.29
Expired or forfeited	(981,933)		0.45	(881,968)		0.80
Outstanding, end of year	20,671,568	$	0.61	6,660,700	$	0.35
Exercisable, end of year	2,156,443	$	0.30	1,271,365	$	0.26

The range of exercise prices for the options outstanding as at December 31, 2022 is as follows:

	Total outstanding options				Exercisable		
Exercise price range	Number		Weighted average exercise price	Weighted average remaining life (in years)	Number		Weighted average exercise price
$0.12 to $0.25	1,070,268	$	0.15	0.97	870,268	$	0.15
$0.26 to $0.50	3,179,234		0.44	1.54	1,286,175		0.40
$0.51 to $0.75	12,096,300		0.60	2.55	-		-
$0.76 to $1.00	3,900,766		0.86	2.77	-		-
$1.01 to $1.18	425,000		1.18	2.97	-		-
$0.12 to $1.18 total	20,671,568	$	0.61	2.36	2,156,443	$	0.30

During the year ended December 31, 2022, the Company granted the following options:

- 380,000 options were granted to employees at an exercise price of $0.77 which expire March 16, 2025;
- 12,320,300 options were granted to employees and directors at an exercise price of $0.60 which expire July 19, 2025;
- 3,520,766 options were granted to employees and directors at an exercise price of $0.87 which expire October 28, 2025; and
- 425,000 options were granted to an employee at an exercise price of $1.18 which expire December 19, 2025

The following is a summary of other assumptions used in applying the Black-Scholes model for the options issued as well as the resulting fair value:

- Expected annual dividend per share is $0;
- Risk free interest of 1.5% to 3.9%;
- Expected share price volatility (weighted average) of 102% to 104%; and
- Forfeiture rate for employees is 10%; for officers and directors this is 0%.

The resultant fair value of the options is a range from $0.39 to $0.77.

During the year ended December 31, 2021, the Company granted the following options:

- 600,000 stock options were granted to the President and CEO and a director, with an exercise price or $0.18 per unit which will expire February 8, 2024;
- 335,000 were granted to certain employees at an exercise price of $0.26 per unit which expire February 15, 2024;
- 700,000 were granted to certain employees at an exercise price of $0.27 per unit of which 200,000 expire on August 31, 2022 and 500,000 expire April 19, 2024;
- 450,000 were granted to certain employees at an exercise price of $0.31 per unit which expire May 26, 2024;
- 2,796,100 were granted to officers, directors and employees as an annual option grant at an exercise price of $0.50 which expire August 12, 2024; and
- 172,300 were granted to certain employees at an exercise price of $0.46 per unit which expire December 2, 2024.

The following is a summary of other assumptions used in applying the Black-Scholes model for the options issued as well as the resulting fair values ranging from $0.11 per unit to $0.30 per unit:

- Expected annual dividend per share was $0;
- Risk free interest rate ranged from 0.2% to 1.0%;
- Expected share price volatility (weighted average) ranged from 94% to 127%; and
- Forfeiture rates for employees and officers and directors were 10% and 0%, respectively.

A summary of the status of the Company's share warrants as at December 31, 2022 and 2021, and changes during the years ended is presented below:

	2022			2021		
	Number		Weighted average exercise price	Number		Weighted average exercise price
Outstanding, beginning of year	2,575,000	$	0.52	-	$	-
Issued pursuant to Private Placement with President	-		-	575,000		0.24
Issued pursuant to Precision Drilling acquisition	-		-	2,000,000		0.60
Issued pursuant to April 2022 Private Placement	18,893,350		0.85	-		-
Exercises from April 2022 Private Placement	(1,106,000)		0.85	-		-
Outstanding, end of year	20,362,350	$	0.81	2,575,000	$	0.52
The ending balance consist of warrants issued pursuant to:						
Private Placement with President	575,000			575,000		
Precision Drilling acquisition	2,000,000			2,000,000		
April 2022 Private Placement	17,787,350			-		
	20,362,350			2,575,000		

The following is a summary of other assumptions used in applying the Black-Scholes model for the warrants issued in April 2022 private placement as well as the resulting fair value:

- Expected annual dividend per share is $0;
- Risk free interest of 2.21%; and
- Expected share price volatility (weighted average) of 80.1%.

