CATHEDRAL

# 2018 Q1 INTERIM REPORT

## FINANCIAL HIGHLIGHTS

Dollars in 000's except per share amounts

| | | Three months ended March 31 | | |
|---|---|---|---|---|
| | | 2018 | | 2017 |
| Revenues | $ | 40,157 | $ | 38,323 |
| Adjusted gross margin % (1) | | 12% | | 22% |
| Adjusted EBITDAS (1) | $ | 3,443 | $ | 6,796 |
| Diluted per share | $ | 0.07 | $ | 0.16 |
| As % of revenues | | 9% | | 18% |
| Cash flow - operating activities | $ | 2,132 | $ | (568) |
| Earnings before income taxes | $ | 345 | $ | 3,972 |
| Basic and diluted per share | $ | 0.01 | $ | 0.09 |
| Net earnings | $ | 294 | $ | 2,699 |
| Basic and diluted per share | $ | 0.01 | $ | 0.06 |
| Equipment additions - cash basis | $ | 4,474 | $ | 1,036 |
| Weighted average shares outstanding | | | | |
| Basic (000s) | | 49,401 | | 42,606 |
| Diluted (000s) | | 49,586 | | 42,761 |

| | | March 31 2018 | | December 31 2017 |
|---|---|---|---|---|
| Working capital | $ | 33,204 | $ | 31,016 |
| Total assets | $ | 125,415 | $ | 121,630 |
| Loans and borrowings excluding current portion | $ | 2,540 | $ | 46 |
| Shareholders' equity | $ | 103,044 | $ | 101,391 |

(1) Refer to "NON-GAAP MEASUREMENTS"

# MANAGEMENT'S DISCUSSION & ANALYSIS

This Management's Discussion & Analysis ("MD&A") for the three months ended March 31, 2018 should be read in conjunction with the annual audited consolidated financial statements and notes thereto for the year ended December 31, 2017, as well as the MD&A in the 2017 Annual Report of Cathedral Energy Services Ltd. (the "Company" or "Cathedral"). This MD&A has been prepared as of May 7, 2018. Dollar amounts are in '000's except for day rates and per share amounts.

## 2018 Q1 KEY TAKEAWAYS

Revenues increased 5% from $38,323 in 2017 Q1 to $40,157 in 2018 Q1.

Adjusted gross margin decreased to 12% from 22% in 2017 Q1. This decline was primarily attributed to higher labour costs and related benefits and higher equipment repairs, in part due to a more demanding drilling environment and to a lesser extent bringing the Company's fleet back to operating condition following the industry downturn.

Adjusted EBITDAS decreased 49% from $6,796 in 2017 Q1 to $3,443 in 2018 Q1. Adjusted EBITDAS margin decreased to 9% of revenues in 2018 Q1 from 18% in 2017 Q1.

The Company continues to make investments in equipment to relieve capacity constraints and to improve equipment reliability and performance.

## OUTLOOK

The first quarter of 2018 was challenging for Cathedral compared to 2017 Q3 and Q4. In the U.S., our day rate declined from 2017 Q4 due to a change in the mix of work and some clients altering the timing of their drilling programs. Despite this, we did see a slight increase in U.S. activity levels. In Canada, we achieved an increase in day rates compared to 2017 Q4 along with activity levels improving sequentially.

In both Canada and the U.S. we were impacted by increasing equipment repair expenses. Beginning in the second half of 2017, equipment repair costs have been increasing due to the progressively demanding downhole drilling environment and client's drilling practices. In addition, because of reduction in the time to drill wells, the frequency of equipment repairs and refurbishments has increased with the result that these costs are now spread over less revenue (most of Cathedral's revenue is based on per day rates). In response to increasing equipment damages, Cathedral is implementing operating specifications for its equipment with its clients. This program aims to help our clients achieve better overall drilling performance by optimizing rate of penetration while reducing non-productive drilling time that results from equipment failures. Over the past year, we have continued to improve our recoveries for equipment damages from clients by better delineating what damages are a result of poor drilling practices. We are also examining strategies to recover equipment refurbishment costs through different pricing structures and price increases. We continue to implement engineering improvements to our equipment to improve durability and performance and our operations and drilling engineering teams continue work with our clients to help them achieve "*Better Performance Every Day"*.

