NEWS RELEASE
AUGUST 13, 2020
Calgary, Alberta

CATHEDRAL ENERGY SERVICES REPORTS RESULTS FOR 2020 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, 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 June 30		Six months ended June 30	
	2020	2019	2020	2019
Revenues	$ 8,841	$ 32,550	$ 28,136	$ 69,792
Adjusted gross margin % (1)	4%	10%	9%	8%
Adjusted EBITDAS (1)	$ (823)	$ 479	$ 235	$ 2,353
Basic and diluted per share	$ (0.02)	$ 0.01	$ -	$ 0.05
As % of revenues	-9%	1%	1%	3%
Cash flow - operating activities	$ (641)	$ (262)	$ (2,584)	$ (1,116)
Loss from operating activities	$ (4,720)	$ (4,668)	$ (9,146)	$ (8,373)
Basic per share	$ (0.10)	$ (0.09)	$ (0.18)	$ (0.17)
Impairments and direct write-downs	$ -	$ -	$ (6,994)	$ -
Loss	$ (3,815)	$ (5,342)	$ (16,405)	$ (8,966)
Basic per share	$ (0.08)	$ (0.11)	$ (0.33)	$ (0.18)
Equipment additions (recovery) - cash basis	$ (86)	$ 1,564	$ 769	$ 3,527
Weighted average shares outstanding				
Basic (000s)	49,468	49,468	49,468	49,468
Diluted (000s)	49,468	49,468	49,468	49,469

	June 30 2020	December 31 2019
Working capital	$ 18,261	$ 20,181
Total assets	$ 83,346	$ 106,300
Loans and borrowings excluding current portion	$ 5,935	$ 6,000
Shareholders' equity	$ 53,864	$ 68,092

(1) Refer to "NON-GAAP MEASUREMENTS"

2020 Q2 KEY TAKEAWAYS

Revenues decreased by $23,709 or 73% from $32,550 in 2019 Q2 to $8,841 in 2020 Q2;

Adjusted gross margin decreased from 10% to 4% primarily due an increase in the fixed component of cost of sales on a percentage of revenue basis offset by lower field labour;

Total Adjusted EBITDAS decreased $1,302, from $479 to $(823) in 2020 Q2 as a result of reduced revenues;

Net debt (secured revolving term loan less cash on hand) at end of 2020 Q2 was $1,170; and

The Company finalized an amendment to its credit facility to provide temporary covenant relief commencing 2020 Q2 and ending 2021 Q1.

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 and are now in the $40 USD range.

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. Subject to market conditions and actual results, it is possible that the Company will be required to enter into discussions with its lender to amend the revised covenants under its credit facility.

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

The COVID-19 pandemic and its macroeconomic effects continue to provide for an uncertain outlook for the oilfield service industry. Operating rig activity in U.S. and Canada remain at record lows and improvement is expected to be sluggish. Industry experts are forecasting 2020 Q3 to be the low in the U.S. active rig count with very modest improvements in activity levels are we progress through 2020 and into 2021. In Canada, the usual spring breakup related to weather turned into an economic breakup as oil prices did not warrant further drilling activity. Recently there has been an improvement in Canadian drilling rig activity but active rigs are down 66% on a year-over-year basis.

Operationally, our team has been executing on our ***Better Performance Every Day*** mantra and setting record drilling results for our clients. Those successes have and are expected to be, leveraged to attract new clients.

The significant adjustments to our fixed and variable cost structure that started at the tail end of Q1 continued into Q2 as we moved to better match our costs to expected operating levels. We continue to monitor our costs and are making further adjustments to our cost structure as warranted. In 2020 Q2, we recorded the benefit of $637 from the Canada Emergency Wage Subsidy ("CEWS") and Cathedral expects to apply and receive further benefits until the program expires. In 2020 Q3, we expect to finalize the portion of the U.S. Paycheck Protection Program ("PPP") that will be forgiven. We currently estimate that approximately 70% of the loan proceeds ($525 USD) may be forgiven, if the U.S. Treasury guidelines for forgiveness are met.

Cathedral's management team continues to 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.

