



CATHEDRAL

2017 Q3 INTERIM REPORT

FINANCIAL HIGHLIGHTS

Dollars in '000's except per share amounts

	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
Revenues	\$ 36,015	\$ 19,489	\$ 108,693	\$ 52,857
Adjusted gross margin % ⁽¹⁾	18%	21%	18%	21%
Adjusted EBITDAS ⁽¹⁾	\$ 3,909	\$ 2,171	\$ 13,068	\$ 2,009
Diluted per share	\$ 0.08	\$ 0.06	\$ 0.28	\$ 0.06
As % of revenues	11%	11%	12%	4%
Funds from (used in) continuing operations ⁽¹⁾	\$ 1,898	\$ 628	\$ 7,553	\$ (1,004)
Diluted per share	\$ 0.04	\$ 0.02	\$ 0.16	\$ (0.03)
Gain on disposal of foreign subsidiary	\$ -	\$ -	\$ -	\$ 10,865
Earnings (loss) before income taxes	\$ 1,990	\$ (2,058)	\$ 6,016	\$ 371
Basic and diluted per share	\$ 0.04	\$ (0.06)	\$ 0.13	\$ 0.01
Net earnings (loss)	\$ 1,810	\$ (2,126)	\$ 4,577	\$ 641
Basic and diluted per share	\$ 0.04	\$ (0.06)	\$ 0.10	\$ 0.02
Equipment additions - cash basis	\$ 3,518	\$ 146	\$ 7,065	\$ 484
Weighted average shares outstanding				
Basic (000s)	48,916	36,295	46,836	36,295
Diluted (000s)	49,035	36,297	46,947	36,295

	September 30	December 31
	2017	2016
Working capital	\$ 29,618	\$ 39,324
Total assets	\$ 120,960	\$ 136,017
Loans and borrowings excluding current portion	\$ 53	\$ 26,322
Shareholders' equity	\$ 105,085	\$ 90,772

(1) Refer to "NON-GAAP MEASUREMENTS"

MANAGEMENT'S DISCUSSION & ANALYSIS

This Management's Discussion & Analysis ("MD&A") for the three and nine months ended September 30, 2017 should be read in conjunction with the annual audited consolidated financial statements and notes thereto for the year ended December 31, 2016, as well as the MD&A in the 2016 Annual Report of Cathedral Energy Services Ltd. (the "Company" or "Cathedral"). This MD&A has been prepared as of November 9, 2017. Dollar amounts are in '000's except for day rates and per share amounts.

2017 Q3 KEY TAKEAWAYS

Q3 revenues increased 85% from \$19,489 in 2016 Q3 to \$36,015 in 2017 Q3 and year-to-date revenues increased 106% from \$52,857 in 2016 to \$108,693 in 2017.

Q3 adjusted EBITDAS increased from \$2,171 in 2016 Q3 to \$3,909 in 2017 Q3, an increase of 80%. Year-to-date adjusted EBITDAS increased from \$2,009 in 2016 to \$13,068 in 2017, an increase of 550%.

Q3 net earnings increased from a loss of \$(2,126) to net earnings of \$1,810. Year-to-date net earnings increased from \$641 in 2016 to \$4,577.

As a result of the improved profitability, the Company was able to make equipment additions of \$3,518 in 2017 Q3 (2016 - \$146) and \$7,065 year-to-date (2016 - \$484).

OUTLOOK

Key business pressures for Cathedral in 2017 have been continued pricing pressure, escalating input costs, increased equipment repair and maintenance costs and reduced equipment availability due to damages to and loss of equipment. The latter two issues have been largely due to client drilling practices where directional drilling equipment is getting pushed harder than in the past. Despite these pressures we are pleased that we have been able to remain firmly cash flow positive, generate positive earnings, maintain a strong balance sheet and continue to commit capital and resources to improve and grow our Company.

As foreshadowed in our 2017 Q2 MD&A Outlook, we anticipated that our U.S. activity levels would likely remain flat in Q3 compared to Q2 due to equipment capacity constraints. From the end of Q2 to the end of Q3, the U.S. rig count remained flat at an average 946 rigs (source: Baker Hughes). However, our U.S. sequential quarter activity days dropped 12% from Q2 to Q3. This was in part due to the mix in work in the quarter but also due to certain clients using specialized equipment that we were unable to provide. This was isolated to certain clients and was in part a result of larger oilfield services companies offering specialized equipment to operators at attractive prices. We started implementing strategies to deal with this in late Q3 and along with new equipment being deployed starting in Q4, we expect our ability to increase market share will improve into 2018. Anticipated capital expenditures to be realized for 2017 are \$13,400 plus any replacement of equipment lost down hole in Q4. Our capital expenditure pacing has been more backend loaded due to our confidence increasing throughout the year and issues with timing on receiving equipment, components and parts.

