CATHEDRAL

NEWS RELEASE
AUGUST 9, 2018

CATHEDRAL ENERGY SERVICES REPORTS RESULTS FOR 2018 Q2

Cathedral Energy Services Ltd. (the "Company" or "Cathedral" / TSX: CET) announces its consolidated financial results for the three and six months ended June 30, 2018 and 2017. Dollars in 000's except per share amounts.

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

FINANCIAL HIGHLIGHTS

Dollars in 000's except per share amounts

	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Revenues	$ 34,973	$ 34,355	$ 75,130	$ 72,678
Adjusted gross margin % (1)	2%	15%	7%	19%
Adjusted EBITDAS (1)	$ (985)	$ 2,363	$ 2,458	$ 9,159
Basic and diluted per share	$ (0.02)	$ 0.05	$ 0.05	$ 0.20
As % of revenues	-3%	7%	3%	13%
Cash flow - operating activities	$ (3,731)	$ 2,362	$ (1,599)	$ 1,794
Earnings (loss) before income taxes	$ (4,224)	$ 54	$ (3,879)	$ 4,026
Basic and diluted per share	$ (0.09)	$ -	$ (0.08)	$ 0.09
Net earnings (loss)	$ (2,498)	$ 186	$ (2,204)	$ 2,767
Basic and diluted per share	$ (0.05)	$ -	$ (0.04)	$ 0.06
Equipment additions - cash basis	$ 4,306	$ 2,511	$ 8,780	$ 3,547
Weighted average shares outstanding				
Basic (000s)	49,445	48,916	49,422	45,779
Diluted (000s)	49,478	49,023	49,538	45,917

	June 30 2018	December 31 2017
Working capital	$ 30,983	$ 31,016
Total assets	$ 128,887	$ 121,630
Loans and borrowings excluding current portion	$ 5,534	$ 46
Shareholders' equity	$ 101,596	$ 101,391

(1) Refer to "NON-GAAP MEASUREMENTS"

2018 Q2 KEY TAKEAWAYS

Q2 revenues increased 2% from $34,355 in 2017 Q2 to $34,973 in 2018 Q2 and year-to-date increased 3% from $72,678 in 2017 to $75,130 in 2018.

Adjusted gross margin decreased to 2% from 15% in 2017 Q2 and to 7% in 2018 year-to-date from 19% in 2017. This decline was due to non-recurring items including credits to certain customers, higher equipment repairs due to a more demanding drilling environment and to a lesser extent upgrading the Company's existing equipment fleet.

Adjusted EBITDAS decreased from $2,363 in 2017 Q2 to a loss of $(985) in 2018 Q2. Year-to-date adjusted EBITDAS decreased from $9,159 in 2017 to $2,458 in 2018.

The Company continues to make investments in equipment to relieve capacity constraints and to improve equipment utilization, reliability and performance. Substantially all of this equipment is targeted at the U.S. market.

OUTLOOK

The second quarter of 2018 continued to be challenging for Cathedral compared to the prior year. Canadian operations were impacted by low activity levels associated with spring break-up. In the U.S., equipment repair expenses continued to be a challenge along with some one-time operational issues with customers that resulted in un-paid work being done on certain jobs. As noted in previous quarters, expense escalation in the U.S. has been a challenge coupled with the difficulty of implementing corresponding customer price increases for our services in an intensely competitive environment.

In Q1 we implemented a number of cost saving measures which started to positively impact results in late Q2. These included better controls on rental expenses, trucking and continued focus on labor costs and efficiencies. In Q2 we implemented a number of engineering improvements to our equipment to improve durability and performance which should mitigate equipment repair and refurbishment costs in future quarters. We continue to focus on all expense categories impacting our business.

In 2018 we have increased our capital program for new equipment significantly compared to prior years. The objectives with our expanded capital program are to achieve higher drilling performance, reduce operating costs and grow our job capacity. Our main focus with Capital expenditure program has been on drilling motors as they currently provide the biggest performance differentiator in the market. To the end of Q2 we have added 45 new power sections for our next generation 7" CLAW-XT™ high performance motors with a similar amount to be deployed in Q3. In addition, we anticipate delivery of new 5-1/2" motors by the end of Q3 targeted specifically for 6-3/4" holes sizes in rotary steerable application rentals. Substantially all of this equipment is targeted at the U.S. market.

