NEWS RELEASE
MARCH 11, 2021
Calgary, Alberta

CATHEDRAL ENERGY SERVICES REPORTS RESULTS FOR 2020 Q4

Cathedral Energy Services Ltd. (the "Company" or "Cathedral" / TSX: CET) announces its consolidated financial results for the three and nine months ended December 31, 2020 and 2019. Dollar amounts are in '000's except for WTI, day rates and per share amounts.

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

FINANCIAL HIGHLIGHTS

Dollars in 000's except per share amounts

	Three months ended December 31		Year Ended December 31	
	2020	2019	2020	2019
Revenues	$ 7,448	$ 19,299	$ 40,574	$ 120,276
Adjusted gross margin % (1)	16%	9%	12%	10%
Adjusted EBITDAS (1)	$ (435)	$ (702)	$ (116)	$ 3,887
Basic and diluted per share	$ (0.01)	$ (0.01)	$ -	$ 0.08
Cash flow - operating activities	$ 231	$ (102)	$ 1,191	$ 4,785
Loss before income taxes	$ (3,183)	$ (6,332)	$ (25,417)	$ (18,717)
Basic per share	$ (0.06)	$ (0.13)	$ (0.51)	$ (0.38)
Impairments and direct write-downs	$ 172	$ -	$ (6,822)	$ -
De-recognition of deferred tax asset	$ (2,647)	$ -	$ (2,647)	$ -
Loss	$ (6,312)	$ (6,802)	$ (27,731)	$ (18,372)
Basic per share	$ (0.13)	$ (0.14)	$ (0.56)	$ (0.37)
Equipment additions	$ 184	$ 2,836	$ 2,603	$ 8,726
Weighted average shares outstanding				
Basic (000s)	49,468	49,468	49,468	49,468
Diluted (000s)	49,468	49,468	49,468	49,522

	December 31 2020	December 31 2019
Working capital	$ 7,680	$ 20,181
Total assets	$ 64,280	$ 106,300
Loans and borrowings excluding current portion	$ 1,560	$ 6,000
Shareholders' equity	$ 39,974	$ 68,092

(1) Refer to "NON-GAAP MEASUREMENTS"

2020 Q4 KEY TAKEAWAYS

Revenues decreased by $11,851 or 61% from $19,299 in 2019 Q4 to $7,448 in 2020 Q4;

Adjusted gross margin increased from 9% in 2019 Q4 to 16% in 2020 Q4 due to COVID-19 related to government assistance received and lower equipment rentals offset by increases in repairs;

Adjusted EBITDAS increased from a loss of $(702) in 2019 Q4 to $(435) in 2020 Q4; and

Net debt (drawn credit facility less cash on hand) at end of 2020 was $526 compared to net cash of $1,223 at the end of 2019.

COVID-19

In March 2020, the World Health Organization declared a global pandemic due to COVID-19. In response to the COVID-19 outbreak, governments around the world implemented measures to control the spread of the virus including closure of non-essential businesses and implementing travel bans and stay-at-home restrictions. These actions contributed to the material deterioration in global economy including a dramatic decline in demand for oil, which resulted in a material decrease in the price for oil. This decline in oil prices negatively affected drilling activities in Cathedral's operating areas of U.S. and Canada. The Company has made significant changes to its cost structure including laying off staff, reducing compensation, implementing reduced work weeks, closing facilities, eliminating discretionary expenses, deferring tool repairs and reducing capital expenditures, to better match our cost structure to expected operating levels. The collapse in oil prices negatively affected our client's cash flows and, as a result, in certain situations resulted in slower collection of accounts receivable and increased provisions for non-payment of accounts receivable.

In the second half of 2020 oil prices improved from the lows of the first half of the year and industry drilling activity started to improve during 2020 Q3. Volatility is expected in oil prices due to continuing developments related to COVID-19 (i.e. vaccinations rates, spread new variants and related government responses) and ongoing uncertainty related to output restrictions among OPEC and OPEC+.

All of these developments have had, and could in the future have, a material adverse effect on Cathedral's business, financial condition, results of operations, cash flows, ability to collect on accounts receivable and future impairments of Company assets. As a result of the decline in financial results for 2020, management has entered into discussions with its lender to amend and/or extend the revised covenants under its credit agreement to the end of 2021.