Offsetting lower sequential quarter activity day decreases in the U.S. was that we were able to achieve modest price increases. Our day rates increased 11% from Q2 to Q3. This was a result of demonstrating our performance capabilities to clients and also from improved recoveries on damaged equipment. Our footage based pricing model in the U.S. also provides higher margins than day-rate work, however, the mix of footage versus day-rate pricing varies from quarter to quarter.

In the second half of 2017 we more aggressively further expand our Drilling Engineering Services offering in the U.S. in an effort to assist our clients with improving drilling practices and to improve and better demonstrate our performance advantages.

In Canada, in 2017 Q3 we experienced significantly improved activity levels following the seasonal Q2 spring break-up in Canada where activity levels are low. The Canadian industry continues to be challenging from a pricing perspective and we have consciously avoided taking low margin or no margin work. Margins in the U.S. are significantly better resulting in a bias to deploying equipment in the U.S. rather than Canada. Pricing in Canada has shown improvement since 2017 Q1. Similar to the U.S., part of this improvement has also been our ability to recover costs associated with damaged equipment from clients. We are implementing a number of strategies to improve Canadian market share as we continue to see Canada as a key long-term market for the Company.

Looking forward, since the end of September the U.S. rig count has declined 3% from 940 active rigs at the end of June to 909 active rigs at the end of October. However, over this same period there has been a significant improvement in WTI compared to the first half of 2017 with prices firming up over \$50 USD/bbl. We believe that this improvement in WTI pricing could result in the North American rig count improving into 2018, however, our expectation is still for flat to moderate industry growth. For 2017 Q4, activity days available are also typically challenged by downtime resulting from U.S. Thanksgiving and Christmas related slowdowns in the U.S. and Canada. In Canada, Q4 activity levels may be further impacted by a number of our Clients taking a short break in their drilling programs in October.

In an overall flat to moderate growth drilling activity environment, our growth will be dependent on gaining market share. With our equipment capacity now increasing due to our 2017 capital expenditures, our focus on providing our clients Better Performance Every Day and continued improvements in operations, sales and technology, we are positive about our prospects going into 2018.

2017 CAPITAL PROGRAM

During the nine months ended September 30, 2017 the Company invested \$7,065 (2016 - \$484) in equipment. The following table details the current period's net equipment additions:

	Nine months ended September 30, 2017	
Equipment additions:		
Growth capital ⁽¹⁾	\$	3,062
Maintenance capital ⁽¹⁾		2,999
Replacement capital ⁽¹⁾		1,004
Total cash additions		7,065
Less: proceeds on disposal of equipment (excluding capital lease settlements)		(6,417)
Net equipment additions ⁽¹⁾	\$	648

(1) See "NON-GAAP MEASUREMENTS"

Cathedral's 2017 capital budget ("capex") was originally approved at \$10,000 of net equipment additions⁽¹⁾ ("net additions") for the year. The \$10,000 net capex plan for 2017 was comprised of \$4,900 of replacement and maintenance capital and \$5,100 of growth capital. While the approved capex remains at \$10,000 for net additions, due to delivery lead times some amounts will not be realized until after year-end. The Company currently estimates its total capital expenditures to the end of December 31, 2017 will be \$13,400 plus a portion of additional equipment lost-in-hole replacement occurring in 2017 Q4. Based on proceeds from disposal of equipment to the end of 2017 Q3, this will result in approximately \$7,000 in net additions to December 31, 2017. On the originally approved capital expenditures, the Company anticipates having a carry-over of \$3,000 in capital expenditures into 2018 Q1 and Q2.

The replacement and maintenance capital amounts noted above, is expenditures 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, equipment lost-in-hole will be replaced and funded from the proceeds received. As such, Cathedral's total capex in any year may exceed the budgeted net additions. 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 SEPTEMBER 30

Revenues	2017		2016
Canada	\$	9,187	\$ 5,843
United States		26,828	13,646
Total	\$	36,015	\$ 19,489

Revenues 2017 Q3 revenues were \$36,015, which represented an increase of \$16,526 or 85% from 2016 Q3 revenues of \$19,489. 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 cash flow contribution is typically higher. As a consequence motor rental revenue in both Canada and the U.S. were less in 2017 Q3 compared to 2016 Q3.

Canadian revenues (excluding motor rental revenues) increased to \$7,978 in 2017 Q3 from \$4,502 in 2016 Q3; a 77% increase. This increase was the result of: i) a 66% increase in activity days to 1,120 in 2017 Q3 from 673 in 2016 Q3; and ii) a 6% increase in the average day rate to \$7,123 in 2017 Q3 from \$6,689 in 2016 Q3. Partially offsetting the revenue increase was a decrease in motor rental revenue to \$1,209 in 2017 Q3 from \$1,341 in 2016 Q3.

The average active land rig count in Canada was up 68% in 2017 Q3 compared to 2016 Q3 (source: Baker Hughes). This is in line with the 66% increase in activity days the Company had on a year-over-year basis. The increases in day rates was primarily due to increased tool damage and repair recoveries from customers.