In 2018 Q1, we also experienced increased shop and field wage rates compared to 2017 Q4 and the U.S operations experienced a significant increase in employee health related benefit expenses in the period. Increased wages to attract and retain quality people, particularly in the U.S., has been a challenge over the past year as industry activity levels improved. Cathedral self-funds its benefits plan and claims on the plan tend to be volatile. A key objective for us is to improve labor efficiency including optimizing the labor required on site and through promoting remote operations support to our clients, which we believe results in higher customer service quality. We continue to focus on our labor efficiency and other expense categories which are adversely impacting our business.

In the quarter, we continued to rollout of our new CLAW-XT™ high performance motor and clients have been pleased with its performance. We have committed additional capital to further build out the CLAW-XT fleet, however, the industry in general is experiencing delays from certain third-party vendors which is impacting our rollout plans. With respect to our new drilling motor for use with rotary steerable systems (RSS), we are expecting to conduct field testing in late Q2/early Q3. Our rollout of new MWD technology, including the downhole power generator (EMc2™) and our new Cathedral Linear Pulser add-ons to our FUSION™ Measurement-While-Drilling (MWD) platform, is on track. Progress on our next generation Dual Telemetry (DT) MWD tool remains on track for launch in 2019. In 2018 Q1, we were approved for financial contribution from the Government of Canada for the DT project which will help us hire additional resources and expand the project scope.

With WTI prices firmly in the $60bbl USD range and an improved outlook for WTI pricing longer term there has been a 10% increase in the U.S. active rig count to 1,021 active rigs at the end of April. This increased rig count is positive for Cathedral from the perspective of potentially achieving better pricing for our services and improved activity levels in the U.S. which is our primary focus market.

Despite a challenging 2018 Q1, we are both optimistic and confident about our prospects for 2018 and beyond. We remind our shareholders that Q2 is typically a lower revenue quarter for the Canadian oil field services industry, including Cathedral, due to lower activity levels in Canada as a result of spring break-up.

## 2018 CAPITAL PROGRAM

During the three months ended March 31, 2018 the Company invested $4,474 (2017 - $1,036) in equipment. The following table details the current period's net equipment additions:

| | | Three months ended March 31, 2018 |
|---|---|---|
| Equipment additions: | | |
| Motors | $ | 2,422 |
| MWD | | 1,916 |
| Other | | 136 |
| Total cash additions | | 4,474 |
| Less: proceeds on disposal of equipment (excluding capital lease settlements) | | (3,775) |
| Net equipment additions (1) | $ | 699 |

(1) See "NON-GAAP MEASUREMENTS"

Cathedral's current 2018 capital budget totals $14,600, which includes $1,400 for intangible additions and $3,317 of equipment commitments from 2017 resulting in new equipment additions of $9,883 for 2018.

The Company is monitoring capital expenditure levels as we move forward and will adjust the plan accordingly including considering subsequent proceeds received on equipment lost-in-hole. Delivery lead times on capital items, including component parts for self-constructed assets, range from 60 to 180 days.

## RESULTS OF OPERATIONS – THREE MONTHS ENDED MARCH 31

| Revenues | | 2018 | | 2017 |
|---|---|---|---|---|
| Canada | $ | 10,637 | $ | 10,466 |
| United States | | 29,520 | | 27,857 |
| Total | $ | 40,157 | $ | 38,323 |

**Revenues** 2018 Q1 revenues were $40,157, which represented an increase of $1,834 or 5% from 2017 Q1 revenues of $38,323. Both Canada and United States ("U.S.") operations had slight increases due to increases in drilling activity.

Canadian revenues (excluding motor rental revenues) increased to $9,698 in 2018 Q1 from $9,307 in 2017 Q1; a 4% increase. This increase was the result of: i) a 11% decrease in activity days to 1,272 in 2018 Q1 from 1,423 in 2017 Q1; net of ii) a 17% increase in the average day rate to $7,624 in 2018 Q1 from $6,540 in 2017 Q1.

The average active land rig count in Canada was down 8% in 2018 Q1 compared to 2017 Q1 (source: Baker Hughes). The increase in day rates was primarily due to increases that occurred starting in 2017 Q2. The 2018 Q1 rate is in line with the sequential rate increases experienced through 2017.

