CATHEDRAL

NEWS RELEASE
MARCH 12, 2020
Calgary, Alberta

CATHEDRAL ENERGY SERVICES REPORTS RESULTS FOR 2019 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, 2019 and 2018. 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	
	2019	2018	2019	2018
Revenues	$ 19,299	$ 43,127	$ 120,276	$ 160,827
Adjusted gross margin % (1)	9%	15%	10%	11%
Adjusted EBITDAS (1)	$ (702)	$ 3,412	$ 3,887	$ 12,060
Basic and diluted per share	$ (0.01)	$ 0.07	$ 0.08	$ 0.24
As % of revenues	-4%	8%	3%	7%
Cash flow - operating activities	$ (102)	$ 3,405	$ 4,785	$ 3,732
Earnings (loss) before income taxes	$ (6,332)	$ (6,106)	$ (18,717)	$ (6,139)
Basic and diluted per share	$ (0.13)	$ (0.12)	$ (0.38)	$ (0.12)
De-recognition of deferred tax asset	$ -	$ (13,059)	$ -	$ (13,059)
Net earnings	$ (6,068)	$ (17,858)	$ (19,187)	$ (17,061)
Basic and diluted per share	$ (0.12)	$ (0.36)	$ (0.39)	$ (0.35)
Equipment additions - cash basis	$ 2,836	$ 2,201	$ 8,726	$ 12,877
Weighted average shares outstanding				
Basic (000s)	49,468	49,468	49,468	49,445
Diluted (000s)	49,468	49,469	49,522	49,547

	December 31 2019	December 31 2018
Working capital	$ 20,181	$ 30,599
Total assets	$ 106,300	$ 121,770
Loans and borrowings excluding current portion	$ 6,000	$ 7,000
Shareholders' equity	$ 68,092	$ 89,143

(1) Refer to "NON-GAAP MEASUREMENTS"

2019 Q4 KEY TAKEAWAYS

Revenues decreased by $23,828 or 55% from $43,127 in 2018 Q4 to $19,299 in 2019 Q4;

Adjusted gross margin decreased from 15% to 9% primarily due to an increase in equipment rentals and the fixed component of cost of sales, offset by a decrease in repairs;

Total Adjusted EBITDAS decreased $4,114, from $3,412 to $(702) in 2019 Q4 as a result of reduced adjusted gross margin, and additional SG&A expenses occurring in Q4;

Cathedral commercialized our next generation of our FUSION™ Dual Telemetry Measurement-While-Drilling ("MWD") tool and our Linear Pulse ("LP") tool; and

Cathedral has also commercialized a specialized series of its nDurance™ performance drilling motors which are targeted for Rotary Steerable System ("RSS") applications.

OUTLOOK

Since the start of 2020, oil prices have weakened significantly as a consequence of the softening of global demand associated with COVID 19 virus and by the recent failure to reach a cut in oil supply from OPEC+ which was followed up by Saudi Arabia announcement that they intended to significantly increase oil production. These two items have resulted in oil prices and global equity markets being under pressure. For North American producers and oilfield services companies, the issue is now the extent and duration of this collapse in oil prices. Since January 1, 2020, WTI has declined from approximately USD$61 to USD$31; a decline of 49%. In response the decline in WTI, many North American producers have already announced materially reductions in their capital budgets for 2020.

Cathedral is focused on rebuilding of our U.S. business which will be guided by the new management team that was put in place in mid to late 2019 and into early 2020. Our focus is on our job execution, use of our proprietary technology and providing such quality services at a fair price – all centered around our strategy of building a business around our mantra of “Better Performance Every Day”.

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.

For 2020, our technology focus will be bringing to the market our RapidFire™ MWD platform which commenced initial successful field trials in December 2019. RapidFire is capable of transmitting data simultaneously via pulse and electro-magnetic (“EM”), allowing for high data rates and higher reliability through redundancy. In addition, the system can be configured in either a hard mount or retrievable configuration and is rated to operating temperatures that meet or exceed most competitive MWD systems. The second phase to be released later in 2020 will offer a retrievable downhole generator which will reduce operating costs and allow for high power EM transmission on extended run applications.

