

Cathedral Energy Services Ltd. Reports 2023 Annual Results

/NOT FOR DISSEMINATION IN THE UNITED STATES OF AMERICA/

CALGARY, AB, March 26, 2024 /CNW/ -

Cathedral Energy Services Ltd.'s (the "Company" or "Cathedral") news release contains "forward-looking statements" within the meaning of applicable Canadian securities laws. For a full disclosure of forward-looking statements and the risks to which they are subject, see the "Forward-Looking Statements" section in this news release. This news release contains references to Adjusted gross margin, Adjusted gross margin %, Adjusted EBITDAS, Adjusted EBITDAS margin %, Free cash flow, Working capital and Net capital expenditures. These terms do not have standardized meanings prescribed under International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS Accounting Standards") and may not be comparable to similar measures used by other companies. See the "Non-GAAP Measures" section in this news release for definitions and tabular calculations.

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 United States ("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 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.
- 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 news release.

⁽²⁾ Per Baker Hughes and Rig Locator.

⁽³⁾ Refer to the "Provisions" section in this new release.

⁽⁴⁾ Refer to the "2023 Acquisitions" section in this new release.

PRESIDENT'S MESSAGE

Comments from President & CEO Tom Connors:

"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 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 happy to report that the Company is well on its 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 periods, 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.

"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 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 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.

"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 versus 2023 Q3 levels while the Canadian rig count declined 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.

"In regard to our ongoing efforts to strengthen the balance sheet, Cathedral remains focused on paying down 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 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 debt 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." concluded Mr. Connors.

FINANCIAL HIGHLIGHTS

Canadian dollars in 000's except for otherwise noted

	Three months ended December 31,		Year ended December 31,	
	2023	2022	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

	December 31,	December 31,
Balance,	2023	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 news release.

⁽²⁾ Refer to the "Reclassifications" section in this news release.

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 – 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.

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 news release.

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

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

- U.S.- based company, Altitude in July 2022 for total consideration of \$124.1 million, comprised of a cash payment of \$87.2 million and a common share issuance of \$36.9 million. 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.

RECLASSIFICATIONS

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

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:

Consolidated Statement of Comprehensive Income (Excerpt)

	Three months ended December 31, 2022			Year ended December 31, 2022		
	Reported	Adjustment	Adjusted	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.

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 news release.

⁽²⁾ Refer to the "Reclassifications" section in this news release.

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,		Year ended December 31,	
	2023	2022	2023	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 news release.

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 news release). 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 news release. 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.

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.

NET CAPITAL EXPENDITURES

The following table details the Corporation'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 news release.

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 rotary steerable systems ("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.

NON-GAAP MEASURES

Cathedral uses certain performance measures throughout this news release 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, however, 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 news release; 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 "Net capital expenditures" section of this news release.

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

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 news release.

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,		Year ended December 31,	
	2023	2022	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 ⁽³⁾	454	—	1,187	1,678
Less:				
PP&E 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 news release.

⁽²⁾ PP&E 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.

FORWARD LOOKING STATEMENTS

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

- Future commitments;
- The 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 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.
- 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 news release in connection with the forward-looking statements. You are cautioned that the following list of material factors and assumptions is not exhaustive. Specific material factors and assumptions include, but are not limited to:

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

Forward-looking statements are not a guarantee of future performance and involve a number of risks and uncertainties some of which are described herein. Such forward-looking statements necessarily

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

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31, 2023 and 2022

Canadian dollars in '000s

As at	December 31, 2023	December 31, 2022
Assets		
Current assets:		
Cash	\$ 10,731	\$ 11,175
Trade receivables	111,846	113,477
Prepaid expenses	5,839	4,529
Inventories	44,976	26,195
Total current assets	173,392	155,376
Property, plant and equipment	113,853	108,530
Intangible assets	66,366	38,511
Right-of-use assets	10,138	12,178
Goodwill	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	21,023	15,735
Lease liabilities, current	3,441	3,631
Total current liabilities	119,550	110,664
Loans and borrowings, long-term	57,575	64,800
Exchangeable promissory notes	23,923	—
Lease liabilities, long-term	12,323	14,249
Deferred tax liability	10,894	10,380
Total non-current liabilities	104,715	89,429
Total liabilities	224,265	200,093
Shareholders' equity:		
Share capital	197,380	180,484
Treasury shares	(709)	(959)
Exchangeable promissory notes	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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Three months and year ended December 31, 2023 and 2022

Canadian dollars in '000s except per share amounts

	Three months ended December 31,		Year ended December 31,	
	2023	2022	2023	2022
Revenues ⁽¹⁾	\$ 145,419	\$ 139,148	\$ 545,297	\$ 319,013

Cost of sales:

Direct costs ⁽¹⁾	(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)
Total cost of sales	(115,636)	(106,669)	(439,968)	(248,217)
Gross margin	29,783	32,479	105,329	70,796

