CATHEDRAL

2014
ANNUAL REPORT

www.cathedralenergyservices.com

FIVE YEAR FINANCIAL HISTORY

Dollars in 000's except per share amounts

		2014		2013		2012		2011		2010
Revenues	**$**	**275,435**	$	224,685	$	203,194	$	220,363	$	153,085
Adjusted gross margin % (1)		**21.6%**		23.1%		28.2%		32.5%		35.0%
EBITDAS (1)	**$**	**38,487**	$	32,815	$	40,824	$	56,085	$	38,398
Diluted per share	**$**	**1.06**	$	0.91	$	1.08	$	1.47	$	1.03
As % of revenue		**14%**		15%		20%		25%		25%
Funds from continuing operations (1)	**$**	**32,114**	$	25,359	$	33,270	$	50,011	$	35,921
(Write-down of) recovery on investment in associate and related assets	**$**	**177**	$	(13,070)	$	-	$	-	$	-
Earnings before income taxes	**$**	**14,970**	$	1,114	$	20,381	$	37,102	$	25,486
Basic per share	**$**	**0.41**	$	0.03	$	0.55	$	1.00	$	0.70
Diluted per share	**$**	**0.41**	$	0.03	$	0.54	$	0.98	$	0.69
Net earnings (loss)	**$**	**10,283**	$	(1,542)	$	14,797	$	27,634	$	16,327
Basic per share	**$**	**0.28**	$	(0.04)	$	0.40	$	0.75	$	0.45
Diluted per share	**$**	**0.28**	$	(0.04)	$	0.39	$	0.73	$	0.44
Cash dividends declared per share	**$**	**0.3300**	$	0.3075	$	0.3000	$	0.2400	$	0.2400
Property and equipment additions (cash) (2)	**$**	**30,763**	$	28,283	$	30,650	$	44,413	$	35,155
Weighted average shares outstanding										
Basic (000s)		**36,244**		36,171		37,376		37,062		36,453
Diluted (000s)		**36,255**		36,241		37,756		38,047		37,170
Working capital	**$**	**38,135**	$	26,031	$	29,173	$	40,052	$	19,516
Total assets	**$**	**230,534**	$	205,375	$	224,080	$	231,923	$	180,801
Loans and borrowings excluding current portion	**$**	**56,142**	$	38,462	$	46,151	$	50,694	$	35,435
Shareholders' equity	**$**	**128,368**	$	126,612	$	137,932	$	136,107	$	112,191

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

(2) Property and equipment additions exclude non-cash additions

Table of contents

2 Report to Shareholders
3 Management's Discussion and Analysis
18 Management's Report
19 Independent Auditors' Report
20 Consolidated Financial Statements
24 Notes to Consolidated Financial Statements
44 Officers and Directors

Annual General Meeting:

Shareholders are invited to attend the Annual General Meeting which will be held at 3:00 pm on May 11, 2015 in the Plaza Room of the Metropolitan Centre, 333 – 4th Avenue S.W., Calgary, Alberta.

REPORT TO SHAREHOLDERS

2014 was a good year for Cathedral. Our overall revenues were up 23% over 2013 and represented a record for the Company. Both our U.S. Directional Drilling and Production Testing divisions achieved record revenues for the year highlighting the fact that we continue to make progress with our U.S. growth strategy. EBITDAS improved 17% over 2013.

Our Canadian Directional Drilling division had a very strong rebound from a disappointing 2013. In 2014 we were able to regain a significant portion of market share lost in late 2012 and 2013; this was accomplished by increasing activity levels with existing customers as well as the addition of new customers. The ability to add new customers can be attributed to our overall performance in reducing drilling times for customers. The Canadian Production Testing division had a solid 2014 with an approximate 12% increase in revenues but more importantly this division had improved margins. 2014 Q2 revenues were records for both Canadian divisions with activity levels being positively affected by customers moving to multi-well pad programs. Within the Canadian market place, our operating levels in 2014 Q4 were negatively affected by a combination of some customers expending their 2014 capital budgets early in the quarter and the decline in commodity prices.

Our U.S. Directional Drilling division made significant progress in growing its operations. Cathedral saw a modest recovery in activity levels in the north east where the Marcellus/Utica plays are serviced. Most of the expansion in the U.S. came from the Oklahoma and Texas regions where, due to market pricing pressures, we are experiencing lower field margins. To improve margins we are looking to expand our performance pricing to these regions, reducing reliance on rented equipment and implementing operational improvements. For 2014 the U.S. Production Testing division had a very impressive comeback after losing two customers in late 2013/early 2014 that accounted for approximately 30% of this division's revenue for 2013. For 2014, this division came within 5% of its previous record annual U.S. dollar revenues which was in 2013 and in Canadian dollars actually exceeded the previous record. The U.S. Production Testing division made progress on our strategic initiative of growing and diversifying our customer base.

Operationally we had a number of significant accomplishments in 2014. In the fall of 2014 we updated our strategic plan which clarifies our growth objectives over the next 3 years along with identifying a number of opportunities we need to focus to achieve them. This plan was rolled out to employees in early 2015 and, despite the recent downturn in the industry, has generated a lot of excitement and engagement in the Company.

We had a number of accomplishments in the technology development area including:

- an upgrade of our EM-MWD platform to improve reliability in the ever increasing demanding down-hole environments and improve the efficiency of injecting electro-magnetic signal into the formation as well as improved decoding of the signal at surface;
- introduction of a real time downhole drilling diagnostics system called the HAWK; information delivered by the HAWK allows operators to optimize drilling performance by minimizing wasted energy, increasing bit life and minimizing equipment damage;
- conversion of MWD gamma sensor packages to our own proprietary design which has improved reliability and reduced system costs; and
- introduction of the "Claw" line to our nDurance™ drilling motors series which has been a key point of competitive differentiation for us and we are receiving regular inbound customer inquiries regarding them which has resulted in standalone rentals of these motors.

The value of our MWD platform and nDurance™ drilling motors was demonstrated in 2014 based on us achieving a number of record drilling times for new and existing customers.

In 2014 we also made significant strides in our Health, Safety and Environment area through improved training and the introduction of new practices.

As 2014 progressed the Cathedral team was making significant progress towards growing the business and now, with the decline in commodity prices in late 2014, we have hit a bump in the road. We have reacted to the current decline in activity levels by adjusting our expenditure levels and will continue to monitor activity levels for further adjustments. 2015 will be a challenging year but it is our intent to come out of this downturn stronger.

In closing, I want to extend a thank you to all of our customers and shareholders for their support throughout 2014. I would like to also thank all of our staff who have been responsible for and have committed to the success of Cathedral – it truly is a team effort.

Sincerely,

Signed: *"P. Scott MacFarlane"*

P. Scott MacFarlane

President and Chief Executive Officer

Cathedral Energy Services Ltd.

March 3, 2015

MANAGEMENT'S DISCUSSION & ANALYSIS

This Management's Discussion and Analysis ("MD&A") for the year ended December 31, 2014 provides an analysis of the consolidated results of operations, financial position and cash flows of Cathedral Energy Services Ltd. (the "Company" or "Cathedral") and should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2014, as well as the Company's 2014 interim MD&A's. This MD&A is intended to assist the reader in the understanding and assessment of significant changes and trends, as well as the risks and uncertainties, related to the results of the operations and financial position of the Company. Currency amounts are in '000's except for day rates and per share amounts. This MD&A is dated March 3, 2015.

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: activity levels and potential declines; adjusted cost structure; position to be a stronger company; preserve key employee base; offer performance advantages; implement performance improvements; savings opportunities from expense reviews; projected capital expenditures and commitments and the financing thereof; expected completion date of Oklahoma City operations facility; intention to sell and leaseback the Oklahoma City operations facility following its completion for net proceeds of $4,800; timing of expenditures on purchase commitments; opportunity for Cathedral to demonstrate our technology and service capabilities in new areas as both existing and potential customers are more receptive to opportunities to gain efficiencies; ability to come out of this current downturn in a very strong position to deliver increased value to our customers and our shareholders; contingent liabilities and eventual outcomes; ability to remain competitive; tax provisions are adequate; intention to defend its filing position with regard to conversion from a trust to a corporation; Cathedral's intention to file future tax returns on a basis consistent with its view of the outcome of the conversion from a trust to a corporation; expected benefits from maintenance capital expenditures; expectation to continue to selectively seek strategic acquisitions; continued investment in research and development of proprietary technologies; no expected changes in production testing technology; benefits associated with in-house mud motor design; benefits associated with financial results; intention to continue relationships with customers; availability of insurance coverage; technology advances; and dividends.

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;
- 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
- the ability of Cathedral to realize the benefits of its conversion from an income trust to a corporation;
- risks associated with winding up operations in Venezuela, including the ability to sell Cathedral's interest in the Venezuela joint venture;
- changes under governmental regulatory regimes and tax, environmental and other laws in Canada, United States ("U.S.") and Venezuela; 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 which has been filed with Canadian provincial securities commissions and are available on www.sedar.com.

FISCAL 2014 KEY TAKEAWAYS

- Total revenues up 23% from 2013;
- Record revenues in 2014 for total revenues and additionally divisional revenue records for U.S. directional drilling and Canadian production testing;
- EBITDAS increased 17% from 2013;
- EBITDAS results from U.S. operations were positively impacted by the change in the exchange rate between the Canadian dollar ("CAD") and the U.S. dollar ("USD");
- U.S. Directional Drilling adjusted gross margin declined due to operations expansion in Oklahoma and Texas areas combined with competitive factors. The Company is implementing several cost reductions and is looking at opportunities to increase performance based pricing in Texas and Oklahoma areas to increase adjusted gross margin; and
- Introduction of new proprietary technologies including;
  - upgrades to our proprietary EM-MWD platform to improve reliability and accuracy;
  - introduction of a real time downhole drilling diagnostics system (HAWK) to optimize drilling performance by minimizing wasted energy, increasing bit life and minimizing equipment damage;
  - developing our own proprietary MWD gamma sensor design which has improved reliability and reduced system costs;
- Introduction of the "Claw" line to our nDurance™ drilling motors series which has generated regular inbound customer inquiries regarding interest in this motor's enhanced performance capabilities and also resulted in standalone rentals of these motors; and
- The value of our MWD platform and nDurance™ drilling motors was further demonstrated in 2014 based on us achieving a number of record drilling times for new and existing customers.

SELECTED ANNUAL INFORMATION

		2014		2013		2012
Revenue	**$**	**275,435**	$	224,685	$	203,194
Adjusted gross margin % (1)		**21.6%**		23.1%		28.2%
EBITDAS (1)	**$**	**38,487**	$	32,815	$	40,824
Diluted per share	**$**	**1.06**	$	0.91	$	1.08
As % of revenues		**14%**		15%		20%
Funds from continuing operations (1)	**$**	**32,114**	$	25,359	$	33,270
(Write-down of) recovery on investment in associate and related assets	**$**	**177**	$	(13,070)	$	-
Earnings before income taxes	**$**	**14,970**	$	1,114	$	20,381
Basic per share	**$**	**0.41**	$	0.03	$	0.55
Diluted per share	**$**	**0.41**	$	0.03	$	0.54
Net earnings (loss)	**$**	**10,283**	$	(1,542)	$	14,797
Basic per share	**$**	**0.28**	$	(0.04)	$	0.40
Diluted per share	**$**	**0.28**	$	(0.04)	$	0.39
Cash dividends declared per share	**$**	**0.3300**	$	0.3075	$	0.3000
Property and equipment additions (cash) (2)	**$**	**30,763**	$	28,283	$	30,650
Weighted average shares outstanding						
Basic (000s)		**36,244**		36,171		37,376
Diluted (000s)		**36,255**		36,241		37,756
Working capital	**$**	**38,135**	$	26,031	$	29,173
Total assets	**$**	**230,534**	$	205,375	$	224,080
Long-term debt excluding current portion	**$**	**56,142**	$	38,462	$	46,151
Shareholders' equity	**$**	**128,368**	$	126,612	$	137,932

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

(2) Property and equipment additions exclude non-cash additions

OUTLOOK

Following a successful year for Cathedral in 2014 we are now faced with the reality of a rapid decline in oil prices in 2015 with a lot of uncertainty around how long these low prices may last. Coupled with the recent oil price decline is soft natural gas pricing. Both these factors have resulted in our customers reducing their capital spending budgets in 2015 which has a direct impact on our business. Industry analysts are predicting a 40% to 50% activity declines over 2014 which is similar or worse than what was experienced in the 2008/2009 downturn.

Our strategy with dealing with this current reality is three fold:

1. Adjust our cost structure and financial obligations to reflect the decline in activity levels and protect our balance sheet;
2. Preserve our key employee base so when industry conditions improve we are able to ramp up quickly; and

3. Continue to pursue operational improvements and execute on our strategic objectives to position Cathedral to be a stronger company in the future.

With respect to aligning our cost structure with the current environment we began to aggressively implement expense reductions in early January. Approximately 55% of our expenses are labor, much of which is variable depending on activity levels. We have undertaken a workforce reduction primarily focusing on positions that will be directly impacted by lower activity in the field, shop and office. We have implemented wage rollbacks across the Company, including our directors, ranging from 5% to 20% depending on the position and pay level. Employee benefit programs have also been reduced. We are reviewing all expense items looking for savings opportunities both short and long-term. Our capital expenditure program in 2015 has also been reduced significantly from 2014 to target a capital spend in the $7,000 range. Capital spending in 2015 will be largely offset by the sale and leaseback of our Oklahoma City facility in the March timeframe which we anticipate will generate net proceeds of $4,800 and proceeds from redundant asset disposals. We have also reduced our quarterly dividend to $0.04 per common share (previously $0.0825) to manage liquidity, maintain a strong balance sheet and better position the Company to take advantage of opportunities which may present themselves.

As much as 2015 will be a challenging year for Cathedral we also see opportunities. The current energy company focus on costs is an opportunity for Cathedral to offer performance advantages that can impact their overall drilling program. For example, our ability to assist our customers in shortening drilling times has an impact on all the site services they require which can create significant cost savings overall. It is also an opportunity for Cathedral to demonstrate our technology and service capabilities in new areas as both existing and potential customers are more receptive to gaining efficiencies. The slowdown also affords Cathedral the opportunity to implement a number of sales and operational performance improvements which will benefit the Company in the long-term. We are confident that we will come out of this current downturn in a very strong position to deliver increased value to our customers and our shareholders.

OVERVIEW

Cathedral Energy Services Ltd. (the "Company" or "Cathedral") is incorporated under the Business Corporations Act (Alberta) (the "Act"). The Company is publicly traded on the Toronto Stock Exchange under the symbol "CET". The Company together with its wholly owned subsidiary, Cathedral Energy Services Inc., is engaged in the business of providing selected oilfield services to oil and natural gas companies in western Canada and the U.S. Cathedral decided to terminate its pursuit of operations in Venezuela and recognized the write-down of the investment and related assets in 2013. Cathedral is a trusted partner to North American energy companies requiring high performance directional drilling services and dependable flowback and production testing solutions. We work in partnership with our customers to tailor our equipment and expertise to meet their specific geographical and technical needs. Our experience, technologies and responsive personnel enable our customers to achieve higher efficiencies and lower project costs.

RESULTS OF OPERATIONS - 2014 COMPARED TO 2013

Overview

The Company completed 2014 with record revenues of $275,435 compared to 2013 revenues of $224,685 an increase of 23%. The 2014 revenues were comprised of 76% (2013 - 67%) from the directional drilling division, 24% (2013 - 28%) from the production testing division and nil (2013 – 5%) from international resale and rental of equipment.

2014 EBITDAS was $38,487 ($1.06 per share diluted) which represents a $5,672 or 17% increase from $32,815 ($0.91 per share diluted) in 2013. In 2014 the Company's net earnings was $10,283 ($0.28 earnings per share diluted) as compared to net loss of $1,542 ($0.04 loss per share) in 2013. The increase in EBITDAS was the result of increased operating levels including market share gains. The increase in net earnings was mainly due to the write-down of investment in associate in 2013.

	Year ended December 31, 2014				Year ended December 31, 2013			
Revenues	Directional drilling	Production testing	Resale and rental	Total	Directional drilling	Production testing	Resale and rental	Total
Canada	$ 92,958	$ 32,114	$ -	$ 125,072	$ 71,135	$ 28,645	$ -	$ 99,780
United States	115,707	34,656	-	150,363	79,716	34,024	-	113,740
International	-	-	-	-	-	-	11,165	11,165
Total	$ 208,665	$ 66,770	$ -	$ 275,435	$ 150,851	$ 62,669	$ 11,165	$ 224,685

Revenues 2014 revenues were $275,435 which represented an increase of $50,750 or 23% from 2013 revenues of $224,685. The Company saw gains in both Canada and the U.S. The U.S. direction drilling division achieved record revenues.

Canadian directional drilling revenues increased to $92,958 in 2014 from $71,135 in 2013; a 31% increase. This increase was the result of: i) a 28% increase in activity days to 7,955 in 2014 from 6,235 in 2013; and ii) a 2% increase in the average day rate to $11,685 in 2014 from $11,409 in 2013. Cathedral expanded its Canadian market share compared to year-over-year overall industry activity measured by wells and meters drilled in the Western Canada Sedimentary Basin ("WCSB"). While wells drilled, declined, meters drilled increased by 15%. The increase in activity days was mainly due to the addition of new clients.