U.S. Directional Drilling revenues (excluding motor rental revenues) increased to $29,132 in 2018 Q1 from $27,578 in 2017 Q1; a 6% increase. This increase was the result of: i) a 3% decrease in activity days to 2,498 in 2018 Q1 from 2,565 in 2017 Q1; net of ii) a 8% increase in the average day rate to $11,662 in 2018 Q1 from $10,752 in 2017 Q1 (when converted to Canadian dollars).

The average active land rig count for the U.S. was up 34% in 2018 Q1 compared to 2017 Q1 (source: Baker Hughes). The Company experienced a 3% decrease in activity days which resulted in a decrease in market share over this period. This decrease was largely due to equipment constraints starting in Q2, 2017 that the Company has been working to resolve with its capital budget program as well as certain clients altering the timing of their drilling programs. Day rates in USD increased to $9,231 USD in 2018 Q1 from $8,117 USD in 2017 Q1; a 14% increase. The increase in day rates was primarily due to increases that occurred starting in 2017 Q2. The 2018 Q1 rate is in line with the sequential rates seen in remainder of 2017.

**Gross margin and adjusted gross margin** Gross margin for 2018 Q1 was 6% compared to 15% in 2017 Q1. Adjusted gross margin (see Non-GAAP Measurements) for 2018 Q1 was $4,762 or 12% compared to $8,486 or 22% for 2017 Q1.

Adjusted gross margin, as a percentage of revenue, decreased due to higher equipment repairs and higher labour costs and related benefits. Labor costs are a result of wage increases, including the reinstatement of previous wage rollbacks, increased U.S. health benefits and to a lesser extent, staff additions. Increased equipment repairs were in part due to a more demanding drilling environment and to a lesser extent bringing the Company's fleet back to operating condition following the industry downturn. In addition, there was an increase in the fixed component of cost of sales which were 3% higher on a percentage of revenue basis in 2018 Q1 compared to 2017 Q1. The increase in the fixed component of cost of sales as a percentage of revenue was mostly attributable to increases in costs largely related to office and shop payroll and other labour related costs.

Depreciation allocated to cost of sales decreased to $2,215 in 2018 Q1 from $2,606 in 2017 Q1. Depreciation included in cost of sales as a percentage of revenue was 6% for 2018 Q1 and 7% in 2017 Q1.

**Selling, general and administrative expenses ("SG&A")** SG&A expenses were $3,827 in 2018 Q1; an increase of $499 compared with $3,328 in 2017 Q1. As a percentage of revenue, SG&A was 10% in 2018 Q1 compared to 9% in 2017 Q1. SG&A increased primarily due to wage increases, including the reinstatement of previous wage rollbacks, increased U.S. health benefits and to a lesser extent, staff additions. Staffing costs included in SG&A include executive, sales, accounting, human resources, payroll, safety and related support staff.

**Technology group expenses** Technology group expenses were $601 in 2018 Q1; an increase of $106 compared with $495 in 2017 Q1. Technology group expenses are related to new product development, upgrades and support and consist of salaries and related benefits and burdens as well as shop supplies. Technology group expenses increased primarily due to wage increases, including the reinstatement of previous wage rollbacks, and staff additions. In 2018 Q1, an additional $230 of technology group expenses were capitalized as intangible assets (2017 Q1 - $nil).

**Gain on disposal of equipment** During 2018 Q1, the Company had a gain on disposal of equipment of $3,008 compared to $2,014 in 2017 Q1. These gains mainly relate to equipment lost-in-hole. Proceeds from clients on lost-in-hole equipment are based on amounts specified in service agreements and, in most cases; these proceeds exceed the net book value of the equipment and result in a gain. The timing of lost-in-hole recoveries is not in the control of the Company and therefore can fluctuate significantly from quarter-to-quarter. In 2018 Q1, the Company received proceeds on lost-in-hole recoveries of $3,740 (2017 Q1 - $2,250).

**Finance costs** Finance costs consist of interest expenses on operating loans, loans and borrowings and bank charges of $45 for 2018 Q1 versus $302 for 2017 Q1. The decrease in finance costs relate to the reduction of loans within the Company's credit facility. In 2017 Q1, the Company finalized the sale of its Flowback and Production Testing assets, raised funds through a private placement of shares and repaid the outstanding long-term debt.

**Foreign exchange** The Company had a foreign exchange loss of $(697) in 2018 Q1 compared to a gain of $218 in 2017 Q1 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 2018 Q1 foreign currency gains are unrealized loss of $669 (2017 Q1 - gain of $192) related to intercompany balances.

