CATHEDRAL

NEWS RELEASE
NOVEMBER 12, 2020
Calgary, Alberta

CATHEDRAL ENERGY SERVICES REPORTS RESULTS FOR 2020 Q3

Cathedral Energy Services Ltd. (the "Company" or "Cathedral" / TSX: CET) announces its consolidated financial results for the three and nine months ended September 30, 2020 and 2019. Dollar amounts are in '000's except for WTI, day rates and 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 September 30		Nine months ended September 30	
	2020	2019	2020	2019
Revenues	$ 4,990	$ 31,185	$ 33,126	$ 100,977
Adjusted gross margin % (1)	20%	15%	11%	10%
Adjusted EBITDAS (1)	$ 84	$ 2,236	$ 319	$ 4,589
Basic and diluted per share	$ -	$ 0.05	$ 0.01	$ 0.09
As % of revenues	2%	7%	1%	5%
Cash flow - operating activities	$ 3,544	$ 6,003	$ 960	$ 4,887
Loss from operating activities	$ (4,448)	$ (3,145)	$ (13,594)	$ (11,518)
Basic per share	$ (0.09)	$ (0.06)	$ (0.27)	$ (0.23)
Imapairments and direct w rite-dow ns	$ -	$ -	$ (6,994)	$ -
Loss	$ (5,014)	$ (4,153)	$ (21,419)	$ (13,119)
Basic per share	$ (0.10)	$ (0.08)	$ (0.43)	$ (0.27)
Equipment additions	$ (556)	$ (1,794)	$ (1,325)	$ (5,321)
Weighted average shares outstanding				
Basic (000s)	49,468	49,468	49,468	49,468
Diluted (000s)	49,468	49,468	49,468	49,505

	September 30	December 31
	2020	2019
Working capital	$ 10,915	$ 20,181
Total assets	$ 71,203	$ 106,300
Loans and borrow ings excluding current portion	$ 614	$ 6,000
Shareholders' equity	$ 48,099	$ 68,092

(1) Refer to "NON-GAAP MEASUREMENTS"

2020 Q3 KEY TAKEAWAYS

Revenues decreased by $26,195 or 84% from $31,185 in 2019 Q3 to $4,990 in 2020 Q3;

Adjusted gross margin increased from 15% to 20% primarily due to COVID-19 related government assistance received;

Adjusted EBITDAS decreased from $2,236 in 20119 Q3 to $84 in 2020 Q3 as a result of reduced activity levels; and

Net cash (cash less bank debt) at end of 2020 Q3 was $204.

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. The recent resurgence of COVID-19 cases has governmental bodies retracting some of the previously relaxed restrictions that allowed for the reopening of businesses. Until a COVID-19 vaccine is widely distributed, we are expecting fluctuations in the demand for oil which in turn will lead to continued volatility in oil prices.

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 or extend 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

As a result of the COVID-19 pandemic and its effect on world oil demand and resulting volatility in oil prices, the near term for the oilfield service industry is expected to continue to have a challenging outlook. After experiencing the expected trough in U.S. drilling activity in 2020 Q3, industry analysts are expecting drilling activity to improve modestly in 2020 Q4 and as we progress through 2021. Within the Canadian market, in late 2020 Q3, based upon WTI strengthening above USD$40/bbl, our clients recommenced their drilling activities.

We continue to monitor our costs and are making further adjustments to our cost structure as warranted. In addition, management continues to evaluate and apply for U.S. and Canadian federal, state and provincial government relief programs for which Cathedral qualifies. To the end of 2020 Q3, Cathedral has recorded the benefit of $1,378 from the Canada Emergency Wage Subsidy ("CEWS") and we are pleased to see the Government of Canada has extended the program to June 2021. In 2020 Q3, we determined that 100% of our USD$750 (CAD$992) U.S. Paycheck Protection Program ("PPP") loan will be forgiven and that benefit was recorded within our financial statements in 2020 Q3. Previously, we had estimated that approximately 70% of the loan proceeds ($525 USD) may be forgiven, if the U.S. Treasury guidelines for forgiveness were met.

Although capital expenditures have been modest, the Company continues to make investments in additional high performance power sections for its nDurance™ line of drilling motors with the target being rentals and full package applications in the Delaware and Permian basins. In addition, Cathedral has increased the number of mud lubricated bearing sections specifically targeted for use with rotary steerable systems and high temperature applications in both Eagleford and Haynesville areas. The Company continues to operate a limited number of RapidFire™ Measurement-While-Drilling ("MWD") dual telemetry systems on a commercial basis and is planning to increase capacity primarily through cash flow and re-investment of lost-in-hole proceeds. In addition, Cathedral has implemented remote directional drilling and MWD services for an operator in the Viking formations in Canada.

