CATHEDRAL

2021
ANNUAL REPORT

www.cathedralenergyservices.com

FIVE YEAR FINANCIAL HISTORY

Dollars in 000's except per share amounts

	2021	2020	2019	2018	2017
Revenues [3]	**$ 62,524**	$ 40,574	$ 120,276	$ 160,827	$ 147,095
Gross margin	**-2%**	-25%	-6%	3%	11%
Adjusted gross margin % [1] [3]	**18%**	12%	10%	11%	18%
Adjusted EBITDAS [1]	**$ 4,520**	$ (116)	$ 3,887	$ 12,060	$ 18,674
Cash flow - operations	**$ (3,499)**	$ 1,191	$ 4,785	$ 3,732	$ 2,952
Reversals of Impairments (Impairments and direct write-offs)	**$ 614**	$ (6,822)	$ -	$ (1,474)	$ (8,584)
Loss before income taxes	**$ (8,626)**	$ (25,417)	$ (18,717)	$ (6,139)	$ (382)
Basic per share	**$ (0.13)**	$ (0.51)	$ (0.38)	$ (0.12)	$ (0.01)
De-recognition of deferred tax asset	**$ -**	$ (2,647)	$ -	$ (13,059)	$ -
Net earnings (loss)	**$ (8,626)**	$ (27,731)	$ (19,187)	$ (17,061)	$ 87
Basic and diluted per share	**$ (0.13)**	$ (0.56)	$ (0.39)	$ (0.35)	$ -
Equipment additions [2]	**$ 5,617**	$ 2,474	$ 6,018	$ 17,391	$ 11,322
Weighted average shares outstanding					
Basic (000s)	**65,031**	49,468	49,468	49,445	47,381
Diluted (000s)	**65,740**	49,468	49,522	49,586	47,577
Working capital	**$ 14,117**	$ 7,680	$ 20,181	$ 30,599	$ 31,016
Total assets	**$ 75,423**	$ 64,280	$ 106,300	$ 121,770	$ 121,630
Loans and borrowings excluding current portion	**$ 5,035**	$ 1,560	$ 6,000	$ 7,000	$ 46
Shareholders' equity	**$ 42,504**	$ 39,974	$ 68,092	$ 89,143	$ 101,391

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

(2) Equipment additions exclude non-cash additions

(3) Revenues and Adjusted gross margin % for 2017 exclude Discontinued Operations.

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Annual General Meeting:

Shareholders are invited to attend the Annual General Meeting which will be held at 2:30 pm on May 12, 2022 at our Head Office 6030 – 3 Street SE, Calgary, Alberta.

REPORT TO SHAREHOLDERS

To my fellow Shareholders,

As I look back over my first year as CEO at Cathedral, I am happy with the progress we have made in growing Cathedral's operations while maintaining our high-quality customer service and providing reliable, industry-leading technology. On their own, our results are impressive, but to have achieved them amid challenging industry and economic circumstances, with ongoing global events, is a significant accomplishment.

2021 – Shaping a strong future for Cathedral

During the first half of 2021, we strengthened our team of talented executives to lead Cathedral through the next important chapter in its evolution. Our management team is well positioned to guide Cathedral with a broad range of complementary skills, including extensive operational, technological and financial experience.

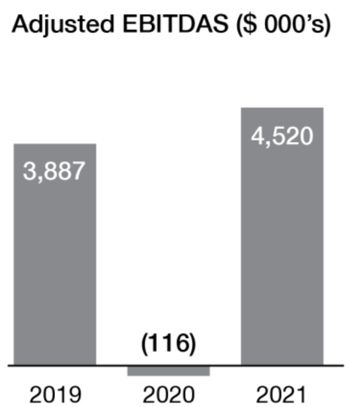
Together, our team has developed a clear plan for Cathedral's future; a plan that will establish Cathedral as one of North America's leading directional drillers. We are expanding our existing customer base and operations with our reliable, innovative technology and high-quality service. In addition to organic growth, the directional drilling sector is poised for more consolidation and we see several opportunities to add value for customers and shareholders through strategic acquisitions. The sector is comprised of many small private operators who have struggled through the past few challenging years. We believe that consolidation is needed to create a sustainable, efficient sector that can thrive in the future, and that Cathedral is well-positioned to lead that charge.

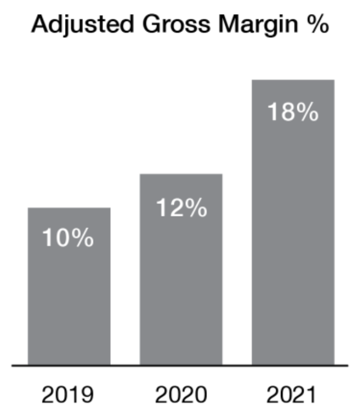
We have a disciplined approach to acquisitions, only pursuing opportunities that provide strategic growth in select locations, add proven management teams aligned with Cathedral's long-term success and add value on a per-share basis, while also maintaining our conservative balance sheet.

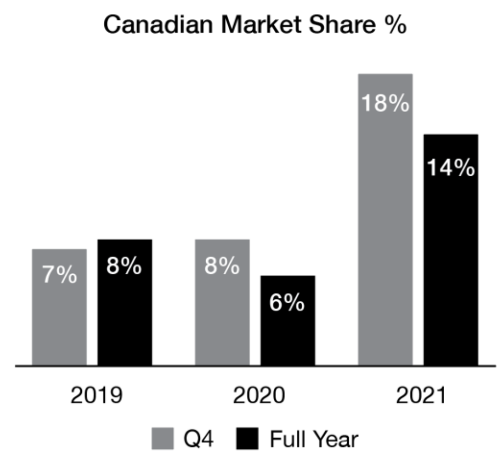
Following this careful approach, we successfully completed two important acquisitions in 2021. In July, we acquired Precision Drilling's directional drilling assets, expanding our customer base in both Canada and the U.S., creating a strategic marketing alliance to support future sales through integrated service offerings with Precision and receiving investment in Cathedral's technology advancement. In September, we followed the Precision deal by acquiring the operating assets of Valiant Energy Services, further expanding our customer base in Canada and strengthening the operations team in Canada.

In addition to completing these strategic acquisitions, we drove improved performance across our operations with increased profitability, higher activity levels, and expanded market share in Canada. Our team continued to operate safely in 2021 with no lost time injuries, only one recordable incident and a TRIF rate of 0.34 to conclude the year.

Below is a snapshot of some of our progress during the year:







2022 and beyond – A leading North American directional driller

As we move into 2022, industry conditions and valuations continue to support acquisitions and we believe additional consolidation opportunities for Cathedral exist. To date, we have successfully completed the acquisition of Discovery Downhole Services, providing us with strategic growth in the U.S. motor technology rental business. We will continue to carefully evaluate opportunities as they arise, selectively looking for ways to add value and grow strategically.

Directional drilling technology is evolving and we understand that re-investing in our products and providing innovative, competitive technology is key to maintaining and growing our customer base. We are continuing to develop new ideas, push our boundaries and find new ways of improving our services, including investing in technology used to enable and enhance remote and automated drilling.

We are focused on seamlessly integrating our recent acquisitions, while continuing to provide the high-quality, reliable service our customers have come to expect from Cathedral. Industry conditions remain strong, with increased commodity prices driving higher activity levels, and we are optimistic for improved performance in 2022. We will continue to advance our growth plans, with targeted market share in Canada of 18% or more, and a more significant market share ranging in 5-10% in the U.S. in the next one to two years.

Finally, I would like to express my sincere appreciation to the entire Cathedral team who have worked tirelessly to meet the needs of our customers, to work safely and to advance our ambitious plans for Cathedral.

On behalf of the Board of Directors and management team, thank you for your continued support.

Sincerely,

Tom Connors
President and CEO

MANAGEMENT'S DISCUSSION & ANALYSIS

This Management's Discussion and Analysis ("MD&A") for the year ended December 31, 2021 provides an analysis of the consolidated results of operations, financial position and cash flows of Cathedral Energy Services Ltd. (the "Company" or "Cathedral") and should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2021, as well as the Company's 2021 interim MD&A's. This MD&A is intended to assist the reader in the understanding and assessment of significant changes and trends, as well as the risks and uncertainties, related to the results of the operations and financial position of the Company. Currency amounts are in '000's except for day rates and per share amounts. This MD&A is dated March 10, 2022.

NON-GAAP MEASUREMENTS

Cathedral uses certain performance measures throughout this document that are not defined under Canadian Generally Accepted Accounting Principles ("GAAP"). These measures are Adjusted gross margin, Adjusted gross margin % and Adjusted EBITDAS. Management believes that these measures provide supplemental financial information that is useful in the evaluation of Cathedral's operations and are commonly used by other oilfield service companies. Investors should be cautioned, however, that these measures should not be construed as alternatives to measures determined in accordance with GAAP as an indicator of Cathedral's performance. Cathedral's method of calculating these measures may differ from that of other organizations, and accordingly, may not be comparable.

The specific measures being referred to include the following:

i) "Adjusted gross margin" - calculated as gross margin plus non-cash items (depreciation 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); and

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

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

Adjusted gross margin

	Three months ended December 31		Year ended December 31	
	2021	2020	2021	2020
Gross margin	$ 701	$ (2,368)	$ (1,402)	$ (10,190)
Add non-cash items included in cost of sales:				
Depreciation	3,323	3,560	12,372	14,996
Share-based compensation	23	7	89	63
Adjusted gross margin	$ 4,047	$ 1,199	$ 11,059	$ 4,869
Adjusted gross margin %	17%	16%	18%	12%

Adjusted EBITDAS

	Three months ended December 31		Year ended December 31	
	2021	2020	2021	2020
Loss before income taxes	$ (1,097)	$ (3,183)	$ (8,626)	$ (25,417)
Add:				
Depreciation included in cost of sales	3,323	3,560	12,372	14,996
Depreciation included in selling, general and administrative expenses	134	146	535	572
Share-based compensation included in cost of sales	23	7	89	63
Share-based compensation included in selling, general and administrative expenses	51	15	152	144
Finance costs	(53)	60	196	291
Finance costs lease liabilities	189	218	794	918
Subtotal	2,570	823	5,512	(8,433)
Impairments and direct write-downs	(614)	(172)	(614)	6,822
Unrealized foreign exchange (gain) loss on intercompany balances	(78)	(1,678)	(366)	(929)
Non-recurring expenses	(605)	592	(12)	2,424
Adjusted EBITDAS	$ 1,273	$ (435)	$ 4,520	$ (116)

CORPORATE OVERVIEW

Cathedral Energy Services Ltd. is incorporated under the Business Corporations Act (Alberta). The Company is publicly traded on the Toronto Stock Exchange under the symbol "CET". The Company together with its wholly owned subsidiary, Cathedral Energy Services Inc. ("INC"), is engaged in the business of providing directional drilling services to oil and natural gas companies in western Canada and the U.S.

Cathedral is a trusted partner to North American energy companies requiring high performance directional drilling services. We work in partnership with our customers to tailor our equipment and expertise to meet their specific geographical and technical needs. Our experience, technologies and responsive personnel enable our customers to achieve higher efficiencies and lower project costs.

FINANCIAL HIGHLIGHTS

		2021		2020		2019
Revenues	$	**62,524**	$	40,574	$	120,276
Gross margin		**-2%**		-25%		-6%
Adjusted gross margin % (1)		**18%**		12%		10%
Adjusted EBITDAS (1)	$	**4,520**	$	(116)	$	3,887
Cash flow - operations	$	**(3,499)**	$	1,191	$	4,785
Reversals of Impairments (Impairments and direct write-offs)	$	**614**	$	(6,822)	$	-
Loss before income taxes	$	**(8,626)**	$	(25,417)	$	(18,717)
Basic per share	$	**(0.13)**	$	(0.51)	$	(0.38)
De-recognition of deferred tax asset	$	**-**	$	(2,647)	$	-
Loss	$	**(8,626)**	$	(27,731)	$	(19,187)
Basic per share	$	**(0.13)**	$	(0.56)	$	(0.39)
Property and equipment additions (2)	$	**5,617**	$	2,474	$	6,018
Weighted average shares outstanding						
Basic (000s)		**65,031**		49,468		49,468
Diluted (000s)		**65,740**		49,468		49,522
Working capital	$	**14,117**	$	7,680	$	20,181
Total assets	$	**75,423**	$	64,280	$	106,300
Loans and borrowings excluding current portion	$	**5,035**	$	1,560	$	6,000
Shareholders' equity	$	**42,504**	$	39,974	$	68,092

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

(2) Equipment additions exclude non-cash additions

FISCAL 2021 KEY TAKEAWAYS

Revenues increased by 54% from $40,574 in 2020 to $62,524 in 2021;

Adjusted gross margin increased from 12% to 18% primarily due to a decrease in the fixed portion of cost of sales as a percentage of revenue partially offset by increased repairs and field labour expenses;

Adjusted EBITDAS increased from a loss of ($116) in 2020 to a gain of $4,520 in 2021 because of increased revenues and increased adjusted gross margin;

There has been significant changes to the Company's management team in 2021. Tom Connors was appointed CEO in Q1 and Q2 saw Ian Graham, CFO, and Fawzi Irani, Senior Vice President, U.S. Operations join Cathedral. They join Randy Pustanyk, Executive VP, to complete the new core management team;

During 2021, the Company completed private placements totaling $3,376;

In 2021 Q3, the Company completed two acquisitions as detailed below; and

The Company recorded an impairment reversal of $768 in the current period as a result of a sublease on its right of use asset, which was partially offset by an inventory write-down of $154 for a net reversal of $614.

2021 ACQUISITIONS

On July 23, 2021, the Company announced the closing of Cathedral's acquisition of Precision Drilling Corporation's ("Precision") directional drilling business (the "Transaction") for a purchase price of $6,350. The Transaction includes the operating assets and personnel of Precision's directional drilling business (including its operations facility in Nisku, Alberta), and a $3,000 cash investment by Precision to support growth and expansion of Cathedral, including continuing the buildout of RapidFire™ measurement-while-drilling guidance systems and nDurance™ drilling motors. Additionally, the Transaction is expected to enhance margins as expenses related to rental equipment used by Precision are replaced with proprietary Cathedral tools.

Cathedral issued 13,400,000 common shares (the "Consideration Shares") along with warrants to purchase an additional 2,000,000 common shares of Cathedral at a price of $0.60 per common share within a two-year period after closing. In addition to a 4-month statutory hold period on the Consideration Shares, the parties have agreed to contractual restrictions on resale as follows: 25% of the Consideration Shares are restricted until January 22, 2022; a further 25% of the Consideration Shares are restricted until July 22, 2022; and a further 50% of the Consideration Shares are restricted until July 22, 2023, subject to certain exceptions.

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

- Cash $3,000
- Land and building $1,500; and
- Equipment $1,850.

The Company has expensed $139 in costs related to the Transaction. As the acquired assets were integrated into Cathedral's existing directional drilling operations it is impracticable to breakout the revenue and profit or loss of the acquired assets since the acquisition.

In addition, on September 7, 2021 the Company completed the acquisition of the operating assets of Valiant Energy Services Ltd. ("Valiant"), an Alberta-based directional drilling company, for a purchase price of $1,500 and allocated $1,485 to equipment and $15 to inventory related to service of those tools. The purchase price was satisfied through the issuance of 3,464,204 common shares of Cathedral to Valiant. These shares will be subject to a 4-month statutory hold period. The Company has expensed $41 in costs related to this acquisition. The principal owner of Valiant, Mr. Vaugn Spengler, has entered into a long-term performance-based agreement to remain with Cathedral and will continue to focus on opportunities to support and expand the existing customer base.

OUTLOOK

Industry fundamentals continue to signal a positive North American oilfield services market for 2022.

Rig count figures for Canada at the end of 2021 were directly in line with the five-year pre-COVID average for that time of year. Analysts are consistently modifying their 2022 projections upwards with consensus now close to 57,000 activity days for the Western Canadian Sedimentary Basin ("WCSB"), a better than 27% increase over 2021. While most basins in the U.S. are just now reaching pre-COVID rig count ranges, the Permian has matched and the Haynesville has surpassed their five-year pre-COVID averages. These two plays have driven the U.S. land rig count in 2021 and projections for 2022 have also been adjusted higher. Consensus now sees an average active U.S. land rig count of almost 640 rigs for the coming year vs. the 2021 count of 464 rigs, a 37% year-over-year improvement. (source: ATB Capital Markets, Baker Hughes Company, BMO Capital Markets, Peters & Co Limited, Raymond James Ltd., Stifel Canada and TD Securities Inc.)

