

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 three months ended March 31, 2023 is dated May 11, 2023 and should be read in conjunction with the Company's unaudited condensed consolidated financial statements for the three months ended March 31, 2023, the Company's MD&A and audited consolidated financial statements for the year ended December 31, 2022, and Annual Information Form for the year ended December 31, 2022 dated April 14, 2023. These documents are filed on SEDAR (www.sedar.com) and appear on the Company's website (www.cathedralenergyservices.com). Canadian dollar amounts are in '000's except for otherwise noted.

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

2023 Q1 KEY TAKEAWAYS

The Company achieved the following 2023 Q1 results and highlights:

- Revenue of \$127,665 in 2023 Q1, an increase of 271%, compared to \$34,385 in 2022 Q1.
- Adjusted EBITDAS of \$15,187 in 2023 Q1, an increase of 119%, compared to \$6,944 in 2022 Q1.
- Canadian directional drilling market share averaged 25.3% in 2023 Q1, an increase from 19.9% in 2022 Q1.
- Loans and borrowings less cash of \$57,719 as at March 31, 2023, compared to \$69,360 as at December 31, 2022.
- The Company received \$16,012 in cumulative warrant exercise proceeds by the warrant expiry date of April 25, 2023, which accounted for 99.7% of eligible warrants.
- Cathedral used the proceeds realized in April 2023 to pay off the \$13,000 owing on its Syndicated Operating Facility.
- Margins in the quarter relative to the prior year were primarily impacted by higher direct costs related to labour, repair and maintenance and third-party equipment rental costs, offset by lower fixed costs as a percentage of revenue, with these costs expected to normalize moving forward.
- The Company remains proactive in regards to its capital budget with the ability to increase or decrease expenditures in response to changing market conditions, including commodity prices which generally drive activity levels. While the Company remains constructive on the outlook for 2023, particularly the second half of the year, the Company is reducing its net capital budget to \$36,000 for 2023 versus the \$46,000 previously announced.

United States

- Job count remained flat to 2022 Q4.
- Pricing was flat to 2022 Q4 albeit with a higher proportion of lower revenue conventional work.
- A higher percentage of conventional work reduced average base day rates by approximately two thousand dollars per day.
- Lower revenue rates temporarily compressed margins as the Company continues to rent third-party Measurement-While-Drilling ("MWD") technology.
- The mix of higher revenue Rotary Steerable ("RSS") work returned to 2022 Q4 averages by March 2023.
- 2023 Q2 job count has increased to over sixty, up from a range of fifty-two to fifty-four earlier in 2023 Q1.
- Bookings and activity in 2023 Q2 and the second half of the year continue to solidify and steadily increase.
- While Discovery Downhole Services ("Discovery") had marginally lower utilization in the first quarter of 2023, utilization levels in the second quarter of 2023 have recovered to similar levels achieved in 2022 Q4.

Canada

- Day rates increased to \$12,392 per day from \$11,798 per day in 2022 Q4.
- Peaking at sixty-two jobs, we were one of the most active directional drilling providers in the quarter.
- Equipment acquired through our consolidation activity provided spare capacity to meet increased customer demand and activity levels.
- Reactivating equipment to meet increased demand resulted in a temporary increase in repair costs compared to historical levels and reduced margins by approximately 3% from both 2022 Q1 and 2022 Q4.
- The motor reactivation completed in 2023 Q1 will reduce capital requirements and improve margins in the second half of the year as we replace rentals and return to a more consistent level of repairs through the remainder of the year.
- We anticipate activity levels rebounding from seasonal spring lows in late-May to early-June and building to levels as strong or stronger than those experienced in 2022 Q3.

PRESIDENT'S MESSAGE

Comments from President & CEO Tom Connors:

We experienced different dynamics in each major market in North America during the first quarter of 2023. In the U.S., pricing and activity remained flat while the market experienced some moderation in overall industry activity, leading to a lower revenue mix. Canada experienced robust activity with temporarily higher levels of repair work to meet increased demand. Canadian directional drilling revenue registered its highest level ever due to a combination of: acquisitions over the last year; strong client retention and continued high Canadian market share; pricing increases on a year-over-year and sequential quarterly basis; and strong overall

exploration and production ("E&P") company spending levels in the Western Canadian Sedimentary Basin. U.S. results were also up substantially year-over-year, due to the acquisition of Altitude Energy Partners ("Altitude") in mid-summer 2022.

