CATHEDRAL

2018 Q2 INTERIM REPORT

FINANCIAL HIGHLIGHTS

Dollars in 000's except per share amounts

	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Revenues	$ 34,973	$ 34,355	$ 75,130	$ 72,678
Adjusted gross margin % (1)	2%	15%	7%	19%
Adjusted EBITDAS (1)	$ (985)	$ 2,363	$ 2,458	$ 9,159
Basic and diluted per share	$ (0.02)	$ 0.05	$ 0.05	$ 0.20
As % of revenues	-3%	7%	3%	13%
Cash flow - operating activities	$ (3,731)	$ 2,362	$ (1,599)	$ 1,794
Earnings (loss) before income taxes	$ (4,224)	$ 54	$ (3,879)	$ 4,026
Basic and diluted per share	$ (0.09)	$ -	$ (0.08)	$ 0.09
Net earnings (loss)	$ (2,498)	$ 186	$ (2,204)	$ 2,767
Basic and diluted per share	$ (0.05)	$ -	$ (0.04)	$ 0.06
Equipment additions - cash basis	$ 4,306	$ 2,511	$ 8,780	$ 3,547
Weighted average shares outstanding				
Basic (000s)	49,445	48,916	49,422	45,779
Diluted (000s)	49,478	49,023	49,538	45,917

	June 30	December 31
	2018	2017
Working capital	$ 30,983	$ 31,016
Total assets	$ 128,887	$ 121,630
Loans and borrowings excluding current portion	$ 5,534	$ 46
Shareholders' equity	$ 101,596	$ 101,391

(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, 2018 should be read in conjunction with the annual audited consolidated financial statements and notes thereto for the year ended December 31, 2017, as well as the MD&A in the 2017 Annual Report of Cathedral Energy Services Ltd. (the "Company" or "Cathedral"). This MD&A has been prepared as of August 9, 2018. Dollar amounts are in '000's except for day rates and per share amounts.

2018 Q2 KEY TAKEAWAYS

Q2 revenues increased 2% from $34,355 in 2017 Q2 to $34,973 in 2018 Q2 and year-to-date increased 3% from $72,678 in 2017 to $75,130 in 2018.

Adjusted gross margin decreased to 2% from 15% in 2017 Q2 and to 7% in 2018 year-to-date from 19% in 2017. This decline was due to non-recurring items including credits to certain customers, higher equipment repairs due to a more demanding drilling environment and to a lesser extent upgrading the Company's existing equipment fleet.

Adjusted EBITDAS decreased from $2,363 in 2017 Q2 to a loss of $(985) in 2018 Q2. Year-to-date adjusted EBITDAS decreased from $9,159 in 2017 to $2,458 in 2018.

The Company continues to make investments in equipment to relieve capacity constraints and to improve equipment utilization, reliability and performance. Substantially all of this equipment is targeted at the U.S. market.

OUTLOOK

The second quarter of 2018 continued to be challenging for Cathedral compared to the prior year. Canadian operations were impacted by low activity levels associated with spring break-up. In the U.S., equipment repair expenses continued to be a challenge along with some one-time operational issues with customers that resulted in un-paid work being done on certain jobs. As noted in previous quarters, expense escalation in the U.S. has been a challenge coupled with the difficulty of implementing corresponding customer price increases for our services in an intensely competitive environment.

In Q1 we implemented a number of cost saving measures which started to positively impact results in late Q2. These included better controls on rental expenses, trucking and continued focus on labor costs and efficiencies. In Q2 we implemented a number of engineering improvements to our

equipment to improve durability and performance which should mitigate equipment repair and refurbishment costs in future quarters. We continue to focus on all expense categories impacting our business.

In 2018 we have increased our capital program for new equipment significantly compared to prior years. The objectives with our expanded capital program are to achieve higher drilling performance, reduce operating costs and grow our job capacity. Our main focus with Capital expenditure program has been on drilling motors as they currently provide the biggest performance differentiator in the market. To the end of Q2 we have added 45 new power sections for our next generation 7" CLAW-XT™ high performance motors with a similar amount to be deployed in Q3. In addition, we anticipate delivery of new 5-1/2" motors by the end of Q3 targeted specifically for 6-3/4" holes sizes in rotary steerable application rentals. Substantially all of this equipment is targeted at the U.S. market.

On the MWD front we will be rolling out our new Cathedral Linear Pulser add-on to our FUSION™ Measurement-While-Drilling (MWD) platform in Q3. This technology will be our main MWD pulse telemetry platform going forward and will reduce our deployment and repair costs as we are currently dependent on third party suppliers with our existing linear pulse telemetry platform. Upgrades to our existing FUSION MWD platform equipment, which are aimed at improving MWD performance and reliability continue to be implemented in our operations. Our FUSION MWD platform provides plug and play capability to use electromagnetic or pulse telemetry either stand-alone or combined to provide Dual Telemetry (DT) capability. The FUSION MWD platform performance capabilities are further augmented using our downhole power generator (EMc2™). Progress on our next generation Dual Telemetry (DT) MWD tool remains on track for launch in 2019.

Despite a challenging first half of 2018, we are both optimistic and confident about our prospects for the remainder of 2018 and beyond.

2018 CAPITAL PROGRAM

During the six months ended June 30, 2018 the Company invested $8,780 (2017 - $3,547) in equipment and expended $820 in new technology development primarily related to MWD systems.