OUTLOOK

As we moved into 2021, the improving industry fundamentals that we saw at the tail end of 2020 Q4 continued. WTI has climbed to approximately USD $65/bbl after sinking to historic depths last year, in response to the COVID-19 pandemic. Similarly, North American natural gas prices have strengthened. Despite the significant improvement in commodity prices, in the near term, we believe E&P companies will follow through with the financial discipline directing a significant portion of their higher cash flow to strengthening balance sheets through reduction of debt. With sustained higher commodity prices combined with increasing energy demand, as global activity returns to post COVID normal, we anticipate continued strong producer cash flows leading to increased demand for the energy services industry.

Within the Canada market, the improving activity levels that started in 2020 Q3 have continued into 2021 Q1. For 2020 Q1, we are expecting higher activity levels compared to the prior year and on a quarterly sequential basis - this has resulted in an increase in market share. Cathedral continues to build its presence in the dynamic Clearwater/Marten Hill play. We have been able to expand our motor rentals, in particular, as it relates to our rotary steerable system specific nDurance™ drilling motors which are demonstrating strong performance achievements.

We continue to shift our market focus towards more active areas of the US such as the Permian basin where we can leverage the versatility of our RapidFire™ Measurement-While-Drilling ("MWD") system. As we continue to build on our efforts, expertise, personnel and technology, we expect to see continued improvement in results in this key market as we progress through 2021.

RapidFire™ is Cathedral's latest generation MWD system which is capable of transmitting data simultaneously via pulse and electro-magnetic ("EM"), allowing for high data rates and higher reliability through redundancy, resulting in faster drilling and cost savings for our customers. 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. We currently have 1 RapidFire™ MWD system and are expecting to deploy 4 additional RapidFire™ systems early in 2021 Q2. In addition, in 2021 Q3, Cathedral expects to commence trial runs with a retrievable downhole generator which reduces operating costs and allows for high EM transmission on extended run applications.

2020 CAPITAL PROGRAM

During the year ended December 31, 2020 the Company invested $2,474 (2019 - $6,018) in equipment and $251 (2019 - $1,077) of intangibles for new technology development primarily related to MWD systems which were completed in 2020 Q1.

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

		Year ended December 31, 2020
Equipment additions:		
Motors and related equipment	$	1,825
MWD and related equipment		610
Other		39
Total cash additions		2,474
Less: proceeds on disposal of equipment		(2,603)
Net equipment additions (1)	$	(129)

(1) See "NON-GAAP MEASUREMENTS"

2021 CAPITAL PROGRAM

Our 2021 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 $1,500 (depending on level of lost-in-hole proceeds). Focus of 2021 capital plan will be motor power section additions for premium lines and addition of RapidFire™ Measurement-While-Drilling dual telemetry systems tools.

RESULTS OF OPERATIONS – THREE MONTHS ENDED DECEMBER 31

Revenues		2020		2019
Canada	$	4,042	$	6,815
United States		3,406		12,484
Total	$	7,448	$	19,299

Revenues 2020 Q4 revenues were $7,448, which represented a decrease of $11,851 or 61% from 2019 Q4 revenues of $19,299.

Canadian revenues (excluding motor rental revenues) decreased to $3,740 in 2020 Q4 from $6,167 in 2019 Q4; a 39% decrease. This decrease was the result of: i) a 29% decrease in activity days to 553 in 2020 Q4 from 782 in 2019 Q4 and ii) a 14% decrease in the average day rate to $6,764 in 2020 Q4 from $7,886 in 2019 Q4.

There was a 36% year-over-year decline in the average active land rig count in Canada (source: Baker Hughes) which compares to Cathedral's activity decline of 29%. Due to Cathedral's client mix, our decline was lower than the general market decline. The decrease in day rates was due to a reduction in base rates due to the mix of clients in 2020 Q4.

U.S. revenues (excluding motor rental revenues) decreased 73% to $3,201 in 2020 Q4 from $11,986 in 2019 Q4. This decrease was the result of: i) a 60% decrease in activity days to 359 in 2020 Q4 from 901 in 2019 Q4; and ii) a 33% decrease in the average day rate to $8,915 in 2020 Q4 from $13,303 in 2019 Q4 (when converted to Canadian dollars).

The average active land rig count for the U.S. was down 62% in 2020 Q4 compared to 2019 Q4 (source: Baker Hughes). The Company experienced a 60% decline in activity days resulting in a decrease in market share compared to 2019 Q4. Day rates in USD decreased 32% to $6,843 USD in 2020 Q4 from $10,079 USD in 2019 Q4. The 2020 Q4 rate is down due to a decrease in revenues from providing RSS services which are rented from a 3rd party, reduction in base rates due to the limited mix of clients in 2020 Q4 and a reduction in certain ancillary revenues.

