CATHEDRAL

NEWS RELEASE

AUGUST 8, 2019

Calgary, Alberta

CATHEDRAL ENERGY SERVICES REPORTS RESULTS FOR 2019 Q2

Cathedral Energy Services Ltd. (the "Company" or "Cathedral" / TSX: CET) announces its consolidated financial results for the three and six months ended June 30, 2019 and 2018. Dollars in 000's except per share amounts.

This news release contains "forward-looking statements" within the meaning of applicable Canadian securities laws. For a full disclosure of forward-looking statements and the risks to which they are subject, see "Forward-Looking Statements" later in this news release.

FINANCIAL HIGHLIGHTS

Dollars in 000's except per share amounts

	Three months ended June 30		Six months ended June 30	
	2019	2018	2019	2018
Revenues	$ 32,550	$ 34,973	$ 69,792	$ 75,130
Adjusted gross margin % (1)	10%	2%	8%	7%
Adjusted EBITDAS (1)	$ 479	$ (985)	$ 2,353	$ 2,458
Basic and diluted per share	$ 0.01	$ (0.02)	$ 0.05	$ 0.05
As % of revenues	1%	-3%	3%	3%
Cash flow - operating activities	$ (262)	$ (3,731)	$ (1,116)	$ (1,599)
Loss before income taxes	$ (4,966)	$ (4,224)	$ (8,534)	$ (3,879)
Basic per share	$ (0.10)	$ (0.09)	$ (0.17)	$ (0.08)
Loss	$ (5,342)	$ (2,498)	$ (8,966)	$ (2,204)
Basic per share	$ (0.11)	$ (0.05)	$ (0.18)	$ (0.04)
Equipment additions - cash basis	$ 1,564	$ 4,306	$ 3,527	$ 8,780
Weighted average shares outstanding				
Basic (000s)	49,468	49,445	49,468	49,422
Diluted (000s)	49,468	49,478	49,469	49,538

	June 30 2019	December 31 2018
Working capital	$ 24,531	$ 30,599
Total assets	$ 125,395	$ 121,770
Loans and borrowings excluding current portion	$ 7,000	$ 7,000
Shareholders' equity	$ 78,428	$ 89,143

(1) Refer to "NON-GAAP MEASUREMENTS"

2019 Q2 KEY TAKEAWAYS

Adjusted EBITDAS increased from a loss of $(985) in 2018 Q2 to $479 in 2019 Q2 due to improved adjusted gross margin.

Adjusted gross margin increased to 10% from 2% in 2018 Q2. 2018 Q2 adjusted gross margin included some items that reduced the adjusted gross margin. 2019 Q2 adjusted gross margin benefited from Cathedral's focus on cost controls, in particular for equipment repairs.

Revenues decreased 7% from $34,973 in 2018 Q2 to $32,550 in 2019 Q2 with the decline mainly due to decrease in U.S. market share.

OUTLOOK

Since our last communication to markets in May 2019, the overall sentiment with regard to North American drilling activity for the 2019 H2 has turned further negative. The expected additional decline in drilling activity is on the backdrop of E&P companies spending within their cash flow as well as looking to allocate a portion of that cash flow to shareholder friendly initiatives such as share buybacks, dividends and debt repayment. The Canadian market has been under more stress by ongoing issues related to egress, regulatory and commodity price uncertainty.

To date, our 2019 activity levels in the U.S. have declined over the comparative period in 2018 as we re-structure our U.S. operations. As previously disclosed, in late 2019 Q1, we replaced our senior managers within the U.S. division and since then we have made additional personnel adjustments to assist in improving our financial results. We are expecting these adjustments to show in the financial results as we progress through 2019 and we have already seen improvement in our U.S. adjusted gross margin from 2019 Q1 to 2019 Q2. The U.S. market continues to be Cathedral's focus area for growth and we believe we can increase our market share based on our value added and differentiated technology – FUSION™ MWD and nDurance™ drilling motors – and overall job performance. Examples of our job performance can be viewed on the "Performance" section of our www.cathedralenergyservices.com website.

With regard to the Canadian market, Cathedral expects to build on its 2019 Q2 market share gain as we progress through 2019 H2. This assessment is based upon work awarded to Cathedral. The Q2 market share gain was achieved by way of aggressive pricing in basins in which Cathedral has fit for purpose equipment that operates reliably, has low operating cost, and requires minimal, if no rentals. This allows for effective controls over our cost structure with reasonable field margins and requires no additional fixed costs. Despite the challenges within the Canadian market in the near term, Cathedral remains committed to expanding our presence in this market.