U.S. revenues (excluding motor rental revenues) increased to \$26,630 in 2017 Q3 from \$13,012 in 2016 Q3; a 105% increase. This increase was the result of: i) a 74% increase in activity days to 2,233 in 2017 Q3 from 1,283 in 2016 Q3; and ii) a 18% increase in the average day rate to \$11,926 in 2017 Q3 from \$10,141 in 2016 Q3 (when converted to Canadian dollars). All U.S. operating areas saw increases in activity days. U.S. motor rental revenues for 2017 Q3 were \$198 compared to \$634 in 2016 Q3.

The average active land rig count for the U.S. was up 110% in 2017 Q3 compared to 2016 Q3 (source: Baker Hughes). The Company experienced a 74% increase in activity days which resulted in a decrease in market share over this period. The reason for the decreased market share was that the Company was equipment constrained during 2017 Q3 and was not able to add work for certain clients. In addition, in 2017 Q3 the company was not able to meet client specific equipment requirements on certain jobs resulting in its activity levels on those jobs being decreased. Day rates in USD increased to \$9,520 USD in 2017 Q3 from \$7,768 USD in 2016 Q3; a 23% 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.

Gross margin and adjusted gross margin Gross margin for 2017 Q3 was 10% compared to 5% in 2016 Q3. Adjusted gross margin (see Non-GAAP Measurements) for 2017 Q3 was \$6,516 or 18% compared to \$4,151 or 21% for 2016 Q3. The adjusted gross margin percentage decrease was primarily due to increases in equipment repairs in order to bring the equipment fleet back to operating condition and increased labour costs. Additionally, there were higher equipment rentals to service the increased work levels. These cost 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 Q3 compared to 2016 Q3. 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 \$2,748 in 2017 Q3 from \$3,077 in 2016 Q3. Depreciation included in cost of sales as a percentage of revenue was 8% for 2017 Q3 and 16% in 2016 Q3.

Selling, general and administrative expenses ("SG&A") SG&A expenses were \$4,602 in 2017 Q3; an increase of \$1,061 or 30% compared with \$3,541 in 2016 Q3. As a percentage of revenue, SG&A was 13% in 2017 Q3 compared to 18% in 2016 Q3. SG&A increased primarily due to U.S. state sales taxes on intercompany equipment rentals. Cathedral's Canadian entity owns all Cathedral's downhole drilling equipment and rents it to the U.S. entity and is subject to state sales tax on these amounts.

Gain on disposal of equipment During 2017 Q3, the Company had a gain on disposal of equipment of \$1,907 compared to \$1,170 in 2016 Q3. These gains mainly relate to equipment lost-in-hole. Proceeds from clients on lost-in-hole equipment are based on amounts specified in service agreements and, in most cases, these proceeds exceed the net book value of the equipment and result in a gain. The timing of lost-in-hole recoveries is not in the control of the Company and therefore can fluctuate significantly from quarter-to-quarter.

Finance costs Finance costs, which consist of interest expenses on operating loans, loans and borrowings and bank charges, were \$129 for 2017 Q3 versus \$596 for 2016 Q3. 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 \$1,059 in 2017 Q3 compared to a loss of \$(159) in 2016 Q3 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 Q3 foreign currency gains are unrealized gain of \$1,142 (2016 Q3 – loss of \$(166)) related to intercompany balances.

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

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

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

installments concluding in 2021.

During 2017 Q3, payments on both settlements of \$249 (2016 - \$570) were made.

Income tax For 2017 Q3, the Company had an income tax expense of \$173 compared to recovery of \$710 in 2016 Q3. Excluding adjustments to prior years' tax provisions, the effective tax rate was 19% for 2017. Excluding the non-cash gain on disposal of foreign subsidiary but including the loss from discontinued operations, the effective tax rate was 31% 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 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 Q3, the net loss from discontinued operations was \$(7) compared to \$(778) net loss for 2016 Q3.

RESULTS OF OPERATIONS – NINE MONTHS ENDED SEPTEMBER 30

Revenues		2017		2016
Canada	\$	24,567	\$	14,792
United States		84,126		38,065
Total	\$	108,693	\$	52,857

Revenues 2017 revenues were \$108,693, which represented an increase of \$55,836 or 106% from 2016 revenues of \$52,857. 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 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 \$21,428 in 2017 from \$9,655 in 2016; a 122% increase. This increase was the result of: i) a 113% increase in activity days to 3,076 in 2017 from 1,445 in 2016; and ii) a 4% increase in the average day rate to \$6,966 in 2017 from \$6,682 in 2016. Partially offsetting the revenue increase was a decrease of in motor rental revenue to \$3,139 from 2016 at \$5,137.