Motor rentals decreased in both Canada and the U.S. Combined rental revenues decreased to $507 in 2020 Q4 compared to $1,1146 in 2019 Q4. The decrease is due to the decrease in drilling activity in 2020 Q4.

Government grants The Company recognized the benefit from the CEWS program of $399 (2019 - $nil) which reduced salary expenses as follows:

- Cost of sales $187;
- Selling, general and administrative expenses $154; and
- Technology group expenses $58.

Additionally, the Company received $280 (2019 - $nil) from the Canadian Emergency Rent Subsidy ("CERS"), which reduced cost of sales $221 (2019 - $nil) and selling, general and administrative $59 (2019 - $nil).

Gross margin and adjusted gross margin Gross margin for 2020 Q4 was -32% compared to -19% in 2019 Q4. Adjusted gross margin (see Non-GAAP Measurements) for 2020 Q4 was $1,199 or 16% compared to $1,761 or 9% for 2019 Q4.

Adjusted gross margin, as a percentage of revenue, increased due to the government assistance received and lower equipment rentals offset by increases in repairs.

Depreciation of equipment allocated to cost of sales decreased to $3,560 in 2020 Q4 from $5,443 in 2019 Q4. Depreciation included in cost of sales as a percentage of revenue was 48% for 2020 Q4 and 28% in 2019 Q4.

Selling, general and administrative ("SG&A") expenses SG&A expenses were $2,072 in 2020 Q4; a decrease of $1,745 compared with $3,817 in 2019 Q4. There were reductions in SG&A wages and related benefits and burdens due to a reduction in head count and wage rollbacks and the government assistance received as well as decreases in almost all categories of expenses due to efforts to reduce spending. These savings were partially offset by an increase in the provision for trade receivables that are slow paying of $630 (2019 Q4 - $549). As a percentage of revenue, SG&A was 28% in 2020 Q4 compared to 20% in 2019 Q4.

Technology group expenses Technology group expenditures are related to supporting and upgrading existing technology as well as new product development. Technology group expenses consist of salaries and related benefits and burdens as well as shop supplies. Technology group activities spent on new product development are capitalized as intangible assets.

Technology group expenses were $140 in 2020 Q4, a decrease of $389, compared with $529 in 2019 Q4. The portion of total technology group costs related to new product development in 2019 Q4 was $171 and this amount was capitalized as intangible assets (2020 Q4 - $nil). In light of the current market, Cathedral has consolidated its MWD repairs and, as part of this realignment, combined our Technology Group and MWD repair department. This has resulted in a reduction in overall head count of the combined group and will result in limited new product development in the near term.

Gain/loss on disposal of equipment During 2020 Q4, the Company had a loss on disposal of equipment of $183 compared to a gain of $1,596 in 2019 Q4. These amounts mainly related to equipment lost-in-hole. Proceeds from clients on lost-in-hole equipment are based on amounts specified in service agreements and, in most cases, these proceeds exceed the net book value of the equipment and result in a gain. The timing of lost-in-hole recoveries is not in the control of the Company and therefore can fluctuate significantly from quarter-to-quarter. In 2020 Q4, the Company received proceeds on disposal of equipment of $184 (2019 Q4 - $2,836).

Finance costs Finance costs consist of interest expenses on operating loans, long-term debt and bank charges of $60 for 2020 Q4 versus $172 for 2019 Q4.

Finance costs lease liability The lease liability interest decreased slightly to $218 from $243.

Foreign exchange The Company had a foreign exchange gain of $1,686 in 2020 Q4 compared to $534 in 2019 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 2020 Q4 foreign currency loss are unrealized gain of $1,678 (2019 Q4 - $554) related to intercompany balances.

Impairment and direct write-downs In 2020 Q4, the Company entered into a sub-lease for one of the properties previously written down and reversed $549 equal to the sublease asset. Additionally, in 2020 Q4 there was a write-down on slow moving inventory of $377.

Income tax In 2020 Q4, Cathedral derecognized $2,647 of deferred tax assets due to a recent history of tax losses within Cathedral's U.S. entity. The underlying tax attributes remain available for Cathedral to utilize.

Previously, Cathedral derecognized Canadian deferred tax assets due to a recent history of tax losses within Cathedral's Canadian entity. As a result of this, where there are losses in the Canadian entity that are not recognized as deferred taxes the effective tax rate is not meaningful.