Our 2020 capital plan will be modest and we expect our “net equipment additions” (equipment additions less proceeds on equipment lost downhole) to be in the range of $nil to $2.5 million (depending on level of lost-in-hole proceeds). Focus of 2020 capital plan will be motor power section additions for premium lines, addition of RapidFire MWD tools and mud lube bearing motor upgrades. Our capital plan will be reviewed quarterly and adjusted depending on activity levels.

We will continue to focus on what we can control – costs, improving operational efficiencies, bringing new technologies to the market and strategic sales and marketing of our offerings.

RESULTS OF OPERATIONS – THREE MONTHS ENDED DECEMBER 31

Effective January 1, 2019, the Company adopted IFRS 16 Leases ("IFRS 16") (see discussion under "New Accounting Policies"). As a result of this new accounting policy, which was adopted retrospectively without restatement of comparative results, expenditures which previously were reported as cost of sales ("COS") or selling, general and administrative ("SG&A") expenses are now classified as lease liability obligation repayments and finance costs (interest expense) and the related right of use asset is depreciated against net income on a straight-line basis. As finance costs and depreciation are excluded from Adjusted EBITDAS (refer to Non-GAAP measurements), Adjusted EBITDAS for the three months ended December 31, 2019 was higher in comparison to 2018 in the amount of $806 as a result of the IFRS 16 changes discussed previously. Previously this amount was classified as rent expense (being $665 in COS amounts and $141 in SG&A amounts).

Revenues		2019 Q4		2018 Q4
Canada	$	6,815	$	8,146
United States		12,484		34,981
Total	$	19,299	$	43,127

Revenues 2019 Q4 revenues were $19,299, which represented a decrease of $23,828 or 55% from 2018 Q4 revenues of $43,127.

Canadian revenues (excluding motor rental revenues) decreased to $6,167 in 2019 Q4 from $7,705 in 2018 Q4; a 20% decrease. This decrease was the result of: i) a 14% decrease in activity days to 782 in 2019 Q4 from 912 in 2018 Q4 and ii) an 7% decrease in the average day rate to $7,886 in 2019 Q4 from $8,449 in 2018 Q4.

There was a 22% year-over-year decline in the average active land rig count in Canada (source: Baker Hughes) and as Cathedral's activity decline was only 20%, there was a slight increase in market share in Canada.

U.S. revenues (excluding motor rental revenues) decreased 65% to $11,986 in 2019 Q4 from $34,573 in 2018 Q4. This decrease was the net result of: i) a 66% decrease in activity days to 901 in 2019 Q4 from 2,677 in 2018 Q4; net of ii) a 3% increase in the average day rate to $13,303 in 2019 Q4 from $12,915 in 2018 Q4 (when converted to Canadian dollars).

The average active land rig count for the U.S. was down 23% in 2019 Q4 compared to 2018 Q4 (source: Baker Hughes). The Company experienced a 66% decline in activity days resulting in a decrease in market share compared to 2018 Q4. This decline was related to reductions in clients' drilling programs to stay within their cash flow, financial restructuring by certain clients that caused them to pause or cancel programs, as well as loss of work related to pricing. Due to Cathedral's client mix, our decline exceeded the general market decline. Day rates in USD increased 3% to $10,079 USD in 2019 Q4 from $9,760 USD in 2018 Q4. The 2019 Q4 rate is up due to an increase in revenues from providing RSS services which are rented from a 3rd party.

Motor rentals increased in both Canada and U.S. Combined rental revenues increased to $1,146 in 2019 Q4 compared to $849 in 2018 Q4. The increase is due to the increased availability of motors for rental due to less full service work being performed and the fact that Cathedral’s nDurance drilling motors are noted for their reliability and drilling performance.

