CATHEDRAL

NEWS RELEASE
AUGUST 10, 2021
Calgary, Alberta

CATHEDRAL ENERGY SERVICES REPORTS RESULTS FOR 2021 Q2

Cathedral Energy Services Ltd. (the "Company" or "Cathedral" / TSX: CET) announces its consolidated financial results for the three and six months ended June 30, 2021 and 2020. Dollars in 000's except per share amounts.

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

FINANCIAL HIGHLIGHTS

Dollars in 000's except per share amounts

	Three months ended June 30		Six months ended June 30	
	2021	2020	2021	2020
Revenues	$ 7,322	$ 8,841	$ 18,687	$ 28,136
Adjusted gross margin % (1)	-11%	4%	9%	9%
Adjusted EBITDAS (1)	$ (2,683)	$ (823)	$ (1,861)	$ 235
Basic and diluted per share	$ (0.05)	$ (0.02)	$ (0.04)	$ -
As % of revenues	-37%	-9%	-10%	1%
Cash flow - operating activities	$ (1,892)	$ (641)	$ (2,300)	$ (2,584)
Loss from operating activities	$ (6,011)	$ (4,720)	$ (8,251)	$ (9,146)
Basic per share	$ (0.11)	$ (0.10)	$ (0.16)	$ (0.18)
Impairments and direct write-downs	$ -	$ -	$ -	$ (6,994)
Loss	$ (5,846)	$ (3,815)	$ (7,932)	$ (16,405)
Basic per share	$ (0.11)	$ (0.08)	$ (0.15)	$ (0.33)
Equipment additions (recovery) - cash basis	$ 738	$ (86)	$ 1,329	$ 769
Weighted average shares outstanding				
Basic (000s)	54,935	49,468	52,547	49,468
Diluted (000s)	55,721	49,468	52,873	49,468

	June 30 2021	December 31 2020
Working capital	$ 6,545	$ 7,680
Total assets	$ 60,171	$ 64,280
Loans and borrowings excluding current portion	$ 2,304	$ 1,560
Shareholders' equity	$ 34,589	$ 39,974

(1) Refer to "NON-GAAP MEASUREMENTS"

2021 Q2 KEY TAKEAWAYS

- Revenues decreased by $1,519 or 17% from $8,841 in 2020 Q2 to $7,322 in 2021 Q2 and this, along with an increase in repairs led to a lower adjusted gross margin and lower adjusted EBITDAS;
- The Company finalized an amendment to its credit facility that extends the facility to June 30, 2023, which also returned the facility to full $12,000 availability and added $1,000 in HASCAP financing;
- Q2 saw Ian Graham, CFO, and Fawzi Irani, Senior Vice President, U.S. Operations join Cathedral. They join Tom Connors who was appointed CEO in Q1 and Randy Pustanyk, Executive VP, to complete the new management team;
- In Q2, the Company completed a $3,164 private placement; and
- In July 2021 the Company completed acquisition of Precision's directional drilling business for a purchase price of $6,350 which included a $3,000 cash investment by Precision for 13,400,000 Cathedral common shares and 2,000,000 share purchase warrants with an exercise price of $0.60.

OUTLOOK

During Q2 Cathedral's top management team was put in place and the company began executing on a plan to solidify its balance sheet, increase its share of the directional drilling business across North America and solidify its industry leading technological capabilities.

With our recent acquisition of Precision Drilling's directional drilling business, we have further solidified our position in the Canadian market among the top four directional drilling contractors with 18+% market share. The $3,000 cash that accompanied the assets will allow us to expand our high-performance motor fleet and to increase our RapidFire™ MWD system job capacity to 18 from the 12 previously announced. It also represents a key first step on a strategic path towards necessary consolidation required to help the market transition to the next phase of recovery. Going forward, we are confident the combination of capabilities and expertise of both companies will create value for our customers and that our Marketing Alliance and partnership with Precision will deliver a mechanism for additional growth and expansion.

The North American oilfield services industry continues to improve from the lows of 2020 with strong commodity pricing for both oil and gas meaning improved balance sheets and increased capital spending by E&P companies leading to higher levels of drilling activity in the back half of 2021 and into 2022.