2020 CAPITAL PROGRAM

During the six months ended June 30, 2020, the Company invested $769 (2019 - $3,527) in equipment. The following table details the current period's net equipment additions:

		Six months ended June 30, 2020
Equipment additions:		
Motors	$	561
MWD		181
Other		27
Total cash additions		769
Less: proceeds on disposal of equipment		(1,786)
Net equipment additions (1)	$	(1,017)

(1)See "NON-GAAP MEASUREMENTS"

Our 2020 capital plan will be modest and we expect our proceeds on disposal of equipment to exceed cash additions. 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 JUNE 30

Revenues		2020		2019
Canada	$	1,130	$	3,651
United States		7,711		28,899
Total	$	8,841	$	32,550

Revenues 2020 Q2 revenues were $8,841, which represented a decrease of $23,709 or 73% from 2019 Q2 revenues of $32,550.

Canadian revenues (excluding motor rental revenues) decreased to $570 in 2020 Q2 from $2,911 in 2019 Q2; an 80% decrease. This decrease was the result of: i) a 79% decrease in activity days to 79 in 2020 Q2 from 375 in 2019 Q2 and ii) a 7% decrease in the average day rate to $7,217 in 2020 Q2 from $7,763 in 2019 Q2.

There was a 70% year-over-year decline in the average active land rig count in Canada (source: Baker Hughes) which compares to Cathedral's activity decline of 80%. Due to Cathedral's client mix, our decline was greater than the general market decline. The decrease in day rates was due to a reduction in certain ancillary revenues.

U.S. revenues (excluding motor rental revenues) decreased 74% to $7,456 in 2020 Q2 from $28,544 in 2019 Q2. This decrease was the result of: i) a 69% decrease in activity days to 627 in 2020 Q2 from 2,013 in 2019 Q2; and ii) a 16% decrease in the average day rate to $11,892 in 2020 Q2 from $14,180 in 2019 Q2 (when converted to Canadian dollars).

The average active land rig count for the U.S. was down 67% in 2020 Q2 compared to 2019 Q2 (source: Baker Hughes). The Company experienced a 60% decline in activity days resulting in an increase in market share compared to 2019 Q2. Day rates in USD decreased 19% to $8,551 USD in 2020 Q2 from $10,595 USD in 2019 Q2. The 2020 Q2 rate is down due to a decrease in revenues from providing rotary steerable system (RSS) services which are rented from a 3rd party and a reduction in certain ancillary revenues.

Motor rentals decreased in both Canada and the U.S. Combined rental revenues decreased to $815 in 2020 Q2 compared to $1,096 in 2019 Q2. The decrease is due to the decrease in drilling activity in 2020 Q2.

Government grants The Company recognized the benefit from the Canada Emergency Wage Subsidy ("CEWS") program of $637 (2019 - $nil) which reduced salary expenses as follows:

- Cost of sales $261;
- Selling, general and administrative expenses $264; and
- Technology group expenses $112.

Gross margin and adjusted gross margin Gross margin for 2020 Q2 was -36% compared to -5% in 2019 Q2. Adjusted gross margin (see Non-GAAP Measurements) for 2020 Q2 was $342 or 4% compared to $3,249 or 10% for 2019 Q2.

Adjusted gross margin, as a percentage of revenue, decreased due to the increase in the fixed component of cost of sales as a percentage of revenue (these costs decreased $2,960, but the total increased as percentage of revenues) offset slightly by lower field labour and inspection expense.

Depreciation of equipment allocated to cost of sales decreased to $3,540 in 2020 Q2 from $4,976 in 2019 Q2. Depreciation included in cost of sales as a percentage of revenue was 40% for 2020 Q2 and 15% in 2019 Q2.

Selling, general and administrative ("SG&A") expenses SG&A expenses were $1,814 in 2020 Q2; a decrease of $1,296 compared with $3,110 in 2019 Q2. There were reductions in SG&A wages and related benefits and burdens due to a reduction in head count and wage rollbacks as well as decreases in almost all categories of expenses due to efforts to reduce spending. As a percentage of revenue, SG&A was 21% in 2020 Q2 compared to 10% in 2019 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.