**Income tax** For 2018 Q1, the Company had an income tax expense of $51 compared to $1,273 in 2017 Q1. The 2018 Q1 effective tax rate was 15%. The 2018 Q1 rate is lower than anticipated as one legal entity has pre-tax income and the other has pre-tax losses. Income tax expense is booked based upon expected annualized effective rates based upon the statutory rates of 27% for Canada and 22.5% for U.S.

## LIQUIDITY AND CAPITAL RESOURCES

**Overview** On an annualized basis the Company's principal source of liquidity is cash generated from operations. In addition, the Company has the ability to fund liquidity requirements through its credit facility and the issuance of debt and/or equity. For the three months ended March 31, 2018, the Company had funds from operations of $2,132 (2017 – funds used in operations $568). The increase in funds is mainly due to changes in non-cash working capital balances.

**Working capital** At March 31, 2018 the Company had working capital of $33,204 (December 31, 2017 - $31,016). The increase in working capital level was primarily due to cash flow from operations.

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

The financial covenants associated with the amended Facility are:

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

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

At March 31, 2018, the Company had cash balances in excess of outstanding letters of credit, capital lease obligations and operating and revolving loan balances. As such its funded debt to Facility 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 March 31, 2018, Facility EBITDA was $17,537.

| Ratio | Actual | Required |
|---|---|---|
| Consolidated funded debt to consolidated Facility EBITDA ratio | NM | 3.0:1 |
| Consolidated interest coverage ratio | 41.1:1 | 2.5:1 |

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

**Contractual obligations** In the normal course of business, the Company incurs contractual obligations and those obligations are disclosed in the Company's MD&A for the year ended December 31, 2017. As at March 31, 2018, the Company had a commitment to purchase approximately $4,438 of equipment. Cathedral anticipates expending these funds 2018 Q2 and Q3 based upon current delivery lead times.

**Share capital** At May 7, 2018, the Company has 49,438,117 common shares and 2,892,834 options outstanding with a weighted average exercise price of $1.44.

## 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 March 31, 2018 that have materially affected, or are reasonably likely to materially affect, Cathedral's ICFR.

## RISK FACTORS

The MD&A for the year ended December 31, 2017, which is included in the Company's 2017 Annual Report, includes an overview on risk factors associated with the Company and its operating entities. Those risk factors remain in effect as at March 31, 2018.

## GOVERNANCE

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

## NEW AND FUTURE ACCOUNTING POLICIES

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

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

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

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

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

There were no other new or amended standards issued during the three months ended March 31, 2018 that are applicable to the Company in future periods. The standards applicable to the Company are as follows and will be adopted on their respective effective dates:

(i) Leases

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

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

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

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

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

(ii) Uncertainty over Income Tax Treatments

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

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

## SUMMARY OF QUARTERLY RESULTS

| Three month periods ended | Mar 2018 | Dec 2017 | Sep 2017 | Jun 2017 | Mar 2017 | Dec 2016 | Sep 2016 | Jun 2016 |
|---|---|---|---|---|---|---|---|---|
| Revenues | $ 40,157 | $ 38,402 | $ 36,015 | $ 34,355 | $ 38,323 | $ 28,009 | $ 19,489 | $ 14,624 |
| Total Adjusted EBITDAS (1) | $ 3,443 | $ 5,606 | $ 3,909 | $ 2,363 | $ 6,796 | $ (5,233) | $ 2,173 | $ (1,638) |
| Total Adjusted EBITDAS (1) per share - diluted | $ 0.07 | $ 0.11 | $ 0.06 | $ 0.05 | $ 0.09 | $ (0.14) | $ 0.06 | $ (0.05) |
| Net earnings (loss) | $ 294 | $ (4,490) | $ 1,810 | $ 186 | $ 2,581 | $ (550) | $ (2,126) | $ (6,916) |
| Net earnings (loss) per share - basic and diluted | $ 0.01 | $ (0.09) | $ 0.04 | $ - | $ 0.06 | $ (0.02) | $ (0.06) | $ (0.19) |

