CATHEDRAL

2023

# ANNUAL REPORT

## LETTER TO SHAREHOLDERS

To my fellow shareholders:

We are proud to report that Cathedral achieved its highest revenue and Adjusted EBITDAS for any year going back to its founding in 1998 despite the challenges of lower activity levels in the United States ("U.S.") market combined with a much lower commodity price environment compared to that of 2022. Revenue was over $545 million while Adjusted EBITDAS topped $90 million in 2023. To put the transformation in context, Cathedral generated less than $5 million of Adjusted EBITDAS annually in 2019 and 2021, the two years that bracketed the severe activity pullback in 2020 from the COVID-19 global pandemic. The Company set out several years ago to achieve size and scale in the North American directional drilling business and we are well on our way.

In Canada, Cathedral ranks among the most active directional drillers in the country and outpaced the market with the highest levels of activity of any contractor at certain points in 2024 Q1, while in the U.S. Cathedral is among the largest providers of directional services with a particular focus on the important Permian play and the Rockies. Cathedral has three operating divisions in the U.S. (Altitude Energy Partners, Discovery Downhole Services and Rime Downhole Technologies) and each weathered the commodity price volatility of 2023 quite well.

**U.S. operations and the Rime acquisition**

Cathedral's U.S. directional drilling provider, Altitude Energy Partners ("Altitude"), grew its job count in 2023 and this is best shown in 2023 Q4 results where operating days grew 13% versus a U.S. land rig count that declined 21% from Q4 2022 (source: Baker Hughes). Altitude relied on an excellent operating track record and strong client relationships to grow its presence in the U.S. during a period of slowing activity. With a continued focus on drilling performance, Altitude was also able to increase its average revenue per operating day slightly in 2023 Q4 due to a higher mix of rotary steerable as a portion of the overall job count. Altitude's strong presence in U.S. plays with better economics and with larger clients has helped it weather the rapidly changing conditions of 2023. Being the supplier to many of our competitors in a slower market, we did experience a decrease in utilization in our U.S. mud motor rental business but continue to keep pace with the market due to our focus on high-performance mud motor technology.

Cathedral's purchase of Rime Downhole Technologies ("Rime") in July 2023 will allow the Company to address one of the major value capture opportunities in its U.S. directional business – the operating margin lost from renting third-party Measurement-While-Drilling ("MWD") systems. At current activity levels, Cathedral estimates that it is spending U.S. Dollars ("USD") $25 million to $30 million of margin annually to third parties for MWD technology to supply on its own work, which represents a substantial opportunity for margin expansion over the next twelve to eighteen months for very reasonable levels of capital investment and very compelling rates of return. Rime has distinguished itself in the U.S. land drilling market by becoming one of the largest suppliers of components for MWD systems. Rime has already supplied ten MWD systems for Altitude to help replace third-party rental products and begin the process of margin expansion in 2024. In a year where forecasted activity levels are anticipated to be flat-to-slightly negative versus 2023 in North America, Cathedral can demonstrate meaningful continued growth driven by a reduction in expenses utilizing organically-developed technology.

**Canadian operations**

In Canada, revenues grew 33% in 2023 over the previous year due to an increase in both operating days and an average revenue per operating day driven by increasing demand for services and high-performance technology from our customers. This compares to a 1% decline in the average Canadian rig count in 2023 versus 2022 (source: Rig Locator). More recently, Cathedral's 2023 Q4 operating days and average revenue per operating day were both roughly flat vs 2023 Q3 levels while the Canadian rig count declined by 5.3% (source: Rig Locator). Cathedral is a preeminent player in Western Canadian plays where wells have a high multilateral count, which helps the company weather volatility in oil prices and, more recently, the deep downturn in natural gas prices.

**Balance sheet update and NCIB program**

In regard to our ongoing efforts to strengthen the balance sheet, Cathedral remains focused on paying its loans and borrowings and generating Free cash flow. The Company continues to target the reduction of loans and borrowings to less than 0.5x Adjusted EBITDAS by year end 2024, which should help it move closer to a broader shareholder return strategy. To date, Cathedral has been active under its Normal Course Issuer Bid ("NCIB") program, which marks phase one of its pursuit to increase shareholder returns. Management believes that buying Cathedral shares at current share price levels represents good value and a sensible use of capital while also staying focused on paying down loans and borrowings built up from the strategic acquisitions of Altitude and more recently Rime.

Finally, I want to take this opportunity to thank both our employees for their dedication and our shareholders for their support as we continue to execute on our size and scale strategy and our vision to build Cathedral into a preeminent player in the North American directional technology market.

## ANNUAL GENERAL MEETING

Shareholders are invited to attend the Annual General and Special Meeting which will be held at 3:30 pm on May 9, 2024 at Cathedral Energy Services Ltd.'s Head Office, 6030 – 3 Street SE, Calgary, Alberta.

# MANAGEMENT'S DISCUSSION & ANALYSIS

Cathedral Energy Services Ltd. (the "Company" or "Cathedral") is a publicly traded company listed on the Toronto Stock Exchange ("TSX") under the symbol "CET". 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.").

This Management's Discussion & Analysis ("MD&A") for the year ended December 31, 2023 is dated March 26, 2024 and should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the year ended December 31, 2023, as well as the Company's 2023 interim MD&As. 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. This MD&A is presented in Canadian dollars (tabular amounts in thousands), except for average revenue per operating day and per share amounts.

Cathedral uses certain performance measures throughout this MD&A that are not defined under International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS Accounting Standards"). See the "Non-GAAP Measures" section in this MD&A.

## 2023 KEY HIGHLIGHTS

The Company achieved the following 2023 results and highlights:

- Revenues of $545.3 million in 2023 is the highest annual revenues in the Company's history and represents an increase of 71%, compared to $319.0 million in 2022.
- Adjusted EBITDAS (1) of $90.9 million in 2023, also established a new corporate record, increasing 33%, compared to $68.2 million in 2022.
- Higher U.S. and Canadian job count and operating days in 2023, compared to 2022, despite overall lower industry rig counts (2).
- An increase in the Canadian average revenue per operating day of 19% in 2023, compared to 2022.
- An increase in the U.S. average revenue per operating day of 9% in 2023 Q4, compared to 2023 Q3, owing to a greater mix of rotary steerable systems ("RSS") work.
- Net income of $10.6 million in 2023 was lower than the $18.3 million net income in 2022. The decrease was mainly related to increased acquisition-related depreciation and amortization costs which will normalize over time. In addition, the Company recognized a non-cash provision of $5.4 million in 2023 (3).
- Cash flow - operating activities of $70.0 million in 2023, compared to $39.9 million in 2022.
- Free cash flow (1) of $29.0 million in 2023, compared to $25.6 million in 2022.
- The Company purchased 4,294,900 common shares of Cathedral under its normal course issuer bid ("NCIB") for a total amount of $3.8 million at an average price of $0.82 per common share.
- The Company acquired Rime Downhole Technologies, LLC ("Rime"), a privately-held, Texas-based, engineering business that specializes in building products for the downhole Measurement-While-Drilling ("MWD") industry in exchange for approximately U.S. dollars ("USD") $41.0 million (4).
- Subsequent to the acquisition of Rime in July 2023, loans and borrowings less cash was $67.9 million as at December 31, 2023, compared to $69.4 million as at December 31, 2022. The Company continues to focus on reducing its loans and borrowings and generating Free cash flow (1) in 2024.
- The Company continues to see a significant opportunity for margin expansion in its U.S. directional business by using Rime-supplied MWD systems to reduce its third-party rental costs.

(1) As defined in the 'Non-GAAP measures' section of this MD&A.
(2) Per Baker Hughes and Rig Locator.
(3) Refer to the 'Provisions' section in this MD&A.
(4) Refer to the '2023 Acquisitions' section in this MD&A.

## FINANCIAL HIGHLIGHTS

Canadian dollars in 000's except for otherwise noted

| | Three months ended December 31, 2023 | 2022 | Year ended December 31, 2023 | 2022 |
|---|---|---|---|---|
| Revenues [2] | $ 145,419 | $ 139,148 | $ 545,297 | $ 319,013 |
| Gross margin % [2] | 20% | 23% | 19% | 22% |
| Adjusted gross margin % [1][2] | 29% | 31% | 27% | 31% |
| Adjusted EBITDAS [1] | $ 27,369 | $ 30,284 | $ 90,884 | $ 68,187 |
| Adjusted EBITDAS margin % [1] | 19% | 22% | 17% | 21% |
| Cash flow - operating activities [2] | $ 16,589 | $ 23,041 | $ 69,984 | $ 39,881 |
| Free cash flow [1][2] | $ 14,303 | $ 17,301 | $ 28,966 | $ 25,612 |
| Net income | $ 1,767 | $ 10,270 | $ 10,628 | $ 18,347 |
| Per share - basic and diluted | $ 0.01 | $ 0.05 | $ 0.04 | $ 0.11 |
| Weighted average shares outstanding: | | | | |
| Basic (000s) | 242,265 | 221,475 | 237,562 | 162,551 |
| Diluted (000s) | 267,828 | 226,564 | 252,597 | 166,130 |

| Balance, | December 31, 2023 | December 31, 2022 |
|---|---|---|
| Working capital, excluding current portion of loans and borrowings [1] | $ 74,865 | $ 60,447 |
| Total assets | $ 403,733 | $ 353,990 |
| Loans and borrowings | $ 78,598 | $ 80,535 |
| Shareholders' equity | $ 179,468 | $ 153,897 |

[1] Refer to the 'Non-GAAP Measures' section in this MD&A.
[2] Refer to the 'Reclassifications' section in this MD&A.

## RECLASSIFICATIONS

The Company has changed the presentation of certain figures in the year ended December 31, 2022 related to equipment lost-in-hole reimbursements collected from customers and the corresponding derecognition of the property, plant and equipment ("PP&E").

More specifically, the Company reclassified its gain on disposal of PP&E as follows: a) reclassified the proceeds on disposal of PP&E, related to lost-in-hole equipment, to revenues and b) recognized a write-off of PP&E for the net book value of the lost-in-hole equipment on the consolidated statement of comprehensive income. In addition, the lost-in-hole proceeds were reclassified from the Company's cash flows - investing activities to the cash flows - operating activities on the consolidated statement of cash flows.

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

These reclassifications recognized in the three months and year ended December 31, 2022 are summarized below:

<u>Consolidated Statement of Comprehensive Income (Excerpt)</u>

| | Three months ended December 31, 2022 Reported | Adjustment | Adjusted | Year ended December 31, 2022 Reported | Adjustment | Adjusted |
|---|---|---|---|---|---|---|
| Revenues: | | | | | | |
| Canada | $ 42,673 | $ 906 | $ 43,579 | $ 117,683 | $ 3,833 | $ 121,516 |
| United States | 85,845 | 9,724 | 95,569 | 180,718 | 16,779 | 197,497 |
| Total revenues | 128,518 | 10,630 | 139,148 | 298,401 | 20,612 | 319,013 |
| Cost of sales | (103,929) | (2,740) | (106,669) | (243,419) | (4,798) | (248,217) |
| Gross margin | 24,589 | 7,890 | 32,479 | 54,982 | 15,814 | 70,796 |
| Write-off of PP&E | — | (1,059) | (1,059) | — | (2,545) | (2,545) |
| Gain (loss) on disposal of PP&E | $ 6,937 | $ (6,938) | $ (1) | $ 13,492 | $ (13,376) | $ 116 |

Consolidated Statement of Cash Flows (Excerpt)

| | Three months ended December 31, 2022 | | | Year ended December 31, 2022 | | |
|---|---|---|---|---|---|---|
| | Reported | Adjustment | Adjusted | Reported | Adjustment | Adjusted |
| Cash flow provided by (used in): | | | | | | |
| **Operating activities** | | | | | | |
| Loss (gain) on disposal of PP&E | $ (6,937) | $ 6,938 | $ 1 | $ (13,492) | $ 13,376 | $ (116) |
| Write-off of PP&E | — | 1,059 | 1,059 | — | 2,545 | 2,545 |
| Changes in non-cash operating working capital [(1)] | (8,283) | 684 | (7,599) | (27,113) | — | (27,113) |
| Cash flow - operating activities | 14,360 | 8,681 | 23,041 | 23,960 | 15,921 | 39,881 |
| **Investing activities** | | | | | | |
| Cash paid on acquisitions, net of cash acquired [(1)] | (55) | (733) | (788) | (104,581) | — | (104,581) |
| PP&E additions | (12,152) | 2,855 | (9,297) | (30,894) | 4,497 | (26,397) |
| Proceeds on disposal of equipment | 10,501 | (10,501) | — | 21,795 | (20,117) | 1,678 |
| Cash flow - investing activities | (615) | (8,379) | (8,994) | (115,804) | (15,620) | (131,424) |
| Effect of exchange rate on changes on cash | $ 2,258 | $ (302) | $ 1,956 | $ 2,543 | $ (301) | $ 2,242 |

[(1)] The Company made reclassifications in the consolidated statement of cash flows for three months ended December 31, 2022 related to the cash paid on acquisitions, net of cash acquired and the respective acquired net assets. There was no impact during the year ended December 31, 2022.

## NON-GAAP MEASURES

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

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

These non-GAAP measures are defined as follows:

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

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

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

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

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

**vi)** **"Free cash flow"** - calculated as cash flow - operating activities prior to: i) changes in non-cash working capital, ii) income tax paid (refunded) and iii) non-recurring costs less: i) PP&E additions, excluding assets acquired in business combinations, ii) required repayments on loans and borrowings, in accordance with the Company's credit facility agreement, and iii) repayments of lease liabilities, net of finance costs, offset by proceeds on disposals of PP&E. Management uses this measure as an indication of the Company's ability to generate funds from its operations to support future capital expenditures, additional repayments of loans and borrowings or other initiatives (see tabular calculation).

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

In addition, there were reclassification adjustments related to the cash flow - operating activities, proceeds on disposal of PP&E and PP&E additions, as described in the "Reclassifications" section in this MD&A; and

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

**viii) "Net capital expenditures"** - calculated as the gross capital expenditures less reimbursements from customers for equipment lost-in-hole and damaged beyond repair, net of payments to vendors for equipment lost-in-hole or damaged beyond repair - refer to the "Capital expenditures" section of this MD&A.

The following tables provide reconciliations from the IFRS Accounting Standards to non-GAAP measures included in this MD&A.

**Adjusted gross margin**

| | Three months ended December 31, | | Year ended December 31, | |
|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 |
| Gross margin [(1)] | $ 29,783 | $ 32,479 | $ 105,329 | $ 70,796 |
| Add non-cash items included in cost of sales: | | | | |
| Write-down of inventory included in cost of sales | 524 | 107 | 1,501 | 107 |
| Depreciation and amortization | 11,171 | 10,660 | 41,019 | 28,687 |
| Share-based compensation | 249 | 302 | 918 | 622 |
| Adjusted gross margin | $ 41,727 | $ 43,548 | $ 148,767 | $ 100,212 |
| Adjusted gross margin % | 29% | 31% | 27% | 31% |

[(1)] Refer to the "Reclassifications" section in this MD&A.

