CATHEDRAL

NEWS RELEASE
MARCH 7, 2019

CATHEDRAL ENERGY SERVICES REPORTS RESULTS FOR 2018 Q4

Cathedral Energy Services Ltd. (the "Company" or "Cathedral" / TSX: CET) announces its consolidated financial results for the three months and year ended December 31, 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 December 31		Year ended December 31	
	2018	2017	2018	2017
Revenues	$ 43,127	$ 38,402	$ 160,827	$ 147,095
Adjusted gross margin % (1)	15%	17%	11%	18%
Adjusted EBITDAS (1)	$ 3,412	$ 5,606	$ 12,060	$ 18,674
Basic and diluted per share	$ 0.07	$ 0.11	$ 0.24	$ 0.39
As % of revenues	8%	15%	7%	13%
Cash flow - operating activities	$ 3,405	$ 1,137	$ 3,732	$ 2,952
Earnings (loss) before income taxes	$ (6,106)	$ (6,398)	$ (6,139)	$ (382)
Basic and diluted per share	$ (0.12)	$ (0.13)	$ (0.12)	$ (0.01)
Derecognition of deferred tax asset	$ (13,059)	$ -	$ (13,059)	$ -
Net earnings	$ (17,858)	$ (4,490)	$ (17,061)	$ 87
Basic and diluted per share	$ (0.36)	$ (0.09)	$ (0.35)	$ -
Equipment additions - cash basis	$ 2,201	$ 2,535	$ 12,877	$ 9,203
Weighted average shares outstanding				
Basic (000s)	49,468	49,013	49,445	47,381
Diluted (000s)	49,469	49,509	49,586	47,577

	December 31 2018	December 31 2017
Working capital	$ 30,599	$ 31,016
Total assets	$ 121,770	$ 121,630
Loans and borrowings excluding current portion	$ 7,000	$ 46
Shareholders' equity	$ 89,143	$ 101,391

(1) Refer to "NON-GAAP MEASUREMENTS"

2018 Q4 KEY TAKEAWAYS

Revenues increased by $4,725 or 12% from $38,402 in 2017 Q4 to $43,127 in 2018 Q4;

Adjusted gross margin decreased from 17% to 15% due to higher field labour and related expenses and an increase in the fixed component of cost of sales, offset by a decrease in repairs;

Total Adjusted EBITDAS decreased $2,194, or 39% to $3,412 in 2018 Q4 as a result of reduced adjusted gross margin, and additional SG&A expenses occurring in Q4;

In 2018 Q4, Cathedral derecognized $13,059 of deferred tax assets due to a recent history of tax losses within Cathedral's Canadian entity; and

Additional investment in technology development in 2018 resulted in deployment of new products, progress being made on Cathedral's next generation Dual Telemetry Measurement-While-Drilling ("MWD") tool and performance and reliability enhancements being incorporated into Cathedral's existing MWD equipment fleet.

OUTLOOK

In 2018, the U.S. rig count continued to grow from 929 rigs at the end of 2017 to 1,083 active rigs at the end of 2018 for an average rig count of 1,032 during the year (source: Baker Hughes Rig Count data). In 2018, the U.S. rig count growth was largely driven by West Texas Intermediate ("WTI") oil price increases from the USD $60 bbl range at the beginning of 2018 to the USD $75 bbl range by mid-year. However, starting in October 2018 there was a sharp decrease in WTI pricing into the $50 bbl range by the end of the year. This oil price drop resulted in many energy companies reviewing their drilling budgets for 2019 with the result that there has been a modest drop in the U.S. rig count in early 2019. Another factor which may impact U.S. rig activity in 2019 is takeaway capacity issues in the Permian. These are expected to be resolved in late 2019 and early 2020. Investors are also messaging to energy companies that they need to live within their cash flow.

All the above considerations have industry analysts prognosticating there could be a drop in the U.S. average rig count in 2019 by up to 10%. This rig count drop may impact Cathedral's activity levels in 2019 however, the impact is uncertain when it comes down to individual customer situations and Cathedral's operations and sales performance in this environment. The U.S. market is our primary focus and our intention is to continue to grow our market share. We believe that our recent equipment additions and upgrades position us well to achieve this.

Following curtailment in 2018 Q4, the Canadian operating environment has seen volatility in the early months of 2019. Coinciding with the WTI price drop in late 2018, the Canadian industry was further impacted by high oil price differentials resulting from oil take-away capacity from Canada being constrained. At the end of 2018, many Canadian energy companies were reviewing their drilling budgets with a view to reduce them in 2019. Since the end of 2018 pricing for Canadian oil has improved, however, drilling activity levels in Canada remain very uncertain at least in the first half of 2019. Analysts anticipate Canadian drilling activity levels will be down year-over-year 8% to 39% - with the wide range highlighting the degree of uncertainty.

