2017 Q2 INTERIM REPORT

FINANCIAL HIGHLIGHTS

Dollars in 000's except per share amounts

	Three months ended June 30		Six months ended June 30	
	2017	2016	2017	2016
Revenues	$ 34,355	$ 14,624	$ 72,678	$ 33,368
Adjusted gross margin % (1)	15.0%	15.0%	19%	21%
Adjusted EBITDAS (1)	$ 2,363	$ (1,638)	$ 9,159	$ (162)
Diluted per share	$ 0.05	$ (0.05)	$ 0.20	$ -
As % of revenues	7%	-11%	13%	0%
Funds from (used in) continuing operations (1)	$ 1,664	$ (1,799)	$ 5,653	$ (1,632)
Diluted per share	$ 0.03	$ (0.05)	$ 0.12	$ (0.04)
Gain on disposal of foreign subsidiary	$ -	$ -	$ -	$ 10,865
Earnings (loss) before income taxes	$ 54	$ (8,581)	$ 4,026	$ 2,429
Basic and diluted per share	$ -	$ (0.24)	$ 0.09	$ 0.07
Net earnings (loss)	$ 186	$ (6,916)	$ 2,767	$ 2,767
Basic and diluted per share	$ -	$ (0.19)	$ 0.06	$ 0.08
Equipment additions - cash basis	$ 2,511	$ 70	$ 3,547	$ 338
Weighted average shares outstanding				
Basic (000s)	48,916	36,295	45,779	36,295
Diluted (000s)	49,023	36,295	45,917	36,295

	June 30 2017	December 31 2016
Working capital	$ 29,692	$ 39,324
Total assets	$ 122,175	$ 136,017
Loans and borrowings excluding current portion	$ 71	$ 26,322
Shareholders' equity	$ 105,151	$ 90,772

(1) Refer to "NON-GAAP MEASUREMENTS"

MANAGEMENT'S DISCUSSION & ANALYSIS

This Management's Discussion & Analysis ("MD&A") for the three and six months ended June 30, 2017 should be read in conjunction with the annual audited consolidated financial statements and notes thereto for the year ended December 31, 2016, as well as the MD&A in the 2016 Annual Report of Cathedral Energy Services Ltd. (the "Company" or "Cathedral"). This MD&A has been prepared as of August 10, 2017. Dollar amounts are in '000's except for day rates and per share amounts.

2017 Q2 KEY TAKEAWAYS

Q2 revenues increased 135% from $14,624 in 2016 Q2 to $34,355 in 2017 Q2 and year-to-date revenues increased 118% from $33,368 in 2016 to $72,678 in 2017.

Q2 adjusted EBITDAS increased from negative $(1,638) in 2016 Q2 to positive $2,363 in 2017 Q2. Year-to-date adjusted EBITDAS increased from negative $(162) in 2016 to $9,159 in 2017.

OUTLOOK

The second quarter for oilfield services companies with Canadian operations is generally challenging due to very low activity levels resulting from the seasonal spring break-up in Canada. Relative to second quarter results from continuing operations in 2015 and 2016 we were pleased with our performance in 2017 Q2. Revenues were up significantly compared to the prior year's comparative quarters and our Adjusted EBITDAS were firmly positive as compared to negative amounts in the prior years. These improvements are due to significantly increased activity levels in 2017 particularly in the United States ("U.S.") along with our continued focus on operational efficiencies and business improvements across the entire company.

Of note in 2017 Q2 was that our U.S. drilling activity days was similar to 2017 Q1 despite the fact that the average U.S. rig count increased 20% from Q1 to Q2. This resulted in our U.S. market share dropping in the quarter. There are a number of reasons for this. The primary reason was equipment capacity constraints in the quarter which were a result of our ability to repair, replace and invest in new equipment quickly enough to meet increased industry demand. Much of this is related to us, and our supply chain, needing to ramp up our businesses quickly in the face of a U.S. rig count that more than doubled from 421 active rigs at the end of June 2016 to 940 active rigs at the end of June 2017 (source: Baker Hughes).

A contributing factor impacting our equipment capacity has been damaged equipment and equipment lost-in-hole. Directional drilling equipment is getting pushed harder and faster than in the past as a result of customers drilling faster with longer laterals. With the higher rates of wellbore penetration being demanded, equipment is being subjected to a more severe drilling environment. These increased equipment demands are necessitating more frequent repairs and upgrades than in the past and in part is contributing to higher equipment lost-in-hole frequency. This is certainly not an issue that is isolated only to Cathedral. However, the good news is that based on Cathedral having our own equipment and doing our own repairs we are able to react to these demands faster. Our Drilling Engineering Services and Sales teams have also been working with customers to improve drilling practices to help us better help them. In addition, we have also aggressively ramped up our capital spending program to alleviate the equipment constraints and expect our available capacity to start improving in late Q3. The lag time involved with deploying new equipment is a consequence of the lead times required to procure and manufacture equipment. Again we are fortunate that we have control over much of this process compared to competitors that procure their equipment from third party providers.

Another issue that impacted U.S. activity days in Q2 was us being more selective in the work we were undertaking. We chose to turn down opportunities where we could not achieve an adequate return on a fully costed basis (which includes consideration of an imputed capital charge on the equipment deployed). Customers have generally been very reluctant to give price increases or reimburse fully for equipment damages. Although U.S. day rates improved in the quarter, this was largely due to the mix of work involved. The ability to push through price increases was very tough in the quarter based on the negative outlook on oil prices that started in April, however, we have made progress with some customers who recognize our value.

The competitive environment in North America for directional drilling services remains fierce. From our perspective, some competitors appear willing to work at low margins in order to generate some cash contribution or are pricing aggressively in an effort to gain market share without fully considering the cost implications related to equipment repairs, upgrades and replacement. We fully believe that sticking to our drilling performance based strategy and our strong financial position will eventually carry the day. Our customer value proposition is delivering “Better Performance Every Day”, supported by our proprietary equipment, great people, drilling engineering services and size and scale.

As noted in our 2017 Q1 Outlook, our expectation was for continued commodity price volatility going forward and we certainly saw this in Q2. Through the second quarter, WTI pricing ranged from a high of $53 to a low of $42 USD/bbl. With pricing dipping into the low $40 USD/bbl range we started to see customers indicating they would pare back their capital spending or defer drilling programs. The result was a slowing in U.S. rig count growth starting in June. For Canadian clients the increase in the Canadian Dollar coupled with WTI price decrease further impairs their cash flow and ultimately their funds available for drilling. The consequence has been a challenged outlook for the oilfield services sector in general with most analysts reducing expectation for 2017 H2 and into 2018. Having said this, WTI prices have recently rebounded into the $50 bbl range. As goes the outlook on oil prices, so goes the rig count and directional drilling industry activity levels.

In the face of the current industry uncertainty, we continue to focus on managing our costs, securing profitable work and continuing to improve our business operations. On the sales side, we have strategies to help us achieve higher pricing for our services and we are deliberately focused on developing long-term relationships with key customers where our performance matters approach resonates. On the operations side, we are looking at ways to better manage our labor pool, keep our expenses in line and continue to deliver high quality service. Our technology group continues to make equipment improvements to our existing equipment and explore new products aimed at revenue generation and expense and capital cost reductions. Our investment in new and replacement equipment will improve our equipment capacity starting in 2017 H2 and into 2018.