**Adjusted EBITDAS**

| | Three months ended December 31, | | Year ended December 31, | |
|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 |
| Net income | $ 1,767 | $ 10,270 | $ 10,628 | $ 18,347 |
| Add (deduct): | | | | |
| Income tax expense | 5,617 | 5,283 | 9,559 | 4,614 |
| Depreciation and amortization included in cost of sales | 11,171 | 10,660 | 41,019 | 28,687 |
| Depreciation and amortization included in selling, general and administrative expenses | 2,289 | (635) | 7,596 | 3,009 |
| Share-based compensation included in cost of sales | 249 | 302 | 918 | 622 |
| Share-based compensation included in selling, general and administrative expenses | 1,004 | 356 | 4,183 | 765 |
| Finance costs - loans and borrowings | 2,446 | 3,266 | 7,948 | 5,290 |
| Finance costs - lease liabilities | 214 | 200 | 848 | 784 |
| Unrealized foreign exchange loss (gain) on intercompany balances | 69 | (709) | (930) | 1,802 |
| Non-recurring expenses and inventory write-down | 2,543 | 1,291 | 9,115 | 4,267 |
| Adjusted EBITDAS | $ 27,369 | $ 30,284 | $ 90,884 | $ 68,187 |
| Adjusted EBITDAS margin % | 19% | 22% | 17% | 21% |

**Free cash flow**

| | Three months ended December 31, 2023 | 2022 | Year ended December 31, 2023 | 2022 |
|---|---|---|---|---|
| Cash flow - operating activities [1] | $ 16,589 | $ 23,041 | $ 69,984 | $ 39,881 |
| Add (deduct): | | | | |
| Income tax paid (refund) | 4,633 | (480) | 5,479 | (538) |
| Changes in non-cash operating working capital [1] | 4,928 | 7,599 | 12,141 | 27,113 |
| Non-recurring expenses | 2,019 | 1,184 | 7,614 | 4,160 |
| Proceeds on disposal of property, plant and equipment [1] | 454 | — | 1,187 | 1,678 |
| Less: | | | | |
| Property, plant and equipment additions[1][2] | (8,327) | (9,297) | (46,177) | (26,397) |
| Required repayments on loans and borrowings[3] | (5,118) | (3,728) | (17,727) | (17,151) |
| Repayments of lease liabilities, net of finance costs | (875) | (1,018) | (3,535) | (3,134) |
| Free cash flow | $ 14,303 | $ 17,301 | $ 28,966 | $ 25,612 |

[1] Refer to the 'Reclassifications' section in this MD&A.
[2] Property, plant and equipment additions exclude non-cash additions and assets acquired in business combinations.
[3] Required repayments on loans and borrowings in accordance with the credit facility agreement. Excludes discretionary debt repayments.

## 2023 ACQUISITION

On July 11, 2023, Cathedral, through a wholly-owned subsidiary, acquired Rime, a privately-held, Texas-based, engineering business that specializes in building products for the downhole MWD industry (the "Rime acquisition") in exchange for approximately USD $41.0 million (approximately CAD $54.1 million) comprised of: i) the payment of USD $21.0 million in cash (approximately CAD $28.0 million); and ii) the issuance of principal amount of USD $20.0 million (approximately CAD $26.4 million) of subordinated exchangeable promissory notes ("EP Notes") that are exchangeable into a maximum of 24,570,000 common shares of Cathedral ("EP Shares") at an issue price of CAD $1.10 per common share. In accordance with International Accounting Standards ("IAS") 32 and IFRS 13, the EP notes were determined to be a compound instrument and, accordingly, recognized at the fair value of their respective debt component of $23.4 million and equity component of $1.2 million totaling $24.6 million.

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

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

| As at | July 11, 2023 |
|---|---|
| Consideration: | |
| Cash | $ 27,954 |
| Exchangeable promissory notes | 24,632 |
| Total consideration | $ 52,586 |
| Purchase price allocation: | |
| Cash | $ 528 |
| Inventory | 7,119 |
| Other net working capital | 3,373 |
| Property, plant and equipment | 3,817 |
| Right-of-use assets | 492 |
| Lease liabilities | (492) |
| Intangible assets | 35,850 |
| Goodwill | 1,487 |
| Deferred tax asset | 412 |
| Total purchase price allocation | $ 52,586 |

## 2022 ACQUISITIONS

| | Discovery | Compass | LEXA | Altitude | Ensign | Total |
|---|---|---|---|---|---|---|
| **Consideration:** | | | | | | |
| Number of common shares issued | 5,254,112 | 6,253,475 | 1,772,727 | 67,031,032 | 7,017,988 | 87,329,334 |
| Common share price of issuances | 0.52 | 0.69 | 0.63 | 0.55 | 0.85 | |
| Common share consideration | $ 2,732 | $ 4,315 | $ 1,117 | $ 36,867 | $ 5,965 | $ 50,996 |
| Settlement of technology license from pre-existing relationship | — | — | 644 | — | — | 644 |
| Cash consideration | 18,160 | 4,000 | — | 87,245 | — | 109,405 |
| | $ 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 | (1,579) | (316) | — | (2,354) | — | (4,249) |
| Intangible assets | — | — | 1,574 | 35,720 | — | 37,294 |
| Goodwill | — | — | — | 37,753 | — | 37,753 |
| Deferred tax liability | — | (647) | (174) | (5,482) | — | (6,303) |
| | $ 20,892 | $ 8,315 | $ 1,761 | $ 124,112 | $ 5,965 | $ 161,045 |

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

- U.S.- based company, Altitude Energy Partners, LLC (“Altitude”) in July 2022 for total consideration of $124.1 million, comprised of a cash payment of $87.2 million and a common share issuance of $36.9 million. 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;
- U.S.- based operations, Discovery Downhole Services (“Discovery”) in February 2022 for total consideration of $20.9 million, comprised of a cash payment of $18.2 million and a common share issuance of $2.7 million. The acquisition included the operating assets and non-executive personnel of Discovery's U.S.- based, high-performance mud motor technology rental business;
- LEXA Drilling Technologies Inc. (“Lexa”), a Calgary, Alberta based technology company, in June 2022 for total consideration of $1.8 million;
- the operating assets of Compass Directional Services (“Compass”) in June 2022 for total consideration of $8.3 million, comprised of a cash payment of $4.0 million and a common share issuance of $4.3 million; and
- the Canadian directional drilling business of Ensign Energy Services (“Ensign”) in October 2022 for total common share consideration of $6.0 million.

## RESULTS OF OPERATIONS

| | Three months ended December 31, | | Year ended December 31, | |
|---|---|---|---|---|
| | 2023 | 2022 | 2023 | 2022 |
| **Revenues** | | | | |
| United States [2] | $ 100,106 | $ 95,569 | $ 383,904 | $ 197,497 |
| Canada [2] | 45,313 | 43,579 | 161,393 | 121,516 |
| Total revenues [2] | 145,419 | 139,148 | 545,297 | 319,013 |
| **Cost of sales** | | | | |
| Direct costs [2] | (104,216) | (95,707) | (398,031) | (218,908) |
| Depreciation and amortization | (11,171) | (10,660) | (41,019) | (28,687) |
| Share-based compensation | (249) | (302) | (918) | (622) |
| Cost of sales | (115,636) | (106,669) | (439,968) | (248,217) |
| Gross margin [2] | $ 29,783 | $ 32,479 | $ 105,329 | $ 70,796 |
| Gross margin % [2] | 20% | 23% | 19% | 22% |
| Adjusted gross margin % [1][2] | 29% | 31% | 27% | 31% |

[1] Refer to the 'Non-GAAP Measures' section in this MD&A.
[2] Refer to the 'Reclassifications' section in this MD&A.

### Consolidated

The Company recognized $145.4 million of revenues in the three months ended December 31, 2023, an increase of $6.3 million or 5%, compared to $139.1 million for the same period in 2022. The increase is due to a 3% increase in operating days (2023 - 7,014; 2022 - 6,822) and a 2% increase in the average revenue per operating day (2023 - $20,733; 2022 - $20,397).

The Company recognized $545.3 million of revenues in 2023, an increase of $226.3 million or 71%, compared to $319.0 million in 2022. The increase in 2023 is mainly attributed to a full year of results from acquisitions completed in 2022. For 2023, there was a 53% increase in operating days (2023 - 26,956; 2022 - 17,662) and a 12% increase in the average revenue per operating day (2023 - $20,229; 2022 - $18,062).

The Company recognized $115.6 million of cost of sales in the three months ended December 31, 2023, an increase of $8.9 million or 8%, compared to $106.7 million for the same period in 2022. The increase is mainly due to higher repairs, labour, and the inclusion of manufacturing costs related to Rime, which was acquired in July 2023.

The Company recognized $440.0 million of cost of sales in 2023, an increase of $191.8 million or 77%, compared to $248.2 million in 2022. The increase in 2023 is mainly attributed to a full year of results from acquisitions completed in 2022. In addition, the Company continued to experience inflationary costs on the business in 2023, namely higher labour, repair and equipment rental costs.

The Gross margin % decreased to 20% and 19% in the three months and year ended December 31, 2023, compared to 23% and 22% for the same periods in 2022, respectively. The Adjusted gross margin % decreased to 29% and 27% in the three months and year ended December 31, 2023, compared to 31% for the same periods in 2022, respectively. The decline in Adjusted gross margins noted above were mainly related to increased labour, repairs and equipment rental costs.

Depreciation and amortization expense included in cost of sales increased to $11.2 million and $41.0 million in the three months and year ended December 31, 2023, compared to $10.7 million and $28.7 million for the same periods in 2022, respectively, due to property, plant and equipment additions, including those related to the 2022 acquisitions.

Depreciation and amortization expense included in cost of sales as a percentage of revenue was 8% in the three months and year ended December 31, 2023, compared to 8% and 9% for the same periods in 2022, respectively.

### United States segment

#### *Revenues*

U.S. revenues were $100.1 million in the three months ended December 31, 2023, an increase of $4.5 million or 5%, compared to $95.6 million for the same period in 2022. The Company realized a 13% increase in operating days to 3,625 days in the three months ended December 31, 2023, compared to 3,205 days for the same period in 2022. The increase is mainly related to the Company realizing a higher market share in the three months ended December 31, 2023. The average revenue per operating day decreased 7% to $27,615 per day in the three months ended December 31, 2023, compared to $29,819 per day for the same period in 2022, mainly as a result of a change in job mix.

U.S. revenues were $383.9 million in 2023, an increase of $186.4 million or 94%, compared to $197.5 million in 2022, mainly as a result of the U.S. acquisitions completed in 2022, including Discovery and Altitude. The Company realized a 118% increase in operating days to 14,858 days in 2023, compared to 6,818 days in 2022, mainly as a result of the Altitude acquisition. The average revenue per operating day decreased 11% to $25,838 per day in 2023, compared to $28,967 per day in 2022, mainly as a result of a change in job mix.

***Direct costs***

U.S. direct costs included in cost of sales were $74.2 million in the three months ended December 31, 2023, an increase of $9.0 million or 14%, compared to $65.2 million for the same period in 2022. The increase is mainly due to higher repairs, labour and equipment rental costs. As a percentage of revenues, direct costs also increased to 74% in the three months ended December 31, 2023, from 68% for the same period in 2022, mainly due to higher repairs, labour, equipment rental and other minor costs.

U.S. direct costs included in cost of sales were $290.4 million in 2023, an increase of $153.9 million or 113%, compared to $136.5 million in 2022. The increase is mainly due to higher costs related to the 2022 acquisitions, including Discovery and Altitude. As a percentage of revenues, direct costs increased to 76% in 2023, compared to 69% in 2022, mainly due to higher labour and equipment rental costs.

**Canadian segment**

***Revenues***

Canadian revenues were $45.3 million in the three months ended December 31, 2023, an increase of $1.7 million or 4%, compared to $43.6 million for the same period in 2022. The Company realized a 6% decrease in operating days to 3,389 days in the three months ended December 31, 2023, compared to 3,617 days for the same period in 2022. The decrease in operating days is mainly attributable to lower market demand in the three months ended December 31, 2023. The average revenue per operating day increased 11% to $13,371 per day in the three months ended December 31, 2023, compared to $12,048 per day for the same period in 2022. The increase in the average revenue per operating day is mainly attributed to a change in job mix, including higher charges for premium tools.

Canadian revenues were $161.4 million in 2023, an increase of $39.9 million or 33%, compared to $121.5 million in 2022, mainly due to acquisitions completed in 2022, including Compass and Ensign. The Company realized a 12% increase in operating days to 12,098 days in 2023, compared to 10,844 days in 2022, mainly related to the 2022 acquisitions. The average revenue per operating day increased 19% to $13,341 per day in 2023, compared to $11,206 per day in 2022, mainly attributed to a change in job mix, including higher charges for premium tools, as well as price increases implemented in late 2022.

***Direct costs***

Canadian direct costs included in cost of sales were $30.1 million in the three months ended December 31, 2023, a decrease of $0.4 million or 1%, compared to $30.5 million for the same period in 2022. The decrease is mainly due to lower equipment rental costs incurred in the three months ended December 31, 2023. As a percentage of revenues, direct costs were 66% in the three months ended December 31, 2023, compared to 70% for the same period in 2022.

Canadian direct costs included in cost of sales were $107.6 million in 2023, an increase of $25.2 million or 31%, compared to $82.4 million in 2022. The increase is mainly due to higher costs related to the 2022 acquisitions. As a percentage of revenues, direct costs were 67% and 68% in 2023 and 2022, respectively.

**Selling, general and administrative ("SG&A") expenses**

| | Three months ended December 31, 2023 | Three months ended December 31, 2022 | Year ended December 31, 2023 | Year ended December 31, 2022 |
|---|---|---|---|---|
| Selling, general and administrative expenses: | | | | |
| Direct costs | $ 14,801 | $ 11,814 | $ 52,502 | $ 27,933 |
| Depreciation and amortization | 2,289 | (635) | 7,596 | 3,009 |
| Share-based compensation | 1,004 | 356 | 4,183 | 765 |
| Selling, general and administrative expenses | $ 18,094 | $ 11,535 | $ 64,281 | $ 31,707 |

The Company recognized SG&A expenses of $18.1 million and $64.3 million in the three months and year ended December 31, 2023, an increase of $6.6 million and $32.6 million, compared to $11.5 million and $31.7 million for the same periods in 2022, respectively. The increase is mainly due to acquisition activity and discretionary short-term incentive program payments, which were approved and recognized in 2023, compared to no discretionary incentive payments recognized in 2022. SG&A expenses as a percentage of revenues were 12% in the three months and year ended December 31, 2023, compared to 8% and 10% for the same periods in 2022, respectively.

Depreciation and amortization included in SG&A were $2.3 million and $7.6 million in the three months and year ended December 31, 2023, compared to a recovery of $0.6 million and $3.0 million for the same periods in 2022, respectively. The three months ended December 31, 2022 was impacted by adjustments related to the intangible assets acquired from Altitude. The increase in the year ended December 31, 2023 amount is mainly related to a full period of depreciation and amortization of Altitude assets in 2023 and amortization recognized in relation to the intangible assets acquired from Rime.

Stock-based compensation included in SG&A were $1.0 million and $4.2 million in the three months and year ended December 31, 2023, compared to $0.4 million and $0.8 million for the same periods in 2022, respectively. The increase is related to stock options granted in the period, including those related to the Rime acquisition.

**Provision**

The Company has recognized a provision of $7.6 million related to an ongoing U.S. tax audit matter. A portion of the provision was recognized as an expense of $5.4 million and a portion was recognized as property, plant and equipment and inventory of $2.2 million. The estimate was made by management using the latest information available and is subject to measurement uncertainty. Actual results may differ from this estimate.

**Research and development ("R&D") costs**

The Company recognized R&D costs of $0.3 million and $1.8 million in the three months and year ended December 31, 2023, compared to $0.4 million and $1.3 million for the same periods in 2022, respectively. R&D costs are salaries, benefits and shop supply costs related to new product development and technology.

**Write-off of property, plant and equipment**

The Company recognized a write-off of property, plant and equipment of $1.0 million and $5.0 million in the three months and year ended December 31, 2023, compared to $1.1 million and $2.5 million for the same periods in 2022. The write-offs related to equipment lost-in-hole and damaged beyond repair. Reimbursements on lost-in-hole equipment and damage beyond repair are based on service agreements held with clients and are recognized as revenues. Refer to the "Reclassifications" section of this MD&A.