Gross margin and adjusted gross margin Gross margin for 2019 Q4 was -19% compared to -1% in 2018 Q4. Adjusted gross margin (see Non-GAAP Measurements) for 2019 Q4 was $1,761 or 9% compared to $6,310 or 15% for 2018 Q4.

Adjusted gross margin, as a percentage of revenue, decreased due to increased rentals as a percentage of revenue (actual rental costs were down year-over-year) and increased fixed component of cost of sales as a percentage of revenue (the amount was down, but not as percentage of revenues). The increases were partially offset by lower equipment repair costs.

Depreciation of equipment allocated to cost of sales increased slightly to $5,443 in 2019 Q4 from $5,304 in 2018 Q4. Depreciation included in cost of sales as a percentage of revenue was 28% for 2019 Q4 and 12% in 2018 Q4.

Write-down of inventory The Company made a provision related to slow moving and obsolete inventory used to service equipment of $1,474 in 2018 Q4. There was no write-down in 2019 Q4. For 2018, 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.

Selling, general and administrative ("SG&A") expenses SG&A expenses were $3,817 in 2019 Q4; a decrease of $888 compared with $4,705 in 2018 Q4. As a result of the implementation of IFRS 16, there was a decrease of $141 related to amounts previously classified as rent expense, but currently classified as lease liability repayments and finance costs (interest). The Company recognized a bad debt of $562 related to a U.S. customer who entered Chapter 11 process. Additionally, there were reductions in SG&A wages and related benefits and burdens due to a reduction in head count. As a percentage of revenue, SG&A was 20% in 2019 Q4 compared to 11% 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 costs were $700 in 2019 Q4; a decrease of $254 compared with $954 in 2018 Q4. The portion of total technology group costs related to new product development was $171 and this amount has been capitalized as intangible assets (2018 Q4 - $214). Technology group costs not related to new product development were $529 in 2019 Q4; a decrease of $211 compared with $740 in 2018 Q4. Technology group costs decreased primarily due to reduction in staffing.

Gain on disposal of equipment During 2019 Q4, the Company had a gain on disposal of equipment of $1,596 compared to $1,789 in 2018 Q4. These gains mainly related to equipment lost-in-hole. Proceeds from clients on lost-in-hole equipment are based on amounts specified in service agreements and, in most cases, these proceeds exceed the net book value of the equipment and result in a gain. The timing of lost-in-hole recoveries is not in the control of the Company and therefore can fluctuate significantly from quarter-to-quarter. In 2019 Q4, the Company received proceeds on lost-in-hole recoveries from clients of $2,836 (2018 Q4 - $2,201).

Finance costs Finance costs consist of interest expenses on operating loans, long-term debt and bank charges of $172 for 2019 Q4 versus $181 for 2018 Q4.

Finance costs lease liability Increase is related to the adoption of IFRS 16 (see discussion under "New and Future Accounting Policies") effective January 1, 2019.

Foreign exchange The Company had a foreign exchange gain of $534 in 2019 Q4 compared to a loss of $(1,745) in 2018 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 2019 Q4 foreign currency loss are unrealized gain of $554 (2018 Q4 - loss of $1,814) related to intercompany balances.

Income tax In 2018 Q4, Cathedral derecognized $13,059 of deferred tax assets due to a recent history of tax losses within Cathedral's Canadian entity. As a result of this, where there are losses in the Canadian entity that are not recognized as deferred taxes the effective tax rate is not meaningful. Income tax expense is booked based upon expected annualized rates using the statutory rates of 26.5% for Canada and 23% for the U.S.

RESULTS OF OPERATIONS – YEAR ENDED DECEMBER 31

Adjusted EBITDAS for the year ended December 31, 2019 was higher in comparison to 2018 in the amount of $3,080. Previously this amount was classified as rent expense (being $2,562 in COS amounts and $518 in SG&A amounts).

Revenues		2019		2018
Canada	$	26,155	$	31,123
United States		94,121		129,704
Total	$	120,276	$	160,827

Revenues 2019 revenues were $120,276, which represented a $40,551 decrease or 25% from 2018 revenues of $160,827.