2017 CAPITAL PROGRAM

During the six months ended June 30, 2017 the Company invested $3,547 (2016 - $338) in equipment. The following table details the current period’s net equipment additions:

		Six months ended June 30, 2017
Equipment additions:		
Grow th capital [(1)]	$	1,369
Maintenance capital [(1)]		1,538
Replacement capital [(1)]		640
Total cash additions		3,547
Less: proceeds on disposal of equipment (excluding capital lease settlements)		(4,103)
Net equipment additions [(1)]	$	(556)

(1) See "NON-GAAP MEASUREMENTS"

Cathedral's 2017 capital budget (“capex”) remains at $10,000 of net equipment additions[(1)] for the year. The $10,000 net capex plan for 2017 is comprised of $4,900 of replacement and maintenance capital and $5,100 of growth capital. The $4,900 amount, is substantially related for investment to replace items that have been lost-in-hole over the past two years and for equipment upgrades and replacements to improve the capacity of Cathedral’s existing Measurement-While-Drilling (“MWD”) and motor fleet. Over the past 2 years, Cathedral deferred replacement and maintenance capital expenditures in the face of low equipment utilization and in order to pay down debt. Subject to operating results and industry outlook, on a go forward basis equipment lost-in-hole will be replaced funded from the proceeds received. As such, Cathedral’s total capex in any year may exceed the above noted capex. The 2017 capital budget will be reviewed quarterly based on anticipated future activity levels and operating cash flow. Cathedral intends to finance its 2017 capital budget from cash flow from operations, proceeds from assets lost-in-hole, working capital (cash) and credit facility availability.

RESULTS OF OPERATIONS – THREE MONTHS ENDED JUNE 30

Revenues		2017		2016
Canada	$	4,914	$	3,286
United States		29,441		11,338
Total	$	34,355	$	14,624

Revenues 2017 Q2 revenues were $34,355, which represented an increase of $19,731 or 135% from 2016 Q2 revenues of $14,624. Both Canada and U.S. operations had increases due to improvements in overall drilling activity. In late 2016, due to a limited supply of the Company's proprietary motors, the Company made the decision to reduce the number of rental motors available in both Canada and the U.S. in favor of redirecting motors on jobs where both equipment and staff are deployed and the total cash flow contribution is typically higher. As a consequence motor rental revenue in both Canada and the U.S. were less in 2017 Q2 compared to 2016 Q2.

Canadian revenues (excluding motor rental revenues) increased to $4,143 in 2017 Q2 from $1,799 in 2016 Q2; a 130% increase. This increase was the result of: i) a 97% increase in activity days to 533 in 2017 Q2 from 271 in 2016 Q2; and ii) a 17% increase in the average day rate to $7,773 in 2017 Q2 from $6,638 in 2016 Q2. Partially offsetting the revenue increase was a decrease of $716 in motor rental revenue. Motor rental revenues for 2017 Q2 were $771 (2016 Q2 - $1,487).

The average active land rig count in Canada was up 141% in 2017 Q2 compared to 2016 Q2. During the spring break-up that occurs in Canada every Q2, it is challenging to correlate the Company's activity levels and the land rig count due to the smaller group of producers who are drilling and types of drilling activity. The increases in day rates was in part due to the type of work performed in addition to $581 related to expense recoveries with certain customers that are not expected to recur. Due to the limited activity levels in Q2, day rates are not comparable to other quarters as the fewer number of jobs can impact the day rate more significantly than in other quarters.

U.S. Directional Drilling revenues (excluding motor rental revenues) increased to $29,243 in 2017 Q2 from $10,431 in 2016 Q2; a 180% increase. This increase was the result of: i) a 157% increase in activity days to 2,531 in 2017 Q2 from 984 in 2016 Q2; and ii) a 9% increase in the average day rate to $11,554 in 2017 Q2 from $10,601 in 2016 Q2 (when converted to Canadian dollars). All U.S. operating areas saw increases in activity days.

The average active land rig count for the U.S. was up 121% in 2017 Q2 compared to 2016 Q2. Due to efforts of sales and marketing staff and performance on client jobs, the Company was able to increase market share compared to 2016 Q2. Day rates in USD increased to $8,588 USD in 2017 Q2 from $8,228 USD in 2016 Q2; a 4% increase. U.S. day rates were up due to the mix of work performed by the U.S. division, including providing footage drilling services to certain clients, which can result in higher relative day rates. U.S. motor rental revenues for 2017 Q2 were $198 compared to $907 in 2016 Q2.

Gross margin and adjusted gross margin Gross margin for 2017 Q2 was 7% compared to negative (6)% in 2016 Q2. Adjusted gross margin (see Non-GAAP Measurements) for 2017 Q2 was $5,073 or 15% compared to $2,141 or 15% for 2016 Q2.

Adjusted gross margin, as a percentage of revenue, remained unchanged, but the composition of cost of sales changed. Contrasted with the comparable quarter in 2016 there were increases in field labour rates and higher equipment rentals. These increases were offset by a reduction in the fixed component of cost of sales which were 11% lower on a percentage of revenue basis in 2017 Q2 compared to 2016 Q2. The decrease in the fixed component of cost of sales as a percentage of revenue was mostly attributable to increase in revenues, however there were increases in costs largely related to salaries and other labour related costs.

Depreciation allocated to cost of sales decreased to $2,774 in 2017 Q2 from $3,097 in 2016 Q2. Depreciation included in cost of sales as a percentage of revenue was 8% for 2017 Q2 and 21% in 2016 Q2.

Selling, general and administrative expenses ("SG&A") SG&A expenses were $4,110 in 2017 Q2; an increase of $594 compared with $3,516 in 2016 Q2. As a percentage of revenue, SG&A was 12% in 2017 Q2 compared to 24% in 2016 Q2.

Excluding the non-cash items of depreciation and share-based compensation, SG&A was $4,036 in 2017 Q2 compared to $3,453 in 2016 Q2, an increase of $583 or 17%. SG&A increased primarily due to increases to staff costs commensurate with increased activity levels and U.S. sales taxes on intercompany charges. Staff costs included in SG&A include executive, sales, accounting, human resources, payroll, safety, technology support and related support staff.

Gain on disposal of equipment During 2017 Q2, the Company had a gain on disposal of equipment of $1,277 compared to $141 in 2016 Q2. These gains mainly relate to equipment lost-in-hole. Proceeds from clients on lost-in-hole equipment are based on amounts specified in service agreements and, in most cases; these proceeds exceed the net book value of the equipment and result in a gain. The timing of lost-in-hole recoveries is not in the control of the Company and therefore can fluctuate significantly from quarter-to-quarter.

Finance costs Finance costs which consist of interest expenses on operating loans, loans and borrowings and bank charges were $96 for 2017 Q2 versus $407 for 2016 Q2. The decrease in finance costs relate to repayments of loans in 2017 Q1 and decrease in the interest rates.

Foreign exchange The Company had a foreign exchange gain of $699 in 2017 Q2 compared to a loss of $(56) in 2016 Q2 due to the fluctuations of the Canadian dollar relative to the U.S. dollar. The Company's foreign operations are denominated in a currency other than the Canadian dollar and therefore, upon consolidation, gains and losses due to fluctuations in the foreign currency exchange rates are recorded 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 2017 Q2 foreign currency gains are unrealized gain of $682 (2016 Q2 – loss of $(24)) related to intercompany balances.

Provision for settlement In 2016 Q2, the Company entered into a Settlement Agreement and Release (the "Settlement Agreement") in respect of two wage and hour lawsuits (the "Collective Actions") that were filed against the Company's wholly owned U.S. subsidiary ("INC"). The Collective Actions alleged that INC employed or contracted MWD and Directional Drilling ("DD") operators were entitled to recover unpaid or incorrectly calculated overtime wages under the Fair Labor Standards Act ("FLSA").