**Finance costs**

Finance costs - loans and borrowings were $2.4 million in the three months ended December 31, 2023, a decrease of $0.9 million, compared to $3.3 million for the same period in 2022. The decrease is mainly due to a lower outstanding balance of loans and borrowing in the three months ended December 31, 2023 compared to 2022. The decrease was offset by higher finance costs related to the Company's EP notes issued in 2023 and higher interest rates in 2023.

Finance costs - loans and borrowings were $7.9 million in 2023, an increase of $2.6 million, compared to $5.3 million in 2022. The higher costs are mainly due to the Company's increased debt levels (including the principal amount of the EP notes), which were $105.6 million and $80.5 million as at December 31, 2023 and 2022, respectively (refer to the "Liquidity and Capital Resources" section in this MD&A). In addition, interest rates increased in 2023 relative to 2022 contributing to higher finance costs.

In addition, the Company had $0.2 million and $0.8 million of finance costs in the three months and year ended December 31, 2023 related to lease liabilities, compared to $0.2 million and $0.8 million for the same periods in 2022, respectively.

**Foreign exchange**

The Company recognized a foreign exchange gain of $0.6 million in the three months ended December 31, 2023, compared to $0.7 million for the same period in 2022. The Company recognized a foreign exchange gain of $0.8 million in 2023, compared to a foreign exchange loss of $2.2 million in 2022. The impact of foreign exchange is due to fluctuations of the Canadian dollar relative to the USD related to foreign currency transactions recognized in net income.

The Company recognized a foreign currency translation loss on foreign operations of $4.9 million in the three months ended December 31, 2023, compared to $3.6 million for the same period in 2022. The Company recognized a foreign currency translation loss on foreign operations of $4.3 million in 2023, compared to a gain of $8.4 million in 2022. The Company's foreign operations are denominated in USD and differences due to fluctuations in the foreign currency exchange rates are recorded in other comprehensive income.

**Income tax**

The Company recognized an income tax expense of $5.6 million and $9.6 million in three months and year ended December 31, 2023, compared to an income tax expense of $5.3 million and $4.6 million for the same periods in 2022, respectively. The increase is mainly due to the Company's acquisition of Altitude in 2022.

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

## LIQUIDITY AND CAPITAL RESOURCES

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

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

Cash flow - operating activities was $16.6 million and $70.0 million in the three months and year ended December 31, 2023, compared to $23.0 million and $39.9 million for the same periods in 2022, respectively. Cathedral continues to be focused on reducing its loans and borrowings and generating Free cash flow, as defined in the 'Non-GAAP measures' section of this MD&A. In addition, the Company will remain opportunistic in executing its NCIB and making strategic and accretive acquisitions.

At December 31, 2023, the Company had working capital, excluding current portion of loans and borrowings of $74.9 million (December 31, 2022 - $60.4 million).

**Warrants**

During the year ended December 31, 2023, 17,731,888 of the April 2022 bought deal offering warrants (2022 - 1,106,000), 575,000 of the February 2021 private placement warrants and 2,000,000 of the warrants related to the July 2021 Precision Drilling acquisition were exercised at $0.85 per warrant, $0.24 per warrant and $0.60 per warrant totaling $15.1 million, $0.1 million, and $1.2 million in gross cash proceeds, respectively. On April 26, 2023, the remaining 55,462 unexercised warrants from the April 2022 bought deal offering warrants expired.

**Normal course issuer bid**

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

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

During the year ended December 31, 2023, 4,294,900 common shares were purchased under the NCIB for a total purchase amount of $3.8 million at an average price of $0.82 per common share. A portion of the purchase amount reduced share capital by $3.5 million and the residual purchase amount of $0.3 million was recorded to the deficit.

In connection with the NCIB, the Company has established an automatic securities purchase plan ("the Plan") for the common shares. Accordingly, the Company may repurchase its common shares under the Plan on any trading day during the NCIB, including during regulatory restrictions or self-imposed trading blackout periods. The Plan commenced on July 17, 2023 and will terminate on July 16, 2024.

Subsequent to December 31, 2023, the Company purchased 2,471,700 common shares for a total purchase amount of $2.1 million at an average purchase price of $0.85 per common share.

**Syndicated credit facility**

On July 11, 2023, the Company entered into a three-year term credit facility, replacing its existing credit facility with its syndicate of lenders led by ATB related to the acquisition of Rime. The Credit Facility provided an approximate $137 million principal amount comprised of: i) a $59.0 million CAD Syndicated Term Facility (replacing the existing Syndicated Term Facility), ii) a new $21 million USD Syndicated Term Facility, repayable in equal quarterly installments over a five-year amortization period, iii) a $35 million Syndicated Operating Facility (previously $15 million) and iv) a $15 million Revolving Operating Facility (previously $10 million). The Credit Facility was utilized to replace and repay Cathedral's existing credit facility. The interest rate and financial covenants remained unchanged from the existing Syndicated Facility. The maturity date of the Credit Facility was extended to July 11, 2026.

During the year ended December 31, 2023, the Company also repaid its balance owing on the Syndicated Operating Facility of $13 million. In addition, the Company made contractual repayments totaling $14.8 million related to its CAD Syndicated Term Facility, and $2.8 million related to its USD Syndicated Term Facility, reducing the carrying values to $51.4 million and $24.8 million, respectively, as at December 31, 2023. The carrying values of the CAD Syndicated Term Facility and the USD Syndicated Term Facility are net of unamortized upfront financing fees of $0.6 million as at December 31, 2023.

As at December 31, 2023, the $35 million Syndicated Operating Facility remained undrawn. In addition, the Company continues to hold a Highly Affected Sectors Credit Availability Program ("HASCAP") loan.

At December 31, 2023, the Company was in compliance with its financial covenants, which were as follows:

- Consolidated Funded Debt to Consolidated Credit Agreement EBITDA ratio shall not exceed 2.5:1; and
- Consolidated Fixed Charge Coverage ratio shall not be less than 1.25:1

**Contractual obligations and contingencies**

As at December 31, 2023, the Company's commitment to purchase property, plant and equipment is approximately $8.1 million, which is expected to be incurred over the next six months.

The Company also holds six letters of credit totaling $1.7 million related to rent payments, corporate credit cards and a utilities deposit.

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

The following table outlines the anticipated payments related to contractual commitments subsequent to December 31, 2023:

| Balance, December 31, 2023 | | Carrying amount | | One year | | 1-2 years | | 3-5 years | | Thereafter |
|---|---|---|---|---|---|---|---|---|---|---|
| Loans and borrowings - principal | $ | 79,212 | $ | 21,043 | $ | 20,220 | $ | 37,949 | $ | — |
| EP Notes - principal | | 26,400 | | — | | — | | 26,400 | | — |
| Interest payments on loans and borrowings and EP Notes | | 14,100 | | 6,912 | | 5,163 | | 2,025 | | — |
| Lease liabilities - undiscounted | | 17,725 | | 4,169 | | 3,840 | | 8,624 | | 1,092 |
| Trade and other payables | | 93,661 | | 93,661 | | — | | — | | — |
| Total | $ | 231,098 | $ | 125,785 | $ | 29,223 | $ | 74,998 | $ | 1,092 |

**Capital structure**

As at March 26, 2024, the Company has 239,663,990 common shares, no warrants, 22,593,700 stock options and EP Notes that are exchangeable into a maximum of 24,570,000 common shares outstanding.

**Change of Transfer Agent**

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

## NET CAPITAL EXPENDITURES

The following table details the Company's Net capital expenditures:

| | | Three months ended December 31, | | | | Year ended December 31, | | |
|---|---|---|---|---|---|---|---|---|
| | | 2023 | | 2022 | | 2023 | | 2022 |
| Motors and related equipment | $ | 2,818 | $ | 3,747 | $ | 25,604 | $ | 12,579 |
| MWD and related equipment | | 4,364 | | 4,104 | | 14,218 | | 12,335 |
| Shop and automotive equipment | | 151 | | 876 | | 2,235 | | 876 |
| Other | | 988 | | 844 | | 4,097 | | 881 |
| Gross capital expenditures | $ | 8,321 | $ | 9,571 | $ | 46,154 | $ | 26,671 |
| Less: equipment lost-in-hole and damaged beyond repair reimbursements | | (5,078) | $ | (7,996) | | (20,338) | $ | (15,921) |
| Net capital expenditures [(1)] | $ | 3,243 | $ | 1,575 | $ | 25,816 | $ | 10,750 |

[(1)] Refer to the 'Non-GAAP Measures' section in this MD&A.

The Company's 2024 Net capital expenditure budget is expected to be approximately $30 to $35 million (2023 - $27 million to $32 million), excluding any potential acquisitions. The Net capital expenditure budget is targeted at growing Cathedral's high-performance mud motors, MWD in both Canada and the U.S., and RSS in the U.S. Cathedral intends to fund its 2024 capital plan from cash flow - operating activities. The Net capital expenditure budget is defined as gross capital expenditures less reimbursements from customers for equipment lost-in-hole and damaged beyond repair, net of payments to vendors for equipment lost-in-hole or damaged beyond repair.

## OUTLOOK

Global oil and North American natural gas prices weakened considerably in the fourth quarter of 2023, which caused an approximate 5% decline in both the Western Canada and U.S. average active land rig counts when compared to their respective 2023 Q3 averages (sources: Baker Hughes and Rig Locator). Specifically, West Texas Intermediate ("WTI") oil prices began 2023 Q4 at just under USD $90.00 per barrel and exited 2023 Q4 just over USD $70.00 per barrel, more than a 20% intra-quarter move. U.S. NYMEX natural gas prices began the quarter just under USD $3.00 per million cubic feet ("mmbtu") and exited 2023 Q4 at close to USD $2.50 per mmbtu – also close to a 20% decline.

In the futures market, oil as traded on NYMEX remains in backwardation. With each successive future month price lower than the preceding month, there is no meaningful incentive for speculators to put oil into storage as is the case when the oil futures curve is in contango. This typically implies that the current oil supply-demand balance remains healthy. As such, Cathedral believes that the current WTI oil price of around USD $80.00 per barrel is likely considered a healthy price by most of Cathedral's exploration and production ("E&P") clients to deploy planned oil-directed capital programs in North America for 2024.

The natural gas market outlook remains challenging in the short term with a twelve-month strip price on the U.S. NYMEX futures curve of approximately USD $2.75 per mmbtu, which compares to the approximate USD $3.00 per mmbtu strip price when Cathedral released its 2023 Q3 results. A warm El Nino winter in many key consuming North American markets dampened gas demand considerably in latter Q4 and through early March 2024, which has added to the excess natural gas being produced as a by-product of strong U.S. crude oil production in areas, such as the Permian. The effect of both has been a severe weakening of near-term North American natural gas prices to levels last seen at the depth of the global COVID-19 pandemic or in some cases lower. This price compression is likely to have the effect of a further weakening of natural gas-targeted activity in U.S. areas such as the Haynesville, Marcellus and the Rockies as the year progresses. Cathedral's substantial presence in the oil-focused Permian and smaller presence in the Haynesville should act as a stabilizing influence amidst potential future E&P natural gas capital program cuts and potential declines in activity.

In Canada, the presence of natural gas liquids in the natural gas production stream gives an oil-like revenue stream to many E&P companies – a revenue stream that is much less common in U.S. operating areas. As such, Cathedral's Canadian client base is affected to a lower degree and we expect a fairly flat overall market in 2024. A survey of energy service analysts is consistent with the Company's view that 2024 is likely to be reasonably flat to 2023 from an overall activity perspective with a bias to some potential strengthening in the market toward the latter half of the year on improving natural gas prices. Canada has some encouraging prospects for activity in the future given it was announced recently that the gas transmission pipeline (Coastal GasLink) for the LNG Canada project has now reached mechanical completion and with the looming start-up of the Trans Mountain oil pipeline expansion in months to come. Once both projects initiate operations they should support some degree of growth and stability in incremental drilling activity in the Canadian market for many years into the future.

Finally, looking at the first quarter of 2024, Cathedral is seeing more of the same trends evidenced in the fourth quarter of 2023. The Company's 2024 Q1 U.S. job count remains generally consistent with 2023 Q4 levels. The first ten Rime-supplied MWD kits have now been deployed into Altitude, which should also help increase divisional margins going forward as third party MWD systems are displaced. Cathedral anticipates introducing and deploying forty Rime-supplied MWD kits throughout the remainder of 2024. In Canada, Cathedral was the most active directional drilling provider in 2024 Q1 with some of the highest job counts achieved in the Company's history. Cathedral's clients have been particularly active in drilling wells with a high number of multi-laterals, with the Company's proven experience in those areas supporting a growth in job count over prior periods.

## 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 ("DC&P") 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 DC&P (as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual Financial and Interim Filings) was conducted as at December 31, 2023. Based on this evaluation, the CEO and CFO of Cathedral have concluded that the design and operation of the Company's DC&P were effective as at December 31, 2023.

### Internal controls over financial reporting

Management is responsible for establishing and maintaining adequate internal controls over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS Accounting Standards. The CEO and CFO have designed or have caused such ICFR (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 Accounting Standards. 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, 2023 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" DC&P 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 controls and procedures are met. Because of inherent limitations, DC&P and ICFR 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 Rime which was acquired on July 11, 2023, the financial performance of which is included in the consolidated financial statements for the year ended December 31, 2023. 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 tables below presents the summary of financial information of Rime:

| | | Period from July 11, 2023 to December 31, 2023 |
|---|---|---|
| Revenues | $ | 9,267 |
| Net income | | 193 |

| | | Balance, December 31, 2023 |
|---|---|---|
| Current assets | $ | 14,289 |
| Non-current assets | | 44,309 |
| Current liabilities | | 2,949 |
| Non-current liabilities | | 100 |
| Capital purchase commitments | | 6,240 |

## 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, 2023, which is available on SEDAR+ at www.sedarplus.ca. 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 consolidated financial statements and recommended they be approved to the Board of Directors. Following a review by the Board of Directors, the MD&A and the consolidated financial statements for the year ended December 31, 2023 were approved on March 26, 2024.

## SUPPLEMENTARY INFORMATION

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

## NEW AND FUTURE ACCOUNTING POLICIES

**Changes in accounting policy**

On January 1, 2023, the Company adopted *Deferred Tax related to Assets and Liabilities arising from a Single Transaction,* issued by the International Accounting Standards Board as an amendment to IAS 12 Income Taxes. This amendment requires entities to recognize deferred tax on transactions at initial recognition, resulting in equal amounts of taxable and deductible temporary differences. In pursuant with this amendment, the Company adopted the *Pillar Two Model Rules* that provides an exception that an entity does not recognize and (or) disclose information about deferred tax assets and liabilities related to the Pillar Two Income taxes. There was no material impact on the Company's financial statements for the adoption of this amended standard.

**Accounting standards and amendments not yet effective**

Effective January 1, 2024, IAS 1 - Presentation of Financial Statements, has been amended, resulting in changes to the classification of loans and borrowings as current or non-current. The amendment will help determine whether an entity has the right to defer settlement of a liability, that is subject to covenants, within twelve months following the reporting period. The Company does not expect this amendment to have a material impact on the Company's financial statements following adoption.

Other accounting pronouncements issued, but not yet effective, in the period include: IFRS 7 Financial instruments: Disclosures, IFRS 16 Leases, IAS 7 Statement of Cash Flows, and IAS 21 The Effects of Changes in Foreign Exchange Rates. None of the new or amended standards issued are expected to have a significant impact on the Company's financial statements.