The resultant fair value of the warrants is $0.72 per warrant.

11. Earnings (loss) per share

		2022		2021
Net income (loss)	$	18,347	$	(8,626)
Outstanding, beginning of year		80,200,153		49,468,117
Effect of shares issued during the year		82,350,423		15,562,678
Weighted average common shares (basic)		162,550,576		65,030,795
Effect of share options and warrants on issue		3,578,916		708,879
Weighted average common shares (diluted)		166,129,492		65,739,674
Net income (loss) per share - basic	$	0.11	$	(0.13)
Net income (loss) per share - diluted	$	0.11	$	(0.13)

At December 31, 2022, 12,476,300 options (2021 – 5,233,600) were excluded from the diluted weighted average number of common shares calculation as their effect was anti-dilutive. The weighted average common shares were anti-dilutive during the year ended December 31, 2021 due to the net loss.

12. Nature of expenses

The nature of expenses can be specified as follows:

	Cost of sales	Selling, general & administrative	Acquisition and restructuring	Technology	Total
Year ended December 31, 2021					
Depreciation and amortization	$ (12,372)	$ (535)	$ -	$ -	$ (12,907)
Share-based compensation	(89)	(152)	-	-	(241)
Staffing costs, excluding share-based compensation	(26,396)	(5,032)	(960)	(732)	(33,120)
Repairs and maintenance	(15,739)	-	-	-	(15,739)
Equipment rentals	(4,129)	-	-	-	(4,129)
Other expenses	(4,831)	(2,750)	-	(15)	(7,596)
Total	$ (63,556)	$ (8,469)	$ (960)	$ (747)	$ (73,732)
Year ended December 31, 2022					
Depreciation and amortization	$ (28,687)	$ (3,009)	$ -	$ -	$ (31,696)
Share-based compensation	(622)	(765)	-	-	(1,387)
Staffing costs, excluding share-based compensation	(94,197)	(18,417)	(2,040)	(1,271)	(115,925)
Equipment rentals	(30,587)	-	-	-	(30,587)
Repairs and maintenance	(74,144)	-		-	(74,144)
Other expenses	(15,182)	(9,516)	(2,134)	-	(26,832)
Total	$ (243,419)	$ (31,707)	$ (4,174)	$ (1,271)	$ (280,571)

13. Deferred tax liability and income tax expense

Recognized deferred tax assets (liabilities)

Deferred tax liabilities are attributable to the following:

	2022	2021
Property, plant and equipment	$ (13,815)	$ (2,122)
Intangibles	(2,194)	-
Goodwill	(144)	-
Inventory valuation allowance	487	487
Non-capital loss carry-forwards	5,286	1,635
Total	$ (10,380)	$ -

Movement in temporary differences during the year

	Balance December 31, 2020	Recognized in profit	Recognized in OCI	Balance December 31, 2021
Property, plant and equipment	$ (3,019)	$ 882	$ -	$ (2,122)
Inventory valuation allowance	502	(15)	-	487
Non-capital loss carry-forwards	2,517	(882)	-	1,635
Total	$ -	$ -	$ -	$ -

	Balance December 31 2021	Recognized in profit	Recognized due to acquisitions	Recognized in OCI	Balance December 31 2022
Property, plant and equipment	$ (2,122)	$ (7,749)	$ (3,836)	$ (108)	$ (13,815)
Intangibles	-	381	(2,467)	(108)	(2,194)
Goodwill	-	(144)	-	-	(144)
Inventory valuation allowance	487	-	-	-	487
Non-capital loss carry-forwards	1,635	3,660	-	(9)	5,286
Total	$ -	$ (3,852)	$ (6,303)	$ (225)	$ (10,380)

Un-recognized deferred tax assets:

There are un-recognized deferred tax assets of $27,224 (2021 - $28,557) related to the following Canadian tax attributes:

	2022				2021			
	Gross amount		Tax effect		Gross amount		Tax effect	
Non-capital loss carry forwards	$	71,425	$	16,474	$	77,377	$	17,597
Right of use assets less related lease liability		3,717		892		3,561		776
Scientific research and development expenditures		17,699		4,071		18,678		4,296
Investment tax credits		n/a		4,925		n/a		5,162
Net capital loss carry forwards		3,746		862		3,158		726
Total	$	96,587	$	27,224	$	102,774	$	28,557

Deferred tax assets have not been recognized in respect of the deductible temporary differences at December 31, 2022 due to a recent history of taxable losses. The non-capital losses have expiries ranging from 2035 to 2041 and investment tax credits have expiries from 2026 to 2037. The remaining tax attributes do not expire.