On the MWD front we will be rolling out our new Cathedral Linear Pulser add-on to our FUSION™ Measurement-While-Drilling (MWD) platform in Q3. This technology will be our main MWD pulse telemetry platform going forward and will reduce our deployment and repair costs as we are currently dependent on third party suppliers with our existing linear pulse telemetry platform. Upgrades to our existing FUSION MWD platform equipment, which are aimed at improving MWD performance and reliability continue to be implemented in our operations. Our FUSION MWD platform provides plug and play capability to use electromagnetic or pulse telemetry either stand-alone or combined to provide Dual Telemetry (DT) capability. The FUSION MWD platform performance capabilities are further augmented using our downhole power generator (EMc2™). Progress on our next generation Dual Telemetry (DT) MWD tool remains on track for launch in 2019.

Despite a challenging first half of 2018, we are both optimistic and confident about our prospects for the remainder of 2018 and beyond.

2018 CAPITAL PROGRAM

During the six months ended June 30, 2018 the Company invested $8,780 (2017 - $3,547) in equipment and expended $820 in new technology development primarily related to MWD systems.

The following table details the current period's net equipment additions:

		Six months ended June 30, 2018
Equipment additions:		
Motors	$	5,157
MWD		3,214
Other		409
Total cash additions		8,780
Less: proceeds on disposal of equipment (excluding capital lease settlements)		(6,814)
Net equipment additions (1)	$	1,966

(1) See "NON-GAAP MEASUREMENTS"

Cathedral's current 2018 capital budget totals $18,900, which includes $1,555 for intangible additions. The total net equipment additions is estimated to be approximately $10,500.

The Company is monitoring capital expenditure levels in the context of customer equipment requirements, replacement of equipment lost-in-hole and available cash flow and will adjust its capital program accordingly. Delivery lead times on capital items, including component parts for self-constructed assets, range from 60 to 180 days.

RESULTS OF OPERATIONS – THREE MONTHS ENDED JUNE 30

Revenues		2018		2017
Canada	$	4,465	$	4,914
United States		30,508		29,441
Total	$	34,973	$	34,355

Revenues 2018 Q2 revenues were $34,973, which represented an increase of $618 or 2% from 2017 Q2 revenues of $34,355.

Canadian revenues (excluding motor rental revenues) decreased to $3,396 in 2018 Q2 from $4,143 in 2017 Q2; an 18% decrease. This decrease was the result of: i) a 24% decrease in activity days to 404 in 2018 Q2 from 533 in 2017 Q2; net of ii) an 8% increase in the average day rate to $8,406 in 2018 Q2 from $7,773 in 2017 Q2.

The average active land rig count in Canada was down 8% in 2018 Q2 compared to 2017 Q2 (source: Baker Hughes). Cathedral's activity levels relative to the industry were impacted by the scope of customer drilling programs and their geographical areas. The 2018 Q2 day rate is higher than recent rates, however, during spring break-up, with the limited operating days, pricing with one or two clients can skew the average day rate significantly.

U.S. Directional Drilling revenues (excluding motor rental revenues) increased to $29,832 in 2018 Q2 from $29,243 in 2017 Q2; a 2% increase. This increase was the result of: i) a 2% increase in activity days to 2,573 in 2018 Q2 from 2,531 in 2017 Q2; and ii) a minor increase in the average day rate to $11,594 in 2018 Q2 from $11,554 in 2017 Q2 (when converted to Canadian dollars). However, specific one-time credits related to performance issues with certain U.S. clients reduced the day rate by $501 CAD.

