CATHEDRAL

NEWS RELEASE

JUNE 24, 2020

Calgary, Alberta

CATHEDRAL ENERGY SERVICES REPORTS RESULTS FOR 2020 Q1

Cathedral Energy Services Ltd. (the "Company" or "Cathedral" / TSX: CET) announces its consolidated financial results for the three months ended March 31, 2020 and 2019. 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 March 31 2020		2019
Revenues	$	19,295	$	37,242
Adjusted gross margin % (1)		12%		7%
Adjusted EBITDAS (1)	$	1,012	$	1,874
Diluted per share	$	0.02	$	0.04
As % of revenues		5%		5%
Cash flow - operating activities	$	(1,943)	$	(854)
Loss from operating activities	$	(4,426)	$	(3,705)
Basic per share	$	(0.09)	$	(0.07)
Impairments and direct write-downs	$	(6,994)	$	-
Loss before income taxes	$	(14,123)	$	(3,568)
Basic per share	$	(0.29)	$	(0.07)
Loss	$	(12,590)	$	(3,624)
Basic per share	$	(0.25)	$	(0.07)
Equipment additions - cash basis	$	855	$	1,963
Weighted average shares outstanding				
Basic (000s)		49,468		49,468
Diluted (000s)		49,468		49,469

		March 31 2020		December 31 2019
Working capital	$	20,435	$	20,181
Total assets	$	94,883	$	106,300
Loans and borrowings excluding current portion	$	6,000	$	6,000
Shareholders' equity	$	59,069	$	68,092

(1) Refer to "NON-GAAP MEASUREMENTS"

2020 Q1 KEY TAKEAWAYS

Revenues decreased by $17,947 or 48% from $37,242 in 2019 Q1 to $19,295 in 2020 Q1;

Adjusted gross margin increased from 7% to 12% primarily due to a decrease in repairs and field labour offset by an increase in the fixed component of cost of sales on a percentage of revenue basis;

Despite the 48% drop in revenue, loss from operating activities per share decreased to only $0.09 compared to $0.07 in 2019 Q1 due to cost control measures the Company has implemented since the end of 2019 Q1;

Total Adjusted EBITDAS decreased $862, from $1,874 to $1,012 in 2020 Q1 as a result of reduced revenues offset by increase in adjusted gross margin;

Net debt (drawn credit facility less cash on hand) at end of 2020 Q1 was $1,155;

During 2020 Q1, the Company recorded a non-cash impairment and direct write-down charge related to right of use and intangible assets of $6,994; and

The Company is in the process of finalizing an amendment to its credit facility to provide temporary covenant relief commencing 2020 Q2 and ending 2021 Q1. The changes have been approved by the Company and its Lender and the final agreement is expected to be completed and signed prior to June 30, 2020.

COVID-19

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 closure of non-essential businesses and implementing travel bans and stay-at-home restrictions. These actions contributed to the material deterioration in global economy including a dramatic decline in demand for oil, which resulted in a material decrease in the price for oil. The decline in oil prices has negatively affected current and forecasted drilling activities in Cathedral's operating areas of U.S. and Canada. In response to the decline in oil prices, OPEC+ agreed to production reductions in April 2020 and recently extended reductions to the end of July. In addition, North American oil and natural gas producers have shut-in production due to low oil prices. Recently governmental bodies have started to remove restrictions related to COVID-19 and gradually re-opening businesses. This has resulted in an increase in demand for crude oil and resulted in an improvement in world oil prices. Oil prices have improved significantly since the drop in early March 2020 but the sustainability of such price improvement is subject to significant uncertainty.

The Company has 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, to better match our cost structure to expected operating levels. The collapse in oil prices has negatively affected our client's cash flows and, as a result, in certain situations resulted in slower collection of accounts receivable and increased risk related to potential non-payment.

All of these developments could have a material adverse effect on Cathedral's business, financial condition, results of operations, cash flows, ability to collect on accounts receivable and future impairments of Company assets. The duration and extent of business interruption and the financial impact cannot be reasonably determined and if it continues for an extended period, it could negatively impact Cathedral's ability to continue ongoing operations.