Although the outlook for Canada looks challenging in the short-term, the expectation is that things will improve into 2020 based on additional take-away capacity coming on line. The Canadian industry also stands to get a boost in the early 2020s based on Liquefied Natural Gas ("LNG") export capacity coming on stream mid-decade. Our strategy in Canada is to maintain the optionality on future industry growth through focusing on serving stronger customers in areas we have advantages in, maintaining a focused and lean cost structure and again leveraging our differentiated technology advantages in the Canadian market.

There continues to be movement in the industry to combine or consolidate operations in order to achieve enhanced profitability through greater size and scale. In order to leverage our existing strong balance sheet, to improve equipment utilization and to better leverage our proprietary technologies our strategy includes looking at opportunities for growth through market share additions and accretive combination with other entities.

After a large capital spend over the last two years we can now shift to a more modest capital program as we deploy the new equipment. Our primary capital expenditure focus to the end of 2018 was on our motor fleet. In early 2019, we are expecting to field test two new patented motor designs – "Double Bend" and "Double Pad". Both motor designs are based upon substantially the same principles and are expected to significantly reduce drag, stick slip and rotary torque as well as extending the length of laterals that can be drilled with a conventional bottom hole assembly ("BHA") as compared to using a rotary steerable system. We have had discussions with a number of U.S. operators that are interested in testing this new technology. We also expect to add a mud lube version of our nDurance™ bearing section into our motor fleet. Introducing a mud lube bearing assembly, in addition to our sealed bearing design, is aimed at facilitating better motor performance in areas of high downhole temperature and with higher mud flow and pressure situations.

In 2019, our focus is primarily on building out our new MWD technology. Our 2019 net capital budget is targeted at approximately $4,000 and $1,700 of intangible additions related to technology developments. Subject to operating results and industry outlook, equipment lost-in-hole will be replaced and funded from the proceeds received.

Although we expect the first half of 2019 to be very fluid based on changing market conditions, we are in a strong position and ready to seize opportunities.

RESULTS OF OPERATIONS – THREE MONTHS ENDED DECEMBER 31

Revenues		2018 Q4		2017 Q4
Canada	$	8,146	$	7,749
United States		34,981		30,653
Total	$	43,127	$	38,402

Revenues 2018 Q4 revenues were $43,127, which represented an increase of $4,725 or 12% from 2017 Q4 revenues of $38,402.

Canadian revenues (excluding motor rental revenues) increased to $7,705 in 2018 Q4 from $6,216 in 2017 Q4; a 24% increase. This increase was the result of: i) a 12% increase in activity days to 912 in 2018 Q4 from 814 in 2017 Q4 and ii) an 11% increase in the average day rate to $8,449 in 2018 Q4 from $7,637 in 2017 Q4.

The average active land rig count in Canada was down 13% in 2018 Q4 compared to 2017 Q4 (source: Baker Hughes). Cathedral's activity levels relative to the industry were impacted by the scope of its customer drilling programs and their geographical focus relative to the overall industry. The increase in day rates was due to general increases in customer pricing.

U.S. revenues (excluding motor rental revenues) increased to $34,573 in 2018 Q4 from $30,561 in 2017 Q4; a 13% increase. This increase was the result of: i) a 9% increase in activity days to 2,677 in 2018 Q4 from 2,453 in 2017 Q4; and ii) a 4% increase the average day rate to $12,915 in 2018 Q4 from $12,459 in 2017 Q4 (when converted to Canadian dollars).

The average active land rig count for the U.S. was up 17% in 2018 Q4 compared to 2017 Q4 (source: Baker Hughes). The Company experienced a 13% increase in activity days resulting in a slight decrease in market share compared to 2017 Q4. Day rates in USD decreased slightly to $9,760 USD in 2018 Q4 from $9,799 USD in 2017 Q4; a change of less than 1%.

Motor rentals in Canada declined while U.S. rentals increased. Combined rental revenues declined to $849 in 2018 compared to $1,624 in 2017 primarily as a result of reduced motor rentals from Canadian customers in 2018 Q4 resulting from a pause in their Canadian drilling programs. U.S. rental increases are attributable to new CLAW™ 250 and 400 motors.

Gross margin and adjusted gross margin Gross margin for 2018 Q4 was 2% compared to 10% in 2017 Q4. Adjusted gross margin (see Non-GAAP Measurements) for 2018 Q4 was $6,310 or 15% compared to $6,602 or 17% for 2017 Q4.

Adjusted gross margin, as a percentage of revenue, decreased due to higher field labour and related expenses and an increase in the fixed component of cost of sales, offset by a decrease in repairs. The field labour increased due to industry pressures to retain staff. The increase in the fixed component of cost of sales was mostly attributable to increased office and shop payroll and other labour related costs.