The average active land rig count for the U.S. was up 20% in 2018 Q2 compared to 2017 Q2 (source: Baker Hughes). The Company experienced a 2% increase in activity days that resulted in a decrease in market share in the period. This decrease in market share was largely due to equipment constraints starting in 2017 that the Company has been working to resolve with its capital budget program as well as certain clients altering the timing and scope of their drilling programs. Day rates in United States Dollars ("USD") increased to $8,969 USD in 2018 Q2 from $8,588 USD in 2017 Q2; a 4% increase. The increase in day rates was due to general increases in customer pricing. The 2018 Q2 day rate in USD has declined in the first two quarters of 2018 due to customer mix and scope of work that the Company believes is not indicative of a longer term trend.

Gross margin and adjusted gross margin Gross margin for 2018 Q2 was negative compared to 7% in 2017 Q2. Adjusted gross margin (see Non-GAAP Measurements) for 2018 Q2 was $631 or 2% compared to $5,073 or 15% for 2017 Q2.

Adjusted gross margin, as a percentage of revenue, decreased due to higher equipment repairs, higher equipment rentals and specific one-time credits related to performance issues with certain U.S. clients. Rental expenses in the quarter were higher primarily due to specialty equipment rentals that were billed through to clients with a lower mark-up than typical margins. 4% of the decrease in adjusted gross margin was attributable to the impact of the specialty equipment rental margins and the credits on U.S. work.

The remaining decrease in adjusted gross margin was from increased equipment repairs. Repairs increased in part due to a more demanding drilling environment and to a lesser extent upgrades being made to the Company's existing equipment fleet. In addition, there was an increase in the fixed component of cost of sales that were 3% higher on a percentage of revenue basis in 2018 Q2 compared to 2017 Q2. This increase was mostly attributable to office and shop payroll and other labour related costs.

Depreciation allocated to cost of sales decreased to $2,573 in 2018 Q2 from $2,774 in 2017 Q2. Depreciation included in cost of sales as a percentage of revenue was 7% for 2018 Q2 and 8% in 2017 Q2.

Selling, general and administrative expenses ("SG&A") SG&A expenses were $3,707 in 2018 Q2; a decrease of $2 compared with $3,709 in 2017 Q2. As a percentage of revenue, SG&A was 11% in 2018 Q2 compared to 11% in 2017 Q2.

Technology group expenses Technology group expenses were $627 in 2018 Q2; an increase of $226 compared with $401 in 2017 Q2. Technology group expenses are related to new product development and supporting and upgrading existing technology. Technology group expenses consist of salaries and related benefits and burdens as well as shop supplies. Technology group expenses increased primarily due to wage increases, including the reinstatement of previous wage rollbacks, and staff additions. In 2018 Q2, an additional $231 of technology group expenses related to new product development were capitalized as intangible assets (2017 Q2 - $nil).

Gain on disposal of equipment During 2018 Q2, the Company had a gain on disposal of equipment of $2,576 compared to $1,277 in 2017 Q2. These gains mainly relate to equipment lost-in-hole. Proceeds from clients on lost-in-hole equipment are based on amounts specified in service agreements and, in most cases; these proceeds exceed the net book value of the equipment and result in a gain. The timing of lost-in-hole recoveries is not in the control of the Company and therefore can fluctuate significantly from quarter-to-quarter. In 2018 Q2, the Company received proceeds on lost-in-hole recoveries of $2,859 (2017 Q2 - $1,621).

Finance costs Finance costs consist of interest expenses on operating loans, loans and borrowings and bank charges of $99 for 2018 Q2 versus $96 for 2017 Q2.

Foreign exchange The Company had a foreign exchange loss of $(392) in 2018 Q2 compared to a gain of $699 in 2017 Q2 due to the fluctuations of the Canadian dollar relative to the U.S. dollar. The Company's foreign operations are denominated in USD and therefore, upon consolidation, gains and losses due to fluctuations in the foreign currency exchange rates are recorded as other comprehensive income on the balance sheet as a component of equity. However, gains and losses in the Canadian entity on U.S. denominated intercompany balances continue to be recognized in the statement of comprehensive income (loss). Included in the 2018 Q2 foreign currency gains are unrealized loss of $401 (2017 Q2 - gain of $682) related to intercompany balances.