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

		Six months ended June 30, 2018
Equipment additions:		
Motors	$	5,157
MWD		3,214
Other		409
Total cash additions		8,780
Less: proceeds on disposal of equipment (excluding capital lease settlements)		(6,814)
Net equipment additions [(1)]	$	1,966

(1) See "NON-GAAP MEASUREMENTS"

Cathedral's current 2018 capital budget totals $18,900, which includes $1,555 for intangible additions. The total net equipment additions is estimated to be approximately $10,500.

The Company is monitoring capital expenditure levels in the context of customer equipment requirements, replacement of equipment lost-in-hole and available cash flow and will adjust its capital program accordingly. Delivery lead times on capital items, including component parts for self-constructed assets, range from 60 to 180 days.

RESULTS OF OPERATIONS – THREE MONTHS ENDED JUNE 30

Revenues		2018		2017
Canada	$	4,465	$	4,914
United States		30,508		29,441
Total	$	34,973	$	34,355

Revenues 2018 Q2 revenues were $34,973, which represented an increase of $618 or 2% from 2017 Q2 revenues of $34,355.

Canadian revenues (excluding motor rental revenues) decreased to $3,396 in 2018 Q2 from $4,143 in 2017 Q2; an 18% decrease. This decrease was the result of: i) a 24% decrease in activity days to 404 in 2018 Q2 from 533 in 2017 Q2; net of ii) an 8% increase in the average day rate to $8,406 in 2018 Q2 from $7,773 in 2017 Q2.

The average active land rig count in Canada was down 8% in 2018 Q2 compared to 2017 Q2 (source: Baker Hughes). Cathedral's activity levels relative to the industry were impacted by the scope of customer drilling programs and their geographical areas. The 2018 Q2 day rate is higher than recent rates, however, during spring break-up, with the limited operating days, pricing with one or two clients can skew the average day rate significantly.

U.S. Directional Drilling revenues (excluding motor rental revenues) increased to $29,832 in 2018 Q2 from $29,243 in 2017 Q2; a 2% increase. This increase was the result of: i) a 2% increase in activity days to 2,573 in 2018 Q2 from 2,531 in 2017 Q2; and ii) a minor increase in the average day rate to $11,594 in 2018 Q2 from $11,554 in 2017 Q2 (when converted to Canadian dollars). However, specific one-time credits related to performance issues with certain U.S. clients reduced the day rate by $501 CAD.

The average active land rig count for the U.S. was up 20% in 2018 Q2 compared to 2017 Q2 (source: Baker Hughes). The Company experienced a 2% increase in activity days that resulted in a decrease in market share in the period. This decrease in market share was largely due to equipment constraints starting in 2017 that the Company has been working to resolve with its capital budget program as well as certain clients altering the timing and scope of their drilling programs. Day rates in United States Dollars ("USD") increased to $8,969 USD in 2018 Q2 from $8,588 USD in 2017 Q2; a 4% increase. The increase in day rates was due to general increases in customer pricing. The 2018 Q2 day rate in USD has declined in the first two quarters of 2018 due to customer mix and scope of work that the Company believes is not indicative of a longer term trend.

Gross margin and adjusted gross margin Gross margin for 2018 Q2 was negative compared to 7% in 2017 Q2. Adjusted gross margin (see Non-GAAP Measurements) for 2018 Q2 was $631 or 2% compared to $5,073 or 15% for 2017 Q2.

Adjusted gross margin, as a percentage of revenue, decreased due to higher equipment repairs, higher equipment rentals and specific one-time credits related to performance issues with certain U.S. clients. Rental expenses in the quarter were higher primarily due to specialty equipment rentals that were billed through to clients with a lower mark-up than typical margins. 4% of the decrease in adjusted gross margin was attributable to the impact of the specialty equipment rental margins and the credits on U.S. work.

The remaining decrease in adjusted gross margin was from increased equipment repairs. Repairs increased in part due to a more demanding drilling environment and to a lesser extent upgrades being made to the Company's existing equipment fleet. In addition, there was an increase in the fixed component of cost of sales that were 3% higher on a percentage of revenue basis in 2018 Q2 compared to 2017 Q2. This increase was mostly attributable to office and shop payroll and other labour related costs.

Depreciation allocated to cost of sales decreased to $2,573 in 2018 Q2 from $2,774 in 2017 Q2. Depreciation included in cost of sales as a percentage of revenue was 7% for 2018 Q2 and 8% in 2017 Q2.

Selling, general and administrative expenses ("SG&A") SG&A expenses were $3,707 in 2018 Q2; a decrease of $2 compared with $3,709 in 2017 Q2. As a percentage of revenue, SG&A was 11% in 2018 Q2 compared to 11% in 2017 Q2.

Technology group expenses Technology group expenses were $627 in 2018 Q2; an increase of $226 compared with $401 in 2017 Q2. Technology group expenses are related to new product development and supporting and upgrading existing technology. Technology group expenses consist of salaries and related benefits and burdens as well as shop supplies. Technology group expenses increased primarily due to wage increases, including the reinstatement of previous wage rollbacks, and staff additions. In 2018 Q2, an additional $231 of technology group expenses related to new product development were capitalized as intangible assets (2017 Q2 - $nil).

Gain on disposal of equipment During 2018 Q2, the Company had a gain on disposal of equipment of $2,576 compared to $1,277 in 2017 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. In 2018 Q2, the Company received proceeds on lost-in-hole recoveries of $2,859 (2017 Q2 - $1,621).

Finance costs Finance costs consist of interest expenses on operating loans, loans and borrowings and bank charges of $99 for 2018 Q2 versus $96 for 2017 Q2.

