



CATHEDRAL

CATHEDRAL ENERGY SERVICES LTD.

ANNUAL INFORMATION FORM

For the year ended December 31, 2020

March 11, 2021

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GLOSSARY OF TERMS

The following are defined terms used in this Annual Information Form:

"**ABCA**" means the *Business Corporations Act* (Alberta), as amended, including the regulations promulgated thereunder;

"**AIF**" or "**Annual Information Form**" means this Annual Information Form;

"**BHA**" means bottom hole assembly;

"**Board of Directors**" or "**Board**" means the board of directors of Cathedral;

"**Cathedral**" or "**Corporation**" or "**our**" means Cathedral Energy Services Ltd.;

"**Common Shares**" means common shares in the capital of Cathedral;

"**COVID-19**" means coronavirus disease 2019 (COVID-19), also known as the 2019 novel coronavirus, and severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2) which causes the coronavirus disease 2019;

"**DT MWD**" means dual telemetry measurement-while-drilling;

"**EM**" or "**Electro Magnetic**" means electro magnetic;

"**FUSION™ MWD**" means Cathedral's proprietary customizable modular MWD platform which is designed with the choice of EM transmission, positive mud pulse transmission or dual telemetry transmission;

"**FUSION™ DT**" means the dual telemetry transmission configuration of the FUSION™ MWD that uses both the FUSION™ EM and FUSION™ RP data transmission systems;

"**FUSION™ EM**" means Cathedral's proprietary electro magnetic data transmission system;

"**FUSION™ RP**" means Cathedral's proprietary rotary mud pulse data transmission system;

"**LP**" or "**Linear Pulse**" means linear pulse;

"**LWD**" means Logging-While-Drilling;

"**MD&A**" means Cathedral's management discussion and analysis for the year ended December 31, 2020;

"**MWD**" means measurement-while-drilling;

"**Preferred Shares**" means the preferred shares in the capital of Cathedral;

"**RapidFire**" means Cathedral's proprietary Dual Telemetry Retrievable MWD System;

"**RPM**" means revolutions per minute;

"**RSS**" means Rotary Steerable System;

"Shareholders" means the holders from time to time of Common Shares;

"TSX" means the Toronto Stock Exchange;

"TSXV" means the TSX Venture Exchange;

"U.S." means the United States of America;

"USD" means U.S. dollars;

"WCS" means Western Canadian Select; and

"WTI" means West Texas Intermediate.

FORWARD LOOKING INFORMATION

This Annual Information Form 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, including negatives thereof, suggesting future outcomes.

Examples of forward-looking statements contained in this AIF include, but are not limited to, statements with respect to: geographic allocation of equipment; ability to remain competitive; tax provisions are adequate; intention to continue relationships with customers; expected benefits from capital expenditures; demand for Cathedral's services and the factors contributing thereto; corporate strategy; ability to compete and maintain or expand; benefits associated with in-house MWD and mud motor design; benefits associated with financial results, including cost reductions; activity levels; projected average 2021 rig counts in Canada and the U.S.; technology advances, including anticipated future developments of Cathedral's technology; timing of bringing technology to market; the anticipated phasing out of legacy third-party MWD systems and replacement with Cathedral's proprietary RapidFire™ and FUSION™ LP system over time; adding 5 RapidFire™ MWD systems early in Q2 2021; Cathedral's expectation that it will commence field testing of its RapidFire™ downhole generator in Q3 2021, and the anticipated benefits of such platform; estimated deferred MWD repair costs; Cathedral's intentions to focus on the U.S. market and the benefits thereof, including Cathedral's belief that it has better growth prospects and can achieve better pricing for its services in the U.S. market; intent to remain active in the northeast U.S. market; deploying equipment to other Cathedral U.S. locations facilitating further growth opportunities in those areas in addition to potentially gaining overall cost and organizational efficiencies; expected cost savings for Cathedral's clients as a result of using Cathedral's products; management's expectation that it will reach an acceptable agreement with Cathedral's lender on covenant relief under the Facility (as defined herein); future dividend determinations; effects of proposed changes to environmental regulations; Cathedral's expectation to continue to selectively seek mergers, acquisitions and other types of business transactions in connection with its growth strategy; expectation that going forward less dollars will be allocated to drilling and completing wells in North America by oil and natural gas companies; expected drilling activity post Canada's annual spring break up; and the expectation that petroleum prices will remain volatile for the near future.

Cathedral 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 Cathedral, 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 AIF in connection with the forward-looking statements. You are cautioned that the following list of material factors and assumptions is not exhaustive. Specific material factors and assumptions include, but are not limited to:

- the performance of Cathedral's business

- impact of economic and social trends;
- oil and natural gas commodity prices and production levels;
- capital expenditure programs and other expenditures by Cathedral and its customers;
- the ability of Cathedral to retain and hire qualified personnel;
- the ability of Cathedral to obtain parts, consumables, equipment, technology, and supplies in a timely manner to carry out its activities;
- the ability of Cathedral to maintain good working relationships with key suppliers;
- the ability of Cathedral to retain customers, market its services successfully to existing and new customers and reliance on major customers;
- risks associated with technology development and intellectual property rights;
- obsolescence of Cathedral's equipment and/or technology;
- the ability of Cathedral to maintain safety performance;
- the ability of Cathedral to obtain adequate and timely financing on acceptable terms;
- the ability of Cathedral to comply with the terms and conditions of its credit facility;
- the ability of Cathedral to continue as a going concern in the future;
- the ability to obtain sufficient insurance coverage to mitigate operational risks;
- currency exchange and interest rates;
- risks associated with future foreign operations;
- risks associated with 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 Cathedral'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 by the MD&A and contained herein under the heading "Risk Factors". Any forward-looking statements are made as of the date hereof and, except as required by law, Cathedral assumes no obligation to publicly update or revise such statements to reflect new information, subsequent or otherwise.

All forward-looking statements contained in this AIF are expressly qualified by this cautionary statement. Further information about the factors affecting forward-looking statements is available in the MD&A and Cathedral's annual report for the fiscal year ended December 31, 2020 which have been filed with Canadian provincial securities commissions and are available on www.sedar.com.

CATHEDRAL ENERGY SERVICES LTD.

Name, Address and Incorporation

Cathedral Energy Services Ltd. is an energy services company engaged in the business of providing directional drilling services to oil and natural gas exploration and development entities in western Canada and the U.S. The Corporation carries on its activities in Canada and the U.S. under the name "Cathedral Energy Services".

Cathedral is a corporation governed by the ABCA. In July 2002, pursuant to a plan of arrangement, the Corporation's securities were converted to trust units and it became an open-ended mutual fund trust trading on the TSX as Cathedral Energy Services Income Trust (the "Trust"). Pursuant to a subsequent plan of arrangement, in December 2009, the trust units of the Trust were converted to the Common Shares, which are listed and posted for trading on the TSX under the trading symbol "CET".

The principal and head office of Cathedral is located at 6030 – 3rd Street S.E., Calgary, Alberta, T2H 1K2. The registered office of Cathedral is located at 1600 Dome Tower, 333 - 7th Avenue S.W., Calgary, Alberta, T2P 2Z1.

Inter-Corporate Relationships

Cathedral's sole subsidiary, Cathedral Energy Services, Inc., is a corporation incorporated under the laws of Delaware. Cathedral beneficially owns, controls and directs 100% of the securities of Cathedral Energy Services, Inc.

GENERAL DEVELOPMENT OF THE BUSINESS

Three Year History

2018

- In January 2018, a capital budget of \$10 million plus re-investment of proceeds on disposition of equipment was approved by Cathedral's Board of Directors. In Q1 2018, Cathedral announced expanding its anticipated 2018 capital budget to \$14.6 million, which included \$1.4 million for intangible additions related to technology developments and \$3.3 million of equipment commitments from 2017 carried forward to 2018. In Q2 2018, Cathedral announced that its 2018 capital budget was further expanded to \$18.9 million, which included \$1.6 million for intangible additions. The intangible additions budget was expanded to \$1.7 million in Q3.
- In Q1 2018, Cathedral was approved for financial contribution from the Government of Canada under its Industrial Research Assistance Program ("IRAP") in connection with Cathedral's next generation DT MWD project. The IRAP grant reimburses Cathedral for certain new technology development costs and has allowed Cathedral to hire additional technical resources and expand the DT MWD project scope. The IRAP grant was initially approved at \$300,000 over 2 years but was expanded to \$500,000 in late 2018.
- In October 2018, Cathedral closed its Washington, Pennsylvania (PA) district office and shop. Cathedral intends to remain active in the northeast U.S. market; however, both motors and MWD equipment for the area will now be provisioned from its Oklahoma City, Oklahoma facility. Cathedral's MWD equipment for all of its U.S. operations has been

provided from Oklahoma City since 2016. This decision was largely based on the lower activity levels in the northeast U.S. compared to other regions in which Cathedral operates. In addition, the deployment of the PA equipment to other Cathedral U.S. locations facilitates was intended to further growth opportunities in those areas in addition to potentially gaining overall cost and organizational efficiencies.

- In 2018, Cathedral upgraded 92 drilling motors with power sections which enabled it to deploy an equivalent number of next generation 7" and 7-1/4" CLAW™ high performance drilling motors. Substantially all of this equipment was targeted at the U.S. market. In addition, in 2018 Cathedral introduced a new 5-5/8" motor configuration to be used primarily in RSS applications.
- In late 2018, Cathedral deployed its first series of Linear Pulse tools as an add-on to its FUSION™ MWD platform. This technology is anticipated to be Cathedral's main MWD pulse telemetry platform going forward and is expected to reduce deployment and repair costs compared to Cathedral's current third party adapted high temperature retrievable Linear Pulse tool. In 2018, the Corporation also continued to deploy upgrades to its existing DT MWD tool in its operations which were aimed at improving the Corporation's MWD equipment performance and reliability.
- On November 8, 2018, Cathedral extended its credit facility to December 31, 2020. The total credit facility was \$23 million (comprised of an \$18 million revolving term facility and a \$5 million swingline facility), interest at the bank's prime rate plus 0.50% to 5.00% or bankers' acceptance rate plus 1.75% to 6.25%, with interest payable monthly. Interest rate spreads for the facility depended on the level of Funded Debt (as defined in the amended credit agreement) to Bank EBITDA (earnings before interest on long-term debt, taxes, depreciation, amortization and non-cash compensation expense – as defined in the amended credit agreement). The credit facility also had certain restrictions, including but not limited to, the paying of dividends, utilization of the accordion feature, enhanced lender financial reporting and a cap on any litigation settlement payments without lender approval.
- On November 28, 2018, Cathedral announced the retirement of Michael Hill from the position of Chief Financial Officer and the appointment of Scott MacFarlane in the same role on an interim basis. Mr. Hill subsequently retired on December 31, 2018.
- In December 2018, a capital budget for 2019 of \$5.7 million was approved by the Board of Directors. The capital budget was comprised of \$4.0 million in equipment additions plus additional re-investment of proceeds on disposition of equipment, and \$1.7 million of intangible additions related to technology developments. In addition to the above budget amount, subject to operating results and industry outlook, equipment lost-in-hole will be replaced and funded from the proceeds received.