Income tax For 2018 Q2, the Company had an income tax recovery of $1,726 compared to a recovery of $149 in 2017 Q2. Included in the 2018 Q2 provision was recoveries of $361 related to provisions of prior periods (2017 Q2 recovery of $93).

The 2018 Q2 effective tax rate excluding adjustments for prior periods was 32%. The 2018 Q2 rate is higher than anticipated as one legal entity has pre-tax income and the other has pre-tax losses. Income tax expense is booked based upon expected annualized effective rates based upon the statutory rates of 27% for Canada and 23% for the U.S.

RESULTS OF OPERATIONS – SIX MONTHS ENDED JUNE 30

Revenues		2018		2017
Canada	$	15,102	$	15,380
United States		60,028		57,298
Total	$	75,130	$	72,678

Revenues 2018 revenues were $75,130, which represented an increase of $2,452 or 3% from 2017 revenues of $72,678.

Canadian revenues (excluding motor rental revenues) decreased to $13,093 in 2018 from $13,450 in 2017; a 3% decrease. This decrease was the result of: i) a 14% decrease in activity days to 1,676 in 2018 from 1,956 in 2017; net of ii) an 14% increase in the average day rate to $7,812 in 2018 from $6,876 in 2017.

The average active land rig count in Canada was down 8% in 2018 compared to 2017 (source: Baker Hughes). The 2018 day rate increase was consistent with the quarter-over-quarter increases the Company has been able to achieve beginning in 2017 Q1.

U.S. Directional Drilling revenues (excluding motor rental revenues) increased to $58,963 in 2018 from $56,821 in 2017; a 4% increase. This increase was the result of: i) a 1% decrease in activity days to 5,071 in 2018 from 5,096 in 2017; and ii) a 4% increase in the average day rate to $11,628 in 2018 from $11,150 in 2017 (when converted to Canadian dollars). However, specific one-time credits related to performance issues with certain U.S. clients reduced the day rate by $254 CAD.

The average active land rig count for the U.S. was up 26% in 2018 compared to 2017 (source: Baker Hughes). The Company experienced a 1% decrease in activity days that resulted in a decrease in market share over this period. This decrease in market share was largely due to equipment constraints starting in 2017 that the Company has been working to resolve with its capital budget program as well as certain clients altering the timing and scope of their drilling programs. Day rates in USD increased to $9,098 USD in 2018 from $8,350 USD in 2017; a 9% increase. The increase in day rates was primarily due to customer price increases. U.S. day rates have declined sequentially the first two quarters of 2018 due to customer mix and scope of work that the Company believes is not indicative of a longer term trend.

Gross margin and adjusted gross margin Gross margin for 2018 was under 1% compared to 11% in 2017. Adjusted gross margin (see Non-GAAP Measurements) for 2018 was $5,393 or 7% compared to $13,559 or 19% for 2017.

Adjusted gross margin, as a percentage of revenue, decreased due to higher equipment repairs, higher equipment rentals and specific one-time credits related to performance issues with certain U.S. clients in Q2. Rental expenses were adversely impacted by specialty equipment rentals in Q2 that were billed through to clients with a lower mark-up than typical margins. The impact of these rentals and the credits on U.S. work caused 2% of the decrease in adjusted gross margin.

The remaining decrease in adjusted gross margin was from increased equipment repairs. Repairs increased in part due to a more demanding drilling environment and to a lesser extent upgrades being made to the Company's existing equipment fleet. In addition, there was an increase in the fixed component of cost of sales that were 3% higher on a percentage of revenue basis in 2018 compared to 2017. This increase was mostly attributable to office and shop payroll and other labour related costs.

Depreciation allocated to cost of sales decreased to $4,788 in 2018 from $5,380 in 2017. Depreciation included in cost of sales as a percentage of revenue was 6% for 2018 and 7% in 2017.