## SUMMARY OF ANNUAL RESULTS

| | Year ended December 31, | | |
|---|---|---|---|
| | 2023 | 2022 | 2021 |
| Revenues [2] | $ 545,297 | $ 319,013 | $ 62,524 |
| Gross margin % [2] | 19% | 22% | (2%) |
| Adjusted gross margin % [1][2] | 27% | 31% | 18% |
| Adjusted EBITDAS [1] | $ 90,884 | $ 68,187 | $ 4,829 |
| Adjusted EBITDAS margin % [1] | 17% | 21% | 8% |
| Cash flow - operating activities [2] | $ 69,984 | $ 39,881 | $ (3,499) |
| Free cash flow [1][2] | $ 28,966 | $ 25,612 | $ (2,150) |
| Net income (loss) | $ 10,628 | $ 18,347 | $ (8,626) |
| Basic and diluted per share | $ 0.04 | $ 0.11 | $ (0.13) |
| Weighted average shares outstanding | | | |
| Basic (000s) | 237,562 | 162,551 | 65,031 |
| Diluted (000s) | 252,597 | 166,130 | 65,740 |
| Working capital, excluding current portion of loans and borrowings | $ 74,865 | $ 60,447 | $ 15,117 |
| Total assets | $ 403,733 | $ 353,990 | $ 75,423 |
| Loans and borrowings | $ 78,598 | $ 80,535 | $ 6,035 |
| Shareholders' equity | $ 179,468 | $ 153,897 | $ 42,504 |

[1] Refer to the 'Non-GAAP Measures' section in this MD&A.
[2] Refer to the 'Reclassifications' section in this MD&A.

## SUMMARY OF QUARTERLY RESULTS

| Three months ended | Dec 2023 | Sep 2023 | Jun 2023 | Mar 2023 | Dec 2022 | Sep 2022 | Jun 2022 | Mar 2022 |
|---|---|---|---|---|---|---|---|---|
| Revenues [2] | | | | | | | | |
| Revenues - reported | $ 145,419 | $ 145,591 | $ 115,058 | $ 127,665 | $ 128,518 | $ 107,846 | $ 27,652 | $ 34,385 |
| Adjustment | — | — | 6,281 | 5,283 | 10,630 | 7,337 | 1,416 | 1,229 |
| Revenues - adjusted | $ 145,419 | $ 145,591 | $ 121,339 | $ 132,948 | $ 139,148 | $ 115,183 | $ 29,068 | $ 35,614 |
| Adjusted EBITDAS [1] | $ 27,369 | $ 30,106 | $ 18,222 | $ 15,187 | $ 30,284 | $ 28,065 | $ 2,894 | $ 6,944 |
| Adjusted EBITDAS per share - diluted [1] | $ 0.10 | $ 0.11 | $ 0.08 | $ 0.06 | $ 0.13 | $ 0.14 | $ 0.02 | $ 0.07 |
| Net income (loss) | $ 1,767 | $ 5,651 | $ 2,416 | $ 794 | $ 10,270 | $ 8,658 | $ (2,824) | $ 2,243 |
| Net income (loss) per share - diluted | $ 0.01 | $ 0.02 | $ 0.01 | $ — | $ 0.05 | $ 0.04 | $ (0.02) | $ 0.02 |

[1] Refer to the 'Non-GAAP Measures' section in this MD&A.
[2] Refer to the 'Reclassifications' section in this MD&A.

A portion of the Company's operations are 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 May. Operating activities generally peak in the winter months from December until mid to late-March. Additionally, volatility in the weather and temperatures not only during this period, but 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 same level of seasonality that occurs in the Western Canada region.

## 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 2024 Net capital expenditure budget and financing thereof;
- Cathedral's purchase of Rime in July 2023 will allow the Company to address one of the major value capture opportunities in its U.S. directional business – the operating margin lost from renting third-party MWD systems.
- At current activity levels, Cathedral estimates that it is spending USD $25 million to $30 million of margin annually to third parties for MWD technology to supply on its own work, which represents a substantial opportunity for margin expansion over the next twelve to eighteen months for very reasonable levels of capital investment and very compelling rates of return.
- Rime has already supplied ten MWD systems for Altitude to help replace third-party rental products and begin the process of margin expansion in 2024.
- In a year where forecasted activity levels are anticipated to be flat-to-slightly negative versus 2023 in North America, Cathedral can demonstrate meaningful continued growth driven by a reduction in expenses utilizing organically-developed technology.
- In regard to our ongoing efforts to strengthen the balance sheet, Cathedral remains focused on paying down its loans and borrowings generating Free cash flow.
- The Company continues to target the reduction of loans and borrowings to less than 0.5x Adjusted EBITDAS by year end 2024, which should help it move closer to a broader shareholder return strategy.
- Management believes that buying Cathedral shares at current share price levels represents good value and a sensible use of capital while also staying focused on paying down loans and borrowings built up from the strategic acquisitions of Altitude and more recently Rime.
- The Company continues to see a significant opportunity for margin expansion in its U.S. directional business by using Rime-supplied MWD systems to reduce its third-party rental costs.
- Cathedral believes that the current WTI oil price of around USD $80.00 per barrel is likely considered a healthy price by most of Cathedral's E&P clients to deploy planned oil-directed capital programs in North America for 2024.
- The natural gas market outlook remains challenging in the short term with a twelve-month strip price on the U.S. NYMEX futures curve of approximately USD $2.75 per mmbtu, which compares to the approximate USD $3.00 per mmbtu strip price when Cathedral released its 2023 Q3 results.
- This price compression is likely to have the effect of a further weakening of natural gas-targeted activity in U.S. areas such as the Haynesville, Marcellus and the Rockies as the year progresses.
- Cathedral's substantial presence in the oil-focused Permian and smaller presence in the Haynesville should act as a stabilizing influence amidst potential future E&P natural gas capital program cuts and potential declines in activity.
- Cathedral's Canadian client base is affected to a lower degree and we expect a fairly flat overall market in 2024.
- A survey of energy service analysts is consistent with the Company's view that 2024 is likely to be reasonably flat to 2023 from an overall activity perspective with a bias to some potential strengthening in the market toward the latter half of the year on improving natural gas prices.
- Canada has some encouraging prospects for activity in the future given it was announced recently that the gas transmission pipeline (Coastal GasLink) for the LNG Canada project has now reached mechanical completion and with the looming start-up of the Trans Mountain oil pipeline expansion in months to come. Once both projects initiate operations they should support some degree of growth and stability in incremental drilling activity in the Canadian market for many years into the future.
- The first ten Rime-supplied MWD kits have now been deployed into Altitude, which should also help increase divisional margins going forward as third party MWD systems are displaced. Cathedral anticipates introducing and deploying forty Rime-supplied MWD kits throughout the remainder of 2024.

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 attract and retain key management personnel;
- the ability of Cathedral to retain and hire qualified personnel;
- the ability of Cathedral to obtain parts, consumables, equipment, technology, and supplies in a timely manner to carry out its activities;
- the ability of Cathedral to maintain good working relationships with key suppliers;
- the ability of Cathedral to retain customers, market its services successfully to existing and new customers and reliance on major customers;
- risks associated with technology development and intellectual property rights;
- obsolescence of Cathedral's equipment and/or technology;

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

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

# *MANAGEMENT’S REPORT*

The consolidated financial statements have been prepared by the management in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (“IFRS Accounting Standards”) 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 Accounting Standards. The MD&A compares the audited financial results for the year ended December 31, 2023 and December 31, 2022.

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 three 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.

PricewaterhouseCoopers LLP and KPMG LLP, independent firms of chartered professional accountants, have examined the Company's consolidated financial statements for the year ended December 31, 2023 and December 31, 2022, respectively, in accordance with Canadian generally accepted auditing standards and provided independent professional opinions. The auditors have full and unrestricted access to the Audit Committee to discuss their audits 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.

# Independent auditor's report

To the Shareholders of Cathedral Energy Services Ltd.

## Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Cathedral Energy Services Ltd. and its subsidiaries (together, the Company) as at December 31, 2023 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS Accounting Standards).

**What we have audited**
The Company's consolidated financial statements comprise:

- the consolidated statement of financial position as at December 31, 2023;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in shareholders' equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, comprising material accounting policy information and other explanatory information.

## 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 consolidated financial statements* section of our report.

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

**Independence**
We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

PricewaterhouseCoopers LLP
Suncor Energy Centre, 111 5th Avenue South West, Suite 3100, Calgary, Alberta, Canada T2P 5L3
T.: +1 403 509 7500, F.: +1 403 781 1825, Fax to mail: ca_calgary_main_fax@pwc.com

## Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2023. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key audit matter | How our audit addressed the key audit matter |
| --- | --- |
| **Impairment assessment of goodwill associated with the U.S. Operations cash generating unit (CGU)**<br><br>*Refer to note 3 – Material accounting policies and note 8 – Intangible assets and goodwill to the consolidated financial statements.*<br><br>The Company had goodwill of $40.0 million as at December 31, 2023, which entirely relates to the Company's U.S. Operations CGU. Goodwill is not amortized but is tested for impairment at least annually, or more frequently, if certain indicators arise that indicate the goodwill might be impaired. An impairment loss is recognized if the carrying amount of a CGU exceeds its estimated recoverable amount. Management estimated the recoverable amount using discounted cash flows. Key assumptions used by management in the discounted cash flow model included the discount rate and the future growth rate in earnings before interest, taxes, depreciation and amortization (EBITDA). No impairment was recognized by management as a result of the 2023 impairment test.<br><br>We considered this a key audit matter due to (i) the significance of the goodwill balance and (ii) the significant judgment by management in determining the recoverable amount of the U.S. Operations CGU, including the use of key assumptions. This has resulted in a high degree of subjectivity and audit effort in performing procedures to test the key assumptions. Professionals with specialized skill | Our approach to addressing the matter included the following procedures, among others:<br><br>• Evaluated how management determined the recoverable amount of the goodwill associated with the U.S. Operations CGU, which included the following:<br>– Tested the appropriateness and the mathematical accuracy of the discounted cash flow model.<br>– Tested the underlying data used in the discounted cash flow model.<br>– Tested the reasonableness of the future growth rate in EBITDA by considering the current and past performance of the U.S. Operations CGU, management's budget as approved by the Board of Directors, as well as external market and industry data.<br>– Professionals with specialized skill and knowledge in the field of valuation assisted in testing the reasonableness of the discount rate and the recoverable amount of the U.S. Operations CGU. |

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| and knowledge in the field of valuation assisted us in performing our procedures. | |
| **Valuation of developed technology and customer relationships acquired in the business combination of Rime Downhole Technologies, LLC (Rime)**<br><br>*Refer to note 3 – Material accounting policies and note 5 – Acquisitions to the consolidated financial statements.*<br><br>On July 11, 2023, the Company acquired Rime in exchange for the payment of $28.0 million in cash and the issuance of a principal amount of $24.6 million of subordinated exchangeable promissory notes. The acquisition was accounted for using the acquisition method, which requires that the identifiable assets acquired and the liabilities assumed are recorded at their respective fair values. The fair values of the identifiable assets acquired included $35.8 million of intangible assets, of which $28.5 million relates to developed technology and $6.9 million to customer relationships. To estimate the fair values, management used the following valuation techniques: with and without income approach to value the developed technology and the multi-period excess earnings method to value the customer relationships. Key assumptions developed by management in the estimation of the fair values of the developed technology and customer relationships included forecasted revenues, gross margins and discount rates.<br><br>We considered this a key audit matter due to the significant judgment by management in estimating the fair values of the developed technology and customer relationships, including the development of key assumptions. This in turn led to a high degree of auditor judgment, subjectivity and effort in performing procedures and evaluating audit | Our approach to addressing the matter included the following procedures, among others:<br><br>• Tested how management estimated the fair values of the acquired developed technology and customer relationships in the business combination of Rime, which included the following:<br><br>– Read the purchase agreement.<br><br>– Tested the mathematical accuracy of the underlying calculations.<br><br>– Tested the underlying data used by management in the calculations used to determine the fair values of the acquired developed technology and customer relationships.<br><br>– Evaluated the reasonableness of key assumptions used by management related to forecasted revenues and gross margins by considering current and past performance of Rime, as well as external market and industry data.<br><br>– Professionals with specialized skill and knowledge in the field of valuation assisted in (i) evaluating the appropriateness of the valuation techniques, as well as (ii) assessing the reasonableness of the discount rates. |

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| evidence relating to the key assumptions used by management. The audit effort involved the use of professionals with specialized skill and knowledge in the field of valuation. | |

## Comparative information

The consolidated financial statements of the Company for the year ended December 31, 2022, excluding the adjustments that were applied to restate certain comparative information, were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on April 14, 2023.

As part of our audit of the consolidated financial statements for the year ended December 31, 2023, we also audited the adjustments applied to restate certain comparative information presented. In our opinion, such adjustments are appropriate and have been properly applied.

Other than with respect to the adjustments that were applied to restate certain comparative information, we were not engaged to audit, review, or apply any procedures to the consolidated financial statements for the year ended December 31, 2022. Accordingly, we do not express an opinion or any other form of assurance on those consolidated financial statements taken as a whole.

## Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis, which we obtained prior to the date of this auditor's report and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, which is expected to be made available to us after that date.

Our opinion on the consolidated 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 consolidated 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 consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard. When we read the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

## Responsibilities of management and those charged with governance for the consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

## Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated 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 Company'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 Company'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 consolidated 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 Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated 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 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 independent auditor's report is Reynold Tetzlaff.

**/s/PricewaterhouseCoopers LLP**

Chartered Professional Accountants

Calgary, Alberta
March 26, 2024

# *CONSOLIDATED STATEMENT OF FINANCIAL POSITION*

**As at December 31, 2023 and 2022**
Canadian dollars in ‘000s

| | As at December 31, 2023 | 2022 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash | $ 10,731 | $ 11,175 |
| Trade receivables (note 19) | 111,846 | 113,477 |
| Prepaid expenses | 5,839 | 4,529 |
| Inventories (note 6) | 44,976 | 26,195 |
| Total current assets | 173,392 | 155,376 |
| Property, plant and equipment (note 7) | 113,853 | 108,530 |
| Intangible assets (note 8) | 66,366 | 38,511 |
| Right-of-use assets (note 9) | 10,138 | 12,178 |
| Goodwill (note 8) | 39,984 | 39,395 |
| Total non-current assets | 230,341 | 198,614 |
| Total assets | $ 403,733 | $ 353,990 |
| **Liabilities and Shareholders’ Equity** | | |
| Current liabilities: | | |
| Trade and other payables | $ 93,661 | $ 90,389 |
| Current taxes payable | 1,425 | 909 |
| Loans and borrowings, current (note 10) | 21,023 | 15,735 |
| Lease liabilities, current (note 9) | 3,441 | 3,631 |
| Total current liabilities | 119,550 | 110,664 |
| Loans and borrowings, long-term (note 10) | 57,575 | 64,800 |
| Exchangeable promissory notes (note 5) | 23,923 | — |
| Lease liabilities, long-term (note 9) | 12,323 | 14,249 |
| Deferred tax liability (note 14) | 10,894 | 10,380 |
| Total non-current liabilities | 104,715 | 89,429 |
| Total liabilities | 224,265 | 200,093 |
| Shareholders’ equity: | | |
| Share capital (note 11) | 197,380 | 180,484 |
| Treasury shares (note 5) | (709) | (959) |
| Exchangeable promissory notes (note 5) | 1,242 | — |
| Contributed surplus | 17,002 | 15,854 |
| Accumulated other comprehensive income | 13,088 | 17,389 |
| Deficit | (48,535) | (58,871) |
| Total shareholders’ equity | 179,468 | 153,897 |
| Total liabilities and shareholders’ equity | $ 403,733 | $ 353,990 |

See accompanying notes to the 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 STATEMENT OF COMPREHENSIVE INCOME*

**Year ended December 31, 2023 and 2022**
Canadian dollars in '000s except per share amounts

| | Year ended December 31, 2023 | Year ended December 31, 2022 |
|---|---|---|
| | | (Revised - note 4) |
| Revenues (note 16) | $ 545,297 | $ 319,013 |
| Cost of sales: | | |
| Direct costs | (398,031) | (218,908) |
| Depreciation and amortization | (41,019) | (28,687) |
| Share-based compensation | (918) | (622) |
| Total cost of sales | (439,968) | (248,217) |
| Gross margin | 105,329 | 70,796 |
| Selling, general and administrative expenses: | | |
| Direct costs | (52,502) | (27,933) |
| Depreciation and amortization | (7,596) | (3,009) |
| Share-based compensation | (4,183) | (765) |
| Total selling, general and administrative expenses | (64,281) | (31,707) |
| Provision (note 17) | (5,417) | — |
| Research and development costs | (1,754) | (1,271) |
| Write-off of property, plant and equipment (note 7) | (4,952) | (2,545) |
| Gain on disposal of property, plant and equipment (note 7) | 618 | 116 |
| Income from operating activities | 29,543 | 35,389 |
| Finance costs - loans and borrowings | (7,948) | (5,290) |
| Finance costs - lease liabilities | (848) | (784) |
| Foreign exchange gain (loss) | 768 | (2,180) |
| Acquisition and restructuring costs | (1,328) | (4,174) |
| Income before income taxes | 20,187 | 22,961 |
| Income tax expense (note 14): | | |
| Current | (8,411) | (762) |
| Deferred | (1,148) | (3,852) |
| Total income tax expenses | (9,559) | (4,614) |
| Net income | 10,628 | 18,347 |
| Other comprehensive (loss) income | | |
| Foreign currency translation differences on foreign operations | (4,301) | 8,378 |
| **Total comprehensive income** | **$ 6,327** | **$ 26,725** |
| Net income per share - basic and diluted (note 12) | $ 0.04 | $ 0.11 |

See accompanying notes to the consolidated financial statements.