In our Canadian market, we had substantially improved activity in the second quarter versus the same quarter in 2020 and Q3 activity is expected to rival or exceed rig counts witnessed in the first quarter, normally considered a period of peak activity in any year. If commodity prices continue at these levels some industry analysts and observers are predicting as much as a 25%+ improvement in overall activity levels in 2022 versus 2021. As rig counts improve in the third and fourth quarters of this year, we anticipate a tight labour market with increased pressure on labour costs, accompanied by an improving pricing environment. In addition to an overall improvement in market conditions, we continue to experience demand from our customers for our nDurance drilling motors, because of reduced drilling times in challenging environments, particularly in rotary steerable applications. Our RapidFire[TM] Measurement-While-Drilling ("MWD") system is now commercial and active in the Western Canadian Sedimentary Basin ("WCSB") and delivering performance with high reliability in robust drilling environments. The consistent performance of our technology and people, continues to result in gains in market share with CET emerging the second quarter as one of top five most active directional drilling contractors in the Canadian market

In our US market, the rebound in activity for our business lagged the overall industry in the first half of the year as we continued to work through the transformation of our management team and focused on new customers. However, under Fawzi Irani we have now begun the process of the transforming our US team with a focus on new customers. With the track record and experience of our newly hired management and sales team we are confident our activity levels relative to the overall market will improve going forward. In anticipation and preparation of an increased job count in the back half of the year, we did experience a higher than usual maintenance and repair cost in the quarter which will later translate to improved margins as we deliver operations in the field.

We also completed the extension and amendment of our credit facility in the quarter, thus securing a more traditional banking agreement, improving our financial structure, and expanding our liquidity. The successful application under the HASCAP program combined with the previously mentioned Precision capital injection give the Company the ability to expand our capital budget and product offering without placing undo pressure on the Balance Sheet. We will continue to execute our growth strategies while maintaining a low leverage profile.

The second quarter marked a number of positive changes and milestones for Cathedral and we feel well positioned financially and operationally to capitalize on the growing demand for our services in the coming quarters.

2021 CAPITAL PROGRAM

During the six months ended June 30, 2021, the Company invested $1,329 (2020 - $769) in equipment. The following table details the current period's net equipment additions:

		Six months ended June 30, 2021
Equipment additions:		
Motors	$	832
MWD		367
Other		130
Total cash additions	$	1,329

The Company's 2021 capital plan is approximately $6,000. The focus of 2021 capital plan will be motor power section additions for premium lines and addition of RapidFire™ Measurement-While-Drilling dual telemetry systems tools The additions of $1,329 were partially funded by proceeds on disposal of equipment of $298.

RESULTS OF OPERATIONS – THREE MONTHS ENDED JUNE 30

Revenues		2021		2020
Canada	$	3,207	$	1,130
United States		4,115		7,711
Total	$	7,322	$	8,841

Revenues 2021 Q2 revenues were $7,322, which represented a decrease of $1,519 or 17% from 2020 Q2 revenues of $8,841.

Canadian revenues (excluding motor rental revenues) increased to $3,012 in 2021 Q2 from $570 in 2020 Q2; a 428% increase. This increase was the net result of: i) a 473% increase in activity days to 453 in 2021 Q2 from 79 in 2020 Q2 and ii) an 8% decrease in the average day rate to $6,649 in 2021 Q2 from $7,217 in 2020 Q2.

There was a 197% year-over-year increase in the average active land rig count in Canada (source: Baker Hughes) which contributed to Cathedral's activity increase of 488%. Due to Cathedral's client mix, we had greater activity improvements as compared with the general market increase. The decrease in day rates was due to a reduction in certain ancillary revenues.

U.S. revenues (excluding motor rental revenues) decreased 53% to $3,471 in 2021 Q2 from $7,456 in 2020 Q2. This decrease was the result of: i) a 33% decrease in activity days to 421 in 2021 Q2 from 627 in 2020 Q2; and ii) a 31% decrease in the average day rate to $8,245 in 2021 Q2 from $11,892 in 2020 Q2 (when converted to Canadian dollars).