With zero excess rental capacity in the market and near record levels of activity in Canada for Cathedral, we were fortunate to have added equipment through acquisitions to meet the increased demand. In order to meet the increased demand for motors, the Company reactivated a number of motors for a fraction of the cost of purchasing new equipment. The expense of reactivating such motors did result in an increase in repair costs in the quarter. Correspondingly, the increase in the active motor fleet will reduce the requirement for capital to purchase new equipment moving forward and should offset rental costs and improve margins through the remainder of the year. Although the reactivation effort did push our repair costs higher than in 2022 Q1, the trend of higher repairs and lower margins in the first half of the year, followed by lower repairs with higher margins in the second half of the year is consistent with historical trends. As such, we anticipate that margins over the twelve-month period of 2023 will look consistent, if not slightly improved, from 2022. Pricing also increased approximately \$500 per day in 2023 Q1 versus 2022 Q4 and the Company anticipates levels will remain somewhat steady for the next couple of quarters.

In the U.S. directional business, prices and activity remained flat from 2022 Q4, but overall revenue rates per day decreased approximately two thousand dollars per day due to a higher mix of conventional work versus rotary steerable work in the quarter. The reduction of revenue, due to altered work mix, temporarily impacted margins in the first two months of the year, and was exacerbated by the necessity to rent third-party MWD technology on almost every job. Cathedral is actively pursuing options to supply our own MWD platform to potentially capture an organic growth opportunity that would lead to an improvement in margins and a commensurate expansion in EBITDAS. Rig-counts moderated somewhat in the quarter, down by approximately 4%. Despite the fact that there were some rig reductions and changes to drilling programs, our U.S. Altitude team nimbly filled the work with other customers, so much so, that the number of U.S. operating days actually increased 3.5% vs 2022 Q4 levels.

Our focus on performance and delivering value to our customers has delivered a steady increase in job count through the end of March and into April, resulting in over sixty jobs per day currently for Altitude, marking a return to levels of rotary steerable utilization consistent with 2022 Q4. The outlook for activity for the remainder of the year is expected to remain stable from the levels accomplished in Q2 or build slightly from those levels in the back half of the year based on current visibility.

Our mud motor rental business, Discovery, experienced a slight decline in rental utilization, consistent with the rest of the market but, as of today, has returned to utilization levels experienced in 2022 Q4. Mud motor rental utilization is expected to remain steady in the near-term with an increase in the second half of the year, as we take delivery of the latest generation of higher demand motor technology, that is part of our planned 2023 capital program.

The combination of seven different acquisitions over an eighteen-month period continues to deliver increased market share, EBITDAS, and free cash flow for Cathedral as we differentiate ourselves with a much stronger, unified, and highly competent team. Cathedral remains steadfast in its efforts to continue to grow the business by offering exceptional value and excellence to our customers. Virtually all of the key personnel added through the acquisitions remain with the Company, which is a direct benefit of our acquisition structure that aligns our partners to existing shareholders with equity in the Company. This alignment has resulted in a larger, combined team with no loss of any customers or market share related to acquisition integration. We continue to focus on building out the strength of Cathedral by employing a guiding philosophy that we will incorporate and learn from the best of each business we have purchased. On that basis, we have been able to improve efficiencies, best practices, and systems more rapidly than might otherwise have been possible on our own.

The strength of our free cash flow profile, achieved through the acquisitions, has proven powerful. Cathedral's loans and borrowings less cash position at June 30, 2022 proforma the close of the Altitude acquisition in July 2022 of approximately \$79,447 has decreased to \$57,719 in only nine months to the end of 2023 Q1. Additionally, in April 2023, the balance sheet was further strengthened with the cumulative exercise of 99.7% of the warrants from the \$26,451 bought deal financing completed in April 2022. Of this amount, 88.6% of the warrants were exercised in April 2023, further demonstrating clear shareholder support and confidence in our plan going forward.

NON-GAAP MEASURES

Cathedral uses certain performance measures throughout this MD&A that are not defined under IFRS or Generally Accepted Accounting Principles ("GAAP"). These non-GAAP measures do not have a standardized meaning and may differ from that of other organizations, and accordingly, may not be comparable.