U.S. directional drilling revenues increased to a record level of $115,707 in 2014 from $79,716 in 2013; a 45% increase. This increase was the result of: i) a 31% increase in activity days to 9,075 in 2014 from 6,954 in 2013; and ii) a 11% increase in the average day rate to $12,750 in 2014 from $11,463 in 2013. The increase in U.S. activity days was due to increases in the Texas region as well as expansion into Oklahoma (Oklahoma commenced operations in November 2013). The 11% increase in day rates is a combination of day rate increases in USD (4%) and in part due to strengthening of USD versus CAD (7%). The average day rate increase in USD was due to performance based pricing, this was partially offset by lower pricing in the Oklahoma region.

Canadian production testing revenues increased to a record $32,114 in 2014 from $28,645 in 2013. This 12% increase in revenues was due to increased activity coming from new customers, the impact of pad drilling and favourable weather conditions resulting in continued work through the typically slower second quarter.

U.S. production testing revenues increased to $34,656 in 2014 from $34,024 in 2013; a 2% increase which is primarily due to the stronger USD versus CAD in 2014 compared to 2013. In USD, revenue decreased 3% and is attributable to a significant customer shifting work to a competitor in late 2013 and during 2014, which was offset over the course of the year by acquisition of work with new customers. The 3% revenue decrease in USD was offset by the strengthening of USD versus CAD over the year of 7%. In 2014 the division achieved its second highest annual revenues in USD behind only 2013.

The international resale and rental revenue was nil in 2014. The Company decided to terminate its pursuit of operations in Venezuela.

Gross margin and adjusted gross margin Gross margin for 2014 was 14.6% compared to 14.4% in 2013. Adjusted gross margin (see Non-GAAP Measurements) for 2014 was $59,570 (21.6%) compared to $51,822 (23.1%) for 2013.

There were multiple reasons for the change in adjusted gross margin in the year including: a decline in field labour costs as a percentage of revenue year over year due to an ongoing effort to maintain a cost effective mix of staff; an increase in equipment rental costs increased in the U.S. directional drilling division due to increased activity outpacing capital additions; increase in equipment rentals for the U.S. production testing division for additional ancillary equipment required in multi-pad work; and an increase in repair costs.

Depreciation allocated to cost of sales increased marginally to $19,373 in 2014 from $19,270 in 2013. Depreciation included in cost of sales as a percentage of revenue was 7.0% for 2014 and 8.5% in 2013.

Selling, general and administrative expenses ("SG&A") SG&A expenses were $24,950 in 2014; an increase of $281 compared with $24,669 in 2013. As a percentage of revenue, these costs were 9% in 2014 and 11% in 2013. Non-cash expenses total $480 for 2014 and $892 for 2013. Adjusted SG&A was $24,042 in 2014 and $20,807 in 2013, an increase of $3,235.

Adjusted SG&A (see Non-GAAP Measurements) increased primarily due to wages, benefits and variable compensation. These increases relate to increased sales commissions, U.S. sales staff additions and additions to research and development personnel. Staffing costs included in SG&A include executives, sales, accounting, human resources, payroll, safety, research and development and related support staff. The remaining increase in Adjusted SG&A is mainly attributable to increased rent due to the sale and leaseback of Alberta properties which closed in 2013 Q3; increases in insurance premiums due to growth in U.S. operations and increased consulting fees for non-recurring projects.

Gain on disposal of property and equipment During 2014, the Company had a gain on disposal of property and equipment of $3,102, compared to $4,852 in 2013 which consist of gains mainly due to recoveries of lost-in-hole equipment costs including previously expensed depreciation on the related assets. The timing of lost-in-hole recoveries is not in the control of the Company and therefore can fluctuate significantly from period-to-period.

Additionally, in 2013 the Company recognized a gain of $4,894 on the sale and leaseback of its Calgary and Nisku, Alberta land and buildings with no comparative in the current year.

Write-down/recovery of investment in associate and related assets Cathedral decided to terminate its pursuit of operations in Venezuela. As a result in 2013, the Company recorded a charge in the amount of $13,070 related to the write-off of its investment in Vencana as well as certain assets located within Venezuela. During 2014 there was a minor recovery in the amount of $177. Cathedral will attempt to sell its interest in Vencana and any proceeds with respect to the sale of its joint venture interest will be recorded on a cash received basis as a recovery of this write-down.

Foreign exchange gain (loss) The Company's foreign exchange was a loss of $881 in 2014 compared to a loss of $752 in 2013 and arose due to the fluctuations in CAD compared to USD. The Company's foreign operations are denominated in a currency other than CAD and therefore, upon consolidation gains and losses due to fluctuations in the foreign currency exchange rates are recorded in other comprehensive income ("OCI") 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 income. Included in the 2014 foreign currency gain are unrealized losses of $1,166 (2013 - $670 loss) related to intercompany balances.

Finance costs Finance costs consist of interest expenses on operating loans, loans and borrowings and bank charges of $2,563 for 2014 versus $2,516 for 2013.

Income tax For 2014, the Company had an income tax expense of $4,687 as compared to $2,656 in 2013. The 2014 provision consists of current tax expense of $3,271 (2013 - $2,604) and a deferred tax expense of $1,416 (2013 - $52). The effective tax rate was 31% for 2014 and 21% for 2013 (after adjustment for the write-down of associate and related assets and adjustment to prior year provisions). The 2014 effective rate was higher than prior years due to higher percentage of income taxable in U.S. which has a higher corporate tax rate than Canada.

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 year ended December 31, 2014, the Company had funds from continuing operations of $32,114 (2013 - $25,359). The increase in funds from continuing operations is due to stronger earnings.

Working capital At December 31, 2014 the Company had working capital of $38,135 (2013 - $26,031) and a working capital ratio of 1.8 to 1 (2013 – 1.7 to 1). During 2014 Cathedral's joint venture partner unexpectedly advanced Cathedral USD $6,782. In the context that the joint venture will be wound up or sold to the Company's joint venture partner, the ultimate characterization of this payment is not determinable at this time and accordingly, the Company has recorded CAD equivalent as a trade payable and this amount is included in the change in non-cash working capital.

Credit facility On August 8, 2014 the Company entered into a 3 year committed revolving credit facility in the amount of $85,000 which represents a $10,000 increase from the prior credit facility. The credit facility includes a $25,000 accordion feature which is subject to approval of the syndicate of lenders. The syndicate of lenders consists of The Bank of Nova Scotia and National Bank of Canada.

The facility bears interest at the bank's prime rate plus 0.50% to 2.00% or bankers' acceptance rate plus 1.75% to 3.25% with interest payable monthly. Interest rate spreads for the credit facility depends on the level of funded debt to EBITDAS (earnings before interest on long-term debt, taxes, depreciation, amortization and non-cash compensation expense – as defined in the credit agreement).

The credit facility is secured by a general security agreement over all present and future personal property and is subject to certain covenants regarding the payment of dividends. As at December 31, 2014 the Company is in compliance with all covenants under the credit facility including the following financial covenants:

Ratio	December 31, 2014 value
Debt service ratio – must be not less than 2.50:1	6.96:1
Funded debt to EBITDA (as defined in credit facility) – must be not greater than 3.00:1	1.66:1

The new credit facility has a "swing line" (operating loan component) of $10,000 compared to $20,000 operating loan under the prior facility.

The following table outlines the current credit facility:

	December 31 2014	December 31 2013
Total credit facility	$ 85,000	$ 75,000
Drawings on credit facility:		
Operating loan	1,069	10,119
Revolving term loan	55,000	37,000
Letter of credit	700	700
Total drawn facility	$ 56,769	$ 47,819
Undrawn portion of credit facility	$ 28,231	$ 27,181
Net debt (see NON-GAAP MEASUREMENTS):		
Loans and borrowings, net of current portion	$ 56,142	$ 38,462
Working capital:		
Current assets	$ 83,392	$ 65,409
Current liabilities	(45,257)	(39,378)
Working capital	$ 38,135	$ 26,031
Net debt	$ 18,007	$ 12,431

Contractual obligations In the normal course of business, the Company incurs contractual obligations and those obligations are disclosed below. As at December 31, 2014, the Company had a commitment to purchase equipment of approximately $2,279, and the outstanding contractual obligation related to the building of a facility in Oklahoma was $450. Cathedral anticipates expending funds related to the purchase of equipment obligations in 2015 Q1 and Q2 and the building obligation in 2015 Q1.

The following table outlines the anticipated payments related to purchase commitments subsequent to December 31, 2014:

	Total	2015	2016	2017	2018	2019	Thereafter
Purchase obligations	$ 2,729	$ 2,729	$ -	$ -	$ -	$ -	$ -
Secured revolving term loan (1)	55,000	-	-	-	-	-	55,000
Operating lease obligations	24,879	3,070	2,595	2,178	1,933	1,938	13,165
Finance lease obligations	2,114	951	166	969	28	-	-
Total	$ 84,722	$ 6,750	$ 2,761	$ 3,147	$ 1,961	$ 1,938	$ 68,165

(1) Minimum principal amounts to be paid under secured revolving term loan based the loan being renewed on the same terms and not converted to a non-revolving term loan.

Contingencies On October 29, 2014 Cathedral received a letter from one of its U.S. clients alleging a down-hole drilling incident which impacted two of their wells in December 2013. The client has indicated potential damages of $3,000. Cathedral does not normally carry insurance for this type of incident. Cathedral is currently in the process of investigating the particulars related to this letter to understand its potential liability and the impact any liability may have on the Company. Due to the uncertainty around what amount, if any, and the means of settlement, the Company has made no provision in the financial statements for this incident.

The Company’s wholly-owned subsidiary, Cathedral Energy Services Inc. (“INC”), has been named in a legal action in Houston, Texas commenced by a former employee and was subsequently joined by one former employee (the "Claimants") alleging that they were improperly classified as exempt under the Fair Labor Standards Act and therefore entitled to overtime that was not previously paid. Legal actions involving similar alleged violations have been filed in the United States against a number of other drilling companies. The Claimants assert that they will seek to have the action certified as a collective action which may result in additional employees or former employees of INC joining the action. INC has filed a defense to the action and intends to vigorously defend the same including, without limitation, any motion which may be brought for certification. Based upon a preliminary assessment of information available and certain assumptions the Company believes to be reasonable at this time, Cathedral believes it has a number of defenses to the claims asserted and the action is not currently believed to be material to the Company.

Share capital At March 3, 2015, the Company had 36,295,380 common shares and 1,221,641 options outstanding with a weighted average exercise price of $6.94.

OFF-BALANCE SHEET ARRANGEMENTS

As at December 31, 2014, the Company has entered into $24,879 of commitments under operating leases for premises and issued a standby letter of credit in the amount of $700 (refer to note 22 to the audited consolidated financial statements). Pursuant to such obligations, the Company indemnifies its directors and officers, to the extent permitted by law, against any and all claims or losses (including amounts paid in settlement of claims) incurred as a result of their service to the Company. The maximum amount payable under these indemnities cannot be reasonably estimated. The Company expects that it would be covered by insurance for most, but not all, tort liabilities.

2014 CAPITAL PROGRAM

In 2014 the Company invested an additional $30,763 (2013 - $20,283) in property and equipment, excluding non-cash capital lease additions. The major additions for growth capital were $12,608 for additional directional drilling motors and related equipment for specific job requirements and $2,935 for additional ancillary production testing equipment which will reduce future rental costs. Infrastructure capital relates to progress payments on the construction of an operating facility in Oklahoma City which is expected to be operational in early 2015 and computer system upgrades. Maintenance capital included additional upgrades to existing production testing equipment and maintenance of downhole tools. The net property and equipment additions (additions net of proceeds on the regular disposal of property and equipment) to date in 2014 were $25,213 (2013 - $20,996).

The following table summarizes the capital expenditures (cash basis):

	December 31 2014	December 31 2013
Growth capital [1]	$ 15,543	$ 12,897
Replacement capital [1]	1,257	2,498
Infrastructure capital [1]	4,324	1,330
Maintenance capital [1]	9,639	11,558
Property and equipment expenditures	30,763	28,283
Less: proceeds on the regular disposal of property and equipment	(5,550)	(29,547)
Add back: non-recurring proceeds on disposal of property and equipment	-	22,260
Net property and equipment additions [1]	$ 25,213	$ 20,996

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

The following is a summary of major equipment owned by the Company:

	December 31 2014	December 31 2013
Directional drilling - MWD systems	140	139
Production testing units	66	72

2015 CAPITAL PROGRAM

Cathedral's 2015 capital budget has been revised downward from the originally announced amount of $15,000 to $7,000. The new capital budget includes $5,100 of growth capital, $1,400 of maintenance capital and $500 of infrastructure expenditures.

The Directional Drilling division is expected to invest $5,750 of the 2015 capital budget including $3,915 for growth, $1,335 for maintenance and $500 for infrastructure. Growth capital expenditures will include the addition of nDurance™ motors and drill collars for the replacement of high rental expense items and certain MWD equipment. Maintenance capital expenditures are related to motors, trucks and EM/MWD equipment. The infrastructure investment of $500 relates to the remaining construction costs for an operations facility in Oklahoma City with full service repair capabilities. Cathedral has entered into a Purchase and Sale Agreement related to the facility being built in Oklahoma City and will enter into a lease for the facilities with the purchaser. The Company expects this transaction to close approximately March 31, 2015 with net proceeds of approximately $4,800.

The Production Testing division anticipates investing a total of $1,250. Growth capital expenditures of $1,185 are related to storage tanks and additional equipment that would otherwise be rented. Maintenance expenditures of $65 are mainly related to purchase of ancillary equipment.

Cathedral intends to finance its 2015 capital budget from cash flow from operations, proceeds of the Oklahoma City facility sale and leaseback, proceeds from redundant asset sales and if necessary, its existing credit facility.

RELATED PARTY TRANSACTIONS

A director of the Company is a partner in a law firm and, through that law firm, is involved in providing and managing the legal services provided to the Company at market rates. The total amount paid for these legal services in 2014 was $92 (2013 - $77).

DIVIDENDS

It is the intent of the Company to pay quarterly dividends to shareholders. The Board of Directors review the amount of dividends on a quarterly basis with due consideration to current performance, historical and future trends in the business, the expected sustainability of those trends and enacted tax legislation which will affect future taxes payable as well as required long-term debt repayments, maintenance capital expenditures required to sustain performance and future growth capital expenditures. The Directors have approved a 2015 Q1 dividend in the amount of $0.04 per share which will have a date of record March 31, 2015 and a payment date of April 15, 2015, 2015.

RESULTS OF OPERATIONS – THREE MONTHS ENDED DECEMBER 31

Revenues and operating expenses

	2014 Q4	2013 Q4	$ Change	% Change
Revenues	73,242	65,238	8,004	12%
Cost of sales	(63,337)	(56,816)	(6,521)	11%
Gross margin - $	9,905	8,422	1,483	18%
Gross margin - %	13.5%	12.9%	0.6%	
Adjusted gross margin $ [1]	15,155	13,474	1,681	12%
Adjusted gross margin % [1]	20.7%	20.7%	0.0%	

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

Revenues	Three months ended December 31, 2014 Directional drilling		Production testing		Resale and rental		Total	Three months ended December 31, 2013 Directional drilling		Production testing		Resale and rental		Total
Canada	$	22,582	$	7,656	$	-	$	30,238	$	19,320	$	9,241	$	-	$	28,561
United States		32,408		10,596		-		43,004		23,536		7,150		-		30,686
International		-		-		-		-		-		-		5,991		5,991
Total	$	54,990	$	18,252	$	-	$	73,242	$	42,856	$	16,391	$	5,991	$	65,238

Revenues 2014 Q4 revenues were $73,242 which represented an increase of $8,004 or 12% from 2013 Q4 revenues of $65,238. The increase was primarily attributed to the U.S. directional drilling and U.S. production testing divisions which both achieved record Q4 revenue results.

Canadian directional drilling revenues increased to $22,582 in 2014 Q4 from $19,320 in 2013 Q4; a 17% increase. This increase was the result of: i) an 13% increase in activity days to 1,896 in 2014 Q4 from 1,683 in 2013 Q4; and ii) a 4% increase in the average day rate to $11,910 in 2014 Q4 $11,480 in 2014 Q4. For western Canada, the number of wells drilled declined in 2014 Q4 on a quarter over quarter basis from 2013 Q4 and the increase in Canadian activity days represents a market share gain.

U.S. directional drilling revenues increased to a record level of $32,408 in 2014 Q4 from $23,536 in 2013 Q4; a 38% increase. This increase was the result of: i) a 22% increase in activity days of 2,477 in 2014 Q4 from 2,027 in 2013 Q4; and ii) a 13% increase in the average day rate of $13,084 in 2014 Q4 from $11,611 in 2013 Q4 (when converted to CADs). The increase in U.S. activity days were due to the Texas and Oklahoma markets, with increased activity coming from both existing and new customers. The 13% increase in day rates is a combination of day rate increases in USD (4%) and in part due to strengthening of the USD versus the CAD (9%). The average day rate increase in USD was due to performance based pricing, this was partially offset by lower pricing in the Oklahoma region.

Canadian production testing revenues decreased to $7,656 in 2014 Q4 from $9,241 in 2013 Q4; a 17% decrease. The Canadian operating days were down 22% based on work declines from specific existing customers mainly due to the clients expending their maximum capital budget. 2013 Q4 had one of the highest activity levels in Company history. The activity decline was partially offset by increased day rates achieved from customers using multi-pad well programs that require additional ancillary equipment and on-site staff.