The average active land rig count for the U.S. was up 14% in 2021 Q2 compared to 2020 Q2 (source: Baker Hughes). The Company experienced a 36% decline in activity resulting in a decrease in market share compared to 2020 Q2. Day rates in USD decreased 21% to $6,722 USD in 2021 Q2 from $8,551 USD in 2020 Q2. The 2021 Q2 rate is down due to a decrease in revenues from providing rotary steerable system (RSS) services which are rented from a 3rd party and a reduction in certain ancillary revenues.

Motor rentals decreased in Canada but this was offset by increases in the U.S. Combined rental revenues increased slightly to $838 in 2021 Q2 compared to $815 in 2020 Q2.

Government grants The Company recognized the benefit from the Canada Emergency Wage Subsidy ("CEWS") program of $451 (2020 - $637) which reduced salary expenses as follows:

- Cost of sales $267 (2020 - $261);
- Selling, general and administrative expenses $148 (2020 - $264); and
- Technology group expenses $33 (2020 - $112).

Additionally, the Company received $250 (2020 - $nil) from the Canadian Emergency Rent Subsidy ("CERS"), which reduced cost of sales $214 (2020 - $nil) and selling, general and administrative $36 (2020 - $nil).

Gross margin and adjusted gross margin Gross margin for 2021 Q2 was -49% compared to -36% in 2020 Q2. Adjusted gross margin (see Non-GAAP Measurements) for 2021 Q2 was $(733) or -11% compared to $342 or 4% for 2020 Q2.

Adjusted gross margin, as a percentage of revenue, decreased due to the decrease in revenue day rate and by higher repairs and field labour expenses.

Depreciation of equipment allocated to cost of sales decreased to $2,825 in 2021 Q2 from $3,540 in 2020 Q2. Depreciation included in cost of sales as a percentage of revenue was 39% for 2021 Q2 and 40% in 2020 Q2.

Selling, general and administrative ("SG&A") expenses SG&A expenses were $2,281 in 2021 Q2; an increase of $467 compared with $1,814 in 2020 Q2. There were increases in SG&A wages and legal expenses and reduced CEWS grants. As a percentage of revenue, SG&A was 31% in 2021 Q2 compared to 21% in 2020 Q2.

Technology group expenses Technology group expenses were $162 in 2021 Q2; a slight decrease of $43 compared with $205 in 2020 Q2. Technology group expenses are related to new product development and supporting and upgrading existing technology. Technology group expenses consist of salaries and related benefits and burdens as well as shop supplies. Technology group activities spent on new product development are capitalized as intangible assets.

Gain on disposal of equipment During 2021 Q2, the Company had a gain on disposal of equipment of $56 compared to $515 in 2020 Q2. These gains are mainly related to equipment lost-in-hole. Proceeds from clients on lost-in-hole equipment are based on amounts specified in service agreements. The timing of lost-in-hole recoveries is not in the control of the Company and therefore can fluctuate significantly from quarter-to-quarter. In 2021 Q2, the Company received proceeds on disposal of equipment of $77 (2020 Q2 - $610).

Finance costs Finance costs consisting of interest expenses on loans and borrowings and bank charges were $106 for 2021 Q2 versus $89 for 2020 Q2.

Finance costs lease liability The lease liability interest decreased slightly to $201 from $239.

Foreign exchange The Company had a foreign exchange gain of $427 in 2021 Q2 compared to $1,107 in 2020 Q2 due to the fluctuations of the Canadian dollar relative to the U.S. dollar. The Company's foreign operations are denominated in USD and therefore, upon consolidation, gains and losses due to fluctuations in the foreign currency exchange rates are recorded as other comprehensive income on the balance sheet as a component of equity. However, gains and losses in the Canadian entity on U.S. denominated intercompany balances continue to be recognized in the statement of comprehensive income (loss). Included in the 2021 Q2 foreign currency loss are unrealized gain of $478 (2020 Q2 - $1,104) related to intercompany balances.

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

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

RESULTS OF OPERATIONS – SIX MONTHS ENDED JUNE 30

Revenues		2021		2020
Canada	$	11,308	$	8,466
United States		7,379		19,670
Total	$	18,687	$	28,136

Revenues 2021 revenues were $18,687, which represented a decrease of $9,449 or 34% from 2020 revenues of $28,136.