As announced on October 13, 2020, Cathedral's President, Chief Executive Officer and Interim Chief Financial Officer, P. Scott MacFarlane, has informed the Company that he intends to retire from the Company with a timeline of April 2021. The Governance Committee of the Board has begun the process of identifying potential successors for the roles of CEO and CFO of the Company. Mr. MacFarlane will work with the Board to find a replacement CEO and CFO and facilitate an orderly transition.

2020 CAPITAL PROGRAM

During the nine months ended September 30, 2020, the Company invested $1,325 (2019 - $5,321) in equipment. The following table details the current period's net equipment additions:

	Nine months ended September 30, 2020
Equipment additions:	
Motors	$ 730
MWD	162
Other	433
Total cash additions	1,325
Less: proceeds on disposal of equipment	(2,419)
Net equipment additions [(1)]	$ (1,094)

(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 SEPTEMBER 30

Revenues	2020	2019
Canada	$ 1,328	$ 8,325
United States	3,662	22,860
Total	$ 4,990	$ 31,185

Revenues 2020 Q3 revenues were $4,990, which represented a decrease of $26,195 or 84% from 2019 Q3 revenues of $31,185.

Canadian revenues (excluding motor rental revenues) decreased to $848 in 2020 Q3 from $7,603 in 2019 Q3; an 89% decrease. This decrease was the result of: i) a 88% decrease in activity days to 116 in 2020 Q3 from 973 in 2019 Q3 and ii) a 7% decrease in the average day rate to $7,309 in 2020 Q3 from $7,813 in 2019 Q3.

There was a 64% year-over-year decline in the average active land rig count in Canada (source: Baker Hughes) which compares to Cathedral's activity decline of 89%. 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 base rates due to the limited mix of clients in 2020 Q3.

U.S. revenues (excluding motor rental revenues) decreased 85% to $3,301 in 2020 Q3 from $22,312 in 2019 Q3. This decrease was the result of: i) a 79% decrease in activity days to 346 in 2020 Q3 from 1,622 in 2019 Q3; and ii) a 31% decrease in the average day rate to $9,541 in 2020 Q3 from $13,756 in 2019 Q3 (when converted to Canadian dollars).

The average active land rig count for the U.S. was down 73% in 2020 Q3 compared to 2019 Q3 (source: Baker Hughes). The Company experienced an 85% decline in activity days resulting in a decrease in market share compared to 2019 Q3. Day rates in USD decreased 31% to $7,159 USD in 2020 Q3 from $10,422 USD in 2019 Q3. The 2020 Q3 rate is down due to a decrease in revenues from providing rotary steerable system (RSS) services which are rented from a 3rd party, reduction in base rates due to the limited mix of clients in 2020 Q3 and a reduction in certain ancillary revenues.

Motor rentals decreased in both Canada and the U.S. Combined rental revenues decreased to $842 in 2020 Q3 compared to $1,270 in 2019 Q3. The decrease is due to the decrease in drilling activity in 2020 Q3.

Government grants The Company recognized the benefit from the CEWS program of $741 (2019 - $nil) and $992 (2019 - $nil) from PPP which reduced salary expenses as follows:

- Cost of sales $1,217;
- Selling, general and administrative expenses $394; and
- Technology group expenses $122.

Gross margin and adjusted gross margin Gross margin for 2020 Q3 was -50% compared to -1% in 2019 Q3. Adjusted gross margin (see Non-GAAP Measurements) for 2020 Q3 was $1,021 or 20% compared to $4,628 or 15% for 2019 Q3.

Adjusted gross margin, as a percentage of revenue, increased due to the government assistance received and lower equipment rentals offset by increases in repairs and in the fixed component of cost of sales as a percentage of revenue (these costs decreased $3,530, but the total increased as percentage of revenues).

Depreciation of equipment allocated to cost of sales decreased to $3,520 in 2020 Q3 from $5,000 in 2019 Q3. Depreciation included in cost of sales as a percentage of revenue was 71% for 2020 Q3 and 16% in 2019 Q3.

Selling, general and administrative ("SG&A") expenses SG&A expenses were $2,199 in 2020 Q3; a decrease of $957 compared with $3,156 in 2019 Q3. There were reductions in SG&A wages and related benefits and burdens due to a reduction in head count and wage rollbacks and the government assistance received as well as decreases in almost all categories of expenses due to efforts to reduce spending. These savings were partially offset by an increase in the provision for trade receivables that are slow paying of $749 (2019 Q3 - recovery of $19). As a percentage of revenue, SG&A was 44% in 2020 Q3 compared to 10% in 2019 Q3.