OUTLOOK

In both U.S. and Canada, Cathedral's service offerings are considered an essential service and therefore we are operating throughout the COVID-19 pandemic. The health and safety of our workplace, employees, clients, vendors and the public at large is a top priority for Cathedral and part of our guiding principles. With the onset of the COVID-19 pandemic, Cathedral implemented our multi-stage response plan to protect our stakeholders and our staff have adapted accordingly to this new way of operating our business.

The COVID-19 pandemic and its macroeconomic effects have contributed to an uncertain outlook for the oilfield service industry. The resulting supply and demand imbalance for oil, and related decline in oil prices, has dramatically changed drilling activity in Cathedral's operating areas. Since early March 2020, U.S. rig count has declined 66% to 266 rigs. On a year-over-year basis, the Canadian rig count is down 86%. Relative to prior year operating levels, we are expecting operating levels to remain depressed for the balance of 2020. The main driver for Cathedral's revenue is the price for oil and natural gas, and for the near term, oil prices are expected to be challenged. As a result, Cathedral's management team will focus on what it can control – cost structure, improving operational efficiencies, bringing new technologies to the market and strategic sales and marketing of our offerings. Cathedral's management team has navigated through previous downturns and we expect to do the same this time.

Cathedral's largest cost is labour and with the forecasted decline in activity levels management was in the unfortunate position of having to lay off a significant amount of staff. Since mid-March, we have reduced our fixed labour costs associated with office and shop staff that has resulted in an annualized cost saving of $4,328. Management will continue to monitor its cost structure and adjust as necessary to match expected operating levels.

Management continues to evaluate and apply for U.S. and Canadian federal, state and provincial government relief programs for which Cathedral qualifies. To date, the main relief programs that Cathedral is participating in is the Canada Emergency Wage Subsidy ("CEWS") and U.S. Paycheck Protection Program ("PPP").

To date, Cathedral has applied for and received $436 in CEWS funding for the first two claim periods ending May 9, 2020. The Company is currently compiling information to file for the 3rd period ending June 6, 2020. The program has recently been extended to cover through to August 29, 2020, but details on the extended period have not been released.

On May 8, 2020, Cathedral received loan proceeds of $750 USD under U.S. PPP. The proceeds will be used to support payroll expenditures for Cathedral's U.S. employees. A portion of the loan may be forgivable in accordance with certain U.S. Treasury guidelines. Cathedral estimates that approximately 70% of the loan proceeds ($525 USD) may be forgiven, if the U.S. Treasury guidelines are met.

On the technology forefront, despite low activity levels, we have been able to field test our RapidFire™ MWD platform and we are pleased with the initial results. Commercializing our RapidFire MWD platform is a key initiative for 2020 however testing and commercial deployment are being negatively impacted by reduced drilling activity. RapidFire is capable of transmitting data simultaneously via pulse and electro-magnetic ("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 second phase, initially planned to be released later in 2020, will offer a retrievable downhole generator, which will reduce operating costs and allow for high power EM transmission on extended run applications. Our nDurance™ drilling motors continue to draw interest due to material improvements in drilling performance. Our performance achievements with existing clients are expected to be leveraged into new rental opportunities.

2020 CAPITAL PROGRAM

During the three months ended March 31, 2020, the Company invested $855 (2019 - $1,963) in equipment. The following table details the current period's net equipment additions:

		Three months ended March 31, 2019
Equipment additions:		
Motors	$	530
MWD		299
Other		26
Total cash additions		855
Less: proceeds on disposal of equipment		(1,176)
Net equipment additions (1)	$	(321)

(1)See "NON-GAAP MEASUREMENTS"

Our 2020 capital plan will be modest and we expect our "net equipment additions" (equipment additions less proceeds on equipment lost downhole) to be in the range of $nil to $2.5 million (depending on level of lost-in-hole proceeds). Focus of 2020 capital plan will be motor power section additions for premium lines, addition of RapidFire MWD tools and mud lube bearing motor upgrades.

RESULTS OF OPERATIONS – THREE MONTHS ENDED MARCH 31

Revenues		2020		2019
Canada	$	7,336	$	7,364
United States		11,959		29,878
Total	$	19,295	$	37,242

Revenues 2020 Q1 revenues were $19,295, which represented a decrease of $17,947 or 48% from 2019 Q1 revenues of $37,242.

