CATHEDRAL

2021 Q1 INTERIM REPORT

FINANCIAL HIGHLIGHTS

Dollars in 000's except per share amounts

		Three months ended March 31		
		2021		2020
Revenues	$	11,365	$	19,295
Adjusted gross margin % (1)		21%		12%
Adjusted EBITDAS (1)	$	825	$	1,012
Diluted per share	$	0.02	$	0.02
As % of revenues		7%		5%
Cash flow - operating activities	$	(408)	$	(1,943)
Loss from operating activities	$	(2,240)	$	(4,426)
Basic per share	$	(0.04)	$	(0.09)
Impairments and direct write-downs	$	-	$	(6,994)
Loss	$	(2,086)	$	(12,590)
Basic per share	$	(0.04)	$	(0.25)
Equipment additions - cash basis	$	591	$	855
Weighted average shares outstanding				
Basic (000s)		50,133		49,468
Diluted (000s)		50,391		49,468

		March 31 2021		December 31 2020
Working capital	$	9,342	$	7,680
Total assets	$	64,326	$	64,280
Loans and borrowings	$	3,633	$	1,560
Shareholders' equity	$	37,695	$	39,974

(1) Refer to "NON-GAAP MEASUREMENTS"

MANAGEMENT'S DISCUSSION & ANALYSIS

This Management's Discussion & Analysis ("MD&A") for the three months ended March 31, 2021 should be read in conjunction with the annual audited consolidated financial statements and notes thereto for the year ended December 31, 2020, as well as the MD&A in the 2020 Annual Report of Cathedral Energy Services Ltd. (the "Company" or "Cathedral"). This MD&A has been prepared as of May 13, 2021. Dollar amounts are in '000's except for day rates and per share amounts.

2021 Q1 KEY TAKEAWAYS

Revenues decreased by $7,930 or 41% from $19,295 in 2020 Q1 to $11,365 in 2021 Q1;

Adjusted gross margin increased from 12% to 21% primarily due to reductions in equipment rentals and reduction in the fixed component of cost of sales, offset by higher repairs;

Adjusted EBITDAS decreased from $1,012 in 2020 Q1 to $825 in 2021 Q1; and

Net debt (bank debt less cash) at end of 2021 Q1 was $2,387.

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. This decline in oil prices negatively affected drilling activities in Cathedral's operating areas of U.S. and Canada. The Company has made significant changes to its cost structure including laying off staff, reducing compensation, implementing reduced work weeks, closing facilities, eliminating discretionary expenses, deferring tool repairs and reducing capital expenditures, to better match our cost structure to expected operating levels.

Oil prices have improved since the lows in April 2020 and this has resulted in improved drilling activity which is the prime driver behind Cathedral's operations. However, uncertainty exists concerning the timing and extent of COVID-19 vaccinations and the potential impact of COVID-19 variants including further government imposed restrictions, all of which can impact the demand for oil and therefore Cathedral's services. The overall situation remains dynamic and there remains a high level of uncertainty as to the ultimate duration and the extent of the impact on the economy and the financial effect on Cathedral is not known at this point in time.

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. 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.

OUTLOOK

The outlook for the North American oilfield services industry looks to remain positive for the balance of 2021 and into 2022. World oil prices continue to remain strong based upon a tightening of supply and demand as global demand improves as we move towards a post COVID-19 normal. We expect overall industry activity levels to steadily improve as we move through the year as capital spending programs for E&P companies continue to expand in a measured fashion.

With the recent closing of an over-subscribed private placement of 12,654,500 common shares for gross proceeds of approximately $3,200 ($0.25 per common share), Cathedral will be able to accelerate its capex plan for 2021 including increasing our RapidFireTM Measurement-While-Drilling ("MWD") job capacity to 12 and expansion of our nDuranceTM drilling motor fleet to meet increased demand.

We expanded our Canadian market share meaningfully in Q1 and expect to continue to maintain our share or expand it further as we focus on differentiating through technology and service excellence and our customers return to similar or increased levels of activity work post spring breakup.

Within the U.S. market, Cathedral has increased its daily job count with full service work which will assist in improving our average day rates. We continue to shift our market focus towards more active areas of the U.S. such as the Permian basin where we can leverage the versatility of our RapidFire MWD system and high performing nDurance drilling motors. We expect to see continued improvement in financial results in this key market as we progress through 2021.

Cathedral remains focused on our target markets where we believe we can provide value added performance and fit for purpose technology – delivering on our mantra of **Better Performance Every Day**.