During 2019 Q2, we continued testing of our patented "Double Bend"" motor design and test results are promising. This motor design is expected to significantly reduce drag, stick slip and rotary torque as well as extending the length of laterals that can be drilled with a conventional bottom hole assembly ("BHA") as compared to using a rotary steerable system ("RSS"). The ability to drill longer laterals with a conventional BHA is expected to result in significant savings to Cathedral's clients. We will continue seek additional testing opportunities as we move toward commercialization of this tool. In addition, Cathedral has constructed prototype quantities of its mud lubricated bearing section targeted to hotter wellbores and short run applications where it is better suited and more cost effective than oil sealed bearing sections.

With regard to MWD technology, we continue to be on track to introduce our next generation FUSION™ Dual Telemetry (DT) tool in 2019. In addition, a priority is to improve the data rates of our previously commercialized FUSION Linear Pulse ("LP") tool. Further increases in the speed at which surveys are transmitted on FUSION LP are anticipated in Q3.

Despite a challenging 2019 H1, we are both optimistic and confident about our prospects for the balance of 2019 and beyond. We will continue to focus on what we can control – cost controls, improving operational efficiencies and strategic sales and marketing of our offerings.

2019 CAPITAL PROGRAM

During the six months ended June 30, 2019, the Company invested $3,527 (2018 - $8,780) in equipment. The following table details the current period's net equipment additions:

		Six months ended June 30, 2019
Equipment additions:		
Motors	$	1,765
MWD		1,598
Other		164
Total cash additions		3,527
Less: proceeds on disposal of equipment (excluding capital lease settlements)		(4,881)
Net equipment additions (1)	$	(1,354)

(1) See "NON-GAAP MEASUREMENTS"

Cathedral's 2019 capital budget approved by the Board of Directors in December 2018 was for net equipment additions of approximately $4,000 and $1,700 of intangible additions related to technology development. The Company is in the process of reviewing the capital spend, but as the year to date net equipment additions has proceeds greater than expenditures, it is expected that the net equipment additions will be $nil or a net recovery (proceeds on lost-in-hole greater than additions). Subject to operating results and industry outlook, equipment lost-in-hole will be replaced and funded from the proceeds received.

RESULTS OF OPERATIONS – THREE MONTHS ENDED JUNE 30

Effective January 1, 2019, the Company adopted IFRS 16 Leases ("IFRS 16") (see discussion under "New and Future Accounting Policies"). As a result of this new accounting policy, which was adopted retrospectively without restatement of comparative results, expenditures which previously were reported as cost of sales ("COS") or selling, general and administrative ("SG&A") expenses are now classified as lease debt obligation repayments and interest expense and the related right of use asset is depreciated against net income on a straight-line basis. As interest and depreciation are excluded from Adjusted EBITDAS (refer to Non-GAAP measurements), Adjusted EBITDAS for the three months ended June 30, 2019 was higher in comparison to 2018 in the amount of $800. Previously this $800 was classified as rent expense (being $662 in COS amounts and $138 in SG&A amounts).

Revenues		2019		2018
Canada	$	3,651	$	4,465
United States		28,899		30,508
Total	$	32,550	$	34,973

Revenues 2019 Q2 revenues were $32,550, which represented a decrease of $2,423 or 7% from 2018 Q2 revenues of $34,973.

Canadian revenues (excluding motor rental revenues) decreased to $2,911 in 2019 Q2 from $3,396 in 2018 Q2; a 14% decrease. This decrease was the result of: i) a 7% decrease in activity days to 375 in 2019 Q2 from 404 in 2018 Q2 and ii) an 8% decrease in the average day rate to $7,763 in 2019 Q2 from $8,406 in 2018 Q2.

The average active land rig count in Canada was down 21% in 2019 Q2 compared to 2018 Q2 (source: Baker Hughes). Cathedral's activity days were down 7%. The decrease in day rates was due to a reduction in base rates related to market pressures.

U.S. revenues (excluding motor rental revenues) decreased 4% to $28,544 in 2019 Q2 from $29,832 in 2018 Q2. This decrease was the net result of: i) a 22% decrease in activity days to 2,013 in 2019 Q2 from 2,573 in 2018 Q2; net of ii) a 22% increase in the average day rate to $14,180 in 2019 Q2 from $11,594 in 2018 Q2 (when converted to Canadian dollars). 2018 Q2 had specific one-time credits related to performance issues with certain U.S. clients which reduced the day rate by $501 CAD.