Although recent North American headlines regarding inflation and the Russian invasion of the Ukraine have increased the volatility of the hydrocarbon indexes, most are trading at 5-7 year highs. These commodity prices are bolstering the balance sheets of the energy producers globally including the Company\s customers in both Canada and the U.S. To date, they have used the free cash flow generated by these price levels to prioritize debt reduction and the return of proceeds to shareholders. However, growing rig counts and analyst estimates appear to indicate that Cathedral's customers will start to direct a greater share of these funds to capital spending in 2022.

Labour continues to be the primary bottleneck for the service sector, as oilfield service companies are challenged to crew all the equipment they presently have demand for. This scenario could persist for much of the coming year. As noted previously, the ongoing combination of improved sector activity and stronger commodity prices coupled with constrained labour and supply chains, should translate to a constructive pricing environment for service businesses in 2022.

RESULTS OF OPERATIONS - 2021 COMPARED TO 2020

Revenues		2021		2020
Canada	$	45,961	$	13,837
United States		16,563		26,737
Total	$	62,524	$	40,574

Revenues 2021 revenues were $62,524, which represented an increase of $21,950 or 54% from 2020 revenues of $40,574.

Canadian revenues (excluding motor rental revenues) increased to $43,300 in 2021 from $11,104 in 2020; a 290% increase. This increase was the result of: i) a 282% increase in activity days to 5,952 in 2021 from 1,558 in 2020 and ii) a 2% increase in the average day rate to $7,275 in 2021 from $7,127 in 2020.

Based on publicly disclosed Canadian drilling and directional drilling days, Cathedral's market share for 2021 was 14.3% compared to 5.5% in 2020. The increase in day rates was due to an increase in day rates to compensate for escalating operating costs, including field labour rates.

U.S. revenues (excluding motor rental revenues) decreased 45% to $14,211 in 2021 from $25,662 in 2020. This decrease was the result of: i) 31% decrease in activity days to 1,526 in 2021 from 2,197 in 2020; and ii) a 20% decrease in the average day rate to $9,312 in 2021 from $11,680 in 2020 (when converted to Canadian dollars).

Cathedral's U.S. business pre-COIVID was primarily concentrated in Oklahoma in the Anadarko basin and this region experienced a disproportionately severe down-turn due the COVID-19 pandemic. In response, the Company made the strategic decision to reposition its business in Houston to focus on Texas and the Permian basin. This required a new management and sales team which was in place by 2021 Q3. While Cathedral U.S. recovery has lagged the industry as a result of these significant changes, 2021 second half revenues increased by 30% over the first six month of the year.

The average active land rig count for the U.S. was up 10% in 2021 compared to 2020 (source: Baker Hughes). The Company experienced a 34% decline in activity resulting in a decrease in market share compared to 2020. Day rates in USD decreased 14% to $7,439 USD in 2021 from $8,654 USD in 2020. The 2021 rate is down due to a decrease in revenues from providing rotary steerable system (RSS) services which are rented from a 3rd party and a reduction in certain ancillary revenues.

Motor rentals for Canada were roughly at the same level as 2020, but this was augmented by increases in the U.S. Combined rental revenues increased to $5,014 in 2021 compared to $3,808 in 2020. U.S. rental revenues have increased due to a focus on increasing sales for this business line.

Government grants The Company recognized the benefit from the Canadian Emergency Wage Subsidy ("CEWS") program of $916 (2020 - $1,776) and $nil (2020 - $992) from U.S. Paycheck Protection Program ("PPP") which reduced salary expenses as follows:

- Cost of sales $544 (2020 - $1,665);
- Selling, general and administrative expenses $298 (2020 - $812); and
- Technology group expenses $74 (2020 - $291).

Additionally, the Company received $518 (2020 - $280) from Canadian Emergency Rent Subsidy ("CERS"), which reduced cost of sales $424 (2020 - $221) and selling, general and administrative $94 (2020 - $59).

The 2021 CEWS claims were at reduced levels due to the increase in revenues in 2021.

Gross margin and adjusted gross margin Gross margin for 2021 was -2% compared to -25% in 2020. Adjusted gross margin (see Non-GAAP Measurements) for 2021 was $11,059 or 18% compared to $4,869 or 12% for 2020.

Adjusted gross margin improved due to a decrease in the fixed portion of cost of sales as a percentage of revenue partially offset by increases repairs and field labour expenses.

Depreciation of equipment allocated to cost of sales decreased to $12,372 in 2021 from $14,996 in 2020 due to the aging of the assets as the Company uses a declining-balance depreciation for most items. Depreciation included in cost of sales as a percentage of revenue was 20% for 2021 and 37% in 2020.

Selling, general and administrative ("SG&A") expenses SG&A expenses were $9,059 in 2021; an increase of $164 compared with $8,895 in 2020. This increase was primarily due to a reduction/recovery of bad debts in 2021 offset by increased wages and lower wage assistance received in 2021. As a percentage of revenue, SG&A was 14% in 2021 compared to 22% in 2020.

Technology group expenses Technology group expenses were $747 in 2021; a decrease of $205 compared with $952 in 2020. Technology group expenses are related to new product development and supporting and upgrading existing technology. Technology group expenses consist of salaries and related benefits and burdens as well as shop supplies.

Gain on disposal of equipment During 2021, the Company had a gain on disposal of equipment of $2,681 compared to $1,680 in 2020. These gains mainly related to equipment lost-in-hole. Proceeds from clients on lost-in-hole equipment are based on amounts specified in service agreements. The timing of lost-in-hole recoveries is not in the control of the Company and therefore can fluctuate significantly from quarter-to-quarter. In 2021, the Company received proceeds on disposal of equipment of $3,553 (2020 - $2,603).

Finance costs Finance costs consisting of interest expenses on loans and borrowings and bank charges net of interest charged on past due accounts receivable were $196 for 2021 versus $291 for 2020. Included in 2021 amount was interest revenue of $173 (2020 - $nil).

Finance costs lease liability The lease liability interest decreased slightly to $794 from $918.

Foreign exchange The Company had a foreign exchange gain of $277 in 2021 compared to $971 in 2020 due to the fluctuations of the Canadian dollar relative to the U.S. dollar. The Company's foreign operations are denominated in USD and therefore, upon consolidation, gains and losses due to fluctuations in the foreign currency exchange rates are recorded as other comprehensive income on the balance sheet as a component of equity. However, gains and losses in the Canadian entity on U.S. denominated intercompany balances continue to be recognized in the statement of comprehensive income (loss). Included in the 2021 foreign currency gains are unrealized gains of $366 (2020 - $929) related to intercompany balances.

Impairment and direct write-downs In 2021 there was a reversal on a U.S. right of use asset that was subleased in the amount of $768 and partially offset by write-down of inventory of $154 for a net reversal of $664. The inventory write-down relates to parts that are unlikely to be used to repair the Company's tools.

In the prior year, due to the decline in projected drilling activity in 2020 the Company determined that indicators of impairment existed. . In Q1, the Company, as a result of the impairment test wrote-down our assets in the amount of $6,994. The write- down was associated with our right of use assets ($6,834) and intangibles ($160). As part of the Company's response to changes in drilling activity, the decision was made to consolidate its repair activities and close or significantly reduce activities at certain locations. The right of use asset for these locations was written down to $nil. There were $160 intangible projects in progress where it was uncertain when or if staff resources would be available to bring the projects to commercialization. As such these projects were written down to $nil.

Income tax Previously, Cathedral derecognized deferred tax assets due to a recent history of tax losses within both of Cathedral's legal entities.

Income tax expense is booked based upon expected annualized rates using the statutory rates of 25.5% for Canada and 23% for the U.S.

LIQUIDITY AND CAPITAL RESOURCES

Overview On an annualized basis, the Company's principal source of liquidity is cash generated from operations and proceeds from equipment lost-in-hole. In addition, the Company has the ability to fund liquidity requirements through its credit facility and the issuance of debt and/or equity. Cash flow - operations in 2021 decreased to a use of cash of ($3,499) compared to a source of cash of $1,991 in 2020. The decrease in 2021 was primarily due to fund the 84% increase in working capital resulting from the improvement in North American oilfield service activity, partially offset by increases in cash flow from improved drilling activity in 2021 and Cathedral's increase in Canadian market share.

Working capital At December 31, 2021, the Company had working capital of $14,117 (December 31, 2020 - $7,680).

Credit facility

Bank facility

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

In June 2021, the Company amended and extended its Facility. Commencing with the fiscal period ending September 30, 2021 ("2021 Q3") and ending with the fiscal period ending March 31, 2022 ("2022 Q1"), the definition of Credit Agreement EBITDA will be based on pro-rating Credit Agreement EBITDA to a 12-month equivalent ("Consolidated EBITDA Annualization Period"). The calculations are as follows:

- For the fiscal period ending 2021 Q3, the Credit Agreement EBITDA is the calculated amount for the 3 months of 2021 Q3 times four;
- For the fiscal period ending December 31, 2021 ("2021 Q4"), the Credit Agreement EBITDA is the calculated amount for the 3 months of 2021 Q3 plus the 3 months of 2021 Q4 times two;
- For the fiscal period ending 2022 Q1, the Credit Agreement EBITDA is the calculated amount for the 3 months of 2021 Q3 plus the 3 months of 2021 Q4 plus the 3 months of 2022 Q1 divided by 3 and then times 4;
- During the Consolidated EBITDA Annualization Period, the Facility will bear interest at the maximum rates for the ranges noted;
- The Company, at its one-time option, can choose to exit the Consolidated EBITDA Annualization Period and revert back to the original definition of Credit Agreement EBITDA and the Facility will bear interest at the applicable rates. For the fiscal period ending June 30, 2022 ("2022 Q2"), the Credit Agreement EBITDA will revert back to the trailing 12-month calculation.

The Facility also features the following amendments:

- There is no cap in place and the Company has access to the full $12,000 Facility;
- Aggregate capital expenditures (excluding non-cash utilization of existing inventory) for the fiscal year ended December 31, 2021, are not to exceed $9,000; and
- Consolidated funded debt to tangible net worth ("TNW") ratio will no longer be tested after 2021 Q2.

The financial covenants associated with the Facility that will be tested commencing 2021 Q3 are:

- Consolidated funded debt to consolidated Credit Agreement EBITDA ratio shall not exceed 3.0:1; and
- Consolidated Credit Agreement EBITDA to consolidated interest ratio shall not be less than 2.5:1.

Compliance with Facility covenants

At December 31, 2021, the Company had drawn $5,035 of its bank facility and had $2,898 in cash. The Company was in compliance with all covenants at December 31, 2021.

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

In conjunction with the credit amendment and extension referenced above, the Company applied for and received a further $1,000 of liquidity from HASCAP. The incremental $1,000 non-revolving loan is fully drawn and further augments Cathedral's liquidity to $13,000 in combination with the Company's ability to access the full $12,000 Facility. The demand loan has an interest rate of 4% and is amortized over a ten-year period. Repayment terms are interest only for the first year, and principal plus interest for the remaining nine years, payable on a monthly basis. The HASCAP Loan is secured by a general security interest over all present and after acquired personal property of the Company granted in favour of ATB.

Contractual obligations In the normal course of business, the Company incurs contractual obligations and those obligations are disclosed in the Company's annual financial statements for the year ended December 31, 2021.

As at December 31, 2021, the Company's has a commitment to purchase equipment of $362 which is expected to be incurred in 2022 Q1.

The Company has issued the following six letters of credit ("LOC"):

- three securing rent payments on property leases and renew annually with the landlords. Two LOCs total $700 CAD for the first ten years of the lease and then reduce to $500 for the last five years of the leases. The third LOC is currently for $630 USD and increases annually based upon annual changes in rent;
- two securing the Company's corporate credit cards in the amounts of $75 CAD and $175 USD; and
- one in lieu of cash deposit for utilities in the amounts of $55 CAD.

The following table outlines the anticipated payments related to commitments subsequent to December 31, 2021:

	Total	2022	2023	2024	2025	2026	Thereafter
Equipment purchase obligations	$ 362	$ 362	$ -	$ -	$ -	$ -	$ -
Secured revolving term loan	5,035	-	5,035	-	-	-	-
HASCAP loan	1,000	58	100	100	100	100	542
Finance lease obligations	18,506	2,821	2,673	2,684	2,590	2,439	5,299
Total	$ 24,903	$ 3,241	$ 7,808	$ 2,784	$ 2,690	$ 2,539	$ 5,841

Subsequent events On February 11, the Company announced the closing of its acquisition of the operating assets of Discovery Downhole Services ("Discovery") for a purchase price of $20,800 (the "Discovery Transaction"). The Discovery Transaction was funded by:

- the issuance of 5,254,112 common shares of Cathedral (the "Acquisition Shares") to Discovery;
- a non-brokered private placement of 14,659,000 common shares of Cathedral ("Private Placement Shares") at a price of $0.44 per share for gross proceeds of $6,450 (the "Private Placement");
- $11,710 cash financed by a term loan from Cathedral's existing primary bank lender ATB (the "Term Loan") as part of the Company's amended and restated credit agreement (the "Credit Agreement") entered into by the Company and ATB concurrently with the closing of the Discovery Transaction. This is in addition to existing $12,000 Facility; and
- Additionally, Cathedral will pay customary fees and expenses at prevailing market rates to ATB as a condition of the Term Loan and the Credit Agreement.

Cathedral has retained key Discovery personnel under employment and consulting contracts to ensure a seamless customer service experience, successful integration and long-term alignment with Cathedral's strategy.

The Acquisition Shares and Private Placement Shares will be subject to a four-month statutory hold period under applicable Canadian securities laws, in addition to such other restrictions as may apply under applicable securities laws of jurisdictions outside of Canada. The Acquisition Shares will be subject to further contractual restrictions on resale as follows: 25% are restricted until February 10, 2023; a further 25% of are restricted until August 10, 2023; and a further 50% are restricted until February 10, 2024, subject to certain exceptions.

While the Term Loan will be amortized over five years it has a maturity of June 2023 as with the existing Facility. The amortization will be based on a variable interest rate consistent with the Company's existing credit facility interest rates with required monthly payments of principal and interest. Cathedral will be subject to a quarterly fixed charge coverage ratio as defined in the Credit Agreement which shall not be less than 1.25. The consolidated interest coverage ratio will no longer be tested after 2021 Q4 and the limit on aggregate capital expenditures has been eliminated for 2022 and beyond. The Credit Agreement also includes the granting of a security interest over the assets acquired in the Discovery Transaction. At closing of the Discovery Transaction, Cathedral is in compliance with the terms and conditions of the Term Loan and Credit Agreement.

Share capital At March 10, 2022, the Company has 100,135,265 common shares, 2,575,000 common share purchase warrants and 6,638,700 options outstanding with a weighted average exercise price of $0.35.

Related party transactions Cathedral has determined that the key management personnel of the Company consist of its executive officers and directors.

In addition to their salaries and director's fees, the Company also provides non-cash benefits to directors and executive officers including participation in the Company's share option program.

Certain executive officers have employment agreements. Upon resignation at the Company's request, they are entitled to termination benefits including: i) 1.0 to 2.0 times base salary; ii) 1.0 to 2.0 times average annual bonus over the past 3 years; and iii) health, dental, life insurance and disability coverage for 12 to 24 months.

Key management personnel (including directors) compensation comprised:

		2021		2020
Short-term employment benefits	$	2,033	$	1,236
Share-based compensation		198		117
Total expense recognized as share-based compensation	$	2,231	$	1,353

Key management personnel and director transactions

Directors and executive officers of the Company control approximately 7% of the common shares of the Company.

Cathedral issued 650,000 units to its newly appointed President, CEO and Director at a subscription price of $0.20 per unit, using a loan provided by Cathedral on commercial terms of $130. Each unit consists of one common share and one-half of one warrant. Each whole warrant will entitle the holder to purchase one common share at an exercise price of $0.24 per common share for a period of three years from the closing date of the private placement which was February 8, 2021.

There have been no other transactions over the reporting period with key management personnel (2020 - nil), and no other outstanding balances exist as at period end (2020 - nil).

2021 CAPITAL PROGRAM

During the year ended December 31, 2021 the Company invested $5,617 (2020 - $2,474) in equipment (excluding non-cash additions).

The following table details the current period's net equipment additions:

		Year ended December 31, 2021
Equipment additions:		
Motors and related equipment	$	3,495
MWD and related equipment		2,107
Other		15
Total cash additions	$	5,617

The additions of $5,617 were partially funded by proceeds on disposal of equipment of $3,553.

2022 CAPITAL PROGRAM

The Company's estimated 2022 gross capital plan is approximately $14,900, excluding any potential acquisitions. The primary additions under the 2022 capital plan will be approximately $9,500 for new mud motors and related parts with the remaining $5,400 on MWD and ancillary assets.