2021 CAPITAL PROGRAM

During the three months ended March 31, 2021, the Company invested $591 (2020 - $855) in equipment. The following table details the current period's net equipment additions:

		Three months ended March 31, 2021
Equipment additions:		
Motors	$	313
MWD		268
Other		10
Total cash additions		591
Less: proceeds on disposal of equipment		(221)
Net equipment additions [(1)]	$	370

(1) See "NON-GAAP MEASUREMENTS"

The Company's 2021 capital plan has been updated to be in the range of $4,000. The focus of 2021 capital plan will be motor power section additions for premium lines and addition of RapidFire™ Measurement-While-Drilling dual telemetry systems tools.

RESULTS OF OPERATIONS – THREE MONTHS ENDED MARCH 31

Revenues		2021		2020
Canada	$	8,100	$	7,336
United States		3,265		11,959
Total	$	11,365	$	19,295

Revenues 2021 Q1 revenues were $11,365, which represented a decrease of $7,930 or 41% from 2020 Q1 revenues of $19,295.

Canadian revenues (excluding motor rental revenues) increased to $7,440 in 2021 Q1 from $5,945 in 2020 Q1; a 25% increase. This increase was the net result of: i) a 44% increase in activity days to 1,163 in 2021 Q1 from 810 in 2020 Q1 and ii) a 13% decrease in the average day rate to $6,397 in 2021 Q1 from $7,340 in 2020 Q1.

There was a 24% year-over-year decline in the average active land rig count in Canada (source: Baker Hughes), however, Cathedral's activity increased 44%. Due to Cathedral's client mix, we experienced growth despite the general market decline. The decrease in day rates was due to a downward trend in day rates since 2020 Q1 and has continued into 2021 Q1.

U.S. revenues (excluding motor rental revenues) decreased 77% to $2,706 in 2021 Q1 from $11,704 in 2020 Q1. This decrease was the result of: i) a 68% decrease in activity days to 279 in 2021 Q1 from 865 in 2020 Q1; and ii) a 28% decrease in the average day rate to $9,699 in 2021 Q1 from $13,531 in 2020 Q1 (when converted to Canadian dollars).

The average active land rig count for the U.S. was down 51% in 2021 Q1 compared to 2020 Q1 (source: Baker Hughes). The Company experienced a 68% decline in activity days resulting in a decrease in market share compared to 2020 Q1. Day rates in USD decreased 24% to $7,659 USD in 2021 Q1 from $10,079 USD in 2020 Q1. The 2021 Q1 rate is down due to a decrease in revenues from providing RSS services that are rented from a third party and reduction in base rates due to the mix of client services provided in 2021 Q1.

Motor rentals decreased in Canada, but increased slightly in the U.S. Combined rental revenues decreased to $1,219 in 2021 Q1 compared to $1,645 in 2020 Q1. The decrease is due to a significant Canadian rental client not drilling in 2021 Q1; when this client returns to drilling it is anticipated that they will become a full service client.

Government grants The Company recognized the benefit from the Canadian Emergency Wage Subsidy ("CEWS") program of $205 (2020 - $nil) which reduced salary expenses as follows:

- Cost of sales $123;
- Selling, general and administrative expenses $66; and
- Technology group expenses $16.

Additionally, the Company received $135 (2020 - $nil) from the Canadian Emergency Rent Subsidy ("CERS"), which reduced cost of sales $100 (2020 - $nil) and selling, general and administrative $35 (2020 - $nil).

Gross margin and adjusted gross margin Gross margin for 2021 Q1 was -4% compared to -11% in 2020 Q1. Adjusted gross margin (see Non-GAAP Measurements) for 2021 Q1 was $2,420 or 21% compared to $2,307 or 12% for 2020 Q1.

Adjusted gross margin, as a percentage of revenue, increased due several key reductions including lower third party equipment rentals, severance as 2020 Q1 had significant staffing reductions, trucking costs, reductions to fixed component of cost of salaries (mainly salary related) and to a lessor extent the benefit of government assistance. These savings were partially offset by an increase in repairs as percentage of revenue as tool repairs which had been deferred were completed to increase the available base of tools to service the increased Canadian work.

Depreciation of equipment allocated to cost of sales decreased to $2,887 in 2021 Q1 from $4,376 in 2020 Q1. Depreciation included in cost of sales as a percentage of revenue was 25% for 2021 Q1 and 23% in 2020 Q1.

Selling, general and administrative ("SG&A") expenses SG&A expenses were $1,765 in 2021 Q1; a decrease of $1,045 compared with $2,810 in 2020 Q1. There were reductions in SG&A wages and related benefits and burdens due to a reduction in head count, wage rollbacks, reductions to severance compared to 2020 Q1 and the government assistance received 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 2021 Q1 compared to 15% in 2020 Q1.