The average active land rig count for the U.S. was down 4% in 2019 Q2 compared to 2018 Q2 (source: Baker Hughes). The Company experienced an 22% decline in activity days resulting in a decrease in market share compared to 2018 Q2. This decline was related to reductions in client's drilling programs to stay within their cash flow as well as some operational issues. Day rates in USD increased 18% to $10,595 USD in 2019 Q2 from $8,969 USD in 2018 Q2. In addition to the customer credits discussed above that reduced the 2018 Q2 rate, the 2019 Q2 rate is up due to premiums on certain high performance motors and increase in revenues from providing Rotary Steerable System ("RSS") services which are rented from a 3rd party.

Motor rentals decreased in both Canada and U.S. Combined rental revenues decreased to $1,096 in 2019 compared to $1,746 a 37% decrease. The reduction is related to changes in rental customers drilling programs.

Gross margin and adjusted gross margin Gross margin for 2019 Q2 was -5% compared to -6% in 2018 Q2. Adjusted gross margin (see Non-GAAP Measurements) for 2019 Q2 was $3,249 or 10% compared to $631 or 2% for 2018 Q2.

Adjusted gross margin, as a percentage of revenue, increased due to higher revenue day rates as 2018 Q2 had negative impact of customer credits. Additionally, repairs were down significantly from 2018 Q2.

Depreciation of equipment allocated to cost of sales increased to $4,976 in 2019 Q2 from $2,573 in 2018 Q2 due to changes in estimate of useful life made effective October 1, 2018. Depreciation included in cost of sales as a percentage of revenue was 15% for 2019 Q2 and 7% in 2018 Q2.

Selling, general and administrative expenses ("SG&A") SG&A expenses were $3,031 in 2019 Q2; a decrease of $676 compared with $3,707 in 2018 Q2. As a result of the implementation of IFRS 16 there was a decrease of $138 related to amounts previously classified as rent, but currently classified as lease repayments and interest. Additionally, there were reductions in SG&A wages and related benefits and burdens. As a percentage of revenue, SG&A was 9% in 2019 Q2 compared to 11% in 2018 Q2.

Technology group expenses Technology group expenses are related to new product development and supporting and upgrading existing technology. Technology group expenses consist of salaries and related benefits and burdens as well as shop supplies. Technology group activities spent on new product development are capitalized as intangible assets. Total technology group costs were $908 in 2019 Q2; an increase of $49 compared with $859 in 2018 Q2. The portion of total technology group costs related to new product development was $269 and this amount has been capitalized as intangible assets (2018 Q2 - $232). Technology group costs not related to new product development were $639 in 2019 Q2; an increase of $12 compared with $627 in 2018 Q2. Technology group costs increased primarily due to wage increases.

Gain on disposal of equipment During 2019 Q2, the Company had a gain on disposal of equipment of $757 compared to $2,576 in 2018 Q2. These gains mainly relate to equipment lost-in-hole. Proceeds from clients on lost-in-hole equipment are based on amounts specified in service agreements and, in most cases, these proceeds exceed the net book value of the equipment and result in a gain. The timing of lost-in-hole recoveries is not in the control of the Company and therefore can fluctuate significantly from quarter-to-quarter. In 2019 Q2, the Company received proceeds on lost-in-hole recoveries from clients of $919 (2018 Q2 - $3,074).

Finance costs Finance costs consist of interest expenses on operating loans, long-term debt and bank charges of $139 for 2019 Q2 versus $99 for 2018 Q2. The change was due to increase in average debt levels outstanding in 2019 Q2.

Finance costs lease liability In 2019 Q2 there was $256 related to IFRS 16 (2018 Q2 - $nil) (see discussion under "New and Future Accounting Policies").

Provision for settlement In 2019 Q2, the Company made a settlement offer in respect of a wage and hour complaint (the “Complaint”) that was filed against the Company’s wholly owned U.S. subsidiary. The Complaint alleged that employees of the previously disposed Production Testing and Flowback division were entitled to recover unpaid or incorrectly calculated overtime wages under the Fair Labor Standards Act (“FLSA”). A settlement agreement is in the process of being finalized and requires court approval to be effective.

Foreign exchange The Company had a foreign exchange gain of $483 in 2019 Q2 compared to a loss of $(392) in 2018 Q2 due to the fluctuations of the Canadian dollar relative to the U.S. dollar. The Company’s foreign operations are denominated in USD and therefore, upon consolidation, gains and losses due to fluctuations in the foreign currency exchange rates are recorded as other comprehensive income on the balance sheet as a component of equity. However, gains and losses in the Canadian entity on U.S. denominated intercompany balances continue to be recognized in the statement of comprehensive income (loss). Included in the 2019 Q2 foreign currency loss are unrealized gain of $516 (2018 Q2 - loss of $401) related to intercompany balances.

