



CATHEDRAL

NEWS RELEASE

November 07, 2019

Calgary, Alberta

CATHEDRAL ENERGY SERVICES REPORTS RESULTS FOR 2019 Q3

Cathedral Energy Services Ltd. (the "Company" or "Cathedral" / TSX: CET) announces its consolidated financial results for the three and nine months ended September 30, 2019 and 2018. Dollars in 000's except per share amounts.

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

FINANCIAL HIGHLIGHTS

Dollars in 000's except per share amounts

	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Revenues	\$ 31,185	\$ 42,570	\$ 100,977	\$ 117,700
Adjusted gross margin % ⁽¹⁾	15%	16%	10%	10%
Adjusted EBITDAS ⁽¹⁾	\$ 2,236	\$ 6,190	\$ 4,589	\$ 8,648
Basic and diluted per share	\$ 0.05	\$ 0.13	\$ 0.09	\$ 0.17
As % of revenues	7%	15%	5%	7%
Cash flow - operating activities	\$ 6,003	\$ 1,926	\$ 4,887	\$ 327
Earnings (loss) before income taxes	\$ (3,851)	\$ 3,846	\$ (12,385)	\$ (33)
Basic and diluted per share	\$ (0.08)	\$ 0.08	\$ (0.25)	\$ -
Net earnings (loss)	\$ (4,153)	\$ 3,001	\$ (13,119)	\$ 797
Basic and diluted per share	\$ (0.08)	\$ 0.06	\$ (0.27)	\$ 0.02
Equipment additions - cash basis	\$ (1,794)	\$ (4,140)	\$ (5,321)	\$ (12,920)
Weighted average shares outstanding				
Basic (000s)	49,468	49,468	49,468	49,437
Diluted (000s)	49,468	49,474	49,505	49,459

	September 30	December 31
	2019	2018
Working capital	\$ 24,067	\$ 30,599
Total assets	\$ 122,604	\$ 121,770
Loans and borrowings excluding current portion	\$ 7,000	\$ 7,000
Shareholders' equity	\$ 74,948	\$ 89,143

(1) Refer to "NON-GAAP MEASUREMENTS"

2019 Q3 KEY TAKEAWAYS

Cathedral commercialized our next generation of our FUSION™ Dual Telemetry Measurement-While-Drilling tool and our Linear Pulse tool.

Cathedral has also commercialized a specialized series of its nDurance™ performance drilling motors which are targeted for rotary steerable system applications.

Adjusted EBITDAS decreased from \$6,190 in 2018 Q3 to \$2,236 in 2019 Q3 primarily due to lower activity levels.

2019 Q3 continues the trend of sequential improvements in Adjusted gross margin – from 7% in 2019 Q1 to 15% in 2019 Q3.

Revenues decreased 27% from \$42,570 in 2018 Q3 to \$31,185 in 2019 Q3.

Despite 2019 Q3 having the lowest quarterly revenue for 2019, Q3 had the highest Adjusted EBITDAS for the year. This was achieved due to improvements in Adjusted gross margin.

OUTLOOK

On a sequential basis, U.S. land average drilling rig count declined 8% from 2019 Q2 to 2019 Q3 and a further decline in 2019 Q4 is expected as oil and natural gas producers exercise increased capital discipline. Cathedral's U.S. activity levels for 2019 Q3 declined in excess of the industry decline due to our client mix which resulted in a higher proportion of our clients cutting back in drilling activities. In addition, work was lost due to competitive pricing pressures which tend to be more prevalent in a lower drilling activity environment.

In 2019 Q3, we continued with personnel changes within our U.S. operations with the goal to improve operating and overall financial results and early benefits are being realized as demonstrated by a sequential improvement in our adjusted gross margin contribution from U.S. operations. This is despite a decline in activity levels and revenue. We believe this restructuring will set the U.S. operation up well as activity levels increase which industry experts expected to occur as we progress through 2020. The U.S. operations continues to be the focus area for the Company's executives and senior management.