Canadian revenues (excluding motor rental revenues) decreased to $5,945 in 2020 Q1 from $6,446 in 2019 Q1; an 8% decrease. This decrease was the result of: i) a 7% decrease in activity days to 810 in 2020 Q1 from 874 in 2019 Q1 and ii) a less than 1% decrease in the average day rate to $7,340 in 2020 Q1 from $7,375 in 2019 Q1.

There was a 15% year-over-year decline in the average active land rig count in Canada (source: Baker Hughes) which compares to Cathedral's activity decline of 7%. Due to Cathedral's client mix, our decline was less than the general market decline.

U.S. revenues (excluding motor rental revenues) decreased 60% to $11,704 in 2020 Q1 from $29,426 in 2019 Q1. This decrease was the net result of: i) a 62% decrease in activity days to 865 in 2020 Q1 from 2,269 in 2019 Q1; and ii) a 4% increase in the average day rate to $13,531 in 2020 Q1 from $12,969 in 2019 Q1 (when converted to Canadian dollars).

The average active land rig count for the U.S. was down 24% in 2020 Q1 compared to 2019 Q1 (source: Baker Hughes). The Company experienced a 65% decline in activity days resulting in a decrease in market share compared to 2019 Q1. This decline was related to reductions in clients' drilling programs to stay within their cash flow, financial restructuring by certain clients that caused them to pause or cancel programs, as well as loss of work related to pricing. Due to Cathedral's client mix, our decline exceeded the general market decline. Day rates in USD increased 3% to $10,079 USD in 2020 Q1 from $9,756 USD in 2019 Q1. The 2020 Q1 rate is up due to an increase in revenues from providing rotary steerable system (RSS) services which are rented from a 3rd party.

Motor rentals increased in Canada and were down slightly in the U.S. Combined rental revenues increased to $1,646 in 2020 Q1 compared to $1,370 in 2019 Q1. The increase is due to the increased availability of motors for rental due to less full service work being performed and the fact that Cathedral's nDurance drilling motors are noted for their reliability and drilling performance. Approximately 60% of the motor rental revenue related to Cathedral's motors used on RSS jobs.

Gross margin and adjusted gross margin Gross margin for 2020 Q1 was -11% compared to -7% in 2019 Q1. Adjusted gross margin (see Non-GAAP Measurements) for 2020 Q1 was $2,307 or 12% compared to $2,596 or 7% for 2019 Q1.

Adjusted gross margin, as a percentage of revenue, increased due to decreases in equipment repairs and lower field labour partially offset by higher rentals as a percentage of revenue (actual rental costs were down year-over-year) and increased fixed component of cost of sales as a percentage of revenue (the amount was down, but not as percentage of revenues).

Depreciation of equipment allocated to cost of sales decreased to $4,376 in 2020 Q1 from $5,004 in 2019 Q1. Depreciation included in cost of sales as a percentage of revenue was 23% for 2020 Q1 and 13% in 2019 Q1.

Selling, general and administrative ("SG&A") expenses SG&A expenses were $2,810 in 2020 Q1; a decrease of $563 compared with $3,373 in 2019 Q1. There were reductions in SG&A wages and related benefits and burdens due to a reduction in head count as well as decreases in almost all categories of expenses due to efforts to reduce spending. As a percentage of revenue, SG&A was 15% in 2020 Q1 compared to 9% in 2019 Q1.

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 $725 in 2020 Q1; a decrease of $180 compared with $905 in 2019 Q1. The portion of total technology group costs related to new product development was $195 and this amount has been capitalized as intangible assets (2019 Q1 - $230). Technology group costs not related to new product development were $530 in 2020 Q1; a decrease of $145 compared with $675 in 2019 Q1. Total technology group costs decreased primarily due to reduction in staffing.

In light of the current market, Cathedral has consolidated its MWD repairs and, as part of this realignment, combined our Technology Group and MWD repair department. This has resulted in a reduction in overall head count of the combined group and will result in limited new product development in the near term.

Gain on disposal of equipment During 2020 Q1, the Company had a gain on disposal of equipment of $1,004 compared to $2,793 in 2019 Q1. These gains mainly related to equipment lost-in-hole. Proceeds from clients on lost-in-hole equipment are based on amounts specified in service agreements 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 2020 Q1, the Company received proceeds on disposal of equipment of $1,176 (2019 Q1 - $3,962).