Technology group expenses were $205 in 2020 Q2; a decrease of $355 compared with $560 in 2019 Q2. The portion of total technology group costs related to new product development in 2019 Q2 was $269 and this amount has been capitalized as intangible assets (2020 Q2 - $nil). 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 Q2, the Company had a gain on disposal of equipment of $515 compared to $757 in 2019 Q2. 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 Q2, the Company received proceeds on disposal of equipment of $610 (2019 Q2 - $919).

Finance costs Finance costs consist of interest expenses on operating loans, long-term debt and bank charges of $89 for 2020 Q2 versus $139 for 2019 Q2.

Finance costs lease liability The lease liability interest decreased slightly to $239 from $256.

Foreign exchange The Company had a foreign exchange gain of $1,107 in 2020 Q2 compared to a gain of $483 in 2019 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 2020 Q2 foreign currency loss are unrealized gain of $1,104 (2019 Q2 - gain of $516) related to intercompany balances.

Income tax In 2019 Q2, 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 25.5% for Canada and 23% for the U.S.

RESULTS OF OPERATIONS – SIX MONTHS ENDED JUNE 30

Revenues		2020		2019
Canada	$	8,466	$	11,015
United States		19,670		58,777
Total	$	28,136	$	69,792

Revenues 2020 revenues were $28,136, which represented a decrease of $41,656 or 60% from 2019 revenues of $69,792.

Canadian revenues (excluding motor rental revenues) decreased to $6,515 in 2020 from $9,357 in 2019; a 30% decrease. This decrease was the result of: i) a 29% decrease in activity days to 889 in 2020 from 1,249 in 2019 and ii) a 2% decrease in the average day rate to $7,329 in 2020 from $7,492 in 2019.

There was a 14% year-over-year decline in the average active land rig count in Canada (source: Baker Hughes) which compares to Cathedral's activity decline of 29%. Due to Cathedral's client mix, our decline was greater than the general market decline. The decrease in day rates was due to a reduction in certain ancillary revenues.

U.S. revenues (excluding motor rental revenues) decreased 67% to $19,160 in 2020 from $57,970 in 2019. This decrease was the result of: i) a 65% decrease in activity days to 1,492 in 2020 from 4,282 in 2019; and ii) a 5% decrease in the average day rate to $12,842 in 2020 from $13,538 in 2019 (when converted to Canadian dollars).

The average active land rig count for the U.S. was down 41% in 2020 compared to 2019 (source: Baker Hughes). The Company experienced a 65% decline in activity days resulting in an increase in market share compared to 2019. Day rates in USD decreased 7% to $9,437 USD in 2020 from $10,150 USD in 2019. The 2020 rate is down due to a decrease in revenues from reduction in certain ancillary revenues and change in client mix.

Motor rentals increased in Canada but decreased in the U.S. Combined rental revenues decreased very slightly to $2,460 in 2020 compared to $2,465 in 2019.

Government grants The Company recognized the benefit from the CEWS program of $637 (2019 - $nil) which reduced salary expenses as follows:

- Cost of sales $261;
- Selling, general and administrative expenses $264; and
- Technology group expenses $112.

Gross margin and adjusted gross margin Gross margin for 2020 was -19% compared to -5% in 2019. Adjusted gross margin (see Non-GAAP Measurements) for 2020 was $2,649 or 9% compared to $5,845 or 8% for 2019.

Adjusted gross margin, as a percentage of revenue, increased due to decrease in repairs, field labour and inspection expenses offset by the increase in the fixed component of cost of sales as a percentage of revenue (these costs decreased $4,706, but the total increased as percentage of revenues).

Depreciation of equipment allocated to cost of sales decreased to $7,916 in 2020 from $9,421 in 2019. Depreciation included in cost of sales as a percentage of revenue was 28% for 2020 and 13% in 2019.

Selling, general and administrative ("SG&A") expenses SG&A expenses were $4,624 in 2020; a decrease of $2,418 compared with $7,042 in 2019. There were reductions in SG&A wages and related benefits and burdens due to a reduction in head count and wage rollbacks as well as decreases in almost all categories of expenses due to efforts to reduce spending. As a percentage of revenue, SG&A was 16% in 2020 compared to 10% in 2019.