In 2019 Q3, we commercialized two tools within our FUSION Measurement-While-Drilling ("MWD") platform. Firstly, our next generation of our FUSION Dual Telemetry ("DT") MWD tool. This tool is based upon our industry leading electro-magnetic ("EM") technology with significant enhancement to the tool's mechanical backbone, connectors and decoding software as well as adding a high torque pulser. Overall, these enhancements have improved the tools durability, reliability and pulse telemetry capabilities. This tool is typically used in areas where clients want the benefits of EM technology but they are operating in formations that are not considered EM friendly (difficult to get EM signal through formations) and therefore backup pulse technology is required. Due to the strength of our EM technology we do not require the use of dual telemetry tools on a broad basis. Secondly, we have brought to the market our Linear Pulse ("LP"). The LP has the ability to handle significant quantities of loss control materials ("LCM") and has data speeds that exceed industry standards. We continue on working to improve data speeds and it is believed we will be able to reach ¼ second pulse width (2 bits per second).

Cathedral has commercialized a specialized series of its nDurance performance drilling motors intended primarily for use with Rotary Steerable Systems ("RSS"). In these applications, the RSS tool is run below the drilling motor, which results in higher mechanical loading on the motor and significant financial risk to the client. Wells using RSS are typically longer, and more complex than others and have significantly higher daily drilling costs. The downtime, and potential lost or damaged equipment costs associated with failures justifies use of a premium product. The RSS series of motors utilize ultra-high strength materials coupled with engineering enhancements that allow the motor to function at high pressure drops required for RSS operation. YTD in 2019, Cathedral has expanded its specialized fleet to 20 5-5/8" tools, and are currently building initial production volumes in both 5" and 7" sizes. These three configurations address the needs for virtually all North American RSS applications. This series of our nDurance drilling motor was recently used by Shell Canada in drilling the longest well in Canada at 8,510 meters (being 8.5 kilometers or 5.3 miles).

Despite a challenging 2019, we are both optimistic and confident about our future prospects. We will continue to focus on what we can control – costs, improving operational efficiencies and strategic sales and marketing of our offerings.

2019 CAPITAL PROGRAM

During the nine months ended September 30, 2019, the Company invested \$5,321 (2018 - \$12,920) in equipment. The following table details the current period's net equipment additions:

	Nine months ended September 30, 2019	
Equipment additions:		
Motors	\$	2,344
MWD		2,451
Other		526
Total cash additions		5,321
Less: proceeds on disposal of equipment (excluding capital lease settlements)		(5,890)
Net equipment additions ⁽¹⁾	\$	(569)

(1) See "NON-GAAP MEASUREMENTS"

For fiscal 2019, it is expected that the net equipment additions will be \$nil or a net recovery (proceeds on disposals of equipment greater than additions). Subject to operating results and industry outlook, equipment lost-in-hole will be replaced and funded from the proceeds received.

RESULTS OF OPERATIONS – THREE MONTHS ENDED SEPTEMBER 30

Effective January 1, 2019, the Company adopted IFRS 16 Leases ("IFRS 16") (see discussion under "New and Future Accounting Policies"). As a result of this new accounting policy, which was adopted retrospectively without restatement of comparative results, expenditures which previously were reported as cost of sales ("COS") or selling, general and administrative ("SG&A") expenses are now classified as lease liability obligation repayments and finance costs (interest expense) and the related right of use asset is depreciated against net income on a straight-line basis. As finance costs and depreciation are excluded from Adjusted EBITDAS (refer to Non-GAAP measurements), Adjusted EBITDAS for the three months ended September 30, 2019 was higher in comparison to 2018 in the amount of \$650. Previously this amount was classified as rent expense (being \$552 in COS amounts and \$98 in SG&A amounts).

Revenues	2019		2018	
Canada	\$	8,325	\$	7,876
United States		22,860		34,694
Total	\$	31,185	\$	42,570

Revenues 2019 Q3 revenues were \$31,185, which represented a decrease of \$11,385 or 27% from 2018 Q3 revenues of \$42,570.