These measures include the Adjusted gross margin, Adjusted gross margin %, Adjusted EBITDAS, Adjusted EBITDAS margin %, Adjusted EBITDAS per diluted share and Free cash flow. Management believes these measures provide supplemental financial information that is useful in the evaluation of Cathedral's operations. They are commonly used by other oilfield service companies. Investors should be cautioned, however, that these measures should not be construed as alternatives to IFRS measures as an indicator of Cathedral's performance.

These non-GAAP measures are defined as follows:

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

- iii) **"Adjusted EBITDAS"** - calculated as net income before finance costs, unrealized foreign exchange on intercompany balances, income tax expense, depreciation, amortization, non-recurring costs (including acquisition and restructuring costs), write-down of inventory and share-based compensation; provides supplemental information to earnings that is useful in evaluating the results and financing of the Company's business activities before considering certain charges (see tabular calculation);
- iv) **"Adjusted EBITDAS margin %"** - calculated as Adjusted EBITDAS divided by revenues; provides supplemental information to earnings that is useful in evaluating the results and financing of the Company's business activities before considering certain charges as a percentage of revenues (see tabular calculation);
- v) **"Adjusted EBITDAS per diluted share"** - calculated as Adjusted EBITDAS divided by the diluted weighted average shares outstanding; provides supplemental information to earnings that is useful in evaluating the results and financing of the Company's business activities before considering certain charges on a per diluted share basis; and
- vi) **"Free cash flow"** - calculated as cash flow provided by (used in) operating activities prior to: i) changes in non-cash working capital, ii) income taxes paid (refunded) and iii) non-recurring costs less i) property, plant and equipment additions, excluding assets acquired in business combinations, ii) required repayments on loans and borrowings, and iii) cash lease payments, offset by proceeds from dispositions of property, plant and equipment. Management uses this measure as an indication of the Company's ability to generate funds from its operations to support future capital expenditures, additional debt repayment or other initiatives (see tabular calculation).

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

Adjusted gross margin

	Three months ended March 31,	
	2023	2022
Gross margin	\$ 17,064	\$ 5,529
Add non-cash items included in cost of sales:		
Inventory write-down	378	—
Depreciation and amortization	9,225	4,289
Share-based compensation	144	43
Adjusted gross margin	\$ 26,811	\$ 9,861
Adjusted gross margin %	21%	29%

Adjusted EBITDAS

	Three months ended March 31,	
	2023	2022
Net income	\$ 794	\$ 2,243
Add (deduct):		
Income tax expense	407	—
Depreciation and amortization included in cost of sales	9,225	4,289
Depreciation and amortization included in selling, general and administrative expenses	1,509	124
Share-based compensation included in cost of sales	144	43
Share-based compensation included in selling, general and administrative expenses	775	91
Finance costs - loans and borrowings	1,730	229
Finance costs - lease liabilities	214	189
	14,798	7,208
Unrealized foreign exchange gain on intercompany balances	11	(295)
Inventory write-down and non-recurring expenses	378	31
Adjusted EBITDAS	\$ 15,187	\$ 6,944
Adjusted EBITDAS margin %	12%	20%

Free cash flow

	Three months ended March 31,	
	2023	2022
Cash flow provided by (used in) operating activities	\$ 23,916	\$ (1,758)
Add (deduct):		
Changes in non-cash operating working capital	(11,604)	7,857
Income taxes refunded	(169)	(8)
Non-recurring expenses	—	31
Proceeds on disposal of property, plant and equipment	5,572	1,233
Less:		
Property, plant and equipment additions ⁽¹⁾	(13,751)	(3,304)
Required repayments on loans and borrowings	(3,728)	(607)
Repayments of lease liabilities	(935)	(603)
Free cash flow (deficit)	\$ (699)	\$ 2,841

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

2022 ACQUISITIONS

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

- U.S.- based company, Altitude in July 2022 for total consideration of \$124,112, comprised of a cash payment of \$87,245 and a common share issuance of \$36,867, with the purchase price allocated primarily to working capital, property, plant and equipment, intangible assets and goodwill;