Canadian revenues (excluding motor rental revenues) decreased to $23,127 in 2019 from $28,495 in 2018; a 19% decrease. This decrease was the result of: i) a 15% decrease in activity days to 3,004 in 2019 from 3,541 in 2018; and ii) a 4% decrease in the average day rate to $7,699 in 2019 from $8,047 in 2018.

The average active land rig count in Canada declined 27% in 2019 compared to 2018 (source: Baker Hughes). The decrease in the Company activity days of 15% resulted in the Company gaining market share. The decreases in day rates was in part due to market pressures to reduce work as industry activity declined and in part due to the mix of work performed.

U.S. revenues (excluding motor rental revenues) decreased to $92,268 in 2019 from $128,206 in 2018; a 28% decrease. This decrease was the net result of: i) a 34% decrease in activity days to 6,805 in 2019 from 10,382 in 2018; and ii) a 10% increase in the average day rate to $13,559 in 2019 from $12,349 in 2018 (when converted to Canadian dollars).

The average active land rig count for the U.S. was down 8% in 2019 compared to 2018 (source: Baker Hughes). The Company experienced a 35% decline in activity days resulting in a decrease in market share compared to 2018. This decline was related to reductions in clients' drilling programs to stay within their cash flow, financial restructuring by certain clients that caused them to pause or cancel programs, as well as loss of work related to pricing. Due to Cathedral's client mix, our decline exceeded the general market decline. Day rates in USD increased 7% to $10,206 USD in 2019 from $9,515 USD in 2018. The 2019 rate is up due to an increase in revenues from providing RSS services which are rented from a 3rd party.

Motor rentals increased in both Canada and U.S. Combined rental revenues increased to $4,881 in 2019 compared to $4,126 in 2018, an 18% increase. The increase is due to increased availability of motors for rental due to less full service work being performed and the fact that Cathedral's nDurance™ drilling motors are noted for their reliability and drilling performance.

Gross margin and adjusted gross margin Gross margin for 2019 was -6% compared to 2% in 2018. Adjusted gross margin (see Non-GAAP Measurements) for 2019 was $12,234 or 10% compared to $18,391 or 11% for 2018.

The decrease in adjusted gross margin was due to increases in equipment rental expense and an increase in the fixed component of cost of sales. While management has reduced the total amount of fixed cost component of costs of sales (mainly due to headcount reductions) to take into consideration the decline in activity levels it increased as a percentage of revenue. Partially offsetting these amounts were reductions in equipment repairs. Depreciation of equipment allocated to cost of sales increased to $19,864 in 2019 from $12,719 in 2018 due to changes in estimated of useful lives made effective October 1, 2018. Depreciation included in cost of sales as a percentage of revenue was 17% for 2019 and 8% in 2018.

Write-down of inventory The Company made a provision related to slow moving and obsolete inventory used to service equipment of $1,474 in 2018. There was no write-down in 2019. For 2018, 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.

Selling, general and administrative ("SG&A") expenses SG&A expenses were $13,859 in 2019; a decrease of $1,837 compared with $15,696 in 2018. As a result of the implementation of IFRS 16, there was a decrease of $518 related to amounts previously classified as rent, but currently classified as lease liability repayments and finance costs (interest). The Company recognized a bad debt of $562 related to a U.S. customer who entered Chapter 11 process. Additionally, there were reductions in SG&A wages and related benefits and burdens. As a percentage of revenue, SG&A was 12% in 2019 compared to 10% in 2018.

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 costs were $3,333 in 2019; a decrease of $92 compared with $3,425 in

2018. The portion of total technology group costs related to new product development was $965 and this amount has been capitalized as intangible assets (2018 - $944). Technology group costs not related to new product development were $2,368 in 2019; a decrease of $113 compared with $2,481 in 2018.

Gain on disposal of equipment During 2019, the Company had a gain on disposal of equipment of $6,005 compared to $10,623 in 2018. These gains mainly related 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 2019, the Company received proceeds from clients on lost-in-hole recoveries of $8,726 (2018 - $12,877).