U.S. production testing revenues increased to a record level of $10,596 in 2014 Q4 from $7,150 in 2013 Q4; a 48% increase. Both activity levels and day rates increased as the division has replaced and then exceeded the lost work from a customer that shifted to a competitor in late 2013. The 38% increase in day rates is a combination of day rate increases in USD (27%) and in part due to strengthening of the USD versus the CAD (11%). The increase in USD day rates related to benefit of revenue from additional equipment and staff due to a shift in the nature of work.

The international resale and rental revenue was nil in 2014 Q4 as the Company decided to terminate its pursuit of operations in Venezuela.

Gross margin and adjusted gross margin Gross margin for 2014 Q4 was 13.5% compared to 12.9% in 2013 Q4. Adjusted gross margin (see Non-GAAP Measurements) for 2014 Q4 was $15,155 (20.7%) compared to $13,474 (20.7%) for 2013 Q4. The maintenance of the adjusted gross margin percentage was primarily due to declines in labour costs resulting from an ongoing effort to maintain a cost effective mix of staff and offset by increases in repair and rental costs resulting from overall increased activity.

Depreciation allocated to cost of sales increased to $5,231 in 2014 Q4 from $5,036 in 2013 Q4. As a percentage of revenue, depreciation included in cost of sales decreased to 7.1% for 2014 Q4 from 7.7% for 2013 Q4.

Selling, general and administrative expenses ("SG&A") SG&A expenses were $6,377 in 2014 Q4; a decrease of $342 compared with $6,719 in 2013 Q4. As a percentage of revenue, these costs were 9% in 2014 Q4 and 10% in 2013 Q4. Adjusted SG&A (see Non-GAAP Measurements) was $5,963 in 2014 Q4 compared to $4,973 in 2013 Q4, an increase of $990. Adjusted SG&A increased primarily due to wages, benefits and variable compensation. These increases related to increased sales commissions and additions to research and development personnel. In addition, adjusted SG&A was also higher due to higher insurance costs resulting from increases in activity.

Gain on disposal of property and equipment During 2014 Q4 the Company had a gain on disposal of property and equipment of $392 compared to $1,462 in 2013 Q4. The Company's gains are mainly due to recoveries of lost-in-hole equipment costs including previously expensed depreciation on the related assets. 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 2013 Q4 there was an adjustment to gain on disposal of land and buildings resulting in a decrease in previously recognized gain of $460 (2014 – nil).

Write-down/recovery of investment in associate and related assets Cathedral decided to terminate its pursuit of operations in Venezuela. As a result in 2013 Q4, the Company recorded a charge in the amount of $13,070 related to the write-off of its investment in Vencana as well as certain assets located within Venezuela. During 2014 there was a minor recovery in the amount of $177. Cathedral will attempt to sell its interest in Vencana and any proceeds with respect to the sale of its joint venture interest will be recorded on a cash received basis as a recovery of this write-down.

Foreign exchange loss The Company had foreign exchange loss of $335 in 2014 Q4 compared to a loss of $372 in 2013 Q4 due to the fluctuations in CAD compared to USD. The Company's foreign operations are denominated in a currency other than CAD and therefore, upon consolidation gains and losses due to fluctuations in the foreign currency exchange rates are recorded in other comprehensive income ("OCI") 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 income. Included in the 2014 Q4 foreign currency gain are unrealized losses of $452 (2013 Q4 - $336) related to intercompany balances.

Finance costs Finance costs consist of interest expenses on operating loans, loans and borrowings and bank charges of $699 for 2014 Q4 versus $661 for 2013 Q4.

Income tax For 2014 Q4, the Company had an income tax expense of $1,287 compared to a recovery of ($146) in 2013 Q4. The effective tax rate for 2014 Q4 was 42%. Under IFRS, the quarterly tax provisions are based upon an estimated annual rate and the company did not utilize non-capital losses to the extent that was planned in the quarterly provision. As a result, 2014 Q4 effective rate is higher than the annualized rate for 2014.

Included in the 2013 Q4 amount is an adjustment to prior year's deferred tax recovery of $313. Due to the write-off of investment in associate in the 2013 Q4 the effective tax rate is not meaningful and is not presented.

Net earnings 2014 Q4 was $1,776 ($0.05 per share - diluted) compared to net loss of ($11,248) ($0.31 loss per share) in 2013 Q4.

SUMMARY OF QUARTERLY RESULTS

Three month periods ended	Dec 2014	Sep 2014	Jun 2014	Mar 2014	Dec 2013	Sep 2013	Jun 2013	Mar 2013
Revenues	$ 73,242	$ 77,376	$ 56,797	$ 68,020	$ 65,238	$ 59,734	$ 45,639	$ 54,074
EBITDAS [1]	$ 9,408	$ 14,347	$ 6,151	$ 8,581	$ 8,124	$ 10,757	$ 5,342	$ 8,592
EBITDAS [1] per share - diluted	$ 0.26	$ 0.40	$ 0.17	$ 0.24	$ 0.22	$ 0.30	$ 0.15	$ 0.23
Net earnings (loss)	$ 1,776	$ 5,805	$ 253	$ 2,449	$ (11,248)	$ 7,956	$ (309)	$ 2,059
Net earnings (loss) per share - basic and diluted	$ 0.05	$ 0.16	$ 0.01	$ 0.07	$ (0.31)	$ 0.22	$ (0.01)	$ 0.06
Dividends declared per share	$ 0.0825	$ 0.0825	$ 0.0825	$ 0.0825	$ 0.0825	$ 0.075	$ 0.075	$ 0.075

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

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 increase in the fall and peak in the winter months from December until 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.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company's audited consolidated financial statements have been prepared in accordance with Generally Accepted Accounting Principles (“GAAP”) and significant accounting policies utilized by the Company are described in note 3 to the Company's audited consolidated financial statements. Management believes the accounting principles selected are appropriate under the circumstances and the Audit Committee of the Company has approved the policies selected.

Under GAAP, the Company is required to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the audited consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The estimates and assumptions utilized are based on past experience and other information available to management at the time the estimate or assumption is made. The estimates and assumptions used by management are constantly evaluated for relevance under the circumstances and if circumstances on which the estimates or assumptions were based change, the impact is included in the results of operations for the period in which the change occurs. Management believes the estimates, judgments and assumptions involved in its financial reporting are reasonable.

The following accounting policies require management's more significant judgments and estimates in the preparation of the Company's audited consolidated financial statements, and as such, are considered to be critical.

Property and equipment The Company makes estimates about the residual value and expected useful life of property and equipment. These estimates are based on management’s historical experience and industry norms. Expected useful life and depreciation rates are as disclosed in note 3 (d) (iii) to the audited consolidated financial statements.

Impairment of long-lived assets Cathedral decided to terminate its pursuit of operations in Venezuela. As a result, the investment in associate was reviewed at December 31, 2013. Those financial statements included a provision for loss on this investment and other related assets that are located in Venezuela. This write-down has required management to make estimates on the recoverable value of various assets.

Property and equipment, goodwill and intangibles are assessed for impairment at least annually and when circumstances suggest that the carrying amount may exceed the recoverable amount for the asset. These calculations require estimates and assumptions and are subject to change as new information becomes available. These estimates include number of years of cash flow available from the assets, growth rates, pre-tax discount rates as well as various estimates and assumptions used in the preparation of revenues and expenses used in the cash flow analysis. The assumptions used in the impairment test of property and equipment and goodwill are disclosed in note 9 to the audited consolidated financial statements.

Trade accounts receivable require estimates to be made regarding the financial stability of the Company’s customers and the environment in which they operate in order to assess if accounts receivable balances will be received. Credit risks for outstanding accounts receivable are assessed regularly and an allowance for doubtful accounts is recorded based upon specific customer information and experience as well as for groups of similar assets. See note 26 to the audited consolidated financial statements “Credit risk” for further details.

Inventory is reviewed periodically in order to determine if there is obsolescence. This estimate is based upon historic data and management’s estimates of future demand.

Income taxes The Company uses the asset and liability method of accounting for future income taxes whereby deferred income tax assets and liabilities are determined based on temporary differences between the accounting basis and the tax basis of the assets and liabilities, and are measured using substantively enacted tax rates and laws expected to apply when these differences reverse. As a result, a projection of taxable income is required for those years, as well as an assumption of the ultimate recovery/settlement period for the temporary differences.

The business and operations of the Company are complex and the Company has executed a number of significant financings, reorganizations, acquisitions and other material transactions over the course of its history. The computation of income taxes payable as a result of these transactions involves many complex factors as well as the Company's interpretation of relevant tax legislation and regulations. The Company's management believes that the provision for income tax is adequate and in accordance with GAAP and applicable legislation and regulations. However, tax filing positions are subject to review by taxation authorities who may successfully challenge the Company's interpretation of the applicable tax legislation and regulations.

Share-based compensation The Company accounts for share-based compensation using the fair value method of accounting as calculated under the Black-Scholes option valuation method. This method for share-based compensation requires that management make assumptions on model inputs including forfeiture rate and volatility that could result in material differences if the assumptions were changed. Management uses historical data to make these estimates which are disclosed in note 15 to the audited consolidated financial statements.

NEW AND FUTURE ACCOUNTING POLICIES

The following new accounting policies were adopted as at January 1, 2014:

The IASB issued IFRIC 21, "Levies" which has been adopted by the Company on January 1, 2014. The IFRIC clarifies that an entity should recognize a liability for a levy when the activity that triggers payment occurs. The adoption of this interpretation has no impact on the Company's consolidated financial statements.

Effective January 1, 2014, the Company adopted, as required, amendments to IAS 32, "Financial Instruments: Presentation" ("IAS 32"). The amendments clarify that the right to offset financial assets and liabilities must be available on the current date and cannot be contingent on a future event. The adoption of IAS 32 did not impact the Consolidated Financial Statements.

A number of new accounting standards, amendments to accounting standards and interpretations are effective for annual periods beginning on or after January 1, 2015 and have not been applied in preparing the Consolidated Financial Statements for the year ended December 31, 2014. The standards applicable to the Company are as follows and will be adopted on their respective effective dates:

(i) Revenue Recognition

On May 28, 2014, the IASB issued IFRS 15, "Revenue From Contracts With Customers" ("IFRS 15") replacing International Accounting Standard 11, "Construction Contracts" ("IAS 11"), IAS 18, "Revenue" ("IAS 18"), and several revenue-related interpretations. IFRS 15 establishes a single revenue recognition framework that applies to contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. Disclosure requirements have also been expanded.

The new standard is effective for annual periods beginning on or after January 1, 2017, with earlier adoption permitted. The standard may be applied retrospectively or using a modified retrospective approach. The Company is currently evaluating the impact of adopting IFRS 15 on the Consolidated Financial Statements.

(ii) Financial Instruments

On July 24, 2014, the IASB issued the final version of IFRS 9, "Financial Instruments" ("IFRS 9") to replace IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39").

IFRS 9 introduces a single approach to determine whether a financial asset is measured at amortized cost or fair value and replaces the multiple rules in IAS 39. The approach is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. For financial liabilities, IFRS 9 retains most of the IAS 39 requirements; however, where the fair value option is applied to financial liabilities, the change in fair value resulting from an entity's own credit risk is recorded in OCI rather than net earnings, unless this creates an accounting mismatch. In addition, a new expected credit loss model for calculating impairment on financial assets replaces the incurred loss impairment model used in IAS 39. The new model will result in more timely recognition of expected credit losses. IFRS 9 also includes a simplified hedge accounting model, aligning hedge accounting more closely with risk management. Cathedral does not currently apply hedge accounting.

IFRS 9 is effective for years beginning on or after January 1, 2018. Early adoption is permitted if IFRS 9 is adopted in its entirety at the beginning of a fiscal period. The Company is currently evaluating the impact of adopting IFRS 9 on the Consolidated Financial Statements.

CONTROLS AND PROCEDURES

In order to ensure that information with regard to reports filed or submitted under securities legislation present fairly in all material respect the financial information of the Company, management including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") are responsible for establishing and maintaining disclosure controls and procedures, as well as internal controls over financial reporting based upon The Committee of Sponsoring Organizations of the Treadway Commission 1992 framework.

Disclosure controls and procedures The Company's disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Company is reported within the time periods specified under securities laws, and include controls and procedures that are designed to ensure that information is communicated to management of the Company, including the CEO and CFO, to allow timely decisions regarding required disclosure. An evaluation of the effectiveness of the Company's disclosure controls and procedures (as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual Financial and Interim Filings) was conducted as at December 31, 2014. Based on this evaluation, the CEO and CFO of Cathedral have concluded that the design and operation of the Company's disclosure controls and procedures were effective as at December 31, 2014.

Internal controls over financial reporting Management is responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The CEO and CFO have designed or have caused such internal controls over financial reporting (as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual Financial and Interim Filings) to be designed under their supervision to provide reasonable assurance regarding the reliability of financial reporting and preparation of the Company's financial statements for external purposes in accordance with GAAP. In addition, the CEO and CFO directed the assessment of the design and operating effectiveness of the Company's internal controls over financial reporting as at December 31, 2014 and based upon that assessment determined that the Company's internal controls over financial reporting were, in all material respects, appropriately designed and operating effectively.

Management of the Company believe that "cost effective" disclosure controls and procedures and internal controls over financial reporting, no matter how well conceived or implemented, can only provide reasonable assurance, and not absolute assurance, that the objective of controls and procedures are met. Because of inherent limitations, disclosure controls and procedures and internal control over financial reporting may not prevent errors or fraud.

There has been no change in the Company's internal controls over financial reporting during the year ended December 31, 2014 that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

RISK FACTORS

Crude Oil and Natural Gas Prices Demand for the services provided by Cathedral is directly impacted by the prices that Cathedral's customers receive for the crude oil and natural gas they produce and the prices received has a direct correlation to the cash flow available to invest in drilling activity and other oilfield services. The markets for oil and natural gas are separate and distinct and are largely driven by supply and demand factors. Oil is a global commodity with a vast distribution network. As natural gas is most economically transported in its gaseous state via pipeline, its market is dependent on pipeline infrastructure and is subject to regional supply and demand factors. However, recent developments in the transportation of liquefied natural gas ("LNG") in ocean going tanker ships have introduced an element of globalization to the natural gas market.

Crude oil and natural gas prices are quite volatile, which accounts for much of the cyclical nature of the oilfield services business.

Prices for oil and natural gas are subject to large fluctuations in response to relatively minor changes in the supply of and demand for oil and natural gas, market uncertainty and a variety of additional factors beyond the control of Cathedral. These factors include economic conditions in the United States and Canada, the actions of the Organization of Petroleum Exporting Countries ("OPEC"), governmental regulation, political stability in the Middle East and elsewhere, the foreign supply of oil and natural gas, risks of supply disruption, the price of foreign imports and the availability of alternative fuel sources. In addition to pricing determined based on worldwide or North American supply and demand factors, there are a number of regional factors that also influence pricing such as transportation capacity, oil and natural gas physical properties and local supply and demand. Petroleum prices are expected to remain volatile for the near future as a result of market uncertainties over the supply and the demand of these commodities due to the current state of the world economies, OPEC actions and the ongoing credit and liquidity concerns.

World crude oil prices and North American natural gas prices, including LNG, are not subject to control by Cathedral. With that in mind, Cathedral attempts to partially manage this risk by way of maintaining a low cost structure and a variable cost structure that can be adjusted to reflect activity levels. A significant portion of Cathedral's fieldwork is performed by sub-contractors and staff paid on a day rate basis which allows us to operate with lower fixed overhead costs in seasonally low activity periods as well as extended downturns in the oilfield services sector. In addition, Cathedral also strives to continuously improve its operational efficiencies and reduce the cost of the equipment it deploys.

Take Away Capacity for Cathedral's Customers Cathedral's customers rely on various transportation methods to deliver the produced oil and natural gas to the end market including: pipelines, truck and railway. If such take away capacity becomes full and incremental capacity is not added, the production of hydrocarbons may be impacted and certain wells may be shut in. This could have a material adverse effect on Cathedral's business operations, financial condition, results of operations, cash flow and the ability to pay dividends to Shareholders.

Alternatives to and Changing Demand for Hydrocarbon Products Fuel conservation measures, alternative fuel requirements, increasing consumer demand for alternatives to oil and natural gas, and technological advances in fuel economy and energy generation devices could reduce the demand for crude oil and other liquid hydrocarbons. The Corporation cannot predict the impact of changing demand for oil and natural gas products, and any major changes may have a material adverse effect on the Cathedral's business, financial condition, results of operations and cash flows and therefore on the dividends declared on the Common Shares.

Cash Dividends to Shareholders are Dependent on the Performance of Cathedral Cathedral's ability to make dividend payments to Shareholders is dependent upon the operations and business of Cathedral. There is no assurance regarding the amounts of cash that may be available from Cathedral's operations and business that could be available to fund future dividends or if dividends will be declared at all. The actual amount of any dividends will depend on a variety of factors, including without limitation, the current performance, historical and future trends in the business, the expected sustainability of those trends and enacted tax legislation which will affect future taxes payable as well as required long-term debt repayments, maintenance capital expenditures required to sustain performance, future growth capital expenditures, effect of acquisitions or dispositions on Cathedral's business, compliance with debt covenants and other factors that may be beyond the control of Cathedral or not anticipated by management of Cathedral. In the event significant cash requirements are necessary for non-dividend purposes or the profitability of Cathedral declines, there would be a decrease in the amount of cash available for dividends to Shareholders and such decrease could be material.

Cathedral's dividend policy is subject to change at the discretion of its Board of Directors. In addition, Cathedral's credit facility covenants include restrictions on the payment of cash dividends if Cathedral is not in compliance with debt covenants.