Income tax In 2018 Q4, Cathedral derecognized $13,059 of deferred tax assets due to a recent history of tax losses within Cathedral's Canadian entity. As a result of this, for periods like 2019 Q2 where there are losses in the Canadian entity that are not recognized the effective tax rate is not meaningful. Income tax expense is booked based upon expected annualized rates using the statutory rates of 26.5% for Canada and 23% for the U.S.

RESULTS OF OPERATIONS – SIX MONTHS ENDED JUNE 30

Adjusted EBITDAS for the six months ended June 30, 2019 was higher in comparison to 2018 in the amount of $1,625 as a result of IFRS 16 changes discussed previously. Previously this $1,625 was classified as rent expense (being $1,345 in COS amounts and $280 in SG&A amounts

Revenues		2019		2018
Canada	$	11,015	$	15,102
United States		58,777		60,028
Total	$	69,792	$	75,130

Revenues 2019 revenues were $69,792, which represented a decrease of $5,338 or 7% from 2018 revenues of $75,130.

Canadian revenues (excluding motor rental revenues) decreased to $9,357 in 2019 from $13,093 in 2018; a 29% decrease. This decrease was the result of: i) a 25% decrease in activity days to 1,249 in 2019 from 1,676 in 2018 and ii) an 4% decrease in the average day rate to $7,492 in 2019 from $7,812 in 2018.

The average active land rig count in Canada was down 32% in 2019 compared to 2018 (source: Baker Hughes). Cathedral’s activity levels were down 25%. The decrease in day rates was due to a reduction in base rates related to market pressures.

U.S. revenues (excluding motor rental revenues) decreased 2% to $57,970 in 2019 from $58,963 in 2018. This decrease was the net result of: i) a 16% decrease in activity days to 4,282 in 2019 from 5,071 in 2018; net of ii) a 16% increase in the average day rate to $13,538 in 2019 from $11,628 in 2018 (when converted to Canadian dollars). 2018 had specific one-time credits related to performance issues with certain U.S. clients reduced the day rate by $254 CAD.

The average active land rig count for the U.S. increased 1% in 2019 compared to 2018 (source: Baker Hughes). The Company experienced a 16% decline in activity days resulting in a decrease in market share compared to 2018. This decline was related to reductions in client's drilling programs to stay within their cash flow as well as some operational issues. Day rates in USD increased 12% to $10,150 USD in 2019 from $9,098 USD in 2018. In addition to the customer credits discussed above that reduced the 2018 rate, the 2019 rate is up due to premiums on certain high performance motors and increase in revenues from providing RSS services which are rented from a 3rd party.

Motor rentals decreased in both Canada and U.S. Combined rental revenues decreased to $2,465 in 2019 compared to $3,073, a 20% decrease. The reduction is related to changes in rental customers drilling programs.

Gross margin and adjusted gross margin Gross margin for 2019 was -5% compared to 0% in 2018. Adjusted gross margin (see Non-GAAP Measurements) for 2019 was $5,845 or 8% compared to $5,393 or 7% for 2018.

Adjusted gross margin, as a percentage of revenue, increased due to higher revenue day rates as 2018 had negative impact of customer credits. Additionally, repairs were down significantly from 2018.

Depreciation of equipment allocated to cost of sales increased to $9,421 in 2019 from $4,788 in 2018 due to changes in estimate of useful life made effective October 1, 2018. Depreciation included in cost of sales as a percentage of revenue was 13% for 2019 and 6% in 2018.

Selling, general and administrative expenses ("SG&A") SG&A expenses were $6,886 in 2019; a decrease of $648 compared with $7,534 in 2018. As a result of the implementation of IFRS 16 there was a decrease of $280 related to amounts previously classified as rent, but currently classified as lease repayments and interest. Additionally, there were reductions in SG&A wages and related benefits and burdens. As a percentage of revenue, SG&A was 10% in 2019 compared to 10% in 2018.

Technology group expenses Technology group expenses are related to new product development and supporting and upgrading existing technology. Technology group expenses consist of salaries and related benefits and burdens as well as shop supplies. Technology group activities spent on new product development are capitalized as intangible assets. Total technology group costs were $1,890 in 2019; an increase of $201 compared with $1,690 in 2018. The portion of total technology group costs related to new product development was $499 and this amount has been capitalized as intangible assets (2018 - $462). Technology group costs not related to new product development were $1,391 in 2019; an increase of $163 compared with $1,228 in 2018. Technology group costs increased primarily due to wage increases.