Technology group expenses Technology group expenditures are related to supporting and upgrading existing technology as well in 2020 Q1 for finalization of 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 were capitalized as intangible assets.

Technology group expenses net of government assistance were $188 in 2021 Q1, a decrease of $342, compared with $530 in 2020 Q1. For 2020 Q1, the portion of total technology group costs related to new product development was $195 and this amount was capitalized as intangible assets (2021 Q1 - $nil). In 2020 Q2, Cathedral 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 2021 Q1, the Company had a gain on disposal of equipment of $188 compared to $1,004 in 2020 Q1. These amounts 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 2021 Q1, the Company received proceeds on disposal of equipment of $221 (2020 Q1 - $1,176).

Finance costs Finance costs consist of interest expenses on operating loans, long-term debt and bank charges of $83 for 2021 Q1 versus $29 for 2020 Q1.

Finance costs lease liability The lease liability interest decreased slightly to $209 from $238.

Foreign exchange The Company had a foreign exchange gain of $446 in 2021 Q1 compared to loss of $(2,436) in 2020 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 2021 Q1 foreign currency loss are unrealized gain of $444 (2020 Q1 – loss of $(2,464)) related to intercompany balances.

Impairment and direct write-downs Due to the decline in projected drilling activity in 2020 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 2021 Q1.

Income tax Previously, Cathedral derecognized deferred tax assets due to a recent history of tax losses within both of Cathedral's legal entities. 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 2021 Q1 was a use of cash of $408 compared to a use of cash $1,943 in 2020. The improvement was due to improved operating cash flows.

Future operations As at March 31, 2021, the Company was in compliance with the terms and conditions of its bank credit facility (see note 6). The Company had obtained certain covenant relief, but the current covenant relief expires March 31, 2021. Reverting back to the existing covenants, management's forecasts indicate a potential breach of its financial covenants for the remainder of fiscal 2021. A covenant violation would represent an event of default which would enable the lender to demand immediate repayment of all amounts due. As a result of these factors, there is a material uncertainty that may cast significant doubt with respect to the ability of the Company to continue as a going concern.

The Company has commenced discussions with its lender regarding covenant relief for the remainder of 2021 and based upon the terms being discussed, the Company expects to be in compliance with the revised covenants. Management expects to reach an acceptable agreement with its lender on covenant relief. No agreement has been reached to date and therefore, there can be no assurance that such agreement will be reached. Assuming the Company is successful in obtaining covenant relief for any potential forecasted covenant violations, Management's forecasts also show the Company meeting all of its financial commitments including interest payments over the next twelve months.

The consolidated financial statements have been prepared on a going concern basis, which presumes the Company will continue its operations for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. The consolidated annual financial statements do not reflect adjustments and classifications of assets, liabilities, revenues and expenses, which would be necessary if the Company were unable to continue as a going concern. Such adjustments could be material.

Working capital At December 31, 2020, the Company had working capital of $9,432 (December 31, 2020 - $7,680).

Credit facility In June 2020, the Company amended its credit facility (the "Facility") for temporary covenant relief. The Company's Facility consists of a $12,000 extendible revolving credit facility with a single lender which expires June 30, 2022. 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 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.

The covenant relief period ("CR period") commenced on June 30, 2020 and ended on March 31, 2021. 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 $6,000. 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 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;
- Advances are limited to $10,000;
- 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 March 31, 2021, the Company had drawn $3,633 of its credit facility and had $1,246 in cash. At March 31, 2021, the Company had consolidated funded debt of $4,115 that includes five outstanding letters of credit ("LOC") totaling $1,785 which are included in the funded debt calculation. TNW was $35,611.

The calculation of the financial covenants under the Facility as at March 31, 2021 is as follows:

Covenant	Actual Ratio	Required Ratio
Consolidated funded debt to TNW ratio	11.6%	15.0% (maximum)

The Company was in compliance with all revised covenants at March 31, 2021. The Company has entered into discussions with its lender to amend or extend the revised covenants under its credit facility for periods up to and including June 30, 2022.

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, 2020.

As at March 31, 2021, the Company's has commitment to purchase equipment of $224 which is expected to be incurred in 2021 Q2.

The Company has issued the following five 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 leases. The third LOC is currently for $629 USD and increases annually based upon annual changes in rent; and
- two securing the Company's corporate credit cards in the amounts of $75 CAD and $175 USD.