Performance of Obligations The Corporation's success depends in large part on whether it fulfills its obligations with clients and maintains client satisfaction. If Cathedral fails to satisfactorily perform its obligations, or makes professional errors in the services that it provides, its clients could terminate working relationships, including master service agreements, exposing Cathedral to loss of its professional reputation and risk of loss or reduced profits, or in some cases, the loss of a project and claims by customers for damages. Typically, Cathedral's master service agreements do not contain any guaranteed payments and are cancellable on 30 days' notice.

Access to Capital The credit facilities of Cathedral contain covenants that require it to meet certain financial tests and that restrict, among other things, the ability of Cathedral to incur additional debt, make significant acquisitions, dispose of assets or pay dividends in certain circumstances. To the extent the cash flow from operations is not adequate to fund Cathedral's cash requirements and therefore external financing may be required. Lack of timely access to such additional financing, or which may not be on favorable terms, could limit the future growth of the business of Cathedral and, potentially have a material adverse effect on the amount of cash available for dividends. To the extent that external sources of capital, including public and private markets, become limited or unavailable, Cathedral's ability to make the necessary capital investments to maintain or expand its current business and to make necessary principal payments under its credit facility may be impaired.

Forward-looking Information May Prove Inaccurate Numerous statements containing forward-looking information are found in this AIF, documents incorporated by reference herein and other documents forming part of Cathedral's public disclosure record. Such statements and information are subject to risks and uncertainties and involve certain assumptions, some, but not all, of which are discussed elsewhere in this document. The occurrence or non-occurrence, as the case may be, of any of the events described in such risks could cause actual results to differ materially from those expressed in the forward-looking information.

Tax Related Risks Associated with the Conversion Cathedral was created as a result of the conversion of the Trust to a corporation pursuant to the Plan of Arrangement under the Income Tax Act (Canada) ("Act"), entered into by various entities including the Trust, Cathedral Energy Services Ltd. ("CES") and SemBioSys (the "Reorganization"). The steps under the Plan of Arrangement pursuant to which the conversion was completed, were structured to be tax-deferred to the entities within the Trust's structure and Trust unit holders based on certain rules under the Act. During 2013, Canada Revenue Agency ("CRA") has requested information relating to the Plan of Arrangement involving Cathedral and SemBioSys that was completed in December 2009. For clarity, at this time, CRA has only requested information from Cathedral and has not issued a reassessment of Cathedral's tax filings nor has it proposed to issue a reassessment. Cathedral remains confident in the appropriateness of its tax-filing position and the expected tax consequences of the conversion and intends to defend such position vigorously if a notice of reassessment is received from CRA. Cathedral strongly believes that the general anti-avoidance rule does not apply to the conversion and intends to file its future tax returns on a basis consistent with its view of the outcome of the conversion. While Cathedral is confident in the appropriateness of its tax-filing position and the expected tax consequences of the arrangement and the conversion transaction, there remains a possibility that, if CRA elects to challenge Cathedral tax filings and such challenge is successful, it could potentially negatively affect the availability or quantum of the tax losses or other tax accounts of Cathedral. If, at some point, Cathedral receives such a reassessment, to appeal it Cathedral will be required to make a payment of 50% of the taxes CRA claims are owed for such years. Based on Cathedral's 2009 to 2014 taxation years, that 50% amount is approximately $3,300. Cathedral could also be required to make a payment of 50% of the taxes CRA claims are owed in any future tax year if CRA issues a similar notice of reassessment for such years and Cathedral appeals it. If Cathedral is ultimately successful in defending its position, such payments, plus applicable interest, will be refunded to Cathedral. If CRA is successful, Cathedral will be required to pay the balance of the taxes claimed plus applicable interest.

Interest Rates Cathedral's current credit facility bears interest at a floating interest rate and, therefore, to the extent Cathedral borrows under this facility, it is at risk of rising interest rates. Management continually monitors interest rates and would consider locking in the rate of its term debt.

Debt Service Cathedral has a three year committed extendible revolving credit facility with a syndicate of lenders consisting of The Bank of Nova Scotia and National Bank of Canada in the amount of $85,000 with a maturity date of August 8, 2017. Although it is believed that the credit facility is sufficient, there can be no assurance that the amount will be adequate for the financial obligations of Cathedral. As well, if Cathedral requires additional financing such financing may not be available or, if available, may not be available on favorable terms. Cathedral's lenders have been provided with security over substantially all of the assets of Cathedral. There is no assurance that the existing credit facility will be extended beyond its maturity date.

The terms of the credit facility require that Cathedral must satisfy and maintain certain financial ratio tests or covenants. Events beyond the Corporation's control could impact the ability to meet these tests. If the Corporation breaches any of the facility covenants, it could result in the syndicate of lenders taking remedial action which could involve the facility becoming due and payable immediately.

Additional Shares If the Board of Cathedral decides to issue additional Common Shares, Preferred Shares or securities convertible into Common Shares, existing shareholders may suffer significant dilution.

Unpredictability and Volatility of Share Price The prices at which the Common Shares trade cannot be predicted. The market price of the Common Shares could be subject to significant fluctuations in response to variations in quarterly operating results and other factors. The annual yield on the Common Shares as compared to the annual yield on other financial instruments may also influence the price of Common Shares in the public trading markets. An increase in prevailing interest rates will result in higher yield on other financial instruments, which could adversely affect the market price of the Common Shares. The market price of the shares may also be impacted by other factors including the net asset value of our assets which will vary from time to time depending on factors beyond our control.

In addition, the securities markets have experienced significant market wide and sectorial price and volume fluctuations from time to time that often have been unrelated or disproportionate to the operating performance of particular issuers. Such fluctuations may adversely affect the market price of the Common Shares.

Income Tax Matters The business and operations of Cathedral are complex and Cathedral and its predecessors have executed a number of significant financings, reorganizations, acquisitions and other material transactions over the course of its history. The computation of income taxes payable as a result of these transactions involves many complex factors as well as Cathedral's interpretation of relevant tax legislation and regulations. Cathedral's management believes that the provision for income tax is adequate and in accordance with generally accepted accounting principles and applicable legislation and regulations. However, tax filing positions are subject to review by taxation authorities who may successfully challenge Cathedral's interpretation of the applicable tax legislation and regulations.

Key Personnel and Employee/Sub-contractor Relationships Shareholders must rely upon the ability, expertise, judgment, discretion, integrity and good faith of the management of Cathedral. The success of Cathedral is dependent upon its personnel and key sub-contractors. The unexpected loss or departure of any of Cathedral's key officers, employees or sub-contractors could be detrimental to the future operations of Cathedral. Cathedral does not maintain key man insurance on any of its officers. The success of Cathedral's business will depend, in part, upon Cathedral's ability to attract and retain qualified personnel as they are needed. Additionally, the ability of Cathedral to expand its services is dependent upon its ability to attract additional qualified employees. Historically, Cathedral has not had any significant issues with respect to attracting and the retention of quality office, shop and field staff. During high levels of activity, attracting quality staff can be challenging due to competition for such services. Cathedral provides its staff with a quality working environment, effective training, tools with current technology and competitive remuneration packages that allows it to attract and retain the quality of its workforce, whether in the field, shop or office. There can be no assurance that Cathedral will be able to engage the services of such personnel or retain its current personnel.

Competition The oil and natural gas service industry in which Cathedral and its operating entities conduct business is highly competitive. Cathedral competes with other more established companies which have greater financial, marketing and other resources and certain of which are large international oil and natural gas service companies which offer a wider array of oil and natural gas services to their clients than does Cathedral.

Because of the time between when a decision is made to build new equipment and the time such new equipment is placed into service, the supply of equipment in the industry does not always correlate to the level of demand for that equipment. Periods of high demand often spur increased capital expenditures on oilfield service equipment, and those capital expenditures may exceed actual demand. At any time there may be an excess of certain classes of oilfield service equipment in North America in relation to current levels of demand. This capital overbuild could cause competitors to lower their rates and could lead to a decrease in rates in the oilfield services industry generally, which could have an adverse effect on revenues, cash flows and earnings.

Access to Parts, Consumables and Technology and Relationships with Key Suppliers The ability of Cathedral to compete and expand will be dependent on Cathedral having access, at a reasonable cost, to equipment, parts and components for purchased equipment of the development and acquisition of new competitive technologies. An inability to access these items and delays in accessing these items could have a material adverse effect on Cathedral's business, financial condition, results of operations and cash flow and therefore on Cathedral's ability to pay dividends. Cathedral's equipment may become obsolete or experience a decrease in demand due to competing products that are lower in cost, have enhanced performance capabilities or are determined by the market to be more preferable for environmental or other reasons. Although Cathedral has very good relationships with its key suppliers, there can be no assurances that those sources of equipment, parts, components or relationships with key suppliers will be maintained. If these are not maintained, Cathedral's ability to compete may be impaired. If the relationships with key suppliers come to an end, the availability and cost of securing certain parts, components and equipment may be adversely affected.

Technology The success and ability of Cathedral to compete depends in part on the technologies that it brings to the market, and the ability of Cathedral to prevent others from copying such technologies. Cathedral currently relies on industry confidentiality practices ("trade secrets"), including entering into industry standard confidentiality agreements and in some cases patents (or patents pending) to protect its proprietary technology. Cathedral may have to engage in litigation in order to protect its intellectual property rights, including patents or patents pending, or to determine the validity or scope of the proprietary rights of itself or others. This kind of litigation can be time-consuming and expensive, regardless of whether or not Cathedral is successful.

Despite efforts of Cathedral, the intellectual property rights of Cathedral may be invalidated, circumvented, challenged, infringed or required to be licensed to others. It cannot be assured that any steps Cathedral may take to protect its intellectual property rights and other rights to such proprietary technologies that are central to Cathedral's operations will prevent misappropriation or infringement.

Cathedral competes with other more established companies which have greater financial resources to develop new technologies. Competitors may also develop similar tools, equipment and technology to Cathedral's thereby adversely affecting Cathedral's competitive advantage in one or more of its businesses. Additionally, there can be no assurance that certain tools, equipment or technology developed by Cathedral may not be the subject of future patent infringement claims or other similar matters which could result in litigation, the requirement to pay licensing fees or other results that could have a material adverse effect on Cathedral's business, results of operations and financial condition.

Potential Replacement or Reduced Use of Products and Services Certain of Cathedral's equipment or systems may become obsolete or experience a decrease in demand through the introduction of competing products that are lower in cost, exhibit enhanced performance characteristics or are determined by the market to be more preferable for environmental or other reasons. Cathedral will need to keep current with

the changing market for oil and natural gas services and technological and regulatory changes. If Cathedral fails to do so, this could have a material adverse effect on its business, financial condition, results of operations and cash flows.

Operating Risks and Insurance Cathedral has an insurance and risk management plan in place to protect its assets, operations and employees. However, Cathedral's oilfield services are subject to risks inherent in the oil and natural gas industry, such as equipment defects, malfunctions, failure, natural disasters and errors by staff, some of which may not be covered by insurance. These risks could expose Cathedral to substantial liability for personal injury, loss of life, business interruption, property damage or destruction, pollution and other environmental damages. Cathedral attempts to obtain indemnification from our customers by contract for some of these risks in addition to having insurance coverage. These indemnification agreements may not adequately protect against liability from all of the consequences described above. In addition, Cathedral's operating activities includes a significant amount of transportation and therefore is subject to the inherent risks including potential liability which could result from, among other things, personal injury, loss of life or property damage derived from motor vehicle accidents. Cathedral carries insurance to provide protection in the event of destruction or damage to its property and equipment, subject to appropriate deductibles and the availability of coverage. Liability insurance is also maintained at prudent levels to limit exposure to unforeseen incidents. An annual review of insurance coverage is completed to assess the risk of loss and risk mitigation alternatives. It is anticipated that insurance coverage will be maintained in the future, but there can be no assurance that such insurance coverage will be available in the future on commercially reasonable terms or be available on terms as favorable as Cathedral's current arrangements. The occurrence of a significant event outside of the coverage of Cathedral's insurance policies could have a material adverse effect on the results of the organization. If there is an event that is not fully insured or indemnified against, or a customer or insurer does not meet its indemnification or insurance obligations, it could result in substantial losses. Business continuity, disaster recovery and crisis management

Inability to restore or replace critical capacity in a timely manner may impact business and operations. A serious event could have a material adverse effect on Cathedral's business, results of operations and financial condition. This risk is mitigated by the development of business continuity arrangements, including disaster recovery plans and back-up delivery systems, to minimize any business disruption in the event of a major disaster. Insurance coverage may minimize any losses in certain circumstances.

Risks of Foreign Operations Cathedral may conduct a portion of its business outside North America through a number of means including projects, joint ventures and partnerships and other business relationships. As such, Cathedral could be exposed to risks inherent in foreign operations including, but not limited to: loss of revenue, property and equipment as a result of expropriation and nationalization, war, civil and/or labour unrest, strikes, terrorist threats, civil insurrection and other political risks; fluctuations in foreign currency and exchange controls; increases in duties, taxes and governmental royalties and renegotiation of contracts with governmental entities; trade and other economic sanctions or other restrictions imposed by the Canadian government or other governments or organizations; as well as changes in laws and policies governing operations of foreign-based companies

Cathedral has made the decision to terminate its pursuit of operations in Venezuela which were to be provided through a joint venture with a wholly-owned subsidiary of PDVSA, the state-owned oil and natural gas corporation of the Bolivarian Republic of Venezuela. The joint venture company, Vencana, is owned 60% by the PDVSA wholly-owned subsidiary and 40% by Cathedral's wholly-owned subsidiary, DPI. Carrying on business outside of Canada gives rise to the risk of dealing with business and political systems that are different than Cathedral is accustomed to in Canada.

Prior to the decision to terminate pursuit of operations in Venezuela, there had been delays in the formation of the joint venture company as well as the execution of various operational agreements which have prevented the commencement of operations in Venezuela. These delays have been out of the control of Cathedral. As well, in recent history, PDVSA has been late in paying its bills as they come due. There are risks inherent in the basic "joint venture" structure in that business decisions require both parties to the joint venture, Cathedral and PDVSA, to agree on key business decisions. There may be times when Cathedral and PDVSA do not agree on key business decisions including the sale of Cathedral's interest in Vencana or a wind up of Vencana and this may result in consequences that are detrimental to Cathedral. . Potential risks associated with foreign operations, in addition to those noted above, include: trade and economic sanctions or other restrictions imposed by the Canadian government or other governments or organizations, expropriation or nationalization; terrorist threats; civil insurrection; labour unrest; strikes and other political risks; fluctuation in foreign currency and exchange control; foreign currency devaluations; increases in duties and taxes; and changes in laws and policies governing operations of foreign based companies.

At December 31, 2013, Cathedral had recorded a write-down of its investment in Vencana and certain assets located in Venezuela in the amount of $13,100. During 2014 there was a minor recovery in the amount of $200 Cathedral will attempt to sell its interest in Vencana and any proceeds with respect to the sale of its joint venture interest will be recorded on a cash received basis as a recovery of this write-down.

Weather and Seasonality A significant portion of Cathedral'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 increase in the fall and peak in the winter months from December until 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.

Foreign Currency Exchange Rates Cathedral derives revenues from the U.S. which are denominated in the local currency. This causes a degree of foreign currency exchange rate risk which Cathedral attempts to mitigate by matching local purchases in the same currency. Furthermore, Cathedral's Canadian operations are subject to foreign currency exchange rate risk in that some purchases for parts, supplies and components in the manufacture of equipment are denominated in U.S. dollars. In addition to foreign currency risk associated with U.S. dollar, Cathedral is also exposed to foreign currency fluctuations in relation to Venezuelan Bolivar but exposure will decrease as Cathedral winds up it Venezuela operations. In the recent past (2010, 2012 and again early in 2014), the Venezuelan government has devalued the Venezuelan Bolivar relative to its benchmark currency the U.S. dollar. Cathedral's foreign currency policy is to monitor foreign current risk exposure in its areas of operations and mitigate that risk where possible by matching foreign currency denominated expense with revenues denominated in foreign currencies. Cathedral strives to maintain limited amounts of cash and cash equivalents denominated in foreign currency on hand and attempts to further limit its exposure to foreign currency through collecting and paying foreign currency denominated balance in a timely fashion. Specifically with respect to the foreign exchange risk, including currency controls associated with the Venezuelan Bolivar, Cathedral's has to the extent possible denominated Venezuelan contracts in U.S. dollars.

In addition, Cathedral is exposed to currency exchange risk on those of our assets denominated in U.S. dollars and Venezuelan Bolivar. Since Cathedral presents its financial statements in Canadian dollars, any change in the value of the Canadian dollar relative to the U.S. dollar, and to a lesser extent, Venezuelan Bolivar, during a given financial reporting period would result in a foreign currency loss or gain on the translation of its assets measured in other currencies into Canadian dollars. Consequently, Cathedral's reported earnings could fluctuate materially as a result of foreign exchange translation gains or losses. Other than natural hedges arising from the normal course of business in foreign jurisdictions, Cathedral does not currently have any hedging positions.

Acquisition Risks Cathedral expects to continue to selectively seek strategic acquisitions. Cathedral's ability to consummate and to integrate effectively any future acquisitions on terms that are favourable to it may be limited by the number of attractive acquisition targets, internal demands on Cathedral's resources, and to the extent necessary, Cathedral's ability to obtain financing on satisfactory terms for larger acquisitions, if

at all. Acquisitions may expose Cathedral to additional risks, including: difficulties in integrating administrative, financial reporting, operational and information systems and managing newly-acquired operations and improving their operating efficiency; difficulties in maintaining uniform standards, controls, procedures and policies through all of Cathedral's operations; entry into markets in which Cathedral has little or no direct prior experience; difficulties in retaining key employees of the acquired operations; disruptions to Cathedral's ongoing business; and diversion of management time and resources.