## *CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY*

**Year ended December 31, 2023 and 2022**

Canadian dollars in '000s

| | Share capital | Treasury Shares | Contributed surplus | Accumulated other comprehensive income | Deficit | Total shareholders' equity |
|---|---|---|---|---|---|---|
| Balance, December 31, 2021 | $ 98,918 | $ — | $ 11,793 | $ 9,011 | $ (77,218) | $ 42,504 |
| Comprehensive income | — | — | — | 8,378 | 18,347 | 26,725 |
| Issued pursuant to private placements, net of share issue costs (note 11) | 27,813 | — | 3,075 | — | — | 30,888 |
| Consideration for business combination, net of share issue costs (note 5) | 50,996 | — | — | — | — | 50,996 |
| Treasury shares issued for business combination (note 5) | 959 | (959) | — | — | — | — |
| Issued pursuant to warrant exercises | 1,120 | — | (180) | — | — | 940 |
| Issued pursuant to stock option exercises | 678 | — | (221) | — | — | 457 |
| Share-based compensation | — | — | 1,387 | — | — | 1,387 |
| Balance, December 31, 2022 | $ 180,484 | $ (959) | $ 15,854 | $ 17,389 | $ (58,871) | $ 153,897 |

| | Share capital | Treasury Shares | Exchangeable Promissory ("EP") Notes | Contributed surplus | Accumulated other comprehensive income | Deficit | Total shareholders' equity |
|---|---|---|---|---|---|---|---|
| Balance, December 31, 2022 | $ 180,484 | $ (959) | $ — | $ 15,854 | $ 17,389 | $ (58,871) | $ 153,897 |
| Comprehensive (loss) income | — | — | — | — | (4,301) | 10,628 | 6,327 |
| EP notes issued for business combination (note 5) | — | — | 1,242 | — | — | — | 1,242 |
| Repurchased pursuant to normal course issuer bid (note 11) | (3,501) | — | — | — | — | (292) | (3,793) |
| Cancelled pursuant to acquisition-related settlement | (168) | — | — | — | — | — | (168) |
| Contributed surplus on treasury shares vesting (note 5) | — | 250 | — | (250) | — | — | — |
| Issued pursuant to warrant exercises | 19,840 | — | — | (3,433) | — | — | 16,407 |
| Issued pursuant to stock option exercises | 725 | — | — | (270) | — | — | 455 |
| Share-based compensation | — | — | — | 5,101 | — | — | 5,101 |
| Balance, December 31, 2023 | $ 197,380 | $ (709) | $ 1,242 | $ 17,002 | $ 13,088 | $ (48,535) | $ 179,468 |

See accompanying notes to the consolidated financial statements.

# *CONSOLIDATED STATEMENT OF CASH FLOWS*

**Year ended December 31, 2023 and 2022**
Canadian dollars in '000s

| | Year ended December 31, 2023 | 2022 |
|---|---|---|
| | | (Revised - note 4) |
| **Cash provided by (used in):** | | |
| **Operating activities:** | | |
| Net income | $ 10,628 | $ 18,347 |
| Non-cash adjustments: | | |
| Income tax expense | 9,559 | 4,614 |
| Depreciation and amortization | 48,615 | 31,696 |
| Share-based compensation | 5,101 | 1,387 |
| Gain on disposal of property, plant and equipment | (618) | (116) |
| Write-off of property, plant and equipment | 4,952 | 2,545 |
| Write-down of inventory included in cost of sales | 1,501 | 107 |
| Finance costs - loans and borrowings | 7,948 | 5,290 |
| Finance costs - lease liabilities | 848 | 784 |
| Income tax (paid) refund | (5,479) | 538 |
| Unrealized foreign exchange (gain) loss on intercompany balances | (930) | 1,802 |
| | 82,125 | 66,994 |
| Changes in non-cash operating working capital (note 15) | (12,141) | (27,113) |
| Cash flow - operating activities | 69,984 | 39,881 |
| **Investing activities:** | | |
| Cash paid on acquisitions, net of cash acquired (note 5) | (27,426) | (104,581) |
| Property, plant and equipment additions | (46,177) | (26,397) |
| Intangible asset additions | (256) | (1,464) |
| Proceeds on disposal of property, plant and equipment | 1,187 | 1,678 |
| Changes in non-cash investing working capital (note 15) | 2,730 | (660) |
| Cash flow - investing activities | (69,942) | (131,424) |
| **Financing activities:** | | |
| Advances of loans and borrowings, net of upfront financing fees | 28,805 | 115,939 |
| Repayments on loans and borrowings | (31,017) | (41,438) |
| Payments on lease liabilities, net of finance costs | (3,535) | (3,134) |
| Interest paid | (8,205) | (6,074) |
| Common shares purchased pursuant to normal course issuer bid | (3,793) | — |
| Proceeds on common share and warrant issuances, net of issuance costs | 16,862 | 32,285 |
| Cash flow - financing activities | (883) | 97,578 |
| Effect of exchange rate on changes on cash | 397 | 2,242 |
| Change in cash | (444) | 8,277 |
| Cash, beginning of year | 11,175 | 2,898 |
| Cash, end of year | $ 10,731 | $ 11,175 |

See accompanying notes to the consolidated financial statements.

# *NOTES TO CONSOLIDATED FINANCIAL STATEMENTS*

## 1. REPORTING ENTITY

Cathedral Energy Services Ltd. ("LTD") is a company domiciled in Canada, and along with its below noted subsidiaries, together, are referred to as the "Company" or "Cathedral". The Company is a publicly traded company listed on the Toronto Stock Exchange ("TSX") under the symbol "CET". The consolidated financial statements of the Company as at and for the year ended December 31, 2023 and 2022 are comprised of the following 100% owned subsidiaries:

- 2438155 Alberta Ltd.;
- LEXA Drilling Technologies Inc. ("LEXA");
- CET Holdco Inc. ("Holdco") - new subsidiary in 2023;
- CET Flight Holdco, Inc. ("Flight");
- Cathedral Energy Services Inc. ("INC");
- Rime Downhole Technologies, LLC ("Rime");
- Altitude Energy Holdco, LLC ("AEH"); and
- Altitude Energy Partners, LLC ("Altitude").

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.").

LTD has a functional currency of Canadian dollars ("CAD") while Holdco, Flight, INC, Rime, AEH and Altitude are incorporated in the U.S. and have a functional currency of United States dollars ("USD").

## 2. BASIS OF PREPARATION

The consolidated financial statements for the years ended December 31, 2023 and 2022 (the "financial statements") have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS Accounting Standards"). The financial statements were authorized for issue by the Board of Directors on March 26, 2024.

The 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 (note 4).

**Functional and presentation currency**

These financial statements are presented in CAD (tabular amounts in thousands), except for per share and warrant amounts, which is the Company's presentation and functional currency.

**Use of estimates and judgments**

The preparation of the financial statements in conformity with IFRS Accounting Standards requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts in the financial statements. 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 values*

A number of Cathedral's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets, liabilities and equity. Typically, fair values would be determined based on the present value of future 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 specific estimate.

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*

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, goodwill, lease obligations and right-of-use assets, and deferred tax assets and liabilities generally require significant judgment. Future net income will be affected as the fair value on initial recognition impacts future depreciation and amortization, asset impairment or reversal, or goodwill impairment.

The Company engaged independent third-party valuation experts to assist in estimating the fair value of the acquired goodwill and intangible assets acquired from Altitude, Discovery and Rime. The income approach has been used to estimate the fair value of certain intangible assets using the forecasts prepared by management. The measurement of the estimated fair value of acquired intangible assets was based on several significant assumptions, including future cash flows associated with the acquired assets, discount rates, customer attrition rates and royalty rates (note 5). In addition, the independent valuation experts assisted management with the fair value of the exchangeable promissory notes issued for the Rime acquisition (note 5). Changes to these assumptions could have resulted in a significant impact to the fair value of intangible assets and goodwill acquired.

The Company engaged an independent third-party valuation expert to assist in estimating the fair value of the acquired property, plant and equipment acquired from Altitude. 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.

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. Changes to these assumptions could have resulted in a significant impact to the fair value of property, plant and equipment acquired.

*iii) Income taxes*

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. In addition, the Company performs reviews to identify onerous contracts and, where applicable, records provisions for such contracts.

*v) Impairments*

Property, plant and equipment, inventory, goodwill and intangible assets 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 and commodity price developments. Goodwill impairment 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 their 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 that 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 net income 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. Examples of potential impairment indicators are: i) changes in the operating environment, including an industry down-turn or Company specific activity decreases; ii) lower asset demand resulting in lower inventory turn-over; or iii) emergence of significant new product lines which are expected to impact an existing product's utilization. In assessing any impairment, management considers historic use of the inventory item as well as estimates of future demand.

*vi) 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 (note 19). 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.

## 3. MATERIAL ACCOUNTING POLICIES

This summary of material accounting policies is a description of the accounting methods and practices that have been used in the preparation of these consolidated financial statements and is presented to assist the reader in interpreting the statements contained herein. These accounting policies have been applied consistently to all entities within the consolidated group.

**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 into net income. Transaction costs, other than those associated with the issuance of debt or equity, are recognized in net income 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 net income.

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 based on new facts and circumstances identified during the measurement period, which does not exceed one year from 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 goodwill might be impaired. Goodwill is allocated to CGUs or group of CGUs that are expected to benefit from the acquisition.

**Foreign currency**

*Foreign currency transactions*

Foreign currency transactions are initially recorded in the Company's functional currency by applying the exchange 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.

*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, trade and other payables, current taxes payable, lease liabilities, loans and borrowings and exchangeable promissory notes. 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 and exchangeable promissory notes are subsequently measured at amortized cost using the effective interest rate (“EIR”) method. The EIR amortization is included in interest expense in the consolidated statement of comprehensive income.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires. Gains and losses are recognized in the consolidated statement of comprehensive income when the liabilities are derecognized. When an existing financial liability is replaced by another with 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. A new liability is recognized, and the difference in the respective carrying amounts is recognized in the consolidated statement of comprehensive income.

Financial instruments are offset and the net amount reported in the consolidated statement 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 the consolidated statement of comprehensive income 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% | Declining balance |
| Office and computer equipment | 3 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 reporting period end date 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 the consolidated statement of comprehensive income. Equipment lost-in-hole or damaged beyond repair is written-off in the statement of comprehensive income in the period in which the event occurs.

**Intangible assets**

Intangible assets which arise from the acquisition of businesses, including developed technology, 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 the consolidated statement of comprehensive income 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.

Intangible assets are amortized over the following useful lives:

- Customer relationships – six years
- Brand name – fifteen years
- Non-compete agreements – five years
- RSS licenses – eight years
- Developed technology – five to twenty 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**

*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.

*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**

*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.

*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 liability can be estimated reliably.

*Share-based payment transactions*

The fair value of share-based payment awards granted to employees, directors and consultants is recognized as a expense on the grant date, with a corresponding increase in contributed surplus, over the vesting period. The amount recognized in the statement of comprehensive income is adjusted to reflect the number of awards for which the related service 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.

**Revenues**

Cathedral primarily generates its revenues by providing directional drilling services which includes providing personnel and/or equipment. Services are provided based upon a price book or bid on a day rate or footage/meterage rate. The Company recognizes revenues as the services are performed in accordance with the terms of the services engagement with the customer. In addition, the Company recognizes reimbursements from customers related to equipment lost-in-hole or damaged beyond repair as revenues when the event occurs at a price contracted 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 consumables used in the services and for equipment that is involuntarily damaged or lost-in-hole.

The Company also generates revenues through the design and manufacturing of certain directional drilling tool components as well as servicing such components for its customers. The Company recognizes revenues at the point in time as the products are delivered and the control of the product has transferred to the customer. The Company accounts for individual product revenues separately, if they are distinct, indicated by being separately identifiable from other obligations to its customers.

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 thirty to sixty days of the customer's receipt of an invoice.

**Finance income and costs**

Finance costs comprise interest expense on loans and borrowings, exchangeable promissory notes, lease liabilities, bank charges and other interest. 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.

Any gain or loss on a substantial modification of loans and borrowings and unamortized upfront financing fees are recognized on the amendment date as finance costs. In the event that a modification is not considered substantial, as defined under IFRS 9, upfront financing fees are recognized net of the amended loans and borrowing carrying amount. The upfront financing fees are amortized as finance costs over the term of the loans and borrowings using the effective interest rate method.

**Leases**

*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 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. Lease payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognized on a straight-line basis as an expense in the consolidated statement of comprehensive income.

*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 and deferred tax expense 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 expense is the expected taxes 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 taxes payable in respect of previous years.

Deferred tax expense 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 expense 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 expense 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 expense 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.

**Net income per share**

Basic and diluted net income per share 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 year. Diluted net income per share is determined by adjusting the net income 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 of the EP Notes, share options granted to employees, directors and consultants and warrants.

**Changes in accounting policy**

On January 1, 2023, the Company adopted *Deferred Tax related to Assets and Liabilities arising from a Single Transaction,* issued by the International Accounting Standards Board as an amendment to IAS 12 Income Taxes. This amendment requires entities to recognize deferred tax on transactions at initial recognition, resulting in equal amounts of taxable and deductible temporary differences. In pursuant with this amendment, the Company adopted the *Pillar Two Model Rules* that provides an exception that an entity does not recognize and (or) disclose information about deferred tax assets and liabilities related to the Pillar Two Income taxes. There was no material impact on the Company’s financial statements for the adoption of this amended standard.

**Accounting standards and amendments not yet effective**

Effective January 1, 2024, IAS 1 - Presentation of Financial Statements, has been amended, resulting in changes to the classification of loans and borrowings as current or non-current. The amendment will help determine whether an entity has the right to defer settlement of a liability, that is subject to covenants, within twelve months following the reporting period. The Company does not expect this amendment to have a material impact on the Company’s financial statements following adoption.

Other accounting pronouncements issued, but not yet effective, in the period include: IFRS 7 Financial instruments: Disclosures, IFRS 16 Leases, IAS 7 Statement of Cash Flows, and IAS 21 The Effects of Changes in Foreign Exchange Rates. None of the new or amended standards issued are expected to have a significant impact on the Company’s financial statements.