Depreciation allocated to cost of sales increased to $5,304 in 2018 Q4 from $2,915 in 2017 Q4 due to changes in estimate of useful life made effective October 1, 2018. This increased depreciation in 2018 Q4 by $5,184. Depreciation included in cost of sales as a percentage of revenue was 12% for 2018 Q4 and 8% in 2017 Q4.

Selling, general and administrative expenses ("SG&A") SG&A expenses were $4,705 in 2018 Q4; an increase of $2,169 compared with $2,536 in 2017 Q4. As a percentage of revenue, SG&A was 11% in 2018 Q4 compared to 7% in 2017 Q4. SG&A increased primarily due to U.S. state sales taxes on intercompany equipment rentals as 2017 Q4 had an adjustment related to amounts accrued previously in 2017. Cathedral's Canadian entity owns all Cathedral's downhole drilling equipment and rents it to the U.S. entity and is subject to state sales tax on these amounts. Additionally, there was an increase in wages in 2018 Q4 for severance costs that are not expected to recur.

Technology group expenses Technology group expenses are related to new product development and supporting and upgrading existing technology. Technology group expenses consist of salaries and related benefits and burdens as well as shop supplies. Technology group activities spent on new product development are capitalized as intangible assets. Total technology group expenses were $954 in 2018 Q4; an increase of $327 compared with $627 in 2017. There was capitalization of $214 of technology group expenses related to new product development as intangible assets (2017 - $nil). Technology group expenses not related to new product development were $740 in 2018; an increase of $113 compared with $627 in 2017. Technology group expenses increased primarily due to wage increases, including the reinstatement of previous wage rollbacks and new staff additions.

Gain on disposal of equipment During 2018 Q4, the Company had a gain on disposal of equipment of $1,789 compared to $2,038 in 2017 Q4. 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 Q4, the Company received proceeds on lost-in-hole recoveries from clients of $2,201 (2017 Q4 - $2,535).

Finance costs Finance costs consist of interest expenses on operating loans, loans and borrowings and bank charges of $181 for 2018 Q4 versus $157 for 2017 Q4.

Foreign exchange The Company had a foreign exchange loss of $(1,745) in 2018 Q4 compared to $(193) in 2017 Q4 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 Q4 foreign currency loss are unrealized losses of $(1,814) (2017 Q4 - $(113)) related to intercompany balances.

Write-down of inventory The Company made a provision related to slow moving and obsolete inventory used to service equipment of $1,474 (2017 - $151). The impacted inventory was used to service older revisions to tools that are obsolete as well as tools that have had lower demand since the industry down-turn. The tools with lower demand are primarily legacy non-proprietary motors that are being used less and less each year.

Write-downs of equipment and intangibles The Company determined an impairment test for the directional drilling Cash Generating Unit (CGU) was not required as at December 31, 2018 or December 31, 2017. However, in 2017 the Company chose to write-off certain assets where utilization was very low due to low market demand in the amount of $8,287. The assets written down included non-proprietary drilling motors and certain non-proprietary MWD systems. The non-proprietary MWD systems had been purchased in connection with international operations which were subsequently discontinued. This equipment was not used extensively in the Company's North American operations and was fully written-off. The Company has experienced lower demand for non-proprietary motors in the current drilling environment as their performance capabilities are lower than the Company's proprietary motors. As a consequence, the Company conducted a review and wrote-off the remaining net book value for any non-proprietary motors that were no longer expected to be utilized. There was also an impairment of $146 related to a technology development project in 2017.

Income tax For 2018 Q4, the Company had an income tax expense of $11,752 compared to an income tax recovery of $1,908 in 2017 Q4. In 2018 Q4, Cathedral derecognized $13,059 of deferred tax assets due to a recent history of tax losses within Cathedral's Canadian entity. Cathedral has approximately $37,700 of unrecognized tax attributes and approximately $5,100 of investment tax credits that can be used to offset future Canadian taxes.

Excluding adjustments to prior years' tax provisions and the derecognition of deferred tax assets, the effective tax rate was 18% (2017 -24%). The effective tax rate for 2018 Q4 is impacted by one legal entity having pre-tax income and the other having 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 – YEAR ENDED DECEMBER 31

Revenues		2018		2017
Canada	$	31,123	$	32,315
United States		129,704		114,780
Total	$	160,827	$	147,095

Revenues 2018 revenues were $160,827, which represented a $13,732 increase or 9% from 2017 revenues of $147,095.

Canadian revenues (excluding motor rental revenues) increased to $28,495 in 2018 from $27,644 in 2017; a 3% increase. This increase was the result of: i) a 9% decrease in activity days to 3,541 in 2018 from 3,890 in 2017; and ii) a 13% increase in the average day rate to $8,047 in 2018 from $7,106 in 2017.