Gain on disposal of equipment During 2019, the Company had a gain on disposal of equipment of $3,550 compared to $5,584 in 2018. These gains mainly relate to equipment lost-in-hole. Proceeds from clients on lost-in-hole equipment are based on amounts specified in service agreements and, in most cases; these proceeds exceed the net book value of the equipment and result in a gain. The timing of lost-in-hole recoveries is not in the control of the Company and therefore can fluctuate significantly from quarter-to-quarter. In 2019, the Company received proceeds on lost-in-hole recoveries from clients of $4,881 (2018 - $6,849).

Finance costs Finance costs consist of interest expenses on operating loans, long-term debt and bank charges of $282 for 2019 versus $144 for 2018. The change was due to increase in average debt levels outstanding in 2019.

Finance costs lease liability In 2019 there was $518 related to IFRS 16 (2018 - $nil) (see discussion under "New and Future Accounting Policies").

Provision for settlement In 2019 Q2, the Company made a settlement offer in respect of a wage and hour complaint (the "Complaint") that was filed against the Company's wholly owned U.S. subsidiary. The Complaint alleged that employees of the previously disposed Production Testing and Flowback division were entitled to recover unpaid or incorrectly calculated overtime wages under the Fair Labor Standards Act ("FLSA"). A settlement agreement is in the process of being finalized and requires court approval to be effective.

Foreign exchange The Company had a foreign exchange gain of $1,025 in 2019 compared to a loss of $(1,089) in 2018 due to the fluctuations of the Canadian dollar relative to the U.S. dollar. The Company's foreign operations are denominated in USD and therefore, upon consolidation, gains and losses due to fluctuations in the foreign currency exchange rates are recorded as other comprehensive income on the balance sheet as a component of equity. However, gains and losses in the Canadian entity on U.S. denominated intercompany balances continue to be recognized in the statement of comprehensive income (loss). Included in the 2019 foreign currency loss are unrealized gain of $1,043 (2018 - loss of $1,070) related to intercompany balances.

Income tax In 2018 Q4, Cathedral derecognized $13,059 of deferred tax assets due to a recent history of tax losses within Cathedral's Canadian entity. As a result of this, for periods like 2019 where there are losses in the Canadian entity that are not recognized the effective tax rate is not meaningful. Income tax expense is booked based upon expected annualized rates using the statutory rates of 26.5% for Canada and 23% for the U.S.

LIQUIDITY AND CAPITAL RESOURCES

Overview On an annualized basis, the Company's principal source of liquidity is cash generated from operations and proceeds from equipment lost-in-hole. In addition, the Company has the ability to fund liquidity requirements through its credit facility and the issuance of debt and/or equity. Cash flow - operating activities was a use of cash of $1,116 in 2019 compared to use of $1,599 in 2018. This increase was primarily due to improved financial results.

Working capital At June 30, 2019 the Company had working capital of $24,531 (December 31, 2018 - $30,599). $2,088 of the decrease in working capital relates to increase in current portion of lease liabilities due to the adoption of IFRS 16.

Credit facility The Company's credit facility (the "Facility") consists of a $5 million operating facility and a $15 million extendible revolving credit facility and expires December 31, 2020. The Facility is secured by a general security agreement over all present and future personal property. The Facility provides a definition of EBITDA ("Credit Agreement EBITDA") to be used in calculation of financial covenants.

The financial covenants associated with the amended Facility are:

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

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. Interest rate spreads for the Facility depend on the level of funded debt compared to the 12 month trailing Credit Agreement EBITDA. The Facility provides a means to lock in a portion of the debt at interest rates through bankers' acceptance ("BA") based on the interest rate spread on the date the BA was entered into.

Compliance with Facility covenants

Based on current available information, Cathedral expects to comply with all covenants for the next twelve months.

At June 30, 2019, the Company had drawn $7,000 of its revolving credit facility, $1,691 of its operating facility and had $5,059 in cash. At June 30, 2019, the Company had consolidated funded debt of $4,632 which includes five outstanding letters of credit ("LOC") which are included in the funded debt calculation. For the trailing twelve months ended June 30, 2019, Credit Agreement EBITDA was $12,900.

The calculation of the financial covenants under the Facility as at June 30, 2019 is as follows:

Covenant	Actual Ratio	Required Ratio
Consolidated funded debt to consolidated Credit Agreement EBITDA ratio	0.4:1	3.0:1 (maximum)
Consolidated interest coverage ratio	22.2:1	2.5:1 (minimum)

Contractual obligations In the normal course of business, the Company incurs contractual obligations and those obligations are disclosed in the Company's annual financial statements for the year ended December 31, 2018.