Subsequent event On May 5, 2021, Cathedral closed a non-brokered private placement of 12,654,500 common shares at a price of $0.25 per common share for gross proceeds of $3,164 (the "Private Placement"). Insiders of the Company subscribed for 5,060,000 (40%) of the common shares issued. All common shares issued under the Private Placement will be subject to a four-month hold period from the closing date under applicable Canadian securities laws, in addition to such other restrictions as may apply under applicable securities laws of jurisdictions outside of Canada.

Share capital At May 13, 2021, the Company has 63,045,516 common shares, 575,000 common share purchase warrants and 4,157,600 options outstanding with a weighted average exercise price of $0.34.

In 2021 Q2, the Company issued 700,000 stock options to staff with an average exercise price of $0.27 per option.

CONTROLS AND PROCEDURES

The Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") are responsible for designing disclosure controls and procedures ("DC&P") and internal controls over financial reporting ('ICFR') as defined in National Instrument 52-109 Certification of Disclosure in Issuer's Annual and Interim Filings ("52-109"), or causing them to be designed under their supervision, in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

Cathedral's DC&P have been designed to provide reasonable assurance that material information relating to Cathedral is made known to the CEO and the CFO by others and that information required to be disclosed by Cathedral in its annual filings, interim filings or other reports filed or submitted by Cathedral under securities legislation is recorded, processed, summarized and reported within the time periods specified in applicable securities legislation.

Because of their inherent limitations, DC&P and ICFR may not prevent or detect all misstatements, errors or fraud. Control systems, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control systems are met.

The CEO and CFO have concluded that there have been no changes in internal controls for the period ended on March 31, 2021 that have materially affected, or are reasonably likely to materially affect, Cathedral's ICFR.

RISK FACTORS

The MD&A for the year ended December 31, 2020, which is included in the Company's 2020 Annual Report, includes an overview on risk factors associated with the Company and its operating entities. Those risk factors remain in effect as at March 31, 2021.

GOVERNANCE

The Audit Committee of the Board of Directors has reviewed this MD&A and the related unaudited condensed consolidated interim financial statements and recommended they be approved to the Board of Directors. Following a review by the full Board, the MD&A and financial statements were approved.

NEW AND FUTURE ACCOUNTING POLICIES

There were no new or amended standards issued during the three months ended March 31, 2021 that are applicable to the Company in future periods.

SUMMARY OF QUARTERLY RESULTS

Three month periods ended	Mar 2021	Dec 2020	Sep 2020	Jun 2020	Mar 2020	Dec 2019	Sep 2019	Jun 2019
Revenues	$ 11,365	$ 7,448	$ 4,990	$ 8,841	$ 19,295	$ 19,299	$ 31,185	$ 32,550
Adjusted EBITDAS [(1)]	$ 825	$ (435)	$ 84	$ (823)	$ 1,057	$ (702)	$ 2,236	$ 479
Adjusted EBITDAS [(1)] per share - diluted	$ 0.02	$ (0.01)	$ 0.00	$ (0.02)	$ 0.02	$ (0.01)	$ 0.05	$ 0.01
Loss	$ (2,086)	$ (6,171)	$ (5,014)	$ (3,815)	$ (12,590)	$ (6,068)	$ (4,153)	$ (5,342)
Loss per share - basic	$ (0.04)	$ (0.12)	$ (0.10)	$ (0.08)	$ (0.25)	$ (0.12)	$ (0.08)	$ (0.11)

(1) Refer to MD&A: see "NON-GAAP MEASURMENTS"

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: the outlook for the North American oilfield services industry looks to remain positive for the balance of 2021 and into 2022; expect overall industry activity levels to steadily improve as we move through the year as capital spending programs for E&P companies continue to expand in a measured fashion; Cathedral will be able to accelerate its capex plan for 2021 including increasing our RapidFire™ Measurement-While-Drilling job capacity to 12 and expansion of our nDurance™ drilling motor fleet to meet increased demand; expect to continue to maintain our Canadian market share or expand it further as we focus on differentiating through technology and service excellence and our customers return to similar or increased levels of activity work post spring breakup; continue to shift our market focus towards more active areas of the U.S. such as the Permian basin where we can leverage the versatility of our RapidFire MWD system and high performing nDurance drilling motors; expect to see continued improvement in financial results in U.S. market as we progress through 2021; decrease in Canadian rental revenue is due to a significant Canadian rental client not drilling in 2021 Q1; when this client returns to drilling it is anticipated that they will become a full service client; 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 of Cathedral to continue as a going concern in the future;
- the ability to obtain sufficient insurance coverage to mitigate operational risks;
- currency exchange and interest rates;
- risks associated with future foreign operations;
- risks associated with acquisitions, dispositions and business development efforts;
- environmental risks;
- business risks resulting from weather, disasters and related to information technology;
- changes under governmental regulatory regimes and tax, environmental, climate and other laws in Canada and the U.S.; and

- competitive risks.