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

## FORWARD LOOKING STATEMENTS

This MD&A contains certain forward-looking statements and forward-looking information (collectively referred to herein as "forward-looking statements") within the meaning of applicable Canadian securities laws. All statements other than statements of present or historical fact are forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "anticipate", "achieve", "believe", "plan", "intend", "objective", "continuous", "ongoing", "estimate", "outlook", "expect", "may", "will", "project", "should" or similar words suggesting future outcomes. In particular, this MD&A contains forward-looking statements relating to, among other things: examining strategies to recover equipment refurbishment costs through different pricing structures and price increases; continue to implement engineering improvements to our equipment to improve durability and performance;

oil prices will continue to be volatile and North American rig counts will show flat to slow growth; our strategy is that any market share we gain in 2018 will be at the expense of competitors; U.S. market will continue to be our primary focus in 2018 and we will continue to favor this market in terms of resource and equipment allocation; intend to continue to develop our Canadian business where we see good prospects; launch of the new DT platform is anticipated to occur in 2019; intends to manufacture additional motors as part of its 2018 capital expenditure program; Cathedral intends to invest in developing further drilling motor capabilities for the RSS market in 2018; Cathedral will also be further supplementing its MWD fleet with additional downhole generators; optimistic and confident about our prospects going into 2018; with respect to our new drilling motor for use with rotary steerable systems (RSS), we are expecting to conduct field testing in late Q2/early Q3; progress on our next generation Dual Telemetry (DT) Measurement-While-Drilling (MWD) tool remains on track for launch in 2019; increased rig count is positive for Cathedral from the perspective of potentially achieving better pricing for our services and improved activity levels in the U.S.; we are both optimistic and confident about our prospects for 2018 and beyond; Q2 is typically a lower revenue quarter for the Canadian oil field services industry, including Cathedral, due to lower activity levels in Canada as a result of spring break-up; projected capital expenditures and commitments and the financing thereof; and Cathedral expects to comply with all covenants during 2018.

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

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

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

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

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

## NON-GAAP MEASUREMENTS

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

The specific measures being referred to include the following:

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

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

iii) "Total Adjusted EBITDAS" - defined as earnings before 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) “Net equipment additions” – is equipment additions expenditures less proceeds from equipment lost down-hole. Cathedral uses net equipment additions to assess net cash flows related to the financing of Cathedral’s equipment additions.

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

**Adjusted gross margin**

| | Three months ended March 31 | |
|---|---|---|
| | 2018 | 2017 |
| Gross margin | $ 2,507 | $ 5,865 |
| Add non-cash items included in cost of sales: | | |
| Depreciation | 2,215 | 2,606 |
| Share-based compensation | 40 | 15 |
| Adjusted gross margin | $ 4,762 | $ 8,486 |
| Adjusted gross margin % | 12% | 22% |

**Total Adjusted EBITDAS**

| | Three months ended March 31 | |
|---|---|---|
| | 2018 | 2017 |
| Earnings before income taxes | $ 345 | $ 3,972 |
| Add: | | |
| Depreciation included in cost of sales | 2,215 | 2,606 |
| Depreciation included in selling, general and administrative expenses | 36 | 25 |
| Share-based compensation included in cost of sales | 40 | 15 |
| Share-based compensation included in selling, general and administrative expenses | 93 | 47 |
| Finance costs | 45 | 302 |
| Subtotal | 2,774 | 6,967 |
| Unrealized foreign exchange (gain) loss on intercompany balances | 669 | (192) |
| Non-recurring expenses | - | 127 |
| Adjusted EBITDAS from continuing operations | 3,443 | 6,902 |
| Adjusted EBITDAS from discontinued operations | - | (106) |
| Total Adjusted EBITDAS | $ 3,443 | $ 6,796 |

