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2015 ANNUAL REPORT

PERFORMANCE DRIVEN / SERVICE ORIENTED / INNOVATION FOCUSED

FIVE YEAR FINANCIAL HISTORY

Dollars in 000's except per share amounts

	2015	2014	2013	2012	2011
Revenues	**$ 136,079**	$ 275,435	$ 224,685	$ 203,194	$ 220,363
Adjusted gross margin % [1]	**17.4%**	21.6%	23.1%	28.2%	32.5%
EBITDAS [1]	**$ 7,393**	$ 38,487	$ 32,815	$ 40,824	$ 56,085
Diluted per share	**$ 0.20**	$ 1.06	$ 0.91	$ 1.08	$ 1.47
As % of revenue	**5%**	14%	15%	20%	25%
Funds from continuing operations [1]	**$ 4,410**	$ 32,114	$ 25,359	$ 33,270	$ 50,011
(Write-down of) recovery on investment in associate and related assets	**$ -**	$ 177	$ (13,070)	$ -	$ -
Write-down of goodwill	**$ (5,848)**	$ -	$ -	$ -	$ -
Write-down of property and equipment	**$ (3,189)**	$ -	$ -	$ -	$ -
Write-down of inventory	**$ (3,736)**	$ -	$ -	$ -	$ -
Write-down of deferred taxes related to CRA settlement	**$ (10,346)**	$ -	$ -	$ -	$ -
Earnings (loss) before income taxes	**$ (32,087)**	$ 14,970	$ 1,114	$ 20,381	$ 37,102
Basic per share	**$ (0.88)**	$ 0.41	$ 0.03	$ 0.55	$ 1.00
Diluted per share	**$ (0.88)**	$ 0.41	$ 0.03	$ 0.54	$ 0.98
Net earnings (loss)	**$ (35,342)**	$ 10,283	$ (1,542)	$ 14,797	$ 27,634
Basic per share	**$ (0.97)**	$ 0.28	$ (0.04)	$ 0.40	$ 0.75
Diluted per share	**$ (0.97)**	$ 0.28	$ (0.04)	$ 0.39	$ 0.73
Cash dividends declared per share [2]	**$ 0.1200**	$ 0.3300	$ 0.3075	$ 0.3000	$ 0.2400
Property and equipment additions [3]	**$ 6,908**	$ 30,763	$ 28,283	$ 30,650	$ 44,413
Weighted average shares outstanding					
Basic (000s)	**36,295**	36,244	36,171	37,376	37,062
Diluted (000s)	**36,295**	36,255	36,241	37,756	38,047
Working capital	**$ 13,550**	$ 38,135	$ 26,031	$ 29,173	$ 40,052
Total assets	**$ 155,610**	$ 230,534	$ 205,375	$ 224,080	$ 231,923
Loans and borrowings excluding current portion	**$ 30,477**	$ 56,142	$ 38,462	$ 46,151	$ 50,694
Shareholders' equity	**$ 96,607**	$ 128,368	$ 126,612	$ 137,932	$ 136,107

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

(2) Quarterly dividend was suspended in November 2015

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

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Annual General Meeting:

Shareholders are invited to attend the Annual General Meeting which will be held at 2:00 pm on May 12, 2016 at our Head Office 6030 – 3 Street SE, Calgary, Alberta.

REPORT TO SHAREHOLDERS

2015 was a very challenging year for the oil and gas industry and for Cathedral. Our year-over-year revenues declined 51% as a result of softening oil prices throughout the year and weak natural gas prices. To put this in perspective, our business is largely tied to the North American rig count which declined 47% in the U.S. and 50% in Canada from 2014 to 2015. The reduction in oil prices has been a result of the Saudi Arabian strategy to force high cost production out of the market, the removal of sanctions against Iran, economic growth concerns in China and worldwide and U.S. production and oil storage levels not decreasing materially despite lower drilling activity.

Our strategy to deal with the downturn, which we initiated in early 2015, was threefold:

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.

Cost Structure and Financial Obligations

In early 2015 we began reducing our cost structure through implementing wage rollbacks, workforce reductions, examining all expense categories and asking suppliers for pricing concessions. Salary and wage rollbacks were implemented at all levels in the Company starting in February 2015. Our full time employee count was reduced 50% from 716 employees in December 2014 to 356 at the end of December 2015. We also reduced the use of field sub-contractors which has traditionally been a significant component of our workforce. In general we have been rightsizing our workforce to match activity levels as they change rather than conduct mass layoffs. Through these initiatives we achieved our goal of reducing SG&A direct costs 20% in 2015 from 2014 levels (excluding a $233 thousand bad debt charge arising from a 2013 receivable).

Our 2015 capital expenditure (“CapEx”) program was initially targeted at $7.0 million at the beginning of 2015 and further increased to $7.2 million. We actually spent $6.9 million. These funds were deployed to increase the capacity of our nDURANCE® motor fleet, upgrade our FUSION™ Measurement-While-Drilling (“MWD”) technology platform to meet current customer requirements, and add equipment to our Flowback and Production Testing fleet to offset third-party rentals. A portion of the 2015 CapEx, including the equipment additions Flowback and Production testing, was tied to spending commitments made in 2014, otherwise the amount spent would have been lower. Funds from sale and leaseback of our Oklahoma facility in March 2015 and proceeds from lost-in-hole equipment generated funds of $11.1 million in 2015 – an excess of $4.2 million over what was spent on capital additions.