RESULTS OF OPERATIONS – THREE MONTHS ENDED DECEMBER 31

Revenues and operating expenses

		2021 Q4		2020 Q4		$ Change	% Change
Revenues	$	23,710	$	7,448	$	16,262	218%
Cost of sales		(23,009)		(9,816)		(13,193)	134%
Gross margin - $	$	701	$	(2,368)	$	3,069	-130%
Gross margin - %		3%		-32%		35%	
Adjusted gross margin $ (1)	$	4,047	$	1,199	$	2,848	238%
Adjusted gross margin % (1)		17%		16%		1%	

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

Revenues		2021 Q4		2020 Q4
Canada	$	18,535	$	4,042
United States		5,175		3,406
Total	$	23,710	$	7,448

Revenues 2021 Q4 revenues were $23,710, which represented an increase of $16,262 or 218% from 2020 Q4 revenues of $7,448.

Canadian revenues (excluding motor rental revenues) increased to $17,637 in 2021 Q4 from $3,740 in 2020 Q4; a 372% increase. This increase was the result of: i) a 310% increase in activity days to 2,269 in 2021 Q4 from 553 in 2020 Q4 and ii) a 15% increase in the average day rate to $7,773 in 2021 Q4 from $6,764 in 2020 Q4.

Based on publicly disclosed Canadian drilling and directional drilling days, Cathedral’s market share for 2021 Q4 was 18.1% compared to 7.7% in 2020 Q4. Day rates increased due to certain ancillary revenues along with overall change in client mix.

U.S. revenues (excluding motor rental revenues) increased 49% to $4,765 in 2021 Q4 from $3,201 in 2020 Q4. This increase was the result of: i) a 28% increase in activity days to 459 in 2021 Q4 from 359 in 2020 Q4; and ii) a 16% increase in the average day rate to $10,381 in 2021 Q4 from $8,915 in 2020 Q4 (when converted to Canadian dollars).

The average active land rig count for the U.S. was up 84% in 2021 Q4 compared to 2020 Q4 (source: Baker Hughes). The Company experienced a 28% increase in activity resulting in a decrease in market share compared to 2020 Q4. Day rates in USD increased 21% to $8,256 USD in 2021 Q4 from $6,843 USD in 2020 Q4. Revenue day rates increased due to an increase in revenues from providing RSS services which are rented from a 3rd party.

Motor rentals increased in both Canada and the U.S. Combined rental revenues increased to $1,308 in 2021 Q4 compared to $507 in 2020 Q4. Rentals were up due to the industry increase in drilling activity.

Government grants The Company did not qualify for CEWS and CERS claims in Q4 of 2021 due to the increase in revenues for the quarter.

In Q4 of 2020, the Company recognized $399 of CEWS benefits which reduced salary expenses as follows:

- Cost of sales $187;
- Selling, general and administrative expenses $154; and
- Technology group expenses $58.

In Q4 of 2020, the Company recognized the benefit from the CERS program of $280 which reduced cost of sales $221 and selling, general and administrative $59.

Gross margin and adjusted gross margin Gross margin for 2021 Q4 was 3% compared to -32% in 2020 Q4. Adjusted gross margin (see Non-GAAP Measurements) for 2021 Q4 was $4,047 or 17% compared to $1,199 or 16% for 2020 Q4.

Adjusted gross margin, as a percentage of revenue, increased due to lower repairs and a reduction in fixed costs as percentage of revenue, partially offset by increases in field labour expenses and rentals.

Depreciation of equipment allocated to cost of sales decreased to $3,323 in 2021 Q4 from $3,560 in 2020 Q4 due to the aging of the assets as the Company uses a declining-balance depreciation for most items. Depreciation included in cost of sales as a percentage of revenue was 14% for 2021 Q4 and 48% in 2020 Q4.

Selling, general and administrative ("SG&A") expenses SG&A expenses were $2,804 in 2021 Q4; an increase of $732 compared with $2,072 in 2020 Q4. There were increases in SG&A wages, commissions and reduced CEWS grants partially offset by recovery of bad debts in 2021 Q4 compared to expense in 2020 Q4. As a percentage of revenue, SG&A was 12% in 2021 Q4 compared to 28% in 2020 Q4.

Technology group expenses Technology group expenses were $214 in 2021 Q4; an increase of $74 compared with $140 in 2020 Q4. Technology group expenses are related to new product development and supporting and upgrading existing technology. Technology group expenses consist of salaries and related benefits and burdens as well as shop supplies.

Gain (loss) on disposal of equipment During 2021 Q4, the Company had a gain on disposal of equipment of $664 compared to a loss of ($183) in 2020 Q4. These gains are mainly related to equipment lost-in-hole. Proceeds from clients on lost-in-hole equipment are based on amounts specified in service agreements. The timing of lost-in-hole recoveries is not in the control of the Company and therefore can fluctuate significantly from quarter-to-quarter. In 2021 Q4, the Company received proceeds on disposal of equipment of $1,275 (2020 Q4 - $184).

Finance costs Finance costs consisting of interest expenses on loans and borrowings and bank charges net of interest charged on past due accounts receivable were a net revenue of ($53) for 2021 Q4 versus expense of $60 for 2020 Q4. Included in 2021 Q4 amount was interest revenue of $172 (2020 Q4 - $nil).

Finance costs lease liability The lease liability interest decreased slightly to $189 from $218.

Foreign exchange The Company had a foreign exchange gain of $78 in 2021 Q4 compared to $1,686 in 2020 Q4 due to the fluctuations of the Canadian dollar relative to the U.S. dollar. The Company’s foreign operations are denominated in USD and therefore, upon consolidation, gains and losses due to fluctuations in the foreign currency exchange rates are recorded as other comprehensive income on the balance sheet as a component of equity. However, gains and losses in the Canadian entity on U.S. denominated intercompany balances continue to be recognized in the statement of comprehensive income (loss). Included in the 2021 Q4 foreign currency loss are unrealized gain of $136 (2020 Q4 –$1,678) related to intercompany balances.

Impairment and direct write-downs In 2021 there was a reversal on a U.S. right of use asset that was subleased in the amount of $768 which was partially offset by write-down of inventory of $154 for a net reversal of $664. The inventory write-down relates to parts that are unlikely to be used to repair the Company's tools.

In 2020 Q4, the Company entered into a sub-lease for one of the properties previously written down and reversed $549 equal to the sublease asset. Additionally, in 2020 Q4 there was a write-down on slow moving inventory of $377 for a net reversal of $172.

Income tax Previously, Cathedral derecognized deferred tax assets due to a recent history of tax losses within both of Cathedral's legal entities.

Income tax expense is booked based upon expected annualized rates using the statutory rates of 25.5% for Canada and 23% for the U.S.

SUMMARY OF QUARTERLY RESULTS

Three month periods ended	Dec 2021	Sep 2021	June 2021	Mar 2021	Dec 2020	Sep 2020	Jun 2020	Mar 2020
Revenues	$ 23,710	$ 20,127	$ 7,322	$ 11,365	$ 7,448	$ 4,990	$ 8,841	$ 19,295
Adjusted EBITDAS (1)	$ 1,273	$ 5,170	$ (2,683)	$ 825	$ (435)	$ 84	$ (823)	$ 1,057
Adjusted EBITDAS (1) per share - diluted	$ 0.02	$ 0.07	$ (0.05)	$ 0.02	$ (0.01)	$ 0.00	$ (0.02)	$ 0.02
Net inocme (loss)	$ (1,097)	$ 403	$ (5,846)	$ (2,086)	$ (6,171)	$ (5,014)	$ (3,815)	$ (12,590)
Net income (loss) per share - diluted	$ (0.01)	$ 0.01	$ (0.11)	$ (0.04)	$ (0.12)	$ (0.10)	$ (0.08)	$ (0.25)

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

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company's audited consolidated financial statements have been prepared in accordance with GAAP and significant accounting policies utilized by the Company are described in note 4 to the Company's audited consolidated financial statements. Management believes the accounting principles selected are appropriate under the circumstances and the Audit Committee of the Company has approved the policies selected.

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

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

Equipment The Company makes estimates about the residual value and expected useful life of equipment. These estimates are based on management's historical experience and industry norms. Expected useful life and depreciation rates are as disclosed in note 3 (d) (iii) to the audited consolidated financial statements.

Impairment of long-lived assets Equipment and intangibles are assessed for impairment when circumstances suggest that the carrying amount may exceed the recoverable amount for the asset. Significant judgement is required to assess when indicators of impairment exist, and impairment testing is required. The assessment of indicators of impairment is based on management's judgment of whether there are internal and external factors that would indicate that the directional drilling cash generating unit ("CGU") and specifically the non-financial assets within the CGU, are impaired. These factors include future cash flows, expected industry activity levels, commodity price developments and market capitalization. The determination of the recoverable amount of the CGU requires estimates and assumptions that are subject to change as new information becomes available. These include estimates of future cash flows, growth rates, pre-tax discount rates as well as various estimates and assumptions used in the preparation of revenues and expenses used in the cash flow analysis. The determination of a CGU is also based on management's judgment and is an assessment of the smallest group of assets that generate cash inflows independently of other assets.

Trade accounts receivable Trade accounts receivable require estimates to be made regarding the financial stability of the Company's customers and the environment in which they operate in order to assess if accounts receivable balances will be received. Credit risks for outstanding accounts receivable are assessed regularly and an allowance for doubtful accounts is recorded based upon specific customer information and experience as well as for groups of similar assets. See note 24 to the audited consolidated financial statements "Credit risk" for further details.

Inventory Inventory is reviewed periodically in order to determine if there is obsolescence. This estimate is based upon historic data and management's estimates of future demand. See note 8 to the audited consolidated financial statements for discussion of the write-downs of inventory.

Income taxes The Company uses the asset and liability method of accounting for future income taxes whereby deferred income tax assets and liabilities are determined based on temporary differences between the accounting basis and the tax basis of the assets and liabilities, and are measured using substantively enacted tax rates and laws expected to apply when these differences reverse. As a result, a projection of taxable income is required for those years, as well as an assumption of the ultimate recovery/settlement period for the temporary differences.

The business and operations of the Company are complex and the Company has executed a number of significant financings, reorganizations, acquisitions and other material transactions over the course of its history. The computation of income taxes payable as a result of these transactions involves many complex factors as well as the Company's interpretation of relevant tax legislation and regulations. The Company's management believes that the provision for income tax is adequate and in accordance with GAAP and applicable legislation and regulations. However, tax-filing positions are subject to review by taxation authorities who may successfully challenge the Company's interpretation of the applicable tax legislation and regulations.

CONTROLS AND PROCEDURES

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

Disclosure controls and procedures The Company's disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Company is reported within the time periods specified under securities laws, and include controls and procedures that are designed to ensure that information is communicated to management of the Company, including the CEO and CFO, to allow timely decisions regarding required disclosure. An evaluation of the effectiveness of the Company's disclosure controls and procedures (as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual Financial and Interim Filings) was conducted as at December 31, 2021. Based on this evaluation, the CEO and CFO of Cathedral have concluded that the design and operation of the Company's disclosure controls and procedures were effective as at December 31, 2021.

Internal controls over financial reporting Management is responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The CEO and CFO have designed or have caused such internal controls over financial reporting (as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual Financial and Interim Filings) to be designed under their supervision to provide reasonable assurance regarding the reliability of financial reporting and preparation of the Company's financial statements for external purposes in accordance with GAAP. In addition, the CEO and CFO directed the assessment of the design and operating effectiveness of the Company's internal controls over financial reporting as at December 31, 2021 and based upon that assessment determined that the Company's internal controls over financial reporting were, in all material respects, appropriately designed and operating effectively.

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

There has been no change in the Company's internal controls over financial reporting during the year ended December 31, 2021 that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

RISK FACTORS

Public Heath Emergencies including COVID-19 Pandemic

In March 2020, the World Health Organization declared a global pandemic due to COVID-19. In response to the COVID-19 outbreak, governments around the world implemented measures to control the spread of the virus, including closing non-essential businesses and implementing travel bans and stay-at-home restrictions. These measures resulted in volatility and disruptions in regular business operations, supply chains and financial markets, as well as declining trade and market sentiment, and contributed to a material deterioration in the global economy, including a dramatic decline in the demand for oil, which resulted in a material decrease in the price of oil.

In 2020 and early 2021, Cathedral made significant changes to its cost structure including laying off staff, reducing compensation, closing facilities, eliminating discretionary expenses, deferring tool repairs and reducing capital expenditures. These efforts were undertaken to better match Cathedral's cost structure to its expected operating levels at those times and manage the financial risk presented by Cathedral's contract counterparties and potentially their ability to perform contractual obligations.

Many of restrictions imposed by governmental bodies to limit the spread of COVID-19 have since been relaxed as of the date hereof amid optimism that the COVID-19 pandemic is receding following the Omicron variant-driven wave in late 2021 and early 2022. However, the COVID-19 pandemic or a similar public health epidemic continues to pose a material risk to Cathedral's business, operations and financial condition should governments be forced to reintroduce the restrictions of 2020 and 2021. Such public health crises can result in volatility and disruptions in the supply and demand for oil and natural gas, global supply chains and financial markets, as well as declining trade and market sentiment and reduced mobility of people, all of which could affect commodity prices, interest rates, credit ratings, credit risk and inflation. The risks to Cathedral of such public health crises also include risks to employee health and safety and a slowdown or temporary suspension of operations in geographic locations impacted by an outbreak.

International Conflict

International conflict and other geopolitical tensions and events, including war, military action, terrorism, trade disputes, and international responses thereto have historically led to, and may in the future lead to, uncertainty or volatility in global energy and financial markets. Russia's recent invasion of Ukraine has led to sanctions being levied against Russia by the international community and may result in additional sanctions or other international action, any of which may have a destabilizing effect on commodity prices and global economies more broadly. Volatility in commodity prices may adversely affect our business, financial condition and results of operations. Reductions in commodity prices may affect oil and natural gas activity levels and therefore adversely affect the demand for, or price of, our services.

The extent and duration of the current Russian-Ukrainian conflict and related international action cannot be accurately predicted at this time and the effects of such conflict may magnify the impact of the other risks identified in this Annual Information Form, including those relating to commodity price volatility and financial conditions. The situation is rapidly changing and unforeseeable impacts, including on Cathedral, our stakeholders and counterparties on which we rely and transact with, may materialize and may have an adverse effect on our business, results of operation and financial condition.

Crude Oil and Natural Gas Prices

Demand for the services provided by Cathedral is directly impacted by the prices that Cathedral's customers receive for the crude oil and natural gas they produce. The prices received and the volumes produced have a direct correlation to the cash flow available to invest in drilling activity and other oilfield services. The markets for oil and natural gas are separate and distinct and are largely driven by supply and demand factors. Oil is a global commodity with a vast distribution network. As natural gas is most economically transported in its gaseous state via pipeline, its market is dependent on pipeline infrastructure and is subject to regional supply and demand factors. Developments in the transportation of liquefied natural gas ("LNG") in ocean going tanker ships is introducing more of an element of globalization to the natural gas market. Crude oil and natural gas prices are quite volatile, which accounts for much of the cyclical nature of the oilfield services business.

Prices for oil and natural gas are subject to large fluctuations in response to relatively minor changes in the supply of, and demand for, oil and natural gas, market uncertainty and a variety of additional factors beyond the control of Cathedral. These factors include economic conditions in the U.S. and Canada, the actions of the Organization of Petroleum Exporting Countries ("OPEC") and OPEC Plus, government regulation, political stability in the Middle East and elsewhere, an outbreak of a public health emergency such as COVID-19, the foreign supply of oil and natural gas, risks of supply disruption, the price of foreign imports, technological advances improving the efficiency of oil and natural gas extraction and production, and the availability of alternative fuel sources and other advances that reduce energy use efficiency impacting consumption. In addition to pricing determined based on worldwide or North American supply and demand factors, there are a number of regional factors that also influence pricing such as transportation capacity, oil and natural gas physical properties and local supply and demand. Petroleum prices are expected to remain volatile for the near future as a result of market uncertainties over the supply and the demand of these commodities related to the current state of the world economies, OPEC actions and credit availability and liquidity concerns in the energy industry.

Commodity price volatility may impact E&P companies' willingness to commit to capital spending, which in turn may have a significant adverse effect the rig count and thus on the Corporation's activity levels, business and financial results.

World crude oil prices and North American natural gas prices, including LNG, are not subject to control by Cathedral. With that in mind, Cathedral attempts to partially manage this risk by way of maintaining a variable cost structure that can be scaled to reflect activity levels. A significant portion of Cathedral's fieldwork is performed by sub-contractors and staff paid on a day rate or hourly basis which allows Cathedral to operate with lower variable costs and fixed overhead costs in seasonally low activity periods as well as extended downturns in the oilfield services sector. In addition, Cathedral also strives to continuously improve its operational efficiencies and reduce the cost of the equipment it deploys.