Canadian revenues (excluding motor rental revenues) increased to $10,452 in 2021 from $6,515 in 2020; a 60% increase. This increase was the net result of: i) a 82% increase in activity days to 1,616 in 2021 from 889 in 2020 and ii) an 12% decrease in the average day rate to $6,468 in 2021 from $7,329 in 2020.

There was a 3% year-over-year increase in the average active land rig count in Canada (source: Baker Hughes) which contrasts to Cathedral's activity increase of 82%. Due to Cathedral's client mix, we had greater activity improvements as compared with the general market increase. The decrease in day rates was due to a reduction in certain ancillary revenues.

U.S. revenues (excluding motor rental revenues) decreased 68% to $6,177 in 2021 from $19,160 in 2020. This decrease was the result of: i) a 53% decrease in activity days to 700 in 2021 from 1,492 in 2020; and ii) a 31% decrease in the average day rate to $8,825 in 2021 from $12,842 in 2020 (when converted to Canadian dollars).

The average active land rig count for the U.S. was down 29% in 2021 compared to 2020 (source: Baker Hughes). The Company experienced a 52% decline in activity resulting in a decrease in market share compared to 2020. Day rates in USD decreased 25% to $7,095 USD in 2021 from $9,437 USD in 2020. The 2021 rate is down due to a decrease in revenues from providing rotary steerable system (RSS) services which are rented from a 3rd party and a reduction in certain ancillary revenues.

Motor rentals decreasd in Canada but this was partially offset by increases in the U.S. Combined rental revenues decreased to $2,057 in 2021 compared to $2,460 in 2020. The decrease is due to a significant Canadian rental client not drilling in 2021 H1, although they are expected to resume their program in 2021 H2.

Government grants The Company recognized the benefit from the CEWS program of $657 (2020 - $637) which reduced salary expenses as follows:

- Cost of sales $390 (2020 - $261);
- Selling, general and administrative expenses $214 (2020 - $264); and
- Technology group expenses $53 (2020 - $112).

Additionally, the Company received $385 (2020 - $nil) from CERS, which reduced cost of sales $314 (2020 - $nil) and selling, general and administrative $71 (2020 - $nil).

Gross margin and adjusted gross margin Gross margin for 2021 was -22% compared to -19% in 2020. Adjusted gross margin (see Non-GAAP Measurements) for 2021 was $1,647 or 9% compared to $2,649 or 9% for 2020.

While adjusted gross margin was unchanged as a percentage of revenue, the components changed. Adjusted gross margin was negatively impacted by a decrease in revenue day rate and by higher repairs and field labour expenses. These were offset by lower third party equipment rentals, reductions to the fixed portion of cost of sales and the impact of CERS and lower severance.

Depreciation of equipment allocated to cost of sales decreased to $5,712 in 2021 from $7,916 in 2020. Depreciation included in cost of sales as a percentage of revenue was 31% for 2021 and 28% in 2020.

Selling, general and administrative ("SG&A") expenses SG&A expenses were $4,046 in 2021; a decrease of $578 compared with $4,624 in 2020. There were reductions in SG&A wages and related benefits and burdens due to a lower head count, wage rollbacks and a reduction in severance versus 2020. As a percentage of revenue, SG&A was 22% in 2021 compared to 16% in 2020.

Technology group expenses Technology group expenses were $350 in 2021; a decrease of $385 compared with $735 in 2020. 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. In 2020, Cathedral consolidated its MWD repairs and, as part of this realignment, combined our Technology Group and MWD repair department. This has resulted in a reduction in overall head count of the combined group and will result in limited new product development in the near term.

Gain on disposal of equipment During 2021, the Company had a gain on disposal of equipment of $244 compared to $1,519 in 2020. 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. The timing of lost-in-hole recoveries is not in the control of the Company and therefore can fluctuate significantly from quarter-to-quarter. In 2021, the Company received proceeds on disposal of equipment of $298 (2020 - $1,786).

Finance costs Finance costs consisting of interest expenses on loans and borrowings and bank charges were $189 for 2021 versus $118 for 2020.

Finance costs lease liability The lease liability interest decreased slightly to $410 from $477.