The Settlement Agreement resolved all claims from INC employed and contracted MWD and DD operators. Under the terms of the Settlement Agreement, the parties established an initial settlement fund of up to $3,400 USD. The final determination of the settlement fund amount was based on the number of claimants that participated in the settlement at the end of December 2016, which under the terms of the Settlement Agreement is confidential. The settlement fund payments will be paid quarterly by the Company over a three-year period with the final payment due on or before September 2019. The quarterly payments may be accelerated in the event Cathedral meets certain financial targets over the payment period ("accelerated FLSA settlement payments") and can be deferred if a scheduled payment would put Cathedral in violation of its credit facility covenants subject to not more than three payments being deferred. Any FLSA settlement fund payments made by Cathedral exceeding $200 USD are subject

to the approval of Cathedral's banking syndicate.

In 2017 Q1, the Company entered into a confidential settlement agreement with one of its U.S. clients related to a down-hole drilling incident, which impacted two of their wells in December 2013. The settlement is payable based on an initial payment in 2017 Q1 and the remainder in quarterly installments concluding in 2021.

Any settlement fund payments made by Cathedral are subject to the approval of Cathedral's banking syndicate. During 2017 Q2, payments on both settlements of $1,156 were made. This amount includes accelerated FLSA settlement payments described previously.

Income tax For 2017 Q2, the Company had an income tax recovery of $149 compared to recovery of $2,660 in 2016 Q2. As the provision is calculated on year-to-date basis the current consolidated effective tax rate is not meaningful as there is a loss before tax in one country and income before tax in another. Income tax expense is booked based upon expected annualized effective rates.

Net loss from discontinued operations In 2016 Q4, the Company made the decision to sell its Flowback and Production Testing ("F&PT") assets and focus its attention and resources fully on the directional drilling business where it believes it has a strong competitive advantage and better future growth prospects. The proceeds from this sale were used to pay down debt. As such, operating results for the F&PT business have been included in the statements of comprehensive income and statements of cash flows as discontinued operations. For 2017 Q2, the net loss from discontinued operations was $(17) compared to $(995) net loss for 2016 Q2.

RESULTS OF OPERATIONS – SIX MONTHS ENDED JUNE 30

Revenues		2017		2016
Canada	$	15,380	$	8,949
United States		57,298		24,419
Total	$	72,678	$	33,368

Revenues 2017 revenues were $72,678, which represented an increase of $39,310 or 118% from 2016 revenues of $33,368. Both Canada and U.S. operations had increases due to an improvement in overall drilling activity. In late 2016, due to a limited supply of the Company's proprietary motors, the Company made the decision to reduce the number of rental motors available in both Canada and the U.S. in favor of redirecting motors on jobs where both equipment and staff are deployed and the total cash flow contribution is typically higher. As a consequence motor rental revenue in both Canada and the U.S. were less in 2017 compared to 2016.

Canadian revenues (excluding motor rental revenues) increased to $13,450 in 2017 from $5,153 in 2016; a 161% increase. This increase was the result of: i) a 153% increase in activity days to 1,956 in 2017 from 772 in 2016; and ii) a 3% increase in the average day rate to $6,876 in 2017 from $6,675 in 2016. Partially offsetting the revenue increase was a decrease of $1,866 in motor rental revenue. Motor rental revenues for 2017 were $1,930 (2016 - $3,796).

The average active land rig count in Canada was up 100% in 2017 compared to 2016. The increase in the Company's activity days relative to the active rigs drilling was a result of sales and marketing efforts and the Company demonstrating performance on client jobs. The slight increases in day rates was due to the mix of work performed.

U.S. Directional Drilling revenues (excluding motor rental revenues) increased to $56,821 in 2017 from $22,408 in 2016; a 154% increase. This increase was the result of: i) a 160% increase in activity days to 5,096 in 2017 from 1,963 in 2016; net of ii) a 2% decrease in the average day rate to $11,150 in 2017 from $11,415 in 2016 (when converted to Canadian dollars). All U.S. operating areas saw increases in activity days.

The average active land rig count for the U.S. was up 72% in 2017 compared to 2016. Again, due to efforts of sales and marketing staff and performance on client jobs, the Company was able to increase market share compared to 2016. Day rates in USD fell to $8,350 USD in 2017 from $8,566 USD in 2016; a 3% decline. U.S. day rates decreases were partially offset by the U.S. division providing footage drilling services to certain clients, which can result in higher relative day rates. U.S. motor rental revenues for 2017 were $477 compared to $2,011 in 2016.

Gross margin and adjusted gross margin Gross margin for 2017 was 11% compared to 3% in 2016. Adjusted gross margin (see Non-GAAP Measurements) for 2017 was $13,559 or 19% compared to $7,090 or 21% for 2016.

Adjusted gross margin, as a percentage of revenue, decreased due to increases in field labour rates and higher equipment rentals on a percentage of revenue basis. These increases were offset by a reduction in the fixed component of cost of sales which were 12% lower on a percentage of revenue basis in 2017 compared to 2016. The decrease in the fixed component of cost of sales as a percentage of revenue was mostly attributable to increase in revenues, however there were increases in costs largely related to salaries and other labour related costs.

Depreciation allocated to cost of sales decreased to $5,380 in 2017 from $6,208 in 2016. Depreciation included in cost of sales as a percentage of revenue was 7% for 2017 and 19% in 2016.

Selling, general and administrative expenses ("SG&A") SG&A expenses were $7,933 in 2017; an increase of $146 compared with $7,787 in 2016. As a percentage of revenue, SG&A was 11% in 2017 compared to 23% in 2016.

Excluding the non-cash items of depreciation and share-based compensation, SG&A was $7,787 in 2017 compared to $7,641 in 2016, an increase of $146 or 2%. SG&A increased primarily due to increases to U.S. sales taxes on intercompany charges.

Gain on disposal of equipment During 2017, the Company had a gain on disposal of equipment of $3,291 compared to $1,032 in 2016. These gains mainly relate to equipment lost-in-hole. Proceeds from clients on lost-in-hole equipment are based on amounts specified in service agreements and, in most cases; these proceeds exceed the net book value of the equipment and result in a gain. The timing of lost-in-hole recoveries is not in the control of the Company and therefore can fluctuate significantly from quarter-to-quarter.

Finance costs Finance costs consist of interest expenses on operating loans, loans and borrowings and bank charges of $398 for 2017 versus $786 for 2016. The decrease in finance costs relate to repayments of loans in 2017 Q1 and decrease in the interest rates.

Foreign exchange The Company had a foreign exchange gain of $917 in 2017 compared to $2,298 in 2016 due to the fluctuations of the Canadian dollar relative to the U.S. dollar. The Company's foreign operations are denominated in a currency other than the Canadian dollar and therefore, upon consolidation, gains and losses due to fluctuations in the foreign currency exchange rates are recorded 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 2017 foreign currency gains are unrealized gain of $874 (2016 –$2,340) related to intercompany balances.

Gain on disposal of foreign subsidiary During 2016 Q1, the Company completed the sale of its wholly-owned Barbados subsidiary for net proceeds of $nil which resulted in a non-cash gain on sale of $10,865. The subsidiary held the Company's investment in Venezuela and this sale completed Cathedral's exit from carrying on a business in Venezuela.

Provision for settlement In 2016, the Company entered into the Settlement Agreement in respect of the Collective Actions that were filed against the Company's wholly owned subsidiary, INC. The Collective Actions alleged that INC employed or contracted MWD and DD operators were entitled to recover unpaid or incorrectly calculated overtime wages under FLSA.