- U.S.- based operations, Discovery in February 2022 for total consideration of \$20,892, comprised of a cash payment of \$18,160 and a common share issuance of \$2,732, with the purchase price allocated primarily to inventory and property, plant and equipment;
- LEXA Drilling Technologies Inc. ("Lexa") in June 2022 for total consideration of \$1,761 in exchange for intangible assets;
- Compass Directional Services ("Compass") in June 2022 for total consideration of \$8,315, comprised of a cash payment of \$4,000 and a common share issuance of \$4,315, with the purchase price allocated primarily to inventory and property, plant and equipment; and
- the Canadian directional drilling business of Ensign Energy Services ("Ensign") in October 2022 for total common share consideration of \$5,965 with the purchase price allocated primarily to inventory and property, plant and equipment.

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

RESULTS OF OPERATIONS

	Three months ended March 31,	
	2023	2022
Revenues		
Canada	\$ 45,344	\$ 25,399
United States	82,321	8,986
Total revenues	127,665	34,385
Cost of sales:		
Direct costs	(101,232)	(24,524)
Depreciation and amortization	(9,225)	(4,289)
Share-based compensation	(144)	(43)
Cost of sales	(110,601)	(28,856)
Gross margin	\$ 17,064	\$ 5,529
Gross margin %	13%	16%
Adjusted gross margin % ⁽¹⁾	21%	29%

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

The Company recognized \$127,665 of revenues in 2023 Q1, an increase of \$93,280 or 271%, compared to \$34,385 in 2022 Q1 and cost of sales of \$110,601 in 2023 Q1, an increase of \$81,745 or 283%, compared to \$28,856 in 2022 Q1.

As a result, the Gross margin % and Adjusted gross margin % decreased to 13% and 21% in 2023 Q1, compared to 16% and 29% in 2022 Q1, respectively. Margins in the quarter relative to the prior year were primarily impacted by higher direct costs related to labour, repair and maintenance and third-party equipment rental costs, offset by lower fixed costs as a percentage of revenue, with these costs expected to normalize moving forward.

Consolidated depreciation and amortization expense allocated to cost of sales increased to \$9,225 in 2023 Q1, compared to \$4,289 in 2022 Q1 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 7% for 2023 Q1 and 12% in 2022 Q1.

Canadian segment

Canadian revenues were \$45,344 in 2023 Q1, an increase of \$19,945 or 79%, compared to \$25,399 in 2022 Q1, mainly due to acquisitions completed in 2022, including Compass and Ensign. The increase was the result of: i) a 37% increase in activity days to 3,659 days in 2023 Q1, compared to 2,670 days in 2022 Q1, and ii) a 30% increase in the average day rate to \$12,392 per day in 2023 Q1, compared to \$9,513 per day in 2022 Q1.

Based on publicly disclosed Canadian drilling activity, Cathedral's Canadian market share in 2023 Q1 was 25.3%, compared to 19.9% for 2022 Q1.

Canadian direct costs were \$34,729 in 2023 Q1, an increase of \$16,199 or 87%, compared to \$18,529 in 2022 Q1. The increase is mainly due to higher costs related to the 2022 acquisitions. As a percentage of revenues, direct costs also increased to 77% in 2023 Q1 from 73% in 2022 Q1, mainly due to higher repair and maintenance and other minor costs, offset by lower fixed costs as a percentage of revenues.

United States segment

U.S. revenues were \$82,321 in 2023 Q1, an increase of \$73,335 or 816%, compared to \$8,986 in 2022 Q1, mainly as a result of the acquisitions completed in 2022, including Discovery and Altitude. The Company realized a 816% increase in activity days to 3,317 days in 2023 Q1, compared to 362 days in 2022 Q1. The average day rate decreased slightly to \$24,818 per day in 2023 Q1, compared to \$24,825 per day in 2022 Q1, mainly due to less high margin RSS services provided, as compared to other services provided.

Based on publicly disclosed U.S. drilling rig activity, Cathedral's U.S. market share for 2023 Q1 was 6.8% compared to under 1% in 2022 Q1.

U.S. direct costs were \$66,503 in 2023 Q1, an increase of \$60,508 or 1,009%, compared to \$5,995 in 2022 Q1. The increase is mainly due to higher costs related to the 2022 acquisitions. As a percentage of revenues, direct costs also increased to 81% in 2023 Q1 from 67% in 2022 Q1, mainly due to higher labour, repair and maintenance, third-party equipment rental and other minor costs, offset by lower fixed costs as a percentage of revenues.