Foreign exchange The Company had a foreign exchange gain of $918 in 2021 compared to a loss of $(1,329) in 2020 due to the fluctuations of the Canadian dollar relative to the U.S. dollar. The Company's foreign operations are denominated in USD and therefore, upon consolidation, gains and losses due to fluctuations in the foreign currency exchange rates are recorded as other comprehensive income on the balance sheet as a component of equity. However, gains and losses in the Canadian entity on U.S. denominated intercompany balances continue to be recognized in the statement of comprehensive income (loss). Included in the 2021 foreign currency loss are unrealized gain of $922 (2020 - loss of $1,360) related to intercompany balances.

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

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

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

LIQUIDITY AND CAPITAL RESOURCES

Overview On an annualized basis, the Company's principal source of liquidity is cash generated from operations and proceeds from equipment lost-in-hole. In addition, the Company has the ability to fund liquidity requirements through its credit facility and the issuance of debt and/or equity. Cash flow - operating activities in 2021 was a use of cash of $2,300 compared to a use of cash $2,584 in 2020. The slight improvement was due to lower non-cash working capital in 2021.

Working capital At June 30, 2021, the Company had working capital of $6,545 (December 31, 2020 - $7,680).

Credit facilities

Bank facility

The Company's Facility consists of a $12,000 extendible revolving credit facility with a single lender which was amended and extended in 2021 Q2 to expire June 30, 2023. 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 1.75% to 3.25% or bankers' acceptance rate plus 3.00% to 4.25% 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.

In June 2021, the Company amended and extended its credit facility (the "Facility").

The changes related to 2021 Q2 are detailed below in "Compliance with Facility covenants" section. Commencing with the fiscal period ending September 30, 2021 ("2021 Q3") and ending with the fiscal period ending March 31, 2022 ("2022 Q1"), the definition of Credit Agreement EBITDA will be based on pro-rating Credit Agreement EBITDA to a 12-month equivalent (Consolidated EBITDA Annualization Period"). The calculations are as follows:

- For the fiscal period ending 2021 Q3, the Credit Agreement EBITDA is the calculated amount for the 3 months of 2021 Q3 times four;
- For the fiscal period ending December 31, 2021 ("2021 Q4"), the Credit Agreement EBITDA is the calculated amount for the 3 months of 2021 Q3 plus the 3 months of 2021 Q4 times two;
- For the fiscal period ending 2022 Q1, the Credit Agreement EBITDA is the calculated amount for the 3 months of 2021 Q3 plus the 3 months of 2021 Q4 plus the 3 months of 2022 Q1 divided by 3 and then times 4;

- During the Consolidated EBITDA Annualization Period, the Facility will bear interest at the maximum rates for the ranges noted
- The Company, at its one-time option can choose to exit the Consolidated EBITDA Annualization Period and revert back to the original definition of Credit Agreement EBITDA and the Facility will bear interest at the applicable rates. For the fiscal period ending June 30, 2022 ("2022 Q2"), the Credit Agreement EBITDA will revert back to the trailing 12-month calculation

The Facility also features the following amendments:

- There is no cap in place and the Company has access to the full $12,000 facility [NTD do we need to say Dec13-2020 - $10,000?];
- Aggregate capital expenditures (excluding non-cash utilization of existing inventory) for the fiscal year ended December 31, 2021, are not to exceed $6,000 [NTD: Do we need to say Dec31-2020 - $4,000?]; and
- Consolidated funded debt to tangible net worth ("TNW") ratio will no longer be tested after 2021 Q2.

The financial covenants associated with the Facility that will be tested commencing 2021 Q3 are:

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

Compliance with Facility covenants

At June 30, 2021, the Company had drawn $2,304 of its bank facility and had $855 in cash. For 2021 Q2, the consolidated funded debt to consolidated Credit Agreement EBITDA ratio and the consolidated interest coverage ratio are waived. The TNW ratio is to be no more than 15% for 2021 Q2. 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.

Consolidated funded debt of $4,249 includes six outstanding letters of credit ("LOC") totaling $1,827. TNW was $33,694.

The calculation of the financial covenants under the Facility as at June 30, 2021 is as follows:

Covenant	Actual Ratio	Required Ratio
Consolidated funded debt to TNW ratio	12.6%	15.0% (maximum)

The Company was in compliance with all covenants at June 30, 2021.