The income taxes are based upon the estimated annual effective rates of 23% (2021 – 23%) for the Canadian entities and 23% (2021 – 21.8%) for the U.S. entities.

		2022		2021
Expected statutory tax rate		23%		23%
Income (loss) before income tax	$	22,961	$	(8,626)
Effective tax rate applied to loss before income tax	$	(5,281)	$	1,984
Changes in unrecognized deferred tax assets		641		(2,009)
Effect of changes in foreign exchange		(225)		-
Income taxed in jurisdictions with different tax rates		(210)		(38)
Non-deductible expenses		180		(74)
Non-taxable portion of gain on disposal of property and equipment		281		137
Total tax expense	$	(4,614)	$	-

14. Changes in non-cash working capital

The components of changes in non-cash working capital are as follows:

		2022		2021
Trade receivables	$	(50,942)	$	(10,795)
Inventories		(2,832)		(443)
Prepaid expenses and deposits		(2,534)		(729)
Trade and other payables		28,535		6,645
Total changes in non-cash working capital		(27,773)		(5,322)
Changes in investing non-cash working capital		(660)		(59)
Changes in operating non-cash working capital	$	(27,113)	$	(5,263)

15. Operating segments

The Company has two operating segments based on its geographic operating locations of Canada and U.S. and a non-operating segment, for joint corporate costs ("Corporate services"). The Company determines its reportable segments based on internal information regularly reviewed by management to allocate resources and assess performance. The Corporate services segment is comprised of costs which are managed on a group basis and are not allocated to the operating segments. The Corporate services segment primarily consists of general and administrative expenses, foreign exchange gains (losses), interest expenses and acquisition and reorganization costs.

For the years ended December 31	2022 Canada	2022 U.S.	2022 Corporate services	2022 Total	2021 Canada	2021 U.S.	2021 Corporate services	2021 Total
Revenues	$ 117,683	$ 180,718	$ -	$ 298,401	$ 45,961	$ 16,563	$ -	$ 62,524
Income before income taxes	9,142	31,108	(17,289)	22,961	(1,711)	(3,610)	(3,305)	(8,626)
Total non-current assets	58,575	129,190	10,849	198,614	17,574	29,481	-	47,055
Property, plant and equipment	58,575	49,704	251	108,530	33,126	241	1,677	35,044

There are no material differences in the basis of accounting or the measurement of income (loss), assets and liabilities between the Company and reported segment information. Revenues and expenses are attributed to geographical areas based on the location in which the services are rendered. The segment presentation of assets is based on legal owner of the assets which bears the related depreciation and amortization expenses.

Major customers

In 2022, the Company did not have any significant customers (2021 –17% of the Company's total revenues were generated by one major customer).

16. Contractual commitments and contingencies

As at December 31, 2022, the Company's commitment to purchase property, plant and equipment is approximately $5,556. Cathedral anticipates expending these funds in 2023 Q1 and Q2 subject to supply chain delays. The Company also holds six letters of credit totaling $1,920 related to rent payments, corporate credit cards and a utilities deposit.

The Company is involved in various 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.

17. Related parties

Cathedral has determined that the key management personnel of the Company consists of its executive officers and directors. In addition to their salaries and director's fees, the Company also provides non-cash benefits to directors and executive officers including participation in the Company's share option program.

Certain executive officers have employment agreements. Upon resignation at the Company's request, they are entitled to termination benefits including: i) one to two times base salary; ii) one to two times average annual bonus over the past three years; and iii) health, dental, life insurance and disability coverage for twelve to twenty-four months.