Canadian revenues (excluding motor rental revenues) decreased slightly to \$7,603 in 2019 Q3 from \$7,697 in 2018 Q3; a 1% decrease. This decrease was the net result of: i) a 2% increase in activity days to 973 in 2019 Q3 from 953 in 2018 Q3 and ii) an 3% decrease in the average day rate to \$7,813 in 2019 Q3 from \$8,076 in 2018 Q3.

Despite a 35% year-over-year decline in the average active land rig count in Canada (source: Baker Hughes), Cathedral was able to increase its market share in that same time period and recorded a 2% increase in activity days.

U.S. revenues (excluding motor rental revenues) decreased 36% to \$22,312 in 2019 Q3 from \$34,669 in 2018 Q3. This decrease was the net result of: i) a 38% decrease in activity days to 1,622 in 2019 Q3 from 2,634 in 2018 Q3; net of ii) a 5% increase in the average day rate to \$13,756 in 2019 Q3 from \$13,162 in 2018 Q3 (when converted to Canadian dollars).

The average active land rig count for the U.S. was down 12% in 2019 Q3 compared to 2018 Q3 (source: Baker Hughes). The Company experienced a 38% decline in activity days resulting in a decrease in market share compared to 2018 Q3. This decline was related to reductions in clients' drilling programs to stay within their cash flow, financial restructuring by certain clients that caused them to pause or cancel program, as well as loss of work related to pricing. Day rates in USD increased 4% to \$10,422 USD in 2019 Q3 from \$10,069 USD in 2018 Q3. The 2019 Q3 rate is up due to an increase in revenues from providing Rotary Steerable System ("RSS") services which are rented from a 3rd party.

Motor rentals increased in both Canada and U.S. Combined rental revenues increased to \$1,270 in 2019 Q3 compared to \$205 in 2018 Q3. The increase is due to increased availability of motors for rental due to less full service work being performed and the fact Cathedral's nDurance drilling motors are noted for their reliability and drilling performance.

Gross margin and adjusted gross margin Gross margin for 2019 Q3 was -1% compared to 9% in 2018 Q3. Adjusted gross margin (see Non-GAAP Measurements) for 2019 Q3 was \$4,628 or 15% compared to \$6,688 or 16% for 2018 Q3.

Adjusted gross margin, as a percentage of revenue, decreased due increased rentals as percentage of revenue (actual rental costs were down year-over-year) and increased use of 3rd party insurance coverage. The increases were partially offset by lower equipment repair costs. In addition, management has reduced fixed cost component of costs of sales (mainly due to headcount reductions) to take into consideration the decline in activity levels within Cathedral and the industry as a whole.

Depreciation of equipment allocated to cost of sales increased to \$5,000 in 2019 Q3 from \$2,627 in 2018 Q3 due to changes in estimate of useful life made effective October 1, 2018. Depreciation included in cost of sales as a percentage of revenue was 16% for 2019 Q3 and 6% in 2018 Q3.

Selling, general and administrative expenses ("SG&A") SG&A expenses were \$3,156 in 2019 Q3; a decrease of \$301 compared with \$3,457 in 2018 Q3. As a result of the implementation of IFRS 16 there was a decrease of \$98 related to amounts previously classified as rent expense, but currently classified as lease liability repayments and finance costs (interest). Additionally, there were reductions in SG&A wages and related benefits and burdens due to a reduction in head count. As a percentage of revenue, SG&A was 10% in 2019 Q3 compared to 8% in 2018 Q3.

Technology group expenses Technology group expenses are related to new product development and supporting and upgrading existing technology. Technology group expenses consist of salaries and related benefits and burdens as well as shop supplies. Technology group activities spent on new product development are capitalized as intangible assets. Total technology group costs were \$743 in 2019 Q3; a decrease of \$38 compared with \$781 in 2018 Q3. The portion of total technology group costs related to new product development was \$295 and this amount has been capitalized as intangible assets (2018 Q3 - \$268). Technology group costs not related to new product development were \$448 in 2019 Q3; a decrease of \$65 compared with \$513 in 2018 Q3. Technology group costs decreased primarily due to reduction in staffing.