The Settlement Agreement resolved all claims from INC employed and contracted MWD and DD operators. Under the terms of the Settlement Agreement, the parties established an initial settlement fund of up to $3,400 USD. The final determination of the settlement fund amount was based on the number of claimants that participated in the settlement at the end of December 2016, which under the terms of the Settlement Agreement is confidential. The settlement fund payments will be paid quarterly by the Company over a three-year period with the final payment due on or before September 2019. The quarterly payments may be accelerated in the event Cathedral meets certain financial targets over the payment period and can be deferred if a scheduled payment would put Cathedral in violation of its credit facility covenants subject to not more than three payments being deferred. Any FLSA settlement fund payments made by Cathedral exceeding $200 USD are subject to the approval of Cathedral's banking syndicate.

In 2017 Q1, the Company entered into a confidential settlement agreement with one of its U.S. clients related to a down-hole drilling incident, which impacted two of their wells in December 2013. The settlement is payable based on an initial payment in 2017 Q1 and the remainder in quarterly installments concluding in 2021.

Any settlement fund payments made by Cathedral are subject to the approval of Cathedral's banking syndicate. During 2017, payments on both settlements of $1,824 were made. This amount includes accelerated FLSA settlement payments described previously.

Income tax For 2017, the Company had an income tax expense of $1,124 compared to recovery of $(2,753) in 2016. Excluding adjustments to prior years' tax provisions, the effective tax rate was 29% for 2017. Excluding the non-cash gain on disposal of foreign subsidiary but including the loss from discontinued operations, the effective tax rate was 37% for 2016. Income tax expense is booked based upon expected annualized effective rates.

Net loss from discontinued operations In 2016 Q4, the Company made the decision to sell its F&PT assets and focus its attention and resources fully on the directional drilling business where it believes it has a strong competitive advantage and better future growth prospects. The proceeds from this sale were used to pay down debt. As such, operating results for the F&PT business have been included in the statements of comprehensive income and statements of cash flows as discontinued operations. For 2017, the net loss from discontinued operations was $(135) compared to $(2,415) net loss for 2016.

LIQUIDITY AND CAPITAL RESOURCES

Overview On an annualized basis the Company's principal source of liquidity is cash generated from operations. In addition, the Company has the ability to fund liquidity requirements through its credit facility and the issuance of debt and/or equity. For the six months ended June 30, 2017, the Company had funds from continuing operations (see Non-GAAP Measurements) of $5,653 (2016 – use of funds $(1,632)). The increase in funds related to continuing operations is due to the increase in activity levels.

During 2017 Q1 the Company completed two major transactions that had a material impact on its outstanding debt. In January, the Company completed the sale of its F&PT assets for net proceeds of $17,241. On February 15, 2017, the Company closed a bought deal public offering and insider private placement financing for total gross proceeds of $14,130. As a result of these transactions, in 2017 Q1 the Company reduced its loans and borrowings by $26,315 which included a complete repayment of revolving term loan of $26,250. Cash balances as at June 30, 2017 were $4,138.

Working capital At June 30, 2017 the Company had working capital of $29,692 (December 31, 2016 - $39,324) and a working capital ratio of 2.8 to 1 (December 31, 2016 – 3.3 to 1). The decrease in working capital level was primarily due to the sale of F&PT assets held for sale which had been classified as a current asset at December 31 in the amount of $17,241. Partially offsetting this was an increase in trade receivables of $3,981 from December 31, 2016. Upon closing of the F&PT sale on January 16, 2017, $17,200 of the revolving term loan was repaid.

Credit facility The Company has a committed revolving credit facility (the "Facility") that expires in December 2018. The Facility is secured by a general security agreement over all present and future personal property.

The current Facility has been amended seven times. These amendments have certain restrictions, including, but not limited to; paying dividends, utilization of the accordion feature, enhanced lender financial reporting and a cap on any litigation settlement payments without lender approval. As well, effective 2016 Q1, the Company includes lost-in-hole equipment proceeds in the definition of Bank EBITDA (as defined in the credit agreement).

The financial covenants associated with the amended Facility are as follows:

Quarter ending:	Maximum Funded Debt to Bank EBITDA Ratio	Minimum Debt Service Ratio
June 30, 2017	3.5:1	2.5:1
September 30, 2017	3.5:1	3.0:1
December 31, 2017	3.25:1	3.0:1
June 30, 2018 and thereafter	3.0:1	3.0:1

Additionally, there is a minimum working capital ratio of 1.25:1.

The Seventh Amending Agreement, dated January 16, 2017, reduced the aggregate commitment to $23,000 after $17,200 was repaid upon the sale of F&PT assets and the maturity date was extended to December 2018.

After the amendments discussed above, the Facility bears interest at the bank's prime rate plus 0.50% to 5.00% or bankers' acceptance rate plus 1.75% to 6.25% with interest payable monthly. Interest rate spreads for the Facility depend on the level of funded debt to the 12 month trailing Bank 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.

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

At June 30, 2017, the Company had cash balances in excess of outstanding letters of credit and capital lease obligations. As such its funded debt to bank EBITDA ratio ("Funded debt ratio") was negative (i.e. net cash balance). As such, the Funded debt ratio has been met, but is not meaningful ("NM") for presentation. For the twelve months ended June 30, 2017 Bank EBITDA was $16,869.

The Company's financial ratios at June 30, 2017 were:

Ratio	Actual	Required
Funded debt to Bank EBITDA ratio	NM	3.5:1 Maximum
Debt service ratio	7.9:1	2.0:1 Minimum
Working capital ratio	2.8:1	1.25:1 Minimum

Contractual obligations In the normal course of business, the Company incurs contractual obligations and those obligations are disclosed in the Company's MD&A for the year ended December 31, 2016. As at June 30, 2017, the Company had a commitment to purchase approximately $1,449 of equipment.

Share capital At August 10, 2017, the Company has 48,916,451 common shares and 2,391,750 options outstanding with a weighted average exercise price of $1.48.

CONTROLS AND PROCEDURES

The Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") are responsible for designing disclosure controls and procedures ("DC&P") and internal controls over financial reporting ('ICFR') as defined in National Instrument 52-109 Certification of Disclosure in Issuer's Annual and Interim Filings ("52-109"), or causing them to be designed under their supervision, in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

Cathedral's DC&P have been designed to provide reasonable assurance that material information relating to Cathedral is made known to the CEO and the CFO by others and that information required to be disclosed by Cathedral in its annual filings, interim filings or other reports filed or submitted by Cathedral under securities legislation is recorded, processed, summarized and reported within the time periods specified in applicable securities legislation.

Because of their inherent limitations, DC&P and ICFR may not prevent or detect all misstatements, errors or fraud. Control systems, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control systems are met.

The CEO and CFO have concluded that there have been no changes in internal controls for the period ended on June 30, 2017 that have materially affected, or are reasonably likely to materially affect, Cathedral's ICFR.

RISK FACTORS

The MD&A for the year ended December 31, 2016, which is included in the Company's 2016 Annual Report, includes an overview on risk factors associated with the Company and its operating entities. Those risk factors remain in effect as at June 30, 2017.

GOVERNANCE

The Audit Committee of the Board of Directors has reviewed this MD&A and the related unaudited condensed consolidated interim financial statements and recommended they be approved to the Board of Directors. Following a review by the full Board, the MD&A and financial statements were approved.