Business Development Risks In implementing its strategy, Cathedral may pursue new business or growth opportunities. There is no assurance that Cathedral will be successful in executing those opportunities. Cathedral may have difficulty executing the its strategy because of, among other things, increased competition, difficulty entering new markets or geographies, difficulties in introducing new products, the ability to attract qualified personnel, barriers to entry into geographic markets, and changes in regulatory requirements.

Credit Risk All of Cathedral's accounts receivables are with customers involved in the oil and natural gas industry, whose revenue may be impacted by fluctuations in commodity prices. Although collection of these receivables could be influenced by economic factors affecting this industry and thereby have a materially adverse effect on operations, management considers risk of significant loss to be minimal at this time. To mitigate this risk, Cathedral's customers are subject to an internal credit review along with ongoing monitoring of the amount and age of receivables balances outstanding.

Reliance on Major Customers Management of Cathedral believes it currently has a good mix of customers with only one customer accounting for revenues in excess of 10% (one customer at 12% of Cathedral's consolidated revenues for 2014) (2013 – one customer at 15%). While Cathedral believes that its relationship with existing customers is good, the loss of any one or more of these customers, or a significant reduction in business done with Cathedral by one or more of these customers, if not offset by sales to new or existing customers, could have a material adverse effect on Cathedral's business, results of operations and prospects and therefore on the ability to pay dividends to Shareholders. Mergers and acquisitions activity in the oil and natural gas exploration and production sector can impact demand for our services as customers focus on internal reorganization prior to committing funds to significant oilfield services. In addition, demand for Cathedral's services could be negatively affected in that upon completion, the merger and acquisitions customers may re-direct their work to Cathedral's competitors.

Environmental Risks Cathedral is subject to various environmental laws and regulations enacted in the jurisdictions in which it operates which govern the manufacture, processing, importation, transportation, handling and disposal of certain materials used in Cathedral's operations. Cathedral has established procedures to address compliance with current environmental laws and regulations and monitors its practices concerning the handling of environmentally hazardous materials. However, there can be no assurance that Cathedral's procedures will prevent environmental damage occurring from spills of materials handled by Cathedral or that such damage has not already occurred. On occasion, substantial liabilities to third parties may be incurred. Cathedral may have the benefit of insurance maintained by it or the operator; however Cathedral may become liable for damages against which it cannot adequately insure or against which it may elect not to insure because of high costs or other reasons.

There is growing concern about the apparent connection between the burning of fossil fuels and climate change. The issue of energy and the environment has created intense public debate in Canada, the U.S. and around the world in recent years that is likely to continue for the foreseeable future and could potentially have a significant impact on all aspects of the economy including the demand for hydrocarbons and resulting in lower demand for Cathedral's services. There can be no assurance that the provincial, state and local governments or the Federal Governments of Canada and U.S. and other jurisdictions in which Cathedral enters into to provide its services will not adopt new environmental regulations, rules or legislation or make modifications to existing regulations, rules or legislation which could increase costs paid by Cathedral's customers. An increase in environmental related costs could reduce Cathedral's customers' earnings and/or it could make capital expenditures by Cathedral's customers uneconomic. The Canadian Federal Government has announced its intention to regulate greenhouse gases ("GHG") and other air pollutants. The Government is currently developing a framework that outlines its clean air and climate change action plan. As this federal program is under development, Cathedral is unable to predict the total impact of the potential regulations upon its business. It is possible that Cathedral's customers could face increases in operating costs in order to comply with GHG emissions legislation which could have the effect of curtailing exploration and development by oil and natural gas producers and that in turn, could adversely affect Cathedral's operations by reducing demand for its services.

Government Regulation The oil and natural gas industry in Canada and the U.S. is subject to federal, provincial, state and municipal legislation and regulation governing such matters as land tenure, commodity prices, production royalties, production rates, environmental protection controls, the exportation of crude oil, natural gas and other products, as well as other matters. The industry is also subject to regulation by governments in such matters, including laws and regulations relating to health and safety, the conduct of operations, the protection of the environment and the manufacture, management, transportation, storage and disposal of certain materials used in Cathedral's operations.

Government regulations may change from time to time in response to economic or political conditions. The exercise of discretion by governmental authorities under existing regulations, the implementation of new regulations or the modification of existing regulations affecting the crude oil and natural gas industry could reduce demand for Cathedral's services or increase its costs, either of which could have a material adverse impact on Cathedral.

There can be no assurance that the provincial, state and local governments or the Federal Governments of Canada and U.S. and other jurisdictions in which Cathedral enters into to provide its services will not adopt a new royalty regime or modify the methodology of royalty calculation which could increase the royalties paid by Cathedral's customers. An increase in royalties could reduce Cathedral's customers' earnings and/or it could make capital expenditures by Cathedral's customers uneconomic. Although Cathedral is not a direct investor in the oil and natural gas market, it does affect Cathedral's customers' cash flow available to invest in drilling activity and other oilfield services.

Safety Performance Cathedral has programs in place to address compliance with current safety and regulatory standards. Cathedral has a corporate safety manager responsible for maintaining and developing policies and monitoring operations consistent with those policies. Poor safety performance could lead to lower demand for Cathedral’s services. Standards for accident prevention in the oil and natural gas industry are governed by company safety policies and procedures, accepted industry safety practices, customer-specific safety requirements, and health and safety legislation. Safety is a key factor that customers consider when selecting an oilfield service company. A decline in Cathedral’s safety performance could result in lower demand for services, and this could have a material adverse effect on revenues, cash flows and earnings. Cathedral is subject to various health and safety laws, rules, legislation and guidelines which can impose material liability, increase costs or lead to lower demand for services.

Conflict of Interest Certain directors and officers of Cathedral are also directors and/or officers of oil and natural gas exploration and/or production entities and conflicts of interest may arise between their duties as officers and directors of Cathedral and as officers and directors of such other companies. Such conflicts must be disclosed in accordance with, and are subject to such other procedures and remedies as apply under the ABCA.

Legal Proceedings Cathedral is involved in litigation from time to time in the ordinary course of business. No assurance can be given as to the final outcome of any legal proceedings or that the ultimate resolution of any legal proceedings will not have a materially adverse effect on Cathedral.

GOVERNANCE

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

SUPPLEMENTARY INFORMATION

Additional information regarding the Company, including the Annual Information Form ("AIF"), is available on SEDAR at 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) "Adjusted selling, general and administrative expenses" ("Adjusted SG&A") – defined as selling, general and administrative expenses excluding non-cash depreciation and share-based compensation, non-recurring executive compensation (such as severance) and excluding expenses related to operations in Venezuela.

iv) "EBITDAS" - defined as earnings before share of income/loss from 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 property and equipment (see non-GAAP measurement), depreciation and share-based compensation plus dividends from associate; 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);

v) "Funds from continuing 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);

vi) "Growth property and 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 property and equipment expected to add incremental revenues and funds flow to the Company;

vii) "Maintenance property and equipment additions" or "Maintenance capital" – is capital spending incurred in order to refurbish or replace previously acquired other than "replacement property and 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;

viii) "Replacement property and 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 property and equipment additions is considered important as such additions are financed by way of proceeds on disposal of property and equipment (see discussion within the MD&A on "gain on disposal of property and equipment);

ix) "Infrastructure property and 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;

x) "Non-recurring gains and losses on disposal of property and equipment" – are disposals of property and 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;

xi) "Net property and equipment additions" – is property and equipment additions expenditures less proceeds on the regular disposal of property and equipment (the proceeds on sale of land and buildings have been excluded). Cathedral uses net property and equipment additions to assess net cash flows related to the financing of Cathedral's property and equipment additions; and

xii) "Net debt" – is loans and borrowing less working capital. Management uses net debt as a metric to shows the Company's overall debt level.

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

Adjusted gross margin

	Three months ended December 31		Year ended December 31	
	2014	2013	2014	2013
Gross margin	$ 9,905	$ 8,422	$ 40,085	$ 32,375
Add non-cash items included in cost of sales:				
Depreciation	5,231	5,036	19,373	19,270
Share-based compensation	19	16	112	177
Adjusted gross margin	$ 15,155	$ 13,474	$ 59,570	$ 51,822
Adjusted gross margin %	20.7%	20.7%	21.6%	23.1%

Adjusted SG&A

	Three months ended December 31		Year ended December 31	
	2014	2013	2014	2013
Total selling, general and administrative expenses	$ 6,377	$ 6,719	$ 24,950	$ 24,669
Less:				
Non-recurring compensation	(234)	(1,545)	(234)	(2,380)
Expenses related to international operations	(59)	(258)	(194)	(590)
Depreciation	(76)	(70)	(280)	(557)
Share-based compensation	(45)	127	(200)	(335)
Adjusted gross margin	$ 5,963	$ 4,973	$ 24,042	$ 20,807

EBITDAS

	Three months ended December 31		Year ended December 31	
	2014	2013	2014	2013
Earnings before income taxes	$ 3,063	$ (11,394)	$ 14,970	$ 1,114
Add (deduct):				
Depreciation included in cost of sales	5,231	5,036	19,373	19,270
Depreciation included in selling, general and administrative expenses	76	70	280	557
Share-based compensation included in cost of sales	19	16	112	177
Share-based compensation included in selling, general and administrative expenses	45	(127)	200	335
Non-recurring gains on disposal of property and equipment	-	460	-	(4,894)
Write-down (recovery) of investment in associate and related assets	(177)	13,066	(177)	13,070
Unrealized foreign exchange (gain) loss on intercompany balances	452	336	1,166	670
Finance costs	699	661	2,563	2,516
EBITDAS	$ 9,408	$ 8,124	$ 38,487	$ 32,815

Funds from continuing operations

	Three months ended December 31		Year ended December 31	
	2014	2013	2014	2013
Cash flow from operating activities	$ 12,028	$ 6,077	$ 36,941	$ 14,026
Add (deduct):				
Changes in non-cash operating working capital	(3,204)	(261)	(2,160)	10,082
Income taxes paid (recovered)	192	846	604	3,855
Current tax expense	(621)	(262)	(3,271)	(2,604)
Funds from continuing operations	$ 8,395	$ 6,400	$ 32,114	$ 25,359

MANAGEMENT'S REPORT

The consolidated financial statements have been prepared by the management in accordance with International Financial Reporting Standards which now are the basis for Canadian generally accepted accounting principles and, where appropriate, reflect estimates based upon management's judgment. Financial information contained elsewhere in the annual report has been prepared on a consistent basis with that in the consolidated financial statements.

Management is also responsible for a system of internal controls which is designed to provide reasonable assurance that the Company's assets are safeguarded and accounting systems provide timely, accurate financial reports.

The Audit Committee of the Board of Directors has reviewed in detail the consolidated financial statements with management and the external auditor. The Board of Directors has approved the consolidated financial statements on the recommendation of the Audit Committee.

KPMG LLP, an independent firm of chartered accountants, have examined the Company's consolidated financial statements in accordance with Canadian generally accepted auditing standards and provided an independent professional opinion. The auditors have full and unrestricted access to the Audit Committee to discuss their audit and their related findings as to the integrity of the financial reporting process.

Signed: *"P. Scott MacFarlane"*

P. Scott MacFarlane

President and Chief Executive Officer

Signed: *"Michael F. Hill"*

Michael F. Hill

Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Cathedral Energy Services Ltd.:

We have audited the accompanying consolidated financial statements of Cathedral Energy Services Ltd., which comprise the consolidated statements of financial position as at December 31, 2014 and December 31, 2013, the consolidated statements of comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Cathedral Energy Services Ltd. as at December 31, 2014 and December 31, 2013, and the results of its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Signed: "KPMG LLP"

Chartered Accountants

Calgary, Alberta

March 3, 2015

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2014 and 2013

Dollars in '000s

		December 31 2014		December 31 2013
Assets				
Current assets:				
Cash and cash equivalents (notes 5 and 26)	$	5,109	$	289
Trade receivables (note 6)		58,770		46,400
Current taxes recoverable		-		1,473
Prepaid expenses and deposits		2,383		3,334
Inventories (note 7)		17,130		13,913
Total current assets		83,392		65,409
Property and equipment (note 8)		131,877		123,487
Intangible assets (note 9)		1,905		1,474
Deferred tax assets (note 10)		7,512		9,157
Goodwill (note 9)		5,848		5,848
Total non-current assets		147,142		139,966
Total assets	$	230,534	$	205,375
Liabilities and Shareholders' Equity				
Current liabilities:				
Operating loans (note 12)	$	1,069	$	10,119
Trade and other payables (note 13)		35,201		22,236
Dividends payable		2,994		2,984
Current taxes payable		1,232		-
Loans and borrowings (note 14)		857		722
Deferred revenue		3,904		3,317
Total current liabilities		45,257		39,378
Loans and borrowings (note 14)		56,142		38,462
Deferred tax liabilities (note 10)		767		923
Total non-current liabilities		56,909		39,385
Total liabilities		102,166		78,763
Shareholders' equity:				
Share capital (note 15)		74,481		73,850
Contributed surplus		9,261		9,065
Accumulated other comprehensive income		3,850		1,239
Retained earnings		40,776		42,458
Total shareholders' equity		128,368		126,612
Total liabilities and shareholders' equity	$	230,534	$	205,375

See accompanying notes to consolidated financial statements.

Approved by the Directors:

Signed: "P. Scott MacFarlane"

P. Scott MacFarlane

Director

Signed: "Rod Maxwell"

Rod Maxwell

Director

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years ended December 31, 2014 and 2013

Dollars in '000s except per share amounts

	December 31 2014	December 31 2013
Revenues (note 20)	$ 275,435	$ 224,685
Cost of sales (notes 7 and 17):		
Direct costs	(215,865)	(172,863)
Depreciation	(19,373)	(19,270)
Share-based compensation	(112)	(177)
Total cost of sales	(235,350)	(192,310)
Gross margin	40,085	32,375
Selling, general and administrative expenses (note 17):		
Direct costs	(24,470)	(23,777)
Depreciation	(280)	(557)
Share-based compensation	(200)	(335)
Total selling, general and administrative expenses	(24,950)	(24,669)
	15,135	7,706
Gain on disposal of property and equipment	3,102	4,852
Gain on sale of land and buildings (note 8)	-	4,894
(Write-down of) recovery on investment in associate and related assets (note 11)	177	(13,070)
Earnings from operating activities	18,414	4,382
Foreign exchange loss (note 18)	(881)	(752)
Finance costs (note 18)	(2,563)	(2,516)
Earnings before income taxes	14,970	1,114
Income tax expense (note 10):		
Current	(3,271)	(2,604)
Deferred	(1,416)	(52)
Total income tax expense	(4,687)	(2,656)
Net earnings (loss)	10,283	(1,542)
Other comprehensive income:		
Foreign currency translation differences for foreign operations	2,611	3,918
Total comprehensive income	$ 12,894	$ 2,376
Net earnings (loss) (note 16)		
Basic	$ 0.28	$ (0.04)
Diluted	$ 0.28	$ (0.04)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Years ended December 31, 2014 and 2013
Dollars in '000s except per share amounts

	Share capital	Contributed surplus	Accumulated other comprehensive income (loss)	Retained earnings	Total shareholders' equity
Balance at December 31, 2012	**$ 74,408**	**$ 8,863**	**$ (2,679)**	**$ 57,340**	**$ 137,932**
Total comprehensive income (loss) for the year ended December 31, 2013	-	-	3,918	(1,542)	2,376
Transactions with shareholders, recorded directly in equity contributions by and distributions to shareholders for the year ended December 31, 2013:					
Dividends to equity holders	-	-	-	(11,100)	(11,100)
Repurchase of common shares	(2,194)	-	-	(2,240)	(4,434)
Share-based compensation	-	512	-	-	512
Share options exercised (note 15)	1,636	(310)	-	-	1,326
Total contributions by and distributions to shareholders	(558)	202	-	(13,340)	(13,696)
Balance at December 31, 2013	**$ 73,850**	**$ 9,065**	**$ 1,239**	**$ 42,458**	**$ 126,612**
Total comprehensive income for the year ended December 31, 2014	-	-	2,611	10,283	12,894
Transactions with shareholders, recorded directly in equity contributions by and distributions to shareholders for the year ended December 31, 2014:					
Dividends to equity holders	-	-	-	(11,965)	(11,965)
Share-based compensation	-	312	-	-	312
Share options exercised (note 15)	631	(116)	-	-	515
Total contributions by and distributions to shareholders	631	196	-	(11,965)	(11,138)
Balance at December 31, 2014	**$ 74,481**	**$ 9,261**	**$ 3,850**	**$ 40,776**	**$ 128,368**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2014 and 2013

Dollars in '000s except per share amounts

	December 31 2014	December 31 2013
Cash provided by (used in):		
Operating activities:		
Net earnings (loss)	$ 10,283	$ (1,542)
Items not involving cash		
Depreciation	19,653	19,827
Income tax expense	4,687	2,656
Unrealized foreign exchange loss on intercompany balances	1,166	670
Finance costs	2,563	2,516
Share-based compensation	312	512
Gain on disposal of property and equipment	(3,102)	(4,852)
Gain on sale of land and buildings	-	(4,894)
Write-down of (recovery on) investment in associate and related assets	(177)	13,070
Cash flow from continuing operations	35,385	27,963
Changes in non-cash operating working capital (note 19)	2,160	(10,082)
Income taxes paid	(604)	(3,855)
Cash flow from operating activities	36,941	14,026
Investing activities:		
Property and equipment additions	(30,763)	(28,283)
Intangible asset additions	(675)	(990)
Proceeds on disposal of property and equipment	5,550	29,547
Investment in associate	-	(6,558)
Changes in non-cash investing working capital (note 19)	(632)	(1,032)
Cash flow from investing activities	(26,520)	(7,316)
Financing activities:		
Change in operating loan	(9,120)	9,255
Interest paid	(2,610)	(2,517)
Advances of loans and borrowings	28,000	8,000
Repayments on loans and borrowings	(10,673)	(16,578)
Proceeds on exercise of share options	515	1,326
Repurchase of common shares	-	(4,434)
Dividends paid	(11,955)	(10,884)
Cash flow from financing activities	(5,843)	(15,832)
Effect of exchange rate on changes in cash and cash equivalents	242	941
Change in cash and cash equivalents	4,820	(8,181)
Cash and cash equivalents, beginning of year	289	8,470
Cash and cash equivalents, end of year	$ 5,109	$ 289

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 year ended December 31, 2014 comprise the Company and its subsidiaries (together referred to as "Cathedral") and it's associate as listed below:

Subsidiaries:

	Country of incorporation	Functional Currency	Ownership interest
Cathedral Energy Services Inc. ("INC")	United States	U.S. dollars	100%
Directional Plus International Ltd. ("DPI")	Barbados	U.S. dollars	100%
Directional Plus de Venezuela, C.A. ("DPV")	Venezuela	Venezuelan bolivar	100%

There has been no change in ownership of any subsidiaries in the periods reported on in these financial statements.