The average active land rig count in Canada declined 9% in 2018 compared to 2017 (source: Baker Hughes). The decrease in the Company's activity days of 9% was in line with the industry decrease. The slight increases in day rates was due to general increases in customer pricing.

U.S. revenues (excluding motor rental revenues) increased to $128,206 in 2018 from $114,012 in 2017; a 12% increase. This increase was the result of: i) a 6% increase in activity days to 10,382 in 2018 from 9,782 in 2017; and ii) a 6% increase in the average day rate to $12,349 in 2018 from $11,655 in 2017 (when converted to Canadian dollars).

The average active land rig count for the U.S. was up 20% in 2018 compared to 2017 (source: Baker Hughes). The Company experienced a 6% increase in activity days relative to the industry resulting in a decrease in market share over this period. This market share decrease was largely due to equipment availability constraints starting in 2017 that extended into 2018. The Company's investment in new equipment as well as client changes in the timing and scope of their drilling programs resulted in an improvement in market share in 2018 H2. Day rates in USD increased to $9,515 USD in 2018 from $8,981 USD in 2017; a 6% increase. The increase in day rates was primarily due to customer price increases.

Motor rentals in Canada declined while U.S. rentals increased. Combined rental revenues declined to $4,126 in 2018 compared to $5,439 in 2017 primarily as a result of reduced motor rentals from Canadian customers in 2018 Q3 and Q4 and particularly one customer pausing their Canadian drilling program. U.S. rental increases are attributable to the new CLAW ™ 250 and 400 motors.

Gross margin and adjusted gross margin Gross margin for 2018 was 3% compared to 11% in 2017. Adjusted gross margin (see Non-GAAP Measurements) for 2018 was $18,391 or 11% compared to $26,677 or 18% for 2017.

Adjusted gross margin, as a percentage of revenue, decreased due to higher equipment repairs, higher field labour and related benefits and burdens and specific one-time credits related to performance issues with certain U.S. clients in Q2. Adjusted gross margin were also 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 performance credits on U.S. work caused 1% of the decrease in adjusted gross margin.

The remaining decrease in adjusted gross margin was primarily from increased equipment repairs in 2018 H1 and higher field labour expenses in H2. 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. Field labour cost increased as a result of industry wage pressures to retain staff. Lastly, there was an increase in the fixed component of cost of sales that were 2% 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. 2018 H2 adjusted gross margin improved compared to 2018 H1.

Depreciation allocated to cost of sales decreased to $12,719 in 2018 from $11,043 in 2017. Depreciation included in cost of sales as a percentage of revenue was 8% for 2018 and 2017. Effective October 1, 2018, the Company adjusted the estimated useful life of its directional drilling equipment to 5 to 8 years from 15.5 to 20 years used previously. This increased depreciation in 2018 Q4 by $5,184.

Selling, general and administrative expenses ("SG&A") SG&A expenses were $15,696 in 2018; an increase of $2,264 compared with $13,432 in 2017. As a percentage of revenue, SG&A was 10% in 2018 and 9% in 2017. SG&A increased primarily due to wage increases, including the reinstatement of previous wage rollbacks, severance, increased U.S. health benefits and to a lesser extent, staff additions. Staffing costs included in SG&A include executive, sales, accounting, human resources, payroll, safety and related support staff Additionally, SGA increased due to provision for uncollectible trade receivables in 2018 Q4.

Technology group expenses Technology group expenses are related to new product development and supporting and upgrading existing technology. Technology group expenses consist of salaries and related benefits and burdens as well as shop supplies. Technology group activities spent on new product development are capitalized as intangible assets. Total technology group expenses were $3,424 in 2018; an increase of $1,158 compared with $2,266 in 2017. In 2018, $943 of technology group expenses related to new product development were capitalized as intangible assets (2017 - $nil). Technology group expenses not related to new product development were $2,481 in 2018; an increase of $215 compared with $2,266 in 2017. Technology group expenses increased primarily due to wage increases, including the reinstatement of previous wage rollbacks and new staff additions.

Gain on disposal of equipment During 2018, the Company had a gain on disposal of equipment of $10,623 compared to $7,236 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 client service agreements and generally consider the replacement cost of the equipment. In most cases, the lost-in-hole proceeds exceed the net book value of the equipment and result in a gain. The timing and amount 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 from clients on lost-in-hole recoveries of $12,877 (2017 - $9,203).

Finance costs Finance costs consist of interest expenses on operating loans, loans and borrowings and bank charges of $443 for 2018 compared to $684 for 2017. The decrease in finance costs relate to primarily to lower average debt levels in 2018.

Foreign exchange loss The Company had a foreign exchange loss of $(2,160) in 2018 compared to a gain of $1,783 in 2017 due to the fluctuations of the Canadian dollar relative to the U.S. dollar. The Company's foreign operations are denominated in a currency other than the Canadian dollar and therefore, upon consolidation, gains and losses due to fluctuations in the foreign currency exchange rates are recorded in other comprehensive income ("OCI") 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 income. Included in the 2018 foreign currency gains are unrealized losses of $2,260 (2017 – gain of $1,903) related to intercompany balances.