## 4. RECLASSIFICATIONS

The Company has changed the presentation of certain figures in the year ended December 31, 2022 related to equipment lost-in-hole reimbursements collected from customers and the corresponding derecognition of the property, plant and equipment (“PP&E”).

More specifically, the Company reclassified its gain on disposal of PP&E as follows: a) reclassified the proceeds on disposal of PP&E to revenues and b) recognized a write-off of PP&E for the net book value of the lost-in-hole equipment on the consolidated statement of comprehensive income. In addition, proceeds on disposal of property, plant and equipment were reclassified from the Company’s cash flows - investing activities to the cash flows - operating activities on the consolidated statement of cash flows.

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

These reclassifications recognized in the year ended December 31, 2022 are summarized below:

Consolidated Statement of Comprehensive Income (Excerpt)

| | Year ended December 31, 2022 | | |
|---|---|---|---|
| | Reported | Adjustment | Adjusted |
| Revenues: | | | |
| Canada | $ 117,683 | $ 3,833 | $ 121,516 |
| United States | 180,718 | 16,779 | 197,497 |
| Total revenues | 298,401 | 20,612 | 319,013 |
| Cost of sales | (243,419) | (4,798) | (248,217) |
| Gross margin | 54,982 | 15,814 | 70,796 |
| Write-off of property, plant and equipment | — | (2,545) | (2,545) |
| (Loss) gain on disposal of property, plant and equipment | $ 13,492 | $ (13,376) | $ 116 |

Consolidated Statement of Cash Flows (Excerpt)

| | Year ended December 31, 2022 | | |
|---|---|---|---|
| | Reported | Adjustment | Adjusted |
| Cash flow provided by (used in): | | | |
| **Operating activities** | | | |
| Write-off of property, plant and equipment | $ — | $ 2,545 | $ 2,545 |
| Loss (gain) on disposal of property, plant and equipment | (13,492) | 13,376 | (116) |
| Cash flow - operating activities | 23,960 | 15,921 | 39,881 |
| **Investing activities** | | | |
| Property, plant and equipment additions | (30,894) | 4,497 | (26,397) |
| Proceeds on disposal of equipment | 21,795 | (20,117) | 1,678 |
| Cash flow - investing activities | (115,804) | (15,620) | (131,424) |
| Effect of exchange rate on changes on cash | $ 2,543 | $ (301) | $ 2,242 |

## 5. ACQUISITIONS

A summary of the acquisitions for the year ended December 31, 2023 and 2022 are as follows:

| | 2023 | 2022 | | | | | |
|---|---|---|---|---|---|---|---|
| | Rime | Discovery | Compass | LEXA | Altitude | Ensign | Total 2022 |
| **Consideration:** | | | | | | | |
| Number of common shares issued | — | 5,254,112 | 6,253,475 | 1,772,727 | 67,031,032 | 7,017,988 | 87,329,334 |
| Common share price of issuances | — | 0.52 | 0.69 | 0.63 | 0.55 | 0.85 | |
| Common share consideration | $ — | $ 2,732 | $ 4,315 | $ 1,117 | $ 36,867 | $ 5,965 | $ 50,996 |
| Exchangeable promissory notes | 24,632 | — | — | — | — | — | — |
| Settlement of technology license from pre-existing relationship | — | — | — | 644 | — | — | 644 |
| Cash consideration | 27,954 | 18,160 | 4,000 | — | 87,245 | — | 109,405 |
| | $ 52,586 | $ 20,892 | $ 8,315 | $ 1,761 | $ 124,112 | $ 5,965 | $ 161,045 |
| **Allocation of purchase price:** | | | | | | | |
| Cash | $ 528 | $ — | $ — | $ 70 | $ 4,754 | $ — | $ 4,824 |
| Inventory | 7,119 | 3,301 | 444 | — | 8,768 | 1,790 | 14,303 |
| Other net working capital | 3,373 | — | — | 291 | (1,068) | — | (777) |
| Property, plant and equipment | 3,817 | 17,591 | 8,518 | — | 43,667 | 4,175 | 73,951 |
| Right-of-use assets | 492 | 1,579 | 316 | — | 2,354 | — | 4,249 |
| Lease liabilities | (492) | (1,579) | (316) | — | (2,354) | — | (4,249) |
| Intangible assets | 35,850 | — | — | 1,574 | 35,720 | — | 37,294 |
| Goodwill | 1,487 | — | — | — | 37,753 | — | 37,753 |
| Deferred tax asset (liability) | 412 | — | (647) | (174) | (5,482) | — | (6,303) |
| | $ 52,586 | $ 20,892 | $ 8,315 | $ 1,761 | $ 124,112 | $ 5,965 | $ 161,045 |

**Rime Downhole Technologies, LLC**

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

The EP Notes have a three-year term and accrue interest payable quarterly at a rate of 5% per annum. Any time prior to expiry of the EP Notes, if the 20-day volume weighted average trading price of the common shares of Cathedral equals or exceeds CAD $1.10 per common share, Cathedral may cause the exchange of the EP Notes for common shares. Cathedral and the holders of the EP Notes may agree to an earlier exchange of the EP Notes into common shares. In addition to the statutory hold periods applicable to the EP Shares under Canadian and U.S. securities laws, the parties agreed to contractual restrictions on resale of any EP Shares as follows: 33% of the EP Shares are restricted until July 11, 2024; a further 33% of the EP Shares are restricted until July 11, 2025; and a further 34% of the EP Shares are restricted until July 11, 2026, subject to certain exceptions contained in the terms governing the EP Notes.

The fair value of the EP notes of $24.6 million was determined by an independent valuation expert using the Monte Carlo valuation method and the geometric Brownian motion under two scenarios: 1) the issuer will convert the EP notes when the share price reaches $1.10 per common share and 2) the EP notes are held until maturity and settled in cash. Key inputs and assumptions, such as the Company’s credit spread and the volatility of the common shares, were applied in the valuation model. The EP notes will be recognized using the amortized cost method subsequent to initial recognition. The EP notes carrying value at December 31, 2023 was $23.9 million.

The Company expensed $1.0 million in costs related to this transaction.

The fair values of the intangible assets were determined by a valuation expert in accordance with IFRS 13 as summarized below.

| Intangible assets | Fair value | | Valuation technique | Key inputs and assumptions |
|---|---|---|---|---|
| Developed technology | $ | 28,480 | With and without income approach | – Forecasted revenues;<br>– Gross margins;<br>– Discount rate. |
| Customer relationships | | 6,890 | Multi-period excess earnings method | |
| Brand name | | 290 | Relief from royalty method | |
| Non-compete agreements | | 190 | With and without income approach | |
| Total | $ | 35,850 | | |

The accounts receivable (included in other net working capital) was recognized at fair market value, and as of the acquisition date, were deemed to be fully collectible within a twelve month period. As such, the acquired accounts receivable have been classified as a current asset.

The goodwill recognized is related to expected synergies with the Company’s existing operations, including the use and development of components for the Company’s downhole MWD product offering. The goodwill is fully deductible over fifteen years for tax purposes.

The purchase price allocation related to the acquisition is preliminary and may be subject to adjustments, which may be material. Changes in the provisional measurements of assets and liabilities acquired may be recorded as part of the purchase price allocation as new information is obtained, until the final measurements are determined no later than twelve months after the acquisition date. Fair value is estimated using the latest available information as at the date of the financial statements. As a result, the preliminary purchase price allocation may change.

During the period from July 11, 2023 to December 31, 2023, Rime generated revenues of $9.3 million and net income of $0.2 million.

Assuming the Rime acquisition was effective on January 1, 2023, Rime generated revenues of $30.3 million and net income of $6.5 million for the year ended December 31, 2023. The estimates and judgements used to prepare these figures may not be representative of actual results.

**Discovery Downhole Services**

On February 10, 2022, the Company acquired the operating assets of Discovery Downhole Services (“Discovery”). The acquisition included the operating assets and non-executive personnel of Discovery's U.S.- based, high-performance mud motor technology rental business. Cathedral paid $18.2 million in cash consideration and issued 5,254,112 common shares valued at $0.52 per common share for total consideration of $20.9 million. 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% were 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 $31.8 million and net income of $14.4 million.

Assuming the Discovery acquisition was effective on January 1, 2022, Discovery generated revenues of $34.1 million and net income of $15.1 million for the year ended December 31, 2022. The estimates and judgements used to prepare these figures may not be representative of actual results.

The Company expensed $0.1 million in costs related to this transaction.

**LEXA Drilling Technologies Inc.**

On June 17, 2022, the Company purchased 90.98% of LEXA Drilling Technologies Inc. (“LEXA”), a Calgary-based, downhole technology company through the issuance of 1,612,891 common shares of Cathedral valued at $0.63 per common share. On July 19, 2022, the Company purchased the remaining 9.02% shares of LEXA for 159,836 common shares of Cathedral valued at $0.63 per common share. The common shares were subject to a four-month restriction period. In summary, total consideration of $1.1 million was paid through the issuance of 1,772,727 common shares of Cathedral valued at $0.63 per common share. In addition, the Company recognized settlement of a technology license from a pre-existing relationship for consideration of $0.6 million.

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.

The Company expensed $0.1 million in costs related to this transaction.

**Compass Directional Services Ltd.**

On June 22, 2022, the Company acquired the operating assets of Compass Directional Services Ltd. (“Compass”). Cathedral paid $4.0 million in cash consideration and issued 6,253,475 common shares valued at $0.69 per common share for total consideration of $8.3 million. In addition, 1,389,664 common shares were issued as treasury shares valued at $1.0 million and are subject to contractual restrictions vesting over four years on the anniversary of the acquisition. At December 31, 2023, there were 1,042,248 treasury shares outstanding valued at $0.7 million. The compensation expense related to these treasury shares will be recognized over the vesting period.

The Company expensed $0.2 million in costs related to this transaction.

**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 $87.2 million and the issuance of 67,031,032 common shares of Cathedral for total consideration of $124.1 million. 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 $35.7 million as part of the acquisition including customer relationships, non-compete agreements and brand name. The goodwill of $37.8 million 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 the period of July 14, 2022 to December 31, 2022, the acquired entity generated revenues of $149.5 million and net income of $18.6 million.

Assuming the AEP acquisition was effective on January 1, 2022, AEP generated revenues of $279.8 million and net income of $26.0 million for the year ended December 31, 2022. The estimates and judgements used to prepare these figures may not be representative of actual results.

The Company expensed $1.4 million 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 consideration of $6.0 million 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.

Due to the acquired assets related to the Discovery, Compass, Lexa and Ensign acquisitions being integrated in to Cathedral’s existing directional drilling business it is impractical to disclose the revenues and net income from all business acquisitions in 2022 as if the business combinations had been completed on January 1, 2022.

## 6. INVENTORIES

The Company's inventories comprise of raw materials and consumables. For the year ended December 31, 2023, raw materials and consumables recognized as cost of sales were $50.0 million (2022 - $29 million). For the year ended December 31, 2023, the Company recorded a write-down for obsolete inventory of $1.5 million (2022 – $0.1 million).

## 7. PROPERTY, PLANT AND EQUIPMENT

| **Cost** | Directional drilling equipment | Shop and automotive equipment | Other | Total |
|---|---|---|---|---|
| Balance, December 31, 2021 | $ 75,364 | $ 3,517 | $ 1,146 | $ 80,027 |
| Additions | 24,130 | 1,660 | 881 | 26,671 |
| Acquisitions (note 5) | 69,532 | 3,885 | 534 | 73,951 |
| Disposals and write-offs | (6,022) | — | (387) | (6,409) |
| Effects of movements in exchange rates | 1,812 | 203 | 38 | 2,053 |
| Balance, December 31, 2022 | $ 164,816 | $ 9,265 | $ 2,212 | $ 176,293 |
| Additions | 39,822 | 2,235 | 4,097 | 46,154 |
| Acquisitions (note 5) | 3,199 | 79 | 539 | 3,817 |
| Disposals and write-offs | (10,785) | (697) | — | (11,482) |
| Effects of movements in exchange rates | (1,448) | (143) | (108) | (1,699) |
| Balance, December 31, 2023 | $ 195,604 | $ 10,739 | $ 6,740 | $ 213,083 |

| **Accumulated depreciation** | Directional drilling equipment | Shop and automotive equipment | Other | Total |
|---|---|---|---|---|
| Balance, December 31, 2021 | $ 42,192 | $ 1,998 | $ 793 | $ 44,983 |
| Depreciation | 24,149 | 763 | 184 | 25,096 |
| Disposals and write-offs | (2,040) | — | (386) | (2,426) |
| Effects of movements in exchange rates | 75 | 30 | 5 | 110 |
| Balance, December 31, 2022 | $ 64,376 | $ 2,791 | $ 596 | $ 67,763 |
| Depreciation | 35,535 | 1,573 | 769 | 37,877 |
| Disposals and write-offs | (5,613) | (348) | — | (5,961) |
| Effects of movements in exchange rates | (389) | (42) | (18) | (449) |
| Balance, December 31, 2023 | $ 93,909 | $ 3,974 | $ 1,347 | $ 99,230 |

| **Net book values** | Directional drilling equipment | Shop and automotive equipment | Other | Total |
|---|---|---|---|---|
| Balance, December 31, 2022 | $ 100,440 | 6,474 | 1,616 | $ 108,530 |
| Balance, December 31, 2023 | $ 101,695 | 6,765 | 5,393 | $ 113,853 |

During the year ended December 31, 2023, the Company recognized a write-off of property, plant and equipment of $5.0 million (2022 - $2.5 million) related to equipment lost-in-hole and damaged beyond repair and a gain on disposal of property, plant and equipment of $0.6 million (2022 - $0.1 million).

As at December 31, 2023 and 2022, management determined no indicators of impairment existed.

## 8. INTANGIBLE ASSETS AND GOODWILL

**Intangible assets**

| Cost | Customer Relationships | Brand Name | Non-Compete Agreements | RSS Licenses | Developed Technology | Total |
|---|---|---|---|---|---|---|
| Balance, December 31, 2021 | $ — | $ — | $ — | $ — | $ 3,763 | $ 3,763 |
| Additions | — | — | — | 1,429 | 49 | 1,478 |
| Acquisitions (note 5) | 21,562 | 6,754 | 747 | 6,657 | 1,574 | 37,294 |
| Effects of movements in exchange rates | 938 | 294 | 32 | 333 | — | 1,597 |
| Balance, December 31, 2022 | $ 22,500 | $ 7,048 | $ 779 | $ 8,419 | $ 5,386 | $ 44,132 |
| Additions | — | — | — | — | 257 | 257 |
| Acquisitions (note 5) | 6,890 | 290 | 190 | — | 28,480 | 35,850 |
| Effects of movements in exchange rates | (494) | (161) | (17) | (193) | 93 | (772) |
| Balance, December 31, 2023 | $ 28,896 | $ 7,177 | $ 952 | $ 8,226 | $ 34,216 | $ 79,467 |

| Accumulated amortization | Customer Relationships | Brand Name | Non-Compete Agreements | RSS Licenses | Developed Technology | Total |
|---|---|---|---|---|---|---|
| Balance, December 31, 2021 | $ — | $ — | $ — | $ — | $ 2,272 | $ 2,272 |
| Amortization | 1,697 | 213 | 71 | 452 | 851 | 3,284 |
| Effects of movements in exchange rates | 46 | 6 | 1 | 12 | — | 65 |
| Balance, December 31, 2022 | $ 1,743 | $ 219 | $ 72 | $ 464 | $ 3,123 | $ 5,621 |
| Amortization | 4,375 | 495 | 173 | 1,048 | 1,578 | 7,669 |
| Effects of movements in exchange rates | (123) | (14) | (5) | (30) | (17) | (189) |
| Balance, December 31, 2023 | $ 5,995 | $ 700 | $ 240 | $ 1,482 | $ 4,684 | $ 13,101 |

| Net book values | Customer Relationships | Brand Name | Non-Compete Agreements | RSS Licenses | Developed Technology | Total |
|---|---|---|---|---|---|---|
| Balance, December 31, 2022 | $ 20,757 | $ 6,829 | $ 707 | $ 7,955 | $ 2,263 | $ 38,511 |
| Balance, December 31, 2023 | $ 22,901 | $ 6,477 | $ 712 | $ 6,744 | $ 29,532 | $ 66,366 |
| Remaining amortization in years | 4.6 | 12.4 | 3.7 | 6.4 | 11.7 | 7.1 |

**Goodwill**

The Company recognized goodwill of $1.5 million and $37.8 million related to the Rime and Altitude acquisitions (note 5) during the year ended December 31, 2023 and 2022, respectively. Goodwill was reduced by $1.0 million and increased by $1.6 million due to the effects of movements in exchange rates during the year ended December 31, 2023 and 2022, respectively. The goodwill carrying value was $40.0 million and $39.4 million as at December 31, 2023 and 2022, respectively.