To further protect our balance sheet we had to make the hard decision to suspend our quarterly dividend starting in 2015 Q4. The dividend suspension followed an earlier reduction in the quarterly dividend by 52% in 2015 Q1. We anticipate reinstating dividend payments when industry conditions and operating cash flow improves to a level that can sustain a quarterly dividend.

In 2015, we entered into discussions with our lending syndicate to amend our lending facility to accommodate deteriorating industry activity levels. We successfully negotiated a second amendment to our lending agreement, announced in January 2016, which provided less restrictive financial covenants for fiscal 2016 and 2017. The willingness of the banking syndicate to work with us through this downturn demonstrates the commitment they have with Cathedral and is also reflective of the steps we have taken to manage the business through this challenging period.

Since the beginning of the year we reduced our bank debt from $56.1 million at December 31, 2014 to $32.5 million at December 31, 2015. Our working capital position at December 31, 2015 was $13.5 million. This working capital amount includes certain current liabilities that are related to the wind-up of Cathedral’s previous Venezuelan operations. In late February 2016, we successfully negotiated the sale of our Barbados subsidiary, Directional Plus International Ltd (“DPI”), which held our investment in Venezuela. This sale completes our exit from carrying on a business in Venezuela. Net proceeds from this sale are nominal; however, there will be a non-cash gain on sale of DPI of approximately $10.5 million. This gain arises from Cathedral recording a write-down of its Venezuela investment in the amount of $12.9 million in 2013/2014. Cathedral’s working capital will increase by approximately $12 million due to previously recorded liabilities being assumed by the purchaser of DPI.

Despite the industry challenges we have had few issues with collecting accounts receivables to date. Accounts receivable is an area we continue to manage and monitor closely.

Preserving our Key Employee Base

A key consideration related to how we are managing through this downturn is how we properly position Cathedral to react quickly when industry conditions rebound. A key concern of energy companies has been how quickly the oilfield service sector can react to support the industry in a better pricing environment. We recognize that our employees are instrumental in achieving this objective and we are very conscious of the need to retain our core team. The fact that our core team is intact was facilitated in part by favoring salary and wage rollbacks over layoffs. A first wage rollback was implemented in February 2015 and second came into effect in January 2016. Wage and employee benefit rollbacks for 2015 and 2016 have ranged from 17% to 28% for staff and management and up to 50% for field positions.

We sincerely thank our staff for their support through this challenging time.

Pursuing Operational Improvements and Strategic Objectives

With customers acutely focused on cost reduction and performance, our capabilities play well into this environment. As a service provider, we are in a unique position from a cost impact perspective as our ability to reduce drilling days in our Directional Drilling business and provide on-site efficiencies in our Flowback and Production Testing business can result in significant cost savings for our customers. We accomplished a number of records for drilling performance with customers in both Canada and the U.S. in 2015 which demonstrates our customer value proposition.

Throughout the year, we continued to experience severe pricing pressure on our services commensurate with oil price declines affecting customer capital budgets. Through implementing enhanced project management systems, we were partly able to accommodate pricing pressure through reducing variable costs to preserve margins.

In 2015 we began renting our nDurance® series drilling motors on a stand-alone basis to major energy company customers and continue to receive positive market feedback on their performance. In the U.S., our proprietary Electro-Magnetic Measurement-While-Drilling (“EM-MWD”) system continues to be recognized for its performance advantages in difficult formations resulting in us securing new customer opportunities. We also aggressively pursued opportunities for our proprietary dual telemetry MWD system in the U.S. Our dual telemetry system, which has been commercial since 2011, allows data to be transmitted via mud pulse, electro-magnetic or both simultaneously which offers clients reduced drilling times in formation areas and situations where EM transmission signal can be temporarily disrupted.

We continue to push forward and invest in our strategic improvement initiatives to set our company to be in a stronger position coming out of this downturn.

In 2015, a large effort was expended on our marketing and sales efforts and as a result we are much better focused on articulating our advantages to customers. In October we refreshed our website and we continue to update our sales and marketing materials with a focus on better articulating our value proposition. We are actively targeting customers and regions where our equipment and services can result in a material reduction in well costs by reducing days drilled or offer customer efficiencies in our Flowback and Production Testing business.

We introduced a Drilling Optimization offering in 2015 aimed at working closer with customers on the technical aspects of their drilling programs. Drilling Optimization will assist us with client retention, securing new business, incremental revenue generation and exploiting operational efficiencies to improve job margins and return on assets employed.

We also continued to make progress on introducing new proprietary technologies. In 2015 we introduced three product enhancements to our FUSION™ MWD technology platform. These enhancements include providing enhanced electromagnetic transmission capabilities, the ability to collect and analyze downhole drilling diagnostics and further ruggedizing our FUSION MWD platform to operate in increasingly demanding drilling environments. With these enhancements Cathedral's ElectroMagnetic ("EM") technology can be relied on by our customers to give superior performance in more formations and drilling environments than competitive technologies. We continue to support our technology support and development area as we see this area as being key to Cathedral’s long-term success.