NEW AND FUTURE ACCOUNTING POLICIES

There were no other new or amended standards issued during the six months ended June 30, 2017 that are applicable to the Company in future periods. A description of standards and interpretations that will be adopted by the Company in future periods can be found in the notes to the consolidated financial statements for the year ended December 31, 2016.

SUMMARY OF QUARTERLY RESULTS

Three month periods ended	Jun 2017	Mar 2017	Dec 2016	Sep 2016	Jun 2016	Mar 2016	Dec 2015	Sep 2015
Revenues	$ 34,355	$ 38,323	$ 28,009	$ 19,489	$ 14,624	$ 18,744	$ 21,161	$ 26,366
Total Adjusted EBITDAS (1)	$ 2,363	$ 6,796	$ 3,829	$ 2,173	$ (1,638)	$ 1,476	$ (169)	$ 3,013
Adjusted EBITDAS (1) per share - diluted	$ 0.05	$ 0.16	$ 0.11	$ 0.06	$ (0.05)	$ 0.04	$ (0.00)	$ 0.08
Net earnings (loss)	$ 186	$ 2,581	$ (6,420)	$ (2,126)	$ (6,916)	$ 9,683	$ (10,500)	$ (8,852)
Net earnings (loss) per share - basic and diluted	$ 0.00	$ 0.06	$ (0.18)	$ (0.06)	$ (0.19)	$ 0.27	$ (0.29)	$ (0.24)
Dividends declared per share	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 0.04

(1) Refer to MD&A: see "NON-GAAP MEASURMENTS"

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: expect our available capacity to start improving in late Q3; strategies to help us secure higher pricing for our services and are deliberately focused on developing long term relationships with key customers were our performance matters approach resonates; investment in new and replacement equipment will improve our equipment capacity starting in 2017 H2 and into 2018; looking at ways to better manage our labor pool, keep our expenses in line and continue to deliver high quality service; technology group continues to make equipment improvements to our existing equipment and explore new products aimed at revenue generation and expense and capital cost reductions; projected capital expenditures and commitments and the financing thereof and Cathedral expects to comply with all covenants during 2017.

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 businesses, including current business and economic 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 market its services successfully to existing and new customers and reliance on major customers;
- risks associated with technology development and intellectual property rights;
- the ability of Cathedral to maintain safety performance;
- the ability of Cathedral to obtain timely financing on acceptable terms;
- the ability to obtain sufficient insurance coverage to mitigate operational risks;
- currency exchange and interest rates;
- risks associated with foreign operations;
- risks associated with acquisitions and business development efforts;
- environmental risks;
- changes under governmental regulatory regimes and tax, environmental and other laws in Canada and U.S.; and
- competitive risks.

Forward-looking statements are not a guarantee of future performance and involve a number of risks and uncertainties some of which are described herein. Such forward-looking statements necessarily involve known and unknown risks and uncertainties, which may cause the Company's actual performance and financial results in future periods to differ materially from any projections of future performance or results expressed or implied by such forward-looking statements. These risks and uncertainties include, but are not limited to, the risks identified in this 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 and Annual Report which have been filed with Canadian provincial securities commissions and are 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 oil and gas service companies. Investors should be cautioned, however, that these measures should not be construed as alternatives to measures determined in accordance with GAAP as an indicator of Cathedral's performance. Cathedral's method of calculating these measures may differ from that of other organizations, and accordingly, may not be comparable.

The specific measures being referred to include the following:

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

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

iii) "Total Adjusted EBITDAS" - defined as earnings before share of income/loss from associate, write-down/recovery on investment in associate finance costs, unrealized foreign exchange on intercompany balances, unrealized foreign exchange due to hyper-inflation accounting, taxes, non-recurring gains and losses on disposal of equipment (see non-GAAP measurement), depreciation, write-down of goodwill, write-down of equipment, write-down of inventory and share-based compensation; is considered an indicator of the Company's ability to generate funds flow from operations prior to consideration of how activities are financed, how the results are taxed and measured and non-cash expenses (see tabular calculation). This measure includes both discontinued F&PT operations and continuing Directional Drilling operations;

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

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

vi) "Funds from operations" - calculated as cash provided by operating activities before changes in non-cash working capital and income taxes paid less current tax expense; is considered an indicator of the Company's ability to generate funds flow from operations on an after tax basis but excluding changes in non-cash working capital which is financed using the Company's operating loan (see tabular calculation);

vii) "Growth equipment additions" or "Growth capital" – is capital spending which is intended to result in incremental revenues or decreased operating costs. Growth capital is considered to be a key measure as it represents the total expenditures on equipment expected to add incremental revenues and funds flow to the Company;

viii) "Maintenance equipment additions" or "Maintenance capital" – is capital spending incurred in order to refurbish or replace previously acquired other than "replacement equipment additions" described below. Such additions do not provide incremental revenues. Maintenance capital is a key component in understanding the sustainability of the Company's business as cash resources retained within Cathedral must be sufficient to meet maintenance capital needs to replenish the assets for future cash generation;

ix) "Replacement equipment additions" or "Replacement capital" – is capital spending incurred in order to replace equipment that is lost downhole. Cathedral recovers lost-in-hole costs including previously expensed depreciation on the related assets from customers. Such additions do not provide incremental revenues. The identification of replacement equipment additions is considered important as such additions are financed by way of proceeds on disposal of equipment (see discussion within the MD&A on "gain on disposal of equipment);

x) "Infrastructure equipment additions" or "Infrastructure capital" – is capital spending incurred on land, buildings and leasehold improvements. Infrastructure capital is a component in understanding the sustainability of the Company's business as cash resources retained within Cathedral must be sufficient to meet maintenance capital needs;

xi) "Non-recurring gains and losses on disposal of equipment" – are disposals of equipment that do not occur on a regular or periodic basis. Unlike the lost-in-hole recoveries, the proceeds from these gains are not used on equivalent replacement property. These are often on non-field equipment such as land and buildings;

xii) "Net equipment additions" – is equipment additions expenditures less proceeds on the regular disposal of equipment (the proceeds on sale of land and buildings have been excluded). Cathedral uses net equipment additions to assess net cash flows related to the financing of Cathedral's equipment additions; and

xiii) "Net debt" – is loans and borrowing less working capital. Management uses net debt as a metric to shows the Company's overall debt level.

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

Adjusted gross margin

	Three months ended June 30		Six months ended June 30	
	2017	2016	2017	2016
Gross margin	$ 2,284	$ (947)	$ 8,149	$ 880
Add non-cash items included in cost of sales:				
Depreciation	2,774	3,097	5,380	6,208
Share-based compensation	15	(9)	30	2
Adjusted gross margin	$ 5,073	$ 2,141	$ 13,559	$ 7,090
Adjusted gross margin %	15%	15%	19%	21%

Total Adjusted EBITDAS

	Three months ended June 30		Six months ended June 30	
	2017	2016	2017	2016
Earnings (loss) before income taxes	$ 54	$ (8,581)	$ 4,026	$ 2,429
Add:				
Depreciation included in cost of sales	2,774	3,097	5,380	6,208
Depreciation included in selling, general and administrative expenses	25	33	50	67
Share-based compensation included in cost of sales	15	(9)	30	2
Share-based compensation included in selling, general and administrative expenses	49	30	96	79
Finance costs	96	407	398	786
Subtotal	3,013	(5,023)	9,980	9,571
Unrealized foreign exchange (gain) loss on intercompany balances	(682)	24	(874)	(2,340)
Write-down of inventory	-	-	-	277
Provision for settlement	-	3,796	-	3,796
Gain on disposal of foreign subsidiary	-	-	-	(10,865)
Non-recurring expenses	49	33	176	469
Adjusted EBITDAS from continuing operations	2,380	(1,170)	9,282	908
Adjusted EBITDAS from discontinued operations	(17)	(468)	(123)	(1,070)
Total Adjusted EBITDAS	$ 2,363	$ (1,638)	$ 9,159	$ (162)