Investment in associate:

	Country of incorporation	Functional Currency	Ownership interest
Vencana Servicios Petroleros, S.A. ("Vencana")	Venezuela	Venezuelan bolivar	40%

Vencana Servicios Petroleros, S.A. was incorporated on March 1, 2013.

The Company and INC are primarily involved and engaged in the business of providing selected oilfield services to oil and natural gas companies in western Canada and selected oil and natural gas basins in the United States (U.S."). In 2014, Cathedral decided to terminate its pursuit of operations in Venezuela (see note 11).

2. Basis of preparation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") which are defined as International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The consolidated financial statements were authorized for issue by the Board of Directors on March 3, 2015.

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with GAAP requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Areas which require management to make significant judgment and estimates in determining the amounts recognized in these consolidated financial statements include, but are not limited to the following:

Judgments

(i) Current and deferred income taxes

The Company must make determinations on whether to record amounts for various tax pools it has available for future use. In making this determination, the Company looks at its past history and future expectations to determine what amounts, if any can be recognized. The Company also reviews all tax assessments to determine which assessments it concurs with and will record in its records and which assessments it disputes and which it expects to be changed. If the Company believes the assessment was incorrect, it does not make a provision for a liability in its accounts. As such the provisions for current and deferred income taxes are subject to measurement uncertainty.

(ii) Determination of significant influence in associates

In determination of the appropriate accounting treatment of the Company's investment in Vencana it must determine if the investment is under joint control or if it is subject to significant influence. In making this determination, the Company reviews the various agreements governing the operation of Vencana as well as other factors outlined in GAAP. It has concluded that the investment is subject to significant influence and has applied equity accounting to the investment.

(iii) Identification of cash generating units ("CGU")

In the annual assessment of goodwill, the Company must perform the impairment test at the CGU level, which is defined as the smallest group of assets that generates independent cash flow. Significant judgment is required in this assessment and changes to this assessment could materially impact the level at which impairment tests are performed.

2. Basis of preparation (continued)

(d) Use of estimates and judgments (continued)

(iv) Recognition of contingent liabilities

The determination if a contingent liability requires an accrual in the financial statements or only requires disclosure is an area that requires significant judgment. In making this determination management reviews the specific details of the contingency and may seek professional help if the matter is of sufficient complexity. For items not recorded as contingent liabilities, there is also a determination required if the amount of claim would be material, as only material amounts are disclosed in financial statements. As at December 31, 2014, contingent liabilities are disclosed in note 24.

Estimates

(i) Property and equipment

The Company makes estimates about the residual value and expected useful life of property and equipment. These estimates are based on management's historical experience and industry norms. Expected useful life and depreciation rates are as disclosed in note 3 (d) (iii).

(ii) Impairment of assets

Cathedral decided to terminate its pursuit of operations in Venezuela. As a result, the investment in associate was reviewed at December 31, 2013. Those financial statements included a provision for loss on this investment and other related assets that are located in Venezuela. This write-down has required management to make estimates on the recoverable value of various assets.

Property and equipment, goodwill and intangibles are assessed for impairment at least annually and when circumstances suggest that the carrying amount may exceed the recoverable amount for the asset. These calculations require estimates and assumptions and are subject to change as new information becomes available. These estimates include number of years of cash flow available from the assets, growth rates, pre-tax discount rates as well as various estimates and assumptions used in the preparation of revenues and expenses used in the cash flow analysis. The assumptions used in the impairment test of property and equipment and goodwill are disclosed in note 9.

Trade accounts receivable require estimates to be made regarding the financial stability of the Company's customers and the environment in which they operate in order to assess if accounts receivable balances will be received. Credit risks for outstanding accounts receivable are assessed regularly and an allowance for doubtful accounts is recorded based upon specific customer information and experience as well as for groups of similar assets. See note 26 "Credit risk" for further details.

Inventory is reviewed periodically in order to determine if there is obsolescence. This estimate is based upon historic data and management's estimates of future demand.

(iii) Income taxes

The Company uses the asset and liability method of accounting for future income taxes whereby deferred income tax assets and liabilities are determined based on temporary differences between the accounting basis and the tax basis of the assets and liabilities, and are measured using substantively enacted tax rates and laws expected to apply when these differences reverse. As a result, a projection of taxable income is required for those years, as well as an assumption of the ultimate recovery/settlement period for the temporary differences.

The business and operations of the Company are complex and the Company has executed a number of significant financings, reorganizations, acquisitions and other material transactions over the course of its history. The computation of income taxes payable as a result of these transactions involves many complex factors as well as the Company's interpretation of relevant tax legislation and regulations. The Company's management believes that the provision for income tax is adequate and in accordance with GAAP and applicable legislation and regulations. However, tax filing positions are subject to review by taxation authorities who may successfully challenge the Company's interpretation of the applicable tax legislation and regulations.

(iv) Share-based compensation

The Company accounts for share-based compensation using the fair value method of accounting as calculated under the Black-Scholes option valuation method. This method for share-based compensation requires that management make assumptions on model inputs including forfeiture rate and volatility that could result in material differences if the assumptions were changed. Management uses historical data to make these estimates which are disclosed in note 15.

3. Significant accounting policies

The accounting policies set out below have been applied consistently by the Company to all periods presented in these consolidated financial statements unless otherwise indicated.

(a) Basis of consolidation

Business combinations are accounted for using the acquisition method of accounting in which the identifiable assets acquired, liabilities assumed and any non-controlling interest are recognized and measured at their fair value at the date of acquisition. Any excess of the purchase price plus any non-controlling interest over the fair value of the net assets acquired is recognized as goodwill. Any deficiency of the purchase price over the fair value of the net assets acquired is credited to net earnings.

At acquisition, goodwill is allocated to each of the CGUs to which it relates. Subsequent measurement of goodwill is at cost less any accumulated impairment losses.

(i) Subsidiaries

Subsidiaries are entities controlled by Cathedral. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries align with the policies adopted by Cathedral.

(ii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income, expenses, gains or losses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

3. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(iii) Investment in associate

Associates are those entities in which the Company has significant influence, but not control or joint control, over the financial and operating policies. Significant influence is presumed to exist when the Company holds between 20 percent and 50 percent of the voting power of another entity. For the sole associate, Vencana, the Company owns 40% of the joint venture company with the remaining 60% owned by a wholly-owned subsidiary of Petróleos de Venezuela S.A. (“PDVSA”), the state-owned oil and natural gas corporation of the Bolivarian Republic of Venezuela.

Investments in associates are accounted for under the equity method and are recognized initially at cost. The cost of the investment includes transaction costs.

The consolidated financial statements include the Company`s share of the profit or loss and other comprehensive income of equity-accounted investees, after adjustments to align the accounting policies with those of the Company, from the date that significant influence commences until the date that significant influence ceases.

When the Company`s share of losses exceeds its interest in an equity-accounted investee, the carrying amount of the investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Company has an obligation or has made payments on behalf of the investee.

(b) Foreign currency

(i) Foreign currency transactions

All transactions that are not denominated in an entity's functional currency are foreign currency transactions. These transactions are initially recorded in the functional currency by applying the appropriate daily rate which best approximates the actual rate of transaction.

CAD is the functional and presentation currency of the Company. The functional currency of Cathedral's subsidiaries and associate are listed in Note 1.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. All differences are recognized in the consolidated statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(ii) Foreign operations

The assets and liabilities of foreign operations are translated to CAD at exchange rates at the reporting date. The income and expenses of foreign operations are translated to CAD at exchange rates at the dates of the transactions.

Foreign currency differences are recognized in other comprehensive income and have been recognized in accumulated other comprehensive income (‘AOCI’) in the cumulative translation. When a foreign operation is disposed of, the relevant amount in AOCI (in the cumulative translation account) is transferred to profit or loss as part of the profit or loss on disposal. On the partial disposal of a subsidiary that includes a foreign operation, the relevant proportion of such cumulative amount is reattributed to non-controlling interest. In any other partial disposal of a foreign operation, the relevant proportion is reclassified to profit or loss.

(c) Financial instruments

At December 31, 2014 and 2013, Cathedral has the following financial instruments: cash and cash equivalents and loans and receivables.

(i) Non-derivative financial assets

Cathedral initially recognizes trade and other receivables on the date that they originate. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date at which Cathedral becomes a party to the contractual provisions of the instrument.

Cathedral derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by Cathedral is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, Cathedral has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

(ii) Non-derivative financial liabilities

Cathedral initially recognizes debt securities issued on the date that they are originated. Cathedral derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, Cathedral has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Cathedral has the following non-derivative financial liabilities: loans and borrowings, operating loan, dividends payable and trade and other payables.

Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

3. Significant accounting policies (continued)

(d) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and borrowing costs on qualifying assets.

Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and are recognized net within other income in profit or loss.

(ii) Subsequent costs

The cost of replacing a part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to Cathedral, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment (repair and maintenance) are recognized in profit or loss as incurred.

(iii) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognized in profit or loss either on a straight-line or diminishing balance basis over the estimated useful lives of each part of an item of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that Cathedral will obtain ownership by the end of the lease term. Land is not depreciated.

Items of property and equipment are depreciated from the date that they are installed and are available for use, or in respect of internally constructed assets, from the date that the asset is completed and available for use.

The estimated useful lives, depreciation rates and depreciation methods for the current and comparative periods are as follows:

	Estimated life in years	Depreciation rates	Depreciation method
Directional drilling equipment	15.5 to 24	10 to 15%	Declining balance
Production testing equipment	11.5 to 15.5	15 to 20%	Declining balance
Office and computer equipment	3.0 to 11.5	20 to 55%	Declining balance
Automotive equipment	9 to 11.5	20 to 25%	Declining balance
Buildings	55	4%	Declining balance
Automotive equipment under capital lease	3 to 4	20% or 33%	Straight-line
Leasehold improvements	5	20%	Straight-line

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

(e) Intangible assets

(i) Goodwill

Goodwill that arises upon the acquisition of subsidiaries is included in the financial statements. For measurement of goodwill at initial recognition, see note 3(a).

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses.

(ii) Internally generated intangible asset - Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and Cathedral intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalized includes the cost of materials, direct labour, overhead costs that are directly attributable to preparing the asset for its intended use, and borrowing costs on qualifying assets. Other development expenditure is recognized in profit or loss as incurred.

Capitalized development expenditure is measured at cost less accumulated amortization and accumulated impairment losses.

(iii) Acquired intangible asset – Non-compete agreements

Intangibles externally acquired are valued at estimated fair value at time of acquisition.

(iv) Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

3. Significant accounting policies (continued)

(e) Intangible assets

(v) Amortization

Amortization is calculated on the cost of the asset less its residual value.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life for capitalized development costs is 5 years.

Amortization methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

(f) Leased assets

Leases in terms of which Cathedral assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognized in Cathedral's statement of financial position.

(g) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the average cost principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(h) Impairment

(i) Financial assets (including receivables)

A financial asset other than those carried at fair value through profit or loss is assessed for indicators of impairment at each reporting date. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be reliably estimated.

Cathedral considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment Cathedral uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

(ii) Non-financial assets

The carrying amounts of Cathedral's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit", or "CGU"). For the purposes of goodwill impairment testing, goodwill acquired in a business combination is allocated to CGUs that are expected to benefit from the synergies of the combination. This allocation is subject to an operating segment ceiling test and reflects the lowest level at which that goodwill is monitored for internal reporting purposes.

Cathedral's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(i) Employee benefits

(i) Termination benefits

Termination benefits are recognized as an expense when Cathedral is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if Cathedral has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

3. Significant accounting policies (continued)

(i) Employee benefits (continued)

(ii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if Cathedral has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(iii) Share-based payment transactions – equity settled

The grant date fair value of share-based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards (vesting period). The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date.

Share-based payment arrangements in which Cathedral receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions.

(j) Revenue

Revenue is recognized when there is persuasive evidence that an arrangement exists (usually when executed), the risks and rewards have been transferred to the buyer, the service has been provided, the rate is fixed, the associated costs can be estimated reliably, the collection of the amounts billed to the customer is considered probable and revenue can be measured reliably. Cathedral considers persuasive evidence to exist when a formal contract is signed or customer acceptance is obtained. Contract terms do not include a provision for significant post-service delivery obligations.

Cathedral's directional drilling and production testing services are generally sold based upon service orders or contracts with customers that include fixed or determinable prices based upon daily, hourly or job rates.

(k) Lease payments

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Determining whether an arrangement contains a lease

At inception of an arrangement, Cathedral determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfillment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to Cathedral the right to control the use of the underlying asset.

At inception or upon reassessment of the arrangement, Cathedral separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If Cathedral concludes for a finance lease that it is impracticable to separate the payments reliably, an asset and a liability are recognized at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognized using Cathedral's incremental borrowing rate.

(l) Finance income and costs

Finance costs comprise interest expense on borrowings, bank charges and other interest and foreign exchange gains or losses. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

(m) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable income will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

3. Significant accounting policies (continued)

(n) Earnings per share

Cathedral presents basic and diluted earnings per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for own shares held, for the effects of all dilutive potential common shares, which comprise share options granted to employees, directors and consultants.

(o) New standards and interpretations not yet adopted

The following new accounting policies were adopted as at January 1, 2014:

The IASB issued IFRIC 21, "Levies" which has been adopted by the Company on January 1, 2014. The IFRIC clarifies that an entity should recognize a liability for a levy when the activity that triggers payment occurs. The adoption of this interpretation has no impact on the Company's consolidated financial statements.

Effective January 1, 2014, the Company adopted, as required, amendments to IAS 32, "Financial Instruments: Presentation" ("IAS 32"). The amendments clarify that the right to offset financial assets and liabilities must be available on the current date and cannot be contingent on a future event. The adoption of IAS 32 did not impact the Consolidated Financial Statements.

A number of new accounting standards, amendments to accounting standards and interpretations are effective for annual periods beginning on or after January 1, 2015 and have not been applied in preparing the Consolidated Financial Statements for the year ended December 31, 2014. The standards applicable to the Company are as follows and will be adopted on their respective effective dates:

(i) Revenue Recognition

On May 28, 2014, the IASB issued IFRS 15, "Revenue From Contracts With Customers" ("IFRS 15") replacing International Accounting Standard 11, "Construction Contracts" ("IAS 11"), IAS 18, "Revenue" ("IAS 18"), and several revenue-related interpretations. IFRS 15 establishes a single revenue recognition framework that applies to contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. Disclosure requirements have also been expanded.

The new standard is effective for annual periods beginning on or after January 1, 2017, with earlier adoption permitted. The standard may be applied retrospectively or using a modified retrospective approach. The Company is currently evaluating the impact of adopting IFRS 15 on the Consolidated Financial Statements.

(ii) Financial Instruments

On July 24, 2014, the IASB issued the final version of IFRS 9, "Financial Instruments" ("IFRS 9") to replace IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39").

IFRS 9 introduces a single approach to determine whether a financial asset is measured at amortized cost or fair value and replaces the multiple rules in IAS 39. The approach is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. For financial liabilities, IFRS 9 retains most of the IAS 39 requirements; however, where the fair value option is applied to financial liabilities, the change in fair value resulting from an entity's own credit risk is recorded in OCI rather than net earnings, unless this creates an accounting mismatch. In addition, a new expected credit loss model for calculating impairment on financial assets replaces the incurred loss impairment model used in IAS 39. The new model will result in more timely recognition of expected credit losses. IFRS 9 also includes a simplified hedge accounting model, aligning hedge accounting more closely with risk management. Cathedral does not currently apply hedge accounting.

IFRS 9 is effective for years beginning on or after January 1, 2018. Early adoption is permitted if IFRS 9 is adopted in its entirety at the beginning of a fiscal period. The Company is currently evaluating the impact of adopting IFRS 9 on the Consolidated Financial Statements.