Workplace safety is extremely important to us and our customers. In our Health, Safety and Environment (“HSE”) area we successfully introduced our internal Work Smart Live Well philosophy which has corporate risk management as its central tenant. More on this innovative program can be found on our website. We also handily achieved our corporate performance targets for HSE including having zero lost time injuries and zero environmental incidents and exceeding our injury frequency targets (on an activity compensated basis) which is a key industry comparative metric. These achievements demonstrate that Cathedral has a clear HSE vision, strong leadership, and a workforce that is committed to excellence and delivering outstanding results, even during the most formidable fiscal times.

As we go into the 2016 we will continue to focus on the things in our business we can control, improving and deploying our proprietary technology and expertise to assist our customers reduce their costs and continuing to demonstrate our quality, safety and integrity with our employees and customers. We remain 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.

Sincerely,

Signed: *"P. Scott MacFarlane"*

P. Scott MacFarlane

President and Chief Executive Officer

Cathedral Energy Services Ltd.

March 2, 2016

MANAGEMENT'S DISCUSSION & ANALYSIS

This Management's Discussion and Analysis ("MD&A") for the year ended December 31, 2015 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, 2015, as well as the Company's 2015 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 2, 2016.

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: improving and deploying our proprietary technology and expertise to assist our customers reduce their costs; continuing to demonstrate our quality, safety and integrity with our employees and customers; 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; expect activity levels to be mediocre with the potential for further customer activity reductions in the short-term; expecting very challenging activity levels in Canada for the first half of the year; activity levels will not improve until the second half of 2016 even if commodity prices improve earlier; prospects in the U.S. for the next quarters are better than in Canada; projected capital expenditures and commitments and the financing thereof; anticipate that we will not reinstate dividend payments until industry conditions and operating cash flow improves; the Company could breach the covenants included in the 2015 Amended Credit Facility; management expects to be able to successfully negotiate acceptable Agreement amendments however, there is no guarantee this will occur; Cathedra expects to comply with all covenants during 2016; and long-term intent of the Company to pay quarterly dividends to shareholders.

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;
- 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 and U.S.; and
- competitive risks.

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

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

CORPORATE 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 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.

FINANCIAL HIGHLIGHTS

		2015		2014		2013
Revenue	**$**	**136,079**	$	275,435	$	224,685
Adjusted gross margin % (1)		**17.4%**		21.6%		23.1%
EBITDAS (1)	**$**	**7,393**	$	38,487	$	32,815
Diluted per share	**$**	**0.20**	$	1.06	$	0.91
As % of revenues		**5%**		14%		15%
Funds from continuing operations (1)	**$**	**4,410**	$	32,114	$	25,359
(Write-down of) recovery on investment in associate and related assets	**$**	**-**	$	177	$	(13,070)
Write-down of goodwill	**$**	**(5,848)**	$	-	$	-
Write-down of property and equipment	**$**	**(3,189)**	$	-	$	-
Write-down of inventory	**$**	**(3,736)**	$	-	$	-
Write-down of deferred taxes related to CRA settlement	**$**	**(10,346)**	$	-	$	-
Earnings before income taxes	**$**	**(32,087)**	$	14,970	$	1,114
Basic per share	**$**	**(0.88)**	$	0.41	$	0.03
Diluted per share	**$**	**(0.88)**	$	0.41	$	0.03
Net earnings (loss)	**$**	**(35,342)**	$	10,283	$	(1,542)
Basic per share	**$**	**(0.97)**	$	0.28	$	(0.04)
Diluted per share	**$**	**(0.97)**	$	0.28	$	(0.04)
Cash dividends declared per share (2)	**$**	**0.1200**	$	0.3300	$	0.3075
Property and equipment additions (3)	**$**	**6,908**	$	30,763	$	28,283
Weighted average shares outstanding						
Basic (000s)		**36,295**		36,244		36,171
Diluted (000s)		**36,295**		36,255		36,241
Working capital	**$**	**13,550**	$	38,135	$	26,031
Total assets	**$**	**155,610**	$	230,534	$	205,375
Long-term debt excluding current portion	**$**	**30,477**	$	56,142	$	38,462
Shareholders' equity	**$**	**96,607**	$	128,368	$	126,612

(1) Refer to MD&A: see "NON-GAAP MEASUREMENTS"
(2) Quarterly dividend was suspended in November 2015
(3) Property and equipment additions exclude non-cash additions

FISCAL 2015 KEY TAKEAWAYS

- Revenues and profitability were significantly affected by reduced industry activity and pricing pressures resulting from continued decline in commodity prices through 2015;
- Revenues of $136,079 in 2015 compared to $275,435 in 2014, a 51% decline and adjusted EBITDAS of $7,393 in 2015 compared to $38,487 in 2014, an 81% decline;
- Cathedral's proprietary directional technology and customer service focus continues to be a key factor in retaining and securing work in a challenging industry environment. Cathedral remains committed to investing in technology support and development as a key future success factor;
- Delivered numerous drilling records in 2015 as a result of our proprietary nDurance® motor and FUSION™ Measurement-While-Drilling (MWD) system technologies;
- Due to the strong performance of Cathedral's proprietary motors, motor rental revenues continued to increase on a year-over-year and sequential basis for each quarter of 2015;
- The secured revolving term loan was reduced $25,000 in 2015;
- Cathedral's presence in all key North American basins facilitated operational efficiencies through the movement of equipment and people between operating areas; and
- Management continues to focus on initiatives to reduce costs, improve margins and improve revenue through enhanced focus on our sales and marketing capabilities.