Funds from operations

	Three months ended June 30		Six months ended June 30	
	2017	2016	2017	2016
Cash flow - operating activities	$ 2,362	$ 2,942	$ 1,794	$ 7,098
Add (deduct):				
Changes in non-cash operating working capital	(1,051)	(4,616)	5,054	(8,851)
Income taxes recovered	(274)	(259)	(1,167)	(139)
Current tax recovery (expense)	627	134	(28)	260
Funds from (used in) operations	$ 1,664	$ (1,799)	$ 5,653	$ (1,632)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2017 and December 31, 2016

Dollars in '000s

(unaudited)

		June 30 2017		December 31 2016
Assets				
Current assets:				
Cash	$	4,138	$	1,898
Trade receivables		30,226		26,245
Current taxes recoverable		331		1,336
Prepaid expenses		1,444		1,611
Inventories		9,961		8,037
Assets held for sale (note 5)		-		17,241
Total current assets		46,100		56,368
Equipment (note 4)		65,643		68,158
Intangible assets		2,032		1,978
Deferred tax assets		8,400		9,513
Total non-current assets		76,075		79,649
Total assets	$	122,175	$	136,017
Liabilities and Shareholders' Equity				
Current liabilities:				
Operating loan	$	-	$	2,105
Trade and other payables		15,010		12,837
Loans and borrowings (note 6)		306		459
Provision for settlements, current (note 7)		1,092		1,643
Total current liabilities		16,408		17,044
Loans and borrowings (note 6)		71		26,322
Provision for settlements, long-term (note 7)		545		1,879
Total non-current liabilities		616		28,201
Total liabilities		17,024		45,245
Shareholders' equity:				
Share capital (note 8)		87,617		74,481
Contributed surplus		9,743		9,620
Accumulated other comprehensive income		9,724		11,371
Deficit		(1,933)		(4,700)
Total shareholders' equity		105,151		90,772
Total liabilities and shareholders' equity	$	122,175	$	136,017

See accompanying notes to condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

Three and six months ended June 30, 2017 and 2016
Dollars in '000s except per share amounts
(unaudited)

	Three months ended June 30		Six months ended June 30	
	2017	2016	2017	2016
				(see note 5)
Revenues	$ 34,355	$ 14,624	$ 72,678	$ 33,368
Cost of sales:				
Direct costs	(29,282)	(12,483)	(59,119)	(26,278)
Depreciation	(2,774)	(3,097)	(5,380)	(6,208)
Share-based compensation	(15)	9	(30)	(2)
Total cost of sales	(32,071)	(15,571)	(64,529)	(32,488)
Gross margin	2,284	(947)	8,149	880
Selling, general and administrative expenses:				
Direct costs	(4,036)	(3,453)	(7,787)	(7,641)
Depreciation	(25)	(33)	(50)	(67)
Share-based compensation	(49)	(30)	(96)	(79)
Total selling, general and administrative expenses	(4,110)	(3,516)	(7,933)	(7,787)
	(1,826)	(4,463)	216	(6,907)
Gain on disposal of equipment	1,277	141	3,291	1,032
Earnings (loss) from operating activities	(549)	(4,322)	3,507	(5,875)
Finance costs	(96)	(407)	(398)	(786)
Foreign exchange gain (loss)	699	(56)	917	2,298
Provision for settlement	-	(3,796)	-	(3,796)
Write-down of inventory	-	-	-	(277)
Gain on disposal of foreign subsidiary (note 9)	-	-	-	10,865
Earnings (loss) before income taxes	54	(8,581)	4,026	2,429
Income tax recovery (expense):				
Current	627	134	(28)	260
Deferred	(478)	2,526	(1,096)	2,493
Total income tax recovery (expense)	149	2,660	(1,124)	2,753
Net earnings (loss) from continuing operations	203	(5,921)	2,902	5,182
Net loss from discontinued operations (note 5)	(17)	(995)	(135)	(2,415)
Net earnings (loss)	186	(6,916)	2,767	2,767
Other comprehensive income (loss):				
Foreign currency translation differences for foreign operations	(1,285)	123	(1,647)	(3,082)
Foreign currency translation gain on disposal of foreign subsidiary	-	-	-	1,348
Total comprehensive income (loss)	$ (1,099)	$ (6,793)	$ 1,120	$ 1,033
Net earnings (loss) from continuing operations per share				
Basic and diluted	$ 0.00	$ (0.16)	$ 0.06	$ 0.14
Net loss from discontinued operations per share				
Basic	$ (0.00)	$ (0.03)	$ (0.00)	$ (0.07)
Net earnings (loss) per share				
Basic and diluted	$ 0.00	$ (0.19)	$ 0.06	$ 0.08

See accompanying notes to condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Three and six months ended June 30, 2017 and 2016

Dollars in '000s

(unaudited)

	Share capital	Contributed surplus	Accumulated other comprehensive income	Retained earnings (deficit)	Total shareholders' equity
Balance at December 31, 2015	**$ 74,481**	**$ 9,470**	**$ 11,577**	**$ 1,079**	**$ 96,607**
Total comprehensive income (loss) for six months ended June 30, 2016	-	-	(3,082)	2,767	(315)
Accumulated other comprehensive income recognized in income on sale of subsidiary	-	-	1,348	-	1,348
Transactions with shareholders, recorded directly in equity contributions by and distributions to shareholders for six months ended June 30, 2016:					
Share-based compensation	-	84	-	-	84
Total contributions by and distributions to shareholders	-	84	-	-	84
Balance at June 30, 2016	**$ 74,481**	**$ 9,554**	**$ 9,843**	**$ 3,846**	**$ 97,724**
Balance at December 31, 2016	**$ 74,481**	**$ 9,620**	**$ 11,371**	**$ (4,700)**	**$ 90,772**
Total comprehensive income (loss) for six months ended June 30, 2017	-	-	(1,647)	2,767	1,120
Transactions with shareholders, recorded directly in equity contributions by and distributions to shareholders for six months ended June 30, 2017:					
Issue of shares from bought deal public offering and insider private placement	13,131				13,131
Issue of shares upon exercise of options	5	(1)			4
Share-based compensation	-	124	-	-	124
Total contributions by and distributions to shareholders	13,136	123	-	-	13,259
Balance at June 30, 2017	**$ 87,617**	**$ 9,743**	**$ 9,724**	**$ (1,933)**	**$ 105,151**

See accompanying notes to condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Three and six months ended June 30, 2017 and 2016
Dollars in '000s
(unaudited)