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

**March 31, 2018 and December 31, 2017**
Dollars in '000s
(unaudited)

| | March 31 2018 | December 31 2017 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash | $ 4,972 | $ 2,683 |
| Restricted cash equivalents | - | 1,514 |
| Trade receivables | 32,186 | 33,885 |
| Current taxes recoverable | 1,098 | 86 |
| Prepaid expenses | 1,937 | 1,460 |
| Inventories | 12,416 | 11,128 |
| Total current assets | 52,609 | 50,756 |
| Equipment (note 3) | 59,976 | 58,383 |
| Intangible assets | 2,165 | 1,953 |
| Deferred tax assets | 10,665 | 10,538 |
| Total non-current assets | 72,806 | 70,874 |
| Total assets | $ 125,415 | $ 121,630 |
| **Liabilities and Shareholders' Equity** | | |
| Current liabilities: | | |
| Operating loan (note 4) | $ 833 | $ 1,233 |
| Trade and other payables | 18,184 | 17,926 |
| Loans and borrowings (note 4) | 233 | 233 |
| Provision for settlements, current | 155 | 348 |
| Total current liabilities | 19,405 | 19,740 |
| Loans and borrowings (note 4) | 2,540 | 46 |
| Provision for settlements, long-term | 426 | 453 |
| Total non-current liabilities | 2,966 | 499 |
| Total liabilities | 22,371 | 20,239 |
| Shareholders' equity: | | |
| Share capital (note 5) | 88,102 | 88,059 |
| Contributed surplus | 9,922 | 9,801 |
| Accumulated other comprehensive income | 9,339 | 8,144 |
| Deficit | (4,319) | (4,613) |
| Total shareholders' equity | 103,044 | 101,391 |
| Total liabilities and shareholders' equity | $ 125,415 | $ 121,630 |

See accompanying notes to consolidated financial statements.

# *CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME*

**Three months ended March 31, 2018 and 2017**
Dollars in '000s except per share amounts
(unaudited)

| | Three months ended March 31 | |
|---|---|---|
| | 2018 | 2017 |
| Revenues (note 6) | $ 40,157 | $ 38,323 |
| Cost of sales: | | |
| Direct costs | (35,395) | (29,837) |
| Depreciation | (2,215) | (2,606) |
| Share-based compensation | (40) | (15) |
| Total cost of sales | (37,650) | (32,458) |
| Gross margin | 2,507 | 5,865 |
| Selling, general and administrative expenses: | | |
| Direct costs | (3,698) | (3,256) |
| Depreciation | (36) | (25) |
| Share-based compensation | (93) | (47) |
| Total selling, general and administrative expenses | (3,827) | (3,328) |
| | (1,320) | 2,537 |
| Technology group expenses | (601) | (495) |
| Gain on disposal of equipment | 3,008 | 2,014 |
| Earnings from operating activities | 1,087 | 4,056 |
| Finance costs | (45) | (302) |
| Foreign exchange gain (loss) | (697) | 218 |
| Earnings before income taxes | 345 | 3,972 |
| Income tax recovery (expense): | | |
| Current | (162) | (655) |
| Deferred | 111 | (618) |
| Total income tax expense | (51) | (1,273) |
| Net earnings from continuing operations | 294 | 2,699 |
| Net loss from discontinued operations | - | (118) |
| Net earnings | 294 | 2,581 |
| Other comprehensive income (loss): | | |
| Foreign currency translation differences for foreign operations | 1,195 | (362) |
| Total comprehensive income | $ 1,489 | $ 2,219 |
| Net earnings from continuing operations per share | | |
| Basic and diluted | $ 0.01 | $ 0.06 |
| Net loss from discontinued operations per share | | |
| Basic | $ - | $ - |
| Net earnings per share | | |
| Basic and diluted | $ 0.01 | $ 0.06 |

See accompanying notes to consolidated financial statements.

## *CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY*

**Three months ended March 31, 2018 and 2017**
Dollars in '000s
(unaudited)

| | Share capital | Contributed surplus | Accumulated other comprehensive income | Retained earnings (deficit) | Total shareholders' equity |
|---|---|---|---|---|---|
| **Balance at December 31, 2016** | **$ 74,481** | **$ 9,620** | **$ 11,371** | **$ (4,700)** | **$ 90,772** |
| Total comprehensive income (loss) for three months ended March 31, 2017 | - | - | (362) | 2,581 | 2,219 |
| Transactions with shareholders, recorded directly in equity contributions by and distributions to shareholders for three months ended March 31, 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 | - | 60 | - | - | 60 |
| Total contributions by and distributions to shareholders | 13,136 | 59 | - | - | 13,195 |
| **Balance at March 31, 2017** | **$ 87,617** | **$ 9,679** | **$ 11,009** | **$ (2,119)** | **$ 106,186** |
| **Balance at December 31, 2017** | **$ 88,059** | **$ 9,801** | **$ 8,144** | **$ (4,613)** | **$ 101,391** |
| Total comprehensive income for three months ended March 31, 2018 | - | - | 1,195 | 294 | 1,489 |
| Transactions with shareholders, recorded directly in equity contributions by and distributions to shareholders for three months ended March 31, 2018: | | | | | |
| Issue of shares upon exercise of options | 43 | (12) | - | - | 31 |
| Share-based compensation | - | 133 | - | - | 133 |
| Total contributions by and distributions to shareholders | 43 | 121 | - | - | 164 |
| **Balance at March 31, 2018** | **$ 88,102** | **$ 9,922** | **$ 9,339** | **$ (4,319)** | **$ 103,044** |

See accompanying notes to condensed consolidated interim financial statements.