2019

- Late in Q1 2019, Cathedral appointed its Canadian Operations Manager, Clayton Lagore, to lead its U.S. business unit, replacing both the previous Operations Manager and Sales Manager. Mr. Lagore relinquished his responsibilities for the Canadian business unit and Randy Pustanyk, Executive Vice President, assumed responsibility for the Canadian business unit. During the balance of 2019, Cathedral took advantage of certain U.S. staff departures to re-assign existing staff, which resulted in a material reduction in overhead

costs. In February 2020, Cathedral filled the key position of Sales and Business Development Manager for its U.S. business unit.

- During 2019, despite a general reluctance to test new technologies that may lead to downtime, Cathedral was able to test its patented "Double Bend" and "Double Pad" motor designs on a limited number of occasions, with such tests showing promising results. Both of these motor designs are based upon substantially the same principle and are expected to significantly reduce drag, stick slip and rotary torque, as well as extend the length of laterals that can be drilled with a conventional BHA, as compared to using a RSS. The ability to drill longer laterals with a conventional BHA is expected to result in significant savings to Cathedral's clients.
- In Q3 2019, Cathedral commercialized two tools within its FUSION™ MWD platform, being the next generation of its FUSION™ DT tool and its FUSION™ Linear Pulse. The new FUSION™ DT tool is based upon Cathedral's industry leading Electro Magnetic technology with significant enhancement to the tool's mechanical backbone, connectors and decoding software, as well as adding a high torque pulser. The enhancements to the tool have improved the tool's durability, reliability and pulse telemetry capabilities. The FUSION™ Linear Pulse tool that has been brought to market by Cathedral has the ability to handle significant quantities of loss control materials and has data speeds that meet or exceed industry standards.
- In Q3 2019, Cathedral also commercialized a specialized series of its nDurance® performance drilling motors intended primarily for use with RSS. In these applications, the RSS tool is run below the drilling motor, which results in higher mechanical loading on the motor and significant financial risk to the client (if tools are lost-in-hole). Wells using RSS are typically longer and more complex than others and have significantly higher daily drilling costs. The downtime, and potential lost or damaged equipment costs associated with failures justifies use of a premium product. The RSS series of motors utilize ultra-high strength materials coupled with engineering enhancements that allow the motor to function at high pressure drops required for RSS operation. Cathedral has expanded its specialized RSS fleet to 20 5-5/8" tools, and is currently building initial production volumes in both 5" and 7" sizes. These three configurations address the needs for virtually all North American RSS applications.
- On December 19, 2019, Cathedral extended its credit facility to December 31, 2021 under substantially the same terms and conditions as the prior credit facility. As at December 31, 2019, Cathedral had \$6,000,000 million drawn on the revolving portion and \$nil drawn on the operating portion of its credit facility.
- For fiscal 2019, Cathedral's net equipment additions (equipment additions less proceeds from equipment lost downhole) was a net cash inflow of \$2.7 million. Cathedral's 2019 capital budget, which was approved by the Board of Directors in December 2018, planned for net equipment additions of approximately \$4 million and intangible additions related to technology development of approximately \$1.7 million.

2020

- 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 actions contributed to a material deterioration in the global economy, including a dramatic decline in demand for oil, which resulted in a material decrease in the price of oil. Although some restrictions imposed by governmental bodies to limit the spread of COVID-19 were relaxed in mid-2020, many nations experienced a resurgence of COVID-19 cases in late 2020 which led governmental bodies to reinstate some of the previously relaxed restrictions. See "*Risk Factors - COVID-19 Pandemic*".

- The decline in oil prices in 2020 negatively affected drilling activities in Cathedral's operating areas of the U.S. and Canada. However, within the Canadian market, in late 2020 Q3, based upon WTI strengthening above USD\$40/bbl, some of Cathedral's clients recommenced their drilling activities.
- In response to the COVID-19 pandemic, Cathedral made significant changes to its cost structure to better match Cathedral's cost structure to its expected operating levels, including staff and salary reductions, deferral of tool repairs and capital expenditure reductions. In addition, Cathedral was able to make use of a number of U.S. and Canadian federal, state and provincial government relief programs, including the Canada Emergency Wage Subsidy (which the Government of Canada recently extended to June 2021) and the U.S. Paycheck Protection Program ("**PPP**"). In Q3 2020, Cathedral determined that 100% of its USD\$750,000 (CAD\$992,000) PPP loan would be forgiven under U.S. Treasury guidelines.
- In June 2020, the Corporation amended its credit facility (the "**Facility**") to extend the Facility to June 30, 2022, to reduce the Facility size to \$12 million and for temporary covenant relief from June 30, 2020 to March 31, 2021 (or such earlier date as requested by the lender). The updated Facility is an extendible revolving credit facility. The Facility size was reduced primarily to lower stand-by fees. The Facility is secured by a general security agreement over all present and future personal property. See "*Material Contracts – The Credit Facility*".
- In Q3 2020, Cathedral brought to the market its RapidFire™ MWD platform which is capable of transmitting data simultaneously via pulse and EM, allowing for high data rates and higher reliability through redundancy. In addition, the system can be configured in either a hard mount or retrievable configuration and is rated to operating temperatures that meet or exceed most competitive MWD systems. The next phase of the RapidFire™ MWD platform, which is intended to offer a retrievable downhole generator that will reduce operating costs and allow for high power EM transmission on extended run applications, is planned to be trialed in Q3 2021.
- Although capital expenditures were modest, the Corporation continued to make investments in additional high performance power sections for its nDurance™ line of drilling motors with the target being rentals and full package applications in the Delaware and Permian basins. In addition, Cathedral has increased the number of mud lubricated bearing sections specifically targeted for use with rotary steerable systems and high temperature applications in both Eagleford and Haynesville areas. The Corporation continued to operate a limited number of RapidFire™ MWD dual telemetry systems on a commercial basis and is planning to increase capacity primarily through cash flow and re-investment of lost-in-hole proceeds. In addition, Cathedral has implemented remote directional drilling and MWD services for an operator in the Viking formations in Canada.

- On October 13, 2020, Cathedral's President, Chief Executive Officer and Interim Chief Financial Officer, P. Scott MacFarlane, informed the Corporation that he intended to retire from the Corporation with a timeline of April 2021. The Governance Committee of the Board commenced a process of identifying potential successors for the roles of Chief Executive Officer and Chief Financial Officer of the Corporation, with Mr. MacFarlane continuing to work with the Board to find a replacement Chief Executive Officer and Chief Financial Officer and facilitate an orderly transition.

Recent Developments

- On February 8, 2021, Cathedral announced that it entered into an agreement to appoint Thomas (Tom) Connors as its new President, Chief Executive Officer and Director effective March 8, 2021. Mr. Connors worked with Ensign Energy Services Inc. ("**Ensign**") from 2003 to 2020 and most recently served as Executive Vice President of Ensign, where he was in charge of seven business lines and a member of Ensign's senior executive committee. In conjunction with his appointment, Cathedral issued 650,000 units ("**Units**") to Mr. Connors at a price of \$0.20 per Unit, with each Unit consisting of one (1) Common Share and one-half (1/2) common share purchase warrant ("**Warrant**"), using a loan provided by Cathedral on commercial terms of \$130,000. Each whole Warrant entitles the holder thereof to purchase one Common Share at an exercise price of \$0.24 per share for a period of 3 years from closing. In addition, Cathedral entered into a non-brokered private placement with Mr. Connors for 500,000 Units at a price of \$0.20 per Unit for cash proceeds of \$100,000.
- On March 8, 2021, in conjunction with Mr. Connors joining Cathedral as President, Chief Executive Officer and Director, Mr. P. Scott MacFarlane retired from the Board of Directors.

For further details, please see "*Description of the Business and Operations*" below.

DESCRIPTION OF THE BUSINESS AND OPERATIONS

Business of Cathedral

General

Cathedral is engaged in the business of providing directional drilling services to oil and natural gas companies in western Canada and the U.S. Cathedral carries on its activities in Canada and the U.S. under the name "Cathedral Energy Services".

Directional Drilling

Cathedral provides horizontal and directional drilling services. These services are provided in conjunction with the use of drilling rigs provided by drilling contractors who deal independently with Cathedral's customers.

Directional drilling is the controlled drilling of a wellbore to a prescribed bottom hole location. Horizontal drilling involves drilling a vertical wellbore with a horizontal leg extending from the vertical wellbore. By drilling horizontally into a formation, contact with the hydrocarbon bearing formation is significantly increased, allowing for substantially better production of hydrocarbons from the reservoir. In situations where low reservoir permeability exists, horizontal drilling allows

operators to increase pay zone exposure resulting in increased production and recovery. As a result of advancements in well completion technologies by the way of combining horizontal drilling with multi-stage fracturing, the percentage of horizontal wells drilled in Canada and the U.S. has increased significantly.

In recent years, drilling of multilateral (multi-leg) wells has increased. A multilateral well is a single well with one or more wellbore branches radiating from the main wellbore. It may be as simple a vertical wellbore with one sidetrack or as complex as a horizontal, extended reach well with multiple lateral and sub lateral branches. A successful multilateral well can replace several vertical wellbores and reduce overall drilling and completion costs, increase production and provide more efficient drainage for a reservoir. Furthermore, multilateral wells can make reservoir management more efficient and help increase recoverable reserves. Horizontal drilling can also occur from an existing vertical well as an economical method of increasing the recovery from an existing well. Through utilizing the existing wellbore, the costs of drilling down to the "kick-off point" (point where direction deviates) are saved, while the existing surface facilities may be re-utilized. The efficiency of drilling horizontal re-entry wells increases dramatically as the depth of the horizontal target increases.

Conventional horizontal and directional drilling operations require two distinct and separate systems to steer the drill bit below the earth's surface to a pre-determined target – a mud motor and MWD technology systems. Those systems may be supplemented with LWD systems such as gamma ray and resistivity sensors.

The use of horizontal and directional drilling equipment allows for previously unattainable bottom hole targets to be accessed. In addition, horizontal and directional drilling is used when:

- (a) it is necessary to reach a specific subsurface target that is not accessible using conventional vertical drilling practices;
- (b) the desired target zone is located directly beneath an extremely complex surface obstacle such as a mountain, lake, river and swamp or, in some instances, towns or environmentally sensitive areas;
- (c) it is desired to increase wellbore exposure to the reservoir frequently resulting in increased production volumes and recoverable reserves; and/or
- (d) in the case where multiple wells are drilled from the same location, as in the case of pad drilling where multiple wells are drilled from the same location.