4. Determination of fair values

A number of Cathedral's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Property and equipment

The fair value of property and equipment recognized as a result of a business combination is based on market values. The market value of property and equipment is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly. The fair value of items of property and equipment is based on the market approach and cost approaches using quoted market prices for similar items when available and replacement cost when appropriate.

(b) Intangible assets

The fair value of development costs is based on the discounted cash flows expected to be derived from the use of the assets.

(c) Inventories

Inventories consist of operating supplies and parts to be used in repairing equipment. The fair value of inventories is determined based on the net realizable value of these items.

(d) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

4. Determination of fair values (continued)

(e) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

(f) Share-based payment transactions

The fair value of the employee share options is measured using the Black-Scholes option pricing model. Measurement inputs include the share price on measurement date, the exercise price of the instrument, the expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), the weighted average expected life of the instruments (based on historical experience and general option holder behavior), the expected dividends, forfeiture rate per annum and the risk-free interest rate (based on government bonds). Service and non-market performance conditions are not taken into account in determining fair value.

5. Cash and cash equivalents

All of the Company's amounts consist of bank balances. This balance does not include any term deposits and temporary investments or bank overdrafts. The Company's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities is disclosed in note 26.

6. Trade receivables

All of the Company's amounts are trade receivables. This balance does not include any related party amounts or other loans and receivables. All amounts are current assets. The Company's exposure to credit and currency risks, and impairment losses related to trade and other receivables is disclosed in note 26.

7. Inventories

All of the Company's inventories are composed of raw materials, consumables and work-in-progress. There is no finished goods inventories. For the year ended December 31, 2014, raw materials and consumables recognized as cost of sales were $34,913 (2013 - $24,502).

8. Property and equipment

Cost	Balance December 31 2012	Additions	Disposals	Effects of movements in exchange rates	Balance December 31 2013
Directional drilling equipment	$ 136,639	$ 20,609	$ (16,046)	$ 114	$ 141,316
Production testing equipment	53,490	5,951	-	106	59,547
Automotive equipment	1,320	18	(134)	63	1,267
Office and computer equipment	6,124	758	(160)	47	6,769
Buildings	15,408	530	(15,938)	-	-
Land	3,410	349	(3,238)	(141)	380
Automotive equipment under capital lease	2,706	1,046	(665)	148	3,235
Leasehold improvements	1,004	68	(4)	45	1,113
Total	$ 220,101	$ 29,329	$ (36,185)	$ 382	$ 213,627

Accumulated depreciation	Balance December 31 2012	Additions	Disposals	Effects of movements in exchange rates	Balance December 31 2013
Directional drilling equipment	$ 56,663	$ 11,272	$ (11,887)	$ 52	$ 56,100
Production testing equipment	21,365	5,488	-	29	26,882
Automotive equipment	735	149	(102)	35	817
Office and computer equipment	3,487	1,070	(49)	42	4,550
Buildings	1,335	424	(1,759)	-	-
Land	-	-	-	-	-
Automotive equipment under capital lease	859	590	(417)	46	1,078
Leasehold improvements	564	135	(1)	15	713
Total	$ 85,008	$ 19,128	$ (14,215)	$ 219	$ 90,140

8. Property and equipment (continued)

Cost		Balance December 31 2013		Additions		Disposals		Effects of movements in exchange rates		Balance December 31 2014
Directional drilling equipment	$	141,316	$	22,365	$	(4,462)	$	(295)	$	158,924
Production testing equipment		59,547		3,869		(1,017)		155		62,554
Automotive equipment		1,267		-		(131)		74		1,210
Office and computer equipment		6,769		907		(3)		137		7,810
Buildings		-		3,500				198		3,698
Land		380		-		-		35		415
Automotive equipment under capital lease		3,235		526		(467)		229		3,523
Leasehold improvements		1,113		108		-		45		1,266
Total	$	213,627	$	31,275	$	(6,080)	$	578	$	239,400

Accumulated depreciation		Balance December 31 2013		Additions		Disposals		Effects of movements in exchange rates		Balance December 31 2014
Directional drilling equipment	$	56,100	$	12,305	$	(2,208)	$	513	$	66,710
Production testing equipment		26,882		5,314		(401)		60		31,855
Automotive equipment		817		110		(99)		52		880
Office and computer equipment		4,550		972		(5)		94		5,611
Buildings		-		-		-		-		-
Land		-		-		-		-		-
Automotive equipment under capital lease		1,078		684		(292)		88		1,558
Leasehold improvements		713		170		-		26		909
Total	$	90,140	$	19,555	$	(3,005)	$	833	$	107,523

Net book values		2014		2013
Directional drilling equipment	$	92,214	$	85,216
Production testing equipment		30,699		32,665
Automotive equipment		330		450
Office and computer equipment		2,199		2,219
Buildings		3,698		-
Land		415		380
Automotive equipment under capital lease		1,965		2,157
Leasehold improvements		357		400
Total	$	131,877	$	123,487

On September 27, 2013 the Company closed the sale of its land and buildings in Calgary and Nisku, Alberta and entered into a lease for these premises. The net proceeds were $22,260 and the resulting gain on sale of land and buildings was $4,894.

Leased automotive equipment

The Company leases equipment under a number of finance lease agreements. The leased equipment secures lease obligations (see note 14). During 2014, there were non-cash fixed asset additions of $512 (2013 - $1,046) related to finance lease arrangements.

9. Intangible assets and goodwill

The Company's intangible assets consist of internally generated development costs related to its drilling division and acquired non-compete agreements related to its production testing division. To date the Company has recorded no impairment losses on these assets.

		2014		2013
Cost				
Balance at January 1	$	4,296	$	3,306
Internally developed additions		675		990
Balance at end of year	$	4,971	$	4,296
Accumulated amortization				
Balance at January 1	$	2,822	$	2,587
Amortization for year		244		235
Balance at end of year	$	3,066	$	2,822
Net carrying value at end of year	$	1,905	$	1,474

Impairment testing for cash-generating units containing goodwill

For the purpose of impairment testing, goodwill is allocated to the Company's cash generating units which represent the lowest level within the Company at which the goodwill is monitored for internal management purposes, which is not higher than the Company's operating segments.

The aggregate carrying amounts of goodwill allocated to each unit are as follows:

		2014		2013
Directional drilling	$	1,624	$	1,624
Production testing		4,224		4,224
Total	$	5,848	$	5,848

The recoverable amount of each cash-generating unit was based on its value in use. The carrying amount of the unit was determined to be lower than its recoverable amount and no impairment loss has been recognized.

Value in use was determined by discounting the future cash flows generated from the continuing use of the unit. Unless indicated otherwise, value in use in 2014 was determined similarly as in 2013. The calculation of the value in use was based on the following key assumptions.

- Cash flows were projected based on past experience, actual operating results and the current year business plan in both 2013 and 2014. For 2014 a forecast period of 3 years (2013 – 1 year) was used for the 12 year forecast (2013 – 12.5 year). For 2014 the subsequent 9 years (2013 – 11.5 years) were extrapolated using a constant growth rate of 1.5% (2013 – 1.0%), which does not exceed the long-term average growth rate for the industry.
- A pre-tax discount rate of 18% (2013 - 22%) was applied in determining the recoverable amount of the unit. The discount rate was estimated based on past experience, and industry average weighted average cost of capital, which was based on a possible range of debt leveraging of 30% (2013 - 25%) at a market interest rate of 1.9% (2013 - 3.0%).

The values assigned to the key assumptions represent management's assessment of future trends in the service industry and are based on both external sources and internal sources (historical data). The values in use is particularly sensitivity to changes in discount rates, number of years of cash flow available from the assets, growth rates, pre-tax discount rates as well as various estimates and assumptions used in the preparation of revenues and expenses used in the cash flow analysis.

10. Deferred tax assets and liabilities and income tax expense

Unrecognized deferred tax assets

At December 31, 2014, a deferred tax asset of $651 (2013 - $666) for capital losses of $5,175 (2013 - $5,294) has not been recognized in these financial statements. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable capital gains will be available against which the Company can utilize the related benefits. These losses do not expire.

In addition, no amount has been recognized in these statements related to the write-down of investment in associate and related assets from 2013 of $13,070 as it is uncertain what benefit, if any, will be recognized for tax purposes.

Recognized deferred tax assets and liabilities

Deferred tax assets are attributable to the following:

		2014		2013
Property and equipment	$	(10,476)	$	(8,849)
Intangible assets		240		258
Investment tax credits		4,920		4,920
Non-capital loss carryforwards		3,377		3,377
Scientific research and development expenditures		9,451		9,451
Other		-		-
Total	$	7,512	$	9,157

10. Deferred tax assets and liabilities and income tax expense (continued)

Deferred tax liabilities are attributable to the following:

		2014		2013
Property and equipment	$	(767)	$	(923)

Movement in temporary differences during the year

		Balance December 31 2012		Recognized in profit		Recognized in OCI		Balance December 31 2013
Property and equipment	$	(9,400)	$	(307)	$	(65)	$	(9,772)
Intangible assets		277		(19)		-		258
Investment tax credits		4,605		315		-		4,920
Non-capital loss carryforwards		3,377		-		-		3,377
Scientific research and development expenditures		9,452		(1)		-		9,451
Other		40		(40)		-		-
Total	$	8,351	$	(52)	$	(65)	$	8,234

		Balance December 31 2013		Recognized in profit		Recognized in OCI		Balance December 31 2014
Property and equipment	$	(9,772)	$	(1,387)	$	(84)	$	(11,243)
Intangible assets		258		(18)		-		240
Investment tax credits		4,920		-		-		4,920
Non-capital loss carryforwards		3,377		-		-		3,377
Scientific research and development expenditures		9,451		-		-		9,451
Other		-		-		-		-
Total	$	8,234	$	(1,405)	$	(84)	$	6,745

The income taxes are based upon the estimated annual effective rates of 25% (2013 – 25%) for Canadian entities and 37% (2013 – 38%) for U.S. entities. The income tax expense for the period is comprised as follows:

		2014		2013
Current tax (expense) recovery:				
Current period	$	(3,248)	$	(2,555)
Adjustment to prior period provisions		(23)		(49)
Total current tax expense		(3,271)		(2,604)
Deferred tax expense:				
Origination and reversal of temporary differences		(1,416)		(365)
Adjustment to prior period provisions		-		313
Total deferred tax expense		(1,416)		(52)
Income tax expense	$	(4,687)	$	(2,656)

Income tax expense for 2014 and 2013 differs from the amount that would be expected by applying the expected statutory income tax rates for the following reasons:

		2014		2013
Expected statutory tax rate		25.17%		25.17%
Earnings before income tax	$	14,970	$	1,114
Effective tax rate applied to earnings before income tax	$	(3,768)	$	(280)
Adjustment to deferred taxes for change in effective tax rates		(19)		15
Income taxed in jurisdictions with different tax rates		(766)		(2,814)
Non-deductible expenses		(235)		(389)
Recognition of previously unrecognized tax losses		15		(111)
Adjustment to prior year deferred tax provision		-		313
Non-taxable portion of gain on disposal of property and equipment		113		664
Other		(27)		(54)
Total tax expense		(4,687)		(2,656)

11. Write-down of (recovery on) investment in associate and related assets

The Company has a 40% interest in a joint venture company, Vencana Servicios Petroleros, S.A. (“Vencana”). The remaining 60% of Vencana is owned by a wholly-owned subsidiary of Petróleos de Venezuela S.A. (“PDVSA”), the state-owned oil and natural gas corporation of the Bolivarian Republic of Venezuela. Vencana's mandate is to supply oilfield services in Venezuela to the oil and natural gas industry.

Cathedral decided to terminate its pursuit of operations in Venezuela and the impact of this decision was recorded in 2013. Management determined the expected political, financial and operational risks do not warrant continuing to pursue business opportunities in Venezuela.

11. Write-down of (recovery on) investment in associate and related assets (continued)

Cathedral will attempt to sell its interest in Vencana and any proceeds with respect to the sale of its joint venture interest will be recorded on a cash received basis as a recovery of this write-down.

Cathedral has made no guarantees or cross guarantees on behalf of Vencana.

During 2014 Cathedral's joint venture partner unexpectedly advanced Cathedral $6,782 U.S. In the context that the joint venture will be wound up or sold to the Company's joint venture partner, the ultimate characterization of this payment is not determinable at this time and accordingly, the Company has recorded CAD equivalent as a trade payable and this amount is included in the change in non-cash working capital.

In 2014, there were realizations on certain minor assets of the international operations and a recovery of $177 related to the 2013 write-off was recovered.

12. Operating loans

		2014		2013
Canadian dollar operating loan	$	710	$	8,340
U.S. dollar operating loan		359		1,779
Total	$	1,069	$	10,119

The Company has a $10,000 swingline facility (2013 - $20,000 demand operating loan) with a major Canadian bank. The terms and conditions of this loan is as disclosed in note 14.

13. Trade and other payables

		2014		2013
Trade payables	$	16,747	$	10,601
Accrued payables		18,454		11,635
Total	$	35,201	$	22,236

The Company's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 26.

14. Loans and borrowings

		2014		2013
Current liabilities:				
Current portion of finance lease liabilities	$	857	$	722
Non-current liabilities:				
Finance lease liabilities	$	1,142	$	1,462
Secured revolving term loan		55,000		37,000
Total	$	56,142	$	38,462

In the year there were advances of $28,000 and repayments of $10,000 on the Company's secured revolving term loan.

Terms and debt repayment schedule

On August 8, 2014 the Company entered into a 3 year committed revolving credit facility in the amount of $85,000 which represents a $10,000 increase from the prior credit facility. The new credit facility can be increased by a $25,000 accordion feature which is subject to approval of the syndicate of lenders. The syndicate of lenders consists of The Bank of Nova Scotia, the sole lender on the prior facility, and National Bank of Canada.

The facility bears interest at the bank's prime rate plus 0.50% to 2.00% or bankers' acceptance rate plus 1.75% to 3.25% with interest payable monthly. Interest rates spreads for the credit facility will depend on the level of funded debt to EBITDAS (earnings before interest on long-term debt, taxes, depreciation, amortization and non-cash compensation expense – as defined in the credit agreement).

The credit facility is secured by a general security agreement over all present and future personal property and is subject to certain covenants regarding the payment of dividends. As at December 31, 2014, the Company was in compliance with all covenants under its credit facility, which are:

Ratio	December 31, 2014 value
Debt service ratio – must be not less than 2.50:1	6.96:1
Funded debt to EBITDA (as defined in credit facility) – must be not greater than 3.00:1	1.66:1

Due to the short-term nature of all the liabilities, the carrying value equals the fair value for all amounts.

14. Loans and borrowings (continued)

Finance lease liabilities

Finance lease liabilities bear interest at rates between 4.0% and 8.1% with maturities from 2015 to 2018 and are payable as follows:

	2014			2013		
	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	$ 361	$ (4)	$ 357	$ 188	$ (42)	$ 146
Between one and four years	1,753	(111)	1,642	2,304	(266)	2,038
Total	$ 2,114	$ (115)	$ 1,999	$ 2,492	$ (308)	$ 2,184

These amounts are secured by the automotive equipment under capital lease which has a net book value of $1,966 (2013 - $2,157).

15. Share capital

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

Common shares issued:

	2014		2013	
	Number	Amount	Number	Amount
Issued, beginning of year	36,166,380	$ 73,850	36,906,293	$ 74,408
Issued on exercise of options	129,000	515	348,170	1,326
Contributed surplus on options exercised		116		310
Repurchased and cancelled	-	-	(1,088,083)	(2,194)
Issued, end of year	36,295,380	$ 74,481	36,166,380	$ 73,850

Cathedral received regulatory approval to purchase its own common shares in accordance with a Normal Course Issuer Bid (“NCIB”) for the period July 8, 2013 through July 7, 2014. During 2014, Cathedral had not made any purchases of common shares under the NCIB.

Issuance of common shares

129,000 common shares were issued as a result of the exercise of vested options arising from grants to employees and consultants in 2009 and 2010. Options were exercised at an average strike price of $3.99 per option. All issued shares are fully paid.

Dividends

Cathedral declared a total of $11,965 in 2014 (2013 - $11,100) or $0.3075 per share (2013 - $0.30 per share.) After the reporting date the directors approved a dividend of $0.04 per share with a record date of March 31, 2014 and payable April 15, 2014.

Issuance of share options

The Company's share based compensation plan is a "rolling number" type option plan which provides that the number of authorized but unissued common shares that may be subject to options granted under the share option plan at any time can be up to 10% of the number of common shares outstanding from time to time.

Under the plan, the exercise price of each option at the date of issuance equals the fair market value of the Company's common shares on the day immediately prior to the grant, and has a maximum term till expiry of ten years. Options vest over a period of three years from the date of grant as employees, directors or consultants render continuous service to the Company.