As at June 30, 2019, the Company's commitment to purchase equipment is approximately $961. Cathedral anticipates expending these funds in 2019 Q3 and Q4.

The Company has issued the following five LOC:

- two securing rent payments on property leases and renew annually with the landlords. The first LOC is $700 CAD for the first ten years of the lease and then reduces to $500 for the last five years of the lease. The second LOC is currently for $542 USD and increases annually based upon annual changes in rent;
- $75 USD issued for U.S. workers compensation coverage; and
- two securing the Company's corporate credit cards in the amounts of $75 CAD and $175 USD.

Share capital At August 8, 2019, the Company has 49,468,117 common shares and 2,863,750 options outstanding with a weighted average exercise price of $1.03.

NEW AND FUTURE ACCOUNTING POLICIES

i) The Company has adopted IFRS 16 Leases ("IFRS 16") effective January 1, 2019.

The Company utilized the modified retrospective approach in application of the standard. This resulted in the recognition of a lease liability and a corresponding recognition of a right-of-use asset. The Company has chosen to recognize the right-of-use asset on January 1, 2019 at a value equal to the related liability of the lease. The Company also used the exemption for any capital leases recognized prior to January 1, 2019 under the previous standards and to only apply IFRS 16 to contracts that were previously identified as leases. As such, the Company did not apply the standard to any contracts not previously identified as containing a lease. Exemptions were utilized for short-term leases where the term is 12 months or less and for leases of low value items. As well, the classification of cash flows were impacted as the presentation of operating lease payments previously shown as operating cash flows will be split into financing (principal portion) and financing (interest portion) cash flows under IFRS 1616.

The modified retrospective approach does not require restatement of prior period financial information. Accordingly, comparative information in the Company's financial statements are not restated.

As lease payments are made there is a reduction to the principal portion of the lease liability as well as an amount allocated to finance costs. The finance cost is expensed over the lease term. The right of use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. Cathedral uses a single discount rate for a portfolio of leases with reasonably similar characteristics.

ii) The Company also adopted IFRS Interpretations Committee ("IFRIC") issued IFRIC 23 Uncertainty over Income Tax Treatments ("IFRIC 23") which clarifies the accounting for uncertainties in income taxes. The adoption of this standard did not have any material impact on the Company's financial statements.

FORWARD LOOKING STATEMENTS

This news release contains certain forward-looking statements and forward-looking information (collectively referred to herein as "forward-looking statements") within the meaning of applicable Canadian securities laws. All statements other than statements of present or historical fact are forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "anticipate", "achieve", "believe", "plan", "intend", "objective", "continuous", "ongoing", "estimate", "outlook", "expect", "may", "will", "project", "should" or similar words suggesting future outcomes. In particular, this news release contains forward-looking statements relating to, among other things: expected additional decline in drilling activity is on the backdrop of E&P companies spending within their cash flow as well as looking to allocate a portion of that cash flow to shareholder friendly initiatives such as share buybacks, dividends and debt repayment; expecting U.S. management adjustments to show in the financial results as we progress through 2019; the U.S. market continues to be Cathedral's focus area for growth and we believe we can increase our market share based on our value added and differentiated technology – FUSION™ MWD and nDurance™ drilling motors – and overall job performance; with regard to the Canadian market, Cathedral expects to build on its 2019 Q2 market share gain as we progress through 2019 H2; Cathedral remains committed to expanding our presence in the Canadian market; we will continue seek additional testing opportunities as we move toward commercialization of our "Double Bend"" motor design; we are both optimistic and confident about our prospects for the balance of 2019 and beyond; we will continue to focus on what we can control – cost controls, improving operational efficiencies and strategic sales and marketing of our offerings; projected capital expenditures and commitments and the financing thereof; and Cathedral expects to comply with all covenants during 2019.

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

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

- the performance of Cathedral's businesses, including current business and economic trends;
- oil and natural gas commodity prices and production levels;
- alternatives to and changing demand for hydrocarbon products;
- performance obligation to clients;
- capital expenditure programs and other expenditures by Cathedral and its customers;
- currency exchange and interest rates;
- the ability of Cathedral to service its debt;
- 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 market its services successfully to existing and new customers and reliance on major customers;
- risks associated with technology development and intellectual property rights;
- the ability of Cathedral to maintain safety performance;
- the ability of Cathedral to obtain timely financing on acceptable terms;
- the ability to obtain sufficient insurance coverage to mitigate operational risks;
- risks associated with acquisitions and business development efforts;
- environmental risks;

- risks associated with information technology systems;
- changes under governmental regulatory regimes and tax, environmental and other laws in Canada and U.S.; and
- competitive risks.