Selling, general and administrative (SG&A) expenses

	Three months ended March 31,	
	2023	2022
Selling, general and administrative expenses:		
Direct costs	\$ (14,086)	\$ (3,535)
Depreciation and amortization	(1,509)	(124)
Share-based compensation	(775)	(91)
Selling, general and administrative expenses	\$ (16,370)	\$ (3,750)

The Company recognized SG&A expenses of \$16,370 in 2023 Q1, an increase of \$12,620, compared to \$3,750 in 2022 Q1. The increase is mainly due to the 2022 acquisitions. As a percentage of revenues, SG&A expenses were higher at 13% in 2023 Q1, compared to 11% in 2022 Q1. The increase is mainly due to discretionary short-term incentive program payments, which were approved and recognized in 2023 Q1, compared to no discretionary incentive payments recognized in 2022 Q1.

Depreciation and amortization and stock-based compensation recognized in SG&A were \$1,509 and \$775 in 2023 Q1, compared to \$124 and \$91 in 2022 Q1, respectively.

Technology group expenses

The Company recognized technology group expenses of \$552 in 2023 Q1, an increase of \$333, compared to \$219 in 2022 Q1. Technology group expenses are salaries, benefits and shop supply costs related to new product development and technology.

Gain on disposal of equipment

The Company recognized a gain on disposal of equipment of \$3,044 in 2023 Q1, compared to \$822 in 2022 Q1, mainly related to equipment lost-in-hole. Proceeds on lost-in-hole equipment are based on service agreements held with clients. In 2023 Q1, the Company received proceeds on disposal of equipment of \$5,572, compared to \$1,233 in 2022 Q1.

Finance costs

Finance costs were \$1,730 in 2023 Q1, an increase of \$1,501, compared to \$229 in 2022 Q1. The higher costs are mainly due to the Company's increased debt levels from \$19,949 as at March 31, 2022 to \$76,807 as at March 31, 2023 coupled with an increase in interest rates between the two periods. The increased debt was in relation to the 2022 acquisitions (refer to the 'Liquidity and Capital Resources' section of this MD&A for more details).

In addition, the Company had \$214 of finance costs in 2023 Q1 related to lease liabilities, compared to \$189 in 2022 Q1.

Foreign exchange

The Company recognized a foreign exchange loss of \$41 in 2023 Q1, compared to a foreign exchange gain of \$310 in 2022 Q1, due to the fluctuations of the Canadian dollar relative to the U.S. dollar related to foreign currency transactions recognized in net income.

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. As such, the Company recognized a foreign currency translation difference on foreign operations of \$425 in 2023 Q1, compared to \$356 in 2022 Q1.

Income tax

Income tax expense was \$407 in 2023 Q1, compared to \$nil in 2022 Q1. Income tax expense is booked based upon expected annualized rates using the statutory rates of 23% for Canada and the U.S.

LIQUIDITY AND CAPITAL RESOURCES

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

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

Cash flow provided by operating activities in 2023 Q1 was \$23,916, compared to cash flow used in operating activities of \$1,758 in 2022 Q1. Cathedral intends to use the free cash flow generated in the remainder of 2023 to continue to pay down debt while remaining opportunistic in making strategic and accretive acquisitions.

Subsequent to March 31, 2023, 16,747,205 warrants were exercised at an exercise price of \$0.85 per warrant totaling \$14,235 in cash proceeds. The Company has used the proceeds to repay its outstanding balance of its Syndicated Operating Loan of \$13,000.

At March 31, 2023, the Company had working capital, excluding current portion of loans and borrowings of \$58,485 (December 31, 2022 - \$60,447).

Syndicated credit facility

As at March 31, 2023, the Company held a \$99,000 syndicated credit facility comprised of a \$74,000 term loan ("Syndicated Term Facility"), a \$15,000 revolving borrowing base loan ("Syndicated Operating Facility") and a \$10,000 revolving operating facility ("Revolving Operating Facility"), the latter of which remained undrawn as at March 31, 2023. The syndicated credit facility expires in July 2025. As at March 31, 2023, the carrying values of the Syndicated Term Facility and the Syndicated Operating Facility were \$62,900 and \$13,000 (December 31, 2022 - \$66,600 and \$13,000), respectively.