Current facility - Highly Affected Sectors Credit Availability Program ("HASCAP")

In conjunction with the credit relief referenced above, the Company applied for and received a further $1,000 of liquidity from HASCAP. The incremental $1,000 non-revolving loan is fully drawn and further augments Cathedral's liquidity to $13,000 in combination with the Company's ability to access the full $12,000 Facility. The demand loan has an interest rate of 4% and is amortized over a ten-year period. Repayment terms are interest only for the first year, and principal plus interest for the remaining nine years, payable on a monthly basis. The HASCAP Loan is secured by a general security interest over all present and after acquired personal property of the Company granted in favour of ATB.

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 June 30, 2021, the Company has commitments to purchase equipment of $572 which is expected to be incurred in 2021 Q3 and Q4.

The Company has issued the following six 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 reduce to $500 for the last five years of the leases. The third LOC is currently for $629 USD and increases annually based upon annual changes in rent;
- two securing the Company's corporate credit cards in the amounts of $75 CAD and $175 USD; and
- one in lieu of cash deposit for utilities in the amounts of $55 CAD.

Subsequent event On July 23, 2021, the Company announced the closing of Cathedral's acquisition of Precision's directional drilling business (the "Transaction") for a purchase price of $6,350. The Transaction includes the operating assets and personnel of Precision's directional drilling business (including its operations facility in Nisku, Alberta), along with a $3,000 cash investment by Precision to support growth and expansion of Cathedral, including continuing the buildout of RapidFire™ measurement-while-drilling guidance systems and nDurance™ drilling motors. Additionally, the Transaction is expected to enhance margins as expenses related to rental equipment used by Precision are replaced with proprietary Cathedral tools.

Cathedral issued 13,400,000 common shares (the "Consideration Shares") along with warrants to purchase an additional 2,000,000 common shares of Cathedral at a price of $0.60 per common share within a two-year period after closing. In addition to a 4-month statutory hold period on the Consideration Shares, the parties have agreed to contractual restrictions on resale as follows: 25% of the Consideration Shares are restricted until January 22, 2022; a further 25% of the Consideration Shares are restricted until July 22, 2022; and a further 50% of the Consideration Shares are restricted until July 22, 2023, subject to certain exceptions.

As part of the Transaction, Cathedral and Precision have entered into a strategic marketing alliance (the "Alliance"), which is expected to produce new U.S. and Canadian customer opportunities for Cathedral as well as potential integrated service offerings for customers. The Alliance is expected to support both parties' technology initiatives and lead the future of directional drilling. Precision's market leading Alpha™ digital technologies (AlphaApps, AlphaAutomation and AlphaAnalytics) are focused on automation and drilling performance and pair well with Cathedral's premium downhole equipment and directional drilling expertise.

Share capital At August 10, 2021, the Company has 76,725,949 common shares, 2,575,000 common share purchase warrants outstanding with a weighted average exercise price of $0.52 and 4,379,600 options outstanding with a weighted average exercise price of $0.61.

In 2021, the Company has issued 1,385,000 stock options to staff with exercise prices ranging from $0.18 to $0.31 per option.

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: higher levels of drilling activity in the back half of 2021 and into 2022; Q3 Canadian activity is expected to rival or exceed rig counts witnessed in the first quarter; if commodity prices continue at these levels some industry analysts and observers are predicting as much as a 25%+ improvement in overall activity levels in 2022 versus 2021; we anticipate a tight labour market in Canada in Q3 and Q4 with increased pressure on labour costs, accompanied by an improving pricing environment; with the track record and experience of our newly hired U.S. management and sales team we are confident our activity levels relative to the overall market will improve going forward; the $3,000 cash from the Precision transaction will allow us to expand our high-performance motor fleet and to increase our RapidFire™ MWD system job capacity to 18 from the 12 previously announced; we are confident the combination of capabilities and expertise of both companies will create value for our customers and that our Marketing Alliance and partnership with Precision will deliver a mechanism for additional growth and expansion; we will continue to execute our growth strategies while maintaining a low leverage profile; we feel well positioned financially and operationally to capitalize on the growing demand for our services in the coming quarters; and projected capital expenditures and commitments and the financing thereof.