Forward-looking statements are not a guarantee of future performance and involve a number of risks and uncertainties some of which are described herein. Such forward-looking statements necessarily involve known and unknown risks and uncertainties, which may cause 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 and non-cash provision for bad debts), 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 s.

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	
	2021	2020
Gross margin	$ (475)	$ (2,090)
Add non-cash items included in cost of sales:		
Depreciation	2,887	4,376
Share-based compensation	8	21
Adjusted gross margin	$ 2,420	$ 2,307
Adjusted gross margin %	21%	12%

Adjusted EBITDAS

	Three months ended March 31	
	2021	2020
Loss before income taxes	$ (2,086)	$ (14,123)
Add:		
Depreciation included in cost of sales	2,887	4,376
Depreciation included in selling, general and administrative expenses	134	132
Share-based compensation included in cost of sales	8	21
Share-based compensation included in selling, general and administrative expenses	21	41
Finance costs	83	29
Finance costs lease liabilities	209	238
Subtotal	1,256	(9,286)
Impairment and direct write-downs	-	6,994
Unrealized foreign exchange (gain) loss on intercompany balances	(444)	2,464
Non-recurring expenses	13	840
Total Adjusted EBITDAS	$ 825	$ 1,012

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

March 31, 2021 and December 31, 2020
Dollars in '000s
(unaudited)

		March 31 2021		December 31 2020
Assets				
Current assets:				
Cash	$	1,246	$	1,034
Trade receivables		7,021		4,784
Prepaid expenses		1,046		709
Inventories		7,853		8,118
Total current assets		17,166		14,645
Equipment (note 4)		33,792		35,620
Intangible assets		2,056		2,244
Right of use asset (note 5)		11,312		11,771
Total non-current assets		47,160		49,635
Total assets	$	64,326	$	64,280
Liabilities and Shareholders' Equity				
Current liabilities:				
Trade and other payables	$	5,365	$	4,425
Current taxes payable		139		140
Lease liabilities, current (note 5)		2,207		2,247
Liability for settlements, current		113		153
Total current liabilities		7,824		6,965
Loans and borrowings (note 6)		3,633		1,560
Lease liabilities, long-term (note 5)		15,174		15,781
Total non-current liabilities		18,807		17,341
Total liabilities		26,631		24,306
Shareholders' equity:				
Share capital (note 7)		88,351		88,155
Contributed surplus		11,135		11,071
Accumulated other comprehensive income		8,887		9,340
Deficit		(70,678)		(68,592)
Total shareholders' equity		37,695		39,974
Total liabilities and shareholders' equity	$	64,326	$	64,280

See accompanying notes to condensed consolidated interim financial statements.
See note 2 "Future operations".

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, 2021 and 2020
Dollars in '000s except per share amounts
(unaudited)

	Three months ended March 31	
	2021	2020
Revenues (note 9)	$ 11,365	$ 19,295
Cost of sales:		
Direct costs	(8,945)	(16,988)
Depreciation	(2,887)	(4,376)
Share-based compensation	(8)	(21)
Total cost of sales	(11,840)	(21,385)
Gross margin	(475)	(2,090)
Selling, general and administrative expenses:		
Direct costs	(1,610)	(2,637)
Depreciation	(134)	(132)
Share-based compensation	(21)	(41)
Total selling, general and administrative expenses	(1,765)	(2,810)
	(2,240)	(4,900)
Technology group expenses	(188)	(530)
Gain on disposal of equipment	188	1,004
Loss from operating activities	(2,240)	(4,426)
Finance costs	(83)	(29)
Finance costs lease liability	(209)	(238)
Foreign exchange gain (loss)	446	(2,436)
Impairment and direct write-downs	-	(6,994)
Loss before income taxes	(2,086)	(14,123)
Income tax recovery:		
Current	-	1,187
Deferred	-	346
Total income tax recovery	-	1,533
Loss	(2,086)	(12,590)
Other comprehensive income (loss):		
Foreign currency translation differences for foreign operations	(453)	3,505
Total comprehensive loss	$ (2,539)	$ (9,085)
Loss per share		
Basic	$ (0.04)	$ (0.25)

See accompanying notes to condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Three months ended March 31, 2021 and 2020
Dollars in ‘000s
(unaudited)