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

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

NON-GAAP MEASUREMENTS

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

The specific measures being referred to include the following:

i) "Adjusted gross margin" - calculated as gross margin plus non-cash items (depreciation and share-based compensation); is considered a primary indicator of operating performance (see tabular calculation);

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

iii) "Adjusted EBITDAS" - defined as earnings before Interest, taxes, depreciation, amortization, share-based compensation, unrealized foreign exchange on intercompany balances, write-down of equipment, write-down of inventory and non-recurring expenses (including severance). Management believes that Adjusted EBITDAS provides supplemental information to net earnings in evaluating the results of the Company's business activities before considering certain charges, how it was financed and how it was taxed; and

iv) "Net equipment additions" – is equipment additions expenditures less proceeds from equipment lost down-hole. Cathedral uses net equipment additions to assess net cash flows related to the financing of Cathedral's equipment additions.

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

Adjusted gross margin

	Three months ended June 30		Six months ended June 30	
	2019	2018	2019	2018
Gross margin	$ (1,755)	$ (1,975)	$ (3,646)	$ 532
Add non-cash items included in cost of sales:				
Depreciation	4,976	2,573	9,421	4,788
Share-based compensation	28	33	70	73
Adjusted gross margin	$ 3,249	$ 631	$ 5,845	$ 5,393
Adjusted gross margin %	10%	2%	8%	7%

Adjusted EBITDAS

	Three months ended June 30		Six months ended June 30	
	2019	2018	2019	2018
Loss before income taxes	$ (4,966)	$ (4,224)	$ (8,534)	$ (3,879)
Add:				
Depreciation included in cost of sales	4,976	2,573	9,421	4,788
Depreciation included in selling, general and administrative expenses	19	41	770	77
Share-based compensation included in cost of sales	28	33	70	73
Share-based compensation included in selling, general and administrative expenses	77	92	184	185
Finance costs	139	99	282	144
Finance costs lease liabilities	256	-	518	-
Subtotal	529	(1,386)	2,711	1,388
Unrealized foreign exchange (gain) loss on intercompany balances	(516)	401	(1,043)	1,070
Provision for settlement	386	-	386	-
Non-recurring expenses	80	-	299	-
Total Adjusted EBITDAS	$ 479	$ (985)	$ 2,353	$ 2,458

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2019 and December 31, 2018
Dollars in '000s
(unaudited)

	June 30 2019	December 31 2018
Assets		
Current assets:		
Cash	$ 5,059	$ 6,875
Trade receivables	27,627	35,583
Prepaid expenses	1,426	1,691
Inventories	10,868	11,750
Current taxes recoverable	91	-
Total current assets	45,071	55,899
Equipment	54,876	61,068
Intangible assets	2,971	2,827
Right of use assets	21,005	-
Deferred tax assets	1,472	1,976
Total non-current assets	80,324	65,871
Total assets	$ 125,395	$ 121,770
Liabilities and Shareholders' Equity		
Current liabilities:		
Operating loan	$ 1,691	$ 188
Trade and other payables	16,151	23,868
Current taxes payable	-	991
Lease liabilities, current	2,161	89
Provision for settlements, current	537	164
Total current liabilities	20,540	25,300
Loans and borrow ings	7,000	7,000
Provision for settlements, long-term	275	327
Lease liabilities, long-term	19,152	-
Total non-current liabilities	26,427	7,327
Total liabilities	46,967	32,627
Shareholders' equity:		
Share capital	88,155	88,155
Contributed surplus	10,664	10,410
Accumulated other comprehensive income	10,249	12,252
Deficit	(30,640)	(21,674)
Total shareholders' equity	78,428	89,143
Total liabilities and shareholders' equity	$ 125,395	$ 121,770

See accompanying notes to condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

Three and six months ended June 30, 2019 and 2018
Dollars in '000s except per share amounts
(unaudited)