Write-down of inventory The Company made a provision related to slow moving and obsolete inventory used to service equipment of $1,474 (2017 - $151). The impacted inventory was used to service older revisions to tools that are obsolete as well as tools that have had lower demand since the industry down-turn. The tools with lower demand are primarily legacy non-proprietary motors that are being used less and less each year.

Write-downs of equipment and intangibles The Company determined an impairment test for the directional drilling Cash Generating Unit (CGU) was not required as at December 31, 2018 or December 31, 2017. However, in 2017 the Company chose to write-off certain assets where utilization was very low due to low market demand in the amount of $8,287. The assets written down included non-proprietary drilling motors and certain non-proprietary MWD systems. The non-proprietary MWD systems had been purchased in connection with international operations which were subsequently discontinued. This equipment was not used extensively in the Company's North American operations and was fully written-off. The Company has experienced lower demand for non-proprietary motors in the current drilling environment as their performance capabilities are lower than the Company's proprietary motors. As a consequence, the Company conducted a review and wrote-off the remaining net book value for any non-proprietary motors that were no longer expected to be utilized. There was also an impairment of $146 related to a technology development project in 2017.

Income tax For 2018, the Company had an income tax expense of $10,922 compared to a recovery of $611 in 2017. In 2018 Q4, Cathedral derecognized $13,059 of deferred tax assets due to a recent history of tax losses within Cathedral's Canadian entity. Cathedral has approximately $37,700 of unrecognized tax attributes and approximately $5,100 of investment tax credits that can be used to offset future Canadian taxes.

Excluding adjustments to prior years' tax provisions and the derecognition of deferred tax assets, the effective tax rate was 26% for 2018 and 57% for 2017. The 2017 provision includes reduction to U.S. deferred income tax asset due to reduction in U.S. rates from recent tax reform. Excluding this amount, the effective rate for 2017 was 36%. Income tax expense is booked based upon expected annualized effective rates.

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 from continuing operations in 2018 decreased to $970 from $11,169 in 2017. This decrease was primarily due to decreased net earnings. For the year ended December 31, 2018, the Company had cash flow from operating activities of $3,732 (2017 - $2,952). The increase in funds from operating activities is due to the change in non-cash operating working capital from a use of cash of $8,948 in 2017 to a source of cash of $4,044 in 2018 offset by $1,282 in income taxes paid in 2018 compared to income taxes refunded of $866 in 2017.

Working capital At December 31, 2018 the Company had working capital of $30,599 (2017 - $31,016).

Credit facility During December 2017, the Company signed a credit facility (the "Facility") with a new lending syndicate. The Facility consists of a $5 million operating facility and a $15 million extendible revolving credit facility. The facility was renewed on November 8, 2018 under the same terms as the original facility and now expires December 31, 2020. The Facility is secured by a general security agreement over all present and future personal property. The Facility provides a definition of EBITDA ("Credit Agreement EBITDA") to be used in calculation of financial covenants.

The financial covenants associated with the amended Facility are:

Consolidated funded debt to consolidated Credit Agreement EBITDA ratio shall not exceed 3.0:1.00; and
Consolidated interest coverage ratio shall not be less than 2.5:1.00.

The Facility bears interest at the financial institution's prime rate plus 0.75% to 2.25% or bankers' acceptance rate plus 1.75% to 3.00% with interest payable monthly. Interest rate spreads for the Facility depend on the level of funded debt compared to the 12 month trailing Credit Agreement EBITDA. The Facility provides a means to lock in a portion of the debt at interest rates through bankers' acceptance ("BA") based on the interest rate spread on the date the BA was entered into.

Compliance with Facility covenants

Based on current available information, Cathedral expects to comply with all covenants for the next twelve months.

At December 31, 2018, the Company had drawn $7,000 of its revolving credit facility, $188 of its operating facility and had $6,875 in cash. At December 31, 2018, the Company had consolidated funded debt of $1,595 which includes five outstanding letters of credit ("LOC") which are included in the funded debt calculation. For the trailing twelve months ended December 31, 2018, Credit Agreement EBITDA was $14,314.

The calculation of the financial covenants under the Facility as at December 31, 2018 is as follows:

Covenant	Actual Ratio	Required Ratio
Consolidated funded debt to consolidated Credit Agreement EBITDA ratio	0.1:1	3.0:1 (maximum)
Consolidated interest coverage ratio	32.3:1	2.5:1 (minimum)

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, 2018.