	Three months ended June 30		Six months ended June 30	
	2017	2016	2017	2016
				(see note 5)
Cash flow provided by (used in):				
Operating activities:				
Net earnings (loss) from continuing operations	203	(5,921)	$ 2,902	$ 5,182
Items not involving cash:				
Depreciation	2,800	3,130	5,431	6,275
Total income tax (recovery) expense	(149)	(2,660)	1,124	(2,753)
Unrealized foreign exchange (gain) loss on intercompany balances	(682)	24	(874)	(2,340)
Finance costs	96	407	398	786
Share-based compensation	64	21	126	81
Gain on disposal of equipment	(1,277)	(141)	(3,291)	(1,032)
Provision for settlement	-	3,796	-	3,796
Write-down of inventory	-	-	-	277
Gain on disposal of foreign subsidiary (note 9)	-	-	-	(10,865)
Cash flow - continuing operations	1,055	(1,344)	5,816	(593)
Cash flow - discontinued operations (note 5)	(18)	(589)	(135)	(1,299)
Changes in non-cash operating working capital	1,051	4,616	(5,054)	8,851
Income taxes recovered	274	259	1,167	139
Cash flow - operating activities	2,362	2,942	1,794	7,098
Investing activities:				
Equipment additions	(2,511)	(70)	(3,547)	(338)
Intangible asset additions	(155)	(50)	(234)	(95)
Proceeds on disposal of equipment	1,710	506	4,103	1,711
Proceeds on disposal of discontinued operations	-	-	17,252	-
Changes in non-cash investing working capital	301	(635)	497	11
Cash flow - investing activities	(655)	(249)	18,071	1,289
Financing activities:				
Change in operating loan	-	380	(2,105)	(1,708)
Repayments on loans and borrowings	(45)	(2,714)	(26,358)	(5,317)
Proceeds on share issuance from bought deal public	-	-	13,131	-
Proceeds on share issuance from exercise of share options	-	-	4	-
Payments on settlement	(1,156)	-	(1,824)	-
Interest paid	(96)	(320)	(401)	(454)
Cash flow - financing activities	(1,297)	(2,654)	(17,553)	(7,479)
Effect of exchange rate on changes in cash	(55)	5	(72)	(90)
Change in cash	355	44	2,240	818
Cash, beginning of period	3,783	2,200	1,898	1,426
Cash, end of period	$ 4,138	$ 2,244	$ 4,138	$ 2,244

See accompanying notes to condensed consolidated interim financial statements.

1. Reporting entity

Cathedral Energy Services Ltd. (the "Company" or "Cathedral") is a company domiciled in Canada. The Company is a publicly traded company listed on the Toronto Stock Exchange under symbol "CET". The consolidated financial statements of the Company as at and for the year ended December 31, 2016 comprise the Company and its 100% owned subsidiary, Cathedral Energy Services Inc. ("INC"), (together referred to as "Cathedral"). INC is incorporated in the United States of America ("U.S.") and its functional currency is U.S. dollars ("USD").

The Company and INC are primarily involved and engaged in the business of providing directional drilling services to oil and natural gas companies in western Canada and the U.S.

During 2016 Q1, the Company disposed of its 100% interest in Directional Plus International Inc. ("DPI"). See note 9 for further details.

2. Basis of preparation

(a) Statement of compliance

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* ("IAS 34") ("IFRS" or "GAAP").

Accordingly, certain information and footnote disclosures normally included in the annual financial statements prepared in accordance with IFRS, as issued by the International Accounting Standards Board ("IASB"), have been omitted or condensed. It also requires management to exercise judgment in applying the Company's accounting policies. These unaudited condensed consolidated interim financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2016, which are included in the Company's 2016 Annual Report.

The unaudited condensed consolidated interim financial statements were authorized for issue by the Board of Directors on August 10, 2017.

(b) Basis of measurement

The unaudited condensed consolidated interim financial statements have been prepared on the historical cost basis.

(c) Functional and presentation currency

These unaudited condensed consolidated interim financial statements are presented in Canadian dollars ("CAD"), which is the Company's functional currency. All financial information presented in dollars has been rounded to the nearest thousand except for share and per share amounts.

(d) Significant accounting policies

These unaudited condensed interim consolidated financial statements have been prepared in accordance with IFRS and using the same accounting policies as outlined in note 3 of the consolidated financial statements for the year ended December 31, 2016. The accounting policies have been applied consistently by the Company.

Future Accounting Pronouncements
There were no other new or amended standards issued during the period ended June 30, 2017 that are applicable to the Company in future periods. A description of standards and interpretations that will be adopted by the Company in future periods can be found in the notes to the consolidated financial statements for the year ended December 31, 2016.

3. Seasonality of operations

A significant portion of the Company's operations are carried on in western Canada where activity levels in the oilfield services industry are subject to a degree of seasonality. Operating activities in western Canada are generally lower during "spring breakup" which normally commences in mid to late March and continues through to May. Operating activities generally decrease in the fall and peak in the winter months from December until mid to late March. Additionally, volatility in the weather and temperatures not only during this period, but year round, can create additional unpredictability in operational results. Activity levels in the oil and natural gas basins in the U.S. are not subject to the seasonality to the same extent that it occurs in the western Canada region.

4. Equipment

During the period, there were additions to drilling equipment of $3,547 (2016 - $338).

5. Assets held for sale and discontinued operations

On December 16, 2016, the Company entered into an agreement to sell the fixed assets of its Flowback and Production Testing ("F&PT") cash generating unit. As such, the net realizable value of the F&PT equipment has been reclassified as assets held for sale on the consolidated balance sheet as at December 31, 2016 and the related operations have been presented as discontinued operations for 2017 and 2016. The sale closed on January 15, 2017, and as at December 31, 2016 the assets were written down to their estimated net realizable value of $17,241. There were no changes to estimates used at December 31, 2016 and no adjustment to the write-down in 2017.

Operating results related to this division have been included in loss from discontinued operations on the consolidated statements of comprehensive income (loss). Comparative periods have been reclassified to include this division as discontinued operations. The following table provides information with respect to amounts included in the statements of operations related to discontinued operations.

	Three months ended June 30		Six months ended June 30	
	2017	2016	2017	2016
Revenues	$ (10)	$ 963	$ 360	$ 3,314
Cost of sales:				
Direct costs	(6)	(1,124)	(427)	(3,519)
Depreciation	(1)	(1,099)	(12)	(2,220)
Total cost of sales	(7)	(2,223)	(439)	(5,739)
Gross margin	(17)	(1,260)	(79)	(2,425)
Selling, general and administrative expenses:				
Direct costs	-	(427)	(66)	(1,093)
Depreciation	-	(1)	-	(1)
Share-based compensation	-	(1)	3	(3)
Total selling, general and administrative expenses	-	(429)	(63)	(1,097)
	(17)	(1,689)	(142)	(3,522)
Gain on disposal of property and equipment	-	52	10	53
Finance costs	-	(4)	(3)	(11)
Loss before income taxes	(17)	(1,641)	(135)	(3,480)
Income tax recovery:				
Deferred	-	646	-	1,065
Total income tax recovery	-	646	-	1,065
Net loss from discontinued operations	$ (17)	$ (995)	$ (135)	$ (2,415)

The following table provides information with respect to amounts included in the statements of cash flows related to discontinued operations.

	Three months ended June 30		Six months ended June 30	
	2017	2016	2017	2016
Cash provided by (used in):				
Operating activities:				
Net loss from discontinued operations	$ (17)	$ (995)	$ (135)	$ (2,415)
Items not involving cash				
Depreciation	1	1,099	12	2,220
Share-based compensation	-	1	(3)	3
Deferred tax recovery	-	(646)	-	(1,065)
Gain on disposal of property and equipment	-	(52)	(10)	(53)
Finance costs	-	4	3	11
Cash flow - discontinuing operations	$ (16)	$ (589)	$ (133)	$ (1,299)

6. Loans and borrowings

	June 30 2017	December 31 2016
Current liabilities:		
Current portion of finance lease liabilities	$ 306	$ 459
Non-current liabilities:		
Finance lease liabilities	$ 71	$ 72
Secured revolving term loan	-	26,250
Total	$ 71	$ 26,322

Terms and debt repayment schedule

The Company has a committed revolving credit facility (the "Facility") that expires in December 2018. The Facility is secured by a general security agreement over all present and future personal property.