# *CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS*

**Three months ended March 31, 2018 and 2017**
Dollars in '000s
(unaudited)

| | Three months ended March 31 | |
|---|---|---|
| | 2018 | 2017 |
| **Cash provided by (used in):** | | |
| **Operating activities:** | | |
| Net earnings from continuing operations | $ 294 | $ 2,699 |
| Items not involving cash | | |
| Depreciation | 2,251 | 2,631 |
| Share-based compensation | 133 | 62 |
| Income tax expense | 51 | 1,273 |
| Gain on disposal of equipment | (3,008) | (2,014) |
| Finance costs | 45 | 302 |
| Unrealized foreign exchange (gain) loss on intercompany balances | 669 | (192) |
| Cash flow - continuing operations | 435 | 4,761 |
| Cash flow - discontinued operations | - | (117) |
| Changes in non-cash operating w orking capital | 2,903 | (6,105) |
| Income taxes (paid) refunded | (1,206) | 893 |
| Cash flow - operating activities | 2,132 | (568) |
| **Investing activities:** | | |
| Equipment additions | (4,474) | (1,036) |
| Intangible asset additions | (301) | (79) |
| Proceeds on disposal of equipment | 3,775 | 2,393 |
| Proceeds on disposal of discontinued operations | - | 17,252 |
| Changes in non-cash investing w orking capital | (2,294) | 196 |
| Cash flow - investing activities | (3,294) | 18,726 |
| **Financing activities:** | | |
| Change in operating loan | (399) | (2,105) |
| Repayments on loans and borrow ings | (11) | (26,313) |
| Proceeds on share issuance from bought deal public offering and insider private placement | - | 13,131 |
| Proceeds on share issuance from exercise of share options | 31 | 4 |
| Payment on settlements | (196) | (668) |
| Restricted cash | 1,514 | - |
| Interest paid | (45) | (305) |
| Advances of loans and borrow ings | 2,500 | - |
| Cash flow - financing activities | 3,394 | (16,256) |
| Effect of exchange rate on changes on cash | 57 | (17) |
| Change in cash | 2,289 | 1,885 |
| Cash, beginning of year | 2,683 | 1,898 |
| Cash, end of year | $ 4,972 | $ 3,783 |

See accompanying notes to consolidated financial statements.

### 1. Reporting entity

Cathedral Energy Services Ltd. (the "Company" or "Cathedral") is a company domiciled in Canada. The Company is a publicly traded company listed on the Toronto Stock Exchange under symbol "CET". The consolidated financial statements of the Company as at and for the period ended March 31, 2018 comprise the Company and its 100% owned subsidiary, Cathedral Energy Services Inc. ("INC"), (together referred to as "Cathedral"). INC is incorporated in the United States of America ("U.S.") and its functional currency is U.S. dollars ("USD").

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

### 2. Basis of preparation

(a) Statement of compliance

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

Accordingly, certain information and footnote disclosures normally included in the annual financial statements prepared in accordance with IFRS, as issued by the International Accounting Standards Board ("IASB"), have been omitted or condensed. It also requires management to exercise 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, 2017, which are included in the Company's 2017 Annual Report.

The unaudited condensed consolidated interim financial statements were authorized for issue by the Board of Directors on May 7, 2018.

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Significant accounting policies

These unaudited condensed interim consolidated financial statements have been prepared in accordance with IFRS and using the same accounting policies as outlined in note 3 of the consolidated financial statements for the year ended December 31, 2017. The accounting policies have been applied consistently by the Company, except as described below.

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

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

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

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

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

**Future Accounting Pronouncements**
There were no other new or amended standards issued during the period ended March 31, 2018 that are applicable to the Company in future periods. The standards applicable to the Company are as follows and will be adopted on their respective effective dates:

(i) Leases

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

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

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

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

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

(ii) Uncertainty over Income Tax Treatments

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

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

**3. Equipment**

During the period, there were additions to drilling equipment of $4,479 (2017 - $1,036).

