

## NEWS RELEASE

### **CATHEDRAL ENERGY SERVICES ANNOUNCES SIGNIFICANT EXPANSION OF US OPERATIONS WITH AGREEMENT TO ACQUIRE ALTITUDE ENERGY PARTNERS FOR \$100MM USD**

CALGARY, AB, CANADA – July 4, 2022 – Cathedral Energy Services Ltd. (TSX:CET) (“**Cathedral**” or the “**Company**” or “**CET**”) today announced that it has entered into an agreement (the “**Agreement**”) to acquire the directional drilling services business (the “**Acquired Business**”) of Altitude Energy Partners, LLC (“**Altitude**”), a portfolio company of Black Bay Energy Capital, LLC (“**Black Bay**”), for a purchase price of approximately USD \$100 million (the “**Acquisition**”) payable in a combination of cash and common shares of Cathedral (“**Acquisition Shares**”). Altitude is a privately-held, U.S.-based, directional drilling services business with headquarters in Wyoming, executive leadership based in Houston, and significant operations in Texas, most prominently in the Permian Basin.

The Acquisition is expected to close in early July 2022. The terms of the Acquisition were negotiated at arm's length.

#### **Benefits of the Acquisition**

- ***Combined US market share among the top service providers estimated at 7%, with a significant Permian presence***
- ***Immediate presence in the Permian, Haynesville, Bakken, DJ, Powder River with expansion into the Marcellus in progress***
- ***Experienced, proven management aligned for future growth with equity ownership in Cathedral***
- ***Highly accretive deal for Cathedral on every metric including cash flow per share and free cash flow per share <sup>1</sup>***
- ***Cumulative free cash flow <sup>1</sup> generated from the Acquisition, on a stand-alone basis, is expected to exceed the purchase price in less than three years***
- ***Significant opportunity to expand Adjusted EBITDAS<sup>1</sup> by replacing third-party-supplied technology providing additional upside to Cathedral shareholders***
- ***Establishes Cathedral into the US rotary steerable system (“RSS”) market with proven Altitude track record***
- ***Highly-complementary asset bases provide for enhanced scale, utilization, efficiencies and expanded services for our customers***
- ***Conservative pro forma leverage metrics and visibility to a very low debt profile within 12-18 months***
- ***Creates a larger scale public entity with increased capital markets presence***

1 - See Non-GAAP measures

“Cathedral has been actively engaged in a North American strategy to build size and scale and Altitude represents a major step forward in that plan. Each acquisition to date has brought Cathedral highly-experienced people, diversity of regional exposure or in certain cases, technologies that are additive to our offering.” said Tom Connors, President and CEO of Cathedral. “This transaction with Altitude represents a transformative step forward by Cathedral, with a combined US market share of approximately 7%, providing immediate size and scale and placing us firmly on the road to becoming a leading independent directional drilling company in both the US and Canada.”

Mr. Connors continued, “The cash flow generated by Altitude is expected to pay back in under three years, similar to our recent transactions, and is highly accretive to shareholders on every metric including cash flow per share and free cash flow per share (see Non-GAAP measures). We also see tremendous opportunity to grow the business and drive substantial incremental Adjusted EBITDAS (see Non-GAAP measures) by replacing third-party provided technology over time with existing Cathedral MWD and drilling technologies. As we expand our technology platform going forward, accelerated with the recent addition of Axel Schmidt and LEXA Drilling Technologies, Altitude will also help provide a wider distribution channel to grow market share more rapidly in the US.”

The company plans to operate under the Altitude name and brand in the US. Further, the Altitude management team and its people will lead and operate Cathedral’s existing US directional drilling business. Mr. Lee Harns, the current President and CEO of Altitude, will remain as President of the business unit. Joining Mr. Harns, will be Tyler Clark, the current COO, and Alex Bougaieff, the current CFO, along with several key long-standing employees and the entire Altitude operational team. Mr. Connors added: “This is a people business. We were very impressed with the depth, experience, professionalism, and dedication of the Altitude team as a whole and are excited about the opportunities our combined strengths will provide”. It is important to note the founding group of investors and several key employees of Altitude have agreed to accept a large portion of their transaction consideration in the form of equity that will be restricted for various periods of time. “We believe this shows incredible conviction in the growth strategy we have outlined for the combined businesses”, says Mr. Connors.