In addition, the Company holds a Highly Affected Sectors Credit Availability Program ("HASCAP") loan with a carrying value of \$907 (December 31, 2022 - \$935).

The financial covenants associated with the syndicated credit facility are:

- 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.

At March 31, 2023, the Company was in compliance with its covenants.

In light of expecting to submit a portion of its annual reporting documents to the banking syndicate past the due date within the credit agreement, Cathedral pro-actively obtained, prior to the close of 2023 Q1, a formal waiver to submit such reporting, no later than April 17, 2023. Cathedral completed the submission of its annual reporting to the banking syndicate on April 15, 2023.

Contractual obligations and contingencies

As at March 31, 2023, the Company's commitment to purchase property, plant and equipment was approximately \$5,535. Cathedral anticipates expending these funds in 2023 Q2 and Q3, subject to supply chain delays.

The Company also holds six letters of credit totaling \$1,920 related to rent payments, corporate credit cards and a utilities deposit.

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

Share capital

At May 11, 2023, the Company has 242,025,173 common shares, 2,575,000 warrants and 19,669,300 options outstanding.

CAPITAL EXPENDITURES

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

	Three months ended March 31,	
	2023	2022
Motors and related equipment	\$ 7,416	\$ 1,479
MWD and related equipment	4,523	1,805
Shop and automotive equipment	778	—
Other	1,538	20
Capital expenditures	\$ 14,255	\$ 3,304

The additions of \$14,255 (2022 - \$3,304) were partially funded by proceeds on disposal of equipment of \$5,572 (2022 - \$1,233).

2023 Capital program

The Company's 2023 net capital program has been revised to approximately \$36,000, down from the \$46,000 previously announced, excluding any potential acquisitions. The net capital program is targeted at growing Cathedral's high-performance mud motor and MWD in both Canada and the U.S. Cathedral intends to fund its 2023 capital plan from cash flow provided by operating activities, along with proceeds on equipment lost-in-hole.

OUTLOOK

Uncertainty in underlying commodity prices led to some market moderation in the first quarter of the year, particularly in the U.S. market. West Texas Intermediate ("WTI") oil prices have generally been range-bound between USD \$65.00 and USD \$83.00/bbl, while US NYMEX natural gas prices have weakened materially into the USD \$2.00 - \$2.40/mmbtu range. The market for public

energy service equities has priced in a fairly significant rollover in land-based activity, although to-date, the rig-counts in both the U.S. and Canada have not seen any significant declines, outside of normal seasonality associated with spring break-up conditions in Canada and the Northern U.S. We believe that current economic conditions are sufficient for most programs to proceed in most areas by most E&P companies. With the change in drilling technology and market dynamics that occurred during the last decade in North America, the market is reaching maximum capacity for the equipment ideally suited to perform the work at the activity levels experienced in 2023 Q1 and those forecasted for the remainder of 2023 and into 2024. There has been some reshuffling of spending and priorities by some of our clients, but levels of activity are generally robust given the industry's capacity to supply properly specified equipment and qualified people.

Specifically, updated weekly rig data from Baker Hughes as at April 28, 2023 shows that the latest land rig-count of 735 has only fallen 4% from the 2022 exit level of 764. Similarly, the U.S. oil vs natural gas rig-count shows only small changes year-to-date. The more sizable oil rig-count is off by 5% (to 591 rigs from 621 rigs at December 31, 2022), while natural gas-directed drilling is up 3% year-to-date (to 161 rigs from 156 rigs at December 31, 2022). The very important Permian play experienced a decrease in rig counts into mid-March, but the Permian has now moved back above the 2022 exit level (to 357 rigs from 350 rigs at December 31, 2022).