Income tax expense is booked based upon expected annualized rates using the statutory rates of 25.5% for Canada and 23% for the U.S.

RESULTS OF OPERATIONS – NINE MONTHS ENDED DECEMBER 31

Revenues		2020		2019
Canada	$	13,837	$	26,155
United States		26,737		94,121
Total	$	40,574	$	120,276

Revenues 2020 revenues were $40,574, which represented a decrease of $79,702 or 66% from 2019 revenues of $120,276.

Canadian revenues (excluding motor rental revenues) decreased to $11,104 in 2020 from $23,127 in 2019; a 52% decrease. This decrease was the result of: i) a 48% decrease in activity days to 1,558 in 2020 from 3,004 in 2019 and ii) a 7% decrease in the average day rate to $7,127 in 2020 from $7,699 in 2019.

There was a 33% year-over-year decline in the average active land rig count in Canada (source: Baker Hughes) which compares to Cathedral's activity decline of 48%. Due to Cathedral's client mix, our decline was greater than the general market decline and there was very limited drilling by the Company's clients in the period from mid-March to mid-September. The decrease in day rates was due to a reduction in certain ancillary revenues.

U.S. revenues (excluding motor rental revenues) decreased 72% to $25,662 in 2020 from $92,268 in 2019. This decrease was the result of: i) a 68% decrease in activity days to 2,197 in 2020 from 6,805 in 2019; and ii) a 14% decrease in the average day rate to $11,680 in 2020 from $13,559 in 2019 (when converted to Canadian dollars).

The average active land rig count for the U.S. was down 54% in 2020 compared to 2019 (source: Baker Hughes). The Company experienced a 68% decline in activity days resulting in a decrease in market share compared to 2019. Day rates in USD decreased 15% to $8,654 USD in 2020 from $10,206 USD in 2019. The 2020 rate is down due to a decrease in revenues from change in client mix and to a lesser extent reductions in providing rotary steerable system (RSS) services which are rented from a 3rd party and a reduction in certain ancillary revenues.

Motor rentals decreased in both Canada and the U.S. Combined rental revenues decreased to $3,808 in 2020 compared to $4,882 in 2019 or 22%. The combined decrease was due to lower industry activity.

Government grants The Company recognized the benefit from the Canadian Emergency Wage Subsidy ("CEWS") program of $1,776 (2019 - $nil) and $992 (2019 - $nil) from the U.S. Paycheck Protection Program ("PPP") which reduced salary expenses as follows:

- Cost of sales $1,665;
- Selling, general and administrative expenses $812; and
- Technology group expenses $291.

Additionally, the Company received $280 (2019 - $nil) from the Canadian Emergency Rent Subsidy ("CERS"), which reduced cost of sales $221 (2019 - $nil) and selling, general and administrative $59 (2019 - $nil).

Gross margin and adjusted gross margin Gross margin for 2020 was -25% compared to -6% in 2019. Adjusted gross margin (see Non-GAAP Measurements) for 2020 was $4,869 or 12% compared to $12,234 or 10% for 2019.

Adjusted gross margin, as a percentage of revenue, increased due to decrease in rentals, repairs, field labour and inspection expenses offset by the increase in the fixed component of cost of sales as a percentage of revenue (these costs decreased $10,843, but the total increased as percentage of revenues).

Depreciation of equipment allocated to cost of sales decreased to $14,996 in 2020 from $19,864 in 2019. Depreciation included in cost of sales as a percentage of revenue was 37% for 2020 and 17% in 2019.

Selling, general and administrative ("SG&A") expenses SG&A expenses were $8,895 in 2020; a decrease of $5,120 or 37% compared with $14,015 in 2019. There were reductions in SG&A wages and related benefits and burdens due to a reduction in head count and wage rollbacks and the government assistance received as well as decreases in almost all categories of expenses due to efforts to reduce spending. These savings were partially offset by an increase in the provision for trade receivables that are slow paying of $1,425 (2019 - $555). As a percentage of revenue, SG&A was 22% in 2020 compared to 12% in 2019.

Technology group expenses Technology group expenditures are related to supporting and upgrading existing technology as well as new product development. Technology group expenses consist of salaries and related benefits and burdens as well as shop supplies. Technology group activities spent on new product development are capitalized as intangible assets.

Technology group expenses were $952 in 2020, a decrease of $1,260, compared with $2,212 in 2019. The portion of total technology group costs related to new product development in 2020 was $195 and this amount has been capitalized as intangible assets (2019 - $965). In light of the current market, Cathedral has consolidated its MWD repairs and, as part of this realignment, combined our Technology Group and MWD repair department. This has resulted in a reduction in overall head count of the combined group and will result in limited new product development in the near term.