The economic performance of horizontal and directional drilling results in a significant advantage over conventional vertical drilling in environments of low permeability or in situations where producers want to accelerate production from a reservoir. Increased production results from the increased exposure of the reserves to the producing wellbore. Since 2010, there has been an increasing shift towards the redevelopment of older, mature basins and targeting zones both which were previously not viable until the introduction of new completion technologies that employ the use of horizontal, multi-stage fracturing technology. Hence, improved lifecycle economics of the well are realized due to the more efficient production of available reserves. The number of non-vertical wells drilled in Canada and the U.S. as a percentage of the total number

of wells drilled has increased significantly over the years and in 2020 represented approximately 97% of wells drilled in Canada and 95% in the U.S. on average throughout the year¹.

Tools and Equipment

To facilitate directional and horizontal drilling operations a number of tools are often supplied by Cathedral as part of the BHA:

Measurement-While-Drilling Systems

MWD systems are installed in the drill string as part of the BHA to provide real time measurements of basic trajectory parameters such as inclination, direction, tool-face and temperature. Additional sensors such as pressure, gamma-ray and resistivity may be added depending upon the specific application to provide LWD capabilities. The MWD/LWD system generally consists of three basic sections:

- Power Supply - Most tools are powered by batteries, however, Cathedral's MWD tools also use a downhole electricity generator to provide supplemental power.
- Sensor Section - Hole trajectory is measured by a sensor stack that contains accelerometers and magnetometers. The inclination and roll of the tool is obtained using accelerometers. Magnetometers measure the earth's local magnetic field and provide a reference direction relative to magnetic north. Other sensors such as pressure, gamma-ray, and resistivity are typically housed in separate dedicated tool sections.
- Transmitter - MWD tools transmit in two basic manners, by sending pressure waves through the drilling mud (mud pulse) or by transmitting EM signals through the earth to surface. These signals are decoded at surface and used to determine the BHA trajectory parameters. The selection of mud pulse or EM transmission depends on a number of factors related to downhole conditions.

Cathedral's MWD fleet consists of the following technologies:

- RapidFire™, the Corporation's latest generation MWD system which is capable of transmitting data simultaneously via pulse and EM, allowing for high data rates and higher reliability through redundancy. The system can be configured in either a hard mount or retrievable configuration and is rated to operating temperatures that meet or exceed most competitive MWD systems. In addition, in Q3 2021 Cathedral expects to commence trial runs with a retrievable downhole generator which is anticipated to reduce operating costs and allow for high power EM transmission on extended run applications.
- FUSION™, the Corporation's legacy proprietary MWD system which has multiple configurations:

¹ Source: Baker Hughes Rig Count and Peters & Co. data

- FUSION™ EM (Electro Magnetic) is a proprietary EM transmission that allows continuous transmission of data from the BHA to surface which allows a number of benefits to customers related to drilling time savings and the ability to more efficiently retrieve additional downhole information. Cathedral's EM system also provides for the ability for information to be transmitted downhole to manage power levels and other tool functions. Cathedral has demonstrated that this technology works in formations where many conventional third-party EM systems do not have the same performance capabilities.
- FUSION™ RP (Rotary Pulse) is Cathedral's proprietary mud pulse data transmission system that uses a direct drive rotary valve assembly which significantly reduces the chance of plugging in high-viscosity or lost circulation applications compared to traditional hydraulic-assist linear pulse systems. Loss control materials are often added to the drilling mud to overcome mud circulation problems. These loss control materials have the potential to plug off rotary and linear pulse tools.
- FUSION™ DT (Dual Telemetry) offers a data transmission system that uses both the FUSION™ EM and FUSION™ RP data transmission systems. The talk-down capabilities (from surface) of the FUSION™ platform enables the operating mode of the system to be quickly changed from its baseline EM setting to dual transmission mode in which EM and rotary pulse are both operating. The dual telemetry configuration captures the benefits of pulse or EM depending on drilling and formation conditions. Cathedral's latest generation of the FUSION™ DT system was commercialized in Q3 2019.
- FUSION™ LP (Linear Pulse) is Cathedral's proprietary mud pulse data transmission system which uses a direct drive linear valve assembly for pulse transmission. The LP system can also be equipped with a hydraulic assist feature to increase pulse amplitude. The direct drive feature allows for better clearance of loss control materials along with the capability to produce large pulses which are better detected at surface. This pulse transmission and detection capability allows for drilling in longer wellbores, with a larger range of drilling mud formulations and conditions and often at higher data transmission rates than most third-party available pulse transmission tools. FUSION™ LP is Cathedral's main MWD pulse telemetry platform going forward. The LP tool can be retrieved from the wellbore using wireline in the event the BHA gets stuck downhole. Cathedral's latest generation of the FUSION™ LP system was commercialized in Q3 2019.
- FUSION™ EMc2 Downhole Generator is a technology that supplements Cathedral's FUSION™ EM platform by using the mud flow in the drill string to generate electricity. The downhole generator FUSION™ EM add-on allows for higher EM transmission performance, allows drilling longer

without concern over depleting batteries thereby saving battery costs and non-productive time and mitigates safety concerns arising from use of lithium batteries.

- High Temperature Retrievable Linear Pulse is a Cathedral-modified third-party pulse MWD tool used in situations that are not favorable to EM transmission or based on specific customer drilling requirements. This tool can also be retrieved from the wellbore using wireline in the event the BHA gets stuck downhole. Cathedral anticipates phasing out and replacing these High Temperature Retrievable Linear Pulse systems with Cathedral's proprietary FUSION™ LP system over time.

As at December 31, 2020, Cathedral had a fleet of 63 active MWD kits which were allocated between Canada and the U.S. based on current and projected job demand. Of the active MWD fleet, approximately 65% of the systems incorporate Cathedral's proprietary RapidFire™ and FUSION™ technology. It is Cathedral's plan to attrition the legacy third-party MWD systems by utilizing them in select environments and focus on operating our proprietary RapidFire™ and FUSION™ MWD systems, each of which have distinct advantages. When additional MWD kits are added to our fleet they will be our RapidFire™ technology. The RapidFire™ MWD system can utilize a significant portion of the components of our FUSION™ MWD platform which will allow expansion of our RapidFire™ MWD fleet with a lower cost of capital for the first 15 systems. Typically, each directional drilling job requires one MWD kit which generally consists of an active tool and a backup tool. Of the active fleet, currently approximately 75% of the kits are regularly being maintained or refurbished as they are typically shipped to each new job in like new condition. Kits that are in transport to and from jobs also reduce the fleet's effective utilization. In 2020, Cathedral's active MWD fleet size declined from 84 kits at the end of 2019 to 63 kits due to equipment damage, equipment lost down hole on client jobs and the deferral of repairs as we plan on utilizing components from inactive FUSION™ MWD tools for the expansion of our RapidFire™ fleet.

At December 31, 2020, Cathedral had 1 RapidFire™ MWD system with an additional 4 RapidFire™ MWD systems expected to be included in our active MWD fleet early in Q2 2021. In addition, in Q3 2021, Cathedral expects to commence field testing a retrievable downhole generator for the RapidFire™ MWD platform which will reduce operating costs and allow for high power EM transmission on extended run applications.

Cathedral occasionally rents or purchases third party MWD equipment to satisfy specific customer and technical requirements.

The number of MWD systems in Cathedral's fleet may change over time as the fleet is upgraded or optimized to meet market conditions or if tools are lost during drilling operations or significantly damaged. Typically, Cathedral is reimbursed by the customer for tools that are lost-in-hole.

Positive Displacement Mud Motors

Positive displacement drilling mud motors are designed to drill without drill string rotation by converting hydraulic energy (flow and pressure) into mechanical energy (torque and rotational speed). The drilling motor turns the drill bit. A bend in the mud motor is used to steer the wellbore trajectory in directional and horizontal drilling applications.

A drilling motor consists of a power section and a bearing section. The power section consists of a rotor and a stator which convert the hydraulic energy from the mud flowing through the drill string into rotational energy to turn the drill bit. The bearing section houses a mandrel which is stabilized by radial and thrust bearings and is connected by threads to the drill bit. The bearing section utilizes a drive shaft which transmits the torque and rotation from the power section to the mandrel in addition to accommodating the eccentricity resulting from the bend in the motor. The drill bit, bearing and power sections are all interchangeable allowing the entire motor assembly to be optimized for wellbore size, drilling and formation conditions.

The drill bit used with the motor assembly is typically specified and purchased by Cathedral's clients. Cathedral typically influences the choice of drill bit to optimize the drill bit performance with the motor.

Cathedral utilizes a combination of its own proprietary bearing section which is branded as nDurance® and third party supplied bearing sections. Cathedral's current bearing section assets are predominately a sealed bearing design. Cathedral introduced a mud lube bearing section design ("C4") into the market in 2019, with the first such models targeted for RSS applications. Introducing a mud lube bearing assembly, in addition to our sealed bearing design, is aimed at increasing reliability and reducing operating costs in specific applications (Permian, Eagleford and Haynesville) where downhole temperatures are higher and which negatively impacts performance of traditional oil seal bearing designs and motor runs that are short in duration. The C4 bearing section was designed to allow Cathedral to modify existing oil seal bearing sections at a minimal cost, to the C4 design, negating the need for significant capital investment.

Cathedral undertakes the design and manufacture of its nDurance® bearing section in its Nisku, Alberta facility. Cathedral also conducts the repair and refurbishment of all bearing sections at its motor shop facilities in the U.S. and Canada. Since 2015, all bearing sections added to the fleet by Cathedral have been nDurance® bearing sections.

Cathedral purchases power sections from independent suppliers that also provide power sections to Cathedral's competitors. Cathedral works with the power section suppliers to develop power sections specifications that best suit Cathedral client's drilling parameters. As such, several power section specifications are unique and proprietary to Cathedral. The key power section design parameters which impact motor performance are the mud pressure and flow rate and the resulting torque and revolutions per minute generated by the power section. Cathedral typically works with up to six power section suppliers from time-to-time depending on their product offerings and other capabilities. A power section is comprised of two components: (1) rotor; and (2) stator.

During the drilling operation all the components of the drilling motor are subject to wear and tear resulting in them needing to be regularly repaired or refurbished. The frequency of repairs and maintenance of these components largely depends on the downhole drilling environment coupled with client drilling practices. Energy companies continuously demand that wells be drilled, cheaper, longer and faster. As a consequence, drilling equipment is being pushed harder and faster than in the past resulting in equipment being damaged, more frequent equipment repairs and higher equipment lost-in-hole frequency.

Depending on the drilling application, the elastomer within the power section stator must be replaced frequently meaning it is effectively a consumable. The power section supplier provides the service associated with refurbishing the stator and the cost of replacement is typically

borne by Cathedral's customer. Due to the power section repair and refurbishment requirements, along with transport time considerations, different quantities of rotors and stators are needed to support a directional drilling job. In Cathedral's fleet, on average, there are 1.6 rotors and 2.7 stators for each bearing section. Cathedral and most other directional drilling companies measure their motor fleet size based on the number of bearing sections available, however, the characteristics of the motor fleet can change depending on the power section configurations.