OUTLOOK

At the beginning of 2015, industry experts and analysts were prognosticating a rebound in oil prices toward the end of the year. In fact the opposite occurred with oil prices declining into the $40 to $50 bbl range in the second half of the year from to $60 bbl range in May and June. Beginning in November prices dropped precipitously into the $35 bbl range by year end. The New Year brought oil prices sliding into the $30 bbl range and hitting recent lows of $26 bbl. These price declines were all largely related to a persistent oversupply situation in the market. Although there is optimism about Russian and OPEC production stabilizing or potentially reducing and North American production and storage level increases abating, the words "Lower for Longer" are now regularly used in the industry lexicon.

The recent oil and gas price declines have had a dramatic impact on oilfield service activity levels as exploration and production companies continue to cut their drilling and completions budgets. Both the U.S. and Canadian rig counts have declined significantly since the beginning of the year. The U.S. rig count has declined 28% since January 1, 2016 to 502 active rigs (as at February 26, 2016) – down from an average rig count of 807 for the second half of 2015. Until WTI prices move above $50 USD bbl. or producers raise additional capital, as some have accomplished in recent weeks, we expect activity levels to be mediocre with the potential for further customer activity reductions in the short-term.

Cathedral is expecting very challenging activity levels in Canada for the first half of the year. Drilling activity is currently very low as a result of energy company budget cuts compounded by warm weather. Expectations are that activity levels will not improve until the second half of 2016 even if commodity prices improve earlier. This is in part a result of the traditional spring-breakup period in Canada impacting the first half of the year. In the

Canadian Flowback and Production Testing division our business is benefiting from clients who remain busy however, pricing pressure remains a challenge.

Prospects in the U.S. for the next quarters are better than in Canada, however, visibility is still challenged and there is a high potential for project delays and a lower active rig count in the short-term. In late 2015 we shifted our Directional Drilling sales strategy in the U.S. which has opened up prospects with new customers and confirmed drilling prospects with existing customers. Our success in the U.S. is also a result of our differentiated technology in this market and having an active presence and growing reputation in the key U.S. basins such as the Permian. Activity levels in the U.S. Flowback and Production Testing business have been very challenging as many of our customers have suspended their well completion programs. We are focused on generating sales opportunities in the short-term and further ensuring this division is positioned to participate in the large backlog of wells that will need to be completed or re-frac'd once commodity prices improve.

Our strategic themes for 2016 expand on the objectives we set out in 2015 to get through this downturn and position ourselves favorably for the eventual rebound in activity levels:

1. Fiscal Management - Continuing to balance our cost structure and short term revenue prospects to ensure we meet our financial obligations and not impact the long-term viability of the business.
2. Retaining Key Employees - Preserve our key employee base so when industry conditions improve we are able to ramp up our business quickly.
3. Operational Excellence - Continue to pursue operational and technology improvements to mitigate the impact of reduced activity levels and pricing pressure and ensure we offer high operational performance levels to attract and retain customer work.
4. Enhance Sales Effectiveness – focus on short and long-term revenue generation and market share growth opportunities.

We are making good progress in all the above areas. At the beginning of January 2016 additional wage rollbacks were implemented in the U.S. and Canada. Unfortunately due to expected very low activity levels in Canada for the first half of 2016, additional layoffs were required at the end of February to further contain costs. Our banking covenants were relaxed in early 2016 to reflect decreased activity levels in 2016 and 2017. Our lending syndicate continues to be supportive of Cathedral based on our cost cutting initiatives and strategy to manage through the downturn.

In late 2015 we implemented an organization change to ensure Cathedral's in-house technology and high level of operating standards are better leveraged across all locations in which we operate. Through introducing corporate product line manager functions, we expect to achieve better managerial control over capital asset allocation, equipment repair and parts procurement, training, policies, procedures and standards.

We are also in the process of further refining our marketing and sales efforts. Our sales and marketing initiatives are aimed at strategically targeting customers in basins where we can provide a significant improvement in well costs by reducing days drilled in our Directional Drilling area or offer customer's efficiencies in our Flowback and Production Testing area. We are actively pursuing, or engaged in, alliances with industry partners and suppliers to facilitate this approach. We are also implementing new processes and sales performance management systems to improve sales effectiveness.

We remain highly focused on managing through this current industry downturn and continuing to build a business that will prosper once activity levels improve.