Finance costs Finance costs consist of interest expenses on operating loans, loans and borrowings and bank charges of $593 for 2019 compared to $443 for 2018. The increase in finance costs relate to primarily to higher average debt levels in 2019.

Finance costs lease liability Increase is related to the adoption of IFRS 16 (see discussion under "New and Future Accounting Policies") effective January 1, 2019.

Provision for settlement In 2019 Q2, the Company made a settlement offer in respect of a wage and hour complaint (the "Complaint") that was filed against the Company's wholly owned U.S. subsidiary. The Complaint alleged that employees of the previously disposed Production Testing and Flowback division were entitled to recover unpaid or incorrectly calculated overtime wages under the Fair Labor Standards Act ("FLSA"). Payment of this amount was made in 2019 Q4.

Foreign exchange The Company had a foreign exchange gain of $1,280 in 2019 compared to a loss of $(2,160) in 2018 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 2019 foreign currency gains are unrealized gain of $1,347 (2018 – loss of $2,260) related to intercompany balances.

Income tax In 2018 Q4, Cathedral derecognized $13,059 of deferred tax assets due to a recent history of tax losses within Cathedral's Canadian entity. As a result of this, where there are losses in the Canadian entity that are not recognized as deferred taxes the effective tax rate is not meaningful. Income tax expense is booked based upon expected annualized rates using the statutory rates of 26.5% 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 from operations in 2019 increased to $4,785 from $3,732 in 2018. This increase was primarily due to an increase in the collection of receivables.

Working capital At December 31, 2019 the Company had working capital of $20,181 (2018 - $30,599).

Credit facility The Company's credit facility (the "Facility") consists of a $5 million operating facility and a $15 million extendible revolving credit facility and expires December 31, 2021. 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") and Funded Debt to be used in calculation of financial covenants.

The financial covenants associated with the Facility 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 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, 2019, the Company had drawn $6,000 of its revolving credit facility, $nil of its operating facility and had $7,223 in cash. At December 31, 2019, the Company had consolidated Funded Debt of $311 which includes six outstanding Letters Of Credit ("LOC"). The Credit Agreement EBITDA was $4,301.

The calculation of the financial covenants under the Facility as at December 31, 2019 is as follows:

Covenant	Actual Ratio	Required Ratio
Consolidated funded debt to consolidated Credit Agreement EBITDA ratio	0.1	3.0:1 (maximum)
Consolidated interest coverage ratio	7.3:1	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, 2019.

The Company has issued the following six LOC:

- three securing rent payments on property leases and renew annually with the landlords. The two LOCs are $700 CAD for the first ten years of the lease and then reduces to $500 for the last five years of the lease. The third LOC is currently for $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, 2019:

	Total	2020	2021	2022	2023	2024	Thereafter
Equipment purchase obligations	$ 409	$ 409	$ -	$ -	$ -	$ -	$ -
Secured revolving term loan	6,000	-	-	6,000	-	-	-
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	$ 36,108	$ 4,172	$ 3,669	$ 9,691	$ 3,565	$ 3,602	$ 11,409

As at December 31, 2019, the Company's commitment to purchase equipment is approximately $218. Cathedral anticipates expending these funds in 2020 Q1.

Share capital At March 12, 2020, the Company has 49,468,117 common shares and 2,599,000 options outstanding with a weighted average exercise price of $0.70.

In 2019 Q3, the Company issued 1,056,000 stock options to staff and directors with an average exercise price of $0.30 per option.

2019 CAPITAL PROGRAM

During the year ended December 31, 2019 the Company invested $6,018 (2018 - $17,391) in equipment and $1,077 (2018 - $1,226) in new technology development primarily related to MWD systems.