The number and type of motors in Cathedral's fleet changes over time as the fleet is upgraded or optimized to meet market conditions or if motors and assemblies are lost-in-hole during the drilling operation or significantly damaged.

As of December 31, 2020, Cathedral had a motor fleet, measured in terms of bearing sections, consisting of 753 (758 in 2019) motors ranging in sizes from 3-1/2" to 9-5/8" which is consistent with the vast majority of customer applications. Of the total motor fleet, 67% (66% in 2019) incorporate Cathedral's proprietary nDurance® bearing section design. At the end of 2017, Cathedral wrote off a portion of its non-nDurance® motor fleet due to low customer demand for these assets which did not support their book value. The 2017 write-off reflected approximately 141 motors, however, these motors still are included in the total motor fleet number as there may be uses for them at a future date depending on the type of work and markets Cathedral targets.

Cathedral occasionally rents or purchases third party motors to satisfy specific customer and technical requirements.

Rotary Steerable System

RSS tools are used to drill directionally with continuous rotation from the surface, eliminating the need to slide a steerable motor. RSS typically are deployed when drilling extended-reach wells. State-of-the-art RSS have minimal interaction with the borehole, thereby preserving borehole quality. Cathedral does not currently own RSS systems, but has ability to rent from multiple suppliers. Since 2017, Cathedral has provided its customers with a RSS offering in the U.S. primarily by way of renting from Schlumberger its PowerDrive Orbit RSS tool. Schlumberger's PowerDrive Orbit RSS tool is generally accepted as the industry leader in RSS technology. Cathedral has been participating in the RSS market by way of providing specialized motors for operation with RSS. Cathedral is recognized as having strong performance and reliability metrics in these applications.

Drilling Jars

Drilling jars are tools typically run in the BHA to aid in the recovery of the drill-string in the event of it becoming stuck. Although there are several configurations of jars available (mechanical, hydraulic, hydra mechanical) the basic function remains the same. Once stuck the drill-string is pulled into tension, storing elastic energy in the pipe (stretch). When the tension exceeds a pre-set limit (known as the latch setting) the jar "fires" by releasing an internal mandrel allowing the drill string to slip by approximately 1/2 meter, delivering a slide-hammer impact to the stuck section of drill-string. The jar may be reset and the process repeated until the drill-string section is freed.

Shock Subs

Shock subs are used in the BHA to cushion heavy axial loading and bit vibrations that are encountered in rough drilling operations. These tools assist in extending the drill string life by reducing vibration and shock that can cause failures in the drill string. Additional benefits include

extending the life of bits by reducing "bit bounce" and increased rate of penetration as a result of consistently keeping the bit in contact with the drilling surface.

Cathedral occasionally rents or purchases third party motors, drilling jars, shock subs and other BHA equipment to satisfy specific customer and technical requirements.

Drill Collars

Drill collars are used as part of the BHA assembly to house the MWD equipment and to allow the BHA to flex to facilitate steering the wellbore. Drill collars are made from non-magnetic materials in order to reduce the interference with the MWD tool magnetometer sensors.

Drilling Optimization Services

Cathedral's Drilling Optimization Group utilize analytics and engineering software applications to deliver comprehensive recommendations to clients to improve drilling efficiencies and ensure and accurate wellbore placement. The Drilling Optimization Group also supports Cathedral's internal operations teams to improve service quality by aiding in equipment selection, configuration, and optimizing workflow processes.

Well Planning Services

Cathedral's Well Planning team develops comprehensive plans for clients on how to drill specific directional and horizontal wells. A complete well plan includes:

- a trajectory/directional profile that defines the well geometry;
- anti-collision and torque and drag analysis to confirm the drill-ability of the well; and
- BHA recommendations for each section of the well.

The main goal of Cathedral's Well Planning is to provide our customers with a plan to achieve an accurately placed, efficiently drilled wellbore that meets their objectives and any other regulatory constraints.

With the dramatic shift towards horizontal wells in the past decade, well planning has emerged as one of the most critical aspects of a drilling project.

Market for Services

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 actions contributed to a material deterioration in the global economy, including a dramatic decline in demand for oil, which resulted in a material decrease in the price of oil. The decline in oil prices has negatively affected current and forecasted drilling activities in Cathedral's operating areas of the U.S. and Canada. The recent resurgence of COVID-19 cases in late 2020 led to governmental bodies reimposing some of the previously relaxed restrictions that allowed for the reopening of businesses. Until a COVID-19 vaccine is widely distributed,

Cathedral is expecting subdued demand for oil, resulting in reduced well drilling operations and reduced demand for its services. See "Risk Factors - COVID-19 Pandemic".

Cathedral's revenues are directly impacted by the level of capital expenditures of oil and natural gas exploration and production entities in western Canada and the U.S. In turn, these levels of capital expenditures are affected by factors including, but not limited to, oil and natural gas prices, access to capital markets, government policies and weather. In response to investor pressures, in the last few years, oil and natural gas operators have shifted the focus of their free cash flow away from expanding operations. This shift was further exacerbated by the COVID-19 pandemic which reduced the demand for oil, resulting in lower oil prices and free cash flows for oil and natural gas operators. The shift has resulted in oil and natural gas operators implementing increased financial discipline with a focus on (i) prior to the COVID-19 pandemic, shareholder returns including paying down debt, paying and/or increasing dividends and share buybacks, and (ii) during the COVID-19 pandemic, reducing costs and meeting debt obligations. As a result, it is expected that going forward less dollars will be allocated to drilling and completing wells in North America.

In 2020, WTI fluctuated from USD\$63.27 early in 2020 to a low of USD\$11.26 in April and averaged USD\$39.68 (2018 – USD\$57.05) for the year.² Since January 1, 2021, WTI has increased from USD\$47.62 to approximately USD\$64 with the increase attributed to increased economic activity in countries where COVID-19 restrictions are being relaxed and optimism that the COVID-19 pandemic will recede as vaccinations rates increase. For oilfield service companies like Cathedral, the issue is that the recovery in oil prices may be short lived, reverting to lower oil prices, and that higher oil prices may not translate to increased well drilling activities. WCS pricing for 2020 averaged USD\$26.81 which was down 39.5% from USD\$44.28 in 2019.³

Activity levels in the Canadian oilfield industry are subject to a degree of seasonality. Cathedral's operating activities are generally lower in April and May due to spring break-up, and activity levels increase in the fall, peaking during the winter months of December through to mid-March inclusive, depending on weather conditions and other factors. Typically, the most active drilling activity in Canada is in January and February each year. Activity levels in the U.S. are not subject to the degree of seasonality as in western Canada. Weather conditions such as winter storms and prolonged wet periods in the summer which impact site access, and localized major weather events such as hurricanes may also impact activity levels for shorter periods.

The active rig count is a good proxy for oilfield activity levels in the industry in which Cathedral operates. The U.S. rig count started 2019 at 1,083 and decreased to 805 by the end of 2019 – averaging 943 for 2019.⁴ For 2020, the U.S. rig count started the year at 805 and decreased to 351 by the end of 2020 – averaging 433 rigs for 2020.⁵ In comparing 2020 to 2019 there was an average decrease in U.S. rig count of 54.1%. Despite continuing strong commodity pricing to date in 2021, the ongoing COVID-19 pandemic has created a significant amount of uncertainty as to expected U.S. drilling activity for the balance of 2021.

The active U.S. rig count as at March 5, 2021 was 403 compared to 793 active rigs drilling on March 6, 2020.⁶

² Source: www.macrotrends.net website

³ Source: Alberta Government website

⁴ Source: Baker Hughes Rig Count data

⁵ Source: Baker Hughes Rig Count data

⁶ Source: Baker Hughes Rig Count data

The average number of active drilling rigs in Canada declined 33.6% from 134 on average in 2019 to 89 on average in 2020.⁷ The 2020 average rig count of 89 is unprecedented in recent times. Despite continuing strong commodity pricing to date in 2021, the ongoing COVID-19 pandemic has created a significant amount of uncertainty as to expected drilling activity post Canada's annual spring break up.

The active Canadian rig count as at March 5, 2021 was 141 compared to 203 active rigs drilling on March 6, 2020.⁸

The Canadian energy industry continued to face challenges in 2020 as a result of the ongoing COVID-19 pandemic and political climate (tax regime and support for energy projects including climate change) and available take away capacity for both oil and natural gas. Accordingly, Cathedral has continued to focus on the larger U.S. market where Cathedral believes it has better growth prospects and can achieve better pricing for its services. In 2020, 66% (78% in 2019) of Cathedral's revenues in Canadian dollars were derived from the U.S. market.

Sales and Marketing

Cathedral's sales and marketing group identifies customers by way of monitoring historical, current and potential drilling activities in western Canada and the U.S. Information on current and prospective customer drilling programs is often obtained through industry reports or through meeting with existing or prospective customers. A sales representative of Cathedral then contacts potential customers that are identified as potential targets. In some instances, contacts are made with engineering firms that provide drilling and completions advice to the oil and natural gas producers. Cathedral's strategy is to have a diversified portfolio of customers. At present, Cathedral's customers include large, intermediate and junior oil and natural gas exploration and development entities which are diversified by geography, producing or exploration basin and petroleum target type (e.g. conventional and non-conventional source and oil and gas focus). However, at any one time Cathedral may have single customers that represent a large portion of its consolidated revenue (see "*Risk Factors*").

Cathedral does not enter into long-term contracts with customers which is typical and industry standard for Cathedral's business line. The working relationship between Cathedral and its customers is often governed by a master services agreement. See "*Risk Factors – Performance of Obligations*".

Competition

Cathedral's competition ranges from large multinational companies to companies that are smaller than Cathedral. In addition to directly competing with Cathedral in providing horizontal and directional drilling services, many of the multi-national competitors carry out extensive research and development and manufacture their own drilling equipment or components thereof. Smaller directional drilling companies are often regional and procure or rent their equipment (e.g. motors and MWD equipment) from third party providers who also provide this equipment to other companies. In addition, competition has also come from contract drillers (rig providers) who have entered into the business by purchasing directional drilling companies.

Cathedral believes it will remain competitive in its markets by capitalizing on:

⁷ Source: Baker Hughes Rig Count data

⁸ Source: Baker Hughes Rig Count data

- (a) the high quality of the state-of-art equipment including its proprietary MWD and drilling motor technology;
- (b) the ability of its personnel to effectively supervise all aspects of the services provided;
- (c) having a presence in all of the key North American oil and natural gas producing basins along with the size and scale to offer equipment, personnel and services to larger customers with multi-well drilling programs;
- (d) providing customers with additional value-added services such as well planning and drilling optimization;
- (e) the reputation of the Corporation and management to secure important relationships and to ensure the highest possible quality for the services provided;
- (f) the ability to provide safe, consistent, reliable and effective service and personnel performing the service; and
- (g) continued investment in new technology development to provide a competitive advantage over that of our competitors.