Altitude owns and deploys 360 downhole high-performance mud motors and 13 RSS tools, with 3 additional RSS tools expected for delivery in the back half of this year, across its operations. Cathedral expects to achieve further deal accretion on real estate and general and administrative (G&A) synergies, but these are not included in the forecast or deal valuation. The company expects operational synergies and expanded capacity with the addition of Altitude’s mud motor technology fleet, which shares the same design as Cathedral’s fleet of mud motors, recently acquired through Discovery Downhole Services. Cathedral’s existing proprietary mud motor technology can also be deployed by Altitude, to enhance our capabilities and capacity to pursue opportunities in areas such as the Marcellus, in the Northeast US.

Lee Harns, President and CEO of Altitude Energy Partners expanded, “Altitude has always been a performance and client-driven organization with the mission to provide our customers with enhanced, customized, directional drilling solutions, and at the heart of this mission is our people. We want to thank our resilient and professional team for their hard work and immense contributions to date. Altitude and Cathedral are aligned in our core values and we look forward to achieving new heights as a combined organization. We’re proud to have the brand we’ve built as Altitude continue on under the Cathedral umbrella and are confident the addition of Cathedral’s, technology, strong complementary market presence, and public market support will only help propel our market share further and help us firmly establish ourselves as one of the pre-eminent independent directional drillers in the US as well as Canada.”

## Key Personnel Being Retained

Under the terms of the Agreement, Cathedral will retain key Altitude personnel under employment and consulting contracts to ensure a seamless customer service experience, successful integration and long-term alignment with Cathedral's strategy.

Mr. Lee Harns, the current President and CEO of Altitude, will enter into an employment agreement to continue as President of the Altitude business unit after the Acquisition, and accordingly will become an executive officer of Cathedral. Following the completion of the Acquisition, Mr. Harns is expected to exercise control over approximately 13,203,103 Common Shares representing approximately 6.2% of the issued and outstanding Common Shares.

Mr. J.R. Boyles, a director and founder of Altitude, will be appointed to Cathedral's board of directors, subject to the completion of ordinary course due diligence prior to closing of the Acquisition. Following the completion of the Acquisition, it is expected that Mr. Boyles will exercise control over approximately 19,449,197 Common Shares, representing approximately 9.1% of the issued and outstanding Common Shares.

## Select Pro Forma Financial Information

The issuance of approximately 67,031,167 Acquisition Shares under the Agreement to the sellers of the Acquired Business would represent approximately 45.4% of the issued and outstanding common shares of Cathedral ("**Common Shares**") on a non-diluted basis, prior to the Acquisition (based on 147,559,328 Common Shares outstanding prior to the Acquisition on a non-diluted basis). See section below entitled "Consideration" for more details. Select pro forma financial information appears in the table below.

Common Shares Outstanding	214 million
Market Capitalization <sup>1</sup>	C\$118 million
Net Debt <sup>2</sup> (incl Cathedral Lease Liabilities)	C\$98 million
Enterprise Value <sup>3</sup>	C\$216 million

<sup>1</sup> Based on Cathedral's closing share price on the TSX as at June 29, 2022

<sup>2</sup> See Non-GAAP measures

<sup>3</sup> Based on March 31, 2022 financial results

## Effect on Control

The Acquisition is not anticipated to materially affect control of Cathedral. No new control person is created as a result of the Acquisition.

## Consideration

In connection with the Acquisition, the Company expects to pay the consideration ("Purchase Price") as follows:

- Cash consideration of USD \$62,675,000 (the "**Cash Consideration**") which will be funded through cash on hand and expanded credit availability under the Company's term and revolving credit facilities; and

- the issuance of 67,031,167 Acquisition Shares at a deemed price of \$0.7127 per share, which represents approximately 45.4% of the Company's outstanding Common Shares, pre-transaction, on a non-diluted basis; and

The deemed price per share of \$0.7127 for the Acquisition Shares issuable pursuant to the Acquisition would represent an 12.3% premium to the 5-day VWAP of the Common Shares for the 5-day period ended Monday, June 27, 2022.