RESULTS OF OPERATIONS - 2015 COMPARED TO 2014

Overview

The Company completed 2015 with revenues of $136,079 compared to 2014 revenues of $275,435 a decrease of 51%. The 2015 revenues were comprised of 78% (2014 - 76%) from the Directional Drilling division and 22% (2014 - 24%) from the Flowback and Production Testing division.

2015 EBITDAS was $7,393 ($0.20 per share diluted) which represents a $31,094 or 81% decrease from $38,487 ($1.06 per share diluted) in 2014. In 2015 the Company's net loss was $35,342 ($0.97 loss per share) as compared to net earnings of $10,283 ($0.28 earnings per share diluted) in 2014. The decrease in EBITDAS and earnings was the result of decreased operating levels.

	Year ended December 31, 2015			Year ended December 31, 2014		
Revenues	Directional Drilling	Flow back and Production Testing	Total	Directional Drilling	Flow back and Production Testing	Total
Canada	$ 38,868	$ 12,469	$ 51,337	$ 92,958	$ 32,114	$ 125,072
United States	67,374	17,368	84,742	115,707	34,656	150,363
Total	$ 106,242	$ 29,837	$ 136,079	$ 208,665	$ 66,770	$ 275,435

Revenues 2015 revenues were $136,079 which represented a decrease of $139,356 or 51% from 2014 revenues of $275,435. All areas experienced decreases due mainly to overall decline in drilling activity as a result of reduction in commodity prices. In comparison several quarters in 2014 saw several divisions achieve record revenues. The active land rig count for Canada was down 50% and down 48% for U.S. in 2015. Canadian wells completed fell approximately 60% in 2015 compared to 2014. Land rig count is a key driver of activity levels in the Directional Drilling industry and wells completed is a key driver for Flowback and Production Testing industry.

Canadian Directional Drilling revenues decreased to $38,868 in 2015 from $92,958 in 2014; a 58% decrease. This decrease was the result of: i) a 54% decrease in activity days to 3,766 in 2015 from 8,221 in 2014; and ii) a 21% decrease in the average day rate to $8,920 in 2015 from $11,233 in 2014. Offsetting these declines was an increase of $4,665 on the rental of mud motors, particularly the Cathedral's CLAW™ motor. Rental revenue for 2015 revenues was $5,275.

U.S. Directional Drilling revenues decreased to $67,374 in 2015 from $115,707 in 2014; a 42% decrease. This decrease was the net result of: i) a 45% decrease in activity days to 5,496 in 2015 from 9,940 in 2014; and ii) a slight increase in the average day rate to $11,834 in 2015 from $11,557 in 2014 (when converted to Canadian dollars). All U.S. districts experienced a decrease in activity levels except the Northeast district which had a modest increase on a year-over-year basis. The U.S. average day rates in Canadian dollars were relatively unchanged due to the stronger U.S. dollar. Rates in USD fell to $9,323 USD in 2015 from $10,460 USD in 2014, an 11% decline. As with Canadian directional, there were pressures from clients to reduce pricing. Rental revenue increased to $2,336 from $829 and in particular increased in 2015 Q4.

Canadian Flowback and Production Testing revenues decreased to $12,469 in 2015 from $32,114 in 2014; a 61% decrease. The decrease was primarily due to the reduction in activity levels due to the industry downturn. There was a 5% decrease in the pricing on a year-over-year basis.

U.S. Flowback and Production Testing revenues decreased to $17,368 in 2015 from $34,656 in 2014, a 50% decrease. The decrease was due to the reduction in activity levels due to the industry downturn as pricing in CAD increased 12%. In USD the pricing decreased 1% on a year-over-year basis.

Gross margin and adjusted gross margin Gross margin for 2015 was 2.2% compared to 14.6% in 2014. Adjusted gross margin (see Non-GAAP Measurements) for 2015 was $23,639 or 17.4% compared to $59,570 or 21.6% for 2014, a change of 4.2%.

The Company initiated a number of cost reductions throughout 2015 including; reducing wages for field, support and office staff, implementing work force adjustments and reducing other direct cost items. These cost reductions continued as the year progressed. Despite these measures, these cost reductions could not offset lower revenue day rates in the Directional Drilling divisions, especially Canadian operations, resulting in lower gross margins.

Although there was a reduction in the fixed component of direct cost of sales of 25.2% compared with 2014, the percentage of revenue of these costs was greater in 2015 due to the reduction in revenues. On a percentage of revenue basis the fixed costs increased 6.5% from 2014. As stated above, the year-to-date adjusted gross margin had decreased by 4.2%. The remaining 2.3% net increase in adjusted gross margin relates mainly to reductions in field labour and chargeback expenditures offset by higher repair costs as percentage of revenue.

Depreciation allocated to cost of sales increased to $20,566 in 2015 from $19,373 in 2014. Depreciation included in cost of sales as a percentage of revenue was 15.1% for 2015 and 7.0% in 2014.

Selling, general and administrative expenses ("SG&A") SG&A expenses were $20,109 in 2015; a decrease of $4,841 compared with $24,950 in 2014. As a percentage of revenue, SG&A was 15% in 2015 and 9% in 2014. Included in 2015 amounts are $233 of bad debts.