The current Facility has been amended seven times. These amendments have certain restrictions, including, but not limited to; paying dividends, utilization of the accordion feature, enhanced lender financial reporting and a cap on any litigation settlement payments without lender approval. As well, effective 2016 Q1, the Company includes lost-in-hole equipment proceeds in the definition of Bank EBITDA (as defined in the credit agreement).

The financial covenants associated with the amended Facility are as follows:

Quarter ending:	Maximum Funded Debt to Bank EBITDA Ratio	Minimum Debt Service Ratio
June 30, 2017	3.5:1	2.5:1
September 30, 2017	3.5:1	3.0:1
December 31, 2017	3.25:1	3.0:1
June 30, 2018 and thereafter	3.0:1	3.0:1

Additionally, there is a minimum working capital ratio of 1.25:1.

The Seventh Amending Agreement, dated January 16, 2017, reduced the aggregate commitment to $23,000 after $17,200 was repaid upon the sale of F&PT assets and the maturity date was extended to December 2018.

After the amendments discussed above, the Facility bears interest at the bank's prime rate plus 0.50% to 5.00% or bankers' acceptance rate plus 1.75% to 6.25% with interest payable monthly. Interest rate spreads for the Facility depend on the level of funded debt to the 12 month trailing Bank 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.

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

At June 30, 2017, the Company had cash balances in excess of outstanding letters of credit and capital lease obligations. As such its funded debt to bank EBITDA ratio ("Funded debt ratio") was negative (i.e. net cash balance). As such, the Funded debt ratio has been met, but is not meaningful ("NM") for presentation. For the rolling twelve months ended June 30, 2017 Bank EBITDA was $16,869.

The Company's financial ratios at June 30, 2017 were:

Ratio	Actual	Required
Funded debt to Bank EBITDA ratio	NM	3.5:1 Maximum
Debt service ratio	7.9:1	2.0:1 Minimum
Working capital ratio	2.8:1	1.25:1 Minimum

7. Provision for settlements

In 2016 Q2, the Company entered into a Settlement Agreement and Release (the "Settlement Agreement") in respect of two wage and hour lawsuits (the "Collective Actions") that were filed against the Company's wholly owned subsidiary, INC. The Collective Actions alleged that INC employed or contracted Measurement While Drilling ("MWD") and Directional Drilling ("DD") operators were entitled to recover unpaid or incorrectly calculated overtime wages under the Fair Labor Standards Act ("FLSA").

The Settlement Agreement resolved all claims from INC employed and contracted MWD and DD operators. Under the terms of the Settlement Agreement, the parties established an initial settlement fund of up to $3,400 USD. The final determination of the settlement fund amount was based on the number of claimants that participated in the settlement at the end of December 2016, which under the terms of the Settlement Agreement is confidential. The settlement fund payments will be paid quarterly by the Company over a three-year period with the final payment due on or before September 2019. The quarterly payments may be accelerated in the event Cathedral meets certain financial targets over the payment period and can be deferred if a scheduled payment would put Cathedral in violation of its credit facility covenants subject to not more than three payments being deferred. Any FLSA settlement fund payments made by Cathedral exceeding $200 USD are subject to the approval of Cathedral's banking syndicate.

In 2017 Q1, the Company entered into a confidential settlement agreement with one of its U.S. clients related to a down-hole drilling incident, which impacted two of their wells in December 2013. The settlement is payable based on an initial payment in 2017 Q1 and the remainder in quarterly installments concluding in 2021.

Any settlement fund payments made by Cathedral are subject to the approval of Cathedral's banking syndicate. During 2017, payments on both settlements of $1,824 were made.

8. Share capital

Authorized: An unlimited number of common shares and an unlimited number of preferred shares (issuable in series).

Common shares issued:

	Six months ended June 30, 2017			Year ended December 31, 2016		
	Number		Amount	Number		Amount
Issued, beginning of period	36,295,380	$	74,481	36,295,380	$	74,481
Issued on bought deal and private placement	12,616,071		13,131	-		-
Issued on exercise of options	5,000		5	-		-
Issued, end of period	48,916,451	$	87,617	36,295,380	$	74,481

Issuance of common shares

5,000 common shares were issued as a result of the exercise of vested options arising from grants to employees in 2015. Options were exercised at an average strike price of $0.75 per option. All issued shares are fully paid.

11,500,000 shares were issued on February 15, 2017 on a bought deal basis (the "Bought Deal") and concurrent with the Bought Deal, 1,116,071 shares were issued to certain directors and officers on an insider private placement basis. Shares were issued at $1.12 per share. There were $999 in share issue costs that have been deducted against the gross proceeds of $14,130.

Basic earnings per share

The calculation of basic earnings per share for the three and six months ended June 30, 2017 was based on the profit (loss) attributable to common shareholders of $186 and $2,767 (2016 – $(6,916) and $2,767) and a weighted average number of common shares outstanding of 48,916,451 and 45,778,781 (2016 – 36,295,380 and 36,295,380); calculated as follows:

Weighted average number of ordinary shares

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Issued, beginning of period	48,916,451	36,295,380	36,295,380	36,295,380
Effect of bought deal and private placement	-		9,479,478	-
Effect of share options exercised	-		3,923	-
Weighted average number of common shares at end of period	48,916,451	36,295,380	45,778,781	36,295,380

Diluted earnings per share

The calculation of diluted earnings per share for the three and six months ended June 30, 2017 and 2016 was based on profit attributable to common shareholders of $186 and $2,767 (2016 – $(6,916) and $2,767) and a weighted average number of common shares outstanding after adjustment for the effects of all dilutive potential common shares of 49,022,613 and 45,916,815 (2016 – 36,295,380) calculated as follows:

Weighted average number of common shares (diluted)

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Weighted average number of common shares (basic)	48,916,451	36,295,380	45,778,781	36,295,380
Effect of share options on issue	106,162	-	138,034	-
Weighted average number of common shares (diluted) at end of period	49,022,613	36,295,380	45,916,815	36,295,380

At June 30, 2017, 1,840,250 options (2016 – 1,594,499 options) were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive. The average market value of the Company's common shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period during which the options were outstanding.

During the six months ended June 30, 2017, the Company granted 1,141,250 share options. The following table sets out the assumptions used in applying the Black-Scholes model for the options issued as well as the resulting fair value:

		2017 Q1
Number of options issued		1,141,250
Exercise price	$	1.13
Fair value per option (w eighted average)	$	0.52
Expected annual dividend per share	$	-
Risk-free interest rate (w eighted average)		0.8%
Expected share price volatility (w eighted average)		101.9%
Forfeiture rate per annum		10.0%

9. Gain on disposal of foreign subsidiary

During 2016 Q1, the Company completed the sale of its DPI foreign subsidiary for net proceeds of $nil plus assumption of obligations of DPI which resulted in a non-cash gain on sale of $10,865. DPI held the Company's investment in Venezuela and this sale completes Cathedral's exit from carrying on a business in Venezuela.

10. Commitments

In the normal course of business, the Company incurs contractual obligations and those obligations are disclosed in the Company's consolidated financial statements for the year ended December 31, 2016. As at June 30, 2017, the Company's commitment to purchase equipment is approximately $1,449.

The Company has issued three standby letters of credit, two of which relate to property leases and renew annually to landlords. The first letter of credit is $700 for the first ten years of the lease and then reduces to $500 for the last five years of the lease. The second letter of credit is for $542 USD and increases annually based upon annual changes in rent. The final letter of credit is for $75 USD issued in relation to U.S. workers' compensation coverage.