Selling, general and administrative expenses ("SG&A") SG&A expenses were $7,534 in 2018; an increase of $667 compared with $6,867 in 2017. As a percentage of revenue, SG&A was 10% in 2018 compared to 9% in 2017. SG&A increased primarily due to wage increases, including the reinstatement of previous wage rollbacks, increased U.S. health benefits and to a lesser extent, staff additions offset by lower U.S. state sales tax expenditures. Staffing costs included in SG&A include executive, sales, accounting, human resources, payroll, safety and related support staff.

Technology group expenses Technology group expenses were $1,228 in 2018; an increase of $162 compared with $1,066 in 2017. Technology group expenses are related to new product development and supporting and upgrading existing technology. Technology group expenses consist of salaries and related benefits and burdens as well as shop supplies. Technology group expenses increased primarily due to wage increases, including the reinstatement of previous wage rollbacks, and staff additions. In 2018, an additional $461 of technology group expenses related to new product development were capitalized as intangible assets (2017 - $nil).

Gain on disposal of equipment During 2018, the Company had a gain on disposal of equipment of $5,584 compared to $3,291 in 2017. These gains mainly relate to equipment lost-in-hole. Proceeds from clients on lost-in-hole equipment are based on amounts specified in service agreements and, in most cases; these proceeds exceed the net book value of the equipment and result in a gain. The timing of lost-in-hole recoveries is not in the control of the Company and therefore can fluctuate significantly from quarter-to-quarter. In 2018, the Company received proceeds on lost-in-hole recoveries of $6,599 (2017 - $3,871).

Finance costs Finance costs consist of interest expenses on operating loans, loans and borrowings and bank charges of $144 for 2018 versus $398 for 2017. The decrease in finance costs relate to the reduction of amounts drawn on the Company's credit facility. In 2017 Q1, the Company finalized the sale of its Flowback and Production Testing ("F&PT)" assets, raised funds through a private placement of shares and repaid the outstanding long-term debt.

Foreign exchange The Company had a foreign exchange loss of $(1,089) in 2018 compared to a gain of $917 in 2017 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 2018 foreign currency gains are unrealized loss of $1,070 (2017 - gain of $874) related to intercompany balances.

Income tax For 2018, the Company had an income tax recovery of $1,675 compared to expense of $1,124 in 2017. Included in the 2018 provision was recoveries of $361 related to provisions of prior periods (2017 recovery of $4).

The 2018 effective tax rate excluding adjustments for prior periods was 34%. The 2018 rate was higher than anticipated as one legal entity has pre-tax income and the other has pre-tax losses. Income tax expense is booked based upon expected annualized effective rates based upon the statutory rates of 27% 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. In addition, the Company has the ability to fund liquidity requirements through its credit facility and the issuance of debt and/or equity. For the six months ended June 30, 2018, the Company had funds used in operations of $(1,599) (2017 – funds from operations $1,794). The decrease in funds is mainly due to reduced profits.

Working capital At June 30, 2018 the Company had working capital of $30,983 (December 31, 2017 - $31,016). The decrease in working capital level was primarily due to lower receivables, and higher inventories and trade payables relative to December 31, 2017.

Credit facility In December 2017, the Company signed a new credit facility (the "Facility") with a new lending syndicate. The Facility consists of a $5 million operating facility and $15 million extendible revolving credit facility and expires December 31, 2019. The Facility is secured by a general security agreement over all present and future personal property.

The financial covenants associated with the amended Facility are:

- Consolidated funded debt to consolidated Facility EBITDA (as defined in the Facility agreement) ratio shall not exceed 3.0:1; and
- Consolidated interest coverage ratio shall not be less than 2.5:1.

The Facility bears interest at the financial institution's prime rate plus 0.75% to 2.25% or bankers' acceptance rate plus 1.75% to 3.00% with interest payable monthly. Interest rate spreads for the Facility depend on the level of funded debt to the 12 month trailing Facility 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.

At June 30, 2018, the Company had drawn $5,500 of its revolving credit facility. The Company's Funded Debt level under the lending agreement was $3,590. For the rolling twelve months ended June 30, 2018, Facility EBITDA was $14,120.