Foreign exchange The Company had a foreign exchange loss of $(392) in 2018 Q2 compared to a gain of $699 in 2017 Q2 due to the fluctuations of the Canadian dollar relative to the U.S. dollar. The Company's foreign operations are denominated in USD and therefore, upon consolidation, gains and losses due to fluctuations in the foreign currency exchange rates are recorded as other comprehensive income on the balance sheet as a component of equity. However, gains and losses in the Canadian entity on U.S. denominated intercompany balances continue to be recognized in the statement of comprehensive income (loss). Included in the 2018 Q2 foreign currency gains are unrealized loss of $401 (2017 Q2 - gain of $682) related to intercompany balances.

Income tax For 2018 Q2, the Company had an income tax recovery of $1,726 compared to a recovery of $149 in 2017 Q2. Included in the 2018 Q2 provision was recoveries of $361 related to provisions of prior periods (2017 Q2 recovery of $93).

The 2018 Q2 effective tax rate excluding adjustments for prior periods was 32%. The 2018 Q2 rate is higher than anticipated as one legal entity has pre-tax income and the other has pre-tax losses. Income tax expense is booked based upon expected annualized effective rates based upon the statutory rates of 27% for Canada and 23% for the U.S.

RESULTS OF OPERATIONS – SIX MONTHS ENDED JUNE 30

Revenues		2018		2017
Canada	$	15,102	$	15,380
United States		60,028		57,298
Total	$	75,130	$	72,678

Revenues 2018 revenues were $75,130, which represented an increase of $2,452 or 3% from 2017 revenues of $72,678.

Canadian revenues (excluding motor rental revenues) decreased to $13,093 in 2018 from $13,450 in 2017; a 3% decrease. This decrease was the result of: i) a 14% decrease in activity days to 1,676 in 2018 from 1,956 in 2017; net of ii) an 14% increase in the average day rate to $7,812 in 2018 from $6,876 in 2017.

The average active land rig count in Canada was down 8% in 2018 compared to 2017 (source: Baker Hughes). The 2018 day rate increase was consistent with the quarter-over-quarter increases the Company has been able to achieve beginning in 2017 Q1.

U.S. Directional Drilling revenues (excluding motor rental revenues) increased to $58,963 in 2018 from $56,821 in 2017; a 4% increase. This increase was the result of: i) a 1% decrease in activity days to 5,071 in 2018 from 5,096 in 2017; and ii) a 4% increase in the average day rate to $11,628 in 2018 from $11,150 in 2017 (when converted to Canadian dollars). However, specific one-time credits related to performance issues with certain U.S. clients reduced the day rate by $254 CAD.

The average active land rig count for the U.S. was up 26% in 2018 compared to 2017 (source: Baker Hughes). The Company experienced a 1% decrease in activity days that resulted in a decrease in market share over this period. This decrease in market share was largely due to equipment constraints starting in 2017 that the Company has been working to resolve with its capital budget program as well as certain clients altering the timing and scope of their drilling programs. Day rates in USD increased to $9,098 USD in 2018 from $8,350 USD in 2017; a 9% increase. The increase in day rates was primarily due to customer price increases. U.S. day rates have declined sequentially the first two quarters of 2018 due to customer mix and scope of work that the Company believes is not indicative of a longer term trend.

Gross margin and adjusted gross margin Gross margin for 2018 was under 1% compared to 11% in 2017. Adjusted gross margin (see Non-GAAP Measurements) for 2018 was $5,393 or 7% compared to $13,559 or 19% for 2017.

Adjusted gross margin, as a percentage of revenue, decreased due to higher equipment repairs, higher equipment rentals and specific one-time credits related to performance issues with certain U.S. clients in Q2. Rental expenses were adversely impacted by specialty equipment rentals in Q2 that were billed through to clients with a lower mark-up than typical margins. The impact of these rentals and the credits on U.S. work caused 2% of the decrease in adjusted gross margin.

The remaining decrease in adjusted gross margin was from increased equipment repairs. Repairs increased in part due to a more demanding drilling environment and to a lesser extent upgrades being made to the Company's existing equipment fleet. In addition, there was an increase in the fixed component of cost of sales that were 3% higher on a percentage of revenue basis in 2018 compared to 2017. This increase was mostly attributable to office and shop payroll and other labour related costs.

Depreciation allocated to cost of sales decreased to $4,788 in 2018 from $5,380 in 2017. Depreciation included in cost of sales as a percentage of revenue was 6% for 2018 and 7% in 2017.

Selling, general and administrative expenses ("SG&A") SG&A expenses were $7,534 in 2018; an increase of $667 compared with $6,867 in 2017. As a percentage of revenue, SG&A was 10% in 2018 compared to 9% in 2017. SG&A increased primarily due to wage increases, including the reinstatement of previous wage rollbacks, increased U.S. health benefits and to a lesser extent, staff additions offset by lower U.S. state sales tax expenditures. Staffing costs included in SG&A include executive, sales, accounting, human resources, payroll, safety and related support staff.

Technology group expenses Technology group expenses were $1,228 in 2018; an increase of $162 compared with $1,066 in 2017. 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 expenses increased primarily due to wage increases, including the reinstatement of previous wage rollbacks, and staff additions. In 2018, an additional $461 of technology group expenses related to new product development were capitalized as intangible assets (2017 - $nil).

Gain on disposal of equipment During 2018, the Company had a gain on disposal of equipment of $5,584 compared to $3,291 in 2017. 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 2018, the Company received proceeds on lost-in-hole recoveries of $6,599 (2017 - $3,871).