Access to Equipment and Technology

Cathedral's business strategy and competitive differentiation is based on it having access to state-of-the-art horizontal and directional equipment. Prior to the third quarter of 2002, Cathedral did not develop its own equipment, instead it relied on external suppliers to design and supply, at a reasonable price, the equipment it requires to be competitive in the marketplace. At any one time, Cathedral's technology development strategy and product development backlog may change depending on market conditions, economic considerations, development risk and customer demand. See "*Business of Cathedral – Tools and Equipment*" for further details.

Geographical Location and Facilities

Cathedral's head office is located in Calgary, Alberta.

Canadian Operations

Cathedral has operations facilities located in Calgary, Alberta and Nisku, Alberta. During 2020, Cathedral consolidated its drilling motor repairs and services for the Canadian market and northern U.S. markets at its Nisku, Alberta facility and has sub-leased its Emerald Park, Saskatchewan facility.

The engineering and manufacturing of Cathedral's proprietary motors is largely conducted out of the Nisku facility. Planning, engineering and coordination of Canadian field directional/horizontal drilling operations is largely carried out from Cathedral's "6030 Campus" in Calgary, Alberta. In addition, Cathedral services, repairs and develops and enhances its proprietary MWD technology at the 6030 Campus. In early 2020, Cathedral consolidated its North American MWD repairs, and as such, these services are now performed at the 6030 Campus in Calgary, Alberta. Sales activities are coordinated from Cathedral's office in downtown Calgary, Alberta.

U.S. Operations

Cathedral's U.S. operations and motor repair shop is strategically located in Houston, Texas. From this location, Cathedral has the capability to provide its services in all the major U.S. oil and natural gas basins. In mid 2020, Cathedral consolidated all repair and servicing of drilling motors at its Houston facility. As a result, both the Casper, Wyoming and Oklahoma City, Oklahoma facilities became available for sublease. All U.S. MWD service and repair were centralized in Oklahoma City until mid-2020, when such MWD repairs and services were transferred to Cathedral's 6030 Campus in Calgary, Alberta.

U.S. sales activities are coordinated from Cathedral's Houston facility. Cathedral also maintains a sales presence in Denver, Colorado and Oklahoma City, Oklahoma.

Environmental Protection

Being in the oilfield services business, Cathedral is subject to numerous environmental regulations and protection requirements. It is difficult to quantify the financial and operational effects of these regulations and requirements on our capital expenditures, profit or loss and competitive position. As part of the overall responsible management of our business, we actively manage, review and evaluate our compliance with these regulations and requirements to reduce risks of non-compliance that may have a negative impact on our competitive position and on our financial results. Further discussion of these risks is found in the "Risk Factors - *Climate Change and Environmental Risks*" section of this AIF.

Employees

As at December 31, 2020, Cathedral had a total of 118 full-time employees (Canada – 54 and U.S. – 64). In addition, as at December 31, 2020, Cathedral employed the services of 67 field and office consultants and subcontractors (Canada – 65 and U.S. – 2).

DIVIDEND POLICY

On November 10, 2015, Cathedral announced the suspension of its quarterly dividend in order to preserve cash, manage liquidity, invest selectively in capital asset additions and pursue operational initiatives to better position the Corporation. Payment of any future dividends will be at the discretion of the Board of Directors, after taking into consideration a number of factors including, including without limitation, the current performance of Cathedral, historical and future trends in the business, the expected sustainability of those trends, enacted tax legislation impacting future taxes payable as well as required long-term debt repayments, maintenance capital expenditures required to sustain performance, future growth capital expenditures, effects of acquisitions or dispositions on Cathedral's business, and other factors that may be beyond the control of Cathedral or not anticipated by management of Cathedral.

The Corporation's credit facility currently in effect with Alberta Treasury Branches provides restrictions with respect to the payment of dividends in the event a Default or Event of Default (as such terms are defined in the credit agreement) has occurred and is continuing, or would result from, the making of such dividend payment. See "*Material Contracts*".

GENERAL DESCRIPTION OF CAPITAL STRUCTURE

The authorized share capital of the Corporation consists of an unlimited number of Common Shares and an unlimited number of Preferred Shares, issuable in series. The following

is a summary of the rights, privileges, restrictions and conditions attaching to each class of shares of Cathedral.

Common Shares

The holders of Common Shares are entitled to: (i) receive notice of and to vote at every meeting of shareholders of Cathedral and shall have one vote thereat for each such Common Share so held; (ii) receive any dividend declared on the Common Shares by Cathedral subject to the rights of the holders of Preferred Shares; and (iii) subject to the rights, privileges, restrictions and conditions attached to the Preferred Shares, receive the remaining property of Cathedral on dissolution, liquidation or winding up.

Preferred Shares

Preferred Shares may, from time to time, be issued in one or more series, each series to consist of such number of shares as may, before the issue thereof, be fixed by the directors of Cathedral. The directors may additionally determine the designation, rights, privileges, restrictions and conditions attaching to the Preferred Shares, including, without limiting the generality of the foregoing, the rate or amount of preferential dividends and the date of payment thereof, voting rights (if any), the redemption, purchase and/or conversion price and conditions of redemption, purchase and/or conversion, if any, and any sinking fund or other provisions. The Preferred Shares rank in priority to the Common Shares as to payment of dividends and the distribution of assets in the event of dissolution, liquidation or winding-up.

As of the date hereof, there are 50,618,117 Common Shares and nil Preferred Shares issued and outstanding.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Reference is made to the section entitled "Management's Discussion and Analysis" prepared in connection with the consolidated financial statements for the year ended December 31, 2020. The "Management's Discussion and Analysis" is incorporated herein by reference and is available on SEDAR (www.sedar.com).

MARKET FOR SECURITIES

The Common Shares are listed and posted for trading on the TSX under the trading symbol "CET". The following table sets forth certain trading information in respect of the Common Shares for the most recently completed financial year.

	Trading Price (\$)	Price Range (\$)		Trading
	Close	High	Low	Volume
2020				
January	0.24	0.345	0.23	551,207
February	0.215	0.26	0.18	540,838
March	0.09	0.22	0.055	1,618,141
April	0.10	0.13	0.085	769,329
May	0.12	0.12	0.09	417,804
June	0.18	0.29	0.11	1,097,949
July	0.15	0.17	0.14	365,681
August	0.135	0.15	0.115	829,285
September	0.11	0.135	0.10	531,789

	Trading Price (\$)	Price Range (\$)		Trading
	Close	High	Low	Volume
October	0.12	0.12	0.105	1,166,215
November	0.165	0.18	0.11	2,604,084
December	0.185	0.195	0.14	1,581,204

DIRECTORS AND EXECUTIVE OFFICERS

The names, municipalities of residence, positions with Cathedral, and principal occupations of the directors and executive officers of Cathedral, and the number of voting securities of Cathedral and its subsidiaries beneficially owned, or controlled, directly or indirectly, by such directors and executive officers are set out below. The Board presently consists of six (6) directors. All directors, other than Tom Connors who was appointed by the Board, were duly elected at Cathedral's annual meeting of Shareholders held on May 12, 2020. The directors will hold office until the next annual meeting of Shareholders or until their successors are duly elected or appointed unless their office is earlier vacated in accordance with the provisions of the ABCA.

Name, Municipality of Residence and Position	Director/ Executive Officer Since	Principal Occupation for Last Five Years	Common Shares Beneficially owned or Controlled, Directly or Indirectly
Tom Connors Calgary, Alberta, Canada <i>President, Chief Executive Officer and Director</i>	March 8, 2021	President and Chief Executive Officer of the Corporation since March 8, 2021. Prior thereto, Mr. Connors held a number of senior leadership capacities, including Executive Vice-President, with Ensign Energy Services Inc., an international oilfield service provider, from 2003 until 2020.	1,150,000
P. Scott MacFarlane ⁽¹⁾ Calgary, Alberta, Canada <i>Interim Chief Financial Officer</i>	April 1, 2001	Interim Chief Financial Officer of the Corporation since January 1, 2019. Chief Executive Officer of the Corporation from October 2013 until March 8, 2021. Prior thereto, Chief Financial Officer of the Corporation since April 1, 2001.	410,552
Randal H. Pustanyk Chestermere, Alberta, Canada <i>Director, Executive Vice President and Corporate Secretary</i>	October 30, 2000	Executive Vice President since July 2016. Prior thereto, Chief Operating Officer of the Corporation since October 2013. Prior thereto, Vice President, Operations of the Corporation since June 2000.	621,842
Rod Maxwell ⁽²⁾⁽³⁾ Calgary, Alberta, Canada <i>Chairman and Director</i>	October 30, 2000	Managing Director of StoneBridge Merchant Capital Corp., a private equity investment firm, located in Calgary, Alberta, that invests in growing private companies.	548,378
Scott Sarjeant ⁽²⁾⁽⁴⁾ Calgary, Alberta, Canada <i>Director</i>	April 7, 2003	Since June 2020, Mr. Sarjeant has been an independent businessman and private investor. Prior thereto, Mr. Sarjeant was President and CEO of Premiax Financial Corp. (" Premiax ") since April 2003. Premiax was a non-bank financial institution	677,998

<u>Name, Municipality of Residence and Position</u>	<u>Director/ Executive Officer Since</u>	<u>Principal Occupation for Last Five Years</u>	<u>Common Shares Beneficially owned or Controlled, Directly or Indirectly</u>
		involved in leasing and other financial businesses targeted at the energy industry.	
Ian S. Brown ⁽²⁾⁽³⁾⁽⁴⁾ Calgary, Alberta, Canada <i>Director</i>	December 18, 2009	Since January 2006 Mr. Brown has been an independent consultant. Prior thereto, Mr. Brown was the Senior Managing Director, Raymond James Ltd. from May 1995 until December 2005.	124,286
Dale E. Tremblay ⁽³⁾ Lila, Bohol, Philippines <i>Director</i>	October 6, 2015	Mr. Tremblay is an independent businessman. From December 2009 to December 2013, Mr. Tremblay was the Chairman and Chief Executive Officer of Western Energy Services Corp., an oilfield drilling and well servicing company in western Canada and portions of the U.S.	109,286
David Diachok Okotoks, Alberta, Canada <i>Vice President, Sales</i>	May 9, 2005	Vice President, Sales of the Corporation since May 2005. From September 2002 to May 2005 Sales Manager of the Corporation. Prior thereto, Sales Representative at Halliburton Services.	114,599
Bogdan Piciooreanu Calgary, Alberta, Canada <i>Vice President, Technology</i>	June 1, 2009	Vice President, Technology of the Corporation since June 1, 2009.	122,111

Notes:

- (1) With the hiring and appointment of Tom Connors effective March 8, 2021 as the President, Chief Executive Officer and a director of Cathedral, Mr. MacFarlane stepped down from those positions effective the same date and will continue with the role of Interim Chief Financial Officer until his scheduled retirement in April 2021.
- (2) Member of the Audit Committee of which Mr. Brown is chairman.
- (3) Member of the Compensation Committee of which Mr. Tremblay is chairman.
- (4) Member of the Governance Committee of which Mr. Sarjeant is chairman.