The average active land rig count in Canada was up 87% in 2017 compared to 2016 (source: Baker Hughes). The increase in the Company's activity days of 113% 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. revenues (excluding motor rental revenues) increased to \$83,451 in 2017 from \$35,420 in 2016; a 136% increase. This increase was the result of: i) a 126% increase in activity days to 7,329 in 2017 from 3,246 in 2016; and ii) a 4% increase in the average day rate to \$11,386 in 2017 from \$10,912 in 2016 (when converted to Canadian dollars). All U.S. operating areas saw increases in activity days. U.S. motor rental revenues for 2017 were \$675 compared to \$2,645 in 2016.

The average active land rig count for the U.S. was up 84% in 2017 compared to 2016 (source: Baker Hughes). The increase of U.S. activity days of 126% relative to the active rigs drilling was 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 increased to \$8,707 USD in 2017 from \$8,250 USD in 2016; a 6% 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.

Gross margin and adjusted gross margin Gross margin for 2017 was 11% compared to 4% in 2016. Adjusted gross margin (see Non-GAAP Measurements) for 2017 was \$20,075 or 18% compared to \$11,241 or 21% for 2016.

Adjusted gross margin percentage decreased due to increases in field labour rates, equipment repairs 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 10% 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 \$8,128 in 2017 from \$9,285 in 2016. Depreciation included in cost of sales as a percentage of revenue was 7% for 2017 and 18% in 2016.

Selling, general and administrative expenses ("SG&A") SG&A expenses were \$12,535 in 2017; an increase of \$1,207 or 11% compared with \$11,328 in 2016. As a percentage of revenue, SG&A was 12% in 2017 compared to 21% in 2016. SG&A increased primarily due to increases in sales commissions and U.S. sales tax charges on intercompany equipment rentals, net of a reduction in SG&A from the recovery of a bad debt.

Gain on disposal of equipment During 2017, the Company had a gain on disposal of equipment of \$5,198 compared to \$2,202 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 \$527 for 2017 versus \$1,382 for 2016. The decrease in finance costs relate to primarily to repayments of loans in 2017 Q1.

Foreign exchange The Company had a foreign exchange gain of \$1,976 in 2017 compared to \$2,139 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 \$2,016 (2016 - \$2,174) 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 During 2017, payments on both settlements of \$2,073 (2016 - \$570) were made. This amount includes accelerated FLSA

settlement payments described previously.

Income tax For 2017, the Company had an income tax expense of \$1,297 compared to recovery of \$(3,463) in 2016. Excluding adjustments to prior years' tax provisions, the effective tax rate was 22% for 2017. Excluding the non-cash gain on disposal of foreign subsidiary but including the loss from discontinued operations, the effective tax rate was 31% 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 \$(142) compared to \$(3,193) 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 nine months ended September 30, 2017, the Company had funds from continuing operations (see Non-GAAP Measurements) of \$7,553 (2016 – funds used in operations \$(1,004)). 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 September 30, 2017 were \$4,049.

Working capital At September 30, 2017 the Company had working capital of \$29,618 (December 31, 2016 - \$39,324) and a working capital ratio of 2.9 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 \$3,705 from December 31, 2016.

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
September 30, 2017	3.5:1	3.0:1
December 31, 2017	3.25:1	3.0:1
September 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 September 30, 2017, the Company had cash balances in excess of outstanding letters of credit and capital lease obligations. As such its funded debt to bank EBITDA ratio ("Funded debt ratio") was negative (i.e. net cash balance). As such, the Funded debt ratio has been met, but is not meaningful ("NM") for presentation. For the rolling twelve months ended September 30, 2017 Bank EBITDA was \$18,799.

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

Ratio	Actual	Required
Funded debt to Bank EBITDA ratio	NM	3.5:1 Maximum
Debt service ratio	11.7:1	2.0:1 Minimum
Working capital ratio	2.93:1	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 September 30, 2017, the Company had a commitment to purchase approximately \$611 of equipment.

Share capital At November 9, 2017, the Company has 48,916,451 common shares and 3,414,500 options outstanding with a weighted average exercise price of \$1.34.

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 September 30, 2017 that have materially affected, or are reasonably likely to materially affect, Cathedral's ICFR.

RISK FACTORS

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

GOVERNANCE

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

NEW AND FUTURE ACCOUNTING POLICIES

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

SUMMARY OF QUARTERLY RESULTS

Three month periods ended	Sep 2017	Jun 2017	Mar 2017	Dec 2016	Sep 2016	Jun 2016	Mar 2016	Dec 2015
Revenues	\$ 36,015	\$ 34,355	\$ 38,323	\$ 28,009	\$ 19,489	\$ 14,624	\$ 18,744	\$ 21,161
Total Adjusted EBITDAS ⁽¹⁾	\$ 3,909	\$ 2,363	\$ 6,796	\$ 3,831	\$ 2,171	\$ (1,638)	\$ 1,476	\$ (169)
Adjusted EBITDAS ⁽¹⁾ per share - diluted	\$ 0.08	\$ 0.05	\$ 0.16	\$ 0.11	\$ 0.06	\$ (0.05)	\$ 0.04	\$ (0.00)
Net earnings (loss)	\$ 1,810	\$ 186	\$ 2,581	\$ (6,420)	\$ (2,126)	\$ (6,916)	\$ 9,683	\$ (10,500)
Net earnings (loss) per share - basic and diluted	\$ 0.04	\$ 0.00	\$ 0.06	\$ (0.18)	\$ (0.06)	\$ (0.19)	\$ 0.27	\$ (0.29)
Dividends declared per share	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