Take Away Capacity for Cathedral's Customers

Cathedral's customers rely on various transportation methods to deliver the produced oil and natural gas to the end market including: pipelines, truck and railway. If such take away capacity becomes full and incremental capacity is not added, the price and production of hydrocarbons may be adversely impacted resulting in lower oilfield service industry activity levels. This could have a material adverse effect on Cathedral's business operations, financial condition, results of operations and cash flow. In Canada, takeaway capacity issues have impacted local oil pricing and net backs with the result that drilling activity levels have been negatively impacted.

Alternatives to and Changing Demand for Hydrocarbon Products

Fuel conservation measures, alternative fuel requirements, electric automobiles, increasing consumer demand for alternatives to oil and natural gas, and technological advances in fuel economy, vehicle electrification and energy generation devices could reduce the demand for crude oil, natural gas and other hydrocarbons. The Corporation cannot predict the impact of changing demand for oil and natural gas products, and any major changes may have a material adverse effect on the Cathedral's business, financial condition, results of operations and cash flows.

Performance of Obligations

The Corporation's success depends in large part on whether it fulfills its obligations with clients and maintains client satisfaction. If Cathedral fails to satisfactorily perform its obligations, makes errors in the provision of its services, or does not perform its services to the expectations of its clients, its clients could terminate working relationships, including master service agreements, exposing Cathedral to loss of its professional reputation and risk of loss or reduced profits, or in some cases, the loss of a project and claims by customers for damages. Typically, Cathedral's master service agreements do not contain any guaranteed payments and are cancellable on 30 or less days' notice.

Access to Capital

The credit facilities of Cathedral contain covenants that require it to meet certain financial tests and that restrict, among other things, the ability of Cathedral to incur additional debt, make significant acquisitions, dispose of assets or pay dividends in certain circumstances. To the extent the cash flow from operations is not adequate to fund Cathedral's cash requirements, external financing may be required. Lack of timely access to such additional financing, or which may not be on favorable terms, could limit the future growth of the business of Cathedral. To the extent that external sources of capital, including public and private markets, become limited or unavailable, Cathedral's ability to make the necessary capital investments to maintain or expand its business and to make necessary principal payments under its credit facility may be impaired.

Forward-looking Information May Prove Inaccurate

Numerous statements containing forward-looking information are found in this AIF, documents incorporated by reference herein and other documents forming part of Cathedral's public disclosure record. Such statements and information are subject to risks and uncertainties and involve certain assumptions, some, but not all, of which are discussed elsewhere in this document. The occurrence or non-occurrence, as the case may be, of any of the events described in such risks could cause actual results to differ materially from those expressed in the forward-looking information.

Business Transaction Risks

Cathedral has recently completed the Precision Transaction, the Valiant Transaction and the Discovery Transaction. Achieving the benefits of acquisitions depends on successfully consolidating functions and integrating operations and procedures in a timely and efficient manner and our ability to realize the anticipated growth opportunities and synergies from combining the acquired businesses and operations with ours. Business transactions may expose Cathedral to additional risks, including: difficulties in integrating administrative, financial reporting, operational and information systems and managing newly-acquired operations and improving their operating efficiency; difficulties in maintaining uniform standards, controls, procedures and policies through all of Cathedral's operations; entry into markets in which Cathedral has little or no direct prior experience; difficulties in retaining key employees of the acquired operations; disruptions to Cathedral's ongoing business; and diversion of management time and resources.

Cathedral expects to continue to selectively seek mergers, acquisitions and other types of business transactions in connection with its growth strategy. Cathedral's ability to consummate and to integrate effectively any future mergers, acquisitions or other business transactions on terms that are favorable to it may be limited by the number of attractive transaction targets, internal demands on Cathedral's resources, internal management capabilities and to the extent necessary, Cathedral's ability to obtain financing on satisfactory terms for larger transactions, if at all.

Interest Rates

Cathedral's current credit facility bears interest at a floating interest rate and, therefore, to the extent Cathedral borrows under this facility, it is at risk of rising interest rates. Management continually monitors interest rates and would consider locking in the rate of its term debt.

Credit Facility

Although it is believed that the size of the Amended Facility is sufficient, there can be no assurance that the amount will be adequate for the financial obligations of Cathedral. As well, if Cathedral requires additional financing such financing may not be available or, if available, may not be available on favorable terms. Cathedral's lender has been provided with security over substantially all of the assets of Cathedral. There is no assurance that the existing credit facility will be extended beyond its maturity date.

Additional Shares

If the Board of Cathedral decides to issue additional Common Shares, Preferred Shares or securities convertible into Common Shares, existing shareholders may suffer significant dilution.

Unpredictability and Volatility of Share Price

The prices at which the Common Shares trade cannot be predicted. The market price of the Common Shares could be subject to significant fluctuations in response to variations in quarterly financial results and other factors including prevailing financial market factors and investor interest in the Corporation or the industry the Corporation operates in. The market price of the Common Shares may also be impacted by other factors including the net asset value of Cathedral's assets which will vary from time to time depending on factors beyond our control.

In addition, the securities markets have experienced significant market wide and sectorial price and volume fluctuations from time to time that often have been unrelated or disproportionate to the operating performance of particular issuers. Such fluctuations may adversely affect the market price of the Common Shares.

Income Tax Matters

The business and operations of Cathedral are complex and Cathedral and its predecessors have executed a number of significant financings, reorganizations, acquisitions and other material transactions over the course of its history. The computation of income taxes payable as a result of these transactions involves many complex factors as well as Cathedral's interpretation of relevant tax legislation and regulations.

Cathedral's management believes that the provision for income tax is adequate and in accordance with generally accepted accounting principles and applicable legislation and regulations. However, tax filing positions are subject to review by taxation authorities who may successfully challenge Cathedral's interpretation of the applicable tax legislation and regulations. It is also possible that tax authorities may retroactively or prospectively amend tax legislation or its interpretation, which could affect Cathedral's current and future income taxes.

Key Personnel and Employee/Sub-contractor Relationships

Shareholders must rely upon the ability, expertise, judgment, discretion, integrity and good faith of the management and employees of Cathedral. The success of Cathedral is dependent upon its personnel and key sub-contractors. The unexpected loss or departure of any of Cathedral's key officers, employees or sub-contractors could be detrimental to the future operations of Cathedral. In addition, should circumstances exist that prevent Cathedral's employees and sub-contractors from performing their duties, such as natural disasters or impacts from global pandemics like the ongoing COVID-19 pandemic, it could impact Cathedral's ability to deliver its products and services. Cathedral does not maintain key man insurance on any of its officers.

The success of Cathedral's business will depend, in part, upon Cathedral's ability to attract and retain qualified personnel as they are needed. Additionally, the ability of Cathedral to expand its services is dependent upon its ability to attract additional qualified employees. During high levels of activity, attracting quality staff can be challenging due to competition for such services. Cathedral provides its staff with a quality working environment, effective training, tools with current technology and competitive remuneration packages that allows it to attract and retain the quality of its workforce, whether in the field, shop or office. There can be no assurance that Cathedral will be able to engage the services of such personnel or retain its current personnel.

Competition

The oil and natural gas service industry in which Cathedral and its operating entities conduct business is highly competitive. Cathedral competes with other more established companies which have greater financial, marketing and other resources and certain of which are large international oil and natural gas service companies which offer a wider array of oil and natural gas services to their clients than does Cathedral.

At any time, there may be an excess of certain classes of oilfield service equipment in North America in relation to current levels of demand. The supply of equipment in the industry does not always correlate to the level of demand for that equipment. Periods of high demand often spur increased capital expenditures on oilfield service equipment, and those capital expenditures may result in equipment levels which exceed actual demand. In periods of low demand, there may be excess equipment available within the industry resulting in equipment obsolescence. Excess equipment supply in the industry could cause competitors to lower their rates and could lead to a decrease in rates in the oilfield services industry generally, which could have an adverse effect on revenues, cash flows and earnings in the industry and for the Corporation.

Access to Parts, Consumables and Technology and Relationships with Key Suppliers

The ability of Cathedral to compete and expand will be dependent on Cathedral having access, at a reasonable cost, to equipment, parts and components for purchased equipment for the development and acquisition of new competitive technologies. An inability to access these items and delays in accessing these items could have a material adverse effect on Cathedral's business, financial condition, results of operations and cash flow. Cathedral's equipment may become obsolete or experience a decrease in demand due to competing products that are lower in cost, have enhanced performance capabilities or are determined by the market to be more preferable for environmental or other reasons. Although Cathedral has very good relationships with its key suppliers, there can be no assurances that those sources of equipment, parts, components or relationships with key suppliers will be maintained. If these are not maintained, Cathedral's ability to compete may be impaired. If the relationships with key suppliers come to an end, the availability and cost of securing certain parts, components and equipment may be adversely affected.

Technology

The success and ability of Cathedral to compete depends in part on the technologies that it brings to the market, and the ability of Cathedral to prevent others from copying such technologies. Cathedral currently relies on industry confidentiality practices ("trade secrets"), including entering into industry standard confidentiality agreements and in some cases patents (or patents pending) to protect its proprietary technology. Cathedral may have to engage in litigation in order to protect its intellectual property rights, including patents or patents pending, or to determine the validity or scope of the proprietary rights of itself or others. This kind of litigation can be time-consuming and expensive, regardless of whether or not Cathedral is successful.

Additionally, certain tools, equipment or technology developed by Cathedral may be the subject of future patent infringement claims or other similar matters which could result in litigation, the requirement to pay licensing fees or other results that could have a material adverse effect on Cathedral's business, results of operations and financial condition.

The intellectual property rights of Cathedral may be invalidated, circumvented, challenged, infringed or required to be licensed to others. It cannot be assured that any steps Cathedral may take to protect its intellectual property rights and other rights to such proprietary technologies that are central to Cathedral's operations will prevent misappropriation or infringement.

Cathedral competes with other more established companies which have greater financial resources to develop new technologies. Competitors may also develop similar or substitute tools, equipment and technology to Cathedral's thereby adversely affecting Cathedral's competitive advantage and/or market share. There may also be changes in customer or market requirements which make Cathedral's technology obsolete or result in a lower demand for Cathedral's products and services. Certain competing technologies are beginning to enter Cathedral's market which may have a negative impact on Cathedral long term. RSS technology is becoming more cost-effective and can be used as a substitute for certain methods currently in place by Cathedral. As a result, there is the risk that a larger portion of Cathedral's customer base will move away from technology provided by Cathedral. Although Cathedral intends to adopt processes to provide similar services and develop competing technology, there is no guarantee that it will be successful and Cathedral is likely to face a number of challenges, including intellectual property matters and economic considerations, in order to implement new competing technology.

Potential Replacement or Reduced Use of Products and Services

Certain of Cathedral's equipment or systems may become obsolete or experience a decrease in demand through the introduction of competing products that are lower in cost, exhibit enhanced performance characteristics or are determined by the market to be more preferable for environmental or other reasons. A change in customer requirements, may result in some of its equipment becoming technically obsolete or creating market obsolescence based on lower demand which has resulted in write-downs of certain equipment and associated parts inventory. In addition, the drilling industry is experiencing a trend towards automation, the impact of which on Cathedral's business is not yet known. Cathedral will need to keep current with the changing market for oil and natural gas services and technological and regulatory changes. If Cathedral fails to do so, this could have a material adverse effect on its business, financial condition, results of operations and cash flows.

Operating Risks and Insurance

Cathedral has an insurance and risk management plan in place to protect its assets, operations and employees. However, Cathedral's oilfield services are subject to risks inherent in the oil and natural gas industry, such as equipment defects, equipment obsolesce, malfunctions, failures, natural disasters and errors and omissions by staff, some of which may not be covered by insurance. These risks could expose Cathedral to substantial liability for personal injury, loss of life, business interruption, property damage or destruction, pollution and other environmental damages. Cathedral attempts to obtain indemnification from its customers by contract for some of these risks in addition to having insurance coverage. These indemnification agreements may not adequately protect against liability from all of the consequences described above. There may be situations in which indemnifications provided by Cathedral are not covered by insurance. In addition, Cathedral's operating activities includes a significant amount of transportation of equipment and vehicle travel by staff and therefore is subject to the inherent risks including potential liability which could result from, among other things, personal injury, loss of life or property damage derived from motor vehicle accidents. Cathedral carries insurance to provide protection in the event of destruction or damage to its property and equipment, subject to appropriate deductibles and the availability of coverage. Liability insurance is also maintained at prudent levels to limit exposure, but not necessarily fully eliminate exposure to unforeseen incidents. An annual review of insurance coverage is completed to assess the risk of loss and risk mitigation alternatives. It is anticipated that appropriate insurance coverage is in place and will be maintained in the future, but there can be no assurance that such insurance coverage will be available in the future on commercially reasonable terms or be available on terms as favorable as Cathedral's current arrangements. The occurrence of a significant event outside of the coverage of Cathedral's insurance policies could have a material adverse effect on the results of the Corporation. If there is an event that is not fully insured or indemnified against, or a customer or insurer does not meet its indemnification or insurance obligations, it could result in substantial losses.

Energy companies are continuously demanding wells be drilled, cheaper, longer and faster, which has adversely impacted Cathedral's drilling equipment and may continue to do so.

Business continuity, disaster recovery and crisis management

An inability to restore or replace critical capacity in a timely manner may impact business and operations. A serious event could have a material adverse effect on Cathedral's business, results of operations and financial condition. This risk is mitigated by the development of business continuity arrangements, including disaster recovery plans and back-up delivery systems, to minimize any business disruption in the event of a major disaster. Insurance coverage may minimize any losses in certain circumstances.

Risks Associated with Foreign Operations

In the future, Cathedral may conduct a portion of its business outside North America through a number of means including projects, joint ventures and partnerships and other business relationships. As such, Cathedral could be exposed to risks inherent in foreign operations including, but not limited to: loss of revenue, property and equipment as a result of expropriation and nationalization, war, civil and/or labour unrest, strikes, terrorist threats, civil insurrection and other political risks; fluctuations in foreign currency and exchange controls; increases in duties, taxes and governmental royalties and renegotiation of contracts with governmental entities; trade and other economic sanctions or other restrictions imposed by the Canadian government or other governments or organizations; as well as changes in laws and policies governing operations of foreign-based companies.

Carrying on business outside of Canada gives rise to the risk of dealing with business and political systems that are different than Cathedral is accustomed to in Canada.

Weather and Seasonality

A portion of Cathedral's operations are carried on in western Canada where activity levels in the oilfield services industry are subject to a degree of seasonality. Operating activities in western Canada are generally lower during "spring breakup" which normally commences in March and continues through to May. Canadian operating activities generally increase in the fall and peak in the winter months from December until early to mid-March, depending on weather conditions.

Activity levels in the oil and natural gas basins in the U.S. are not subject to the seasonality to the same extent that it occurs in the western Canada region, however, U.S. operations can also be impacted by weather related issues. In general, activity levels in North America can be impacted year-round by weather conditions and temperatures, including major weather events such as summer and winter storms and hurricanes which can create additional unpredictability in operational results.

Foreign Currency Exchange Rates

Cathedral derives a significant portion of its revenues from the U.S. which are denominated in the local currency. This causes a foreign currency exchange rate risk which Cathedral attempts to mitigate by matching local purchases in the same currency. Furthermore, Cathedral's Canadian operations are subject to foreign currency exchange rate risk in that some purchases for parts, supplies and components in the manufacture of equipment are denominated in USD. Cathedral's foreign currency policy is to monitor foreign current risk exposure in its areas of operations and mitigate that risk where possible by matching foreign currency denominated expense with revenues denominated in foreign currencies. Cathedral strives to maintain limited amounts of cash and cash equivalents denominated in foreign currency on hand and attempts to further limit its exposure to foreign currency through collecting and paying foreign currency denominated balance in a timely fashion.

In addition, Cathedral is exposed to currency exchange risk on those of its assets denominated in U.S. dollars. Since Cathedral presents its financial statements in Canadian dollars, any change in the value of the Canadian dollar relative to the USD during a given financial reporting period would result in a foreign currency loss or gain on the translation of its assets measured in other currencies into Canadian dollars. Consequently, Cathedral's reported earnings could fluctuate materially as a result of foreign exchange translation gains or losses. Other than natural hedges arising from the normal course of business in foreign jurisdictions, Cathedral does not currently have any hedging positions.

Business Development Risks

In implementing its strategy, Cathedral may pursue new business or growth opportunities. There is no assurance that Cathedral will be successful in executing those opportunities. Cathedral may have difficulty executing the its strategy because of, among other things, increased competition, difficulty entering new markets or geographies, difficulties in introducing new products, the ability to attract qualified personnel, barriers to entry into geographic markets, and changes in regulatory requirements.