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

Various material factors and assumptions are typically applied in drawing conclusions or making the forecasts or projections set out in forward-looking statements. Those material factors and assumptions are based on information currently available to the Company, including information obtained from third party industry analysts and other third party sources. In some instances, material assumptions and material factors are presented elsewhere in this 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 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 news release and in the Company's Annual Information Form under the heading "Risk Factors". Any forward-looking statements are made as of the date hereof and, except as required by law, the Company assumes no obligation to publicly update or revise such statements to reflect new information, subsequent or otherwise.

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

NON-GAAP MEASUREMENTS

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

The specific measures being referred to include the following:

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

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

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).

The following tables provide reconciliations from GAAP measurements to non-GAAP measurements referred to in this news release:

Adjusted gross margin

	Three months ended June 30		Six months ended June 30	
	2021	2020	2021	2020
Gross margin	$ (3,624)	$ (3,216)	$ (4,099)	$ (5,306)
Add non-cash items included in cost of sales:				
Depreciation	2,825	3,540	5,712	7,916
Share-based compensation	26	18	34	39
Adjusted gross margin	$ (773)	$ 342	$ 1,647	$ 2,649
Adjusted gross margin %	-11%	4%	9%	9%

Adjusted EBITDAS

	Three months ended June 30		Six months ended June 30	
	2021	2020	2021	2020
Loss before income taxes	$ (5,846)	$ (3,941)	$ (7,932)	$ (18,064)
Add:				
Depreciation included in cost of sales	2,825	3,540	5,712	7,916
Depreciation included in selling, general and administrative expenses	133	147	267	279
Share-based compensation included in cost of sales	26	18	34	39
Share-based compensation included in selling, general and administrative expenses	28	46	49	87
Finance costs	106	89	189	118
Finance costs lease liabilities	201	239	410	477
Subtotal	(2,527)	138	(1,271)	(9,148)
Impairment and direct write-downs	-	-	-	6,994
Unrealized foreign exchange (gain) loss on intercompany balances	(472)	(1,104)	(918)	1,360
Non-recurring expenses	316	143	328	1,029
Total Adjusted EBITDAS	$ (2,683)	$ (823)	$ (1,861)	$ 235

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2021 and 2020
Dollars in '000s
(unaudited)

		June 30 2021		December 31 2020
Assets				
Current assets:				
Cash	$	855	$	1,034
Trade receivables		6,106		4,784
Prepaid expenses		793		709
Inventories		7,509		8,118
Total current assets		15,263		14,645
Equipment		32,188		35,620
Intangible assets		1,867		2,244
Right of use asset		10,853		11,771
Total non-current assets		44,908		49,635
Total assets	$	60,171	$	64,280
Liabilities and Shareholders' Equity				
Current liabilities:				
Trade and other payables	$	5,378	$	4,425
Current taxes payable		95		140
Loans and borrowings, current		1,000		-
Lease liabilities, current		2,171		2,247
Liability for settlements, current		74		153
Total current liabilities		8,718		6,965
Loans and borrowings		2,304		1,560
Lease liabilities, long-term		14,560		15,781
Total non-current liabilities		16,864		17,341
Total liabilities		25,582		24,306
Shareholders' equity:				
Share capital		91,520		88,155
Contributed surplus		11,182		11,071
Accumulated other comprehensive income		8,411		9,340
Deficit		(76,524)		(68,592)
Total shareholders' equity		34,589		39,974
Total liabilities and shareholders' equity	$	60,171	$	64,280

Notice of No Auditor Review of Unaudited Condensed Consolidated Interim Financial Statements
Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated interim financial statements of Cathedral Energy Services Ltd. (the "Company") have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these unaudited condensed consolidated interim financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

Three and six months ended June 30, 2021 and 2020
Dollars in '000s except per share amounts
(unaudited)