**4. Operating loan and Loans and borrowings**

| | | March 31 2018 | | December 31 2017 |
|---|---|---|---|---|
| Current liabilities: | | | | |
| Current portion of finance lease liabilities | $ | 233 | $ | 233 |
| Non-current liabilities: | | | | |
| Finance lease liabilities | $ | 40 | $ | 46 |
| Secured revolving term loan | | 2,500 | | - |
| Total | $ | 2,540 | $ | 46 |

*Terms and debt repayment schedule*

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

The financial covenants associated with the amended Facility are:
Consolidated funded debt to consolidated Facility EBITDA ratio shall not exceed 3.0:1; and
Consolidated interest coverage ratio shall not be less than 2.5:1.

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

At March 31, 2018, the Company had cash balances in excess of outstanding letters of credit, capital lease obligations and operating and revolving loan balances. As such its funded debt to Facility 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 March 31, 2018, Facility EBITDA was $17,537.

| Ratio | Actual | Required |
|---|---|---|
| Consolidated funded debt to consolidated Facility EBITDA ratio | NM | 3.0:1 |
| Consolidated interest coverage ratio | 41.1:1 | 2.5:1 |

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

**5. Share capital**

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

Common shares issued:

| | Three months ended March 31, 2018 | | |
|---|---|---|---|
| | Number | | Amount |
| Issued, beginning of period | 49,383,951 | $ | 88,059 |
| Issued on exercise of options | 35,000 | | 43 |
| Issued, end of period | 49,418,951 | $ | 88,102 |

*Issuance of common shares*

35,000 common shares were issued as a result of the exercise of vested options arising from grants to employees. Options were exercised at an average strike price of $0.89 per option. All issued shares are fully paid.

*Basic earnings per share*

The calculation of basic earnings per share for the three months ended March 31, 2018 was based on the profit attributable to common shareholders of $20 (2017 – $2,581) and a weighted average number of common shares outstanding of 49,401,062 (2017 – 42,606,249); calculated as follows:

Weighted average number of ordinary shares

| | Three months ended March 31, 2018 | 2017 |
|---|---|---|
| Issued, beginning of period | 49,383,951 | 36,295,380 |
| Effect of bought deal and private placement | - | 6,308,036 |
| Effect of share options exercised | 17,111 | 2,833 |
| Weighted average number of common shares at end of period | 49,401,062 | 42,606,249 |

*Diluted earnings per share*

The calculation of diluted earnings per share for the three months ended March 31, 2018 and 2017 was based on profit attributable to common shareholders of $20 (2017 – $2,581) and a weighted average number of common shares outstanding after adjustment for the effects of all dilutive potential common shares of 49,586,498 (2017 – 42,760,810) calculated as follows:

Weighted average number of common shares (diluted)

| | Three months ended March 31, 2018 | 2017 |
|---|---|---|
| Weighted average number of common shares (basic) | 49,401,062 | 42,606,249 |
| Effect of share options on issue | 185,436 | 154,561 |
| Weighted average number of common shares (diluted) at end of period | 49,586,498 | 42,760,810 |

At March 31, 2018, 714,000 options (2017 – 1,855,250 options) were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive. The average market value of the Company’s common shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period during which the options were outstanding.

**6. Revenue**

**a) Disaggregation of revenue**

The following table reconciles revenue by geographic location:

| | Three months ended March 31, 2018 | 2017 |
|---|---|---|
| Canada | $ 10,637 | $ 10,466 |
| United States | 29,520 | 27,857 |
| Total | $ 40,157 | $ 38,323 |

**b) 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.

**7. Commitments**

In the normal course of business, the Company incurs contractual obligations and those obligations are disclosed in the Company’s MD&A for the year ended December 31, 2017. As at March 31, 2018, the Company had a commitment to purchase approximately $4,438 of equipment. Cathedral anticipates expending these funds 2018 Q2 and Q3 based upon current delivery lead times.

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

- two LOC securing rent payments on property leases and renew annually with the landlords. The first LOC is $700 CAD for the first ten years of the lease and then reduces to $500 for the last five years of the lease. The second LOC is currently for $542 USD and increases annually based upon annual changes in rent;
- one LOC $75 USD issued for U.S. workers compensation coverage; and
- two LOC securing the Company’s corporate credit cards in the amounts of $100 CAD and $150 USD.

**8. Comparative figures**

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