Ratio	Actual	Required
Consolidated funded debt to consolidated Facility EBITDA ratio	0.3:1	3.0:1 maximum
Consolidated interest coverage ratio	32.8:1	2.5:1 minimum

Subsequent to June 30, 2018 the Company drew another $1,500 of its revolving credit facility. Based on current available information, Cathedral expects to comply with all covenants for the next twelve months.

Contractual obligations In the normal course of business, the Company incurs contractual obligations and those obligations are disclosed in the Company's MD&A for the year ended December 31, 2017. As at June 30, 2018, the Company had a commitment to purchase approximately $4,109 of equipment. Cathedral anticipates expending these funds 2018 Q3 and Q4 based upon current delivery lead times.

Share capital At August 9, 2018, the Company has 49,468,117 common shares and 2,716,834 options outstanding with a weighted average exercise price of $1.56.

FORWARD LOOKING STATEMENTS

This news release contains certain forward-looking statements and forward-looking information (collectively referred to herein as "forward-looking statements") within the meaning of applicable Canadian securities laws. All statements other than statements of present or historical fact are forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "anticipate", "achieve", "believe", "plan", "intend", "objective", "continuous", "ongoing", "estimate", "outlook", "expect", "may", "will", "project", "should" or similar words suggesting future outcomes. In particular, this news release contains forward-looking statements relating to, among other things: implemented a number of engineering improvements to our equipment to improve durability and performance which should mitigate equipment repair and refurbishment costs in future quarters; continue to focus on all expense categories impacting our business; objectives with our expanded capital program are to achieve higher drilling performance, reduce operating costs and grow our job capacity; an additional 45 new generation 7" CLAW-XT™ high performance motors to be deployed in Q3; anticipate delivery of new 5-1/2" motors by the end of Q3 targeted specifically for 6-3/4" holes sizes in rotary steerable applications; will be rolling out our new Cathedral Linear Pulser add-on to our FUSION™ Measurement-While-Drilling (MWD) platform in Q3; new Cathedral Linear Pulser will reduce our deployment and repair costs as we are currently dependent on third party suppliers with our existing linear pulse telemetry platform; upgrades to our existing FUSION MWD platform equipment, which are aimed at improving MWD performance and reliability continue to be implemented in our operations. Our FUSION MWD platform provides plug and play capability to use electromagnetic or pulse telemetry either stand-alone or combined to provide Dual Telemetry (DT) capability; progress on our next generation Dual Telemetry (DT) MWD tool remains on track for launch in 2019; optimistic and confident about our prospects for the remainder of 2018 and beyond; 2018 Q2 day rate in USD has declined in the first two quarters of 2018 due to customer mix and scope of work that the Company believes is not indicative of a longer term trend; projected capital expenditures and commitments and the financing thereof; and Cathedral expects to comply with all covenants during 2018.

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

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

- the performance of Cathedral's businesses, including current business and economic trends;
- oil and natural gas commodity prices and production levels;
- alternatives to and changing demand for hydrocarbon products;
- performance obligation to clients;
- capital expenditure programs and other expenditures by Cathedral and its customers;
- currency exchange and interest rates;
- the ability of Cathedral to service its debt;
- the ability of Cathedral to retain and hire qualified personnel;
- the ability of Cathedral to obtain parts, consumables, equipment, technology, and supplies in a timely manner to carry out its activities;
- the ability of Cathedral to maintain good working relationships with key suppliers;
- the ability of Cathedral to market its services successfully to existing and new customers and reliance on major customers;
- risks associated with technology development and intellectual property rights;
- the ability of Cathedral to maintain safety performance;
- the ability of Cathedral to obtain timely financing on acceptable terms;
- the ability to obtain sufficient insurance coverage to mitigate operational risks;
- risks associated with acquisitions and business development efforts;
- environmental risks;
- risks associated with information technology systems;
- changes under governmental regulatory regimes and tax, environmental and other laws in Canada and U.S.; and
- competitive risks.