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.

Technology group expenses were $735 in 2020; a decrease of $500 compared with $1,235 in 2019. The portion of total technology group costs related to new product development in 2020 was $195 and this amount has been capitalized as intangible assets (2019 - $499). 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, the Company had a gain on disposal of equipment of $1,519 compared to $3,550 in 2019. 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, the Company received proceeds on disposal of equipment of $1,786 (2019 - $4,881).

Finance costs Finance costs consist of interest expenses on operating loans, long-term debt and bank charges of $118 for 2020 versus $282 for 2019.

Finance costs lease liability The lease liability interest decreased slightly to $477 from $518.

Provision for settlement In 2019, the Company made a settlement 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.

Foreign exchange The Company had a foreign exchange loss of $1,329 in 2020 compared to a gain of $1,025 in 2019 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 foreign currency loss are unrealized loss of $1,360 (2019 - gain of $1,043) 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 allowed to be carried back to 2018 and recovered.

In 2019, 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 25.5% for Canada and 23% for the U.S.

LIQUIDITY AND CAPITAL RESOURCES

Overview On an annualized basis, the Company’s principal source of liquidity is cash generated from operations and proceeds from equipment lost-in-hole. In addition, the Company has the ability to fund liquidity requirements through its credit facility and the issuance of debt and/or equity. Cash flow - operating activities in 2020 decreased to a use of funds of $2,584 compared to use of funds of $1,116 in 2019. This decrease was primarily due to the impact of increased loss due to significantly lower revenues.

Working capital At June 30, 2020, the Company had working capital of $18,261 (December 31, 2019 - $20,181).

Credit facility In June 2020, the Company was able to amend its credit facility (the "Facility") for temporary covenant relief. At June 30, 2020, the Company's Facility consists of a $12 million extendible revolving credit facility which expires June 30, 2022. Previously, the Company had a syndicated facility that totaled $20 million, but this was in excess of current needs. The facility was reduced primarily to lower stand-by fees. With the decrease in the total facility, there is now only one lender and a single facility. Previously there were two lenders in a syndicate. The Facility is secured by a general security agreement over all present and future personal property. The Facility provides a definition of EBITDA (“Credit Agreement EBITDA”) to be used in calculation of financial covenants.

The Facility bears interest at the financial institution’s prime rate plus 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.

The covenant relief period (“CR period”) commences on June 30, 2020 and ends on the earlier of March 31, 20121 or the date of written notice by the lender requesting an end to the CR period.

The financial covenants associated with the Facility excluding the CR period 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.

During the CR period, the consolidated funded debt to consolidated Credit Agreement EBITDA 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 2020 Q2 and Q3 and no more than 15% in 2020 Q4 and 2021 Q2. 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;
- 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; and
- 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.

Compliance with Facility covenants

At June 30, 2020, the Company had drawn $5,935 of its credit facility and had $3,747 in cash. At June 30, 2020, the Company had consolidated funded debt of $3,792 that includes six outstanding letters of credit (“LOC”) which are included in the funded debt calculation. TNW was $52,023.

The calculation of the financial covenants under the Facility as at June 30, 2020 is as follows:

Covenant	Actual Ratio	Required Ratio
Consolidated funded debt to TNW ratio	7.3%	10.0% (maximum)

The Company was in compliance with all revised covenants at 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 June 30, 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 $613 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 13, 2020, the Company has 49,468,117 common shares and 2,416,500 options outstanding with a weighted average exercise price of $0.71.