Gain on disposal of equipment During 2020, the Company had a gain on disposal of equipment of $1,680 compared to $6,005 in 2019. These amounts mainly related to equipment lost-in-hole. Proceeds from clients on lost-in-hole equipment are based on amounts specified in service agreements and, in most cases, these proceeds exceed the net book value of the equipment and result in a gain. The timing of lost-in-hole recoveries is not in the control of the Company and therefore can fluctuate significantly from quarter-to-quarter. In 2020, the Company received proceeds on disposal of equipment of $2,603 (2019 - $8,726).

Finance costs Finance costs consist of interest expenses on operating loans, long-term debt and bank charges of $291 for 2020 versus $593 for 2019 due to lower debt levels in 2020 partially offset by higher interest rates.

Finance costs lease liability The lease liability interest decreased slightly to $918 from $1,010.

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

Foreign exchange The Company had a foreign exchange gain of $971 in 2020 compared to $1,280 in 2019 due to the fluctuations of the Canadian dollar relative to the U.S. dollar. The Company's foreign operations are denominated in USD and therefore, upon consolidation, gains and losses due to fluctuations in the foreign currency exchange rates are recorded as other comprehensive income on the balance sheet as a component of equity. However, gains and losses in the Canadian entity on U.S. denominated intercompany balances continue to be recognized in the statement of comprehensive income (loss). Included in the 2020 foreign currency gains is an unrealized gain of $929 (2019 - $1,347) related to intercompany balances.

Impairment and direct write-downs Due to the decline in projected drilling activity for the remainder of 2020 and into 2021 as a result of the decrease in oil prices, the Company determined that indicators of impairment existed as at March 31, 2020. The Company made a provision as a result of impairment test and direct write-downs of $6,994 in 2020 Q1 to right of use assets $6,834 and intangibles $160. As part of the Company's response to changes in drilling activity, the decision was made to consolidate its repair activities and there are plans to close or significantly reduce activities at certain locations and the right of use asset for these locations was written down to $nil. There were $160 intangible projects in progress where it is uncertain when or if staff resources will be available to bring the projects to commercialization. As such these projects were written down to $nil. There were no impairments or direct write-downs in 2019.

In 2020 Q4, the Company entered into a sub-lease for one of the properties previously written down and reversed $549 equal to the sublease asset. Additionally, in 2020 Q4 there was a write-down on slow moving inventory of $377.

Income tax Due to U.S. legislative changes in 2020, an adjustment to prior year provision has been made to recognize the U.S. Federal portion of 2019 tax losses that will now be allowed to be carried back to 2018 and recovered.

In 2020, Cathedral derecognized $2,647 of deferred tax assets due to a recent history of tax losses within Cathedral's U.S. entity. Previously, Cathedral derecognized Canadian deferred tax assets due to a recent history of tax losses within Cathedral's Canadian entity. The underlying tax attributes remain available for Cathedral to utilize.

As a result of this, where there are losses in the Canadian entity that are not recognized as deferred taxes the effective tax rate is not meaningful. Income tax expense is booked based upon expected annualized rates using the statutory rates of 25.5% for Canada and 23% for the U.S.

LIQUIDITY AND CAPITAL RESOURCES

Overview On an annualized basis, the Company's principal source of liquidity is cash generated from operations and proceeds from equipment lost-in-hole. In addition, the Company has the ability to fund liquidity requirements through its credit facility and the issuance of debt and/or equity. Cash flow - operating activities in 2020 decreased to $1,191 compared to $4,785 in 2019. This decrease was primarily due to the impact of reduced activity levels.

Future operations As at December 31, 2020, the Company was in compliance with the terms and conditions of its bank credit facility (see note 14). While the Company had obtained certain covenant relief, management's forecasts indicate a potential breach of its financial covenants commencing in the first quarter ending March 31, 2021 and for each quarter thereafter in fiscal 2021. A covenant violation would represent an event of default which would enable the lender to demand immediate repayment of all amounts due. As a result of these factors, there is a material uncertainty that may cast significant doubt with respect to the ability of the Company to continue as a going concern.

The Company has commenced discussions with its lender regarding amendment and/or extending current covenant relief and management expects to reach an acceptable agreement with its lender on covenant relief. No agreement has been reached to date and therefore, there can be no assurance that such agreement will be reached. Assuming the Company is successful in obtaining covenant relief for any potential forecasted covenant violations, Management's forecasts also show the Company meeting all of its financial commitments including interest payments over the next twelve months.