Excluding the non-cash items of depreciation and share-based compensation and bad debts, SG&A was $19,547 in 2015 compared to $24,470 in 2014, a decrease of $4,923 or 20%. SG&A decreased primarily due to work force reductions, wage rollbacks and reduction in variable compensation. SG&A wage rollbacks were implemented February 1, 2015 at a range of 5% to 15% with an average reduction of 10%. There were additional reductions to staffing levels throughout the year. Staffing costs included in SG&A include executives, sales, accounting, human resources, payroll, safety, research and development and related support staff.

Gain on disposal of property and equipment In 2015 Q1 the Company completed the sale and leaseback of its Oklahoma City operating facility. This resulted in a gain on sale of land and buildings of $456. The Company has entered into a 15 year lease for the Oklahoma City operating facility. During 2015, the Company had a gain on disposal of property and equipment of $3,363 compared to $3,102 in 2014. These 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.

Write-down of goodwill Due to the further decline in commodity prices and the impact on drilling and completion activity levels the Company recorded an impairment of goodwill of $5,848 in 2015 Q3. The recoverable amount of each cash generating unit ("CGU") was determined using a value in use calculation based on cash flow projections over the expected life of the assets. The cash flow projections were based on expected outcomes taking into account past experience and management expectation of market conditions. $1,624 of the impairment related to the Directional Drilling CGU and $4,224 related to the Flowback and Production Testing CGU. This impairment represented the total amount of goodwill allocated to each CGU.

Write-down of property and equipment Due to the reduction in demand for services, in 2015 Q4 the Company carried out a review of equipment and wrote-down those where there was a significant lack of demand by clients. The result of this review was a write-down of property and equipment of $3,189.

Write-down of inventory The Company's inventory is used to construct new tools and maintain existing tools. Due to the decrease in operating activities and the reduction in capital build out programs, there was a reduction in inventory turn-over. As the prospect of recovery has been further delayed, in 2015 Q4 the company conducted a review of inventory items and the projected usage for the various lines of inventory and wrote-down the value of inventory by $3,736. $2,607 of this write-down relates to parts for third party, non-Cathedral manufactured motors, which currently have lower utilization and demand from clients.

Foreign exchange loss The Company had foreign exchange loss of $4,374 in 2015 compared to $881 in 2014 due to the fluctuations in the Canadian dollar relative to the U.S. dollar. The Company's foreign operations are denominated in a currency other than the Canadian dollar and therefore, upon consolidation gains and losses due to fluctuations in the foreign currency exchange rates are recorded 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 2015 foreign currency loss are unrealized losses of $4,191 (2014 - $1,166) related to intercompany balances.

Finance costs Finance costs consist of interest expenses on operating loans, loans and borrowings and bank charges of $1,664 for 2015 compared to $2,563 for 2014. The decrease in finance costs relate mainly to a decreased utilization of the Company's credit facility and to a lesser extent decreases in interest rates.

Income tax For 2015, the Company had net income tax expense of $3,255 compared to $4,687 in 2014. Included in the 2015 amount is a charge to earnings from 2015 of $10,346 related to a write-off of a portion of the tax attributes obtained as part of the December 18, 2009 conversion from an income trust to a corporation ("Conversion"). On April 21, 2015, the Company received a proposal letter from the Canada Revenue Agency ("CRA") which disclosed its intention to challenge all of the tax attributes obtained as part of the Conversion under the general anti-avoidance rules of the Income Tax Act (Canada). Subsequently, Cathedral elected to enter into the agreement with CRA as a highly satisfactory solution to avoid potential costly and time consuming legal proceedings and allow management to focus its efforts on business operations and enhancing shareholder value. The CRA agreement did not give rise to any cash outlay by Cathedral for prior taxation years. Cathedral continues to have access to a portion of the tax attributes obtained as part of the Conversion to offset federal and provincial taxes in subsequent taxation years.

Excluding this and other minor adjustments to prior period amounts, the tax recovery related to the current year was $6,495 (25% effective rate excluding write-down of goodwill which is an item without tax consequence) in 2015 compared to expense of $4,664 (31% effective rate) in 2014. These effective rates are in line with anticipated annual rates.

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, 2015, the Company had funds from operations (see Non-GAAP Measurements) of $4,410 (2014 - $32,114). The decrease in funds from operations is due to a reductions in cash from operations due to lower activity levels and reductions in revenue day rates.

Working capital At December 31, 2015 the Company had working capital of $13,550 (2014 - $38,135) and a working capital ratio of 1.5 to 1 (2014 – 1.8 to 1). The lower working capital level was directly related to the use of working capital to reduce long-term debt.

Credit facility The Company has a 3 year committed revolving credit facility that expires in August 2017. The credit facility was amended on June 12, 2015 (the "First Amendment") to reduce the facility to $60,000 (previously $85,000), increase the accordion feature to $35,000 (previously $25,000) and to provide a temporary relaxation of financial covenants. The accordion feature is subject to approval of the syndicate of lenders which currently consists of The Bank of Nova Scotia and National Bank of Canada.