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

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

NON-GAAP MEASUREMENTS

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

The specific measures being referred to include the following:

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

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

iii) "Total Adjusted EBITDAS" - defined as earnings before finance costs, unrealized foreign exchange on intercompany balances, taxes, depreciation, write-down of goodwill, 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). This measure includes both discontinued F&PT operations and continuing Directional Drilling operations;

iv) "Adjusted EBITDAS from discontinued operations" – Total Adjusted EBITDAS as calculated above from discontinued F&PT operations only;

v) "Adjusted EBITDAS from continuing operations" – Total Adjusted EBITDAS as calculated above for ongoing Directional Drilling as well as corporate administrative costs;

vi) “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 news release:

Adjusted gross margin

	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Gross margin	$ (1,975)	$ 2,284	$ 532	$ 8,149
Add non-cash items included in cost of sales:				
Depreciation	2,573	2,774	4,788	5,380
Share-based compensation	33	15	73	30
Adjusted gross margin	$ 631	$ 5,073	$ 5,393	$ 13,559
Adjusted gross margin %	2%	15%	7%	19%

Total Adjusted EBITDAS

	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Earnings (loss) before income taxes	$ (4,224)	$ 54	$ (3,879)	$ 4,026
Add:				
Depreciation included in cost of sales	2,573	2,774	4,788	5,380
Depreciation included in selling, general and administrative expenses	41	25	77	50
Share-based compensation included in cost of sales	33	15	73	30
Share-based compensation included in selling, general and administrative expenses	92	49	185	96
Finance costs	99	96	144	398
Subtotal	(1,386)	3,013	1,388	9,980
Unrealized foreign exchange (gain) loss on intercompany balances	401	(682)	1,070	(874)
Non-recurring expenses	-	49	-	176
Adjusted EBITDAS from continuing operations	(985)	2,380	2,458	9,282
Adjusted EBITDAS from discontinued operations	-	(17)	-	(123)
Total Adjusted EBITDAS	$ (985)	$ 2,363	$ 2,458	$ 9,159

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2018 and December 31, 2017
Dollars in '000s
(unaudited)

	June 30 2018	December 31 2017
Assets		
Current assets:		
Cash	$ 3,318	$ 2,683
Restricted cash equivalents	-	1,514
Trade receivables	32,338	33,885
Current taxes recoverable	915	86
Prepaid expenses	2,172	1,460
Inventories	13,603	11,128
Total current assets	52,346	50,756
Equipment	61,274	58,383
Intangible assets	2,595	1,953
Deferred tax assets	12,672	10,538
Total non-current assets	76,541	70,874
Total assets	$ 128,887	$ 121,630
Liabilities and Shareholders' Equity		
Current liabilities:		
Operating loan	$ -	$ 1,233
Trade and other payables	21,102	17,926
Loans and borrowings	103	233
Provision for settlements, current	158	348
Total current liabilities	21,363	19,740
Loans and borrowings	5,534	46
Provision for settlements, long-term	394	453
Total non-current liabilities	5,928	499
Total liabilities	27,291	20,239
Shareholders' equity:		
Share capital	88,155	88,059
Contributed surplus	10,034	9,801
Accumulated other comprehensive income	10,224	8,144
Deficit	(6,817)	(4,613)
Total shareholders' equity	101,596	101,391
Total liabilities and shareholders' equity	$ 128,887	$ 121,630

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

Three and six months ended June 30, 2018 and 2017
Dollars in '000s except per share amounts
(unaudited)