Gain on disposal of equipment During 2019 Q3, the Company had a gain on disposal of equipment of \$859 compared to \$3,250 in 2018 Q3. These gains mainly relate to equipment lost-in-hole. Proceeds from clients on lost-in-hole equipment are based on amounts specified in service agreements and, in most cases, these proceeds exceed the net book value of the equipment and result in a gain. The timing of lost-in-hole recoveries is not in the control of the Company and therefore can fluctuate significantly from quarter-to-quarter. In 2019 Q3, the Company received proceeds on lost-in-hole recoveries from clients of \$1,267 (2018 Q3 - \$3,827).

Finance costs Finance costs consist of interest expenses on operating loans, long-term debt and bank charges of \$139 for 2019 Q3 versus \$118 for 2018 Q3. The change was due to increase in average debt levels outstanding in 2019 Q3.

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

Foreign exchange The Company had a foreign exchange loss of \$(279) in 2019 Q3 compared to a gain of \$674 in 2018 Q3 due to the fluctuations of the Canadian dollar relative to the U.S. dollar. The Company's foreign operations are denominated in USD and therefore, upon consolidation, gains and losses due to fluctuations in the foreign currency exchange rates are recorded as other comprehensive income on the balance sheet as a component of equity. However, gains and losses in the Canadian entity on U.S. denominated intercompany balances continue to be recognized in the statement of comprehensive income (loss). Included in the 2019 Q3 foreign currency loss are unrealized loss of \$(250) (2018 Q3 - gain of \$624) related to intercompany balances.

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

RESULTS OF OPERATIONS – NINE MONTHS ENDED SEPTEMBER 30

Adjusted EBITDAS for the nine months ended September 30, 2019 was higher in comparison to 2018 in the amount of \$2,275 as a result of IFRS 16 changes discussed previously. Previously this amount was classified as rent expense (being \$1,897 in COS amounts and \$378 in SG&A amounts).

Revenues	2019	2018
Canada	\$ 19,340	\$ 22,977
United States	81,637	94,723
Total	\$ 100,977	\$ 117,700

Revenues 2019 revenues were \$100,977, which represented a decrease of \$16,723 or 14% from 2018 revenues of \$117,700.

Canadian revenues (excluding motor rental revenues) decreased to \$16,960 in 2019 from \$20,790 in 2018; an 18% decrease. This decrease was the result of: i) a 15% decrease in activity days to 2,222 in 2019 from 2,629 in 2018 and ii) an 3% decrease in the average day rate to \$7,633 in 2019 from \$7,908 in 2018.

The average active land rig count in Canada was down 15% in 2019 compared to 2018 (source: Baker Hughes) which equals the decline in activity days experienced by Cathedral.

U.S. revenues (excluding motor rental revenues) decreased 14% to \$80,282 in 2019 from \$93,632 in 2018. This decrease was the net result of: i) a 23% decrease in activity days to 5,904 in 2019 from 7,705 in 2018; net of ii) a 12% increase in the average day rate to \$13,598 in 2019 from \$12,152 in 2018 (when converted to Canadian dollars).

The average active land rig count for the U.S. decreased 3% in 2019 compared to 2018 (source: Baker Hughes). The Company experienced a 23% decline in activity days resulting in a decrease in market share compared to 2018. This decline was related to reductions in clients' drilling programs to stay within their cash flow, financial restructuring by certain clients that caused them to pause or cancel program, as well as loss of work related to pricing. Day rates in USD increased 8% to \$10,225 USD in 2019 from \$9,430 USD in 2018. In addition to the customer credits discussed above that reduced the 2018 rate, the 2019 rate is up due to premiums on certain high performance motors and increase in revenues from providing RSS services which are rented from a 3rd party.

Motor rentals increased slightly in both Canada and U.S. Combined rental revenues increased to \$3,735 in 2019 compared to \$3,277, a 13% increase. The increase is due to increased availability of motors for rental due to less full service work being performed and the fact Cathedral's nDurance drilling motors are noted for their reliability and drilling performance.

Gross margin and adjusted gross margin Gross margin for 2019 was -4% compared to 4% in 2018. Adjusted gross margin (see Non-GAAP Measurements) for 2019 was \$10,473 or 10% compared to \$12,081 or 10% for 2018.