FORWARD LOOKING STATEMENTS

This MD&A contains certain forward-looking statements and forward-looking information (collectively referred to herein as "forward-looking statements") within the meaning of applicable Canadian securities laws. All statements other than statements of present or historical fact are forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "anticipate", "achieve", "believe", "plan", "intend", "objective", "continuous", "ongoing", "estimate", "outlook", "expect", "may", "will", "project", "should" or similar words suggesting future outcomes. In particular, this MD&A contains forward-looking statements relating to, among other things: these COVID-19 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; and projected capital expenditures and commitments and the financing thereof; improvement is expected to be sluggish; industry experts are forecasting 2020 Q3 to be the low in the U.S. active rig count with very modest improvements in activity levels are we progress through 2020 and into 2021; those successes have and are expected to be, leveraged to attract new clients; Cathedral expects to apply and receive further benefits until the CEWS program expires; in 2020 Q3, we expect to finalize the portion of the U.S. PPP that will be forgiven; we currently estimate that approximately 70% of the loan proceeds ($525 USD) may be forgiven; 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 June 30		Six months ended June 30	
	2020	2019	2020	2019
Gross margin	$ (3,216)	$ (1,755)	$ (5,306)	$ (3,646)
Add non-cash items included in cost of sales:				
Depreciation	3,540	4,976	7,916	9,421
Share-based compensation	18	28	39	70
Adjusted gross margin	$ 342	$ 3,249	$ 2,649	$ 5,845
Adjusted gross margin %	4%	10%	9%	8%

Adjusted EBITDAS

	Three months ended June 30		Six months ended June 30	
	2020	2019	2020	2019
Loss before income taxes	$ (3,941)	$ (4,966)	$ (18,064)	$ (8,534)
Add:				
Depreciation included in cost of sales	3,540	4,976	7,916	9,421
Depreciation included in selling, general and administrative expenses	147	19	279	770
Share-based compensation included in cost of sales	18	28	39	70
Share-based compensation included in selling, general and administrative expenses	46	77	87	184
Finance costs	89	139	118	282
Finance costs lease liabilities	239	256	477	518
Subtotal	138	529	(9,148)	2,711
Impairment and direct write-downs	-	-	6,994	-
Unrealized foreign exchange (gain) loss on intercompany balances	(1,104)	(516)	1,360	(1,043)
Provision for settlement	-	386	-	386
Non-recurring expenses	143	80	1,029	299
Total Adjusted EBITDAS	$ (823)	$ 479	$ 235	$ 2,353

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2020 and 2019
Dollars in '000s
(unaudited)

		June 30 2020		December 31 2019
Assets				
Current assets:				
Cash	$	3,747	$	7,223
Trade receivables		8,959		14,802
Prepaid expenses		1,282		1,668
Inventories		9,726		10,423
Current tax recoveries		861		-
Total current assets		24,575		34,116
Equipment		40,688		46,882
Intangible assets		2,693		3,019
Right of use asset		12,113		19,590
Deferred tax assets		3,277		2,693
Total non-current assets		58,771		72,184
Total assets	$	83,346	$	106,300
Liabilities and Shareholders' Equity				
Current liabilities:				
Trade and other payables	$	3,881	$	11,308
Current taxes payable		-		314
Lease liabilities, current		2,229		2,145
Provision for settlements, current		204		168
Total current liabilities		6,314		13,935
Loans and borrow ings		5,935		6,000
Provision for settlements, long-term		81		156
Lease liabilities, long-term		17,152		18,117
Total non-current liabilities		23,168		24,273
Total liabilities		29,482		38,208
Shareholders' equity:				
Share capital		88,155		88,155
Contributed surplus		10,990		10,864
Accumulated other comprehensive income		11,985		9,934
Deficit		(57,266)		(40,861)
Total shareholders' equity		53,864		68,092
Total liabilities and shareholders' equity	$	83,346	$	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 and six months ended June 30, 2020 and 2019

Dollars in '000s except per share amounts

(unaudited)