An impairment test on goodwill was carried out as at December 31, 2023. The goodwill has been allocated entirely to the Company's U.S. Operations CGU. The recoverable amount of this CGU was 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: future growth rate in earnings before interest, taxes, depreciation and amortization ("EBITDAS") and the discount rate based on the Company's estimated after-tax weighted average cost of capital of 19.7%.

No impairment was recognized as a result of the 2023 impairment test.

## 9. RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

**Right-of-use assets**

| | 2023 | 2022 |
|---|---|---|
| Balance, January 1, | $ 12,178 | $ 10,520 |
| Additions | 1,193 | 447 |
| Acquisitions | 492 | 4,249 |
| Derecognition | (97) | — |
| Impact of leasehold incentives | (495) | — |
| Amortization | (3,058) | (3,317) |
| Effects of movements in exchange rates | (75) | 279 |
| Balance, December 31, | $ 10,138 | $ 12,178 |

**Lease liabilities**

| | 2023 | 2022 |
|---|---|---|
| Balance, January 1, | $ 17,880 | $ 15,760 |
| Acquisitions | 492 | 4,249 |
| Additions | 1,232 | 487 |
| Derecognition | (54) | — |
| Interest | 848 | 784 |
| Payments | (4,420) | (3,982) |
| Effects of movements in exchange rates | (171) | 582 |
| Balance, December 31, | $ 15,764 | $ 17,880 |
| Less: current portion | (3,441) | (3,631) |
| Lease liabilities, long-term | $ 12,323 | $ 14,249 |

The Company holds leases related to certain operations and office facilities. The leases have various expiry dates ranging from January 2025 to March 2030.

## 10. LOANS AND BORROWINGS

| Balance, | December 31, 2023 | December 31, 2022 |
|---|---|---|
| Revolving Operating Facility | $ 1,560 | $ — |
| Syndicated Operating Facility | — | 13,000 |
| CAD Syndicated Term Facility, net of unamortized upfront financing fees | 51,386 | 66,600 |
| USD Syndicated Term Facility, net of unamortized upfront financing fees | 24,829 | — |
| HASCAP loan | 823 | 935 |
| Total loans and borrowings | $ 78,598 | $ 80,535 |
| Less: HASCAP loan, current | (823) | (935) |
| Less: CAD Syndicated Term Facility, current | (13,619) | (14,800) |
| Less: USD Syndicated Term Facility, current | (6,581) | — |
| Loans and borrowings, current | $ (21,023) | $ (15,735) |
| Loans and borrowings, long-term | $ 57,575 | $ 64,800 |

As of January 1, 2022, the Company held a bank credit facility agreement with ATB Financial (“ATB”) for a principal amount of $12 million, which was set to expire on June 30, 2023 and 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. On February 10, 2022, the Company entered into an Amended and Restated Credit Agreement with ATB (“Credit Agreement”) which consisted of a $12 million operating facility and a term loan for the Canadian equivalent amount of USD $14.3 million (CAD $17.9 million). The term loan was fully drawn on closing and amortized over five years with monthly principal repayments of $0.3 million. On April 25, 2022, the Company used private placement proceeds to repay a portion of the term loan principal of $8.8 million.

On July 13, 2022, the Company amended its Credit Agreement with ATB as lead arranger and administrative agent, with a syndicate of banks including Canadian Western Bank, HSBC Bank Canada and The Toronto Dominion Bank (the “Syndicated Facility”). The Syndicated Facility was a three-year $99 million credit facility comprised of: i) a $74 million term loan (“Syndicated Term Facility”), ii) a $15 million revolving borrowing base loan (“Syndicated Operating Facility”) and iii) a $10 million revolving operating facility (“ Revolving Operating Facility”), all of which was set to expire in July 2025. The Syndicated Term Facility is subject to quarterly principal payments of $3.7 million. On July 13, 2022, the Company fully drew on its $74 million Syndicated Term Facility to fund the Altitude acquisition. The Company incurred fees of $1.5 million 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.

On July 11, 2023, in connection with the Rime acquisition, the Company entered into a three-year term credit facility (the "Credit Facility"), replacing its existing Syndicated Facility with its syndicate of lenders led by ATB. The syndicate of lenders remained unchanged with the exception of Business Development Bank of Canada joining the syndicate. The Credit Facility provides an approximate $137 million principal amount comprised of: i) a $59.0 million Syndicated Term Facility (replacing the existing Syndicated Term Facility) ("CAD Syndicated Term Facility"), ii) a new USD $21 million term loan (CAD $27.1 million) ("USD Syndicated Term Facility"), repayable in equal quarterly installments over a five-year amortization period, iii) a $35 million Syndicated Operating Facility (previously $15 million), and iv) a $15 million Revolving Operating Facility (previously $10 million). The Credit Facility was utilized to replace and repay Cathedral's existing credit facility. The interest rate and financial covenants remained unchanged from the existing Syndicated Facility. The maturity date of the Credit Facility was extended to July 11, 2026.

During the year ended December 31, 2023, the Company also repaid its balance owing on the Syndicated Operating Facility of $13 million. In addition, the Company made contractual repayments totaling $14.8 million related to its CAD Syndicated Term Facility, and $2.8 million related to its USD Syndicated Term Facility, reducing the carrying values to $51.4 million and $24.8 million, respectively, as at December 31, 2023. The carrying values of the CAD Syndicated Term Facility and the USD Syndicated Term Facility are net of unamortized upfront financing fees of $0.6 million as at December 31, 2023.

As at December 31, 2023, the $35 million Syndicated Operating Facility remained undrawn.

At December 31, 2023, the Company was in compliance with its financial covenants, which were as follows:

- Consolidated Funded Debt to Consolidated Credit Agreement EBITDA ratio shall not exceed 2.5:1; and
- Consolidated Fixed Charge Coverage ratio shall not be less than 1.25:1

**Highly Affected Sectors Credit Availability Program ("HASCAP")**

In June 2021, the Company withdrew $1 million 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. The carrying value of the HASCAP loan was $0.8 million as at December 31, 2023.

## 11. SHARE CAPITAL

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

| | Number (000s) | | Amount |
|---|---|---|---|
| Balance, December 31, 2021 | 80,200 | $ | 98,918 |
| Issued on private placement and bought deal, net of issue costs | 52,446 | | 27,813 |
| Issue of common shares on business acquisition (note 5) | 87,329 | | 50,996 |
| Issued treasury shares on business acquisition (note 5) | 1,390 | | 959 |
| Issued on exercise of options | 1,653 | | 457 |
| Contributed surplus on options exercised | — | | 221 |
| Issued on exercise of warrants | 1,106 | | 940 |
| Contributed surplus on warrants exercised | — | | 180 |
| Balance, December 31, 2022 | 224,124 | $ | 180,484 |
| Purchased under the normal course issuer bid | (4,295) | | (3,501) |
| Cancelled pursuant to acquisition-related settlement | (148) | | (168) |
| Issued on exercise of warrants | 20,307 | | 16,407 |
| Contributed surplus on warrants exercised | — | | 3,433 |
| Issued on exercise of stock options | 1,667 | | 455 |
| Contributed surplus on options exercised | — | | 270 |
| Balance, December 31, 2023 | 241,655 | $ | 197,380 |

**Private placement and bought deal**

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 common share in conjunction with the Discovery acquisition for net proceeds of $6.4 million.

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 $26.5 million. Each unit consisted of one Cathedral common share and one-half warrant. Each warrant entitled the holder to purchase one common share at an exercise price of $0.85 per common share which expired one year from the closing date of the private placement. Based on the relative fair values, $23.4 million of the gross proceeds were allocated to common shares and $3.1 million was allocated to the warrants. Issue costs of $2.0 million were netted against the common share issuance. A portion of the proceeds equal to $8.8 million were used to repay a portion of the existing term loan (note 10) pursuant to the Company's Credit Agreement.

**Normal course issuer bid**

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

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

During the year ended December 31, 2023, 4,294,900 (2022 - nil) common shares were purchased under the NCIB for a total purchase amount of $3.8 million at an average price of $0.82 per common share. A portion of the purchase amount reduced share capital by $3.5 million and the residual purchase amount of $0.3 million was recorded to the deficit.

In connection with the NCIB, the Company has established an automatic securities purchase plan ("the Plan") for the common shares. Accordingly, the Company may repurchase its common shares under the Plan on any trading day during the NCIB, including during regulatory restrictions or self-imposed trading blackout periods. The Plan commenced on July 17, 2023 and will terminate on July 16, 2024. There was no active Plan in place as at December 31, 2023.

Subsequent to December 31, 2023, the Company purchased 2,471,700 common shares for a total purchase amount of $2.1 million at an average purchase price of $0.85 per common share.

**Stock options**

A summary of the Company's stock options during the year ended December 31, 2023 and 2022 is as follows:

| | 2023 | | | 2022 | | |
|---|---|---|---|---|---|---|
| | Number (000's) | | Weighted average exercise price | Number (000's) | | Weighted average exercise price |
| Balance, January 1, | 20,672 | $ | 0.61 | 6,661 | $ | 0.35 |
| Granted | 6,848 | $ | 0.88 | 16,646 | $ | 0.68 |
| Exercised | (1,667) | $ | 0.27 | (1,653) | $ | 0.28 |
| Expired or forfeited | (2,778) | $ | 0.59 | (982) | $ | 0.45 |
| Balance, December 31, | 23,075 | $ | 0.71 | 20,672 | $ | 0.61 |
| Exercisable, December 31, | 7,301 | $ | 0.60 | 2,156 | $ | 0.30 |

During the year ended December 31, 2023, the Company granted 2,425,000 (2022 - 16,646,066) stock options to certain officers and employees at exercise prices ranging from $0.76 and $0.95 (2022 - $0.60 to $1.18) per stock option. These stock options are set to expire on April 26, 2026, May 9, 2026 and November 20, 2026, respectively. The stock options granted in 2022 are set to expire on March 16, 2025, July 19, 2025, October 28, 2025 and December 19, 2025, respectively. The stock options will vest in one-third tranches twelve months, eighteen months and twenty-four months from the grant date, respectively.

In addition, on August 21, 2023, the Company granted 4,422,568 stock options to certain employees related to the Rime acquisition at an exercise price of $0.86 per stock option. These stock options are set to expire on August 21, 2026. The stock options will vest in one-third tranches twelve months, eighteen months and twenty-four months from the grant date, respectively.

The range of exercise prices for the options outstanding as at December 31, 2023 is as follows:

| | Outstanding | | | | Exercisable | | | |
|---|---|---|---|---|---|---|---|---|
| Exercise price range | Number of units (000's) | Weighted Average Remaining Life (years) | | Weighted average exercise price | Number of units (000's) | Weighted Average Remaining Life (years) | | Weighted average exercise price |
| $0.26 to $0.50 | 2,649 | 0.54 | $ | 0.43 | 2,649 | 0.54 | $ | 0.43 |
| $0.51 to $0.87 | 18,176 | 1.90 | $ | 0.72 | 4,510 | 1.60 | $ | 0.67 |
| $0.87 to $1.18 | 2,250 | 2.25 | $ | 0.99 | 142 | 1.97 | $ | 1.18 |
| Total | 23,075 | 1.78 | $ | 0.71 | 7,301 | 1.22 | $ | 0.60 |

The fair value of the stock options granted was estimated using the Black-Scholes option pricing model with the below weighted-average inputs. A forfeiture rate of 15% was used for certain stock option grants when recognizing stock-based compensation for the year ended December 31, 2023 and 2022.

| Year ended December 31, | 2023 | 2022 |
|---|---|---|
| Weighted-average fair value at grant date | $0.41 - $0.56 | $0.39 - $0.77 |
| Share price | $0.76 - $0.95 | $0.60 - $1.18 |
| Exercise price | $0.76 - $0.95 | $0.60 - $1.18 |
| Volatility | 79% - 90% | 102% - 104% |
| Option life | 3 years | 3 years |
| Dividends | — | — |
| Risk-free interest rate | 3.69% - 4.25% | 1.5% - 3.9% |

**Warrants**

A summary of the Company's warrants granted related to acquisitions and private placements for the year ended December 31, 2023 and 2022 is as follows:

| | 2023 | | 2022 | |
|---|---|---|---|---|
| | Number (000's) | Weighted average exercise price | Number (000's) | Weighted average exercise price |
| Balance, January 1, | 20,362 | $ 0.81 | 2,575 | $ 0.52 |
| Issued | — | — | 18,893 | 0.85 |
| Exercises of warrants | (20,307) | 0.81 | (1,106) | 0.85 |
| Expiry of warrants | (55) | 0.85 | — | — |
| Balance, December 31, | — | $ — | 20,362 | $ 0.81 |

During the year ended December 31, 2023, 17,731,888 of the April 2022 bought deal offering warrants (2022 - 1,106,000), 575,000 of the February 2021 private placement warrants and 2,000,000 of the warrants related to the July 2021 Precision Drilling acquisition were exercised at $0.85 per warrant, $0.24 per warrant and $0.60 per warrant totaling $15.1 million, $0.1 million, and $1.2 million in gross cash proceeds, respectively. On April 26, 2023, the remaining 55,462 of the April 2022 bought deal offering warrants expired.

## 12. NET INCOME PER SHARE

| Year ended December 31, | 2023 | 2022 |
|---|---|---|
| Net income | $ 10,628 | $ 18,347 |
| (000's) | | |
| Outstanding common shares, beginning of the period | 224,124 | 80,200 |
| Effect of purchased common shares | (1,011) | — |
| Effect of common shares issued | 14,449 | 82,351 |
| Weighted average common shares (basic) | 237,562 | 162,551 |
| Effect of outstanding stock options and warrants | 3,353 | 3,579 |
| Effect of outstanding EP Notes | 11,682 | — |
| Weighted average common shares (diluted) | 252,597 | 166,130 |
| Net income per share - basic and diluted | $ 0.04 | $ 0.11 |

During the year ended December 31, 2023, 4,050,766 stock options (2022 – 12,476,300 stock options and warrants) were excluded from the diluted weighted average number of common shares calculation as their effect was anti-dilutive.