While overall adjusted gross margin, as a percentage of revenue, was unchanged, the components changed as rentals and 3rd party insurance increased as percentage of revenue, while repairs decreased. In addition, management has reduced fixed cost component of costs of sales (mainly due to headcount reductions) to take into consideration the decline in activity levels within Cathedral and the industry as a whole. Depreciation of equipment allocated to cost of sales increased to \$14,421 in 2019 from \$7,415 in 2018 due to changes in estimate of useful life made effective October 1, 2018. Depreciation included in cost of sales as a percentage of revenue was 14% for 2019 and 6% in 2018.

Selling, general and administrative expenses ("SG&A") SG&A expenses were \$10,042 in 2019; a decrease of \$949 compared with \$10,991 in 2018. As a result of the implementation of IFRS 16 there was a decrease of \$378 related to amounts previously classified as rent, but currently classified as lease liability repayments and finance costs (interest). Additionally, there were reductions in SG&A wages and related benefits and burdens. As a percentage of revenue, SG&A was 10% in 2019 compared to 9% in 2018.

Technology group expenses Technology group expenses are related to new product development and supporting and upgrading existing technology. Technology group expenses consist of salaries and related benefits and burdens as well as shop supplies. Technology group activities spent on new product development are capitalized as intangible assets. Total technology group costs were \$2,633 in 2019; an increase of \$162 compared with \$2,471 in 2018. The portion of total technology group costs related to new product development was \$794 and this amount has been capitalized as intangible assets (2018 - \$730). Technology group costs not related to new product development were \$1,839 in 2019; an increase of \$98 compared with \$1,741 in 2018.

Gain on disposal of equipment During 2019, the Company had a gain on disposal of equipment of \$4,409 compared to \$8,834 in 2018. These gains mainly relate to equipment lost-in-hole. Proceeds from clients on lost-in-hole equipment are based on amounts specified in service agreements and, in most cases; these proceeds exceed the net book value of the equipment and result in a gain. The timing of lost-in-hole recoveries is not in the control of the Company and therefore can fluctuate significantly from quarter-to-quarter. In 2019, the Company received proceeds on lost-in-hole recoveries from clients of \$6,148 (2018 - \$10,471).

Finance costs Finance costs consist of interest expenses on operating loans, long-term debt and bank charges of \$421 for 2019 versus \$262 for 2018. The change was due to increase in average debt levels outstanding in 2019.

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

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

Foreign exchange The Company had a foreign exchange gain of \$746 in 2019 compared to a loss of \$(415) in 2018 due to the fluctuations of the Canadian dollar relative to the U.S. dollar. The Company's foreign operations are denominated in USD and therefore, upon consolidation, gains and losses due to fluctuations in the foreign currency exchange rates are recorded as other comprehensive income on the balance sheet as a component of equity. However, gains and losses in the Canadian entity on U.S. denominated intercompany balances continue to be recognized in the statement of comprehensive income (loss). Included in the 2019 foreign currency loss are unrealized gain of \$793 (2018 - loss of \$446) related to intercompany balances.

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

LIQUIDITY AND CAPITAL RESOURCES

Overview On an annualized basis, the Company's principal source of liquidity is cash generated from operations and proceeds from equipment lost-in-hole. In addition, the Company has the ability to fund liquidity requirements through its credit facility and the issuance of debt and/or equity. For the nine months ended September 30 cash flow - operating activities was a source of cash of \$4,887 in 2019 compared to \$327 in 2018.

Working capital At September 30, 2019 the Company had working capital of \$24,067 (December 31, 2018 - \$30,599). \$2,169 of the decrease in working capital relates to increase in current portion of lease liabilities due to the adoption of IFRS 16.

Credit facility The Company's credit facility (the "Facility") consists of a \$5 million operating facility and a \$15 million extendible revolving credit facility and expires December 31, 2020. The Facility is secured by a general security agreement over all present and future personal property. The Facility provides a definition of EBITDA ("Credit Agreement EBITDA") to be used in calculation of financial covenants.