	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Revenues	$ 34,973	$ 34,355	$ 75,130	$ 72,678
Cost of sales:				
Direct costs	(34,342)	(29,282)	(69,737)	(59,119)
Depreciation	(2,573)	(2,774)	(4,788)	(5,380)
Share-based compensation	(33)	(15)	(73)	(30)
Total cost of sales	(36,948)	(32,071)	(74,598)	(64,529)
Gross margin	(1,975)	2,284	532	8,149
Selling, general and administrative expenses:				
Direct costs	(3,574)	(3,635)	(7,272)	(6,721)
Depreciation	(41)	(25)	(77)	(50)
Share-based compensation	(92)	(49)	(185)	(96)
Total selling, general and administrative expenses	(3,707)	(3,709)	(7,534)	(6,867)
	(5,682)	(1,425)	(7,002)	1,282
Technology group expenses	(627)	(401)	(1,228)	(1,066)
Gain on disposal of equipment	2,576	1,277	5,584	3,291
Earnings (loss) from operating activities	(3,733)	(549)	(2,646)	3,507
Finance costs	(99)	(96)	(144)	(398)
Foreign exchange gain (loss)	(392)	699	(1,089)	917
Earnings (loss) before income taxes	(4,224)	54	(3,879)	4,026
Income tax recovery (expense):				
Current	(273)	627	(435)	(28)
Deferred	1,999	(478)	2,110	(1,096)
Total income tax recovery (expense)	1,726	149	1,675	(1,124)
Net earnings (loss) from continuing operations	(2,498)	203	(2,204)	2,902
Net loss from discontinued operations	-	(17)	-	(135)
Net earnings (loss)	(2,498)	186	(2,204)	2,767
Other comprehensive income (loss):				
Foreign currency translation differences for foreign operations	885	(1,285)	2,080	(1,647)
Total comprehensive income (loss)	$ (1,613)	$ (1,099)	$ (124)	$ 1,120
Net earnings (loss) from continuing operations per share				
Basic and diluted	$ (0.05)	$ -	$ (0.04)	$ 0.06
Net loss from discontinued operations per share				
Basic	$ -	$ -	$ -	$ -
Net earnings (loss) per share				
Basic and diluted	$ (0.05)	$ -	$ (0.04)	$ 0.06

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Three and six months ended June 30, 2018 and 2017
Dollars in '000s
(unaudited)

	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Cash provided by (used in):				
Operating activities:				
Net earnings from continuing operations	$ (2,498)	$ 203	$ (2,204)	$ 2,902
Items not involving cash				
Depreciation	2,614	2,799	4,865	5,430
Share-based compensation	125	64	258	126
Income tax expense	(1,726)	(149)	(1,675)	1,124
Gain on disposal of equipment	(2,576)	(1,277)	(5,584)	(3,291)
Finance costs	99	96	144	398
Unrealized foreign exchange (gain) loss on intercompany balances	401	(682)	1,070	(874)
Cash flow - continuing operations	(3,561)	1,054	(3,126)	5,815
Cash flow - discontinued operations	-	(18)	-	(135)
Changes in non-cash operating working capital	(112)	1,052	2,791	(5,053)
Income taxes (paid) refunded	(58)	274	(1,264)	1,167
Cash flow - operating activities	(3,731)	2,362	(1,599)	1,794
Investing activities:				
Equipment additions	(4,306)	(2,511)	(8,780)	(3,547)
Intangible asset additions	(519)	(155)	(820)	(234)
Proceeds on disposal of equipment	3,074	1,710	6,849	4,103
Proceeds on disposal of discontinued operations	-	-	-	17,252
Changes in non-cash investing working capital	1,860	301	(434)	497
Cash flow - investing activities	109	(655)	(3,185)	18,071
Financing activities:				
Change in operating loan	(833)	-	(1,232)	(2,105)
Repayments on loans and borrowings	(140)	(45)	(151)	(26,358)
Proceeds on share issuance from bought deal public	-	-	-	13,131
Proceeds on share issuance from exercise of share options	40	-	71	4
Payment on settlements	(40)	(1,156)	(236)	(1,824)
Restricted cash	-	-	1,514	-
Interest paid	(99)	(96)	(144)	(401)
Advances of loans and borrowings	3,000	-	5,500	-
Cash flow - financing activities	1,928	(1,297)	5,322	(17,553)
Effect of exchange rate on changes on cash	40	(55)	97	(72)
Change in cash and cash equivalents	(1,654)	355	635	2,240
Cash, beginning of period	4,972	3,783	2,683	1,898
Cash, end of period	$ 3,318	$ 4,138	$ 3,318	$ 4,138

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Requests for further information should be directed to:

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