Credit Risk

All of Cathedral's accounts receivables are with customers involved in the oil and natural gas industry, whose revenue may be impacted by fluctuations in commodity prices. Although collection of these receivables could be influenced by economic factors affecting this industry and thereby have a materially adverse effect on operations, management considers risk of significant loss to be minimal at this time. To mitigate this risk, Cathedral's customers are subject to an internal credit review along with ongoing monitoring of the amount and age of receivables balances outstanding.

Reliance on Major Customers

Management of Cathedral believes it currently has a diverse mix of customers. In 2021, approximately 17% of the Corporation's revenue was attributable to sales transactions with one customer. In 2020, approximately 29% of the Corporation's revenue was attributable to sales transactions with one customer. In 2019, approximately 27% of the Corporation's revenue was attributable to sales transactions with two customers. While Cathedral believes that its relationship with existing customers is good, the loss of any one or more of these customers, or a significant reduction in business done with Cathedral by one or more of these customers, if not offset by sales to new or existing customers, could have a material adverse effect on Cathedral's business, results of operations and prospects. Mergers and acquisitions activity in the oil and natural gas exploration and production sector, which increased in late 2020 and continued into 2021, can impact demand for our services as customers focus on internal reorganization prior to committing funds to significant oilfield services. In addition, demand for Cathedral's services could be negatively affected in that upon completion, the merger and acquisitions customers may re-direct their work to Cathedral's competitors.

Climate Change and Environmental Risks

Reputational Risk

Due to the association of the oil and natural gas industry with climate change, environmental damage and other perceived negatives, a general unfavorable perception of the oil and natural gas industry (including the Canadian industry) has developed among some populations in more economically developed nations. Businesses operating in the oil and natural gas industry, including energy service companies such as Cathedral, are increasingly being specifically associated with such negatives of the oil and natural gas industry as a whole and perceived to be contributing them. Accordingly, there is a risk that Cathedral may be associated with the perceived negatives of the oil and natural gas industry, and that such negative association will reduce demand for the Corporation's securities.

A limited number of banks have recently announced their intentions to cease funding certain fossil fuel projects by a certain point in the future. There is a risk that if a greater portion of the population develops a negative perception of the oil and natural gas industry, more banks will implement some form of a prohibition on funding fossil fuel projects. A decrease in funding for oil and natural gas projects may reduce demand for Cathedral's services or if Cathedral requires additional financing, such financing may not be available or, if available, may not be available on favorable terms.

Environmental and Other Government Regulation Risk

The oil and natural gas industry in Canada and the U.S. is subject to federal, provincial, state and municipal legislation and regulation governing such matters as land tenure, commodity prices, production royalties, production rates, environmental protection controls, the exportation of crude oil, natural gas, greenhouse gas ("GHG") emissions and other products, as well as other matters. The industry is also subject to regulation by governments in such matters, including laws and regulations relating to health and safety, the conduct of operations, the protection of the environment and the manufacture, management, transportation, storage and disposal of certain materials used in Cathedral's operations.

Government regulations may change from time to time in response to economic or political conditions. The exercise of discretion by governmental authorities under existing regulations, the implementation of new regulations or the modification of existing regulations affecting the crude oil and natural gas industry could reduce demand for Cathedral's services or increase its costs, either of which could have a material adverse impact on Cathedral.

There can be no assurance that the provincial, state and local governments or the Federal Governments of Canada and U.S. and other jurisdictions in which Cathedral enters into to provide its services will not adopt new environmental regulations, rules or legislation or make modifications to existing regulations, rules or legislation which could lower the demand for hydrocarbons, increase Cathedral's costs and/or make capital expenditures by Cathedral's customers uneconomic.

Cathedral is subject to various environmental laws and regulations which govern the manufacture, processing, importation, transportation, handling and disposal of certain materials used in Cathedral's operations. Cathedral has established procedures to address compliance with current environmental laws and regulations and monitors its practices concerning the handling of environmentally hazardous materials. However, there can be no assurance that Cathedral's procedures will prevent environmental damage occurring from spills of materials handled by Cathedral or that such damage has not already occurred. On occasion, substantial liabilities to third parties may be incurred. Cathedral may have the benefit of insurance maintained by it or the operator; however, Cathedral may become liable for damages against which it cannot adequately insure or against which it may elect not to insure because of high costs or other reasons.

All of these developments have had, and could in the future have, a material adverse effect on Cathedral's business, financial condition, results of operations, cash flows, ability to collect on accounts receivable and future impairments of Company assets.

Policy Risk

The Corporation's operations and activities emit GHG which may require the Corporation to comply with GHG emissions legislation at the provincial or federal level. Climate change policy is evolving at regional, national and international levels, and political and economic events may significantly affect the scope and timing of climate change measures that are ultimately put in place. Over the past several years both the Government of Canada and the Government of Alberta announced various programs related to climate change and have made certain commitments regarding regulating GHG and other air pollutants.

On April 1, 2019, the Government of Canada implemented a nation-wide price on carbon emissions. The federal levy applies to all Canadian provinces and territories in which no provincial or territorial carbon pricing mechanism has been adopted, or in which such provincial or territorial mechanism does exist but does not meet the criteria established by the Government of Canada. Following implementation of the federal levy, the Government of Alberta repealed the provincial carbon levy that was in effect at the time, resulting in the federal levy being applied to the province. Some of Cathedral's operations may ultimately be subject to future regional, provincial and/or federal climate change regulations to manage GHG emissions.

On January 20, 2021, as part of his administration's efforts to address climate change, the President of the United States issued Executive Order 13990 Protecting Public Health and the Environment and Restoring Science to Tackle the Climate Crisis which, among other things, revoked the March 2019 permit for the Keystone XL pipeline. Once completed, the Keystone XL pipeline was anticipated to provide significant capacity to transport oil from Alberta to refineries Illinois and Texas, and also to oil tank farms and an oil pipeline distribution center in Cushing, Oklahoma. Furthermore, on January 27, 2021, the President of the United States of America issued Executive Order 14008 Tackling the Climate Crisis at Home and Abroad which, among other things, paused the issuances of new oil and natural gas leases on public lands or in offshore waters pending completion of a comprehensive review and reconsideration of Federal oil and gas permitting and leasing practices, including potential climate and other impacts associated with oil and gas activities on public lands or in offshore waters. The Executive Order directed that, as part of this analysis, consideration also be made whether to adjust royalties associated with coal, oil, and gas resources extracted from public lands and offshore waters, or take other actions, to account for corresponding climate costs. In November 2021, the U.S. Department of the Interior released its Report on the Federal Oil and Gas Leasing Program, prepared in response to Executive Order 14008, which recommended, among other things, to increase the oil and gas royalty rate, bonding rates and other fees for drillers on Federal lands. The impact of such Executive Orders, the released report and any further regulations imposed or actions taken by the Federal Government and/or any State Government of the United States of America, may have a material adverse effect on Cathedral's business, financial condition, results of operations and prospects.

Given the evolving nature of the debate related to climate change and the control of GHG and resulting requirements, it is expected that current and future climate change regulations will have the effect of increasing Cathedral's operating expenses and in the long-term reducing the demand for certain of its services and operations, which could result in a decrease in the Corporation's profitability and a reduction in the value of its assets or asset write-offs.

Extreme Weather Risk

There has been public discussion that climate change may be associated with extreme weather conditions and increased volatility in seasonal temperatures. Extreme weather could interfere with Cathedral's operations and increase the Corporation's costs, including shortening the length of the Canadian and U.S. drilling seasons. At this time, the Corporation is unable to determine the extent to which climate change may lead to increased storm or weather hazards affecting its operations and on the areas the Corporation and its suppliers and customers operate in.

Legal Risk

Concerns about climate change have resulted in a number of environmental activists and members of the public opposing carbon intensive industries. Historically, political and legal opposition to carbon intensive industries focused on public opinion and the regulatory process. More recently, however, there has been a movement to more directly hold governments and certain companies responsible for climate change through climate litigation. In November 2018, ENvironment JEUnesse, a Quebec advocacy group, applied to the Quebec Superior Court to certify a class action against the Government of Canada for climate related matters. The certification was ultimately denied by the Quebec Court of Appeal. In January 2019, the City of Victoria became the first municipality in Canada to endorse a class action lawsuit against carbon emitters for climate-related harms. There can be no assurance that such legal proceedings may not be directed towards the Corporation, its clients or other key players in the Canadian and U.S. oil and natural gas industry.

Safety Performance

Cathedral has programs in place to address compliance with current safety and regulatory standards. Cathedral has a corporate safety manager responsible for maintaining and developing policies and monitoring operations consistent with those policies. Poor safety performance could lead to lower demand for Cathedral's services. Standards for accident prevention in the oil and natural gas industry are governed by company safety policies and procedures, accepted industry safety practices, customer-specific safety requirements, and health and safety legislation. Safety is a key factor that customers consider when selecting an oilfield service company. A decline in Cathedral's safety performance could result in lower demand for services, and this could have a material adverse effect on revenues, cash flows and earnings. Cathedral is subject to various health and safety laws, rules, legislation and guidelines which can impose material liability, increase costs or lead to lower demand for services.

Conflict of Interest

Circumstances may arise from time to time where our members of the board or executive officers are also directors or officers of other companies, which have conflicting interests to those of Cathedral. Such conflicts must be disclosed in accordance with, and are subject to such other procedures and remedies as apply under, the ABCA.

Legal Proceedings

Cathedral is involved in litigation from time to time. No assurance can be given as to the final outcome of any legal proceedings or that the ultimate resolution of any legal proceedings will not have a materially adverse effect on Cathedral.

Risks associated with information technology systems

Cathedral is dependent upon information technology systems in the conduct of its operations. Any significant malfunction, breakdown, downtime, invasion, virus, cyber-attack, security breach, destruction or interruption of these systems due to equipment or software failures or by employees, others with access to Cathedral’s systems, or unauthorized persons could negatively impact its operations. To the extent any breakdown, downtime, malfunction, invasion, cyber-attack or security breach results in disruption to Cathedral’s operations, loss or disclosure of, or damage to, its data or confidential information, its reputation, business, results of operations and financial condition could be materially adversely affected. Cathedral’s systems and insurance coverage for protecting against information technology or cyber security risks may not be sufficient. Although to date Cathedral has not experienced any material losses relating to information technology failures or cyber-attacks, it may suffer such losses in the future. Cathedral may be required to expend significant additional resources to continue to modify or enhance its protective measures, to investigate and remediate any information security vulnerabilities or to maintain its information technology systems in good repair.

GOVERNANCE

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

SUPPLEMENTARY INFORMATION

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

FORWARD LOOKING STATEMENTS

This MD&A contains certain forward-looking statements and forward-looking information (collectively referred to herein as "forward-looking statements") within the meaning of applicable Canadian securities laws. All statements other than statements of present or historical fact are forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "anticipate", "achieve", "believe", "plan", "intend", "objective", "continuous", "ongoing", "estimate", "outlook", "expect", "may", "will", "project", "should" or similar words suggesting future outcomes. In particular, this MD&A contains forward-looking statements relating to, among other things: industry fundamentals continue to signal a positive North American oilfield services market for 2022; analysts are consistently modifying their 2022 projections upwards with consensus now close to 57,000 activity days for the Western Canadian Sedimentary Basin (“WCSB”), a better than 27% increase over 2021; projections for 2022 U.S. land rig count have also been adjusted higher; consensus now sees an average active U.S. land rig count of almost 640 rigs for the coming year vs. the 2021 count of 464 rigs, a 37% year-over-year ; growing rig counts and analyst estimates appear to indicate that E&Ps will start to direct a greater share of these funds to capital spending in 2022; the ongoing combination of improved sector activity and stronger commodity prices coupled with constrained labour and supply chains, should translate to a constructive pricing environment for service businesses in 2022; industry conditions and valuations continue to support acquisitions and we believe additional consolidation opportunities for Cathedral exist; we are optimistic for improved performance in 2022; we will continue to advance our growth plans, with targeted market share in Canada of 18% or more, and a more significant market share ranging in 5-10% in the U.S. in the next one to two years; commitments; 2022 capital program and financing of the program.

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;
- the ongoing impact of the global health crisis and COVID-19;
- capital expenditure programs and other expenditures by Cathedral and its customers;
- the ability of Cathedral to retain and hire qualified personnel;
- the ability of Cathedral to obtain parts, consumables, equipment, technology, and supplies in a timely manner to carry out its activities;
- the ability of Cathedral to maintain good working relationships with key suppliers;
- the ability of Cathedral to retain customers, market its services successfully to existing and new customers and reliance on major customers;
- risks associated with technology development and intellectual property rights;
- obsolesce of Cathedral's equipment and/or technology;
- the ability of Cathedral to maintain safety performance;
- the ability of Cathedral to obtain adequate and timely financing on acceptable terms;
- the ability of Cathedral to comply with the terms and conditions of its credit facility;
- the ability to obtain sufficient insurance coverage to mitigate operational risks;
- currency exchange and interest rates;
- risks associated with future foreign operations;
- the ability of Cathedral to integrate its transactions and the benefits of any acquisitions, dispositions and business development efforts;
- environmental risks;
- business risks resulting from weather, disasters and related to information technology;
- changes under governmental regulatory regimes and tax, environmental, climate and other laws in Canada and the U.S.; and
- competitive risks.

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

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

MANAGEMENT’S REPORT

The consolidated financial statements have been prepared by the management in accordance with International Financial Reporting Standards ("IFRS") which is the basis for Canadian generally accepted accounting principles and, where appropriate, reflect estimates based upon management's judgment. Financial information contained elsewhere in the annual report has been prepared on a consistent basis with that in the consolidated financial statements. Additionally, management prepares the Management's Discussion and Analysis ("MD&A"). The MD&A is based on the Company's financial results prepared in accordance with IFRS. The MD&A compares the audited financial results for the years ended December 31, 2021 and December 31, 2020.

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

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

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

Signed: *"Tom Connors"*
Tom Connors
President and Chief Executive Officer
Cathedral Energy Services Ltd.
March 10, 2022

Signed: *"Ian Graham"*
Ian Graham
Chief Financial Officer
Cathedral Energy Services Ltd.
March 10, 2022

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Cathedral Energy Services Ltd.

Opinion

We have audited the consolidated financial statements of Cathedral Energy Services Ltd. (“the Company”), which comprise:

- the consolidated statements of financial position as at December 31, 2021 and December 31, 2020;
- the consolidated statements of comprehensive loss for the years then ended;
- the consolidated statements of changes in shareholders’ equity for the years then ended;
- the consolidated statements of cash flows for the years then ended;
- and notes to the consolidated financial statements, including a summary of significant accounting policies.

(Hereinafter referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2021 and December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS) as Issued by the International Accounting Standards Board (IASB).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the “*Auditors’ Responsibilities for the Audit of the Financial Statements*” section of our auditors’ report.

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

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2021. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matter described below to be the key audit matter to be communicated in our auditors’ report.

Assessment of indicators of impairment for the directional drilling cash generating unit (“CGU”)

Description of the matter

We draw attention to Note 2(d)(ii) “Estimates”, Note 3(g)(ii) and Note 9 to the financial statements. The carrying amounts of the Company’s non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. The assessment of indicators of impairment is based on management’s judgment of whether there are internal and external factors that would indicate that the directional drilling CGU and specifically the non-financial assets within the CGU, are impaired. These factors include future cash flows, expected industry activity levels, commodity price developments and market capitalization. As at December 31, 2021, management determined no indicators of impairment existed for the directional drilling CGU

Why the matter is a key audit matter

We identified the assessment of indicators of impairment for the directional drilling CGU as a key audit matter. Significant auditor judgement was required in evaluating the internal and external factors included in the Company’s indicators of impairment analysis

How the matter was addressed in the audit

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

We evaluated the Company’s assessment of impairment indicators by:

- comparing internal and external factors, including expected industry activity levels and commodity price developments analyzed by the Company to relevant external market data or internal source documents
- comparing the CGU’s future cash flows for 2022 to historical results and considering the impact of changes in conditions and events affecting the CGU

- evaluating the changes in market capitalization over the year and its impact on the Company's impairment indicator analysis.

Other Information

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

- the information included in Management's Discussion and Analysis to be filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditor's report thereon, included in a document likely to be entitled "2021 Annual Report".