The financial covenants associated with the amended Facility are:

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

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

Compliance with Facility covenants

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

At September 30, 2019, the Company had drawn \$7,000 of its revolving credit facility, \$nil of its operating facility and had \$6,348 in cash. At September 30, 2019, the Company had consolidated funded debt of \$2,669 which includes five outstanding letters of credit ("LOC") which are included in the funded debt calculation. For the trailing twelve months ended September 30, 2019, Credit Agreement EBITDA was \$8,082.

The calculation of the financial covenants under the Facility as at September 30, 2019 is as follows:

Covenant	Actual Ratio	Required Ratio
Consolidated funded debt to consolidated Credit Agreement EBITDA ratio	0.3:1	3.0:1 (maximum)
Consolidated interest coverage ratio	13.4:1	2.5:1 (minimum)

Contractual obligations In the normal course of business, the Company incurs contractual obligations and those obligations are disclosed in the Company's annual financial statements for the year ended December 31, 2018.

As at September 30, 2019, the Company's commitment to purchase equipment is approximately \$424. Cathedral anticipates expending these funds in 2019 Q4 and 2020 Q1.

The Company has issued the following five LOC:

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

Share capital At November 7, 2019, the Company has 49,468,117 common shares and 3,758,500 options outstanding with a weighted average exercise price of \$0.82.

NEW AND FUTURE ACCOUNTING POLICIES

i) The Company has adopted IFRS 16 Leases ("IFRS 16") effective January 1, 2019.

The Company utilized the modified retrospective approach in application of the standard. This resulted in the recognition of a lease liability and a corresponding recognition of a right-of-use asset. The Company has chosen to recognize the right-of-use asset on January 1, 2019 at a value equal to the related liability of the lease. The Company also used the exemption for any capital leases recognized prior to January 1, 2019 under the previous standards and to only apply IFRS 16 to contracts that were previously identified as leases. As such, the Company did not apply the standard to any contracts not previously identified as containing a lease. Exemptions were utilized for short-term leases where the term is 12 months or less and for leases of low value items. As well, the classification of cash flows were impacted as the presentation of operating lease payments previously shown as operating cash flows will be split into financing (principal portion) and financing (interest portion) cash flows under IFRS 1616.

The modified retrospective approach does not require restatement of prior period financial information. Accordingly, comparative information in the Company's financial statements are not restated.

As lease payments are made there is a reduction to the principal portion of the lease liability as well as an amount allocated to finance costs. The finance cost is expensed over the lease term. The right of use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. Cathedral uses a single discount rate for a portfolio of leases with reasonably similar characteristics.

ii) The Company also adopted IFRS Interpretations Committee ("IFRIC") issued IFRIC 23 Uncertainty over Income Tax Treatments ("IFRIC 23") which clarifies the accounting for uncertainties in income taxes. The adoption of this standard did not have any material impact on the Company's financial statements.

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: a further decline in average U.S. land based drilling rigs is expected in 2019 Q4 as oil and natural gas producers exercise increased capital discipline; believe the U.S. restructuring will set the U.S. operation up well as activity levels increase which industry experts expected to occur as we progress through 2020; the U.S. operations continues to be the focus area for the Company's executives and senior management; we continue on working to improve data speeds and it is believed we will be able to reach ¼ second pulse width; we are both optimistic and confident about our future prospects; we will continue to focus on what we can control – cost controls, improving operational efficiencies and strategic sales and marketing of our offerings; projected capital expenditures and commitments and the financing thereof; and Cathedral expects to comply with all covenants during 2019.