Ownership of Common Shares

As at the date hereof, the directors and executive officers of Cathedral, as a group, own or control, directly or indirectly, an aggregate of 3,879,052 Common Shares, being approximately 7.66% of the issued and outstanding Common Shares.

Cease Trade Orders

To the knowledge of Cathedral, no director or executive officer is, as of the date of this AIF, or was within ten (10) years prior to the date of this AIF, a director, chief executive officer or chief financial officer of any company (including Cathedral) that: (i) was subject to a cease trade order, an order similar to a cease trade order or an order that denied Cathedral access to any exemption under securities legislation and which order was in effect for a period of more than thirty (30) consecutive days while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer of such company; or (ii) was subject to any of the foregoing orders for a period of more than thirty (30) consecutive days after the director or executive officer ceased to be a director, chief executive officer or chief financial officer of such company and which resulted from an event that occurred while that person was acting in such capacity.

Bankruptcies

To the knowledge of Cathedral and other than as disclosed below, no director, executive officer or Shareholder holding a sufficient number of securities to affect materially the control of Cathedral is, as of the date of this AIF, or was within ten (10) years prior to the date of this AIF, a director or executive officer of any company (including Cathedral) that, while such person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver-manager or trustee appointed to hold its assets.

Dale E. Tremblay was a director of GASFRAC Energy Services Inc. ("**GASFRAC**") between May 27, 2014 and February 13, 2015. Pursuant to court supervised creditor protection proceedings commenced under the CCAA, GASFRAC sold most of its operating assets and intellectual property to a third party service industry competitor on April 7, 2015 and subsequently then completed a court approved CCAA Plan of Compromise and Arrangement pursuant to which a third party service industry competitor acquired 100% equity ownership of GASFRAC as an operating entity on July 7, 2015. Mr. Tremblay was also a director of ATK Oilfield Transportation Inc. ("**ATK**"), a private oilfield services company, until April 1, 2016. ATK was placed into receivership following an application by its creditors on April 1, 2016.

Rod Maxwell was a director of Iona Energy Inc. ("**Iona**"), a public oil and gas company that held assets in the United Kingdom's North Sea, until November 24, 2015, being the date on which Iona announced that it was highly likely that its wholly owned United Kingdom subsidiaries, Iona Energy (UK) Company plc ("**Iona UK**") and Iona UK Huntington Limited ("**Iona Huntington**") would commence insolvency procedures. All of the board of directors and officers of Iona, including Mr. Maxwell, resigned effective November 24, 2015. On January 6, 2016, representatives of FTI Consulting LLP were appointed as joint administrators of Iona UK and Iona Huntington.

Ian Brown was a director of Lightstream Resources Ltd., a public oil and gas company that commenced proceedings under the CCAA on September 26, 2016. Effective December 29, 2016, concurrent with the completion of the sale of all of the assets and business of Lightstream Resources Ltd. to a third party, all directors, including Mr. Brown, resigned from the board of directors.

To the knowledge of Cathedral, no director or executive officer of Cathedral, or Shareholder holding a sufficient number of securities to affect materially the control of Cathedral has, within the ten (10) years before the date of this AIF, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or Shareholder.

Penalties or Sanctions

To the knowledge of Cathedral, no director or executive officer of Cathedral, or Shareholder holding a sufficient number of securities to affect materially the control of Cathedral has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority, or has been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

Conflicts of Interest

The Board has approved a Code of Business Conduct and Ethics (the "**Policy**") that applies to directors and executive officers among others. While activities that pose a potential or perceived conflict of interest are not prohibited, they are required by the Policy to be disclosed to the Board and/or executive officers as they arise. Any such potential conflicts of interest will be dealt with openly with full disclosure of the nature and extent of the potential conflicts of interests with Cathedral. In addition, conflicts, if any, will be subject to the procedures and remedies available under the ABCA. The ABCA provides that in the event that a director has an interest in a contract or proposed contract or agreement, the director shall disclose his interest in such contract or agreement and shall refrain from voting on any matter in respect of such contract or agreement unless otherwise provided by the ABCA.

On February 8, 2021, Cathedral entered into an agreement to appoint Tom Connors as its new President, Chief Executive Officer and Director effective March 8, 2021. In conjunction with his appointment, Cathedral issued 650,000 Units to Mr. Connors at a price of \$0.20 per Unit using a loan provided by Cathedral on commercial terms of \$130,000. In addition, Cathedral entered into a non-brokered private placement with Mr. Connors for 500,000 Units at a price of \$0.20 per Unit for cash proceeds of \$100,000. See "*General Development of the Business – Recent Developments.*"

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

To the knowledge of Cathedral, neither Cathedral nor any of its subsidiaries is a party to any legal proceeding nor was it a party to any legal proceeding during the financial year ended December 31, 2020, nor is Cathedral aware of any contemplated legal proceeding involving Cathedral or its subsidiaries or any of its property which involves a claim for damages exclusive of interest and costs that may exceed 10% of the current assets of Cathedral.

Cathedral is not aware of any penalties or sanctions imposed against the Corporation by a court relating to securities legislation or by a securities regulatory authority during the financial year ended December 31, 2020, any other penalties or sanctions imposed by a court or regulatory body against the Corporation that would likely be considered important to a reasonable investor in making an investment decision or any settlement agreement that the Corporation entered into before a court relating to securities legislation or with a securities regulatory authority during the financial year ended December 31, 2020.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

No director or executive officer of Cathedral, or any person that beneficially owns, or controls or directs, directly or indirectly, more than 10% of the Common Shares, or any associate or affiliate of any of the foregoing has had any material interest, direct or indirect, in any transaction since the commencement of Cathedral's three most recently completed financial years or during the current financial year, or in any proposed transaction, that has materially affected or is reasonably expected to materially affect Cathedral or any of its subsidiaries.

AUDITORS, REGISTRAR AND TRANSFER AGENT

The auditors of Cathedral are KPMG LLP, Calgary, Alberta. Computershare Trust Company of Canada in Calgary, Alberta is registrar and transfer agent for the Common Shares.

MATERIAL CONTRACTS

The only material contract entered into by the Corporation during the most recently completed financial year, or before the most recently completed financial year that was still in effect, other than during the ordinary course of business, is as follows:

The Credit Facility

On December 13, 2017, Cathedral entered into a new credit facility with Alberta Treasury Branches and Export Development Canada expiring on December 31, 2019. On November 8, 2018, Cathedral extended its credit facility to December 31, 2020 under the same terms and conditions as the prior credit facility. Subsequently, on December 19, 2019, Cathedral extended its credit facility to December 31, 2021 under substantially the same terms and conditions as the prior credit facility. On June 29, 2020, the terms of the credit facility were further amended to reduce the size of the facility, to extend it to June 30, 2022, and provide for a temporary covenant relief period ("**CR period**") from June 30, 2020 to the earlier of March 31, 2021 or the date of written notice by the lender requesting an end to the CR period. Alberta Treasury Branches also became the sole lender thereunder.

Cathedral's current credit availability consists of a \$12 million operating facility. The key financial covenants associated with the credit facility include a maximum Funded Debt to Bank EBITDA Ratio (as defined in the Facility) of 2.50 to 1.0 and an Interest Coverage Ratio (as defined in the facility) of not less than 2.50 to 1.0, both of which are calculated quarterly.

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 0.75% to 2.25% or bankers' acceptance rate plus 1.75% to 3.00% with interest payable monthly.

During the CR period, the Consolidated Funded Debt to Consolidated Credit Agreement EBITDA (as defined in the Facility) ratio is waived and the consolidated interest coverage ratio is waived during the covenant relief period if Funded Debt is no more than \$6 million.

During the CR period, the following apply:

- consolidated funded debt to tangible net worth ("**TNW**") ratio is to be no more than 10% for Q2 and Q3, 2020 and no more than 15% in Q4, 2020 and Q2, 2021. TNW is defined as shareholders' equity plus subordinated debt less investments in or amounts owed by any related party which does not constitute subordinated debt;
- advances are limited to \$10 million;
- aggregate capital expenditures (excluding non-cash utilization of existing inventory) for the fiscal year ended December 31, 2020, are not to exceed \$2 million; and
- interest increases to bear 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.

See also "*General Development of the Business – Three Year History*".

RISK FACTORS

COVID-19 Pandemic

The Corporation's business, operations and financial condition has been significantly adversely affected by the 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 March and April of 2020, the COVID-19 pandemic, as well as other factors, resulted in the deepest drop in crude oil prices that global markets have seen since 1991. The decline in oil prices in 2020 negatively affected drilling activities in Cathedral's operating areas of the U.S. and Canada. Although some restrictions imposed by governmental bodies to limit the spread of COVID-19 were relaxed in mid-2020, many nations experienced a resurgence of COVID-19 cases in late 2020 which led governmental bodies to reinstate some of the previously relaxed restrictions. Many of these restrictions continue to be in place as of the date hereof as countries experience second and third waves of COVID-19 infections.

In response to the COVID-19 pandemic, 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. However, there can be no assurances that the changes undertaken by Cathedral will be sufficient to offset the operational and financial impact of the COVID-19 pandemic, and the COVID-19 pandemic continues to pose a material risk to Cathedral's business, operations and financial condition.

The COVID-19 pandemic also poses a risk on the financial capacity of Cathedral's contract counterparties and potentially their ability to perform contractual obligations. The collapse in oil prices negatively affected the counterparties' cash flows and, as a result, in certain situations resulted in slower collection of accounts receivable and increased risk related to potential non-payment.

Going Concern and Debt Service

In June 2020, the Corporation amended its Facility to extend the maturity date to June 30, 2022, to reduce the Facility size to \$12 million and to provide for a temporary covenant relief from June 30, 2020 to March 31, 2021 (or such earlier date as requested by the lender). During the covenant relief period, draws on the credit facility are limited to \$10 million. The Facility is secured by a general security agreement over substantially all of the assets of Cathedral. See "*Material Contracts – The Credit Facility*".