Technology group expenses Technology group expenditures are related to supporting and upgrading existing technology as well as new product development. 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 $77 in 2020 Q3; a decrease of $371 compared with $448 in 2019 Q3. The portion of total technology group costs related to new product development in 2019 Q3 was $295 and this amount was capitalized as intangible assets (2020 Q3 - $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 Q3, the Company had a gain on disposal of equipment of $344 compared to $859 in 2019 Q3. 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 Q3, the Company received proceeds on disposal of equipment of $633 (2019 Q3 - $1,009).

Finance costs Finance costs consist of interest expenses on operating loans, long-term debt and bank charges of $113 for 2020 Q3 versus $139 for 2019 Q3.

Finance costs lease liability The lease liability interest decreased slightly to $223 from $249.

Foreign exchange The Company had a foreign exchange gain of $614 in 2020 Q3 compared to a loss of $(279) in 2019 Q3 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 Q3 foreign currency loss are unrealized gain of $611 (2019 Q3 - loss of $250) related to intercompany balances.

Income tax In 2019 Q3, 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 – NINE MONTHS ENDED SEPTEMBER 30

Revenues		2020		2019
Canada	$	9,794	$	19,340
United States		23,332		81,637
Total	$	33,126	$	100,977

Revenues 2020 revenues were $33,126, which represented a decrease of $67,852 or 67% from 2019 revenues of $100,977.

Canadian revenues (excluding motor rental revenues) decreased to $7,363 in 2020 from $16,960 in 2019; a 57% decrease. This decrease was the result of: i) a 55% decrease in activity days to 1,005 in 2020 from 2,222 in 2019 and ii) a 4% decrease in the average day rate to $7,327 in 2020 from $7,633 in 2019.

There was a 32% year-over-year decline in the average active land rig count in Canada (source: Baker Hughes) which compares to Cathedral's activity decline of 55%. 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 72% to $22,461 in 2020 from $80,282 in 2019. This decrease was the result of: i) a 69% decrease in activity days to 1,838 in 2020 from 5,904 in 2019; and ii) a 10% decrease in the average day rate to $12,221 in 2020 from $13,598 in 2019 (when converted to Canadian dollars).

The average active land rig count for the U.S. was down 51% in 2020 compared to 2019 (source: Baker Hughes). The Company experienced a 69% decline in activity days resulting in a decrease in market share compared to 2019. Day rates in USD decreased 12% to $9,008 USD in 2020 from $10,225 USD in 2019. The 2020 rate is down due to a decrease in revenues from providing rotary steerable system (RSS) services which are rented from a 3rd party, a reduction in certain ancillary revenues and change in client mix.

Motor rentals increased slightly in Canada but decreased in the U.S. Combined rental revenues decreased to $3,301 in 2020 compared to $3,735 in 2019. The combined decrease was due to lower industry activity.

Government grants The Company recognized the benefit from the CEWS program of $1,378 (2019 - $nil) and $992 (2019 - $nil) from PPP which reduced salary expenses as follows:

- Cost of sales $1,478;
- Selling, general and administrative expenses $659; and
- Technology group expenses $233.

Gross margin and adjusted gross margin Gross margin for 2020 was -24% compared to -4% in 2019. Adjusted gross margin (see Non-GAAP Measurements) for 2020 was $3,670 or 11% compared to $10,473 or 10% 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 $8,236, but the total increased as percentage of revenues).

Depreciation of equipment allocated to cost of sales decreased to $11,436 in 2020 from $14,421 in 2019. Depreciation included in cost of sales as a percentage of revenue was 35% for 2020 and 14% in 2019.

Selling, general and administrative ("SG&A") expenses SG&A expenses were $6,823 in 2020; a decrease of $3,375 compared with $10,198 in 2019. There were reductions in SG&A wages and related benefits and burdens due to a reduction in head count and wage rollbacks and the government assistance received as well as decreases in almost all categories of expenses due to efforts to reduce spending. These savings were partially offset by an increase in the provision for trade receivables that are slow paying of $794 (2019 - recovery of $110). As a percentage of revenue, SG&A was 21% in 2020 compared to 10% in 2019.

Technology group expenses Technology group expenditures are related to supporting and upgrading existing technology as well as new product development. 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 $812 in 2020; a decrease of $871 compared with $1,683 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 - $794). 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 $1,863 compared to $4,409 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 $2,419 (2019 - $5,890).