In January 2016, the Company negotiated further amendments to the credit agreement were negotiated ("Second Amendment"). The Second Amendment has less restrictive financial covenants than the prior facility terms. The Second Amendment provides for credit availability of $45,000, representing a $15,000 decrease from the prior amended credit facility. The Second Amendment matures in August, 2017, consistent with the duration of the original facility.

After the First and Second Amendment discussed above, the facility bears interest at the bank's prime rate plus 0.50% to 5.00% or bankers' acceptance rate plus 1.75% to 6.25% with interest payable monthly. Interest rate spreads for the credit facility depends on the level of funded debt to EBITDA (earnings before interest on long-term debt, taxes, depreciation, amortization and non-cash compensation expense – as defined in the credit agreement).

As at December 31, 2015, the Company was in compliance with all covenants under its credit facility, which are:

Ratio	December 31, 2015 value
Debt service ratio – must be not less than 1.25:1	4.07:1
Funded debt to EBITDA (as defined in credit facility) – must be not greater than 4.75:1	4.02:1

The financial covenants associated with the First and Second Amendments are as follows:

Quarter ending:	Maximum Funded Debt to EBITDA Ratio	Minimum Debt Service Ratio
December 31, 2015	4.75	1.25
March 31, 2016	Waived	1.25
June 30, 2016	Waived	1.25
September 30, 2016	5.50	1.75
December 31, 2016	5.00	1.75
March 31, 2017	4.50	1.75
June 30, 2017	4.00	1.75
September 30, 2017 and thereafter	3.00	1.75

The credit facility is secured by a general security agreement over all present and future personal property.

During the waiver period there is a requirement for minimum EBITDA for the quarter ended March 31, 2016 of $850 and minimum cumulative EBITDA for the two quarters ending June 30, 2016 of $1,600. The amended facility has certain restrictions, including, but not limited to; paying dividends, utilization of the accordion feature, enhanced lender financial reporting and a cap on any litigation settlement payments without lender approval.

Effective 2015 Q4 the Company will include lost-in-hole equipment proceeds in the definition of EBITDA under the lending agreement.

In light of the current volatility in oil and gas prices and uncertainty regarding the timing for recovery in such prices, management's ability to prepare financial forecasts is challenging. As a consequence the Company could breach the covenants included in the 2015 Amended Credit Facility (the "Agreement") in 2016 and 2017. An actual breach would constitute an event of default under the Agreement, which provides the lenders several alternatives including a waiver of the breach, an amendment to the Agreement to reset the covenant or, in the unlikely event, a requirement to repay the borrowings.

In the event the Company believes it could be in breach of its loan covenants it will first enter into discussions on amendments to the financial covenants in the Agreement to avoid such a breach. Based on successfully negotiating amendments to the Agreement in 2015 and 2016, management expects to be able to successfully negotiate acceptable Agreement amendments however, there is no guarantee this will occur.

The Company currently is in compliance with each of the financial covenants under its lending agreement. Based on current available information, Cathedral expects to comply with all covenants during 2016.

The following table outlines the current credit facility:

		December 31 2015		December 31 2014
Total credit facility	$	60,000	$	85,000
Drawings on credit facility:				
Operating loan		2,484		1,069
Revolving term loan		30,000		55,000
Letters of credit		1,554		700
Total drawn facility	$	34,038	$	56,769
Undrawn portion of credit facility	$	25,962	$	28,231
Net debt (see NON-GAAP MEASUREMENTS):				
Loans and borrowings, net of current portion	$	30,477	$	56,142
Working capital:				
Current assets	$	41,575	$	83,392
Current liabilities		(28,025)		(45,257)
Working capital	$	13,550	$	38,135
Net debt	$	16,927	$	18,007

Contractual obligations In the normal course of business, the Company incurs contractual obligations and those obligations are disclosed below. As at December 31, 2015, the Company had a commitment to purchase equipment of approximately $5. Cathedral anticipates expending these funds 2016 Q1.

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

The following table outlines the anticipated payments related to purchase commitments subsequent to December 31, 2016:

	Total	2016	2017	2018	2019	2020	Thereafter
Purchase obligations	$ 5	$ 5	$ -	$ -	$ -	$ -	$ -
Secured revolving term loan	30,000	-	30,000	-	-	-	-
Operating lease obligations	39,789	4,090	3,870	3,389	3,106	2,789	22,545
Finance lease obligations	1,194	738	446	10	-	-	-
Total	$ 70,988	$ 4,833	$ 34,316	$ 3,399	$ 3,106	$ 2,789	$ 22,545

Contingencies On October 29, 2014 Cathedral received a letter from one of its U.S. clients ("the Complainant") alleging a down-hole drilling incident which impacted two of their wells in December 2013. The Complainant had indicated potential damages of $3,000 USD and in 2015 Q3 increased this indication to $3,700 USD. Cathedral does not carry insurance for this type of incident. In January 2016, the Complainant filed a formal complaint in Pennsylvania court initiating a formal legal process related to their claim. Cathedral, with its legal counsel is responding to the complaint and intends to vigorously defend this action. 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. INC has also been named in a second legal action in Denver, Colorado by a former employee. In both these legal actions the employees and consultants (collectively "Claimants") allege that they were improperly classified as exempt under the Fair Labour Standards Act and therefore entitled to unpaid overtime or additional compensation for improperly calculated overtime. Subsequently, six additional claimants have joined the first action and four additional claimants have joined the second action. Legal actions involving similar alleged violations have been filed in the United States against a number of other oilfield service companies. The Claimants assert that they will seek to have the action certified as a collective action which may result in additional employees, former employees or consultants of INC joining the actions. INC has filed defenses for both actions and is currently reviewing its settlement and legal options. The Company believes that the potential impact of this matter is indeterminable.