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

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: anticipated capital expenditures to be realized for 2017 are \$12,400 plus any replacement of equipment lost down hole in Q4; improvement in WTI pricing could result in the North American rig count improving into 2018, however, our expectation is still for flat to moderate industry growth; 2017 Q4, activity days available are also typically challenged by downtime resulting from U.S. Thanksgiving and Christmas related slowdowns; Q4 activity levels in Canada may also be further impacted by a number of our Clients taking a short break in their drilling programs in December; growth will be dependent on gaining market share; positive about our prospects going into 2018; projected capital expenditures, commitments and the financing thereof; anticipates to having a carry-over of \$4,000 in capital expenditures into 2018 Q1 and Q2; and Cathedral expects to comply with all covenants during 2017.

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

- the performance of Cathedral's businesses, including current business and economic trends;
- oil and natural gas commodity prices and production levels;
- capital expenditure programs and other expenditures by Cathedral and its customers;
- the ability of Cathedral to retain and hire qualified personnel;
- the ability of Cathedral to obtain parts, consumables, equipment, technology, and supplies in a timely manner to carry out its activities;
- the ability of Cathedral to maintain good working relationships with key suppliers;
- the ability of Cathedral to market its services successfully to existing and new customers and reliance on major customers;
- risks associated with technology development and intellectual property rights;
- the ability of Cathedral to maintain safety performance;
- the ability of Cathedral to obtain timely financing on acceptable terms;
- the ability to obtain sufficient insurance coverage to mitigate operational risks;
- currency exchange and interest rates;
- risks associated with foreign operations;
- risks associated with acquisitions and business development efforts;
- environmental risks;
- changes under governmental regulatory regimes and tax, environmental and other laws in Canada and U.S.; and

- competitive risks.

Forward-looking statements are not a guarantee of future performance and involve a number of risks and uncertainties some of which are described herein. Such forward-looking statements necessarily involve known and unknown risks and uncertainties, which may cause the Company's actual performance and financial results in future periods to differ materially from any projections of future performance or results expressed or implied by such forward-looking statements. These risks and uncertainties include, but are not limited to, the risks identified in this MD&A and in the Company's Annual Information Form under the heading "Risk Factors". Any forward-looking statements are made as of the date hereof and, except as required by law, the Company assumes no obligation to publicly update or revise such statements to reflect new information, subsequent or otherwise.

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

NON-GAAP MEASUREMENTS

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

The specific measures being referred to include the following:

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

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

Adjusted gross margin

	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
Gross margin	\$ 3,755	\$ 1,068	\$ 11,904	\$ 1,948
Add non-cash items included in cost of sales:				
Depreciation	2,748	3,077	8,128	9,285
Share-based compensation	13	6	43	8
Adjusted gross margin	\$ 6,516	\$ 4,151	\$ 20,075	\$ 11,241
Adjusted gross margin %	18%	21%	18%	21%

Total Adjusted EBITDAS

	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
Earnings (loss) before income taxes	\$ 1,990	\$ (2,058)	\$ 6,016	\$ 371
Add:				
Depreciation included in cost of sales	2,748	3,077	8,128	9,285
Depreciation included in selling, general and administrative expenses	25	33	75	100
Share-based compensation included in cost of sales	13	6	43	8
Share-based compensation included in selling, general and administrative expenses	43	32	139	111
Finance costs	129	596	527	1,382
Subtotal	4,948	1,686	14,928	11,257
Unrealized foreign exchange (gain) loss on intercompany balances	(1,142)	166	(2,016)	(2,174)
Write-down of inventory	-	-	-	277
Provision for settlement	-	-	-	3,796
Gain on disposal of foreign subsidiary	-	-	-	(10,865)
Non-recurring expenses	102	543	278	1,012
Adjusted EBITDAS from continuing operations	3,908	2,395	13,190	3,303
Adjusted EBITDAS from discontinued operations	1	(224)	(122)	(1,294)
Total Adjusted EBITDAS	\$ 3,909	\$ 2,171	\$ 13,068	\$ 2,009

Funds from operations

	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
Cash flow - operating activities	\$ 21	\$ (2,479)	\$ 1,815	\$ 4,619
Add (deduct):				
Changes in non-cash operating working capital	1,640	4,744	6,695	(4,107)
Income taxes paid (recovered)	236	(1,701)	(931)	(1,840)
Current tax recovery (expense)	2	64	(26)	324
Funds from (used in) operations	\$ 1,899	\$ 628	\$ 7,553	\$ (1,004)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