## 13. NATURE OF EXPENSES

| | Cost of sales | Selling, general & administrative | Acquisition and restructuring | Research and development costs | Total |
|---|---|---|---|---|---|
| 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) |
| Repairs and maintenance | (74,144) | — | — | — | (74,144) |
| Equipment rentals (note 4) | (35,279) | — | — | — | (35,279) |
| Other expenses | (15,288) | (9,516) | (2,134) | — | (26,938) |
| | $ (248,217) | $ (31,707) | $ (4,174) | $ (1,271) | $ (285,369) |
| Year ended December 31, 2023 | | | | | |
| Depreciation and amortization | $ (41,019) | $ (7,596) | $ — | $ — | $ (48,615) |
| Share-based compensation | (918) | (4,183) | — | — | (5,101) |
| Staffing costs, excluding share-based compensation | (161,680) | (36,344) | — | (1,754) | (199,778) |
| Repairs and maintenance | (137,646) | — | — | — | (137,646) |
| Equipment rentals | (63,613) | — | — | — | (63,613) |
| Other expenses | (35,092) | (16,158) | (1,328) | — | (52,578) |
| | $ (439,968) | $ (64,281) | $ (1,328) | $ (1,754) | $ (507,331) |

## 14. INCOME TAXES

The Company’s effective tax rate is reconciled with the income taxes accrued during the year ended December 31, 2023 and 2022 as follows:

| Year ended December 31, | 2023 | 2022 |
|---|---|---|
| Income before income tax | $ 20,187 | $ 22,961 |
| Expected statutory tax rate | 23% | 23% |
| Effective tax rate applied to income before income tax | (4,643) | (5,281) |
| Changes in unrecognized deferred tax assets | 1,492 | 641 |
| Effect of changes in foreign exchange | 31 | (225) |
| Income tax in jurisdictions with different tax rates | (645) | (210) |
| Non-deductible expenses | (3,606) | 180 |
| Non-taxable portion of gain on disposal of property, plant and equipment | 695 | 281 |
| Withholding taxes | (1,536) | — |
| Prior period provision true-up | (1,347) | — |
| | $ (9,559) | $ (4,614) |

The Company’s deferred tax (liability) asset was comprised of the following components:

| Balance, December 31, | 2023 | 2022 |
|---|---|---|
| Property, plant and equipment | $ (12,442) | $ (13,815) |
| Intangible assets | (3,222) | (2,194) |
| Goodwill | 2,378 | (144) |
| Inventory valuation allowance | 769 | 487 |
| Non-capital loss-carry forwards | 326 | 5,286 |
| Provision | 980 | — |
| Net working capital differences | 317 | — |
| | $ (10,894) | $ (10,380) |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Deferred tax liabilities were impacted during the year ended December 31, 2023 and 2022 for the following:

| | Balance, December 31, 2021 | Recognized in profit | Recognized due to acquisitions | Effects of movements in foreign exchange | Balance, December 31, 2022 |
|---|---|---|---|---|---|
| Property, plant and equipment | $ (2,122) | $ (7,749) | $ (3,836) | $ (108) | $ (13,815) |
| Intangible assets | — | 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) |

| | Balance, December 31, 2022 | Recognized in profit | Recognized due to acquisitions | Effects of movements in foreign exchange | Balance, December 31, 2023 |
|---|---|---|---|---|---|
| Property, plant and equipment | $ (13,815) | $ 1,066 | $ — | $ 307 | $ (12,442) |
| Intangible assets | (2,194) | (1,478) | 412 | 38 | (3,222) |
| Goodwill | (144) | 2,530 | — | (8) | 2,378 |
| Inventory valuation allowance | 487 | 282 | — | — | 769 |
| Non-capital loss-carry forwards | 5,286 | (4,812) | — | (148) | 326 |
| Provision | — | 963 | — | 17 | 980 |
| Net working capital differences | — | 301 | — | 16 | 317 |
| Total | $ (10,380) | $ (1,148) | $ 412 | $ 222 | $ (10,894) |

There are unrecognized deferred tax assets of $26.4 million (2022 - $27.2 million) related to the following tax attributes:

| | Balance, December 31, 2023 | | Balance, December 31, 2022 | |
|---|---|---|---|---|
| | Gross amount | Tax effect | Gross amount | Tax effect |
| Non-capital loss carry forwards | $ 68,678 | $ 15,744 | $ 71,425 | $ 16,474 |
| Right-of-use assets less lease liabilities | 3,461 | 775 | 3,717 | 892 |
| Scientific research and development expenditures | 17,699 | 4,071 | 17,699 | 4,071 |
| Inventory valuation allowance | 235 | 53 | — | — |
| Investment tax credits | n/a | 4,925 | n/a | 4,925 |
| Net capital loss carry forwards | 3,761 | 865 | 3,746 | 862 |
| | $ 93,834 | $ 26,433 | $ 96,587 | $ 27,224 |

Deferred tax assets have not been recognized in respect of the deductible temporary differences at December 31, 2023, due to a recent history of taxable losses. The non-capital losses and investment tax credits have expiry dates ranging from 2035 to 2041 and 2026 to 2037, respectively. The remaining tax attributes do not expire.

The income taxes are based upon the estimated annual effective rates of 23% (2022 – 23%) for the Canadian entities and 23% (2022 – 23%) for the U.S. entities.

## 15. CHANGES IN NON-CASH WORKING CAPITAL

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

| Year ended December 31, | 2023 | 2022 |
|---|---|---|
| Trade receivables | $ 5,725 | $ (50,942) |
| Inventories | (13,674) | (2,832) |
| Prepaid expenses and deposits | (1,306) | (2,534) |
| Trade and other payables | (156) | 28,535 |
| | $ (9,411) | $ (27,773) |
| Attributable to: | | |
| Operating activities | $ (12,141) | $ (27,113) |
| Investing activities | $ 2,730 | $ (660) |

## 16. 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), finance costs and acquisition and reorganization costs.

| | Year ended December 31, 2023 | | | | Year ended December 31, 2022 | | | |
|---|---|---|---|---|---|---|---|---|
| | Canada | U.S. | Corporate services | Total | Canada | U.S. | Corporate services | Total |
| Revenues (note 4) | $ 161,393 | $ 383,904 | $ — | $ 545,297 | $ 121,516 | $ 197,497 | $ — | $ 319,013 |
| Income (loss) before income taxes | $ 19,184 | $ 23,490 | $ (22,487) | $ 20,187 | $ 9,142 | $ 31,108 | $ (17,289) | $ 22,961 |

| | As at December 31, 2023 | | | | As at December 31, 2022 | | | |
|---|---|---|---|---|---|---|---|---|
| | Canada | U.S. | Corporate services | Total | Canada | U.S. | Corporate services | Total |
| Total liabilities | $ 107,878 | $ 116,387 | $ — | $ 224,265 | $ 110,683 | $ 89,410 | $ — | $ 200,093 |
| Total assets | $ 109,780 | $ 293,953 | $ — | $ 403,733 | $ 118,951 | $ 235,039 | $ — | $ 353,990 |
| Property, plant and equipment | $ 51,411 | $ 62,442 | $ — | $ 113,853 | $ 58,575 | $ 49,704 | $ 251 | $ 108,530 |

There are no material differences in the basis of accounting or the measurement of income, 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.

There were no major customers with significant amounts of revenue during the year ended December 31, 2023 and 2022.

## 17. CONTRACTUAL OBLIGATIONS AND CONTINGENCIES

As at December 31, 2023, the Company's commitment to purchase property, plant and equipment is approximately $8.1 million (2022 - $5.6 million), which is expected to be incurred over the next six months.

The Company also holds six letters of credit totaling $1.7 million related to rent payments, corporate credit cards and a utilities deposit.

**Provision**

The Company has recognized a provision of $7.6 million, included in trade and other payables, related to a U.S. tax audit matter. A portion of the provision was recognized as an expense of $5.4 million and a portion was recognized as property, plant and equipment and inventory of $2.2 million. The estimate was made by management using the latest information available and is subject to measurement uncertainty. Actual results may differ from this estimate.

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

## 18. 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, annual bonus 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) twelve to eighteen times their monthly salary; ii) twelve to eighteen times their average annual bonus over the past three years converted to a monthly average; and iii) health, dental, life insurance and disability coverage for twelve to fifteen months.

Key management personnel (including directors) compensation comprised of:

| | Year ended December 31, | |
|---|---|---|
| | 2023 | 2022 |
| Short-term employee and director benefits | $ 6,861 | $ 3,135 |
| Share-based compensation | 2,312 | 693 |
| Retirement allowance | 818 | — |
| | $ 9,991 | $ 3,828 |

Directors and executive officers of the Company own approximately 13% (2022 - 21%) 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 $0.1 million as at December 31, 2022, which was subsequently repaid in 2023.

Prior to the acquisition of LEXA on June 17, 2022 (note 5), Cathedral paid LEXA consulting fees in the amount of $0.5 million and prepaid a technology licensing fee of $0.7 million. In relation to the LEXA acquisition, Rod Maxwell, a director of Cathedral, exchanged his 9.02% ownership of LEXA for 159,836 common shares of Cathedral.

The Company pays approximately $0.2 million per year for an operating facility located in Casper, Wyoming owned by certain members of management. The rental terms are based on market rates. The lease expires on September 30, 2028. As at December 31, 2023, there are no amounts owed by or due to the owners.

In relation to the September 2021 acquisition of Valiant Energy Services Ltd. (“Valiant”), Valiant and Cathedral, entered into a Consulting Agreement. Pursuant to that Consulting Agreement, Cathedral recorded a performance incentive and other expense in the amount of $1.3 million for 2023 (2022 - $1.2 million). The Consulting Agreement terminates September 30, 2026 and the performance incentive has an annual maximum payment that ranges from $0.6 million to $1.2 million. As at December 31, 2023, a balance of $0.4 million was owing to Valiant.

## 19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

### Financial instruments

The Company’s financial instruments consisted of cash, trade receivables, trade and other payables, current taxes payable, loans and borrowings, lease liabilities and EP notes as at December 31, 2023. The financial instruments have been designated at their amortized cost. The financial instruments’ carrying values approximate their fair values, except for loans and borrowings and exchangeable promissory notes. As at December 31, 2023, the loans and borrowings’ carrying value was net of unamortized upfront financing fees of $0.6 million.

The Company has no financial instruments that were recorded at fair values as at December 31, 2023.

### 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 the Company’s capital by assessing certain measures such as: i) the Company’s loans and borrowings levels as compared to its total capitalization and ii) loans and borrowings and EP notes less cash to net income before financing costs, income tax expense, depreciation, amortization and share-based compensation, and other non-cash adjustments, of which are defined under the Company’s Credit Facility (note 10). Cathedral intends to use any cash flow from operations generated to continue to pay down its loans and borrowings and fund the NCIB while remaining opportunistic in making strategic and accretive acquisitions.

### Financial risk management

The Company’s financial instruments are exposed to credit risk and market risk, including liquidity risk, foreign currency risk and interest rate risk. 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 and controls. 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. Credit risk arises principally from the Company’s trade receivables.

The Company’s exposure to credit risk is influenced mainly by the individual characteristics of each customer. In assessing and monitoring credit risk, customers are grouped according to their credit risk demographic, including whether they are an individual or legal entity, geographic location, industry, aging profile, maturity and existence of past financial difficulties. Customers that are considered “high risk” are closely monitored, and future sales may be transitioned to a prepayment basis.

The Company analyzes the credit risk of each new customer individually before accepting the customer as a client. The Company’s review includes external credit ratings, when available. Customers that fail to meet the Company’s benchmark of creditworthiness generally are restricted to services on a prepayment basis.

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

Trade receivables are written-off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a customer to engage in a repayment plan with the Company, and a failure to make contractual payments for a period of greater than 120 days past due. The Company recognized $0.1 million as an allowance as at December 31, 2023 (2022 - $0.1 million) related to trade receivables expected to be uncollectible.

The aging of the trade receivables as at December 31, 2023 and 2022 was:

| Balance, December 31, | 2023 | 2022 |
|---|---|---|
| Not past due | $ 104,136 | $ 100,417 |
| Past due 61-90 days | 3,992 | 8,318 |
| Past due over 91 days | 3,718 | 4,742 |
| Total | $ 111,846 | $ 113,477 |

*Liquidity risk*

Liquidity risk is the risk that the Company will encounter difficulty in meeting the financial obligations that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to monitor its current cash position and estimated projected cash flow relative to the maturity of its financial obligation, under both normal and stressed conditions.

As at December 31, 2023, the Company had a cash balance of $10.7 million and undrawn loans and borrowings of $48.4 million (note 10).

The following are the contractual maturities of the Company's financial liabilities as at December 31, 2023:

| Balance, December 31, 2023 | Carrying amount | One year | 1-2 years | 3-5 years | Thereafter |
|---|---|---|---|---|---|
| Loans and borrowings - principal | $ 79,212 | $ 21,043 | $ 20,220 | $ 37,949 | $ — |
| EP Notes - principal | 26,400 | — | — | 26,400 | — |
| Interest payments on loans and borrowings and EP Notes | 14,100 | 6,912 | 5,163 | 2,025 | — |
| Lease liabilities - undiscounted | 17,725 | 4,169 | 3,840 | 8,624 | 1,092 |
| Trade and other payables | 93,661 | 93,661 | — | — | — |
| Total | $ 231,098 | $ 125,785 | $ 29,223 | $ 74,998 | $ 1,092 |

*Foreign currency risk*

The Company is exposed to foreign currency risk on its working capital, loans and borrowings and lease liabilities that are denominated in a currency other than its respective entities' functional currencies. The Company's transactions are primarily denominated in CAD and USD. As at December 31, 2023, the CAD to the USD exchange rate was 1:32:1 (2022 – 1.36:1) and the average CAD to USD exchange rate during the year ended December 31, 2023 was 1.35:1 (2022 – 1.30:1).

Generally, the Company's financial instruments are denominated in the functional currencies consistent with the cash flows generated by its respective entities' underlying operations, and as a result, is relatively unaffected by foreign currency risk. As such, the Company does not utilize foreign exchange hedging instruments to mitigate its foreign currency risk.

As at December 31, 2023, the Company held a USD denominated term loan of USD $21 million, which is subject to quarterly payments of USD $1.1 million over its five-year amortization period. The quarterly payments were primarily funded through the Company's Canadian operations and, as such, is subject to foreign exchange fluctuations. The Company's Syndicated Operating Facility and Revolving Operating Facility may be drawn upon in CAD or USD, which has the potential for foreign currency risk. As at December 31, 2023, the Company had $1.6 million CAD equivalent drawn in USD of its Revolving Operating Facility.

The Company's EP notes are denominated in USD, which are held in its U.S. subsidiary and therefore are not subject to foreign currency risk.

*Interest rate risk*

The Company's primary interest rate risk arises from its loans and borrowings, all of which, are primarily subject to variable rates, with the exception of its HSCAP loan (note 10) and the EP notes (note 5), which are subject to a fixed interest rates.

As at December 31, 2023, the Company's Revolving Operating Facility, CAD Syndicated Term Facility and USD Syndicated Term Facility, subject to variable rates, were $76.8 million. The HASCAP loan and EP notes (principal amount), subject to a fixed interest rates, were $0.8 million and $26.4 million, respectively, as at December 31, 2023.

An increase of one percent in the Company's variable interest rate would result in an increased finance cost of approximately $0.7 million (2022 - $0.8 million) per annum based on its loan and borrowings as at December 31, 2023.

## OFFICERS

Tom Connors, President and Chief Executive Officer
P. Scott MacFarlane, Interim Chief Financial Officer
Mike Hearn, Senior Vice President, Corporate Development
Lee Harns, President, Altitude Energy Partners
Vaugn Spengler, Senior Vice President, Canadian Operations
Fawzi Irani, President, Discovery Downhole Services
Manoj Gopalan, President, Rime Downhole Technologies

## DIRECTORS

Ian S. Brown
Tom Connors
Shuja Goraya
Rod Maxwell, Executive Chair
Scott Sarjeant
Dale E. Tremblay

## AUDITORS

PricewaterhouseCoopers LLP
Calgary, Alberta

## REGISTRAR AND TRANSFER AGENT

Odyssey Trust Company
Calgary, Alberta

## FINANCIAL INSTITUTIONS

ATB Financial – syndicate lead
Canadian Western Bank
HSBC Bank Canada
The Toronto Dominion Bank
Business Development Bank of Canada

## STOCK EXCHANGE LISTING

Toronto Stock Exchange (TSX: CET)

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