As at December 31, 2020, Cathedral had net debt of approximately \$526,000, including amounts drawn on the Facility of approximately \$1,560,000. As at such date, the Corporation was in compliance with all financial covenants on its bank credit facility. However, management's forecasts indicate a potential breach of its financial covenants commencing in the first quarter

ending March 31, 2021 and for each quarter thereafter in fiscal 2021. A covenant violation would represent an event of default under the Facility which would enable the lender to demand immediate repayment of all amounts due under the Facility. If the Corporation's lender required repayment of all of the amounts outstanding under the Facility, it is unlikely that the Corporation would be in a position to make such repayment. Even if the Corporation is able to obtain new financing in order to make any required repayment under the Facility, it may not be on commercially reasonable terms or terms that are acceptable to the Corporation. If the Corporation is unable to repay amounts owing under the Facility, the lender could proceed to realize upon the collateral granted to it to secure the indebtedness.

The ability of the Corporation to continue as a going concern depends on the Corporation continuing to operate for the foreseeable future and its ability to realize its assets and discharge its liabilities and commitments in the normal course of business. The Corporation has commenced discussions with its lender regarding amendment and/or extending the current covenant relief and management expects to reach an acceptable agreement with its lender on covenant relief. There can be no assurance that Cathedral will be successful in its efforts to amend the Facility and/or extend current covenant relief, or, if such amendment and/or extension are not obtained, that the lender under the Facility will waive any breaches of the Facility, or, if necessary, that Cathedral will be able to arrange alternative financing on terms satisfactory to Cathedral or at all. Any delay or failure to amend the Facility and/or extend the current covenant relief, or obtain alternative financing, could have a significant negative impact on the Corporation's business, results of operations and financial condition. As a result of these factors, there is a material uncertainty that may cast significant doubt with respect to the ability of the Corporation to continue as a going concern.

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**"), government regulation, political stability in the Middle East and elsewhere, an outbreak of a contagious disease 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 cost structure that can be adjusted 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.

Public Health Crisis

Cathedral's business, operations and financial condition could be materially adversely affected by the outbreak of epidemics or pandemics or other health crises like the recent outbreak of COVID-19. 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. In particular, oil prices have significantly weakened in response to the outbreak of COVID-19 (See "Risk Factors – COVID-19 Pandemic"). 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.

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.

Cash Dividends to Shareholders are Dependent on the Performance of Cathedral

Cathedral's ability to make dividend payments to Shareholders is dependent upon the operations and business of Cathedral. In November 2015, the Board made the decision to

suspend the payment of the Corporation's quarterly dividend based the reductions in commodity prices and the resulting decline in industry activity levels in 2015 and uncertainties around expected activity levels in the future (see "*Dividend Policy*"). There is no assurance that dividends will be declared at all in the future and, if declared, there is no assurance regarding the amounts of cash that may be available from Cathedral's operations and business that could be available to fund such future dividends. The actual amount of any dividends will depend on a variety of factors, including without limitation, the current performance, historical and future trends in the business, the expected sustainability of those trends, enacted tax legislation which will affect future taxes payable as well as required long-term debt repayments, maintenance capital expenditures required to sustain performance, future growth capital expenditures, effect of acquisitions or dispositions on Cathedral's business, compliance with debt covenants and other factors that may be beyond the control of Cathedral or not anticipated by management of Cathedral.

Cathedral's dividend policy is subject to change at the discretion of its Board of Directors. In addition, Cathedral's credit facility covenants include certain restrictions on the payment of cash dividends without the consent of the lenders in certain circumstances. See "*Dividend Policy*" herein.

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 and, potentially have a material adverse effect on the amount of cash available for dividends. 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.

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 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.

In light of the current volatility in oil and natural gas prices and uncertainty regarding commodity price levels in the future, in particular due to the ongoing COVID-19 pandemic, there is a risk that the Corporation could temporarily breach the covenants included in its credit facility. If the Corporation does temporarily breach these covenants, the credit facility could become due and payable on demand. Cathedral intends to enter into discussions with its lender to amend or extend the revised covenants under its credit facility for the balance of 2021. See "*Risk Factors – Going Concern and Debt Service*".

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 the payment of a dividend and 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 obsolescence, 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. Since 2017, Cathedral experienced higher than previous levels of equipment damages, repair costs and equipment lost-in-hole than previous years and the pre-industry downturn levels which in part was due to changes in customer drilling practices.

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 mid to late 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 Transaction Risks

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. 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.

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 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 good mix of customers. 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. In 2018, approximately 15% of the Corporation's revenue was attributable to sales transactions with a single customer. 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 and therefore on the ability to pay dividends to shareholders in the future. 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 Risks

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. Examples include HSBC, which announced in 2018 that it will cease financing most new coal plans, oil sands projects, and arctic drilling, and the European Investment Bank, which announced in 2019 that it will stop funding oil, gas and coal projects by the end of 2021. 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.

Environmental Regulations

Cathedral is subject to various environmental laws and regulations enacted in the jurisdictions in which it operates 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.

There is growing concern about the apparent connection between the burning of fossil fuels and climate change. The issue of energy and the environment has created intense public debate in Canada, the U.S. and around the world in recent years that is likely to continue for the foreseeable future and could potentially have a significant impact on all aspects of the economy including the demand for hydrocarbons and resulting in lower demand for Cathedral's services. 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 increase costs paid by Cathedral's customers. An increase in environmental related costs could reduce Cathedral's customers' earnings and/or it could make capital expenditures by Cathedral's customers uneconomic.

Cathedral is unable to predict the total impact of the potential and forthcoming regulations upon its business. As a user of hydrocarbons in its business for heating and vehicles, Cathedral is impacted on an operational cost basis. Cathedral's customers may face increases in operating

costs in order to comply with legislation which could have the effect of curtailing exploration and development by oil and natural gas producers and that in turn, could adversely affect Cathedral's operations by reducing demand for its services.

Policy Risk

The Corporation's operations and activities emit greenhouse gases ("**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. The direct or indirect costs of compliance with GHG-related regulations may have a material adverse effect on Cathedral's business, financial condition, results of operations and prospects. 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. The impact of such Executive Orders, 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

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. 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.

Government Regulation

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 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 a new royalty regime or modify the methodology of royalty calculation which could increase the royalties paid by Cathedral's customers. An increase in royalties could reduce Cathedral's customers' earnings and/or it could make capital expenditures by Cathedral's customers uneconomic. Although Cathedral is not a direct investor in the oil and natural gas market, it does affect Cathedral's customers' cash flow available to invest in drilling activity and other oilfield services.

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.

AUDIT COMMITTEE

General

The Board has developed written terms of reference outlining the Audit Committee's roles and responsibilities and which provide appropriate guidance to Audit Committee members as to their duties. These terms of reference are reviewed annually by the Board. The Audit Committee reviews the annual and interim financial statements of Cathedral and makes recommendations to the Board with respect to such statements. The Audit Committee also reviews the nature and scope of the annual audit as proposed by the auditors and management, and the adequacy of

the internal accounting control procedures and systems within Cathedral. The Audit Committee is responsible to ensure that management has implemented an effective system of internal control and has oversight responsibility for management reporting on internal control. The full text of the Audit Committee Charter, which was amended on March 11, 2021, is attached as Schedule "A" to this AIF.

Composition of the Audit Committee

The Audit Committee is currently comprised of Ian Brown (Chair), Scott Sarjeant and Rod Maxwell. Messrs. Brown, Sarjeant and Maxwell are all independent and financially literate under National Instrument 52-110 – *Audit Committees*.

Relevant Education and Experience

Audit Committee member that is relevant to the performance of his responsibilities as an Audit Committee member are as follows.

Mr. Brown is a Chartered Professional Accountant and has been an independent businessman since January 2006. Prior thereto, Mr. Brown was a Senior Managing Director, Raymond James Ltd. from May 1995 until December 2005. Mr. Brown has been a member and chaired numerous audit committees over the past 16 years.

Mr. Sarjeant holds a Masters of Business Administration and a law degree, and has been an independent businessman and private investor since June 2020. Prior thereto, Mr. Sarjeant was President and CEO of PremiAx Financial Corp., a non-bank financial corporation that operates financial businesses targeted at the energy industry. From 1994 to 2003, Mr. Sarjeant was co-founder of AltaGas Services Inc., a publicly listed Canadian energy services company, where he served as Executive Vice President. From 1987 to 1994, Mr. Sarjeant was a Vice President in the Corporate Finance Group of Citibank Canada. He has served on the audit committees of other publicly listed entities, including: AltaGas Services Inc. (TSX), Champion Resources Ltd. (TSXV) and Rare Method Interactive Corp. (TSXV).

Mr. Maxwell is a Chartered Professional Accountant and Chartered Business Valuator and is presently the Managing Director of StoneBridge Merchant Capital Corp.

Pre-Approval Policies and Procedures

The Audit Committee has adopted a pre-approval policy with respect to permitted non-audit services. Under the policy, the Audit Committee has granted pre-approval services for non-audit services of \$130,000 for fiscal 2021.

External Auditor Service Fees (By Category)

The following table provides information about the fees billed to the Corporation for professional services rendered by KPMG LLP during fiscal 2019 and 2020:

	2019⁽¹⁾	2020⁽¹⁾
Audit Fees ⁽²⁾	\$145,150	\$138,371
Audit-Related Fees ⁽³⁾	\$48,811	-
Tax Fees ⁽⁴⁾	\$187,563	\$152,474
All Other Fees	-	-
Total:	<u>\$381,524</u>	<u>\$290,845</u>

Notes:

- (1) Billed or estimated to be billed for services in the applicable year.
- (2) Audit fees for professional services rendered by KPMG LLP for the audit of Cathedral's annual consolidated financial statements as well as services provided in connection with statutory and regulatory filings.
- (3) Audit-related fees are for services related to performance of the review of Cathedral's quarterly consolidated financial statements.
- (4) Tax fee for tax compliance, tax advice and tax planning.

INTERESTS OF EXPERTS

KPMG LLP are the auditors of Cathedral and have confirmed that they are independent with respect to Cathedral within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any applicable legislation or regulations.

ADDITIONAL INFORMATION

Additional information relating to Cathedral may be found on SEDAR at www.sedar.com. Additional information, including information as to directors' and officers' remuneration and indebtedness, principal holders of Cathedral's securities and securities authorized for issuance under equity compensation plans is contained in Cathedral's information circular dated April 3, 2020 in respect of Cathedral's annual meeting of Shareholders held on May 12, 2020. Additional financial information is provided in Cathedral's comparative consolidated financial statements for the year ended December 31, 2020 and in the MD&A.

Unless otherwise specifically herein provided, the information contained in this AIF is stated as at March 11, 2021.

Schedule "A"

CATHEDRAL ENERGY SERVICES LTD. AUDIT COMMITTEE CHARTER

Dated: March 2021

ROLE AND RESPONSIBILITIES

The Audit Committee ("Committee") is a committee of the Board of Directors (the "Board", each member of the Board a "Director") established to assist the board in fulfilling its responsibility for oversight of Cathedral Energy Services Ltd. (the "Corporation") financial reporting process.