Finance costs Finance costs consist of interest expenses on operating loans, loans and borrowings and bank charges of $144 for 2018 versus $398 for 2017. The decrease in finance costs relate to the reduction of amounts drawn on the Company's credit facility. In 2017 Q1, the Company finalized the sale of its Flowback and Production Testing ("F&PT)" assets, raised funds through a private placement of shares and repaid the outstanding long-term debt.

Foreign exchange The Company had a foreign exchange loss of $(1,089) in 2018 compared to a gain of $917 in 2017 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 2018 foreign currency gains are unrealized loss of $1,070 (2017 - gain of $874) related to intercompany balances.

Income tax For 2018, the Company had an income tax recovery of $1,675 compared to expense of $1,124 in 2017. Included in the 2018 provision was recoveries of $361 related to provisions of prior periods (2017 recovery of $4).

The 2018 effective tax rate excluding adjustments for prior periods was 34%. The 2018 rate was higher than anticipated as one legal entity has pre-tax income and the other has pre-tax losses. Income tax expense is booked based upon expected annualized effective rates based upon the statutory rates of 27% 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. 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, 2018, the Company had funds used in operations of $(1,599) (2017 – funds from operations $1,794). The decrease in funds is mainly due to reduced profits.

Working capital At June 30, 2018 the Company had working capital of $30,983 (December 31, 2017 - $31,016). The decrease in working capital level was primarily due to lower receivables, and higher inventories and trade payables relative to December 31, 2017.

Credit facility In December 2017, the Company signed a new credit facility (the "Facility") with a new lending syndicate. The Facility consists of a $5 million operating facility and $15 million extendible revolving credit facility and expires December 31, 2019. The Facility is secured by a general security agreement over all present and future personal property.

The financial covenants associated with the amended Facility are:

- Consolidated funded debt to consolidated Facility EBITDA (as defined in the Facility agreement) 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 to the 12 month trailing Facility 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.

At June 30, 2018, the Company had drawn $5,500 of its revolving credit facility. The Company's Funded Debt level under the lending agreement was $3,590. For the rolling twelve months ended June 30, 2018, Facility EBITDA was $14,120.

Ratio	Actual	Required
Consolidated funded debt to consolidated Facility EBITDA ratio	0.3:1	3.0:1 maximum
Consolidated interest coverage ratio	32.8:1	2.5:1 minimum

Subsequent to June 30, 2018 the Company drew another $1,500 of its revolving credit facility. Based on current available information, Cathedral expects to comply with all covenants for the next twelve months.

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, 2017. As at June 30, 2018, the Company had a commitment to purchase approximately $4,109 of equipment. Cathedral anticipates expending these funds 2018 Q3 and Q4 based upon current delivery lead times.

Share capital At August 9, 2018, the Company has 49,468,117 common shares and 2,716,834 options outstanding with a weighted average exercise price of $1.56.

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, 2018 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, 2017, which is included in the Company's 2017 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, 2018.

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

The Company has adopted IFRS 15 Revenue from Contracts with Customers ("IFRS 15") and IFRS 9 Financial Instruments ("IFRS 9") at January 1, 2018. The adoption of these standards did not have a material effect on the Company's financial statements.

Under IFRS 15, revenue is recognized when a customer obtains control of the good or services. Determining the timing of the transfer of control (at a point in time or over time) requires judgement.

The Company provides directional drilling services. Revenue for these services are recognized over time based on drilling days. Invoices are generated at the end of the job and are due based on the Master Service Agreement with client or signed Terms and Conditions, generally 30 or 60 days. IFRS 15 did not have a significant impact on the Company's revenue recognition.

Under IFRS 9, financial assets and liabilities are classified and measured at amortized cost, fair value through other comprehensive income or fair value through profit and loss. The classification of financial assets and liabilities is generally based on the business model in which the asset or liability is managed and its contractual cash flow characteristics. Financial assets held within a business model whose objective is to collect contractual cash flows and whose contractual terms give rise to cash flows on specified dates that are solely payments of principal and interest on the principal amount outstanding are measured at amortized cost. After their initial fair value measurement, trade receivable, trade and other payables, operating loan, provision for settlement and loans and borrowings are classified and measured at amortized cost using the effective interest rate method. Upon initial recognition of a non-derivative financial asset, a loss allowance is recorded for expected credit losses (ECL). Loss allowances for trade receivables are measured based on lifetime ECL, based on historical loss information adjusted for current economic and credit conditions.

Under the previous standard, cash, restricted cash equivalents and trade receivable were classified as loans and receivables and operating loan, trade and other payables, provision for settlement and loans and borrowings were classified as other financial liabilities. These are now all classified as amortized cost. There were no changes to the carrying amount recognized in financial statements for any of these items.
There were no other new or amended standards issued during the period ended June 30, 2018 that are applicable to the Company in future periods. The standards applicable to the Company are as follows and will be adopted on their respective effective dates:

(i) Leases

In January 2016, the IASB issued IFRS 16 Leases that provides a single lease accounting model for lessees, which require the recognition of most leases as finance leases on the balance sheet.

This will result in the recognition of a lease liability and a corresponding recognition of a right-of-use asset. On the statement of net earnings and comprehensive income, lease expense will be recognized and will consist of two components, depreciation expense of the right-of-use asset and interest expense related to the lease liability. Exemptions exist for short-term leases where the term is 12 months or less and for leases of low value items.

IFRS 16 comes into effect on January 1, 2019. The Company is in the process of identifying and reviewing all its leases and determining the potential impact on the financial statements. The Company's initial assessment indicates that many of the operating lease arrangements will meet the definition of a lease under IFRS 16 and thus be recognized in the statement of financial position as a right-of-use asset with a corresponding liability. The most significant impact of this will be for the lease of premises. The Company does not expect other items to have a significant impact, but is still reviewing these agreements.