While E&P companies high-graded rigs paused programs or reduced drilling programs in the first quarter, the market stabilized and strengthened as we entered the second quarter with steady improvement anticipated for the remainder of the year. Note that a group of seven Canadian-based energy research analysts (Source: ATB Capital Markets, BMO Capital Markets, Stifel FirstEnergy, National Bank Financial, Peters & Co, Raymond James, TD Securities) is currently forecasting that U.S. land drilling levels will be down roughly 2% in 2023 Q2 versus 2023 Q1, but up 5% year-over-year. Moving to the second half of 2023, the same group of analysts is forecasting modest year-over-year declines: 2023 Q3 U.S. land drilling is forecast to be down 2% year-over-year, while the 2023 Q4 land rig-count is forecast to be down 4% year-over-year. On an absolute basis, the analysts' trajectory has the U.S. land rig-count bottoming sometime in 2023 Q3 before starting a slow ramp into 2024 and continuing the next year.

In Canada, activity levels remain low due to spring break-up and this is expected to last until early-June when road bans start being lifted and the climb back to stronger levels begins. After a strong first quarter, where the Western Canadian rig-count was up 12% year-over-year, on average, the latest active weekly rig-count of one hundred is essentially unchanged from the ninety-nine rigs running one year ago. The same group of seven Canadian energy research analysts is forecasting that 2023 Q2 rig activity in Canada will be up 10% year-over-year, up 9% year-over-year in 2023 Q3 and up 12% year-over-year in 2023 Q4. Calendar year 2024 rig activity is also forecast to rise approximately 2% year-over-year. The underlying sentiment from industry forecasts is that for now, publishing energy research analysts are more bullish on Canadian activity than the U.S., which likely relates to the beginning of LNG-related drilling activity in Canada and the strong natural gas liquids component of the natural gas streams for many of the Canadian E&P companies.

The virtue of Cathedral's greatly expanded North American business model is that we can be a major player, no matter where the field spending levels are strongest. U.S. LNG projects will also be constructive for drilling activity, moving forward, as multiple years of natural gas-related drilling and production expenditures will be required, particularly in areas along the Southern U.S., including the Permian, Haynesville and Eagle Ford plays. Cathedral aims to grow its exposure in these areas in the coming quarters and years.

CONTROLS AND PROCEDURES

The Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") are responsible for designing disclosure controls and procedures ("DC&P") and internal controls over financial reporting ("ICFR") as defined in National Instrument 52-109 Certification of Disclosure in Issuer's Annual and Interim Filings ("52-109"), or causing them to be designed under their supervision, in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

Cathedral's DC&P have been designed to provide reasonable assurance that material information relating to Cathedral is made known to the CEO and the CFO by others and that information required to be disclosed by Cathedral in its annual filings, interim filings or other reports filed or submitted by Cathedral under securities legislation is recorded, processed, summarized and reported within the time periods specified in applicable securities legislation. Because of their inherent limitations, DC&P and ICFR may not prevent or detect all misstatements, errors or fraud. Control systems, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control systems are met.

Cathedral has limited the scope of design of DC&P and ICFR to exclude controls, policies and procedures of Altitude Energy Partners, LLC which was acquired on July 13, 2022, the financial performance of which is included in the unaudited condensed consolidated financial statements for the three months ended March 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 table below presents the summary of financial information of Altitude:

	Three months ended March 31, 2023
Revenues	\$ 74,969
Net income	1,204
Current assets	83,910
Non-current assets	128,225
Current liabilities	63,880
Non-current liabilities	12,068
Capital purchase commitments	4,002

RISK FACTORS

Risk factors associated with the Company are included in the Company's Annual Information Form for the year ended December 31, 2022 dated April 14, 2023, which is available on SEDAR at www.sedar.com and on the Company's website (www.cathedralenergyservices.com). Those risk factors remain in effect as at March 31, 2023.

GOVERNANCE

The Audit Committee of the Board of Directors has reviewed this MD&A and the related unaudited condensed 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 unaudited condensed consolidated financial statements for the three months ended March 31, 2023 were approved on May 11, 2023.

NEW AND FUTURE ACCOUNTING POLICIES

There were no new or amended standards issued during the three months ended March 31, 2023 that are expected to have a significant impact on the Company's financial statements.