Finance costs Finance costs consist of interest expenses on operating loans, long-term debt and bank charges of $29 for 2020 Q1 versus $143 for 2019 Q1.

Finance costs lease liability The lease liability interest decreased slightly to $238 from $262.

Foreign exchange The Company had a foreign exchange loss of $2,436 in 2020 Q1 compared to a gain of $542 in 2019 Q1 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 2020 Q1 foreign currency loss are unrealized loss of $2,464 (2019 Q1 - gain of $527) related to intercompany balances.

Impairment and direct write-downs Due to the decline in projected drilling activity for the remainder of 2020 and into 2021 as a result of the decrease in oil and natural gas prices, the Company determined that indicators of impairment existed as at March 31, 2020. The Company made a provision as a result of impairment test and direct write-downs of $6,994 in 2020 Q1 to right of use assets ($6,834) and intangibles ($160). As part of the Company's response to changes in drilling activity, the decision was made to consolidate its repair activities and there are plans to close or significantly reduce activities at certain locations and the right of use asset for these locations was written down to $nil. There were $160 intangible projects in progress where it is uncertain when or if staff resources will be available to bring the projects to commercialization. As such these projects were written down to $nil. There were no impairments or direct write-downs in 2019 Q1.

Income tax Due to U.S. legislative changes in 2020, an adjustment to prior year provision has been made to recognize the U.S. Federal portion of 2019 tax losses that will now be allow to be carried back to 2018 and recovered.

In 2019 Q1, 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, where there are losses in the Canadian entity that are not recognized as deferred taxes 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 in 2020 Q1 decreased to a use of funds of $1,943 compared to use of funds of $854 in 2019 Q1. This decrease was primarily due to the impact of changes in working capital in 2020 Q1 and reduced the Company's cash balances.

Working capital At March 31, 2020, the Company had working capital of $20,435 (December 31, 2019 - $20,181).

Credit facility At March 31, 2020, 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 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

At March 31, 2020, the Company had drawn $6,000 of its revolving credit facility, $nil of its operating facility and had $4,845 in cash. At March 31, 2020, the Company had consolidated funded debt of $3,049 that includes five outstanding letters of credit ("LOC") which are included in the funded debt calculation. For the trailing twelve months ended March 31, 2020, Credit Agreement EBITDA was $2,483.

The calculation of the financial covenants under the Facility as at March 31, 2020 is as follows:

Covenant	Actual Ratio	Required Ratio
Consolidated funded debt to consolidated Credit Agreement EBITDA ratio	1.2:1	3.0:1 (maximum)
Consolidated interest coverage ratio	6.0:1	2.5:1 (minimum)

The Company was in compliance with all covenants at March 31, 2020.

The Company is in the process of finalizing the following changes to its credit agreement:

- A reduction in facility to $12 million;
- The consolidated funded debt to consolidated Credit Agreement EBITDA ratio is waived from 2020 Q2 through 2021 Q1 (the "covenant relief period");
- The consolidated interest coverage ratio is waived during the covenant relief period if funded debt is no more than $6 million;
- A new funded debt to tangible net worth ("TNW") ratio is in place during the covenant relief period. This ratio is to be no more than 10% for 2020 Q2 and Q3 and no more than 15% in 2020 Q4 and 2021 Q1. 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;
- During the covenant relief period advances are limited to $10 million;
- During the covenant relief period aggregate capital expenditures (excluding non-cash utilization of existing inventory) for the fiscal year ended December 31, 2020, are not to exceed $2,000,000;
- During the covenant relief period 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; and
- The Borrower has a one-time option to exit the covenant relief period.

The changes have been approved by the Company and its Lender and the final agreement is expected to be completed and signed prior to June 30, 2020.

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, 2019.

As at March 31, 2020, the Company's has no commitment to purchase equipment.

The Company has issued the following six LOC:

- three securing rent payments on property leases and renew annually with the landlords. Two LOCs total $700 CAD for the first ten years of the lease and then reduces to $500 for the last five years of the lease. The third 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 June 24, 2020, the Company has 49,468,117 common shares and 2,420,500 options outstanding with a weighted average exercise price of $0.71.