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

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

- the performance of Cathedral's businesses, including current business and economic trends;
- oil and natural gas commodity prices and production levels;
- alternatives to and changing demand for hydrocarbon products;
- performance obligation to clients;
- capital expenditure programs and other expenditures by Cathedral and its customers;
- currency exchange and interest rates;
- the ability of Cathedral to service its debt;
- 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;
- risks associated with acquisitions and business development efforts;
- environmental risks;
- risks associated with information technology systems;
- 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 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:

- "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);
- "Adjusted gross margin %" - calculated as adjusted gross margin divided by revenues and is considered a primary indicator of operating performance (see tabular calculation);
- "Adjusted EBITDAS" - defined as earnings before Interest, taxes, depreciation, amortization, share-based compensation, unrealized foreign exchange on intercompany balances, write-down of equipment, write-down of inventory and non-recurring expenses (including severance). Management believes that Adjusted EBITDAS provides supplemental information to net earnings in evaluating the results of the Company's business activities before considering certain charges, how it was financed and how it was taxed; and
- "Net equipment additions" – is equipment additions expenditures less proceeds from equipment lost down-hole. Cathedral uses net equipment additions to assess net cash flows related to the financing of Cathedral's equipment additions.

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

Adjusted gross margin

	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Gross margin	\$ (400)	\$ 4,010	\$ (4,046)	\$ 4,542
Add non-cash items included in cost of sales:				
Depreciation	5,000	2,627	14,421	7,415
Share-based compensation	28	51	98	124
Adjusted gross margin	\$ 4,628	\$ 6,688	\$ 10,473	\$ 12,081
Adjusted gross margin %	15%	16%	10%	10%

Adjusted EBITDAS

	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Earnings (loss) before income taxes	\$ (3,851)	\$ 3,846	\$ (12,385)	\$ (33)
Add:				
Depreciation included in cost of sales	5,000	2,627	14,421	7,415
Depreciation included in selling, general and administrative expenses	258	54	1,028	131
Share-based compensation included in cost of sales	28	51	98	124
Share-based compensation included in selling, general and administrative expenses	93	118	277	303
Finance costs	139	118	421	262
Finance costs lease liabilities	249	-	767	-
Subtotal	1,916	6,814	4,627	8,202
Unrealized foreign exchange (gain) loss on intercompany balances	250	(624)	(793)	446
Provision for settlement	39	-	425	-
Non-recurring expenses	31	-	330	-
Total Adjusted EBITDAS	\$ 2,236	\$ 6,190	\$ 4,589	\$ 8,648

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

September 30, 2019 and December 31, 2018

Dollars in '000s

(unaudited)

	September 30	December 31
	2019	2018
Assets		
Current assets:		
Cash	\$ 6,348	\$ 6,875
Trade receivables	26,808	35,583
Prepaid expenses	1,252	1,691
Inventories	11,092	11,750
Current taxes recoverable	188	-
Total current assets	45,688	55,899
Equipment	52,138	61,068
Intangible assets	3,219	2,827
Right of use asset	20,371	-
Deferred tax assets	1,188	1,976
Total non-current assets	76,916	65,871
Total assets	\$ 122,604	\$ 121,770
Liabilities and Shareholders' Equity		
Current liabilities:		
Operating loan	\$ -	\$ 188
Trade and other payables	18,869	23,868
Current taxes payable	-	991
Lease liabilities, current	2,169	89
Provision for settlements, current	583	164
Total current liabilities	21,621	25,300
Loans and borrowings	7,000	7,000
Provision for settlements, long-term	238	327
Lease liabilities, long-term	18,797	-
Total non-current liabilities	26,035	7,327
Total liabilities	47,656	32,627
Shareholders' equity:		
Share capital	88,155	88,155
Contributed surplus	10,785	10,410
Accumulated other comprehensive income	10,801	12,252
Deficit	(34,793)	(21,674)
Total shareholders' equity	74,948	89,143
Total liabilities and shareholders' equity	\$ 122,604	\$ 121,770

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

Three and nine months ended September 30, 2019 and 2018

Dollars in '000s except per share amounts
(unaudited)