In addition, the nature of expenses related to these arrangements will change as the current presentation of operating lease expense will be replaced with a depreciation charge for the right-of use asset and interest expense on the lease liabilities. As well, the classification of cash flows will be impacted as the current presentation of operating lease payments as operating cash flows will be split into financing (principal portion) and operating (interest portion) cash flows under IFRS 16.

Additional disclosures will also be required under IFRS 16. Cathedral plans to apply IFRS 16 initially on January 1, 2019 using the cumulative effect method whereby the cumulative impact of adopting the standard will be recognized in retained earnings as at January 1, 2019 and comparative periods will not be restated.

(ii) Uncertainty over Income Tax Treatments

IFRS Interpretations Committee ("IFRIC") issued IFRIC 23 Uncertainty over Income Tax Treatments ("IFRIC 23") which clarifies the accounting for uncertainties in income taxes. The interpretation requires the entity to use the most likely amount or the expected value of the tax treatment if it concludes that it is not probable that a particular tax treatment will be accepted. It requires an entity to assume that a taxation authority with the right to examine any amounts reported to it will examine those amounts and will have full knowledge of all relevant information when doing so.

IFRIC 23 is effective for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted. The requirements are applied by recognizing the cumulative effect of initially applying them in retained earnings, or in other appropriate components of equity, at the start of the reporting period in which an entity first applies them, without adjusting comparative information. Full retrospective application is permitted, if an entity can do so without using hindsight. The Company has yet to determine the impact this standard will have on its consolidated financial statements.

SUMMARY OF QUARTERLY RESULTS

Three month periods ended	Jun 2018	Mar 2018	Dec 2017	Sep 2017	Jun 2017	Mar 2017	Dec 2016	Sep 2016
Revenues	$ 34,973	$ 40,157	$ 38,402	$ 36,015	$ 34,355	$ 38,323	$ 28,009	$ 19,489
Total Adjusted EBITDAS [(1)]	$ (985)	$ 3,443	$ 5,606	$ 3,909	$ 2,363	$ 6,796	$ 3,829	$ 2,173
Total Adjusted EBITDAS [(1)] per share - diluted	$ (0.02)	$ 0.07	$ 0.11	$ 0.06	$ 0.05	$ 0.09	$ 0.11	$ 0.06
Net earnings (loss)	$ (1,778)	$ 294	$ (4,490)	$ 1,810	$ 186	$ 2,581	$ (6,420)	$ (2,126)
Net earnings (loss) per share - basic and diluted	$ (0.04)	$ 0.01	$ (0.09)	$ 0.04	$ -	$ 0.06	$ (0.18)	$ (0.06)

(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: implemented a number of engineering improvements to our equipment to improve durability and performance which should mitigate equipment repair and refurbishment costs in future quarters; continue to focus on all expense categories impacting our business; objectives with our expanded capital program are to achieve higher drilling performance, reduce operating costs and grow our job capacity; an additional 45 new generation 7" CLAW-XT™ high performance motors to be deployed in Q3; anticipate delivery of new 5-1/2" motors by the end of Q3 targeted specifically for 6-3/4" holes sizes in rotary steerable applications; will be rolling out our new Cathedral Linear Pulser add-on to our FUSION™ Measurement-While-Drilling (MWD) platform in Q3; new Cathedral Linear Pulser will reduce our deployment and repair costs as we are currently dependent on third party suppliers with our existing linear pulse telemetry platform; upgrades to our existing FUSION MWD platform equipment, which are aimed at improving MWD performance and reliability continue to be implemented in our operations. Our FUSION MWD platform provides plug and play capability to use electromagnetic or pulse telemetry either stand-alone or combined to provide Dual Telemetry (DT) capability; progress on our next generation Dual Telemetry (DT) MWD tool remains on track for launch in 2019; optimistic and confident about our prospects for the remainder of 2018 and beyond; 2018 Q2 day rate in USD has declined in the first two quarters of 2018 due to customer mix and scope of work that the Company believes is not indicative of a longer term trend; projected capital expenditures and commitments and the financing thereof; and Cathedral expects to comply with all covenants during 2018.

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

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

- the performance of Cathedral's 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 MD&A and in the Company's Annual Information Form under the heading "Risk Factors". Any forward-looking statements are made as of the date hereof and, except as required by law, the Company assumes no obligation to publicly update or revise such statements to reflect new information, subsequent or otherwise.

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

NON-GAAP MEASUREMENTS

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

The specific measures being referred to include the following:

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

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

iii) "Total Adjusted EBITDAS" - defined as earnings before finance costs, unrealized foreign exchange on intercompany balances, taxes, 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) "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 June 30		Six months ended June 30	
	2018	2017	2018	2017
Gross margin	$ (1,975)	$ 2,284	$ 532	$ 8,149
Add non-cash items included in cost of sales:				
Depreciation	2,573	2,774	4,788	5,380
Share-based compensation	33	15	73	30
Adjusted gross margin	$ 631	$ 5,073	$ 5,393	$ 13,559
Adjusted gross margin %	2%	15%	7%	19%