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

		Year ended December 31, 2019
Equipment additions:		
Motors and related equipment	$	3,388
MWD and related equipment		2,005
Other		625
Total cash additions		6,018
Less: proceeds on disposal of equipment (excluding capital lease settlements)		(8,726)
Net equipment additions (1)	$	(2,708)

(1) See "NON-GAAP MEASUREMENTS"

2020 CAPITAL PROGRAM

Our 2020 capital plan will be modest and we expect our "net equipment additions" (equipment additions less proceeds on equipment lost downhole) to be in the range of $nil to $2.5 million (depending on level of lost-in-hole proceeds). Focus of 2020 capital plan will be motor power section additions for premium lines, addition of RapidFire MWD tools and mud lube bearing motor upgrades.

ANNUAL MEETING

Cathedral will be holding its Annual Meeting ("Meeting") at 3:00 pm (MDT) on May 12, 2020 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: believe we can regain the U.S. market share we have lost since 2H of 2018 and this will be based upon overall job execution and our proprietary technology; for 2020 our technology focus will be bringing to the market our RapidFire™ MWD platform; second phase of RapidFire™ MWD platform to be released later in 2020 will offer a retrievable downhole generator which will reduce operating costs and allow for high power EM transmission on extended run applications; continue to focus on strategic initiatives and making changes to our business to position us favorably 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; we will continue to focus on what we can control – costs, improving operational efficiencies and strategic sales and marketing of our offerings; we are firm believers that size and scale will be a key for long-term viability of oilfield services companies and we will continue, as normal course of business, to explore opportunities to maximize shareholder value and create that size and scale; to the extent oil prices improve, the industry may see expanded drilling programs in 2H 2020; our U.S. business will be rebuilt as we progress through 2020; Cathedral is targeting to regain the market share that is has lost since 2H 2018; the rebuilding of our U.S. business will be guided by the new management team that was put in place in mid to late 2019 and into early 2020; our focus is on our job execution, use of our proprietary technology and providing such quality services at a fair price; within the Canadian market, industry experts are projecting the 2020 average rig count to be very similar to 2019 actual average of 134; 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; for 2020 our technology focus will be bringing to the market our RapidFire™ MWD platform; despite a challenging 2019, we are both optimistic and confident about our future prospects; we will continue to focus on what we can control – costs, improving operational efficiencies, bringing new technologies to the market and strategic sales and marketing of our offerings; and Cathedral expects to comply with all covenants during 2020.

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:

- oil and natural gas commodity prices and production levels;
- capital expenditure programs and other expenditures by Cathedral and its customers;
- impact of economic and social trends;
- the performance of Cathedral's business;
- 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;
- changes under governmental regulatory regimes and tax, environmental and other laws in Canada and the United States ("U.S.");
- the ability of Cathedral to retain and hire qualified personnel;
- competitive risks
- 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;
- risks associated with technology development and intellectual property rights;

- obsolesce of Cathedral's equipment and/or technology;
- the ability to obtain sufficient insurance coverage to mitigate operational risks;
- risks associated with future foreign operations;
- currency exchange and interest rates;
- risks associated with acquisitions, dispositions and business development efforts;
- the ability of Cathedral to retain customers, market its services successfully to existing and new customers and reliance on major customers;
- the ability of Cathedral to maintain safety performance;
- environmental risks;
- risks related to legal proceedings; and
- business risks resulting from weather, disasters and related to information technology.

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.

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

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

iii) "Adjusted EBITDAS" - defined as earnings before finance costs, unrealized foreign exchange on intercompany balances, taxes, depreciation, non-recurring costs (including severance), write-down of equipment, write-down of inventory and share-based compensation; is considered an indicator of the Company's ability to generate funds flow from operations prior to consideration of how activities are financed, how the results are taxed and measured and non-cash expenses (see tabular calculation);

iv) "Net equipment additions" – is equipment additions expenditures less proceeds from equipment lost down-hole. Cathedral uses net equipment additions to assess net cash flows related to the financing of Cathedral's equipment additions.