	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Revenues	\$ 31,185	\$ 42,570	\$ 100,977	\$ 117,700
Cost of sales:				
Direct costs	(26,557)	(35,882)	(90,504)	(105,619)
Depreciation	(5,000)	(2,627)	(14,421)	(7,415)
Share-based compensation	(28)	(51)	(98)	(124)
Total cost of sales	(31,585)	(38,560)	(105,023)	(113,158)
Gross margin	(400)	4,010	(4,046)	4,542
Selling, general and administrative expenses:				
Direct costs	(2,805)	(3,285)	(8,737)	(10,557)
Depreciation	(258)	(54)	(1,028)	(131)
Share-based compensation	(93)	(118)	(277)	(303)
Total selling, general and administrative expenses	(3,156)	(3,457)	(10,042)	(10,991)
	(3,556)	553	(14,088)	(6,449)
Technology group expenses	(448)	(513)	(1,839)	(1,741)
Gain on disposal of equipment	859	3,250	4,409	8,834
Earnings (loss) from operating activities	(3,145)	3,290	(11,518)	644
Finance costs	(139)	(118)	(421)	(262)
Finance costs lease liabilities	(249)	-	(767)	-
Provision for settlement	(39)	-	(425)	-
Foreign exchange gain (loss)	(279)	674	746	(415)
Earnings (loss) before income taxes	(3,851)	3,846	(12,385)	(33)
Income tax recovery (expense):				
Current	-	(956)	-	(1,391)
Deferred	(302)	111	(734)	2,221
Total income tax recovery (expense)	(302)	(845)	(734)	830
Net earnings (loss)	(4,153)	3,001	(13,119)	797
Other comprehensive income (loss):				
Foreign currency translation differences for foreign operations	552	(1,301)	(1,451)	779
Total comprehensive income (loss)	\$ (3,601)	\$ 1,700	\$ (14,570)	\$ 1,576
Net earnings (loss) per share				
Basic and diluted	\$ (0.08)	\$ 0.06	\$ (0.27)	\$ 0.02

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Three and nine months ended September 30, 2019 and 2018

Dollars in '000s

(unaudited)

	Three months ended September 30		Nine months ended September 30	
	2019	2018	2019	2018
Cash provided by (used in):				
Operating activities:				
Net earnings (loss) from continuing operations	\$ (4,153)	\$ 3,001	\$ (13,119)	\$ 797
Items not involving cash				
Depreciation	5,258	2,681	15,449	7,546
Share-based compensation	121	169	375	427
Income tax expense (recovery)	302	845	734	(830)
Gain on disposal of equipment	(859)	(3,250)	(4,409)	(8,834)
Finance costs	139	118	421	262
Finance costs lease liability	249	-	767	-
Provision for settlement	39	-	425	-
Unrealized foreign exchange (gain) loss on intercompany balances	250	(624)	(793)	446
Cash flow - continuing operations	1,346	2,940	(150)	(186)
Changes in non-cash operating working capital	4,766	(1,433)	6,183	1,358
Income taxes (paid) refunded	(109)	419	(1,146)	(845)
Cash flow - operating activities	6,003	1,926	4,887	327
Investing activities:				
Equipment additions	(1,794)	(4,140)	(5,321)	(12,920)
Intangible asset additions	(407)	(415)	(1,065)	(1,235)
Proceeds on disposal of equipment	1,009	3,827	5,890	10,676
Changes in non-cash investing working capital	(1,058)	(1,044)	(1,756)	(1,478)
Cash flow - investing activities	(2,250)	(1,772)	(2,252)	(4,957)
Financing activities:				
Change in operating loan	(1,691)	-	(188)	(1,232)
Repayments on lease liabilities	(412)	(2)	(1,527)	(153)
Proceeds on share issuance from exercise of share option:	-	-	-	71
Payment on settlements	(40)	-	(80)	(236)
Restricted cash	-	-	-	1,514
Interest paid	(388)	(118)	(1,188)	(262)
Advances of loans and borrowings	-	1,500	-	7,000
Cash flow - financing activities	(2,531)	1,380	(2,983)	6,702
Effect of exchange rate on changes on cash	67	(56)	(179)	41
Change in cash	1,289	1,478	(527)	2,113
Cash, beginning of period	5,059	3,318	6,875	2,683
Cash, end of period	\$ 6,348	\$ 4,796	\$ 6,348	\$ 4,796

NOT FOR DISSEMINATION IN THE UNITED STATES OF AMERICA

Requests for further information should be directed to:

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