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

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

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report and the information, other than the financial statements and the auditors' report thereon, included in a document entitled "2021 Annual Report" filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report. We have nothing to report in this regard.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represents the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditors' report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Signed *"KPMG LLP"*

Chartered Professional Accountants

Calgary, Canada

March 14, 2022

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2021 and 2020
Dollars in ‘000s

		2021		2020
Assets				
Current assets:				
Cash (note 6)	$	2,898	$	1,034
Trade receivables (note 7)		15,609		4,784
Prepaid expenses		1,438		709
Inventories (note 8)		8,423		8,118
Total current assets		28,368		14,645
Equipment (note 9)		35,044		35,620
Intangible assets (note 10)		1,491		2,244
Right of use assets (note 11)		10,520		11,771
Total non-current assets		47,055		49,635
Total assets	$	75,423	$	64,280
Liabilities and Shareholders' Equity				
Current liabilities:				
Trade and other payables (note 12)		11,069		4,425
Current taxes payable		55		140
Loans and borrow ings, current (note 13)		1,000		-
Lease liabilities, current (note 11)		2,127		2,247
Liability for settlements, current		-		153
Total current liabilities		14,251		6,965
Loans and borrow ings (note 13)		5,035		1,560
Lease liabilities, long-term (note 11)		13,633		15,781
Total non-current liabilities		18,668		17,341
Total liabilities		32,919		24,306
Shareholders' equity:				
Share capital (note 14)		98,918		88,155
Contributed surplus		11,793		11,071
Accumulated other comprehensive income		9,011		9,340
Deficit		(77,218)		(68,592)
Total shareholders' equity		42,504		39,974
Total liabilities and shareholders' equity	$	75,423	$	64,280

See accompanying notes to consolidated financial statements.

Approved by the Directors:

Signed*: "Tom Connors"*

Tom Connors

Director

Signed*: "Rod Maxwell"*

Rod Maxwell

Director

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

Years ended December 31, 2021 and 2020

Dollars in '000s except per share amounts

		2021		2020
Revenues (note 20)	$	62,524	$	40,574
Cost of sales (notes 8 and 16):				
Direct costs		(51,465)		(35,705)
Depreciation		(12,372)		(14,996)
Share-based compensation		(89)		(63)
Total cost of sales		(63,926)		(50,764)
Gross margin		(1,402)		(10,190)
Selling, general and administrative expenses (note 16):				
Direct costs		(8,372)		(8,179)
Depreciation		(535)		(572)
Share-based compensation		(152)		(144)
Total selling, general and administrative expenses		(9,059)		(8,895)
Technology group expenses (note 16)		(747)		(952)
Gain on disposal of equipment		2,681		1,680
Loss from operating activities		(8,527)		(18,357)
Finance costs		(196)		(291)
Finance costs lease liabilities		(794)		(918)
Foreign exchange gain (note 17)		277		971
Reversals of impairments (impairments and direct write-downs) (note 8, 9, 10 and 11)		614		(6,822)
Loss before income taxes		(8,626)		(25,417)
Income tax recovery (expense) (note 18):				
Current		-		333
Derecognition of deferred tax asset		-		(2,647)
Total income tax expense		-		(2,314)
Loss		(8,626)		(27,731)
Other comprehensive income (loss):				
Foreign currency translation differences for foreign operations		(329)		(594)
Total comprehensive loss	$	(8,955)	$	(28,325)
Loss per share (note 15)				
Basic	$	(0.13)	$	(0.56)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Years ended December 31, 2021 and 2020

Dollars in '000s

	Share capital	Contributed surplus	Accumulated other comprehensive income	Retained earnings (deficit)	Total shareholders' equity
Balance at December 31, 2019	**$ 88,155**	**$ 10,864**	**$ 9,934**	**$ (40,861)**	**$ 68,092**
Total comprehensive loss for year ended December 31, 2020	-	-	(594)	(27,731)	(28,325)
Share-based compensation	-	207	-	-	207
Balance at December 31, 2020	**$ 88,155**	**$ 11,071**	**$ 9,340**	**$ (68,592)**	**$ 39,974**
Total comprehensive loss for year ended December 31, 2021	-	-	(329)	(8,626)	(8,955)
Issue of shares on private placement	3,342	34	-	-	3,376
Issue of shares on business acquisition	5,896	454			6,350
Issue of shares on asset acquisition	1,500				1,500
Issue of shares from option exercise	25	(7)			18
Share-based compensation	-	241	-	-	241
Balance at December 31, 2021	**$ 98,918**	**$ 11,793**	**$ 9,011**	**$ (77,218)**	**$ 42,504**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2021 and 2020

Dollars in '000s

		2021		2020
Cash provided by (used in):				
Operating activities:				
Loss	$	(8,626)	$	(27,731)
Items not involving cash				
Depreciation		12,907		15,568
Share-based compensation		241		207
Income tax (recovery) expense		-		2,314
Gain on disposal of equipment		(2,681)		(1,680)
Finance costs		196		291
Finance costs lease liabilities		794		918
(Reversals of impairments) impairments and direct write-downs		(614)		6,822
Unrealized foreign exchange gain on intercompany balances		(366)		(929)
Cash flow - continuing operations		1,851		(4,220)
Changes in non-cash operating working capital (note 19)		(5,263)		5,343
Income taxes refunded (paid)		(87)		68
Cash flow - operating activities		(3,499)		1,191
Investing activities:				
Equipment additions		(5,617)		(2,474)
Intangible asset additions		-		(251)
Cash received related to acquisition (note 5)		3,000		-
Proceeds on disposal of equipment		3,553		2,603
Changes in non-cash investing working capital (note 19)		(59)		768
Cash flow - investing activities		877		646
Financing activities:				
Proceeds on share issue		3,394		-
Repayments on lease liabilities		(2,234)		(2,110)
Interest paid including lease liabilities		(990)		(1,209)
Repayments of loans and borrowings		(3,924)		(5,386)
Advances on loans and borrowings		8,399		946
Payment on settlements		(151)		(173)
Cash flow - financing activities		4,494		(7,932)
Effect of exchange rate on changes on cash		(8)		(94)
Change in cash		1,864		(6,189)
Cash, beginning of year		1,034		7,223
Cash, end of year	$	2,898	$	1,034

See accompanying notes to consolidated financial statements.

1. Reporting entity

Cathedral Energy Services Ltd. (the "Company" or "Cathedral") is a company domiciled in Canada. The Company is a publicly traded company listed on the Toronto Stock Exchange under symbol "CET". The consolidated financial statements of the Company as at and for the year ended December 31, 2021 comprise the Company and its 100% owned subsidiary, Cathedral Energy Services Inc. ("INC"), (together referred to as "Cathedral"). INC is incorporated in the United States of America ("U.S.") and its functional currency is U.S. dollars ("USD").

The Company and INC are primarily involved and engaged in the business of providing directional drilling services to oil and natural gas companies in western Canada and the U.S.

2. Basis of preparation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") which are defined as International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The consolidated financial statements were authorized for issue by the Board of Directors on March xx, 2022.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis.

(c) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars ("CAD"), which is the Company's presentation and functional currency. All financial information presented in dollars has been rounded to the nearest thousand except for per share amounts.

(d) Use of estimates and judgments

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

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

In March 2020, the World Health Organization declared a global pandemic due to COVID-19. COVID-19 had a significant impact on global markets from that point to present. As the situation continues to evolve, the magnitude of its impact on the economy, commodity prices, drilling activity remains uncertain at this time.

All of these developments have had, and could in the future have, a material adverse effect on Cathedral's business, financial condition, results of operations, cash flows, and ability to collect on accounts receivable and future impairments of Company assets. There also may be negative impact on supply chain, availability and costs related to personnel, market pricing and customer demand. These factors may impact the Company's profitability, liquidity and cash flows.

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

Judgments

(i) Current and deferred income taxes

The Company must make determinations on whether to record amounts for various tax pools it has available for future use. In making this determination, the Company looks at future expectations to determine what amounts, if any, can be recognized. The Company also reviews all tax assessments to determine which assessments it concurs with and will record in its records and which assessments it disputes and which it expects to be changed. If the Company believes it is more likely than not that the assessment was incorrect, it does not make a provision for a liability in its accounts. As such, the provisions for current and deferred income taxes are subject to measurement uncertainty.

(ii) Recognition of contingent liabilities

The determination if a contingent liability requires an accrual in the financial statements or only requires disclosure is an area that requires significant judgment. In making this determination, management reviews the specific details of the contingency and may seek professional help if the matter is of sufficient complexity. For items not recorded as contingent liabilities, there is also a determination required if the amount of claim would be material, as only material amounts are disclosed in financial statements. As at December 31, 2021, the Company had no material unaccrued contingent liabilities.

Estimates

(i) Equipment

The Company makes estimates about the residual value and expected useful life of equipment. These estimates are impacted by estimates for usage, technology changes, customer requirements and other factors. These estimates are based on management's historical experience and industry norms. Expected useful life and depreciation rates are as disclosed in note 3 (d) (iii).

(ii) Impairment of assets

Equipment and intangibles are assessed for impairment when circumstances suggest that the carrying amount may exceed the recoverable amount for the asset. Significant judgement is required to assess when indicators of impairment exist, and impairment testing is required. The assessment of indicators of impairment is based on management's judgment of whether there are internal and external factors that would indicate that the directional drilling cash generating unit ("CGU") and specifically the non-financial assets within the CGU, are impaired. These factors include future cash flows, expected industry activity levels, commodity price developments and market capitalization. The determination of the recoverable amount of the CGU requires estimates and assumptions that are subject to change as new information becomes available. These include estimates of future cash flows, growth rates, pre-tax discount rates as well as various estimates and assumptions used in the preparation of revenues and expenses used in the cash flow analysis. The determination of a CGU is also based on management's judgment and is an assessment of the smallest group of assets that generate cash inflows independently of other assets.

Trade accounts receivable require estimates to be made regarding the financial stability of the Company's customers and the environment in which they operate in order to assess if accounts receivable balances will be received. Credit risks for outstanding accounts receivable are assessed regularly and an allowance for doubtful accounts is recorded based upon specific customer information and experience as well as for groups of similar assets. See note 24 "Credit risk" for further details.

Inventory is reviewed periodically in order to determine if there is obsolescence. This estimate is based upon historic data and management's estimates of future demand.

(iii) Income taxes

The Company uses the asset and liability method of accounting for future income taxes whereby deferred income tax assets and liabilities are determined based on temporary differences between the accounting basis and the tax basis of the assets and liabilities, and are measured using substantively enacted tax rates and laws expected to apply when these differences reverse. As a result, a projection of taxable income is required for those years, as well as an assumption of the ultimate recovery/settlement period for the temporary differences.

The business and operations of the Company are complex and the Company has executed a number of significant financings, reorganizations, acquisitions and other material transactions over the course of its history. The computation of income taxes payable resulting from these transactions involves many complex factors as well as the Company's interpretation of relevant tax legislation and regulations. The Company's management believes that the provision for income tax is adequate and in accordance with GAAP and applicable legislation and regulations. However, tax-filing positions are subject to review by taxation authorities who may successfully challenge the Company's interpretation of the applicable tax legislation and regulations.

(iv) Liquidity

As part of its capital management process, the Company prepares a forecast / budget. Management and the board of directors use the forecast / budget to direct and monitor the strategy and ongoing operations and liquidity of the Company. Forecasts / budgets are subject to significant judgment and estimates relating to activity levels, future cash flows and the timing thereof and other factors which may or may not be within the control of the Company. See further discussions relating to liquidity in notes 2, 14 and 24.

3. Significant accounting policies

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

(a) Basis of consolidation

Business combinations are accounted for using the acquisition method of accounting in which the identifiable assets acquired, liabilities assumed and any non-controlling interest are recognized and measured at their fair value at the date of acquisition. Any excess of the purchase price plus any non-controlling interest over the fair value of the net assets acquired is recognized as goodwill. Any deficiency of the purchase price over the fair value of the net assets acquired is credited to net earnings.

At acquisition, goodwill is allocated to each of the CGUs to which it relates. Subsequent measurement of goodwill is at cost less any accumulated impairment losses.

(i) Subsidiaries

Subsidiaries are entities controlled by Cathedral. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries align with the policies adopted by Cathedral.

(ii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income, expenses, gains or losses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(b) Foreign currency

(i) Foreign currency transactions

All transactions that are not denominated in an entity's functional currency are foreign currency transactions. These transactions are initially recorded in the functional currency by applying the appropriate daily rate which best approximates the actual rate of transaction.

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

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

(ii) Foreign operations

The assets and liabilities of foreign operations are translated to CAD at exchange rates at the reporting date. The income and expenses of foreign operations are translated to CAD at exchange rates at the dates of the transactions.

Foreign currency differences are recognized in other comprehensive income and have been recognized in accumulated other comprehensive income ('AOCI') in the cumulative translation. When a foreign operation is disposed of, the relevant amount in AOCI (in the cumulative translation account) is transferred to profit or loss as part of the profit or loss on disposal. On the partial disposal of a subsidiary that includes a foreign operation, the relevant proportion of such cumulative amount is reattributed to non-controlling interest. In any other partial disposal of a foreign operation, the relevant proportion is reclassified to profit or loss.

(c) Financial instruments

(i) Financial assets

Initial recognition and measurement

Financial assets within the scope of IFRS 9 are classified as financial assets at amortized cost, fair value through profit or loss or fair value through other comprehensive income, as appropriate. The Company determines the classification of its financial assets at initial recognition, based on trade date. All financial assets are recognized initially at fair value. The Company's financial assets include cash, and trade receivables. All financial assets are measured at amortized cost.

Subsequent measurement

Financial assets at fair value through profit or loss

The Company has no financial assets at fair value through profit or loss.

Financial assets carried at amortized cost

For financial assets carried at amortized cost, the Company applies the simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. Trade receivables are written off when there is no reasonable expectation of recovery.

(ii) Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IFRS 9 are classified as financial liabilities at fair value through profit or loss or at amortized cost. The Company determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognized initially at fair value and in the case of other financial liabilities, directly attributable transaction costs. The Company's financial liabilities include operating loan, trade and other payables, leases liability loans and borrowings and provision for settlement. All financial liabilities are measured at amortized cost.

Subsequent measurement

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

Derecognition and modification

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

(iii) Offsetting of financial instruments

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

(d) Equipment

(i) Recognition and measurement

Items of equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and borrowing costs on qualifying assets.

Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

When parts of an item of equipment have different useful lives, they are accounted for as separate items (major components) of equipment.

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

(ii) Subsequent costs

The cost of replacing a part of an item of equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to Cathedral, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of equipment (repair and maintenance) are recognized in profit or loss as incurred.

(iii) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognized in profit or loss on either a straight-line or declining balance basis over the estimated useful lives of each part of an item of equipment.

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

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

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

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

(e) Intangible assets

(i) Internally generated intangible asset - Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and Cathedral intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalized includes the cost of materials, direct labour, overhead costs that are directly attributable to preparing the asset for its intended use, and borrowing costs on qualifying assets. Other development expenditure is recognized in profit or loss as incurred.

Capitalized development expenditure is measured at cost less accumulated amortization and accumulated impairment losses.

(ii) Subsequent expenditure

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

(iii) Amortization

Amortization is calculated on the cost of the asset less its residual value.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life for capitalized development costs is 5 years.

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

(f) Inventories

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

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

(g) Impairment

(i) Financial assets (including receivables)

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

Trade receivables are recognized and carried at original invoice amount less an allowance for any amounts estimated to be uncollectible. The Company calculates an expected credit loss based on historical experience of bad debts and specific provisions created when there is objective evidence that the collection of the full amount of a receivable is no longer probable under the terms of the original invoice. The amount of this allowance represents management's best estimate of expected credit losses. Trade receivables are derecognized when they are assessed as uncollectible.

(ii) Non-financial assets

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

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit", or "CGU"). For the purposes of goodwill impairment testing, goodwill acquired in a business combination is allocated to CGUs that are expected to benefit from the synergies of the combination. This allocation is subject to an operating segment ceiling test and reflects the lowest level at which that goodwill is monitored for internal reporting purposes.

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

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

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

(h) Employee benefits

(i) Termination benefits

Termination benefits are recognized as an expense when Cathedral is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan either to terminate employment before the normal retirement date, or to provide termination benefits because of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if Cathedral has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

(ii) Short-term employee benefits

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

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

(iii) Share-based payment transactions – equity settled

The grant date fair value of share-based payment awards granted to employees, directors and consultants is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards (vesting period). The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date.

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

(i) Revenue

The Company provides directional drilling services. Revenue is recognized when a customer obtains control of the good or services. Determining the timing of the transfer of control (at a point in time or over time) requires judgement. Revenue for these services are recognized over time based on drilling days. Invoices are generated at the end of the job and are due based on the Master Service Agreement with client or Cathedral's signed Terms and Conditions, generally in 30 or 60 days. Cathedral's services are generally sold based upon service orders or contracts with customers that include fixed or determinable prices based upon daily, hourly or job rates.