Total Adjusted EBITDAS

	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Earnings (loss) before income taxes	$ (4,224)	$ 54	$ (3,879)	$ 4,026
Add:				
Depreciation included in cost of sales	2,573	2,774	4,788	5,380
Depreciation included in selling, general and administrative expenses	41	25	77	50
Share-based compensation included in cost of sales	33	15	73	30
Share-based compensation included in selling, general and administrative expenses	92	49	185	96
Finance costs	99	96	144	398
Subtotal	(1,386)	3,013	1,388	9,980
Unrealized foreign exchange (gain) loss on intercompany balances	401	(682)	1,070	(874)
Non-recurring expenses	-	49	-	176
Adjusted EBITDAS from continuing operations	(985)	2,380	2,458	9,282
Adjusted EBITDAS from discontinued operations	-	(17)	-	(123)
Total Adjusted EBITDAS	$ (985)	$ 2,363	$ 2,458	$ 9,159

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2018 and December 31, 2017
Dollars in '000s
(unaudited)

		June 30 2018		December 31 2017
Assets				
Current assets:				
Cash	$	3,318	$	2,683
Restricted cash equivalents		-		1,514
Trade receivables		32,338		33,885
Current taxes recoverable		915		86
Prepaid expenses		2,172		1,460
Inventories		13,603		11,128
Total current assets		52,346		50,756
Equipment (note 3)		61,274		58,383
Intangible assets		2,595		1,953
Deferred tax assets		12,672		10,538
Total non-current assets		76,541		70,874
Total assets	$	128,887	$	121,630
Liabilities and Shareholders' Equity				
Current liabilities:				
Operating loan (note 4)	$	-	$	1,233
Trade and other payables		21,102		17,926
Loans and borrowings (note 4)		103		233
Provision for settlements, current		158		348
Total current liabilities		21,363		19,740
Loans and borrowings (note 4)		5,534		46
Provision for settlements, long-term		394		453
Total non-current liabilities		5,928		499
Total liabilities		27,291		20,239
Shareholders' equity:				
Share capital (note 5)		88,155		88,059
Contributed surplus		10,034		9,801
Accumulated other comprehensive income		10,224		8,144
Deficit		(6,817)		(4,613)
Total shareholders' equity		101,596		101,391
Total liabilities and shareholders' equity	$	128,887	$	121,630

See accompanying notes to condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

Three and six months ended June 30, 2018 and 2017
Dollars in '000s except per share amounts
(unaudited)

	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Revenues (note 6)	$ 34,973	$ 34,355	$ 75,130	$ 72,678
Cost of sales:				
Direct costs	(34,342)	(29,282)	(69,737)	(59,119)
Depreciation	(2,573)	(2,774)	(4,788)	(5,380)
Share-based compensation	(33)	(15)	(73)	(30)
Total cost of sales	(36,948)	(32,071)	(74,598)	(64,529)
Gross margin	(1,975)	2,284	532	8,149
Selling, general and administrative expenses:				
Direct costs	(3,574)	(3,635)	(7,272)	(6,721)
Depreciation	(41)	(25)	(77)	(50)
Share-based compensation	(92)	(49)	(185)	(96)
Total selling, general and administrative expenses	(3,707)	(3,709)	(7,534)	(6,867)
	(5,682)	(1,425)	(7,002)	1,282
Technology group expenses	(627)	(401)	(1,228)	(1,066)
Gain on disposal of equipment	2,576	1,277	5,584	3,291
Earnings (loss) from operating activities	(3,733)	(549)	(2,646)	3,507
Finance costs	(99)	(96)	(144)	(398)
Foreign exchange gain (loss)	(392)	699	(1,089)	917
Earnings (loss) before income taxes	(4,224)	54	(3,879)	4,026
Income tax recovery (expense):				
Current	(273)	627	(435)	(28)
Deferred	1,999	(478)	2,110	(1,096)
Total income tax recovery (expense)	1,726	149	1,675	(1,124)
Net earnings (loss) from continuing operations	(2,498)	203	(2,204)	2,902
Net loss from discontinued operations	-	(17)	-	(135)
Net earnings (loss)	(2,498)	186	(2,204)	2,767
Other comprehensive income (loss):				
Foreign currency translation differences for foreign operations	885	(1,285)	2,080	(1,647)
Total comprehensive income (loss)	$ (1,613)	$ (1,099)	$ (124)	$ 1,120
Net earnings (loss) from continuing operations per share				
Basic and diluted	$ (0.05)	$ -	$ (0.04)	$ 0.06
Net loss from discontinued operations per share				
Basic	$ -	$ -	$ -	$ -
Net earnings (loss) per share				
Basic and diluted	$ (0.05)	$ -	$ (0.04)	$ 0.06

See accompanying notes to condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Three and six months ended June 30, 2018 and 2017
Dollars in '000s
(unaudited)

	Share capital	Contributed surplus	Accumulated other comprehensive income	Deficit	Total shareholders' equity
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**
Balance at December 31, 2017	**$ 88,059**	**$ 9,801**	**$ 8,144**	**$ (4,613)**	**$ 101,391**
Total comprehensive income (loss) for six months ended June 30, 2018	-	-	2,080	(2,204)	(124)
Transactions with shareholders, recorded directly in equity contributions by and distributions to shareholders for six months ended June 30, 2018:					
Issue of shares upon exercise of options	96	(25)	-	-	71
Share-based compensation	-	258	-	-	258
Total contributions by and distributions to shareholders	96	233	-	-	329
Balance at June 30, 2018	**$ 88,155**	**$ 10,034**	**$ 10,224**	**$ (6,817)**	**$ 101,596**

See accompanying notes to condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Three and six months ended June 30, 2018 and 2017
Dollars in '000s
(unaudited)