The following tables provide reconciliations from GAAP measurements to non-GAAP measurements referred to in this MD&A:

Adjusted gross margin

	Three months ended December 31		Year ended December 30	
	2019	2018	2019	2018
Gross margin	$ (3,701)	$ (524)	$ (7,747)	$ 4,018
Add non-cash items included in cost of sales:				
Write-down of inventory	-	1,474	-	1,474
Depreciation	5,443	5,304	19,864	12,719
Share-based compensation	19	56	117	180
Adjusted gross margin	$ 1,761	$ 6,310	$ 12,234	$ 18,391
Adjusted gross margin %	9%	15%	10%	11%

Adjusted EBITDAS

	Three months ended December 31		Year ended December 30	
	2019	2018	2019	2018
Loss before income taxes	$ (6,332)	$ (6,106)	$ (18,717)	$ (6,139)
Add:				
Depreciation included in cost of sales	5,443	5,304	19,864	12,719
Depreciation included in selling, general and administrative expenses	133	71	1,161	202
Share-based compensation included in cost of sales	19	56	117	180
Share-based compensation included in selling, general and administrative expenses	60	151	337	454
Finance costs	172	181	593	443
Finance costs lease liabilities	243	-	1,010	-
Subtotal	(262)	(343)	4,365	7,859
Unrealized foreign exchange (gain) loss on intercompany balances	(554)	1,814	(1,347)	2,260
Provision for settlement	-	-	425	-
Write-down of inventory	-	1,474	-	1,474
Non-recurring expenses	114	467	444	467
Adjusted EBITDAS	$ (702)	$ 3,412	$ 3,887	$ 12,060

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2019 and 2018
Dollars in '000s
(unaudited)

	December 31 2019	December 31 2018
Assets		
Current assets:		
Cash	$ 7,223	$ 6,875
Trade receivables	14,802	35,583
Prepaid expenses	1,668	1,691
Inventories	10,423	11,750
Total current assets	34,116	55,899
Equipment	46,882	61,068
Intangible assets	3,019	2,827
Right of use assets	19,590	-
Deferred tax assets	2,693	1,976
Total non-current assets	72,184	65,871
Total assets	$ 106,300	$ 121,770
Liabilities and Shareholders' Equity		
Current liabilities:		
Operating loan	$ -	$ 188
Trade and other payables	11,308	23,868
Current taxes payable	314	991
Lease liabilities, current portion	2,145	89
Liability for settlements, current	168	164
Total current liabilities	13,935	25,300
Loans and borrowings	6,000	7,000
Liability for settlements, long-term	156	327
Lease liabilities, long-term	18,117	-
Total non-current liabilities	24,273	7,327
Total liabilities	38,208	32,627
Shareholders' equity:		
Share capital	88,155	88,155
Contributed surplus	10,864	10,410
Accumulated other comprehensive income	9,934	12,252
Deficit	(40,861)	(21,674)
Total shareholders' equity	68,092	89,143
Total liabilities and shareholders' equity	$ 106,300	$ 121,770

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

Three months and year ended December 31, 2019 and 201

Dollars in '000s except per share amounts

(unaudited)