	Three months ended June 30		Six months ended June 30	
	2021	2020	2021	2020
Revenues	$ 7,322	$ 8,841	$ 18,687	$ 28,136
Cost of sales:				
Direct costs	(8,095)	(8,499)	(17,040)	(25,487)
Depreciation	(2,825)	(3,540)	(5,712)	(7,916)
Share-based compensation	(26)	(18)	(34)	(39)
Total cost of sales	(10,946)	(12,057)	(22,786)	(33,442)
Gross margin	(3,624)	(3,216)	(4,099)	(5,306)
Selling, general and administrative expenses:				
Direct costs	(2,120)	(1,621)	(3,730)	(4,258)
Depreciation	(133)	(147)	(267)	(279)
Share-based compensation	(28)	(46)	(49)	(87)
Total selling, general and administrative expenses	(2,281)	(1,814)	(4,046)	(4,624)
	(5,905)	(5,030)	(8,145)	(9,930)
Technology group expenses	(162)	(205)	(350)	(735)
Gain on disposal of equipment	56	515	244	1,519
Loss from operating activities	(6,011)	(4,720)	(8,251)	(9,146)
Finance costs	(106)	(89)	(189)	(118)
Finace costs lease liabilities	(201)	(239)	(410)	(477)
Foreign exchange gain (loss)	472	1,107	918	(1,329)
Impairment and direct w rite-dow ns	-	-	-	(6,994)
Loss before income taxes	(5,846)	(3,941)	(7,932)	(18,064)
Income tax recovery (expense):				
Current	-	-	-	1,187
Deferred	-	126	-	472
Total income tax recovery (expense)	-	126	-	1,659
Loss	(5,846)	(3,815)	(7,932)	(16,405)
Other comprehensive income (loss):				
Foreign currency translation differences for foreign operations	-	(1,454)	(453)	2,051
Total comprehensive loss	$ (5,846)	$ (5,269)	$ (8,385)	$ (14,354)
Loss per share				
Basic	$ (0.11)	$ (0.08)	$ (0.15)	$ (0.33)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Three and six months ended June 30, 2021 and 2020
Dollars in '000s
(unaudited)

	Three months ended June 30		Six months ended June 30	
	2021	2020	2021	2020
Cash provided by (used in):				
Operating activities:				
Loss	$ (5,846)	$ (3,815)	$ (7,932)	$ (16,405)
Items not involving cash				
Depreciation	2,958	3,687	5,979	8,195
Share-based compensation	54	64	83	126
Income tax recovery	-	(126)	-	(1,659)
Gain on disposal of equipment	(56)	(515)	(244)	(1,519)
Finance costs	106	89	189	118
Finance costs lease liability	201	239	410	477
Unrealized foreign exchange (gain) loss on intercompany balances	(478)	(1,104)	(922)	1,360
Impairment and direct write-downs	-	-	-	6,994
Cash flow - continuing operations	(3,061)	(1,481)	(2,437)	(2,313)
Changes in non-cash operating working capital	1,212	839	180	(241)
Income taxes paid	(43)	1	(43)	(30)
Cash flow - operating activities	(1,892)	(641)	(2,300)	(2,584)
Investing activities:				
Equipment additions	(738)	86	(1,329)	(769)
Intangible asset additions	-	26	-	(212)
Proceeds on disposal of equipment	77	610	298	1,786
Changes in non-cash investing working capital	272	(55)	(117)	(58)
Cash flow - investing activities	(389)	667	(1,148)	747
Financing activities:				
Proceeds on share issue	3,163	-	3,393	-
Advances on loans and borrowings	1,586	-	3,659	-
Repayments on loans and borrowings	(1,915)	-	(1,915)	-
Repayments of lease liabilities	(585)	(622)	(1,165)	(1,210)
Interest paid	(307)	(328)	(599)	(595)
Payment on settlements	(37)	-	(75)	(42)
Cash flow - financing activities	1,905	(950)	3,298	(1,847)
Effect of exchange rate on changes on cash	(15)	(174)	(29)	208
Change in cash	(391)	(1,098)	(179)	(3,476)
Cash, beginning of period	1,246	4,845	1,034	7,223
Cash, end of period	$ 855	$ 3,747	$ 855	$ 3,747

NOT FOR DISSEMINATION IN THE UNITED STATES OF AMERICA

Requests for further information should be directed to:

Tom Connors, President, Chief Executive Officer, Ian Graham Chief Financial Officer or Randy Pustanyk, Executive Vice President

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Cathedral Energy Services Ltd., based in Calgary, Alberta is incorporated under the Business Corporations Act (Alberta) and operates in the U.S. under Cathedral Energy Services Inc. Cathedral 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.