Finance costs Finance costs consist of interest expenses on operating loans, long-term debt and bank charges of $231 for 2020 versus $421 for 2019 due to lower debt levels in 2020.

Finance costs lease liability The lease liability interest decreased slightly to $700 from $767.

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 $715 in 2020 compared to a gain of $746 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 $749 (2019 - gain of $793) 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 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.

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 source of funds of $960 compared to $4,887 in 2019. This decrease was primarily due to the impact of increased loss due to significantly lower revenues.

Working capital At September 30, 2020, the Company had working capital of $10,915 (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. The Company's Facility consists of a $12 million extendible revolving credit facility with a single lender which expires June 30, 2022. Previously, the Company had a syndicated facility with two lenders that totaled $20 million. This was in excess of current needs and the facility reduced primarily to lower stand-by fees. 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 September 30, 2020, the Company had drawn $614 of its credit facility and had $818 in cash. At September 30, 2020, the Company had consolidated funded debt of $1,577 that includes six outstanding letters of credit ("LOC") totaling $1,830 which are included in the funded debt calculation. TNW was $45,627.

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

Covenant	Actual Ratio	Required Ratio
Consolidated funded debt to TNW ratio	3.5%	10.0% (maximum)

The Company was in compliance with all revised covenants at September 30, 2020. 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 or extend the revised covenants under its credit facility.

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 September 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 November 12, 2020, the Company has 49,468,117 common shares and 2,552,600 options outstanding with a weighted average exercise price of $0.41.

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: until a COVID-19 vaccine is widely distributed, we are expecting fluctuations in the demand for oil which in turn will lead to continued volatility in oil prices; it is possible that the Company will be required to enter into discussions with its lender to amend or extend 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; the near term for the oilfield service industry is expected to continue to have a challenging outlook; industry analysts are expecting U.S. drilling activity to improve modestly in 2020 Q4 and as we progress through 2021; 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 September 30		Nine months ended September 30	
	2020	2019	2020	2019
Gross margin	$ (2,516)	$ (400)	$ (7,822)	$ (4,046)
Add non-cash items included in cost of sales:				
Depreciation	3,520	5,000	11,436	14,421
Share-based compensation	17	28	56	98
Adjusted gross margin	$ 1,021	$ 4,628	$ 3,670	$ 10,473
Adjusted gross margin %	20%	15%	11%	10%

Adjusted EBITDAS

	Three months ended September 30		Nine months ended September 30	
	2020	2019	2020	2019
Loss before income taxes	$ (4,170)	$ (3,851)	$ (22,234)	$ (12,385)
Add:				
Depreciation included in cost of sales	3,520	5,000	11,436	14,421
Depreciation included in selling, general and administrative expenses	147	258	426	1,028
Share-based compensation included in cost of sales	17	28	56	98
Share-based compensation included in selling, general and administrative expenses	42	93	129	277
Finance costs	113	139	231	421
Finance costs lease liabilities	223	249	700	767
Subtotal	(108)	1,916	(9,256)	4,627
Impairment and direct write-downs	-	-	6,994	-
Unrealized foreign exchange (gain) loss on intercompany balances	(611)	250	749	(793)
Provision for settlement	-	39	-	425
Non-recurring expenses	803	31	1,832	330
Adjusted EBITDAS	$ 84	$ 2,236	$ 319	$ 4,589

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

September 30, 2020 and 2019
Dollars in ‘000s
(unaudited)

		September 30 2020		December 31 2019
Assets				
Current assets:				
Cash	$	818	$	7,223
Trade receivables		4,994		14,802
Prepaid expenses		913		1,668
Inventories		9,122		10,423
Current tax recoveries		916		-
Total current assets		16,763		34,116
Equipment		37,943		46,882
Intangible assets		2,432		3,019
Right of use asset		11,700		19,590
Deferred tax assets		2,365		2,693
Total non-current assets		54,440		72,184
Total assets	$	71,203	$	106,300
Liabilities and Shareholders' Equity				
Current liabilities:				
Trade and other payables	$	3,443	$	11,308
Current taxes payable		-		314
Lease liabilities, current		2,245		2,145
Provision for settlements, current		160		168
Total current liabilities		5,848		13,935
Loans and borrow ings		614		6,000
Provision for settlements, long-term		40		156
Lease liabilities, long-term		16,602		18,117
Total non-current liabilities		17,256		24,273
Total liabilities		23,104		38,208
Shareholders' equity:				
Share capital		88,155		88,155
Contributed surplus		11,049		10,864
Accumulated other comprehensive income		11,175		9,934
Deficit		(62,280)		(40,861)
Total shareholders' equity		48,099		68,092
Total liabilities and shareholders' equity	$	71,203	$	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 nine months ended September 30, 2020 and 2019
Dollars in '000s except per share amounts
(unaudited)