	Three months ended June 30		Six months ended June 30	
	2020	2019	2020	2019
Revenues	$ 8,841	$ 32,550	$ 28,136	$ 69,792
Cost of sales:				
Direct costs	(8,499)	(29,301)	(25,487)	(63,947)
Depreciation	(3,540)	(4,976)	(7,916)	(9,421)
Share-based compensation	(18)	(28)	(39)	(70)
Total cost of sales	(12,057)	(34,305)	(33,442)	(73,438)
Gross margin	(3,216)	(1,755)	(5,306)	(3,646)
Selling, general and administrative expenses:				
Direct costs	(1,621)	(3,014)	(4,258)	(6,088)
Depreciation	(147)	(19)	(279)	(770)
Share-based compensation	(46)	(77)	(87)	(184)
Total selling, general and administrative expenses	(1,814)	(3,110)	(4,624)	(7,042)
	(5,030)	(4,865)	(9,930)	(10,688)
Technology group expenses	(205)	(560)	(735)	(1,235)
Gain on disposal of equipment	515	757	1,519	3,550
Loss from operating activities	(4,720)	(4,668)	(9,146)	(8,373)
Finance costs	(89)	(139)	(118)	(282)
Finace costs lease liabilities	(239)	(256)	(477)	(518)
Provision for settlement	-	(386)	-	(386)
Foreign exchange gain (loss)	1,107	483	(1,329)	1,025
Impairment and direct w rite-dow ns	-	-	(6,994)	-
Loss before income taxes	(3,941)	(4,966)	(18,064)	(8,534)
Income tax recovery (expense):				
Current	-	-	1,187	-
Deferred	126	(376)	472	(432)
Total income tax recovery (expense)	126	(376)	1,659	(432)
Loss	(3,815)	(5,342)	(16,405)	(8,966)
Other comprehensive income (loss):				
Foreign currency translation differences for foreign operations	(1,454)	(957)	2,051	(2,003)
Total comprehensive loss	$ (5,269)	$ (6,299)	$ (14,354)	$ (10,969)
Loss per share				
Basic	$ (0.08)	$ (0.11)	$ (0.33)	$ (0.18)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Three and six months ended June 30, 2020 and 2019
Dollars in '000s
(unaudited)

	Three months ended June 30		Six months ended June 30	
	2020	2019	2020	2019
Cash provided by (used in):				
Operating activities:				
Loss	$ (3,815)	$ (5,342)	$ (16,405)	$ (8,966)
Items not involving cash				
Depreciation	3,687	4,995	8,195	10,191
Share-based compensation	64	105	126	254
Income tax expense (recovery)	(126)	376	(1,659)	432
Gain on disposal of equipment	(515)	(757)	(1,519)	(3,550)
Finance costs	89	139	118	282
Finance costs lease liability	239	256	477	518
Provision for settlement	-	386	-	386
Unrealized foreign exchange (gain) loss on intercompany balances	(1,104)	(516)	1,360	(1,043)
Impairment and direct write-downs	-	-	6,994	-
Cash flow - continuing operations	(1,481)	(358)	(2,313)	(1,496)
Changes in non-cash operating working capital	839	1,130	(241)	1,417
Income taxes paid	1	(1,034)	(30)	(1,037)
Cash flow - operating activities	(641)	(262)	(2,584)	(1,116)
Investing activities:				
Equipment additions	86	(1,564)	(769)	(3,527)
Intangible asset additions	26	(273)	(212)	(658)
Proceeds on disposal of equipment	610	919	1,786	4,881
Changes in non-cash investing working capital	(55)	564	(58)	(698)
Cash flow - investing activities	667	(354)	747	(2)
Financing activities:				
Change in operating loan	-	1,691	-	1,503
Repayments on loans and borrowings	(622)	(541)	(1,210)	(1,115)
Interest paid	(328)	(395)	(595)	(800)
Payment on settlements	-	-	(42)	(40)
Cash flow - financing activities	(950)	755	(1,847)	(452)
Effect of exchange rate on changes on cash	(174)	(116)	208	(246)
Change in cash	(1,098)	23	(3,476)	(1,816)
Cash, beginning of period	4,845	5,036	7,223	6,875
Cash, end of period	$ 3,747	$ 5,059	$ 3,747	$ 5,059

NOT FOR DISSEMINATION IN THE UNITED STATES OF AMERICA

Requests for further information should be directed to:

P. Scott MacFarlane, President, Chief Executive Officer and Interim Chief Financial Officer or Randy Pustanyk, Executive Vice President

Cathedral Energy Services Ltd., 6030 3 Street S.E., Calgary, Alberta T2H 1K2

Telephone: 403.265.2560 Fax: 403.262.4682 www.cathedralenergyservices.com

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.