September 30, 2017 and December 31, 2016

Dollars in '000s

(unaudited)

	September 30 2017	December 31 2016
Assets		
Current assets:		
Cash	\$ 4,049	\$ 1,898
Trade receivables	29,950	26,245
Current taxes recoverable	417	1,336
Prepaid expenses	1,068	1,611
Inventories	9,470	8,037
Assets held for sale (note 5)	-	17,241
Total current assets	44,954	56,368
Equipment (note 4)	65,749	68,158
Intangible assets	2,039	1,978
Deferred tax assets	8,218	9,513
Total non-current assets	76,006	79,649
Total assets	\$ 120,960	\$ 136,017
Liabilities and Shareholders' Equity		
Current liabilities:		
Operating loan	\$ -	\$ 2,105
Trade and other payables	14,250	12,837
Loans and borrowings (note 6)	249	459
Provision for settlements, current (note 7)	837	1,643
Total current liabilities	15,336	17,044
Loans and borrowings (note 6)	53	26,322
Provision for settlements, long-term (note 7)	486	1,879
Total non-current liabilities	539	28,201
Total liabilities	15,875	45,245
Shareholders' equity:		
Share capital (note 8)	87,617	74,481
Contributed surplus	9,799	9,620
Accumulated other comprehensive income	7,792	11,371
Deficit	(123)	(4,700)
Total shareholders' equity	105,085	90,772
Total liabilities and shareholders' equity	\$ 120,960	\$ 136,017

See accompanying notes to condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

Three and nine months ended September 30, 2017 and 2016

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

	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
	(see note 5)			
Revenues	\$ 36,015	\$ 19,489	\$ 108,693	\$ 52,857
Cost of sales:				
Direct costs	(29,499)	(15,338)	(88,618)	(41,616)
Depreciation	(2,748)	(3,077)	(8,128)	(9,285)
Share-based compensation	(13)	(6)	(43)	(8)
Total cost of sales	(32,260)	(18,421)	(96,789)	(50,909)
Gross margin	3,755	1,068	11,904	1,948
Selling, general and administrative expenses:				
Direct costs	(4,534)	(3,476)	(12,321)	(11,117)
Depreciation	(25)	(33)	(75)	(100)
Share-based compensation	(43)	(32)	(139)	(111)
Total selling, general and administrative expenses	(4,602)	(3,541)	(12,535)	(11,328)
	(847)	(2,473)	(631)	(9,380)
Gain on disposal of equipment	1,907	1,170	5,198	2,202
Earnings (loss) from operating activities	1,060	(1,303)	4,567	(7,178)
Finance costs	(129)	(596)	(527)	(1,382)
Foreign exchange gain (loss)	1,059	(159)	1,976	2,139
Provision for settlement	-	-	-	(3,796)
Write-down of inventory	-	-	-	(277)
Gain on disposal of foreign subsidiary (note 9)	-	-	-	10,865
Earnings (loss) before income taxes	1,990	(2,058)	6,016	371
Income tax recovery (expense):				
Current	2	64	(26)	324
Deferred	(175)	646	(1,271)	3,139
Total income tax recovery (expense)	(173)	710	(1,297)	3,463
Net earnings (loss) from continuing operations	1,817	(1,348)	4,719	3,834
Net loss from discontinued operations (note 5)	(7)	(778)	(142)	(3,193)
Net earnings (loss)	1,810	(2,126)	4,577	641
Other comprehensive income (loss):				
Foreign currency translation differences for foreign operations	(1,932)	388	(3,579)	(2,694)
Foreign currency translation gain on disposal of foreign subsidiary	-	-	-	1,348
Total comprehensive income (loss)	\$ (122)	\$ (1,738)	\$ 998	\$ (705)
Net earnings (loss) from continuing operations per share				
Basic and diluted	\$ 0.04	\$ (0.04)	\$ 0.10	\$ 0.11
Net loss from discontinued operations per share				
Basic	\$ (0.00)	\$ (0.02)	\$ (0.00)	\$ (0.09)
Net earnings (loss) per share				
Basic and diluted	\$ 0.04	\$ (0.06)	\$ 0.10	\$ 0.02

See accompanying notes to condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Nine months ended September 30, 2017 and 2016

Dollars in '000s

(unaudited)