	Three months ended September 30		Nine months ended September 30	
	2020	2019	2020	2019
Revenues	$ 4,990	$ 31,185	$ 33,126	$ 100,977
Cost of sales:				
Direct costs	(3,969)	(26,557)	(29,456)	(90,504)
Depreciation	(3,520)	(5,000)	(11,436)	(14,421)
Share-based compensation	(17)	(28)	(56)	(98)
Total cost of sales	(7,506)	(31,585)	(40,948)	(105,023)
Gross margin	(2,516)	(400)	(7,822)	(4,046)
Selling, general and administrative expenses:				
Direct costs	(2,010)	(2,805)	(6,268)	(8,893)
Depreciation	(147)	(258)	(426)	(1,028)
Share-based compensation	(42)	(93)	(129)	(277)
Total selling, general and administrative expenses	(2,199)	(3,156)	(6,823)	(10,198)
	(4,715)	(3,556)	(14,645)	(14,244)
Technology group expenses	(77)	(448)	(812)	(1,683)
Gain on disposal of equipment	344	859	1,863	4,409
Loss from operating activities	(4,448)	(3,145)	(13,594)	(11,518)
Finance costs	(113)	(139)	(231)	(421)
Finance costs lease liabilities	(223)	(249)	(700)	(767)
Provision for settlement	-	(39)	-	(425)
Foreign exchange gain (loss)	614	(279)	(715)	746
Impairment and direct write-downs	-	-	(6,994)	-
Loss before income taxes	(4,170)	(3,851)	(22,234)	(12,385)
Income tax recovery (expense):				
Current	-	-	1,187	-
Deferred	(844)	(302)	(372)	(734)
Total income tax recovery (expense)	(844)	(302)	815	(734)
Loss	(5,014)	(4,153)	(21,419)	(13,119)
Other comprehensive income (loss):				
Foreign currency translation differences for foreign operations	(810)	552	1,241	(1,451)
Total comprehensive loss	$ (5,824)	$ (3,601)	$ (20,178)	$ (14,570)
Loss per share				
Basic	$ (0.10)	$ (0.08)	$ (0.43)	$ (0.27)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

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

	Three months ended September 30		Nine months ended September 30	
	2020	2019	2020	2019
Cash provided by (used in):				
Operating activities:				
Loss from continuing operations	$ (5,014)	$ (4,153)	$ (21,419)	$ (13,119)
Items not involving cash				
Depreciation	3,667	5,258	11,862	15,449
Share-based compensation	59	121	185	375
Income tax expense (recovery)	844	302	(815)	734
Gain on disposal of equipment	(344)	(859)	(1,863)	(4,409)
Finance costs	113	139	231	421
Finance costs lease liability	223	249	700	767
Provision for settlement	-	39	-	425
Unrealized foreign exchange (gain) loss on intercompany balances	(611)	250	749	(793)
Impairment and direct write-downs	-	-	6,994	-
Cash flow - continuing operations	(1,063)	1,346	(3,376)	(150)
Changes in non-cash operating working capital	4,677	4,766	4,436	6,183
Income taxes paid	(70)	(109)	(100)	(1,146)
Cash flow - operating activities	3,544	6,003	960	4,887
Investing activities:				
Equipment additions	(556)	(1,794)	(1,325)	(5,321)
Intangible asset additions	-	(407)	(212)	(1,065)
Proceeds on disposal of equipment	633	1,009	2,419	5,890
Changes in non-cash investing working capital	(305)	(1,058)	(363)	(1,756)
Cash flow - investing activities	(228)	(2,250)	519	(2,252)
Financing activities:				
Change in operating loan	-	(1,691)	-	(188)
Repayments on lease liabilities	(352)	(412)	(1,562)	(1,527)
Repayments on loans and borrowings	(5,386)	-	(5,386)	-
Payment on settlements	(80)	(40)	(122)	(80)
Interest paid	(336)	(388)	(931)	(1,188)
Cash flow - financing activities	(6,154)	(2,531)	(8,001)	(2,983)
Effect of exchange rate on changes on cash	(91)	67	117	(179)
Change in cash	(2,929)	1,289	(6,405)	(527)
Cash, beginning of period	3,747	5,059	7,223	6,875
Cash, end of period	$ 818	$ 6,348	$ 818	$ 6,348

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

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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.