The Company has issued the following five LOC:

- two securing rent payments on property leases and renew annually with the landlords. The first LOC is $700 CAD for the first ten years of the lease and then reduces to $500 for the last five years of the lease. The second LOC is currently for $542 USD and increases annually based upon annual changes in rent;
- $75 USD issued for U.S. workers compensation coverage; and
- two securing the Company's corporate credit cards in the amounts of $75 CAD and $175 USD.

The following table outlines the anticipated payments related to commitments subsequent to December 31, 2018:

	Total	2019	2020	2021	2022	2023	Thereafter
Equipment purchase obligations	$ 409	$ 409	$ -	$ -	$ -	$ -	$ -
Secured revolving term loan	7,000	-	-	7,000	-	-	-
Operating lease obligations	29,117	3,508	3,505	3,528	3,565	3,602	11,409
Provision for settlement	491	164	164	163			
Finance lease obligations	91	91	-	-	-	-	-
Total	$ 37,108	$ 4,172	$ 3,669	$ 10,691	$ 3,565	$ 3,602	$ 11,409

As at December 31, 2018, the Company's commitment to purchase equipment is approximately $409. Cathedral anticipates expending these funds in 2019 Q1.

Share capital At March 7, 2019, the Company has 49,468,117 common shares and 3,670,334 options outstanding with a weighted average exercise price of $1.20.

In 2018, the Company issued 1,040,500 stock options to staff and directors with an average exercise price of $0.92 per option.

2018 CAPITAL PROGRAM

During the year ended December 31, 2018 the Company invested $17,391 (2017 - $11,322) in equipment and $1,226 (2017 - $474) in new technology development primarily related to MWD systems.

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

	Year ended December 31, 2018
Equipment additions:	
Motors and related equipment	$ 10,147
MWD and related equipment	6,387
Other	857
Total cash additions	17,391
Less: proceeds on disposal of equipment (excluding capital lease settlements)	(12,877)
Net equipment additions (1)	$ 4,514

(1)See "NON-GAAP MEASUREMENTS"

2019 CAPITAL PROGRAM

Cathedral's 2019 capital budget approved by the Board of Directors in December 2018 was for net equipment additions of approximately $4,000 and $1,700 of intangible additions related to technology development. Subject to operating results and industry outlook, equipment lost-in-hole will be replaced and funded from the proceeds received.

ANNUAL MEETING

Cathedral will be holding its Annual Meeting ("Meeting") at 2:00 pm (MDT) on May 9, 2019 at our Head Office 6030 – 3 Street SE, Calgary, Alberta. Business at the meeting will include the election of directors and appointment of auditors.

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: continue to be on track to introduce our next generation FUSION™ Dual Telemetry (DT) MWD tool in 2019; the proposed tool design will incorporate a number of improvements over Cathedral's existing FUSION™ DT platform and compared to competitive products; continue to focus on strategic initiatives and making changes to our business to position us well over the long-term; based on our leading- edge technology and executing our Better Performance Every Day mantra we are confident about our future prospects; takeaway capacity issues in the Permian are expected to be resolved in late 2019 and early 2020; industry analysts prognosticating there could be a drop in the U.S. average rig count in 2019 by up to 10%; this rig count drop may impact Cathedral's activity levels in 2019 however, the impact is uncertain when it comes down to individual customer situations and Cathedral's operations and sales performance in this environment; believe that our recent equipment additions and upgrades position us well to grow our market share; analysts anticipate Canadian drilling activity levels will be down year-over-year 8% to 39%; expectation is that things will improve into 2020 based on additional take-away capacity coming on line; the Canadian industry also stands to get a boost the early 2020s based on LNG export capacity coming on stream mid-decade; strategy in Canada is to maintain optionality on future industry growth through focusing on serving stronger customers in areas we have advantages in, maintaining a focused and lean cost structure and again leveraging our differentiated technology advantages in the Canadian market; in 2019 our capital spending focus is primarily on building out our new MWD technology; 2019 net Capital Budget is targeted at approximately $4,000 and $1,700 of intangible additions related to technology developments; subject to operating results and industry outlook, equipment lost-in-hole will be replaced and funded from the proceeds received; in early 2019 we are expecting to field test two new patented motor designs – "Double Bend" and "Double Pad" Both motor designs are based upon substantially the same principles and are expected to significantly reduce drag, stick slip and rotary torque as well as extending the length of laterals that can be drilled with a conventional bottom hole assembly ("BHA") as compared to using a rotary steerable system; U.S. operators that are interested in testing this new technology; expect to add a mud lube version of it nDurance™ bearing section into our motor fleet; mud lube bearing assembly in addition to our sealed bearing design is aimed at facilitating better motor performance in areas of high downhole temperature and with higher mud flow and pressure situations; we are in a strong position and ready to seize opportunities; projected capital expenditures and commitments and the financing thereof; and Cathedral expects to comply with all covenants during 2019.