	Share capital	Contributed surplus	Accumulated other comprehensive income	Retained earnings (deficit)	Total shareholders' equity
Balance at December 31, 2015	\$ 74,481	\$ 9,470	\$ 11,577	\$ 1,079	\$ 96,607
Total comprehensive income (loss) for nine months ended September 30, 2016	-	-	(2,694)	641	(2,053)
Accumulated other comprehensive income recognized in income on sale of subsidiary	-	-	1,348	-	1,348
Transactions with shareholders, recorded directly in equity contributions by and distributions to shareholders for nine months ended September 30, 2016:					
Share-based compensation	-	123	-	-	123
Total contributions by and distributions to shareholders	-	123	-	-	123
Balance at September 30, 2016	\$ 74,481	\$ 9,593	\$ 10,231	\$ 1,720	\$ 96,025
Balance at December 31, 2016	\$ 74,481	\$ 9,620	\$ 11,371	\$ (4,700)	\$ 90,772
Total comprehensive income (loss) for nine months ended September 30, 2017	-	-	(3,579)	4,577	998
Transactions with shareholders, recorded directly in equity contributions by and distributions to shareholders for nine months ended September 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	-	180	-	-	180
Total contributions by and distributions to shareholders	13,136	179	-	-	13,315
Balance at September 30, 2017	\$ 87,617	\$ 9,799	\$ 7,792	\$ (123)	\$ 105,085

See accompanying notes to condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Three and nine months ended September 30, 2017 and 2016

Dollars in '000s

(unaudited)

	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
	(see note 5)			
Cash flow provided by (used in):				
Operating activities:				
Net earnings (loss) from continuing operations	1,817	(1,348)	\$ 4,719	\$ 3,834
Items not involving cash:				
Depreciation	2,773	3,110	8,203	9,385
Total income tax (recovery) expense	173	(710)	1,297	(3,463)
Unrealized foreign exchange (gain) loss on intercompany balances	(1,142)	166	(2,016)	(2,174)
Finance costs	129	596	527	1,382
Share-based compensation	56	38	182	119
Gain on disposal of equipment	(1,907)	(1,170)	(5,198)	(2,202)
Provision for settlement	-	-	-	3,796
Write-down of inventory	-	-	-	277
Gain on disposal of foreign subsidiary (note 9)	-	-	-	(10,865)
Cash flow - continuing operations	1,899	682	7,714	89
Cash flow - discontinued operations (note 5)	(2)	(118)	(135)	(1,417)
Changes in non-cash operating working capital	(1,640)	(4,744)	(6,695)	4,107
Income taxes paid (recovered)	(236)	1,701	931	1,840
Cash flow - operating activities	21	(2,479)	1,815	4,619
Investing activities:				
Equipment additions	(3,518)	(146)	(7,065)	(484)
Intangible asset additions	(92)	(18)	(326)	(113)
Proceeds on disposal of equipment	2,565	2,039	6,668	3,750
Proceeds on disposal of discontinued operations	-	-	17,252	-
Changes in non-cash investing working capital	1,429	(1)	1,926	10
Cash flow - investing activities	384	1,874	18,455	3,163
Financing activities:				
Change in operating loan	-	175	(2,105)	(1,533)
Repayments on loans and borrowings	(37)	(88)	(26,395)	(5,405)
Proceeds on share issuance from bought deal public	-	-	13,131	-
Proceeds on share issuance from exercise of share options	-	-	4	-
Payments on settlement	(249)	(570)	(2,073)	(570)
Interest paid	(129)	(600)	(530)	(1,054)
Cash flow - financing activities	(415)	(1,083)	(17,968)	(8,562)
Effect of exchange rate on changes in cash	(79)	14	(151)	(76)
Change in cash	(89)	(1,674)	2,151	(856)
Cash, beginning of period	4,138	2,244	1,898	1,426
Cash, end of period	\$ 4,049	\$ 570	\$ 4,049	\$ 570

See accompanying notes to condensed consolidated interim financial statements.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Three and nine months ended September 30, 2017 and 2016

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

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 comprise the Company and its 100% owned subsidiary, Cathedral Energy Services Inc. ("INC"), (together referred to as "Cathedral"). INC is incorporated in the United States of America ("U.S.") and its functional currency is U.S. dollars ("USD").

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

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

2. Basis of preparation

(a) Statement of compliance

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

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

The unaudited condensed consolidated interim financial statements were authorized for issue by the Board of Directors on November 9, 2017.

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Significant accounting policies

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

Future Accounting Pronouncements

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

3. Seasonality of operations

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

4. Equipment

During the nine months ended September 30, 2017, there were additions to drilling equipment of \$7,213 (2016 - \$484).

5. Assets held for sale and discontinued operations

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

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
Revenues	\$ 1	\$ 1,613	\$ 361	\$ 4,927
Cost of sales:				
Direct costs	(3)	(1,388)	(430)	(4,907)
Depreciation	(5)	(1,076)	(17)	(3,296)
Total cost of sales	(8)	(2,464)	(447)	(8,203)
Gross margin	(7)	(851)	(86)	(3,276)
Selling, general and administrative expenses:				
Direct costs	-	(344)	(66)	(1,437)
Depreciation	-	-	-	(1)
Share-based compensation	-	(1)	3	(4)
Total selling, general and administrative expenses	-	(345)	(63)	(1,442)
Gain on disposal of property and equipment	(7)	(1,196)	(149)	(4,718)
Finance costs	-	70	10	123
Loss before income taxes	(7)	(1,130)	(142)	(4,610)
Income tax recovery:				
Deferred	-	352	-	1,417
Total income tax recovery	-	352	-	1,417
Net loss from discontinued operations	\$ (7)	\$ (778)	\$ (142)	\$ (3,193)