	Three months ended June 30		Six months ended June 30	
	2019	2018	2019	2018
Revenues	$ 32,550	$ 34,973	$ 69,792	$ 75,130
Cost of sales:				
Direct costs	(29,301)	(34,342)	(63,947)	(69,737)
Depreciation	(4,976)	(2,573)	(9,421)	(4,788)
Share-based compensation	(28)	(33)	(70)	(73)
Total cost of sales	(34,305)	(36,948)	(73,438)	(74,598)
Gross margin	(1,755)	(1,975)	(3,646)	532
Selling, general and administrative expenses:				
Direct costs	(2,935)	(3,574)	(5,932)	(7,272)
Depreciation	(19)	(41)	(770)	(77)
Share-based compensation	(77)	(92)	(184)	(185)
Total selling, general and administrative expenses	(3,031)	(3,707)	(6,886)	(7,534)
	(4,786)	(5,682)	(10,532)	(7,002)
Technology group expenses	(639)	(627)	(1,391)	(1,228)
Gain on disposal of equipment	757	2,576	3,550	5,584
Loss from operating activities	(4,668)	(3,733)	(8,373)	(2,646)
Finance costs	(139)	(99)	(282)	(144)
Finace costs lease liabilities	(256)	-	(518)	-
Provision for settlement	(386)	-	(386)	-
Foreign exchange gain (loss)	483	(392)	1,025	(1,089)
Loss before income taxes	(4,966)	(4,224)	(8,534)	(3,879)
Income tax recovery (expense):				
Current	-	(273)	-	(435)
Deferred	(376)	1,999	(432)	2,110
Total income tax recovery (expense)	(376)	1,726	(432)	1,675
Loss	(5,342)	(2,498)	(8,966)	(2,204)
Other comprehensive income (loss):				
Foreign currency translation differences for foreign operations	(957)	885	(2,003)	2,080
Total comprehensive loss	$ (6,299)	$ (1,613)	$ (10,969)	$ (124)
Loss per share				
Basic	$ (0.11)	$ (0.05)	$ (0.18)	$ (0.04)

See accompanying notes to condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Three and six months ended June 30, 2019 and 2018
Dollars in '000s
(unaudited)

	Three months ended June 30		Six months ended June 30	
	2019	2018	2019	2018
Cash provided by (used in):				
Operating activities:				
Loss	$ (5,342)	$ (2,498)	$ (8,966)	$ (2,204)
Items not involving cash				
Depreciation	4,995	2,614	10,191	4,865
Share-based compensation	105	125	254	258
Income tax expense (recovery)	376	(1,726)	432	(1,675)
Gain on disposal of equipment	(757)	(2,576)	(3,550)	(5,584)
Finance costs	139	99	282	144
Finance costs lease liability	256	-	518	-
Provision for settlement	386	-	386	-
Unrealized foreign exchange (gain) loss on intercompany balances	(516)	401	(1,043)	1,070
Cash flow - continuing operations	(358)	(3,561)	(1,496)	(3,126)
Changes in non-cash operating w orking capital	1,130	(112)	1,417	2,791
Income taxes paid	(1,034)	(58)	(1,037)	(1,264)
Cash flow - operating activities	(262)	(3,731)	(1,116)	(1,599)
Investing activities:				
Equipment additions	(1,564)	(4,306)	(3,527)	(8,780)
Intangible asset additions	(273)	(519)	(658)	(820)
Proceeds on disposal of equipment	919	3,074	4,881	6,849
Changes in non-cash investing w orking capital	564	1,860	(698)	(434)
Cash flow - investing activities	(354)	109	(2)	(3,185)
Financing activities:				
Change in operating loan	1,691	(833)	1,503	(1,232)
Repayments on loans and borrow ings	(541)	(140)	(1,115)	(151)
Interest paid	(395)	(99)	(800)	(144)
Payment on settlements	-	(40)	(40)	(236)
Advances of loans and borrow ings	-	3,000	-	5,500
Proceeds on share issuance from exercise of share	-	40	-	71
Restricted cash	-	-	-	1,514
Cash flow - financing activities	755	1,928	(452)	5,322
Effect of exchange rate on changes on cash	(116)	40	(246)	97
Change in cash	23	(1,654)	(1,816)	635
Cash, beginning of period	5,036	4,972	6,875	2,683
Cash, end of period	$ 5,059	$ 3,318	$ 5,059	$ 3,318

See accompanying notes to condensed consolidated interim financial statements.

NOT FOR DISSEMINATION IN THE UNITED STATES OF AMERICA

Requests for further information should be directed to:

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Cathedral Energy Services Ltd. (the "Company" or "Cathedral"), based in Calgary, Alberta is incorporated under the Business Corporations Act (Alberta) and operates in the U.S. under Cathedral Energy Services Inc. The Company is publicly traded on the Toronto Stock Exchange under the symbol "CET". Cathedral, is a trusted partner to North American energy companies requiring high performance directional drilling services. We work in partnership with our customers to tailor our equipment and expertise to meet their specific geographical and technical needs. Our experience, technologies and responsive personnel enable our customers to achieve higher efficiencies and lower project costs. For more information, visit www.cathedralenergyservices.com.