	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Cash provided by (used in):				
Operating activities:				
Net earnings from continuing operations	$ (2,498)	$ 203	$ (2,204)	$ 2,902
Items not involving cash				
Depreciation	2,614	2,799	4,865	5,430
Share-based compensation	125	64	258	126
Income tax expense	(1,726)	(149)	(1,675)	1,124
Gain on disposal of equipment	(2,576)	(1,277)	(5,584)	(3,291)
Finance costs	99	96	144	398
Unrealized foreign exchange (gain) loss on intercompany balances	401	(682)	1,070	(874)
Cash flow - continuing operations	(3,561)	1,054	(3,126)	5,815
Cash flow - discontinued operations	-	(18)	-	(135)
Changes in non-cash operating w orking capital	(112)	1,052	2,791	(5,053)
Income taxes (paid) refunded	(58)	274	(1,264)	1,167
Cash flow - operating activities	(3,731)	2,362	(1,599)	1,794
Investing activities:				
Equipment additions	(4,306)	(2,511)	(8,780)	(3,547)
Intangible asset additions	(519)	(155)	(820)	(234)
Proceeds on disposal of equipment	3,074	1,710	6,849	4,103
Proceeds on disposal of discontinued operations	-	-	-	17,252
Changes in non-cash investing w orking capital	1,860	301	(434)	497
Cash flow - investing activities	109	(655)	(3,185)	18,071
Financing activities:				
Change in operating loan	(833)	-	(1,232)	(2,105)
Repayments on loans and borrow ings	(140)	(45)	(151)	(26,358)
Proceeds on share issuance from bought deal public	-	-	-	13,131
Proceeds on share issuance from exercise of share options	40	-	71	4
Payment on settlements	(40)	(1,156)	(236)	(1,824)
Restricted cash	-	-	1,514	-
Interest paid	(99)	(96)	(144)	(401)
Advances of loans and borrow ings	3,000	-	5,500	-
Cash flow - financing activities	1,928	(1,297)	5,322	(17,553)
Effect of exchange rate on changes on cash	40	(55)	97	(72)
Change in cash and cash equivalents	(1,654)	355	635	2,240
Cash, beginning of period	4,972	3,783	2,683	1,898
Cash, end of period	$ 3,318	$ 4,138	$ 3,318	$ 4,138

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 period ended June 30, 2018 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.

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 judgement 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, 2017, which are included in the Company's 2017 Annual Report.

The unaudited condensed consolidated interim financial statements were authorized for issue by the Board of Directors on August 9, 2018.

(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, 2017. The accounting policies have been applied consistently by the Company, except as described below.

The Company has adopted IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15") and IFRS 9 *Financial Instruments ("IFRS 9")* at January 1, 2018. The adoption of these standards did not have a material effect on the Company's financial statements.

Under IFRS 15, revenue is recognized when a customer obtains control of the good or services. Determining the timing of the transfer of control (at a point in time or over time) requires judgement.

The Company provides directional drilling services. Revenue for these services are recognized over time based on drilling days. Invoices are generated at the end of the job and are due based on the Master Service Agreement with client or signed Terms and Conditions, generally after 30 or 60 days. IFRS 15 did not have a significant impact on the Company's revenue recognition.

Under IFRS 9, financial assets and liabilities are classified and measured at amortized cost, fair value through other comprehensive income or fair value through profit and loss. The classification of financial assets and liabilities is generally based on the business model in which the asset or liability is managed and its contractual cash flow characteristics. Financial assets held within a business model whose objective is to collect contractual cash flows and whose contractual terms give rise to cash flows on specified dates that are solely payments of principal and interest on the principal amount outstanding are measured at amortized cost. After their initial fair value measurement, trade receivable, trade and other payables, operating loan, provision for settlement and loans and borrowings are classified and measured at amortized cost using the effective interest rate method. Upon initial recognition of a non-derivative financial asset, a loss allowance is recorded for expected credit losses (ECL). Loss allowances for trade receivables are measured based on lifetime ECL, based on historical loss information adjusted for current economic and credit conditions.

Under the previous standard, cash, restricted cash equivalents and trade receivable were classified as loans and receivables and operating loan, trade and other payables, provision for settlement and loans and borrowings were classified as other financial liabilities. These are now all classified as amortized cost. There were no changes to the carrying amount recognized in financial statements for any of these items.

Future Accounting Pronouncements

There were no other new or amended standards issued during the period ended June 30, 2018 that are applicable to the Company in future periods. The standards applicable to the Company are as follows and will be adopted on their respective effective dates:

(i) Leases

In January 2016, the IASB issued IFRS 16 Leases that provides a single lease accounting model for lessees, which require the recognition of most leases as finance leases on the balance sheet.

This will result in the recognition of a lease liability and a corresponding recognition of a right-of-use asset. On the statement of net earnings and comprehensive income, lease expense will be recognized and will consist of two components, depreciation expense of the right-of-use asset and interest expense related to the lease liability. Exemptions exist for short-term leases where the term is 12 months or less and for leases of low value items.

IFRS 16 comes into effect on January 1, 2019. The Company is in the process of identifying and reviewing all its leases and determining the potential impact on the financial statements. The Company's initial assessment indicates that many of the operating lease arrangements will meet the definition of a lease under IFRS 16 and thus be recognized in the statement of financial position as a right-of-use asset with a corresponding liability. The most significant impact of this will be for the lease of premises. The Company does not expect other items to have a

significant impact, but is still reviewing these agreements.

In addition, the nature of expenses related to these arrangements will change as the current presentation of operating lease expense will be replaced with a depreciation charge for the right-of use asset and interest expense on the lease liabilities. As well, the classification of cash flows will be impacted as the current presentation of operating lease payments as operating cash flows will be split into financing (principal portion) and operating (interest portion) cash flows under IFRS 16.