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

	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
Cash provided by (used in):				
Operating activities:				
Net loss from discontinued operations	\$ (7)	\$ (778)	\$ (142)	\$ (3,193)
Items not involving cash				
Depreciation	5	1,077	17	3,297
Share-based compensation	-	1	(3)	4
Deferred tax recovery	-	(352)	-	(1,417)
Gain on disposal of property and equipment	-	(70)	(10)	(123)
Finance costs	-	4	3	15
Cash flow - discontinuing operations	\$ (2)	\$ (118)	\$ (135)	\$ (1,417)

6. Loans and borrowings

	September 30	December 31
	2017	2016
Current liabilities:		
Current portion of finance lease liabilities	\$ 249	\$ 459
Non-current liabilities:		
Finance lease liabilities	\$ 53	\$ 72
Secured revolving term loan	-	26,250
Total	\$ 53	\$ 26,322

Terms and debt repayment schedule

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

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

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

Quarter ending:	Maximum Funded Debt to Bank EBITDA Ratio	Minimum Debt Service Ratio
September 30, 2017	3.5:1	3.0:1
December 31, 2017	3.25:1	3.0:1
September 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 September 30, 2017, the Company had cash balances in excess of outstanding letters of credit and capital lease obligations. As such its funded debt to bank EBITDA ratio ("Funded debt ratio") was negative (i.e. net cash balance). As such, the Funded debt ratio has been met, but is not meaningful ("NM") for presentation. For the rolling twelve months ended September 30, 2017 Bank EBITDA was \$18,799.

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

Ratio	Actual	Required
Funded debt to Bank EBITDA ratio	NM	3.5:1 Maximum
Debt service ratio	11.7:1	2.0:1 Minimum
Working capital ratio	2.93:1	1.25:1 Minimum

7. Provision for settlements

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

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

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

During 2017, payments on both settlements of \$2,073 (2016 - \$570) were made.

8. Share capital

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

Common shares issued:

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

Issuance of common shares

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

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

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Basic earnings per share

The calculation of basic earnings per share for the three and nine months ended September 30, 2017 was based on the profit (loss) attributable to common shareholders of \$1,810 and \$4,577 (2016 – \$(2,396) and \$641) and a weighted average number of common shares outstanding of 48,916,451 and 46,836,165 (2016 – 36,295,380 and 36,295,380); calculated as follows:

Weighted average number of ordinary shares

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Issued, beginning of period	48,916,451	36,295,380	36,295,380	36,295,380
Effect of bought deal and private placement	-	-	10,536,499	-
Effect of share options exercised	-	-	4,286	-
Weighted average number of common shares at end of period	48,916,451	36,295,380	46,836,165	36,295,380

Diluted earnings per share

The calculation of diluted earnings per share for the three and nine months ended September 30, 2017 and 2016 was based on profit attributable to common shareholders of \$1,810 and \$4,577 (2016 – \$(2,396) and \$641) and a weighted average number of common shares outstanding after adjustment for the effects of all dilutive potential common shares of 49,035,027 and 46,946,535 (2016 – 36,297,041 and 36,295,442) calculated as follows:

Weighted average number of common shares (diluted)

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Weighted average number of common shares (basic)	48,916,451	36,295,380	46,836,165	36,295,380
Effect of share options on issue	118,576	1,661	110,370	62
Weighted average number of common shares (diluted) at end of period	49,035,027	36,297,041	46,946,535	36,295,442

At September 30, 2017, 2,863,000 options (2016 – 1,589,499 options) were excluded from the diluted weighted average number of common shares calculation, as their effect would have been anti-dilutive. The average market value of the Company's common shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period during which the options were outstanding.

During the nine months ended September 30, 2017, the Company granted 2,197,750 share options. The following table sets out the assumptions used in applying the Black-Scholes model for the options issued as well as the resulting fair value:

	2017 Q1		2017 Q3	
Number of options issued	1,141,250		1,056,500	
Exercise price	\$	1.13	\$	1.02
Fair value per option (weighted average)	\$	0.52	\$	0.48
Expected annual dividend per share	\$	-	\$	-
Risk-free interest rate (weighted average)	0.8%		1.2%	
Expected share price volatility (weighted average)	101.9%		79.2%	
Forfeiture rate per annum	10.0%		10.0%	

9. Gain on disposal of foreign subsidiary

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

10. Commitments

In the normal course of business, the Company incurs contractual obligations and those obligations are disclosed in the Company's consolidated financial statements for the year ended December 31, 2016. As at September 30, 2017, the Company's commitment to purchase equipment is approximately \$611.

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