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 business;
- impact of economic and social trends;
- oil and natural gas commodity prices and production levels;
- capital expenditure programs and other expenditures by Cathedral and its customers;
- the ability of Cathedral to retain and hire qualified personnel;
- the ability of Cathedral to obtain parts, consumables, equipment, technology, and supplies in a timely manner to carry out its activities;
- the ability of Cathedral to maintain good working relationships with key suppliers;
- the ability of Cathedral to retain customers, market its services successfully to existing and new customers and reliance on major customers;
- risks associated with technology development and intellectual property rights;
- obsolesce of Cathedral's equipment and/or technology
- the ability of Cathedral to maintain safety performance;
- the ability of Cathedral to obtain adequate and timely financing on acceptable terms;
- the ability of Cathedral to comply with the terms and conditions of its credit facility;
- the ability to obtain sufficient insurance coverage to mitigate operational risks;
- currency exchange and interest rates;
- risks associated with future foreign operations
- risks associated with acquisitions, dispositions and business development efforts;
- environmental risks;
- risks related to legal proceedings;
- business risks resulting from weather, disasters and related to information technology
- changes under governmental regulatory regimes and tax, environmental and other laws in Canada and the United States ("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.

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, non-recurring costs (including severance), write-down of equipment, write-down of inventory and share-based compensation; is considered an indicator of the Company's ability to generate funds flow from operations prior to consideration of how activities are financed, how the results are taxed and measured and non-cash expenses (see tabular calculation). 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 December 31		Year ended December 30	
	2018	2017	2018	2017
Gross margin	$ 950	$ 3,661	$ 5,492	$ 15,565
Add non-cash items included in cost of sales:				
Depreciation	5,304	2,915	12,719	11,043
Share-based compensation	56	26	180	69
Adjusted gross margin	$ 6,310	$ 6,602	$ 18,391	$ 26,677
Adjusted gross margin %	15%	17%	11%	18%

Total Adjusted EBITDAS

	Three months ended December 31		Year ended December 30	
	2018	2017	2018	2017
Earnings (loss) before income taxes	$ (6,106)	$ (6,398)	$ (6,139)	$ (382)
Add:				
Depreciation included in cost of sales	5,304	2,915	12,719	11,043
Depreciation included in selling, general and administrative expenses	71	29	202	104
Share-based compensation included in cost of sales	56	26	180	69
Share-based compensation included in selling, general and administrative expenses	151	67	454	206
Finance costs	181	157	443	684
Subtotal	(343)	(3,204)	7,859	11,724
Unrealized foreign exchange (gain) loss on intercompany balances	1,814	113	2,260	(1,903)
Write-dow n of equipment	-	8,433	-	8,433
Write-dow n of inventory	1,474	151	1,474	151
Non-recurring expenses	467	113	467	391
Adjusted EBITDAS from continuing operations	3,412	5,606	12,060	18,796
Adjusted EBITDAS from discontinued operations	-	-	-	(122)
Total Adjusted EBITDAS	$ 3,412	$ 5,606	$ 12,060	$ 18,674

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	December 31 2018	December 31 2017
Assets		
Current assets:		
Cash	$ 6,875	$ 2,683
Restricted cash equivalents	-	1,514
Trade receivables	35,583	33,885
Current taxes recoverable	-	86
Prepaid expenses	1,691	1,460
Inventories	11,750	11,128
Total current assets	55,899	50,756
Equipment	61,068	58,383
Intangible assets	2,827	1,953
Deferred tax assets	1,976	10,538
Total non-current assets	65,871	70,874
Total assets	$ 121,770	$ 121,630
Liabilities and Shareholders' Equity		
Current liabilities:		
Operating loan	$ 188	$ 1,233
Trade and other payables	23,868	17,926
Current taxes payable	991	-
Loans and borrowings	89	233
Liability for settlements, current	164	348
Total current liabilities	25,300	19,740
Loans and borrowings	7,000	46
Liability for settlements, long-term	327	453
Total non-current liabilities	7,327	499
Total liabilities	32,627	20,239
Shareholders' equity:		
Share capital	88,155	88,059
Contributed surplus	10,410	9,801
Accumulated other comprehensive income	12,252	8,144
Deficit	(21,674)	(4,613)
Total shareholders' equity	89,143	101,391
Total liabilities and shareholders' equity	$ 121,770	$ 121,630

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

Three months and year ended December 31, 2018 and 2017
Dollars in '000s except per share amounts
(unaudited)