(j) Government grants

The Company applied IAS 20 "Accounting for Government Grants and Disclosure of Government assistance" in relation to receiving the Canadian Emergency Wage Subsidy ("CEWS"), the Canadian Emergency Rent Subsidy ("CERS") and forgiveness of the U.S. Paycheck Protection Program ("PPP") loan. Government assistance is recognized only when there is reasonable assurance that the Company will comply with any conditions attached to the grant and the grant will be received. The amounts are recognized in profit or loss on a systematic basis over the periods in which the Company recognizes the expenses for the related costs for which the grants are intended to compensate. The Company has elected to present these amounts net of the related expense (note 16).

(k) Finance income and costs

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

(l) Leases

(i) Lessee

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

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

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

(ii) Lessor

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

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

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

(m) Income tax

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

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

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

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

(n) Earnings per share

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

4. Determination of fair values

A number of Cathedral’s accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Currently all amounts are recognized at their amortized cost. Fair values would be determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Trade receivables

The fair value of trade receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

(b) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

(c) Share-based payment transactions

The fair value of the employee share options is measured using the Black-Scholes option-pricing model. Measurement inputs include the share price on measurement date, the exercise price of the instrument, the expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), the weighted average expected life of the instruments (based on historical experience and general option holder behavior), the expected dividends, forfeiture rate per annum and the risk-free interest rate (based on government bonds). Service and non-market performance conditions are not taken into account in determining fair value.

5. Acquisitions

On July 23, 2021, the Company announced the closing of Cathedral’s acquisition of Precision Drilling Corporation's ("Precision") directional drilling business (the “Transaction”) for a purchase price of $6,350. The Transaction includes the operating assets and personnel of Precision’s directional drilling business (including its operations facility in Nisku, Alberta which the Company intends to resell), and a $3,000 cash from Precision to support growth and expansion of Cathedral, including continuing the buildout of RapidFire™ measurement-while-drilling guidance systems and nDurance™ drilling motors. Additionally, the Transaction is expected to enhance margins as expenses related to rental equipment used by Precision are replaced with proprietary Cathedral tools.

Cathedral issued 13,400,000 common shares (the “Consideration Shares”) along with warrants to purchase an additional 2,000,000 common shares of Cathedral at a price of $0.60 per common share within a two-year period after closing. In addition to a 4-month statutory hold period on the Consideration Shares, the parties have agreed to contractual restrictions on resale as follows: 25% of the Consideration Shares are restricted until January 22, 2022; a further 25% of the Consideration Shares are restricted until July 22, 2022; and a further 50% of the Consideration Shares are restricted until July 22, 2023, subject to certain exceptions.

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

- Cash $3,000
- Land and building $1,500; and
- Equipment $1,850.

The Company expensed $139 in costs related to the Transaction. As the acquired assets were integrated into Cathedral's existing directional drilling operations it is impracticable to breakout the revenue and profit or loss of the acquired assets since the acquisition.

In addition, on September 7, 2021 the Company completed the acquisition of the operating assets of Valiant Energy Services Ltd. (“Valiant”), an Alberta-based directional drilling company, for a purchase price of $1,500 and allocated $1,485 to equipment and $15 to inventory related to service of those tools. The purchase price was satisfied through the issuance of 3,464,204 common shares of Cathedral to Valiant. These shares are subject to a 4-month statutory hold period. The Company expensed $41 in costs related to this acquisition. The principal owner of Valiant, Mr. Vaugn Spengler, entered into a long-term performance-based agreement to remain with Cathedral and will continue to focus on opportunities to support and expand the existing customer base.

6. Cash

The Company's cash consists of balances in accounts with financial institutions. This balance does not include any term deposits and temporary investments or overdrafts.

7. Trade receivables

All of the Company's amounts are trade receivables. This balance does not include any related party amounts or other loans and receivables. The Company's exposure to credit and currency risks, and impairment losses related to trade receivables is disclosed in note 24.

8. Inventories

All of the Company's inventories are composed of raw materials and consumables. There are no finished goods inventories. For the year ended December 31, 2021, raw materials and consumables recognized as cost of sales were $5,966 (2020 - $4,288). At December 31, 2021, a review of expected demand for inventory balances to be used in equipment repairs was conducted and a write-down of $154 (2020 - $377) on inventory was recognized.

9. Equipment

Cost	Balance December 31 2019	Additions	Write-off fully depreciated	Disposals	Effects of movements in exchange rates	Balance December 31 2020
Directional Drilling equipment	$ 139,754	$ 2,413	$ (67,094)	$ (2,990)	$ (67)	$ 72,016
Automotive equipment	1,652	23	-	(896)	(137)	642
Office and computer equipment	811	26	(90)	(47)	1	701
Leasehold improvements	428	12	-	-	(2)	438
Total	$ 142,645	$ 2,474	$ (67,184)	$ (3,933)	$ (205)	$ 73,797

Accumulated depreciation	Balance December 31 2019	Additions	Write-off fully depreciated	Disposals	Effects of movements in exchange rates	Balance December 31 2020
Directional Drilling equipment	$ 93,758	$ 12,551	$ (67,094)	$ (2,134)	$ (53)	$ 37,028
Automotive equipment	1,356	77	-	(832)	(140)	461
Office and computer equipment	267	155	(90)	(43)	1	290
Leasehold improvements	382	17	-	-	(1)	398
Total	$ 95,763	$ 12,800	$ (67,184)	$ (3,009)	$ (193)	$ 38,177

Cost	Balance December 31 2020	Additions	Disposals	Effects of movements in exchange rates	Balance December 31 2021
Directional Drilling equipment	$ 72,016	$ 8,830	$ (4,058)	$ (48)	$ 76,740
Automotive equipment	642	107	(109)	1	641
Office and computer equipment	701	15	(8)	-	708
Leasehold improvements	438	-	-	-	438
Land and building	-	1,500	-	-	1,500
Total	$ 73,797	$ 10,452	$ (4,175)	$ (47)	$ 80,027

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

Net book values		2021		2020
Directional Drilling equipment	$	32,976	$	34,988
Automotive equipment		216		181
Office and computer equipment		329		411
Leasehold improvements		23		40
Land and building		1,500		-
Total	$	35,044	$	35,620

Review for impairment and direct write-offs

The Company assesses whether there are any external and internal indicators of impairment that exist for the Company's sole cash generating unit ("CGU"), the directional drilling CGU, at the end of each reporting period. As at December 31, 2021, management determined no indicators of impairment existed.

In the prior year, the Company determined that sufficient impairment indicators existed and conducted an impairment test as required on the Company's directional drilling CGU. As a result, the Company recorded impairment / write-downs totaling $6,285 associated with certain right-of-use assets (see note 11) that were determined to be no longer in use during the year ended December 31, 2020. Additionally, there were write-downs of intangible assets (see note 10) totaling $160 related to projects in progress where there was uncertainty related to the ultimate commercialization of the project in a reasonable time frame.

The recoverable amount of the CGU was determined using a discounted cash flow model based on value-in-use. This was higher than the fair value less costs to sell model. Inherent in the value in use approach there are key assumptions that are subjective and represent reasonable estimates with respect to factors affecting operations. These assumptions are sensitive to change and could affect fair value. The discount rate used to calculate the net present value of future cash flows is based on estimates of the Company's weighted average cost of capital, adjusted to consider the nature of the assets being valued and their specific risk profile. The future cash flows are based on management's best estimates of pricing, activity levels, costs to maintain equipment and a pre-tax discount rate of 17% per annum. A terminal value was used based on the annual growth rate of 2% for future cash flows through the remainder of the CGU's life.

The most sensitive inputs to the value in use model at December 31, 2020 were the discount rate and the U.S. revenue growth rates:

- A 0.5% increase in the discount rate would have resulted in an impairment of $2,700; and
- A 1% decrease to U.S. activity growth in each of 2021 and 2022 would have resulted in an impairment of $900.

10. Intangible assets

The Company's intangible assets consist of materials and wages related to equipment development and improvement. The Company reviews the accumulated costs at least quarterly. The 2021 internally developed additions contain $nil of technology group wages related to new product development (2020 - $251).

In 2020 write-downs of $160 were recorded on intangible projects in progress where there was uncertainty related to commercialization of the project within a reasonable time frame.

		2021		2020
Cost				
Balance at January 1	$	3,763	$	4,138
Internally developed additions		-		251
Write-off fully amortized		-		(466)
Direct write-downs		-		(160)
Balance at end of year	$	3,763	$	3,763
Accumulated amortization				
Balance at January 1	$	1,519	$	1,119
Amortization for year		753		866
Write-off fully amortized		-		(466)
Balance at end of year	$	2,272	$	1,519
Net carrying value at end of year	$	1,491	$	2,244

11. Right of use assets and lease liabilities

Right of use assets - Real property		2021		2020
Balance, beginning of year	$	11,771	$	19,590
Impairments and direct write-downs (note 9)		-		(6,834)
Reversal of impairments		768		549
Amortization		(2,007)		(1,848)
Effects of movements in exchange rates		(12)		314
Balance, end of year	$	10,520	$	11,771

In 2020 Q3, the Company entered into a sublease for one of its properties and in 2021 Q2, the Company entered into a sublease on another property that went into effect in 2021 Q3. These subleases expire in April 2023 and June 2023 respectively and as neither transfers substantially all the risks and benefits of ownership of the property to the lessee, these subleases are treated as operating leases. In 2021 a recovery of $768 was recorded

(2020 - $549) based upon the discounted value of expected sublease payments.

Lease liabilities

Lease liabilities		Vehicles		Real Property		2020
Balance, December 31, 2019	$	31	$	20,231	$	20,262
Lease buy-outs		(2)		-		(2)
Interest		5		913		918
Payments		(16)		(2,998)		(3,014)
Effects of movements in exchange rates		(1)		(135)		(136)
Balance, December 31, 2020	$	17	$	18,011	$	18,028
Less current portion		(17)		(2,230)		(2,247)
Lease liabilities, long-term	$	-	$	15,781	$	15,781

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

The maturity analysis of the undiscounted contractual balances of the lease liabilities is as follows:

In one year or less	$	2,820
In more than one year, but not more than five years		10,387
In more than five years		5,299
Total	$	18,506

12. Trade and other payables

		2021		2020
Trade payables	$	10,473	$	3,118
Accrued payables		596		1,307
Total	$	11,069	$	4,425

The Company’s exposure to currency and liquidity risk related to trade and other payables is disclosed in note 24.

13. Loans and borrowings

Bank facility

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

In June 2021, the Company amended and extended its Facility. Commencing with the fiscal period ending September 30, 2021 (“2021 Q3”) and ending with the fiscal period ending March 31, 2022 (“2022 Q1”), the definition of Credit Agreement EBITDA will be based on pro-rating Credit Agreement EBITDA to a 12-month equivalent (“Consolidated EBITDA Annualization Period”). The calculations are as follows:

- For the fiscal period ending 2021 Q3, the Credit Agreement EBITDA is the calculated amount for the 3 months of 2021 Q3 times four;
- For the fiscal period ending December 31, 2021 (“2021 Q4”), the Credit Agreement EBITDA is the calculated amount for the 3 months of 2021 Q3 plus the 3 months of 2021 Q4 times two;
- For the fiscal period ending 2022 Q1, the Credit Agreement EBITDA is the calculated amount for the 3 months of 2021 Q3 plus the 3 months of 2021 Q4 plus the 3 months of 2022 Q1 divided by 3 and then times 4;
- During the Consolidated EBITDA Annualization Period, the Facility will bear interest at the maximum rates for the ranges noted;
- The Company, at its one-time option, can choose to exit the Consolidated EBITDA Annualization Period and revert back to the original definition of Credit Agreement EBITDA and the Facility will bear interest at the applicable rates. For the fiscal period ending June 30, 2022 (“2022 Q2”), the Credit Agreement EBITDA will revert back to the trailing 12-month calculation.

The Facility also features the following amendments:

- There is no cap in place and the Company has access to the full $12,000 Facility;
- Aggregate capital expenditures (excluding non-cash utilization of existing inventory) for the fiscal year ended December 31, 2021, are not to exceed $9,000; and
- Consolidated funded debt to tangible net worth (“TNW”) ratio will no longer be tested after 2021 Q2.

The financial covenants associated with the Facility that will be tested commencing 2021 Q3 are:

- Consolidated funded debt to consolidated Credit Agreement EBITDA ratio shall not exceed 3.0:1; and
- Consolidated Credit Agreement EBITDA to consolidated interest ratio shall not be less than 2.5:1.

Compliance with Facility covenants

At December 31, 2021, the Company had drawn $5,035 of its bank facility and had $2,898 in cash. The Company was in compliance with all covenants at December 31, 2021.

Subsequent to year end, the Company amended its credit facility as described in note 23.

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

In conjunction with the credit amendment and extension referenced above in June 2021, the Company applied for and received a further $1,000 of liquidity from HASCAP. The incremental $1,000 non-revolving loan is fully drawn and is in addition to the Company’s $12,000 Facility. The demand loan has an interest rate of 4% and is amortized over a ten-year period. Repayment terms are interest only for the first year, and principal plus interest for the remaining nine years, payable on a monthly basis. The HASCAP Loan is secured by a general security interest over all present and after acquired personal property of the Company granted in favour of ATB.

Paycheck Protection Program

On May 8, 2020, Cathedral received approval of an application for a U.S. Paycheck Protection Program (“PPP”) loan of $750 USD. The proceeds were used to support payroll expenditures for Cathedral’s U.S. employees. The loan proceeds were forgiven accordance with certain U.S. Treasury guidelines. At September 30, 2020, the Company recognized a reduction in cost of sales and SGA wages in the amount of $750 USD.

14. Share capital

Authorized: An unlimited number of common shares and an unlimited number of preferred shares (issuable in series).

Common shares issued:

	2021			2020		
	Number		Amount	Number		Amount
Issued, beginning of period	49,468,117	$	88,155	49,468,117	$	88,155
Issued on private placement	13,804,500		3,342	-		-
Issue of shares on business acquisition	13,400,000		5,896	-		-
Issue of shares on assets acquisition	3,464,204		1,500	-		-
Issued on exercise of options	63,332		25	-		-
Issued, end of period	80,200,153	$	98,918	49,468,117	$	88,155

Issuance of common shares

Cathedral entered into a non-brokered private placement of 500,000 units with its new President, CEO and Director, at a subscription price of $0.20 per unit for a subscription amount of $100. Each unit consists of one Cathedral common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to purchase one common share at an exercise price of $0.24 per common share for a period of three years from the closing date of the private placement which was February 8, 2021.

In addition, Cathedral issued 650,000 units to its new President, CEO and Director at a subscription price of $0.20 per unit, using a loan provided by Cathedral on commercial terms of $130. Each unit consists of one common share and one-half of one warrant. Each whole warrant entitles the holder to purchase one common share at an exercise price of $0.24 per common share for a period of three years from the closing date of the private placement which was February 8, 2021.

12,654,500 shares were issued on May 31, 2021 on a Bought Deal. Shares were issued at $0.25 per share. There were $16 in share issue costs that have been deducted against the gross proceeds of $3,162.

13,400,000 shares were issued July 22, 2021 related to the Precision Transaction. The shares were issued at $0.44 per share. As this is accounted for as a business combination, there are no issue costs deducted against the proceeds.

3,464,204 shares were issued September 7, 2021 related to the Valiant asset acquisition. The shares were issued at $0.43 per share. There are no issue costs deducted against the proceeds.

63,332 common shares were issued as a result of the exercise of vested options. Options were exercised at an average strike price of $0.29 per option. All issued shares are fully paid.

Issuance of share options

The Company's share-based compensation plan is a "rolling number" type option plan which provides that the number of authorized but unissued common shares that may be subject to options granted under the share option plan at any time can be up to 10% of the number of common shares outstanding from time to time.

Under the plan, the exercise price of each option at the date of issuance equals the volume adjusted weighted average trading value of the Company's common shares for the five days prior to the grant and have a maximum term of three years. Options vest over a period of two years.

A summary of the status of the Company's equity-based compensation plan as at December 31, 2021 and 2020, and changes during the years then ended is presented below:

	2021			2020		
	Number		Weighted average exercise price	Number		Weighted average exercise price
Outstanding, beginning of year	2,552,600	$	0.41	3,758,500	$	0.82
Granted	5,053,400		0.40	887,600		0.12
Exercised	(63,332)		0.29	-		-
Expired or forfeited	(881,968)		0.80	(2,093,500)		1.03
Outstanding, end of year	6,660,700	$	0.35	2,552,600	$	0.41
Exercisable, end of year	1,271,365	$	0.26	1,041,300	$	0.73

The range of exercise prices for the options outstanding at December 31, 2021 is as follows:

	Total outstanding options				Exercisable		
Exercise price range	Number		Weighted average exercise price	Weighted average remaining life (in years)	Number		Weighted average exercise price
$0.11 to $0.20	1,427,100	$	0.15	1.92	274,365	$	0.12
$0.21 to $0.30	1,832,000		0.28	1.37	997,000		0.29
$0.31 to $0.40	450,000		0.31	2.40	-		-
$0.41 to $0.50	2,951,600		0.50	2.63	-		-
$0.12 to $0.50 total	6,660,700	$	0.35	2.12	1,271,365	$	0.26

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

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

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

- Expected annual dividend per share is $0;
- Risk free interest rate ranges from 0.2% to 1.0%;
- Expected share price volatility (weighted average) ranges from 94% to 127%; and
- Forfeiture rate for employees is 10%; for officers and directors this is 0%.