Key management personnel (including directors) compensation comprised:

Year ended December 31,		2022		2021
Short-term employment benefits	$	3,135	$	2,033
Share-based compensation		693		198
Total expense recognized as share-based compensation	$	3,828	$	2,231

Directors and executive officers of the Company own approximately 21% (2021 - 7%) of the common shares of the Company. The CEO of the Company also held a loan owed to the Company related to a private placement of $130 as at December 31, 2022 which was subsequently repaid (note 10).

Prior to the acquisition of LEXA (note 4), in 2022, Cathedral paid LEXA consulting fees in the amount of $494, reimbursement of expenses of $16 and $692 for a technology licensing agreement under which LEXA allowed Cathedral access to specific technologies. As part of Cathedral's acquisition of LEXA, Rod Maxwell, a director of Cathedral, exchanged his 9.02% ownership of LEXA for 159,836 common shares of Cathedral.

The Company's wholly-owned subsidiary, Altitude, pays its landlord USD$11 per month (including property tax and insurance recovery) for an operating facility in Casper, Wyoming. The landlord is owned by three individuals who are either an employee, officer or director of Cathedral. The rental terms included in the underlying lease are at market rates and the lease expires October 1, 2023. As at December 31, 2022, there are no amounts owed by or due to the landlord. There are no other no other transactions over the reporting period with key management personnel (2021 - nil), and no other outstanding balances exist as at period end (2021 - nil).

18. Financial risk management and financial instruments

Overview

The Company has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers.

Trade receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Company's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk. In 2022, the Company did not have a significant customer (2021 - 17% of revenues from one customer).

The Company has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Company's standard payment and delivery terms and conditions are offered. The Company's review includes external ratings, when available. Customers that fail to meet the Company's benchmark creditworthiness generally are restricted to services on a prepayment basis only.

In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or legal entity, geographic location, industry, aging profile, maturity and existence of previous financial difficulties. Customers that are considered as "high risk" are closely monitored, and future sales may be made on a prepayment basis.

The Company does not require collateral in respect of trade receivables.

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

		2022		2021
Trade receivables	$	113,477	$	15,609

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

Carrying amount

		2022		2021
Canada	$	36,905	$	13,094
United States		76,572		2,515
Total	$	113,477	$	15,609

In 2022, the Company did not have any significant customers (December 31, 2021 - $1,132 accounts receivable balance from one significant customer).

Impairment losses

The aging of the gross trade receivables at the reporting date was:

		2022 Gross		2021 Gross
Not past due	$	100,417	$	14,926
Past due 61-90 days		8,318		384
Past due over 91 days		4,876		398
Total	$	113,611	$	15,708

As at December 31, 2022, the allowance account in respect of trade receivables was $134 (2021 - $99) to record impairment losses, unless the Company is satisfied that no recovery of the amount owing is possible; at that point the amounts are considered irrecoverable and are written off against the account receivable directly. The Company believes that the unimpaired amounts that are past due are still collectible, based on historic payment behavior and an analysis of the underlying customers' ability to pay.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The following are the contractual maturities of financial liabilities, excluding the impact of netting agreements based upon the secured revolving term loan being renewed on the same terms and not converted to a non-revolving term loan.

December 31, 2022		Carrying amount		Under 6 months		6-12 months		1-2 years		3-5 years		Thereafter
Loans and borrow ings	$	80,535	$	7,450	$	7,450	$	14,900	$	50,300	$	435
Finance lease liabilities		17,880		1,828		1,803		3,054		7,092		4,103
Trade and other payables		90,389		90,389		-		-		-		-
	$	188,804	$	99,667	$	9,253	$	17,954	$	57,392	$	4,538

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

Currency risk

The Company is exposed to currency risk on working capital and borrowings that are denominated in a currency other than the respective functional currencies of Company entities, CAD and USD. The currencies in which these transactions primarily are denominated are in CAD and USD.

Generally, borrowings are denominated in currencies that match the cash flows generated by the underlying operations of the Company. This provides a partial economic hedge without derivatives being entered into and therefore hedge accounting is not applied in these circumstances.