### **Resale Restrictions**

- Approximately 41,888,781 Acquisition Shares issued will be subject to contractual re-sale restrictions which expire as to 1/3 on the dates which are 12 months, 24 months and 36 months following the date of completion of the Acquisition (the "**Closing Date**").
- Approximately 11,673,188 Acquisition Shares issued will be subject to contractual re-sale restrictions which expire as to 1/3 on the dates which are 4 months, 6 months and 8 months following the Closing Date, (with such restrictions to be fully or partially lifted, as the case may be, (i) upon the prior consent of Cathedral, not to be unreasonably withheld, taking into account Cathedral's status as a publicly traded company, or (ii) following the date when the aggregate number of Acquisition Shares subject to this clause has been reduced, in compliance with the terms and conditions set forth in the Agreement.
- Approximately 13,469,198 Acquisition Shares will be placed into escrow (the "**Escrow Shares**") and released from escrow as to 20% every 12 months for a period of 5 years.
- The escrow restrictions on the Escrow Shares may be lifted early if the Acquired Business has achieved \$150 million USD in Adjusted EBITDAS (see Non-GAAP measures) within 36 months following the closing date.

### **Cash Consideration and Debt Financing**

In concert with the Agreement, Cathedral has signed a binding arrangement with ATB Financial ("ATB") as lead arranger and administrative agent, and Canadian Western Bank ("CWB") to provide the Company with committed financing by way of a three-year \$99 million credit facility available at closing (the "Credit Facility"), comprised of a C\$74 million term loan (the "Term Loan"), a C\$15 revolving borrowing base loan (the "Operating Facility") and a C\$10 million revolving line (the "Line Facility"). The Credit Facility will be utilized to replace and repay Cathedral's existing term loan and operating facility. As at the close of the acquisition, we expect net debt (see Non-GAAP measures) to be C\$98 million, inclusive of lease liabilities. Mr. Connors stated, "With the strong visibility in activity over the next 18 months and with conservatively projected cash flow from the combined entity, we anticipate we will have the capacity to substantially reduce an already conservative debt profile by the end of 2023."

### **Other Terms of The Agreement**

The Purchase Price assumes that the Acquired Business will be purchased on a cash-free and debt-free basis and provides for a purchase price adjustment 90 days after closing based on working capital.

The Agreement may be terminated by the mutual agreement of the parties thereto or if the Acquisition is not closed within 30 days of the date of the Agreement.

## **Requirements of the TSX**

The Acquisition Shares to be issued to the shareholders of Altitude in partial satisfaction of the Purchase Price will exceed 25% of the issued and outstanding Common Shares of the Company, on a non-diluted basis, prior to completion of the Acquisition. Therefore, under Section 611(c) of the rules of the TSX, shareholder approval of the Acquisition is required. The Corporation is relying on the exemption in Section 604(d) of the rules of the TSX, whereby instead of holding a shareholder meeting, the Corporation has obtained the written consent for the Acquisition of shareholders of the Corporation holding greater than 50% of the issued and outstanding Common Shares of the Corporation.

In accordance with TSX policies, the Acquisition will not close until the date that is five (5) Business Days from the date of this announcement or shortly thereafter.

## **Advisors**

Peters & Co. Limited is acting as financial advisor to Cathedral with respect to the Acquisition and has provided its opinion to the board of directors of Cathedral that, based upon and subject to the assumptions, limitations and qualifications set forth therein, the consideration to be paid by Cathedral pursuant to the Acquisition is fair, from a financial point of view, to Cathedral.

Acumen Capital Finance Partners Limited has also provided an opinion to the board of directors of Cathedral that, based upon and subject to the assumptions, limitations and qualifications set forth therein, the consideration to be paid by Cathedral pursuant to the Acquisition is fair, from a financial point of view, to Cathedral.

ATB Capital Markets, Canaccord Genuity Corp., Cormark Securities Inc., and Stifel FirstEnergy are acting as strategic advisors to Cathedral with respect to the Acquisition.

DS Lawyers Canada LLP, Porter Hedges LLP and Gordon Lusky LLP acted as legal counsel to Cathedral.

Parks Paton Hoepfl & Brown, LLC (PPHB) acted as Altitude and Black Bay's financial advisor and investment bank with respect to the Acquisition. Fishman Haygood and Stikeman Elliot acted as legal counsel to Altitude and Black Bay.