The resultant fair values of the options range from $0.11 to $0.30.

15. Earnings (loss) per share

Basic earnings per share

The calculation of basic earnings per share at December 31, 2021 was based on the loss attributable to common shareholders of $(8,626) (2020 – $(27,731)) and a weighted average number of common shares outstanding of 65,030,795 (2020 – 49,468,117), calculated as follows:

Weighted average number of ordinary shares

	2021	2020
Issued January 1	49,468,117	49,468,117
Effect of shares issued during the year	15,562,678	-
Weighted average number of common shares	65,030,795	49,468,117

Diluted earnings per share

As both years have a loss, there is no dilutive effect on earnings per share. The weighted average number of common shares outstanding of 65,739,674 (2020 – 49,468,117) is calculated as follows:

Weighted average number of common shares (diluted)

	2021	2020
Weighted average number of common shares (basic)	65,030,795	49,468,117
Effect of share options on issue	708,879	-
Weighted average number of common shares (diluted)	65,739,674	49,468,117

At December 31, 2021, 5,233,600 options (2020 – 2,552,600) were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive. The average market value of the Company's common shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period during which the options were outstanding.

16. Nature of expenses

The nature of expenses can be specified as follows:

	Cost of sales	Selling, general & administrative	Technology	Total
Year ended December 31, 2020				
Depreciation and amortization	$ (14,996)	$ (572)	$ -	$ (15,568)
Share-based compensation	(63)	(144)	-	(207)
Staffing costs, excluding share-based compensation	(15,921)	(4,062)	(922)	(20,905)
Repairs and maintenance	(9,265)	-	-	(9,265)
Other expenses	(10,519)	(4,117)	(30)	(14,666)
Total	$ (50,764)	$ (8,895)	$ (952)	$ (60,611)
Year ended December 31, 2021				
Depreciation and amortization	$ (12,372)	$ (535)	$ -	$ (12,907)
Share-based compensation	(89)	(152)	-	(241)
Staffing costs, excluding share-based compensation	(26,766)	(5,622)	(732)	(33,120)
Repairs and maintenance	(15,739)	-	-	(15,739)
Other expenses	(8,960)	(2,750)	(15)	(11,725)
Total	$ (63,926)	$ (9,059)	$ (747)	$ (73,732)

The Company recognized the benefit from CEWS program of $916 (2020 - $1,776) and $nil (2020 - $992) from the U.S. Paycheck Protection Program ("PPP") which reduced salary expenses as follows:

- Cost of sales $544 (2020 - $1,665);
- Selling, general and administrative expenses $298 (2020 - $812); and
- Technology group expenses $74 (2020 - $291).

Additionally, the Company received $518 (2020 - $280) from CERS which reduced cost of sales $424 (2020 - $221) and selling, general and administrative $94 (2020 - $59).

17. Foreign exchange gain

	2021	2020
Foreign exchange gain (loss):		
Realized foreign exchange gain (loss)	$ (89)	$ 42
Unrealized foreign exchange gain on intercompany balances	366	929
Foreign exchange gain	$ 277	$ 971

18. Income tax expense

In 2020 Q4, Cathedral derecognized $2,647 of deferred tax assets due to a recent history of tax losses within Cathedral's U.S. entity.

Recognized deferred tax assets and liabilities

Deferred tax assets are attributable to the following:

	2021	2020
Equipment	$ (2,122)	$ (3,019)
Non-capital loss carry forwards	1,635	2,517
Inventory valuation allowance	487	502
Total	$ -	$ -

Un-recognized deferred tax assets:

There are un-recognized deferred tax assets of $28,557 (2020 - $27,507) related to the following Canadian tax attributes:

	2021		2020	
	Gross amount	Tax effect	Gross amount	Tax effect
Non-capital loss carry forwards	$ 77,377	$ 17,597	$ 67,309	$ 16,005
Right of use assets less related lease liability	3,561	$ 776	4,615	$ 1,050
Scientific research and development expenditures	18,678	$ 4,296	18,678	$ 4,483
Investment tax credits	n/a	5,162	n/a	5,162
Net capital loss carry forwards	3,158	$ 726	3,215	$ 772
Provision for settlement	-	$ -	153	$ 35
Total	$ 102,774	$ 28,557	$ 93,970	$ 27,507

Deferred tax assets have not been recognized in respect of the deductible temporary differences at December 31, 2021 or 2020 due to a recent history of taxable losses. The non-capital losses have expiries ranging from 2035 to 2041 and investment tax credits have expiries from 2026 to 2037. The remaining tax attributes do not expire.

Movement in temporary differences during the year

	Balance December 31 2019	Recognized in profit	Recognized in OCI	Balance December 31 2020
Equipment	$ (4,493)	$ 1,520	$ (46)	$ (3,019)
Non-capital loss carry forwards	6,011	(3,494)	-	2,517
Accrued expenses deductible in future years	92	(92)	-	-
Inventory valuation allowance	1,012	(510)	-	502
Provision for settlement	71	(71)	-	-
Total	$ 2,693	$ (2,647)	$ (46)	$ -

	Balance December 31 2020	Recognized in profit	Recognized in OCI	Balance December 31 2021
Equipment	$ (3,019)	$ 897	$ -	$ (2,122)
Non-capital loss carry forwards	2,517	(882)	-	1,635
Inventory valuation allowance	502	(15)	-	487
Total	$ -	$ -	$ -	$ -

The income taxes are based upon the estimated annual effective rates of 23% (2020 – 24%) for Canadian entities and 21.8% (2020 – 22.75%) for U.S. entities. The income tax expense for the period is comprised as follows:

	2021	2020
Current tax (expense) recovery:		
U.S. Franchise taxes	$ 50	$ (141)
Adjustment to prior period provisions	(50)	474
Total current tax (expense) recovery	-	333
Derecognition of deferred tax asset	-	(2,647)
Income tax expense	$ -	$ (2,314)

Income tax expense for 2021 and 2020 differs from the amount that would be expected by applying the expected statutory income tax rates for the following reasons:

	2021	2020
Expected statutory tax rate	23%	24%
Loss before income tax	$ (8,626)	$ (25,417)
Effective tax rate applied to loss before income tax	$ 1,984	$ 6,100
U.S. Franchise taxes	-	(141)
Unrecognized changes in deferred tax assets	(2,009)	(9,093)
Adjustment to deferred taxes for change in effective tax rates	-	45
Income taxed in jurisdictions with different tax rates	(38)	(83)
Non-deductible expenses	(74)	185
Adjustment to prior year tax provisions	-	474
Non-taxable portion of gain on disposal of property and equipment	137	199
Total tax expense	$ -	$ (2,314)

19. Changes in non-cash working capital

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

	2021	2020
Trade receivables	$ (10,825)	$ 10,018
Inventories	(443)	1,928
Prepaid expenses and deposits	(729)	959
Trade and other payables	6,645	(6,883)
Impact of foreign exchange rate differences	30	89
Total changes in non-cash working capital	(5,322)	6,111
Changes in investing non-cash working capital	(59)	768
Changes in operating non-cash working capital	$ (5,263)	$ 5,343

20. Operating segments

The Company and its wholly owned subsidiary are engaged in the business of providing directional drilling services to oil and natural gas companies in western Canada and the U.S. and is viewed as a single operating segment by the chief operating decision maker of the Company for the purpose of resource allocation and assessing performance.

The amounts related to each geographic segment are as follows:

Geographical information

The Company conducts operations in the following geographic areas:

	Revenues		Non-current assets	
	Year ended December 31, 2021	Year ended December 31, 2020	December 31, 2021	December 31, 2020
Canada	$ 45,961	$ 13,837	$ 17,574	$ 11,824
United States	16,563	26,737	29,481	37,811
Total	$ 62,524	$ 40,574	$ 47,055	$ 49,635

Major customer

In 2021 revenues from one customer of the Company represented approximately 17% (2020 – one customer at 29%) of the Company's total revenues.

21. Commitments

In the normal course of business, the Company incurs contractual obligations. As at December 31, 2021, the Company's commitment to purchase equipment is approximately $362. Cathedral anticipates expending these funds in 2022 Q1.

The Company has issued the following six letters of credit ("LOC"):

- three securing rent payments on property leases and renew annually with the landlords. The first two LOCs are for $700 CAD for the first ten years of the lease and then reduce to $500 for the last five years of the lease. The third LOC is currently for $630 USD and increases annually based upon annual changes in rent;
- two securing the Company's corporate credit cards in the amounts of $75 CAD and $175 USD; and
- one in lieu of cash deposit for utilities in the amounts of $55 CAD.

22. Related parties

Key management personnel compensation

Cathedral has determined that the key management personnel of the Company consist of its executive officers and directors.

In addition to their salaries and director's fees, the Company also provides non-cash benefits to directors and executive officers including participation in the Company's share option program.

Certain executive officers have employment agreements. Upon resignation at the Company's request, they are entitled to termination benefits including: i) 1.0 to 2.0 times base salary; ii) 1.0 to 2.0 times average annual bonus over the past 3 years; and iii) health, dental, life insurance and disability coverage for 12 to 24 months.

Key management personnel (including directors) compensation comprised:

	2021	2020
Short-term employment benefits	$ 2,033	$ 1,236
Share-based compensation	198	117
Total expense recognized as share-based compensation	$ 2,231	$ 1,353

Key management personnel and director transactions

Directors and executive officers of the Company control approximately 7% of the common shares of the Company.

Cathedral issued 650,000 units to its newly appointed President, CEO and Director at a subscription price of $0.20 per unit, using a loan provided by Cathedral on commercial terms of $130. Each unit will consist of one common share and one-half of one warrant. Each whole warrant will entitle the holder to purchase one common share at an exercise price of $0.24 per common share for a period of three years from the closing date of the private placement which was February 8, 2021.

There have been no other transactions over the reporting period with key management personnel (2020 - nil), and no other outstanding balances exist as at period end (2020 - nil).

23. Subsequent events

Subsequent events On February 11, the Company announced the closing of its acquisition of the operating assets of Discovery Downhole Services ("Discovery") for a purchase price of $20,800 (the "Discovery Transaction"). The Discovery Transaction was funded by:

- the issuance of 5,254,112 common shares of Cathedral (the "Acquisition Shares") to Discovery;
- a non-brokered private placement of 14,659,000 common shares of Cathedral ("Private Placement Shares") at a price of $0.44 per share for gross proceeds of $6,450 (the "Private Placement");
- $11,710 cash financed by a term loan from Cathedral's existing primary bank lender ATB (the "Term Loan") as part of the Company's amended and restated credit agreement (the "Credit Agreement") entered into by the Company and ATB concurrently with the closing of the Discovery Transaction. This is in addition to existing $12,000 Facility; and
- Additionally, Cathedral will pay customary fees and expenses at prevailing market rates to ATB as a condition of the Term Loan and the Credit Agreement.

Cathedral has retained key Discovery personnel under employment and consulting contracts to ensure a seamless customer service experience, successful integration and long-term alignment with Cathedral's strategy.

The Acquisition Shares and Private Placement Shares will be subject to a four-month statutory hold period under applicable Canadian securities laws, in addition to such other restrictions as may apply under applicable securities laws of jurisdictions outside of Canada. The Acquisition Shares will be subject to further contractual restrictions on resale as follows: 25% are restricted until February 10, 2023; a further 25% of are restricted until August 10, 2023; and a further 50% are restricted until February 10, 2024, subject to certain exceptions.

While the Term Loan will be amortized over five years it has a maturity of June 2023 as with the existing Facility. The amortization will be based on a variable interest rate consistent with the Company's existing credit facility interest rates with required monthly payments of principal and interest. Cathedral will be subject to a quarterly fixed charge coverage ratio as defined in the Credit Agreement which shall not be less than 1.25. The consolidated interest coverage ratio will no longer be tested after 2021 Q4 and the limit on aggregate capital expenditures has been eliminated for 2022 and beyond. The Credit Agreement also includes the granting of a security interest over the assets acquired in the Discovery Transaction. At closing of the Discovery Transaction, Cathedral is in compliance with the terms and conditions of the Term Loan and Credit Agreement.

24. Financial risk management and financial instruments

Overview

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

- credit risk
- liquidity risk
- market risk

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

Risk management framework

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

Credit risk

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

Trade receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Company's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk. Approximately 17% of the Company's revenues are attributable to sales transactions with one customer (2020 - 29% from one customer).

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

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

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

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

Exposure to credit risk

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

		2021		2020
Trade receivables	$	15,609	$	4,784

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

Carrying amount

		2,021		2020
Canada	$	13,094	$	3,015
United States		2,515		1,769
Total	$	15,609	$	4,784

The Company's most significant customer accounts for $1,132 of the trade receivables carrying amount at December 31, 2021 (2020 - $3,121).

Impairment losses

The aging of trade receivables at the reporting date was:

		2021 Gross		2020 Gross
Not past due	$	14,926	$	4,541
Past due 61-90 days		384		84
Past due over 91 days		398		1,557
Total	$	15,708	$	6,182

The Company has a total allowance for impairment of $99 at December 31, 2021 (2020 - $1,398). The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

		2021		2020
Balance, beginning of year	$	1,398	$	641
Current year provisions		-		1,425
Write-off of provisions		(481)		-
Reversals of losses previously recognized		(818)		(668)
Balance, end of year	$	99	$	1,398

At December 31, 2021 an impairment loss of $nil (2020 - $1,425) was recognized relating to customers that have been unable to make payments in accordance with normal terms and conditions, mainly due to economic circumstances. The Company believes that the unimpaired amounts that are past due are still collectible, based on historic payment behavior and an analysis of the underlying customers' ability to pay.

Impairment losses

The allowance accounts in respect of trade receivables are used to record impairment losses unless the Company is satisfied that no recovery of the amount owing is possible; at that point the amounts are considered irrecoverable and are written off against the financial asset directly.

Liquidity risk

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

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

December 31, 2021		Carrying amount		Contractual cash flow		Under 6 months		6-12 months		1-2 years		3-5 years		Thereafter
Loans and borrowings	$	6,035	$	6,035	$	-	$	50	$	5,135	$	300	$	550
Lease liabilities		15,760		18,506		1,414		1,407		2,673		7,713		5,299
Trade and other payables		11,069		11,069		11,069		-		-		-		-
	$	32,864	$	35,610	$	12,483	$	1,457	$	7,808	$	8,013	$	5,849

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

Market risk

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

Currency risk

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

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

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

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

USD		2021		2020
Cash	$	2,374	$	888
Trade receivables		1,990		1,390
Trade payables		(2,105)		(1,923)
Lease liabilities		(3,348)		(3,997)
Provision for settlement		-		(120)
Total	$	(1,089)	$	(3,762)

The following significant exchange rates applied during the year:

	Average rate				Reporting date spot rate			
		2021		2020		December 31, 2021		December 31, 2020
USD $1 to CAD	$	1.25	$	1.35	$	1.26	$	1.27

Sensitivity analysis

A 10% strengthening of CAD against USD at December 31, 2021 would increase (decrease) equity and other comprehensive income by $138 (2020 - $475). The analysis assumes that all other variables, in particular interest rates remain constant. The analysis is performed on the same basis for 2020, albeit that the reasonably possible foreign exchange rate variances were different.

A weakening of CAD at December 31, 2021 would have had the equal but opposite effect on USD amounts, on the basis that all other variables remain constant.

Interest rate risk

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

	December 31, 2021		December 31, 2020	
	Fixed rate carrying value	Variable rate carrying value	Fixed rate carrying value	Variable rate carrying value
Financial liabilities	$ 15,760	$ 6,035	$ 18,028	$ 1,560

Cash flow sensitivity analysis for variable rate instruments

A 1% increase in the Company's financial institution's lending rate would cause interest expense to increase by approximately $60 (2020 - $16) per annum based upon the balance of financial institution indebtedness and long-term debt with a floating interest rate outstanding as at December 31, 2021.

Fair values of financial instruments

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

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

Capital management

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

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

The Company's Credit Agreement EBITDA ratios at the end of the reporting period is disclosed in note 13.

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

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Randy H. Pustanyk, Executive Vice President

Fawzi Irani, Senior Vice President, U.S. Operations

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