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: the sustainability of oil and gas price improvement is subject to significant uncertainty; all of these developments could have a material adverse effect on Cathedral's business, financial condition, results of operations, cash flows, ability to collect on accounts receivable and future impairments of Company assets; the duration and extent of business interruption and the financial impact cannot be reasonably determined and if it continues for an extended period, it could result in Cathedral's ability to continue ongoing operations; we are expecting operating levels to remain depressed for the balance of 2020; for the near term, oil prices are expected to be challenged; reductions to fixed labour costs associated with office and shop staff is expected to result in an annualized cost saving of $4,328; Cathedral estimates that approximately 70% of the PPP loan proceeds $525 USD may be forgiven, if the U.S. Treasury guidelines are met; the second phase of RapidFire MWD platform, initially planned to be released later in 2020, will offer a retrievable downhole generator, which will reduce operating costs and allow for high power EM transmission on extended run applications; our nDurance™ drilling motors continue to draw interest due to material improvements in drilling performance; our performance achievements with existing clients are expected to be leveraged into new rental opportunities; the final amended credit agreement is expected to be completed and signed prior to June 30, 2020; and projected capital expenditures and commitments and the financing thereof.

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

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

- the performance of Cathedral's business
- impact of economic and social trends;
- oil and natural gas commodity prices and production levels;
- capital expenditure programs and other expenditures by Cathedral and its customers;
- the ability of Cathedral to retain and hire qualified personnel;
- the ability of Cathedral to obtain parts, consumables, equipment, technology, and supplies in a timely manner to carry out its activities;
- the ability of Cathedral to maintain good working relationships with key suppliers;
- the ability of Cathedral to retain customers, market its services successfully to existing and new customers and reliance on major customers;
- risks associated with technology development and intellectual property rights;
- obsolesce of Cathedral's equipment and/or technology;
- the ability of Cathedral to maintain safety performance;
- the ability of Cathedral to obtain adequate and timely financing on acceptable terms;
- the ability of Cathedral to comply with the terms and conditions of its credit facility;
- the ability to obtain sufficient insurance coverage to mitigate operational risks;
- currency exchange and interest rates;
- risks associated with future foreign operations;
- 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 the Company's actual performance and financial results in future periods to differ materially from any projections of future performance or results expressed or implied by such forward-looking statements. These risks and uncertainties include, but are not limited to, the risks identified in this MD&A and in the Company's Annual Information Form under the heading "Risk Factors". Any forward-looking statements are made as of the date hereof and, except as required by law, the Company assumes no obligation to publicly update or revise such statements to reflect new information, subsequent or otherwise.

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

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; is considered a primary indicator of operating performance (see tabular calculation);

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

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 March 31	
	2020	2019
Gross margin	$ (2,090)	$ (2,450)
Add non-cash items included in cost of sales:		
Depreciation	4,376	5,004
Share-based compensation	21	42
Adjusted gross margin	$ 2,307	$ 2,596
Adjusted gross margin %	12%	7%

Adjusted EBITDAS

		Three months ended March 31		
		2020		2019
Loss before income taxes	$	(14,123)	$	(3,568)
Add:				
Depreciation included in cost of sales		4,376		5,004
Depreciation included in selling, general and administrative expenses		132		192
Share-based compensation included in cost of sales		21		42
Share-based compensation included in selling, general and administrative expenses		41		107
Finance costs		29		143
Finance costs		238		262
Subtotal		(9,286)		2,182
Impairment and direct write-downs		6,994		-
Unrealized foreign exchange (gain) loss on intercompany balances		2,464		(527)
Non-recurring expenses		840		219
Total Adjusted EBITDAS	$	1,012	$	1,874

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

March 31, 2020 and 2019
Dollars in ‘000s
(unaudited)