Additional disclosures will also be required under IFRS 16. Cathedral plans to apply IFRS 16 initially on January 1, 2019 using the cumulative effect method whereby the cumulative impact of adopting the standard will be recognized in retained earnings as at January 1, 2019 and comparative periods will not be restated.

(ii) Uncertainty over Income Tax Treatments

IFRS Interpretations Committee ("IFRIC") issued IFRIC 23 Uncertainty over Income Tax Treatments ("IFRIC 23") which clarifies the accounting for uncertainties in income taxes. The interpretation requires the entity to use the most likely amount or the expected value of the tax treatment if it concludes that it is not probable that a particular tax treatment will be accepted. It requires an entity to assume that a taxation authority with the right to examine any amounts reported to it will examine those amounts and will have full knowledge of all relevant information when doing so.

IFRIC 23 is effective for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted. The requirements are applied by recognizing the cumulative effect of initially applying them in retained earnings, or in other appropriate components of equity, at the start of the reporting period in which an entity first applies them, without adjusting comparative information. Full retrospective application is permitted, if an entity can do so without using hindsight. The Company has yet to determine the impact this standard will have on its consolidated financial statements.

3. Equipment

During the period, there were additions to drilling equipment of $8,780 (2017 - $3,547).

4. Operating loan and Loans and borrowings

		June 30 2018		December 31 2017
Current liabilities:				
Current portion of finance lease liabilities	$	103	$	233
Non-current liabilities:				
Finance lease liabilities	$	34	$	46
Secured revolving term loan		5,500		-
Total	$	5,534	$	46

Terms and debt repayment schedule

In December 2017, the Company signed a new credit facility (the "Facility") with a new lending syndicate. The Facility consists of a $5 million operating facility and $15 million extendible revolving credit facility and expires December 31, 2019. The Facility is secured by a general security agreement over all present and future personal property.

The financial covenants associated with the amended Facility are:
Consolidated funded debt to consolidated Facility EBITDA (as defined in the Facility agreement) 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 to the 12 month trailing Facility 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.

At June 30, 2018, the Company had drawn $5,500 of its revolving credit facility. The Company's Funded Debt level under the lending agreement was $3,590. For the rolling twelve months ended June 30, 2018, Facility EBITDA was $14,120.

Ratio	Actual	Required
Consolidated funded debt to consolidated Facility EBITDA ratio	0.3:1	3.0:1 maximum
Consolidated interest coverage ratio	32.8:1	2.5:1 minimum

Subsequent to June 30, 2018 the Company drew another $1,500 of its revolving credit facility. Based on current available information, Cathedral expects to comply with all covenants for the next twelve months.

5. 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, 2018		
	Number		Amount
Issued, beginning of period	49,383,951	$	88,059
Issued on exercise of options	84,166		96
Issued, end of period	49,468,117	$	88,155

Issuance of common shares

84,166 common shares were issued as a result of the exercise of vested options arising from grants to employees. Options were exercised at an

average strike price of $0.85 per option. All issued shares are fully paid.

Basic earnings per share

The calculation of basic earnings per share for the three and six months ended June 30, 2018 was based on the profit (loss) attributable to common shareholders of $(2,498) and $(2,204) (2017 – $186 and $2,767) and a weighted average number of common shares outstanding of 49,444,647 and 48,916,451 (2017 – 49,421,916 and 45,778,781); calculated as follows:

Weighted average number of ordinary shares

	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Issued, beginning of period	49,418,951	48,916,451	49,383,951	36,295,380
Effect of bought deal and private placement	-	-	-	9,479,478
Effect of share options exercised	25,696	-	37,965	3,923
Weighted average number of common shares at end of period	49,444,647	48,916,451	49,421,916	45,778,781

Diluted earnings per share

The calculation of diluted earnings per share for the three and six months ended June 30, 2018 was not calculated as these were losses. For June 30, 2017, it was based on profit attributable to common shareholders of $186 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 calculated as follows:

Weighted average number of common shares (diluted)

	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Weighted average number of common shares (basic)	49,444,647	48,916,451	49,421,916	45,778,781
Effect of share options on issue	33,291	106,162	116,118	138,034
Weighted average number of common shares (diluted) at end of period	49,477,938	49,022,613	49,538,034	45,916,815

At June 30, 2018, 1,649,000 options (2017 – 1,840,250 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.

6. Revenue

a) Disaggregation of revenue

The following table reconciles revenue by geographic location:

	Three months ended June 30		Six months ended June 30	
	2018	2017	2018	2017
Canada	$ 4,465	$ 4,914	$ 15,102	$ 15,380
United States	30,508	29,441	60,028	57,298
Total	$ 34,973	$ 34,355	$ 75,130	$ 72,678

b) Seasonality of operations

A 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.

7. Commitments

In the normal course of business, the Company incurs contractual obligations and those obligations are disclosed in the Company's financial statements for the year ended December 31, 2017. As at June 30, 2018, the Company had a commitment to purchase approximately $4,109 of equipment. Cathedral anticipates expending these funds 2018 Q3 and Q4 based upon current delivery lead times.

The Company has issued the following five standby letters of credit ("LOC"):

- two LOC 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;
- one LOC $75 USD issued for U.S. workers compensation coverage; and
- two LOC securing the Company's corporate credit cards in the amounts of $100 CAD and $150 USD.

8. Comparative figures

Certain comparative figures have been reclassified to conform to current year presentation.