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

Working capital At December 31, 2020, the Company had working capital of $7,680 (December 31, 2019 - $20,181).

Credit facility In June 2020, the Company amended its credit facility (the "Facility") for temporary covenant relief. The Company's Facility consists of a $12,000 extendible revolving credit facility with a single lender which expires June 30, 2022. Previously, the Company had a syndicated facility with two lenders that totaled $20,000. This was in excess of current needs and the facility was reduced primarily to lower stand-by fees. The Facility is secured by a general security agreement over all present and future personal property. The Facility provides a definition of EBITDA ("Credit Agreement EBITDA") to be used in calculation of financial covenants.

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

The covenant relief period ("CR period") commenced on June 30, 2020 and ends on the earlier of March 31, 2021 or the date of written notice by the Company requesting an end to the CR period.

The financial covenants associated with the Facility excluding the CR period are:

Consolidated funded debt to consolidated Credit Agreement EBITDA ratio shall not exceed 3.0:1; and
Consolidated interest coverage ratio shall not be less than 2.5:1.

During the CR period, the consolidated funded debt to consolidated Credit Agreement EBITDA ratio is waived and the consolidated interest coverage ratio is waived during the covenant relief period if funded debt is no more than $6,000. During the CR period, the following apply:

- Consolidated funded debt to tangible net worth ("TNW") ratio is to be no more than 10% for 2020 Q2 and Q3 and no more than 15% in 2020 Q4 and 2021 Q1. TNW is defined as shareholders' equity plus subordinated debt less investments in or amounts owed by any related party which does not constitute subordinated debt;
- Advances are limited to $10,000;
- During the covenant relief period aggregate capital expenditures (excluding non-cash utilization of existing inventory) for the fiscal year ended December 31, 2020, are not to exceed $2,000; and
- During the covenant relief period interest increases to bear interest at the financial institution's prime rate plus 1.75% to 3.25% or bankers' acceptance rate plus 3.00% to 4.25% with interest payable monthly.

Compliance with Facility covenants

At December 31, 2020, the Company had drawn $1,560 of its credit facility and had $1,034 in cash. At December 31, 2020, the Company had consolidated funded debt of $2,160 that includes five outstanding letters of credit ("LOC") totaling $1,778 which are included in the funded debt calculation. TNW was $37,690.

The calculation of the financial covenants under the Facility as at December 31, 2020 is as follows:

Covenant	Actual Ratio	Required Ratio
Consolidated funded debt to TNW ratio	5.7%	15.0% (maximum)

The Company was in compliance with all revised covenants at December 31, 2020. The Company has entered into discussions with its lender to amend or extend the revised covenants under its credit facility for the remainder of 2021.

Contractual obligations In the normal course of business, the Company incurs contractual obligations and those obligations are disclosed in the Company's annual financial statements for the year ended December 31, 2020.

As at December 31, 2020, the Company's has commitment to purchase equipment of $349 which is expected to be incurred in 2021 Q1.

The Company has issued the following five LOC:

- three securing rent payments on property leases and renew annually with the landlords. Two LOCs total $700 CAD for the first ten years of the lease and then reduces to $500 for the last five years of the leases. The third LOC is currently for $613 USD and increases annually based upon annual changes in rent; and

two securing the Company's corporate credit cards in the amounts of $75 CAD and $175 USD.

Subsequent events

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

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

600,000 stock options were granted to the new President, CEO and Director, with an exercise price or $0.18 per option which will expire February 8, 2024. Additional options of 335,000 were granted to other employees at an exercise price of $0.26 which expire February 15, 2024.

Share capital At March 11, 2021, the Company has 50,618,117 common shares, 575,000 common share purchase warrants and 3,487,600 options outstanding with a weighted average exercise price of $0.36.

In 2020 Q4, the Company issued 887,600 stock options to staff and directors with an average exercise price of $0.12 per option.