	March 31 2020	December 31 2019
Assets		
Current assets:		
Cash	$ 4,845	$ 7,223
Trade receivables	15,015	14,802
Prepaid expenses	1,471	1,668
Inventories	9,957	10,423
Current tax recoveries	892	-
Total current assets	32,180	34,116
Equipment	43,975	46,882
Intangible assets	2,926	3,019
Right of use asset	12,538	19,590
Deferred tax assets	3,264	2,693
Total non-current assets	62,703	72,184
Total assets	$ 94,883	$ 106,300
Liabilities and Shareholders' Equity		
Current liabilities:		
Trade and other payables	$ 9,357	$ 11,308
Current taxes payable	-	314
Lease liabilities, current	2,219	2,145
Provision for settlements, current	169	168
Total current liabilities	11,745	13,935
Loans and borrow ings	6,000	6,000
Provision for settlements, long-term	127	156
Lease liabilities, long-term	17,942	18,117
Total non-current liabilities	24,069	24,273
Total liabilities	35,814	38,208
Shareholders' equity:		
Share capital	88,155	88,155
Contributed surplus	10,926	10,864
Accumulated other comprehensive income	13,439	9,934
Deficit	(53,451)	(40,861)
Total shareholders' equity	59,069	68,092
Total liabilities and shareholders' equity	$ 94,883	$ 106,300

Notice of No Auditor Review of Unaudited Condensed Consolidated Interim Financial Statements
Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated interim financial statements of Cathedral Energy Services Ltd. (the “Company”) have been prepared by and are the responsibility of the Company’s management. The Company’s independent auditor has not performed a review of these unaudited condensed consolidated interim financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity’s auditor.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

Three months ended March 31, 2020 and 2019
Dollars in '000s except per share amounts
(unaudited)

	Three months ended March 31	
	2020	2019
Revenues	$ 19,295	$ 37,242
Cost of sales:		
Direct costs	(16,988)	(34,646)
Depreciation	(4,376)	(5,004)
Share-based compensation	(21)	(42)
Total cost of sales	(21,385)	(39,692)
Gross margin	(2,090)	(2,450)
Selling, general and administrative expenses:		
Direct costs	(2,637)	(3,074)
Depreciation	(132)	(192)
Share-based compensation	(41)	(107)
Total selling, general and administrative expenses	(2,810)	(3,373)
	(4,900)	(5,823)
Technology group expenses	(530)	(675)
Gain on disposal of equipment	1,004	2,793
Loss from operating activities	(4,426)	(3,705)
Finance costs	(29)	(143)
Finance costs lease liability	(238)	(262)
Foreign exchange gain (loss)	(2,436)	542
Impairment and direct write-downs	(6,994)	-
Loss before income taxes	(14,123)	(3,568)
Income tax recovery (expense):		
Current	1,187	-
Deferred	346	(56)
Total income tax recovery (expense)	1,533	(56)
Loss	(12,590)	(3,624)
Other comprehensive income (loss):		
Foreign currency translation differences for foreign operations	3,505	(1,046)
Total comprehensive loss	$ (9,085)	$ (4,670)
Loss per share		
Basic	$ (0.25)	$ (0.07)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Three months ended March 31, 2020 and 2019
Dollars in '000s
(unaudited)

	Three months ended March 31	
	2020	2019
Cash provided by (used in):		
Operating activities:		
Loss before income taxes	$ (12,590)	$ (3,624)
Items not involving cash		
Depreciation	4,508	5,196
Share-based compensation	62	149
Income tax expense (recovery)	(1,533)	56
Gain on disposal of equipment	(1,004)	(2,793)
Impairment and direct w rite-dow ns	6,994	-
Finance costs	29	143
Finance costs lease liability	238	262
Unrealized foreign exchange (gain) loss on intercompany balances	2,464	(527)
Cash flow - continuing operations	(832)	(1,138)
Changes in non-cash operating w orking capital	(1,080)	287
Income taxes paid	(31)	(3)
Cash flow - operating activities	(1,943)	(854)
Investing activities:		
Equipment additions	(855)	(1,963)
Intangible asset additions	(238)	(385)
Proceeds on disposal of equipment	1,176	3,962
Changes in non-cash investing w orking capital	(3)	(1,262)
Cash flow - investing activities	80	352
Financing activities:		
Change in operating loan	-	(188)
Repayments on loans and borrow ings	(588)	(574)
Interest paid	(267)	(405)
Payment on settlements	(42)	(40)
Cash flow - financing activities	(897)	(1,207)
Effect of exchange rate on changes on cash	382	(130)
Change in cash	(2,378)	(1,839)
Cash, beginning of period	7,223	6,875
Cash, end of period	$ 4,845	$ 5,036

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.