Cathedral's foreign currency policy is to monitor foreign currency risk exposure in its areas of operations and mitigate that risk where possible by matching foreign currency denominated expense with revenues denominated in foreign currencies. Cathedral strives to maintain limited amounts of cash and cash equivalents denominated in foreign currency on hand and attempts to limit its exposure to foreign currency through collecting and paying foreign currency denominated balances in a timely fashion.

The Company's exposure to foreign currency risk related to USD denominated balances are as follows:

USD		Balance December 31, 2022		Balance December 31, 2021
Cash	$	8,097	$	2,374
Trade receivables		56,494		1,990
Trade payables		(52,608)		(2,105)
Current taxes payable		(824)		-
Lease liabilities		(5,634)		(3,348)
Total	$	5,525	$	(1,089)

The following significant exchange rates applied during the year:

	Average rate				Reporting date spot rate			
		2022		2021		December 31, 2022		December 31, 2021
USD $1 to CAD	$	1.30	$	1.25	$	1.36	$	1.26

Sensitivity analysis

A 10% strengthening of CAD against USD at December 31, 2022 would increase (decrease) equity and other comprehensive income by $749 (2021 - $138). The analysis assumes that all other variables, in particular interest rates remain constant.

A weakening of CAD at December 31, 2022 would have had the equal but opposite effect on USD amounts, on the basis that all other variables remain constant.

Interest rate risk

At the reporting date the interest rate profile of the Company's interest-bearing financial instruments was:

	December 31, 2022				December 31, 2021			
	Fixed rate carrying value		Variable rate carrying value		Fixed rate carrying value		Variable rate carrying value	
Financial liabilities	$	17,880	$	80,535	$	15,760	$	6,035

Cash flow sensitivity analysis for variable rate instruments

A 1% increase in the Company's financial institution's lending rate would cause interest expense to increase by approximately $805 (2021 - $60) per annum based upon the balance of financial institution indebtedness and long-term debt with a floating interest rate outstanding as at December 31, 2022.

Fair values of financial instruments

The Company has designated its trade and other payables as other financial liabilities carried at amortized cost. Trade receivable are designated as loans and receivables, measured at amortized cost. The Company's carrying values of these items approximate their fair value due to the relatively short periods to maturity of the instruments. Loans and borrowings have been designated as other financial liability and are measured at amortized cost. The fair value of loans and borrowings included in the consolidated statement of financial position approximates carrying values as the indebtedness is subject to floating rates of interest.

The Company has no financial instruments that are recorded at fair values.

Capital management

The Board of Directors' policy is to maintain a strong capital base to maintain investor, creditor and market confidence and to sustain future development of the business. Management and the Board of Directors monitor capital using loans and borrowings, including current portion to total capitalization and funded debt to earnings before interest, taxes, depreciation, amortization and share-based compensation ("Credit Agreement EBITDA") both of which are defined in the credit agreement.

The Board of Directors seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

The Company's Credit Agreement EBITDA ratios at the end of the reporting period is disclosed in note 9.

There were no changes in the Company's approach to capital management during the year.

OFFICERS

Tom Connors, President and Chief Executive Officer

P. Scott MacFarlane, Interim Chief Financial Officer

Randy H. Pustanyk, Executive Vice President

Lee Harns, President, Altitude Energy Partners

Fawzi Irani, President, Discovery Downhole Services

DIRECTORS

J.R. Boyles

Ian S. Brown

Tom Connors

Shuja Goraya

Rod Maxwell

Randy H. Pustanyk

Scott Sarjeant

Dale E. Tremblay

AUDITORS

KPMG LLP

Calgary, Alberta

LEGAL COUNSEL

DS Lawyers

Calgary, Alberta

REGISTRAR AND TRANSFER AGENT

Computershare Trust Company of Canada

Calgary, Alberta

FINANCIAL INSTITUTION

ATB Financial – syndicate lead

Canadian Western Bank

HSBC Bank Canada

The Toronto Dominion Bank

STOCK EXCHANGE LISTING

Toronto Stock Exchange (TSX: CET / CET.WT)

CATHEDRAL

6030 – 3rd Street S.E.

Calgary, Alberta T2H 1K2

Tel: 403.265.2560 Fax: 403.262.4682

www.cathedralenergyservices.com