FORWARD LOOKING STATEMENTS

This MD&A contains certain forward-looking statements and forward-looking information (collectively referred to herein as "forward-looking statements") within the meaning of applicable Canadian securities laws. All statements other than statements of present or historical fact are forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "anticipate", "achieve", "believe", "plan", "intend", "objective", "continuous", "ongoing", "estimate", "outlook", "expect", "may", "will", "project", "should" or similar words suggesting future outcomes. In particular, this MD&A contains forward-looking statements relating to, among other things: continue to focus on strategic initiatives and making changes to our business to position us favorably over the long-term; continue to focus on what we can control – costs, improving operational efficiencies and strategic sales and marketing of our offerings; volatility is expected in oil prices due to continuing developments related to COVID-and ongoing uncertainty related to output restrictions among OPEC and OPEC+; management has entered into discussions with its lender to amend and/or extend the revised covenants under its credit agreement to the end of 2021; believe E&P companies will follow through with the financial discipline they have promised to shareholders and will direct a significant portion of their higher cash flow to shareholder friendly initiatives including paying dividends, reducing debt and share buybacks; that discipline is expected to provide moderate improvements in North American drilling activity levels as we progress through 2021; for 2020 Q1 in Canada, we are expecting higher activity levels compared to the prior year and on a quarterly sequential basis; we expect to see continued improvement in results in the U.S. market as we progress through 2021; Cathedral's current financial budget for 2021 shows there is a potential that Cathedral may not be in compliance with our banking covenants during 2021; we expect to expand capacity of our proprietary RapidFire™ MWD system to 6 early in 2021 Q2; in 2021 Q3, Cathedral expects to commence trial runs with a retrievable downhole generator which reduces operating costs and allows for high EM transmission on extended run applications; commitments; 2021 capital program and financing of the program.

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

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

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

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

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

NON-GAAP MEASUREMENTS

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

The specific measures being referred to include the following:

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

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

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

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

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 31	
	2020	2019	2020	2019
Gross margin	$ (2,368)	$ (3,701)	$ (10,190)	$ (7,747)
Add non-cash items included in cost of sales:				
Depreciation	3,560	5,443	14,996	19,864
Share-based compensation	7	19	63	117
Adjusted gross margin	$ 1,199	$ 1,761	$ 4,869	$ 12,234
Adjusted gross margin %	16%	9%	12%	10%

Adjusted EBITDAS

	Three months ended December 31		Year ended December 31	
	2020	2019	2020	2019
Loss before income taxes	$ (3,183)	$ (6,332)	$ (25,417)	$ (18,717)
Add:				
Depreciation included in cost of sales	3,560	5,443	14,996	19,864
Depreciation included in selling, general and administrative expenses	146	133	572	1,161
Share-based compensation included in cost of sales	7	19	63	117
Share-based compensation included in selling, general and administrative expenses	15	60	144	337
Finance costs	60	172	291	593
Finance costs lease liabilities	218	243	918	1,010
Subtotal	823	(262)	(8,433)	4,365
Impairments and direct w rite-dow ns	(172)	-	6,822	-
Unrealized foreign exchange (gain) loss on intercompany balances	(1,678)	(554)	(929)	(1,347)
Provision for settlement	-	-	-	425
Non-recurring expenses	592	114	2,424	444
Adjusted EBITDAS	$ (435)	$ (702)	$ (116)	$ 3,887

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2020 and 2019
Dollars in '000s
(unaudited)

	2020	2019
Assets		
Current assets:		
Cash	$ 1,034	$ 7,223
Trade receivables	4,784	14,802
Prepaid expenses	709	1,668
Inventories	8,118	10,423
Total current assets	14,645	34,116
Equipment	35,620	46,882
Intangible assets	2,244	3,019
Right of use assets	11,771	19,590
Deferred tax assets	-	2,693
Total non-current assets	49,635	72,184
Total assets	$ 64,280	$ 106,300
Liabilities and Shareholders' Equity		
Current liabilities:		
Trade and other payables	$ 4,425	$ 11,308
Current taxes payable	140	314
Lease liabilities, current	2,247	2,145
Liability for settlements, current	153	168
Total current liabilities	6,965	13,935
Loans and borrowings	1,560	6,000
Liability for settlements, long-term	-	156
Lease liabilities, long-term	15,781	18,117
Total non-current liabilities	17,341	24,273
Total liabilities	24,306	38,208
Shareholders' equity:		
Share capital	88,155	88,155
Contributed surplus	11,071	10,864
Accumulated other comprehensive income	9,340	9,934
Deficit	(68,592)	(40,861)
Total shareholders' equity	39,974	68,092
Total liabilities and shareholders' equity	$ 64,280	$ 106,300

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

Three and nine months ended December 31, 2020 and 2019
Dollars in '000s except per share amounts
(unaudited)