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)
Total selling, general and administrative expenses	(18,094)	(11,535)	(64,281)	(31,707)
Provision	(1,126)	—	(5,417)	—
Research and development costs	(317)	(418)	(1,754)	(1,271)
Write-down of property, plant and equipment ⁽¹⁾	(1,028)	(1,059)	(4,952)	(2,545)
Gain (loss) on disposal of property, plant and equipment ⁽¹⁾	228	(1)	618	116
Income from operating activities	9,446	19,466	29,543	35,389
Finance costs - loans and borrowings	(2,446)	(3,266)	(7,948)	(5,290)
Finance costs - lease liabilities	(214)	(200)	(848)	(784)
Foreign exchange gain (loss)	622	737	768	(2,180)
Acquisition and restructuring costs	(24)	(1,184)	(1,328)	(4,174)
Income before income taxes	7,384	15,553	20,187	22,961
Income tax expense				
Current	(4,163)	(675)	(8,411)	(762)
Deferred	(1,454)	(4,608)	(1,148)	(3,852)
Total income tax expense	(5,617)	(5,283)	(9,559)	(4,614)
Net income	1,767	10,270	10,628	18,347

Other comprehensive (loss) income:

Foreign currency translation differences on foreign operations	(4,892)	(3,629)	(4,301)	8,378
Total comprehensive (loss) income	\$ (3,125)	\$ 6,641	\$ 6,327	\$ 26,725

Net income per share - basic and diluted \$ 0.01 \$ 0.05 \$ 0.04 \$ 0.11

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

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	27,813	—	3,075	—	—	30,888
Consideration for business combination, net of share issue costs	50,996	—	—	—	—	50,996
Treasury shares issued for business combination	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	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	—	—	1,242	—	—	—	1,242
Repurchased pursuant to normal course issuer bid	(3,501)	—	—	—	—	(292)	(3,793)
Cancelled pursuant to acquisition-related settlement	(168)	—	—	—	—	—	(168)
Contributed surplus on treasury shares vesting	—	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

CONSOLIDATED STATEMENT OF CASH FLOWS

Three months and year ended December 31, 2023 and 2022

Canadian dollars in '000s

	Three months ended December 31,		Year ended December 31,	
	2023		2022	
Cash provided by (used in):				
Operating activities:				
Net income	\$ 1,767	\$ 10,270	\$ 10,628	\$ 18,347
Non-cash adjustments:				
Income tax expense	5,617	5,283	9,559	4,614
Depreciation and amortization	13,460	10,025	48,615	31,696
Share-based compensation	1,253	658	5,101	1,387
(Gain) loss on disposal of property, plant and equipment ⁽¹⁾	(228)	1	(618)	(116)
Write-down of property, plant and equipment ⁽¹⁾	1,028	1,059	4,952	2,545
Write-down of inventory included in cost of sales	524	107	1,501	107
Finance costs - loans and borrowings	2,446	3,266	7,948	5,290
Finance costs - lease liabilities	214	200	848	784
Income tax (paid) refund	(4,633)	480	(5,479)	538
Unrealized foreign exchange loss (gain) on intercompany balances	69	(709)	(930)	1,802
	21,517	30,640	82,125	66,994
Changes in non-cash operating working capital ⁽¹⁾	(4,928)	(7,599)	(12,141)	(27,113)
Cash flow - operating activities	16,589	23,041	69,984	39,881
Investing activities:				
Cash paid on acquisition, net of cash acquired ⁽¹⁾	—	(788)	(27,426)	(104,581)
Property, plant and equipment additions ⁽¹⁾	(8,327)	(9,297)	(46,177)	(26,397)
Intangible asset additions	(98)	(8)	(256)	(1,464)
Proceeds on disposal of property, plant and equipment ⁽¹⁾	454	—	1,187	1,678
Changes in non-cash investing working capital	462	1,099	2,730	(660)
Cash flow - investing activities	(7,509)	(8,994)	(69,942)	(131,424)
Financing activities:				
Advances of loans and borrowings, net of upfront financing fees	1,507	8,789	28,805	115,939
Repayments on loans and borrowings	(5,091)	(17,847)	(31,017)	(41,438)
Payments on lease liabilities, net of finance costs	(875)	(1,018)	(3,535)	(3,134)
Interest paid	(2,069)	(3,466)	(8,205)	(6,074)
Common shares purchased pursuant to NCIB	162	—	(3,793)	—
Proceeds on common share issuances	30	907	16,862	32,285
Changes in non-cash financing working capital	(1,765)	—	—	—
Cash flow - financing activities	(8,101)	(12,635)	(883)	97,578
Effect of exchange rate on changes on cash ⁽¹⁾	(1,420)	1,956	397	2,242
Change in cash	(441)	3,368	(444)	8,277
Cash, beginning of year	11,172	7,807	11,175	2,898
Cash, end of year	\$ 10,731	\$ 11,175	\$ 10,731	\$ 11,175

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

Cathedral Energy Services Ltd., based in Calgary, Alberta, Canada, is incorporated under the Business Corporations Act (Alberta) and operates in Canada under Cathedral Energy Services and in the U.S. under Discovery Downhole Services, a division of Cathedral Energy Services Inc., Altitude Energy Partners, LLC and Rime Downhole Technologies, LLC. Cathedral's common shares are publicly-traded on the Toronto Stock Exchange under the symbol "CET". Cathedral is a trusted partner to North American energy companies requiring high performance directional drilling services and related downhole technologies. We work in partnership with our customers to tailor our equipment and expertise to meet their specific geographical and technical needs. Our experience, technologies and responsive personnel enable our customers to achieve higher efficiencies and lower project costs. For more information, visit www.cathedralenergyservices.com

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