RESPONSIBILITIES

The primary functions of the Committee are to assist the Board in fulfilling its responsibilities with respect to: (i) oversight, review and approval of the financial statements and the accounting and financial reporting processes of the Corporation; (ii) oversight of the assessment of the system of internal controls that management has established; and (iii) oversight of the external audit process. In addition, the Committee shall assist the Board, as requested, in fulfilling its oversight responsibilities with respect to enterprise risk management practices.

The Committee shall be directly responsible for recommending to the Board the nomination of the external auditor and the compensation and retention of the external auditor and overseeing the work of the external auditor and the relationship of the external auditor with the Corporation (including the resolution of disagreements between management and the external auditor regarding financial reporting).

The Committee is responsible for ensuring the external auditor maintains an open and transparent relationship with the Committee, and that the ultimate accountability of the external auditor is to the shareholders of the Corporation.

MEMBERSHIP

The Committee shall be comprised of a minimum of three directors including a Committee Chair, all of whom shall qualify as independent directors pursuant to National Instrument 52-110 *Audit Committees* (as implemented by the Canadian Securities Administrators and as amended from time to time). Each member of the Committee shall be financially literate, as defined in NI 52-110, and the Chair of the Committee shall have accounting or related financial managerial expertise. The members of the Committee and its Chair shall be appointed by the Board. Appointments shall be made in accordance with procedures established by the governance committee of the Board from time to time.

MEETINGS

The Committee shall meet at least four times annually (for review of Q1, Q2 and Q3 interim reports as well as pre and post annual audit). The Chair may call additional meetings as required. In addition, a meeting may be called by the Board Chair, the President & Chief Executive Officer (collectively "CEO), any member of the Committee or the external auditors. The Committee shall report to the Board on its activities after each of its meetings. The Committee is expected to

establish and maintain free and open communication among the independent external auditor and senior management and shall periodically meet separately with each of them. The CEO and the Chief Financial Officer are expected to be available to attend the Committee's meetings or portions thereof. The affirmative vote of a majority of the members of the Committee participating in any meeting of the Committee is necessary for the adoption of any resolution. In the event of a tie vote on any matter, such matter shall be presented to the Board for its consideration and determination. Directors, who are not members of the Committee, may attend Committee meetings, on an ad hoc basis, upon prior consultation and approval of Committee Chair or by a majority of the members of the Committee.

AUTHORITY

The Committee has the authority to conduct any review or investigation appropriate to fulfilling its responsibilities. The Committee has the sole authority to approve any non-audit engagement by the Corporation's independent external auditors and to approve all audit engagement fees and terms. The Committee shall have unrestricted access to personnel and information, and any resources necessary to carry out its responsibility.

The Committee shall be empowered to retain, obtain advice or otherwise receive assistance from outside independent legal counsel, accountants or others to assist in the conduct of any investigation as it deems necessary in the course of fulfilling Committee duties. The Corporation shall provide for appropriate funding, as determined by the Committee, for payment of compensation to the independent external auditor for the purposes of issuing an audit report and to any advisors retained by the Committee.

REVIEW OF CHARTER AND COMMITTEE PERFORMANCE

On an annual basis, the Committee shall report to the Board on the Committee's performance against this Charter and the goals established annually by the Committee for itself. The Committee shall review and update the adequacy of this Charter periodically, and where necessary, recommend changes to the Board for its approval.

SPECIFIC DUTIES AND RESPONSIBILITIES

The duties and responsibilities of a member of the Committee are in addition to those duties set out for a member of the Board.

1) Financial Reporting and Public Disclosure

- (a) Review, with management and the independent external auditor:
 - (i) the independent external auditors annual audit plan;
 - (ii) the Corporation's annual audited financial statements. In relation to the annual audited financial statements, review significant issues including accounting principles, practices and significant management estimates and judgments, including any significant changes in the Corporation's selection or application of accounting principles, any major issues as to the adequacy of the Corporation's internal controls and any special steps adopted in light of material control deficiencies;

- (iii) the Corporation's annual management's discussion and analysis ("MD&A");
 - (iv) the independent external auditors' audit examination of the annual financial statements and their report thereon; and
 - (v) all public disclosure documents containing audited or unaudited financial information before release, including, but not limited to, any prospectus, the Corporation's annual report, the Corporation's annual information form, the Corporation's management proxy circular and any press releases.
- (b) Review, with management and if appropriate, the independent external auditor engaged to perform a limited scope review of the interim reports:
- (i) the Corporation's interim unaudited financial statements;
 - (ii) the Corporation's interim MD&A;
 - (iii) related press releases; and
 - (iv) any significant changes to the Corporation's accounting principles.
- (c) Oversee an investigation sufficient to provide reasonable grounds for believing that the financial statements and reports referred to in (a) and (b) above are complete in all material respects and consistent with the information known to Committee members, and assess whether the financial statements reflect appropriate accounting principles.
- (d) Review with senior management and the independent external auditor, management's handling of any proposed audit adjustments identified by the independent external auditors.
- (e) Meet with the independent external auditor to review the results of the audit examination of the financial statements and their report thereon, their judgments about the quality and appropriateness of the Corporation's accounting principles, and any audit problems or difficulties and management's response.
- (f) Review and resolve any significant disagreement among the management and the independent external auditors encountered during the course of their audit or review, including any restrictions in the scope of the independent external auditor's work or access to required information.
- (g) Review the integrity of the Corporation's internal and external financial reporting process, in consultation with the independent external auditors.
- (h) Review tax, legal and any financial reporting aspects of the Corporation as the Committee considers appropriate.
- (i) Consider, evaluate and recommend to the Board such changes as are appropriate to the Corporation's auditing and accounting principles and practices as suggested by the independent external auditors or senior management.

- (j) Review with the independent external auditors and senior management the extent to which changes and improvements in financial and accounting practices, as approved by the Committee, have been implemented.
- (k) Formally recommend approval to the Board of the Corporation's annual financial statements, interim financial statements and reports referred to in (a) and (b) above. The annual audited financial statement review shall include a report from the independent external auditors about the quality of the most critical accounting policies upon which the Corporation's financial status depends, and involve the most complex, subjective or significant judgmental estimates, decisions or assessments.

2) Independent External Auditor

- (a) Be directly responsible, in the Committee's capacity as a committee to the Board and subject to the rights of shareholders and applicable law, for the appointment, compensation, retention and oversight of the work of the independent external auditors for the purposes of preparing or issuing an audit report, or performing other audit, review, or attest services for the Corporation. The independent external auditors shall report directly to the Committee.
- (b) At least annually, obtain and review a report by the independent external auditor describing:
 - (i) the independent external auditors' internal quality-control procedures; and
 - (ii) any material issues raised by the most recent internal quality-control review, or peer review, of the independent external auditors, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the independent external auditors, and any steps taken to deal with any such issues.
- (c) Confirm the independence of the independent external auditor by discussing and reviewing all significant relationships that the independent external auditors have with the Corporation and obtaining their assertion of independence in accordance with professional standards.
- (d) Review and evaluate:
 - (i) the performance of the independent external auditor, and make a recommendation to the Board regarding the reappointment or discharge of the independent external auditors for presentation to the shareholders;
 - (ii) the terms of engagement, audit scope and audit plans of the independent external auditors together with their proposed fees; and
 - (iii) the engagement of the independent external auditors firm or affiliates to perform non-audit services, together with the fees thereof, and the impact thereof, on the independence of the independent external auditors.

- (e) Approve all non-audit service with the Corporation's independent external auditors other than services related to limited scope reviews of interim reports and Canadian and United States tax services.
- (f) When there is to be a change in the independent external auditor, review all issues relating to the change to be included in the required notice to securities regulators of such change.
- (g) Review and approve the hiring policies for the Corporation's hiring of employees or former employees of the present and any former independent external auditors.

3) Internal Controls

- (a) Evaluate whether senior management is adequately communicating the importance of internal control to all relevant personnel.
- (b) Periodically privately consult with the independent external auditor about internal controls and the completeness and accuracy of the Corporation's financial statements. Any significant recommendation made by the independent external auditor for the strengthening of internal controls shall be reviewed and discussed with senior management.
- (c) Review whether the internal control recommendations made by internal auditors and the independent external auditor are being implemented by senior management and, if not, why not.

4) Compliance with Relevant laws and regulations

- (a) Periodically obtain updates from senior management regarding procedures and processes to ensure compliance with applicable laws and regulations (including but not limited to, securities, tax and environmental matters).
- (b) Review and receive reports from the Corporation's Disclosure Committee.
- (c) Monitor and approve the Corporation's Disclosure Policy.

5) Other Responsibilities

- (a) Review policies and procedures with respect to officers' and directors' expense accounts and perquisites, including the use of corporate assets.
- (b) As requested by the Board,
 - review the financial risks arising from the Corporation's exposure to such things as interest rates, credit, insurance programs, remittances, assessments, tax policies and planning initiatives and government audits and report the results of such reviews to the Board for the purpose of assisting the Board in identifying the principal business risks associated with the business of the Corporation.
- (c) Review the procedures established for the receipt, retention, and treatment of complaints received by the Corporation of concerns regarding accounting, internal

accounting controls, auditing or code of conduct matters and resolution of such concerns, if any.

- (d) Review the procedures established allowing the confidential, anonymous submission by the Corporation's employees of concerns regarding questionable accounting or auditing matters and resolution of such concerns, if any.
- (e) Review with the Board, any issues that arise with respect to the quality or integrity of the Corporation's financial statements, the Corporation's compliance with legal or regulatory requirements and the performance and independence of the Corporation's independent external auditors.
- (f) Review and/or approve other financial matters delegated specifically to it by the Board.

PROCEDURE GOVERNING ERRORS OR MISTATEMENTS IN THE FINANCIAL STATEMENTS

In the event a Director of the Corporation has reason to believe, after discussion with management, that a material error or misstatement exists in the Corporation's financial statements, that Director shall forthwith notify the Committee and the independent external auditor of the error or misstatement of which the Director becomes aware in a financial statement that the independent external auditor or a former independent external auditor has reported on.

If the independent external auditor or a former independent external auditor of the Corporation is notified or becomes aware of an error or misstatement in a financial statement on which the auditor or former auditor has reported, and if in the auditor's or former auditor's opinion the error or misstatement is material, the auditor or former auditor shall inform the Board and/or Committee accordingly.

When the Committee or the Board is made aware of an error or misstatement in a financial statement the Board shall prepare and issue revised financial statements or otherwise inform the shareholders and file such revised financial statements as required.

LIMITATION ON COMMITTEE MEMBERS' DUTIES

Nothing in this Charter is intended, or may be construed, to impose on any member of the Committee a standard of care or diligence that is in any way more onerous or extensive than the standard required by law. The purposes and responsibilities outlined in this charter are meant to serve as guidelines rather than inflexible rules and the Committee may adopt such additional procedures and standards it deems necessary from time to time to fulfill its responsibilities.