A summary of the status of the Company's equity based compensation plan as at December 31, 2014 and 2013, and changes during the years then ended is presented below:

	2014		2013	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding, beginning of year	2,296,864	$ 6.26	3,449,900	$ 6.26
Granted	165,000	4.89	120,000	4.41
Exercised	(129,000)	3.99	(348,170)	3.81
Expired	(1,069,224)	5.92	(671,256)	6.33
Forfeited	(29,777)	5.48	(253,610)	6.43
Outstanding, end of year	1,233,863	$ 6.94	2,296,864	$ 6.26
Exercisable, end of year	803,950	$ 7.65	1,595,213	$ 6.32

15. Share capital (continued)

The range of exercise prices for the options outstanding at December 31, 2014 is as follows:

	Total outstanding options			Exercisable	
Exercise price range	Number	Weighted average exercise price	Weighted average remaining life (in years)	Number	Weighted average exercise price
$3.35 to $3.74	59,000	$ 3.68	2.08	25,668	$ 3.60
$3.96 to $4.89	145,000	4.83	3.40	3,334	3.96
$5.05 to $5.64	352,999	5.26	2.02	215,338	5.28
$6.98 to $10.51	676,864	8.55	0.77	559,610	8.77
$3.35 to $10.51 total	1,233,863	$ 6.94	1.50	803,950	$ 7.65

During the year ended December 31, 2014, the Company has recorded share-based compensation expense of $312 (2013 - $512) related to the share option plan.

During the year ended December 31, 2014, the Company granted 165,000 share options. The following table sets out the assumptions used in applying the Black-Scholes option pricing model for the options issued as well as the resulting fair value:

	2014 Q2
Number of options issued	165,000
Exercise price	$ 4.89
Fair value per option (w eighted average)	$ 0.63
Expected annual dividend per share	$ 0.33
Risk-free interest rate (w eighted average)	1.1%
Expected share price volatility (w eighted average)	35.1%
Forfeiture rate per annum	3.3%

16. Earnings per share

Basic earnings per share

The calculation of basic earnings per share at December 31, 2014 was based on the profit attributable to common shareholders of $10,283 (2013 – loss of $1,542) and a weighted average number of common shares outstanding of 36,244,029 (2013 – 36,170,672), calculated as follows:

Weighted average number of ordinary shares

	2014	2013
Issued January 1	36,166,380	36,906,293
Effect of share options exercised	77,649	112,021
Effect of share repurchases	-	(847,642)
Weighted average number of common shares at end of year	36,244,029	36,170,672

Diluted earnings per share

The calculation of diluted earnings per share at December 31, 2014 was based on the profit attributable to common shareholders of $10,283 (2013 – loss of $1,542) and a weighted average number of common shares outstanding after adjustment for the effects of all dilutive potential common shares of 36,255,349 (2013 – 36,240,939), calculated as follows:

Weighted average number of common shares (diluted)

	2014	2013
Weighted average number of common shares (basic)	36,244,029	36,170,672
Effect of share options on issue (note 15)	11,320	70,267
Weighted average number of common shares (diluted) at end of year	36,255,349	36,240,939

At December 31, 2014, 1,164,863 options (2013 – 2,088,864) 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.

17. Nature of expenses

The nature of expenses can be specified as follows:

	Cost of sales	Selling, general and administrative	Total
Year ended December 31, 2014			
Depreciation	$ (19,373)	$ (280)	$ (19,653)
Share-based compensation	(112)	(200)	(312)
Staffing costs, excluding share-based compensation	(120,363)	(16,810)	(137,173)
Other expenses	(95,502)	(7,660)	(103,162)
Total	$ (235,350)	$ (24,950)	$ (260,300)
Year ended December 31, 2013			
Depreciation	$ (19,270)	$ (557)	$ (19,827)
Share-based compensation	(177)	(335)	(512)
Staffing costs, excluding share-based compensation	(100,723)	(19,645)	(120,368)
Other expenses	(72,140)	(4,132)	(76,272)
Total	$ (192,310)	$ (24,669)	$ (216,979)

18. Foreign exchange gain (loss) and finance costs

	2014	2013
Foreign exchange gain (loss):		
Realized foreign exchange gain (loss)	$ 285	$ (82)
Unrealized foreign exchange loss on intercompany balances	(1,166)	(670)
Foreign exchange loss	$ (881)	$ (752)
Finance costs		
Interest on revolving term loan	$ (1,711)	$ (1,639)
Interest on operating loan	(692)	(650)
Interest on finance lease liabilities	(107)	(103)
Other interest	(53)	(124)
Finance costs	$ (2,563)	$ (2,516)

19. Changes in non-cash working capital

The components of changes in non-cash working capital are as follows:

	2014	2013
Trade receivables	$ (12,370)	$ (10,852)
Inventories	(2,439)	269
Prepaid expenses and deposits	998	7,082
Trade and other payables	12,960	345
Deferred revenue	587	(9,520)
Impact of foreign exchange rate differences	1,792	1,562
Total changes in non-cash working capital	1,528	(11,114)
Changes in investing non-cash working capital	(632)	(1,032)
Changes in operating non-cash working capital	$ 2,160	$ (10,082)

20. Operating segments

The Company and its wholly-owned subsidiaries are engaged in the business of providing selected oilfield services to oil and natural gas companies in western Canada and selected basins in the U.S., and is viewed as a single operating segment by the chief operating decision maker of the Company for the purpose of resource allocation and assessing performance.

Oilfield services are currently being provided in both Canada and the U.S. The amounts related to each geographic segment are as follows:

Service information

The Company provides the following services:

Revenues	2014	2013
Directional drilling	$ 208,665	$ 150,851
Production testing	66,770	62,669
Resale	-	11,165
Total revenues	$ 275,435	$ 224,685

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

20. Operating segments (continued)

Geographical information

The Company conducts operations in the following geographic areas:

	Revenues		Non-current assets	
	Year ended December 31, 2014	Year ended December 31, 2013	December 31, 2014	December 31, 2013
Canada	$ 125,072	$ 99,780	$ 137,935	$ 133,428
United States	150,363	113,740	9,127	5,479
International	-	11,165	-	1,059
Total	$ 275,435	$ 224,685	$ 147,062	$ 139,966

Major customer

Revenues from one customer of the Company represents approximately 12% (2013 - 15%) of the Company's total revenues.

21. 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 increase in the fall and peak in the winter months from December until 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.

22. Commitments

In the normal course of business, the Company incurs contractual obligations and those obligations are disclosed in the Company's annual financial statements for the year ended December 31, 2014. As at December 31, 2014, the Company's commitment to purchase property and equipment is approximately $2,279. Cathedral anticipates expending these funds in 2015 Q1 and Q2. Additionally, Cathedral has obligations for rental of property that total $450 which will be incurred from 2015 to 2028. In addition, in 2013 the Company issued a standby letter of credit which renews annually to a landlord. For the first 15 years of the lease the letter of credit is $700 and then reduces to $500 until the expiry of the lease in 2028.

The Company has signed a sale agreement to sell its facility in Oklahoma City after construction is completed for proceeds of $5,122 USD and is expected to close on approximately March 31, 2015.

23. Operating leases

Leases as lessee

The Company leases a number of offices, warehouse and factory facilities under operating leases. The leases typically run for a period of six to 15 years, with an option to renew the lease after that date. Lease payments are often increased by 2% every five years to reflect market rentals. Some leases provide for additional rent payments that are based on changes in a local price index. The total future minimum lease payments are as follows:

2015	$3,070
2016	2,595
2017	2,178
2018	1,933
2019	1,938
Thereafter	13,165

Certain vehicle leases have been renewed on a month to month term at the expiration of the finance type lease. These leases have been classified as operating leases.

During the year ended December 31, 2014, an amount of $3,387 was recognized as an expense in profit or loss in respect of operating leases (2013 - $2,134).

24. Contingencies

On October 29, 2014 Cathedral received a letter from one of its U.S. clients alleging a down-hole drilling incident which impacted two of their wells in December 2013. The client has indicated potential damages of $3,000. Cathedral does not normally carry insurance for this type of incident. Cathedral is currently in the process of investigating the particulars related to this letter to understand its potential liability and the impact any liability may have on the Company. Due to the uncertainty around what amount, if any, and the means of settlement, the Company has made no provision in the financial statements for this incident.

The Company's wholly-owned subsidiary, Cathedral Energy Services Inc. ("INC"), has been named in a legal action in Houston, Texas commenced by a former employee and was subsequently joined by one former employee (the "Claimants") alleging that they were improperly classified as exempt under the Fair Labor Standards Act and therefore entitled to overtime that was not previously paid. Legal actions involving similar alleged violations have been filed in the United States against a number of other drilling companies. The Claimants assert that they will seek to have the action certified as a collective action which may result in additional employees or former employees of INC joining the action. INC has filed a defense to the action and intends to vigorously defend the same including, without limitation, any motion which may be brought for certification. Based upon a preliminary assessment of information available and certain assumptions the Company believes to be reasonable at this time, Cathedral believes it has a number of defenses to the claims asserted and the action is not currently believed to be material to the Company.

25. Related parties

Key management personnel compensation

Cathedral has determined that the key management personnel of the Company consist of its executive officers and directors.

In addition to their salaries and director's fees, the Company also provides non-cash benefits to directors and executive officers including participation in the Company's share option program (see note 15).

Certain executive officers have employment agreements. Upon resignation at the Company's request, they are entitled to termination benefits including: i) 2 times base salary; ii) 2 times average annual bonus over the past 3 years; and iii) health, dental, life insurance and disability coverage for 24 months.

Key management personnel (including directors) compensation comprised:

		2014		2013
Short-term employment benefits	$	2,270	$	2,006
Termination benefits		-		2,345
Share-based compensation		64		171
Total expense recognized as share-based compensation	$	2,334	$	4,522

Key management personnel and director transactions

Directors and executive officers of the Company control 4.6% of the common shares of the Company.

A director of the Company is a partner in a law firm and, through that law firm, is involved in providing and managing the legal services provided to the Company at market rates. The total amount paid for these legal services in 2014 was $92 (2013 - $77).

There have been no other transactions over the reporting period with key management personnel (2013 - nil), and no outstanding balances exist as at period end (2013 - nil).

26. Financial risk management and financial instruments

Overview

The Company has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers.

Trade and other receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Company's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk. Approximately 12% (2013 - 15%) of the Company's revenue is attributable to sales transactions with a single customer.

The Company has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Company's standard payment and delivery terms and conditions are offered. The Company's review includes external ratings, when available. Customers that fail to meet the Company's benchmark creditworthiness generally are restricted to services on a prepayment basis only.

In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or legal entity, geographic location, industry, aging profile, maturity and existence of previous financial difficulties. Customers that are considered as "high risk" are closely monitored, and future sales may be made on a prepayment basis.

The Company does not require collateral in respect of trade and other receivables.

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was.

26. Financial risk management and financial instruments (continued)

Carrying amount

		2014		2013
Trade receivables	$	58,770	$	46,400

The maximum exposure to credit risk for trade and other receivables at the reporting date by geographic region was:

Carrying amount

		2014		2013
Canada	$	24,002	$	21,120
United States		34,768		25,280
Total	$	58,770	$	46,400

The Company's most significant customer accounts for $5,271 of the trade receivables carrying amount at December 31, 2014 (2013 - $7,181).

Impairment losses

The aging of trade and other receivables at the reporting date was:

	2014				2013			
		Gross		Impairment		Gross		Impairment
Not past due	$	49,486	$	-	$	39,217	$	-
Past due 61-90 days		6,328		-		4,855		-
Past due over 91 days		3,144		(188)		2,664		(336)
Total	$	58,958	$	(188)	$	46,736	$	(336)

The movement in the allowance for impairment in respect of trade and other receivables during the year was as follows:

		2014		2013
Balance, beginning of year	$	336	$	45
Impairment loss recognized		-		291
Reversals of losses previously recognized		(148)		-
Balance, end of year	$	188	$	336

At December 31, 2014 an impairment loss of $188 (2013 - $336) was recognized relating to customers that have been unable to make payments in accordance with normal terms and conditions, mainly due to economic circumstances. The Company believes that the unimpaired amounts that are past due are still collectible, based on historic payment behavior and an analysis of the underlying customers' ability to pay.

Based on historic default rates, the Company believes that, apart from the above, no impairment allowance is necessary in respect of trade receivables not past due.

Impairment losses

The allowance accounts in respect of trade and other receivables are used to record impairment losses unless the Company is satisfied that no recovery of the amount owing is possible; at that point the amounts are considered irrecoverable and are written off against the financial asset directly.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements based upon the secured revolving term loan being renewed on the same terms and not converted to a non-revolving term loan.

December 31, 2014		Carrying amount		Contractual cash flow		Under 6 months		6-12 months		1-2 years		2-5 years		Thereafter
Demand bank loans	$	1,068	$	1,068	$	1,068	$	-	$	-	$	-	$	-
Secured revolving term loan		55,000		55,000		55,000		-		-		-		55,000
Finance lease liabilities		1,999		2,114		951		166		969		28		-
Trade and other payables		35,693		35,693		35,693		-		-		-		-
Dividends payable		2,994		2,994		2,994		-		-		-		-
	$	96,754	$	96,869	$	95,706	$	166	$	969	$	28	$	55,000

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

26. Financial risk management and financial instruments (continued)

Currency risk

The Company is exposed to currency risk on working capital and borrowings that are denominated in a currency other than the respective functional currencies of Company entities, primarily CAD, but also USD. The currencies in which these transactions primarily are denominated are CAD and USD. In addition, the Company is exposed to fluctuations in CAD versus Venezuelan bolivars ("VEB") foreign currency exchange rate fluctuations related to funds on deposit in Venezuela.

Generally, borrowings are denominated in currencies that match the cash flows generated by the underlying operations of the Company, primarily dollar. This provides a partial economic hedge without derivatives being entered into and therefore hedge accounting is not applied in these circumstances.

Cathedral's foreign currency policy is to monitor foreign current risk exposure in its areas of operations and mitigate that risk where possible by matching foreign currency denominated expense with revenues denominated in foreign currencies. Cathedral strives to maintain limited amounts of cash and cash equivalents denominated in foreign currency on hand and attempts to further limit its exposure to foreign currency through collecting and paying foreign currency denominated balance in a timely fashion.

The Company's exposure to foreign currency risk related to USD denominated balances as follows:

USD		2014		2013
Cash	$	4,730	$	1,794
Trade receivables		29,970		24,848
Demand bank loan		(309)		(1,673)
Trade payables		(19,229)		(7,964)
Finance lease liabilities		(1,406)		(1,696)
Total	$	13,756	$	15,309

The following significant exchange rates applied during the year:

	Average rate				Reporting date spot rate			
		2014		2013		December 31, 2014		December 31, 2013
USD $1 to CAD $	$	1.10	$	1.03	$	1.16	$	1.06

Sensitivity analysis

A 10% strengthening of CAD against USD at December 31 would decrease equity and other comprehensive income by $1,451 (2013 - $1,480). The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2013, albeit that the reasonably possible foreign exchange rate variances were different.

A weakening of CAD at December 31 would have had the equal but opposite effect on USD amounts, on the basis that all other variables remain constant.

A weakening of CAD at December 31 would have had the equal but opposite effect on VEB amounts, on the basis that all other variables remain constant.

Interest rate risk

At the reporting date the interest rate profile of the Company's interest-bearing financial instruments was:

	December 31, 2014				December 31, 2013			
	Fixed rate carrying value		Variable rate carrying value		Fixed rate carrying value		Variable rate carrying value	
Financial liabilities	$	1,999	$	56,069	$	2,184	$	47,119

Cash flow sensitivity analysis for variable rate instruments

A 1% increase in the Company's bank's lending rate would cause interest expense to increase by approximately $561 (2013 - $471) per annum based upon the balance of bank indebtedness and long-term debt with a floating interest rate outstanding as at December 31, 2014.

Fair values

Fair values versus carrying amounts

The fair values of financial assets and liabilities are equal to the carrying values on the statement of financial position.

The basis for determining fair values is disclosed in note 4.

26. Financial risk management and financial instruments (continued)

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Management and the Board of Directors monitor capital using loans and borrowings, including current portion to total capitalization and funded debt to earnings before interest, taxes, depreciation, amortization and share-based compensation ("EBITDAS") both of which are defined in the credit agreement and are calculated below.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

The Company's loans and borrowings to total capitalization and EBITDAS ratios at the end of the reporting period were as follows:

		2014		2013
Loans and borrow ings, current portion	$	857	$	722
Loans and borrow ings, long-term portion		56,142		38,462
Loans and borrow ings, including current portion	$	56,999	$	39,184
Shareholders' equity	$	128,368	$	126,612
Less Accumulated other comprehensive income ("AOCI")		(3,850)		(1,239)
Shareholders' equity excluding AOCI		124,518		125,373
Loans and borrow ings, including current portion		56,999		39,184
Total capitalization	$	181,517	$	164,557
Loans and borrow ings, including current portion to total capitalization		0.31		0.24
Loans and borrow ings, including current portion	$	56,999	$	39,184
Operating loans		1,069		10,119
Letter of credit		700		700
Funded debt per lending agreement	$	58,768	$	50,003
Earnings before income taxes	$	14,970	$	1,114
Add (deduct):				
Depreciation included in cost of sales		19,373		19,270
Depreciation included in selling, general and administrative expenses		280		557
Share-based compensation included in cost of sales		112		177
Share-based compensation included in selling, general and administrative expenses		200		335
Unrealized foreign exchange gain on intercompany balances		1,166		670
Gain on disposal of property and equipment		(3,102)		(4,852)
Gain on sale of land and buildings		-		(4,894)
Non-recurring severance expenses		-		2,380
Write-dow n (recovery on w rite-dow n) of investment in associate and related assets		(177)		13,070
Finance costs		2,563		2,516
EBITDAS per lending agreement	$	35,385	$	30,343
Funded debt to EBITDA		1.66		1.65

There were no changes in the Company's approach to capital management during the year.

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Michael F. Hill, Chief Financial Officer

David Diachok, Vice President, Sales

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