	Three months ended December 31		Year ended December 31	
	2020	2019	2020	2019
Revenues	$ 7,448	$ 19,299	$ 40,574	$ 120,276
Cost of sales:				
Direct costs	(6,249)	(17,538)	(35,705)	(108,042)
Depreciation	(3,560)	(5,443)	(14,996)	(19,864)
Share-based compensation	(7)	(19)	(63)	(117)
Total cost of sales	(9,816)	(23,000)	(50,764)	(128,023)
Gross margin	(2,368)	(3,701)	(10,190)	(7,747)
Selling, general and administrative expenses:				
Direct costs	(1,911)	(3,624)	(8,179)	(12,517)
Depreciation	(146)	(133)	(572)	(1,161)
Share-based compensation	(15)	(60)	(144)	(337)
Total selling, general and administrative expenses	(2,072)	(3,817)	(8,895)	(14,015)
	(4,440)	(7,518)	(19,085)	(21,762)
Technology group expenses	(140)	(529)	(952)	(2,212)
Gain on disposal of equipment	(183)	1,596	1,680	6,005
Loss from operating activities	(4,763)	(6,451)	(18,357)	(17,969)
Finance costs	(60)	(172)	(291)	(593)
Finance costs lease liabilities	(218)	(243)	(918)	(1,010)
Foreign exchange gain (loss)	1,686	534	971	1,280
Impairments and direct w rite-dow ns	172	-	(6,822)	-
Provision for settlements	-	-	-	(425)
Loss before income taxes	(3,183)	(6,332)	(25,417)	(18,717)
Income tax recovery (expense):				
Current	(854)	(1,285)	333	(1,285)
Deferred	372	815	-	1,630
Derecognition of deferred tax asset	(2,647)	-	(2,647)	-
Total income tax recovery (expense)	(3,129)	(470)	(2,314)	345
Loss	(6,312)	(6,802)	(27,731)	(18,372)
Other comprehensive income (loss):				
Foreign currency translation differences for foreign operations	(1,373)	(867)	(594)	(2,318)
Total comprehensive loss	$ (7,685)	$ (7,669)	$ (28,325)	$ (20,690)
Loss per share				
Basic	$ (0.13)	$ (0.14)	$ (0.56)	$ (0.37)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Three and nine months ended December 31, 2020 and 2019
Dollars in '000s
(unaudited)

	Three months ended December 31		Year ended December 31	
	2020	2019	2020	2019
Cash provided by (used in):				
Operating activities:				
Loss	$ (6,312)	$ (6,068)	$ (27,731)	$ (19,187)
Items not involving cash				
Depreciation	3,706	5,576	15,568	21,025
Share-based compensation	22	79	207	454
Income tax (recovery) expense	3,129	(264)	2,314	470
Gain on disposal of equipment	183	(1,596)	(1,680)	(6,005)
Finance costs	60	172	291	593
Finance costs lease liabilities	218	243	918	1,010
Impairments and direct write-downs	(172)	-	6,822	-
Provision for settlements	-	-	-	425
Unrealized foreign exchange gain on intercompany balances	(1,678)	(554)	(929)	(1,347)
Cash flow - continuing operations	(844)	(2,412)	(4,220)	(2,562)
Changes in non-cash operating working capital	907	3,064	5,343	9,247
Income taxes paid	168	(754)	68	(1,900)
Cash flow - operating activities	231	(102)	1,191	4,785
Investing activities:				
Equipment additions	(1,149)	(697)	(2,474)	(6,018)
Intangible asset additions	(39)	(12)	(251)	(1,077)
Proceeds on disposal of equipment	184	2,836	2,603	8,726
Changes in non-cash investing working capital	1,131	1,472	768	(284)
Cash flow - investing activities	127	3,599	646	1,347
Financing activities:				
Change in operating loan	-	-	-	(188)
Repayments on lease liabilities	(548)	(568)	(2,110)	(2,095)
Payment on settlements	(51)	(524)	(173)	(604)
Interest paid	(278)	(415)	(1,209)	(1,603)
Advances of loans and borrowings	946	-	946	-
Repayments on loans and borrowings	-	(1,000)	(5,386)	(1,000)
Cash flow - financing activities	69	(2,507)	(7,932)	(5,490)
Effect of exchange rate on changes on cash	(211)	(115)	(94)	(294)
Change in cash and cash equivalents	216	875	(6,189)	348
Cash, beginning of period	818	6,348	7,223	6,875
Cash, end of period	$ 1,034	$ 7,223	$ 1,034	$ 7,223

NOT FOR DISSEMINATION IN THE UNITED STATES OF AMERICA

Requests for further information should be directed to:

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

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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.