

Cathedral Energy Services Reports Results for 2017 Q2

/NOT FOR DISSEMINATION IN THE UNITED STATES OF AMERICA/

CALGARY, Aug. 10, 2017 /CNW/ - Cathedral Energy Services Ltd. (the "Company" or "Cathedral" / TSX: CET) announces its consolidated financial results for the three and six months ended June 30, 2017 and 2016. Dollars in 000's except per share amounts.

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

FINANCIAL HIGHLIGHTS

Dollars in 000's except per share amounts

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

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

(1) Refer to "NON-GAAP MEASUREMENTS"

2017 Q2 KEY TAKEAWAYS

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

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

OUTLOOK

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

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

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

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

prices that started in April, however, we have made progress with some customers who recognize our value.

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

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

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

2017 CAPITAL PROGRAM

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

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

(1) See "NON-GAAP MEASUREMENTS"

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

RESULTS OF OPERATIONS – THREE MONTHS ENDED JUNE 30

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

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

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

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

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

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

clients, which can result in higher relative day rates. U.S. motor rental revenues for 2017 Q2 were \$198 compared to \$907 in 2016 Q2.

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

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

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

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

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

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

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

Foreign exchange The Company had a foreign exchange gain of \$699 in 2017 Q2 compared to a loss of \$(56) in 2016 Q2 due to the fluctuations of the Canadian dollar relative to the U.S. dollar. The Company's foreign operations are denominated in a currency other than the Canadian dollar and therefore, upon consolidation, gains and losses due to fluctuations in the foreign currency exchange rates are recorded as other comprehensive income on the balance sheet as a component of equity. However, gains and losses in the Canadian entity on U.S. denominated intercompany balances continue to be recognized in the statement of comprehensive income (loss). Included in the 2017 Q2 foreign currency gains are unrealized gain of \$682 (2016 Q2 – loss of \$(24)) related to intercompany balances.

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

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

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

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

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

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

RESULTS OF OPERATIONS – SIX MONTHS ENDED JUNE 30

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

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

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

The average active land rig count in Canada was up 100% in 2017 compared to 2016. The increase in the Company's activity days relative to the active rigs

drilling was a result of sales and marketing efforts and the Company demonstrating performance on client jobs. The slight increases in day rates was due to the mix of work performed.

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

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

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

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

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

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

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

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

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

Foreign exchange The Company had a foreign exchange gain of \$917 in 2017 compared to \$2,298 in 2016 due to the fluctuations of the Canadian dollar relative to the U.S. dollar. The Company's foreign operations are denominated in a currency other than the Canadian dollar and therefore, upon consolidation, gains and losses due to fluctuations in the foreign currency exchange rates are recorded as other comprehensive income on the balance sheet as a component of equity. However, gains and losses in the Canadian entity on U.S. denominated intercompany balances continue to be recognized in the statement of comprehensive income (loss). Included in the 2017 foreign currency gains are unrealized gain of \$874 (2016 –\$2,340) related to intercompany balances.

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

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

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

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

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

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

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

LIQUIDITY AND CAPITAL RESOURCES

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

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

Working capital At June 30, 2017 the Company had working capital of \$29,692 (December 31, 2016 - \$39,324) and a working capital ratio of 2.8 to 1 (December 31, 2016 – 3.3 to 1). The decrease in working capital level was primarily due to the sale of F&PT assets held for sale which had been classified as a current asset

at December 31 in the amount of \$17,241. Partially offsetting this was an increase in trade receivables of \$3,981 from December 31, 2016. Upon closing of the F&PT sale on January 16, 2017, \$17,200 of the revolving term loan was repaid.

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

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

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

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

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

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

After the amendments discussed above, the Facility bears interest at the bank's prime rate plus 0.50% to 5.00% or bankers' acceptance rate plus 1.75% to 6.25% with interest payable monthly. Interest rate spreads for the Facility depend on the level of funded debt to the 12 month trailing Bank EBITDA. The Facility provides a means to lock in a portion of the debt at interest rates through bankers' acceptance ("BA") based on the interest rate spread on the date the BA was entered into.

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

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

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

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

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

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2017 and December 31, 2016

Dollars in '000s
(unaudited)

	June 30 2017	December 31 2016
Assets		
Current assets:		
Cash	\$ 4,138	\$ 1,898
Trade receivables	30,226	26,245
Current taxes recoverable	331	1,336
Prepaid expenses	1,444	1,611
Inventories	9,961	8,037
Assets held for sale	-	17,241
Total current assets	46,100	56,368
Equipment	65,643	68,158
Intangible assets	2,032	1,978
Deferred tax assets	8,400	9,513
Total non-current assets	76,075	79,649
Total assets	\$ 122,175	\$ 136,017

Liabilities and Shareholders' Equity

Current liabilities:		
Operating loan	\$ -	\$ 2,105
Trade and other payables	15,010	12,837
Loans and borrowings	306	459
Provision for settlements, current	1,092	1,643

Total current liabilities	16,408	17,044
Loans and borrowings	71	26,322
Provision for settlements, long-term	545	1,879
Total non-current liabilities	616	28,201
Total liabilities	17,024	45,245

Shareholders' equity:

Share capital	87,617	74,481
Contributed surplus	9,743	9,620
Accumulated other comprehensive income	9,724	11,371
Deficit	(1,933)	(4,700)
Total shareholders' equity	105,151	90,772
Total liabilities and shareholders' equity	\$ 122,175	\$ 136,017