## **Certain U.S. Legal Matters**

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

## **ABOUT CATHEDRAL**

Cathedral Energy Services Ltd., based in Calgary, Alberta is incorporated under the Business Corporations Act (Alberta) and operates in the U.S. under Cathedral Energy Services Inc. Cathedral is publicly-traded on the Toronto Stock Exchange under the symbol "CET". Cathedral is a trusted partner to North American energy companies requiring high performance directional drilling services. We work in partnership with our customers to tailor our equipment and expertise to meet their specific geographical and technical needs. Our experience, technologies and responsive personnel enable our customers to achieve higher efficiencies and lower project costs. For more information, visit [www.cathedralenergyservices.com](http://www.cathedralenergyservices.com)

## **FORWARD-LOOKING INFORMATION**

This press release contains statements and information that may constitute "forward-looking information" within the meaning of applicable securities legislation, including statements identified by the use of words such as "will", "expects", "positions", "believe", "potential" and similar words, including negatives thereof, or other similar expressions concerning matters that are not historical facts. Forward-looking information in this news release includes, but is not limited to, statements regarding: the anticipated closing of the Acquisition; anticipated successful integration of the Altitude assets and personnel; anticipated combined U.S. market share; anticipated levels of indebtedness; cash flow; free cash flow (see Non-GAAP measures); Adjusted EBITDAS (see Non-GAAP measures); pay back; operational and G&A synergies; and Cathedral's business plans and strategies for growth. Such forward-looking information is based on various assumptions that may prove to be incorrect, including, but not limited to, assumptions with respect to: the anticipated timing and successful closing of the Acquisition in accordance with the terms of the Agreement; the benefits from the Acquisition; the integration of the Altitude business into Cathedral's business; conditions in the oil and gas markets and debt and equity markets generally; the ability of the Company to successfully implement its strategic plans and initiatives and whether such strategic plans and initiatives will yield the expected benefits. Although the Company believes that such assumptions are reasonable, the Company can give no assurance that such forward-looking statements will prove to be correct or that any of the events anticipated by such forward-looking statements will occur, or if any of them do so, what benefits the Company will derive there from. Actual results could differ materially due to a number of factors and risks including, but not limited to: the failure to close the Acquisition for any reason, including if the Agreement is terminated for any reason, the risk that Cathedral will not be able to integrate the Altitude business as anticipated or at all; the risk that the Altitude business will not yield operational or financial benefits as anticipated or at all; the risk that demand for Cathedral's services will not be as anticipated; conditions in the oil and gas and financial markets in Canada and the United States; the ability of management to execute and fund its business strategy; and the impact of general economic conditions in Canada and the United States. Additional information regarding risks and uncertainties of the Company's business are contained under the heading "Risk Factors" in the Company's annual information form for the financial year ended December 31, 2021 and the Company's other public filings which are available under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com). The forward-looking information included in this news release is made as of the date of this news release and the Company does not undertake an obligation to publicly update such forward-looking information to reflect new information, future events or otherwise, except as required by applicable law.

This press release also contains financial outlook information ("**FOFI**") about prospective results of operations, cash flows, and projected net debt (see Non-GAAP measures), which are subject to the same assumptions, risk factors, limitations, and qualifications as set forth in the above paragraphs. FOFI contained in this press release was made as of the date of this press release to provide information about management's current expectations and plans relating to the future. Readers are cautioned that such information may not be appropriate for any other purpose. Cathedral disclaims any intention or obligation to update or revise any FOFI contained in this press release, whether as a result of new information, future events or otherwise, except as required by applicable law.

### **NON-GAAP MEASURES**

Cathedral uses certain performance measures in this document that are not defined under International Financial Reporting Standards (IFRS). Management believes that these measures provide supplemental financial information that is useful in the evaluation of Cathedral's operations and are commonly used by other oilfield companies. Investors should be cautioned, however, that these measures should not be construed as alternatives to measures determined in accordance with 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.

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

"Free cash flow per share" is a non-GAAP measure calculated as net cash provided by operating activities less purchases of property and equipment and intangible assets, divided by the number of issued and outstanding shares of the Corporation. Free cash flow is considered an indicator of the Corporation's ability to generate cash flow from operations.

"Net debt" is a non-GAAP measure calculated as short and long-term debt less cash and cash equivalents. Net debt is considered an indicator to assess the Corporation's overall indebtedness and capital structure.

Requests for further information should be directed to:

Tom Connors, President & Chief Executive Officer

Ian Graham, Chief Financial Officer

Cathedral Energy Services Ltd.

6030 3 Street S.E.

Calgary, Alberta T2H 1K2

Telephone: 403.265.2560, Fax: 403.262.4682

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