	Share capital	Contributed surplus	Accumulated other comprehensive income	Deficit	Total shareholders' equity
Balance at December 31, 2019	**$ 88,155**	**$ 10,864**	**$ 9,934**	**$ (40,861)**	**$ 68,092**
Total comprehensive loss for three months ended March 31, 2020	-	-	3,505	(12,590)	(9,085)
Share-based compensation	-	62	-	-	62
Balance at March 31, 2020	**$ 88,155**	**$ 10,926**	**$ 13,439**	**$ (53,451)**	**$ 59,069**
Balance at December 31, 2020	**$ 88,155**	**$ 11,071**	**$ 9,340**	**$ (68,592)**	**$ 39,974**
Total comprehensive loss for three months ended March 31, 2021	-	-	(453)	(2,086)	(2,539)
Issue of shares purchase units	196	35	-	-	231
Share-based compensation	-	29	-	-	29
Balance at March 31, 2021	**$ 88,351**	**$ 11,135**	**$ 8,887**	**$ (70,678)**	**$ 37,695**

See accompanying notes to condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Three months ended March 31, 2021 and 2020
Dollars in '000s
(unaudited)

	Three months ended March 31	
	2021	2020
Cash provided by (used in):		
Operating activities:		
Loss	$ (2,086)	$ (12,590)
Items not involving cash		
Depreciation	3,021	4,508
Share-based compensation	29	62
Income tax recovery	-	(1,533)
Gain on disposal of equipment	(188)	(1,004)
Impairment and direct write-downs	-	6,994
Finance costs	83	29
Finance costs lease liability	209	238
Unrealized foreign exchange (gain) loss on intercompany balances	(444)	2,464
Cash flow - continuing operations	624	(832)
Changes in non-cash operating working capital	(1,032)	(1,080)
Income taxes paid	-	(31)
Cash flow - operating activities	(408)	(1,943)
Investing activities:		
Equipment additions	(591)	(855)
Intangible asset additions	-	(238)
Proceeds on disposal of equipment	221	1,176
Changes in non-cash investing working capital	(389)	(3)
Cash flow - investing activities	(759)	80
Financing activities:		
Advances of loans and borrowings	2,073	-
Repayments on loans and borrowings	(580)	(588)
Interest paid	(292)	(267)
Payment on settlements	(38)	(42)
Proceeds on issue of share purchase units	230	-
Cash flow - financing activities	1,393	(897)
Effect of exchange rate on changes on cash	(14)	382
Change in cash	212	(2,378)
Cash, beginning of period	1,034	7,223
Cash, end of period	$ 1,246	$ 4,845

See accompanying notes to condensed consolidated interim financial statements.

1. Reporting entity

Cathedral Energy Services Ltd. (the "Company" or "Cathedral") is a company domiciled in Canada. The Company is a publicly traded company listed on the Toronto Stock Exchange under symbol "CET". The consolidated financial statements of the Company as at and for the period ended March 31, 2021 comprise the Company and its 100% owned subsidiary, Cathedral Energy Services Inc. ("INC"), (together referred to as "Cathedral"). INC is incorporated in the United States of America ("U.S.") and its functional currency is U.S. dollars ("USD").

The Company and INC are primarily involved and engaged in the business of providing directional drilling services to oil and natural gas companies in western Canada and the U.S.

2. Future operations

As at March 31, 2021, the Company was in compliance with the terms and conditions of its bank credit facility (see note 6). The Company had obtained certain covenant relief, but the current covenant relief expires March 31, 2021. Reverting back to the existing covenants, management's forecasts indicate a potential breach of its financial covenants for the remainder of fiscal 2021. A covenant violation would represent an event of default which would enable the lender to demand immediate repayment of all amounts due. As a result of these factors, there is a material uncertainty that may cast significant doubt with respect to the ability of the Company to continue as a going concern.

The Company has commenced discussions with its lender regarding covenant relief for the remainder of 2021 and based upon the terms being discussed, the Company expects to be in compliance with the revised covenants. Management expects to reach an acceptable agreement with its lender on covenant relief. No agreement has been reached to date and therefore, there can be no assurance that such agreement will be reached. Assuming the Company is successful in obtaining covenant relief for any potential forecasted covenant violations, Management's forecasts also show the Company meeting all of its financial commitments including interest payments over the next twelve months.

The consolidated financial statements have been prepared on a going concern basis, which presumes the Company will continue its operations for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. The consolidated annual financial statements do not reflect adjustments and classifications of assets, liabilities, revenues and expenses, which would be necessary if the Company were unable to continue as a going concern. Such adjustments could be material.

3. Basis of preparation

(a) Statement of compliance

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* ("IAS 34") ("IFRS" or "GAAP").