	Three months ended December 31		Year ended December 30	
	2018	2017	2018	2017
Revenues	$ 43,127	$ 38,402	$ 160,827	$ 147,095
Cost of sales:				
Direct costs	(36,817)	(31,800)	(142,436)	(120,418)
Depreciation	(5,304)	(2,915)	(12,719)	(11,043)
Share-based compensation	(56)	(26)	(180)	(69)
Total cost of sales	(42,177)	(34,741)	(155,335)	(131,530)
Gross margin	950	3,661	5,492	15,565
Selling, general and administrative expenses:				
Direct costs	(4,483)	(2,440)	(15,040)	(13,122)
Depreciation	(71)	(29)	(202)	(104)
Share-based compensation	(151)	(67)	(454)	(206)
Total selling, general and administrative expenses	(4,705)	(2,536)	(15,696)	(13,432)
	(3,755)	1,125	(10,204)	2,133
Technology group expenses	(740)	(627)	(2,481)	(2,266)
Gain on disposal of equipment	1,789	2,038	10,623	7,236
Earnings (loss) from operating activities	(2,706)	2,536	(2,062)	7,103
Write-dow n of inventory	(1,474)	(151)	(1,474)	(151)
Write-dow n of equipment	-	(8,433)	-	(8,433)
Finance costs	(181)	(157)	(443)	(684)
Foreign exchange gain (loss)	(1,745)	(193)	(2,160)	1,783
Loss before income taxes	(6,106)	(6,398)	(6,139)	(382)
Income tax recovery (expense):				
Current	(906)	(379)	(2,297)	(405)
Deferred	2,213	2,287	4,434	1,016
Derecognition of deferred tax asset	(13,059)	-	(13,059)	-
Total income tax recovery (expense)	(11,752)	1,908	(10,922)	611
Net earnings (loss) from continuing operations	(17,858)	(4,490)	(17,061)	229
Net loss from discontinued operations	-	-	-	(142)
Net earnings (loss)	(17,858)	(4,490)	(17,061)	87
Other comprehensive income (loss):				
Foreign currency translation differences for foreign operations	3,329	352	4,108	(3,227)
Total comprehensive loss	$ (14,529)	$ (4,138)	$ (12,953)	$ (3,140)
Net earnings (loss) from continuing operations per share				
Basic and diluted	$ (0.36)	$ (0.09)	$ (0.35)	$ -
Net loss from discontinued operations per share				
Basic	$ -	$ -	$ -	$ -
Net earnings (loss) per share				
Basic and diluted	$ (0.36)	$ (0.09)	$ (0.35)	$ -

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Three months and year ended December 31, 2018 and 2017
Dollars in '000s
(unaudited)

	Three months ended December 31		Year ended December 30	
	2018	2017	2018	2017
Cash provided by (used in):				
Operating activities:				
Net earnings from continuing operations	$ (17,858)	$ (4,490)	$ (17,061)	$ 229
Items not involving cash				
Depreciation	5,375	2,944	12,921	11,147
Share-based compensation	207	93	634	275
Income tax expense	11,752	(1,908)	10,922	(611)
Gain on disposal of equipment	(1,789)	(2,038)	(10,623)	(7,236)
Finance costs	181	157	443	684
Unrealized foreign exchange (gain) loss on intercompany balances	1,814	113	2,260	(1,903)
Asset impairment	-	8,433	-	8,433
Write-down of inventory	1,474	151	1,474	151
Cash flow - continuing operations	1,156	3,455	970	11,169
Cash flow - discontinued operations	-	-	-	(135)
Changes in non-cash operating working capital	2,686	(2,253)	4,044	(8,948)
Income taxes (paid) refunded	(437)	(65)	(1,282)	866
Cash flow - operating activities	3,405	1,137	3,732	2,952
Investing activities:				
Equipment additions	(4,471)	(4,257)	(17,391)	(11,322)
Intangible asset additions	9	(148)	(1,226)	(474)
Proceeds on disposal of equipment	2,201	2,535	12,877	9,203
Proceeds on disposal of discontinued operations	-	-	-	17,252
Changes in non-cash investing working capital	916	(1)	(562)	1,925
Cash flow - investing activities	(1,345)	(1,871)	(6,302)	16,584
Financing activities:				
Change in operating loan	187	1,233	(1,045)	(872)
Repayments on loans and borrowings	(52)	(25)	(205)	(26,420)
Proceeds on share issuance from bought deal public offering and insider private placement	-	-	-	13,131
Proceeds on share issuance from exercise of share options	-	350	71	354
Payment on settlements	(80)	(534)	(316)	(2,607)
Restricted cash	-	(1,514)	1,514	(1,514)
Interest paid	(181)	(157)	(443)	(687)
Advances of loans and borrowings	-	-	7,000	-
Cash flow - financing activities	(126)	(647)	6,576	(18,615)
Effect of exchange rate on changes on cash	145	15	186	(136)
Change in cash and cash equivalents	2,079	(1,366)	4,192	785
Cash, beginning of period	4,796	4,049	2,683	1,898
Cash, end of period	$ 6,875	$ 2,683	$ 6,875	$ 2,683

NOT FOR DISSEMINATION IN THE UNITED STATES OF AMERICA

Requests for further information should be directed to:

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