SUMMARY OF QUARTERLY RESULTS

Three months ended	Mar 2023	Dec 2022	Sep 2022	Jun 2022	Mar 2022	Dec 2021	Sep 2021	Jun 2021
Revenues	\$ 127,665	\$ 128,518	\$ 107,846	\$ 27,652	\$ 34,385	\$ 23,710	\$ 20,127	\$ 7,322
Adjusted EBITDAS ⁽¹⁾	\$ 15,187	\$ 30,284	\$ 28,065	\$ 2,865	\$ 6,944	\$ 1,273	\$ 5,170	\$ (2,683)
Adjusted EBITDAS ⁽¹⁾ per share - diluted	\$ 0.06	\$ 0.13	\$ 0.14	\$ 0.02	\$ 0.07	\$ 0.02	\$ 0.07	\$ (0.05)
Net income (loss)	\$ 794	\$ 10,270	\$ 8,658	\$ (2,824)	\$ 2,243	\$ (1,097)	\$ 403	\$ (5,846)
Net income (loss) per share - diluted	\$ —	\$ 0.05	\$ 0.04	\$ (0.02)	\$ 0.02	\$ (0.01)	\$ 0.01	\$ (0.11)

⁽¹⁾ Refer to the "Non-GAAP Measures" section in this MD&A

FORWARD LOOKING STATEMENTS

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

- Future commitments;
- The 2023 capital program and financing of the program;
- The Company's ability to increase or decrease expenditures in response to changing market conditions, including commodity prices which generally drive activity levels;
- Synergies and significant incremental growth opportunity going forward with the ability to replace third-party MWD equipment rentals with Cathedral-sourced technology in U.S. market;
- Bookings and activity in 2023 Q2 and the second half of the year continue to solidify and steadily increase;
- The motor reactivation completed in 2023 Q1 will reduce capital requirements and improve margins in the second half of the year as we replace rentals and return to a more consistent level of repairs through the remainder of the year;
- We anticipate activity levels rebounding from seasonal spring lows in late-May to early-June and building to levels as strong or stronger than those experienced in 2022 Q3;
- The increase in the active motor fleet will reduce the requirement for capital to purchase new equipment moving forward and should offset rental costs and improve margins through the remainder of the year;
- We anticipate that margins over the twelve-month period of 2023 will look consistent, if not slightly improved, from 2022;
- The Company anticipates pricing levels will remain somewhat steady for the next couple of quarters;

- Cathedral is actively pursuing options to supply our own MWD technology to potentially capture an organic growth opportunity that would lead to an improvement in margins and a commensurate expansion in EBITDAS;
- The outlook for activity for the remainder of the year is expected to build steadily from here, based on the visibility of current contract bookings in the latter half of the year;
- Mud motor rental utilization is expected to remain steady in the near-term with an increase in the second half of the year, as we take delivery of the latest generation of higher demand motor technology, that is part of our planned 2023 capital program;
- We believe that current economic conditions are sufficient for most programs to proceed in most areas by most E&P companies;
- The market stabilized and strengthened as we entered the second quarter with steady improvement anticipated for the remainder of the year;
- Analyst are currently forecasting that U.S. land drilling levels will be down roughly 2% in 2023 Q2 versus 2023 Q1, but up 5% year-over-year;
- The second half of 2023, analysts are forecasting modest year-over-year declines: 2023 Q3 U.S. land drilling is forecast to be down 2% year-over-year, while the 2023 Q4 land rig-count is forecast to be down 4% year-over-year;
- On an absolute basis, the analysts' trajectory has the U.S. land rig-count bottoming sometime in 2023 Q3 before starting a slow ramp into 2024 and continuing the next year;
- In Canada, activity levels remain low due to spring break-up and this is expected to last until early-June when road bans start being lifted and the climb back to stronger levels begins;
- Analyst are forecasting that 2023 Q2 rig activity in Canada will be up 10% year-over-year, up 9% year-over-year in 2023 Q3 and up 12% year-over-year in 2023 Q4. Calendar year 2024 rig activity is also forecast to rise approximately 2% year-over-year;
- The underlying sentiment from industry forecasts is that for now, publishing energy research analysts are more bullish on Canadian activity than the U.S., which likely relates to the beginning of LNG-related drilling activity in Canada and the strong natural gas liquids component of the natural gas streams for many of the Canadian E&P companies;
- U.S. LNG projects will also be constructive for drilling activity, moving forward, as multiple years of natural gas-related drilling and production expenditures will be required, particularly in areas along the Southern U.S., including the Permian, Haynesville and Eagle Ford plays. Cathedral aims to grow its exposure in these areas in the coming quarters and years.

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

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

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

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

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