Accordingly, certain information and footnote disclosures normally included in the annual financial statements prepared in accordance with IFRS, as issued by the International Accounting Standards Board ("IASB"), have been omitted or condensed. It also requires management to exercise judgment in applying the Company's accounting policies. These unaudited condensed consolidated interim financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2020, which are included in the Company's 2020 Annual Report.

The unaudited condensed consolidated interim financial statements were authorized for issue by the Board of Directors on May 13, 2021.

(b) Basis of measurement

The unaudited condensed consolidated interim financial statements have been prepared on the historical cost basis.

(c) Functional and presentation currency

These unaudited condensed consolidated interim financial statements are presented in Canadian dollars ("CAD"), which is the Company's functional currency. All financial information presented in dollars has been rounded to the nearest thousand except for share and per share amounts.

(d) Future Accounting Pronouncements

There were no new or amended standards issued during the period ended March 31, 2021 that are applicable to the Company in future periods.

(e) Use of estimates and judgements

The preparation of the condensed consolidated interim financial statements in conformity with GAAP requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. The significant judgements made by management in applying the Company's accounting policies and the information used in assessing uncertainty and have not changed significantly since December 31, 2020.

Significant estimates and judgements used in the preparation of these condensed interim consolidated financial statements remained unchanged from those disclosed in the Corporation's consolidated audited annual financial statements for the year ended December 31, 2020. As described in Note 3 (d) of the consolidated audited annual financial statements for the year ended December 31, 2020, due to the outbreak of COVID-19 and the resulting impact on the economy and in particular the prices of oil and natural gas, the estimates and judgements used to prepare these financial statements were subject to a higher degree of measurement uncertainty.

4. Equipment

During the period, there were additions to drilling equipment of $591 (2020 - $855).

5. Right of use asset and lease liabilities

Right of use asset - Real Property		March 31 2021		December 31 2020
Balance, start of period		11,771	$	19,590
Depreciation		(454)		(1,848)
Impairments and direct write-downs		-		(6,285)
Exchange adjustments		(5)		(5,971)
Balance, end of period	$	11,312	$	11,771

Lease liabilities

Lease liabilities		Vehicles		Real Property		Total
Balance, December 31, 2020	$	17	$	18,011	$	18,028
Interest		-		209		209
Disposals		(2)		-		(2)
Payments		(3)		(786)		(789)
Exchange adjustments		-		(65)		(65)
Subtotal	$	12	$	17,369	$	17,381
Less current portion		(12)		(2,195)		(2,207)
Lease liabilities, long-term	$	-	$	15,174	$	15,174

The maturity analysis of the undiscounted contractual balances of the lease liabilities is as follows:

In one year or less	$	2,964
In more than one year, but not more than five years		10,656
In more than five years		7,077
Total	$	20,697

6. Loans and borrowings

In June 2020, the Company amended its credit facility (the "Facility") for temporary covenant relief. The Company's Facility consists of a $12,000 extendible revolving credit facility with a single lender which expires June 30, 2022. 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 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.

The covenant relief period ("CR period") commenced on June 30, 2020 and ended on March 31, 2021. 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 $6,000. 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 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;
- Advances are limited to $10,000;
- 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 March 31, 2021, the Company had drawn $3,633 of its credit facility and had $1,246 in cash. At March 31, 2021, the Company had consolidated funded debt of $4,115 that includes five outstanding letters of credit ("LOC") totaling $1,785 which are included in the funded debt calculation. TNW was $35,611.

The calculation of the financial covenants under the Facility as at March 31, 2021 is as follows:

Covenant	**Actual Ratio**	**Required Ratio**
Consolidated funded debt to TNW ratio	11.6%	15.0% (maximum)

The Company was in compliance with all revised covenants at March 31, 2021. The Company has entered into discussions with its lender to amend or extend the revised covenants under its credit facility for periods up to and including June 30, 2022.

7. Share capital

Authorized: An unlimited number of common shares and an unlimited number of preferred shares (issuable in series).

Common shares issued:

	Three months ended March 31, 2020	
	Number	Amount
Issued, beginning of period	49,468,117	$ 88,155
Issued on share purchase units	1,150,000	196
Issued, end of period	50,618,117	$ 88,351

Cathedral entered into a non-brokered private placement of 500,000 units with its newly appointed President, CEO and Director, at a subscription price of $0.20 per unit for a subscription amount of $100. Each unit will consist of one Cathedral common share and one-half of one common share purchase warrant. Each whole warrant will entitle the holder to purchase one common share at an exercise price of $0.24 per common share for a period of three years from the closing date of the private placement which was February 8, 2021.