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

Three and six months ended June 30, 2017 and 2016

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

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Three and six months ended June 30, 2017 and 2016

Dollars in '000s
(unaudited)

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

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

Various material factors and assumptions are typically applied in drawing conclusions or making the forecasts or projections set out in forward-looking statements. Those material factors and assumptions are based on information currently available to the Company, including information obtained from third party industry analysts and other third party sources. In some instances, material assumptions and material factors are presented elsewhere in this 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;
- capital expenditure programs and other expenditures by Cathedral and its customers;
- the ability of Cathedral to retain and hire qualified personnel;
- the ability of Cathedral to obtain parts, consumables, equipment, technology, and supplies in a timely manner to carry out its activities;
- the ability of Cathedral to maintain good working relationships with key suppliers;
- the ability of Cathedral to market its services successfully to existing and new customers and reliance on major customers;
- risks associated with technology development and intellectual property rights;
- the ability of Cathedral to maintain safety performance;
- the ability of Cathedral to obtain timely financing on acceptable terms;
- the ability to obtain sufficient insurance coverage to mitigate operational risks;
- currency exchange and interest rates;
- risks associated with foreign operations;
- risks associated with acquisitions and business development efforts;
- environmental risks;

- changes under governmental regulatory regimes and tax, environmental and other laws in Canada and U.S.; and
- competitive risks.

Forward-looking statements are not a guarantee of future performance and involve a number of risks and uncertainties some of which are described herein. Such forward-looking statements necessarily involve known and unknown risks and uncertainties, which may cause the Company's actual performance and financial results in future periods to differ materially from any projections of future performance or results expressed or implied by such forward-looking statements. These risks and uncertainties include, but are not limited to, the risks identified in this 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 and Annual Report which have been filed with Canadian provincial securities commissions and are available on www.sedar.com.

NON-GAAP MEASUREMENTS

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

The specific measures being referred to include the following:

- "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; is considered a primary indicator of operating performance (see tabular calculation);
- "Total Adjusted EBITDAS" - defined as earnings before share of income/loss from associate, write-down/recovery on investment in associate finance costs, unrealized foreign exchange on intercompany balances, unrealized foreign exchange due to hyper-inflation accounting, taxes, non-recurring gains and losses on disposal of equipment (see non-GAAP measurement), depreciation, write-down of goodwill, write-down of equipment, write-down of inventory and share-based compensation; is considered an indicator of the Company's ability to generate funds flow from operations prior to consideration of how activities are financed, how the results are taxed and measured and non-cash expenses (see tabular calculation). This measure includes both discontinued F&PT operations and continuing Directional Drilling operations;
- "Adjusted EBITDAS from discontinued operations" – Total Adjusted EBITDAS as calculated above from discontinued F&PT operations only;
- "Adjusted EBITDAS from continuing operations" – Total Adjusted EBITDAS as calculated above for ongoing Directional Drilling as well as corporate administrative costs;
- "Funds from operations" - calculated as cash provided by operating activities before changes in non-cash working capital and income taxes paid less current tax expense; is considered an indicator of the Company's ability to generate funds flow from operations on an after tax basis but excluding changes in non-cash working capital which is financed using the Company's operating loan (see tabular calculation);
- "Growth equipment additions" or "Growth capital" – is capital spending which is intended to result in incremental revenues or decreased operating costs. Growth capital is considered to be a key measure as it represents the total expenditures on equipment expected to add incremental revenues and funds flow to the Company;
- "Maintenance equipment additions" or "Maintenance capital" – is capital spending incurred in order to refurbish or replace previously acquired other than "replacement equipment additions" described below. Such additions do not provide incremental revenues. Maintenance capital is a key component in understanding the sustainability of the Company's business as cash resources retained within Cathedral must be sufficient to meet maintenance capital needs to replenish the assets for future cash generation;
- "Replacement equipment additions" or "Replacement capital" – is capital spending incurred in order to replace equipment that is lost downhole. Cathedral recovers lost-in-hole costs including previously expensed depreciation on the related assets from customers. Such additions do not provide incremental revenues. The identification of replacement equipment additions is considered important as such additions are financed by way of proceeds on disposal of equipment (see discussion within the news release on "gain on disposal of equipment");
- "Infrastructure equipment additions" or "Infrastructure capital" – is capital spending incurred on land, buildings and leasehold improvements. Infrastructure capital is a component in understanding the sustainability of the Company's business as cash resources retained within Cathedral must be sufficient to meet maintenance capital needs;
- "Non-recurring gains and losses on disposal of equipment" – are disposals of equipment that do not occur on a regular or periodic basis. Unlike the lost-in-hole recoveries, the proceeds from these gains are not used on equivalent replacement property. These are often on non-field equipment such as land and buildings;
- "Net equipment additions" – is equipment additions expenditures less proceeds on the regular disposal of equipment (the proceeds on sale of land and buildings have been excluded). Cathedral uses net equipment additions to assess net cash flows related to the financing of Cathedral's equipment additions; and
- "Net debt" – is loans and borrowing less working capital. Management uses net debt as a metric to shows the Company's overall debt level.

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

Adjusted gross margin

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

Total Adjusted EBITDAS

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

Funds from operations

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

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.

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