	Three months ended December 31		Year ended December 31	
	2019	2018	2019	2018
Revenues	$ 19,299	$ 43,127	$ 120,276	$ 160,827
Cost of sales:				
Direct costs	(17,538)	(36,817)	(108,042)	(142,436)
Write-dow n of inventory	-	(1,474)	-	(1,474)
Depreciation	(5,443)	(5,304)	(19,864)	(12,719)
Share-based compensation	(19)	(56)	(117)	(180)
Total cost of sales	(23,000)	(43,651)	(128,023)	(156,809)
Gross margin	(3,701)	(524)	(7,747)	4,018
Selling, general and administrative expenses:				
Direct costs	(3,624)	(4,483)	(12,361)	(15,040)
Depreciation	(133)	(71)	(1,161)	(202)
Share-based compensation	(60)	(151)	(337)	(454)
Total selling, general and administrative expenses	(3,817)	(4,705)	(13,859)	(15,696)
	(7,518)	(5,229)	(21,606)	(11,678)
Technology group expenses	(529)	(740)	(2,368)	(2,481)
Gain on disposal of equipment	1,596	1,789	6,005	10,623
Loss from operating activities	(6,451)	(4,180)	(17,969)	(3,536)
Finance costs	(172)	(181)	(593)	(443)
Finance costs lease liabilities	(243)	-	(1,010)	-
Foreign exchange gain (loss)	534	(1,745)	1,280	(2,160)
Provision for settlements	-	-	(425)	-
Loss before income taxes	(6,332)	(6,106)	(18,717)	(6,139)
Income tax recovery (expense):				
Current	(1,285)	(906)	(1,285)	(2,297)
Deferred	1,549	2,213	815	4,434
Derecognition of deferred tax asset	-	(13,059)	-	(13,059)
Total income tax recovery (expense)	264	(11,752)	(470)	(10,922)
Loss	(6,068)	(17,858)	(19,187)	(17,061)
Other comprehensive income (loss):				
Foreign currency translation differences for foreign operations	(3,097)	3,329	(2,318)	4,108
Total comprehensive loss	$ (9,165)	$ (14,529)	$ (21,505)	$ (12,953)
Loss per share				
Basic	$ (0.12)	$ (0.36)	$ (0.39)	$ (0.35)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Three months and year ended December 31, 2019 and 2018
Dollars in '000s
(unaudited)

	Three months ended December 31		Year ended December 31	
	2019	2018	2019	2018
Cash provided by (used in):				
Operating activities:				
Loss	$ (6,068)	$ (17,858)	$ (19,187)	$ (17,061)
Items not involving cash				
Depreciation	5,576	5,375	21,025	12,921
Share-based compensation	79	207	454	634
Income tax (recovery) expense	(264)	11,752	470	10,922
Gain on disposal of equipment	(1,596)	(1,789)	(6,005)	(10,623)
Finance costs	172	181	593	443
Finance costs lease liabilities	243	-	1,010	-
Provision for settlements	-	-	425	-
Unrealized foreign exchange (gain) loss on intercompany balances	(554)	1,814	(1,347)	2,260
Write-down of inventory	-	1,474	-	1,474
Cash flow - continuing operations	(2,412)	1,156	(2,562)	970
Changes in non-cash operating working capital	3,064	2,686	9,247	4,044
Income taxes paid	(754)	(437)	(1,900)	(1,282)
Cash flow - operating activities	(102)	3,405	4,785	3,732
Investing activities:				
Equipment additions	(697)	(4,471)	(6,018)	(17,391)
Intangible asset additions	(12)	9	(1,077)	(1,226)
Proceeds on disposal of equipment	2,836	2,201	8,726	12,877
Changes in non-cash investing working capital	1,472	916	(284)	(562)
Cash flow - investing activities	3,599	(1,345)	1,347	(6,302)
Financing activities:				
Change in operating loan	-	187	(188)	(1,045)
Repayments on lease liabilities	(568)	(52)	(2,095)	(205)
Proceeds on share issuance from exercise of share options	-	-	-	71
Payment on settlements	(524)	(80)	(604)	(316)
Restricted cash	-	-	-	1,514
Interest paid	(415)	(181)	(1,603)	(443)
Advances of loans and borrowings	-	-	-	7,000
Repayments on loans and borrowings	(1,000)	-	(1,000)	-
Cash flow - financing activities	(2,507)	(126)	(5,490)	6,576
Effect of exchange rate on changes on cash	(115)	145	(294)	186
Change in cash and cash equivalents	875	2,079	348	4,192
Cash, beginning of period	6,348	4,796	6,875	2,683
Cash, end of period	$ 7,223	$ 6,875	$ 7,223	$ 6,875

NOT FOR DISSEMINATION IN THE UNITED STATES OF AMERICA

Requests for further information should be directed to:

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

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

Telephone: 403.265.2560 Fax: 403.262.4682 www.cathedralenergyservices.com

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