In addition, Cathedral issued 650,000 units to its newly appointed President, CEO and Director at a subscription price of $0.20 per unit, using a loan provided by Cathedral on commercial terms of $130. Each unit will consist of one common share and one-half of one warrant. Each whole warrant will entitle the holder to purchase one common share at an exercise price of $0.24 per common share for a period of three years from the closing date of the private placement which was February 8, 2021.

Basic earnings (loss) per share

The calculation of basic earnings per share for the three months ended March 31, 2021 was based on the loss attributable to common shareholders of $(2,086) (2020 – $(12,590)) and a weighted average number of common shares outstanding of 50,132,561 (2020 – 49,468,117); calculated as follows:

Weighted average number of ordinary shares

	Three months ended March 31,	
	2021	2020
Issued, beginning of period	49,468,117	49,468,117
Effect of share options exercised	664,444	-
Weighted average number of common shares at end of period	50,132,561	49,468,117

Diluted earnings (loss) per share

There is no diluted calculation in 2021 Q1 or 2020 Q1 as the Company incurred a loss. The weighted average number of common shares outstanding after adjustment for the effects of all dilutive potential common shares as follows:

Weighted average number of common shares (diluted)

	Three months ended March 31	
	2020	2019
Weighted average number of common shares (basic)	50,132,561	49,468,117
Effect of share options on issue	258,455	-
Weighted average number of common shares (diluted) at end of period	50,391,016	49,468,117

At March 31, 2021, 2,582,000 options (2020 – 2,500,166 options) were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive. The average market value of the Company's common shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period during which the options were outstanding.

During the quarter ended March 31, 2021, the Company granted 600,000 stock options were granted to the new President, CEO and Director, with an exercise price or $0.18 per option which will expire February 8, 2024. Additional options of 335,000 were granted to other employees at an exercise price of $0.26 which expire February 15, 2024. The following table sets out the assumptions used in applying the Black-Scholes model for the options issued as well as the resulting fair value:

	2021 Q1 A	2021 Q1 B
Number of options issued	600,000	335,000
Exercise price	$ 0.18	$ 0.26
Fair value per option (w eighted average)	$ 0.11	$ 0.15
Expected annual dividend per share	$ -	$ -
Risk-free interest rate (w eighted average)	0.2%	0.2%
Expected share price volatility (w eighted average)	93.6%	92.9%
Forfeiture rate per annum (excluding officer and directors w ho are at 0%)	10.0%	10.0%

8. Revenue

a) Disaggregation of revenue

The following table reconciles revenue by geographic location:

Revenues		2021		2020
Canada	$	8,100	$	7,336
United States		3,265		11,959
Total	$	11,365	$	19,295

b) Seasonality of operations

A portion of the Company's operations are carried on in western Canada where activity levels in the oilfield services industry are subject to a degree of seasonality. Operating activities in western Canada are generally lower during "spring breakup" which normally commences in mid to late March and continues through to May. Operating activities generally decrease in the fall and peak in the winter months from December until mid to late March. Additionally, volatility in the weather and temperatures not only during this period, but year round, can create additional unpredictability in operational results. Activity levels in the oil and natural gas basins in the U.S. are not subject to the seasonality to the same extent that it occurs in the western Canada region.

9. Government grants

For the three ended March 30, 2021, the Company recognized the benefit from the Canadian Emergency Wage Subsidy ("CEWS") program of $205 (2020 - $nil) which reduced salary expenses as follows:

- Cost of sales $123;
- Selling, general and administrative expenses $66; and
- Technology group expenses $16.

Additionally, the Company received $135 (2020 - $nil) from the Canadian Emergency Rent Subsidy ("CERS"), which reduced cost of sales $100 (2020 - $nil) and selling, general and administrative $35 (2020 - $nil).

10. Commitments

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, 2020.

As at March 31, 2021, the Company's has commitment to purchase equipment of $224 which is expected to be incurred in 2021 Q2.

The Company has issued the following five 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 leases. The third LOC is currently for $629 USD and increases annually based upon annual changes in rent; and
- two securing the Company's corporate credit cards in the amounts of $75 CAD and $175 USD.

11. Subsequent event

On May 5, 2021, Cathedral closed a non-brokered private placement of 12,654,500 common shares at a price of $0.25 per common share for gross proceeds of $3,164 (the "Private Placement"). Insiders of the Company subscribed for 5,060,000 (40%) of the common shares issued. All common shares issued under the Private Placement will be subject to a four-month hold period from the closing date under applicable Canadian securities laws, in addition to such other restrictions as may apply under applicable securities laws of jurisdictions outside of Canada.