Share capital At March 2, 2016, the Company has 36,295,380 common shares and 2,128,597 options outstanding with a weighted average exercise price of $3.16.

In 2015, the Company issued 1,389,500 stock options to directors, officers and employees with exercise prices of $0.75 to $2.13 per share.

OFF-BALANCE SHEET ARRANGEMENTS

As at December 31, 2015, the Company has entered into $39,789 of commitments under operating leases for premises and issued a standby letters of credit in the amounts of $700 CAD and $617 USD (refer to note 20 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.

2015 CAPITAL PROGRAM

During the year ended December 31, 2015 Company invested $6,908 (2014 - $30,763) in property and equipment. The following table details the net property and equipment additions:

	December 31 2015	December 31 2014
Property and equipment additions:		
Growth capital [1]	$ 4,571	$ 15,543
Maintenance capital [1]	1,171	1,257
Replacement capital [1]	510	4,324
Infrastructure capital [1]	656	9,639
Total cash additions	6,908	30,763
Less: proceeds on disposal of property and equipment	(4,944)	(5,550)
Less: proceeds on disposal of land and buildings	(6,174)	-
Net property and equipment additions [1]	$ (4,210)	$ 25,213

(1) See "NON-GAAP MEASUREMENTS"

The major additions for growth capital were $3,161 for additional drilling motors and related equipment for specific job requirements, $107 for MWD equipment and $1,303 for additional ancillary Flowback and Production Testing equipment to reduce future rental costs. Infrastructure capital relates to the construction of an operations facility in Oklahoma that was completed and subject to a sale and leaseback in 2015 Q1. Maintenance capital included $607 related to MWD upgrades, $32 for ancillary motor components, $52 for Flowback and Production Testing units and ancillary equipment, $181 for automobiles and $299 related to shop, office and computer equipment additions. Replacement capital included $401 for MWD equipment and $109 for motor equipment.

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

	December 31 2015	December 31 2014
Directional drilling - MWD systems	140	140
Production testing units	66	66

2016 CAPITAL PROGRAM

Cathedral's 2016 capital budget is $1,000 with $200 for growth capital and $800 for replacement or maintenance capital. The growth additions are primarily for additional MWD systems and the maintenance capital is primarily to replace items which have been lost-in-hole. The capital budget will be reviewed quarterly.

Cathedral intends to finance its 2016 capital budget from cash flow from operations and proceeds from redundant asset sales or assets lost-in-hole.

DIVIDENDS

Based on the current reductions in commodity prices and uncertainties around expected drilling and completion activity in 2015 Q4 and into 2016, the Board of Directors have made the decision to suspend the payment of Cathedral's quarterly dividend until industry conditions improve. This decision was made in order to preserve cash, to manage liquidity, invest selectively in capital asset additions and pursue operational initiatives to better position the Company for economic turn-around. The Board of Directors will review dividend distributions on a quarterly basis giving consideration to current performance, historical and future trends in the business, the expected sustainability of those trends as well as required long-term debt repayments, maintenance capital expenditures required to sustain performance. It is the long-term intent of the Company to pay quarterly dividends to shareholders.

RESULTS OF OPERATIONS – THREE MONTHS ENDED DECEMBER 31

Revenues and operating expenses

	2015 Q4	2014 Q4	$ Change	% Change
Revenues	24,949	73,242	(48,293)	-66%
Cost of sales	(26,040)	(63,509)	37,469	-59%
Gross margin - $	(1,091)	9,733	(10,824)	-111%
Gross margin - %	-4.4%	13.3%	-17.7%	
Adjusted gross margin $ [1]	4,283	14,983	(10,700)	-71%
Adjusted gross margin % [1]	17.2%	20.5%	-3.3%	

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

	Three months ended December 31, 2015			Three months ended December 31, 2014		
Revenues	Directional Drilling	Flow back and Production Testing	Total	Directional Drilling	Flow back and Production Testing	Total
Canada	$ 7,024	$ 2,377	$ 9,401	$ 22,582	$ 7,656	$ 30,238
United States	14,137	1,411	15,548	32,408	10,596	43,004
Total	$ 21,161	$ 3,788	$ 24,949	$ 54,990	$ 18,252	$ 73,242

Revenues 2015 Q4 revenues were $24,949 which represented a decrease of $48,293 or 66% from 2014 Q4 revenues of $73,242. All divisions experienced decreases compared to 2014 Q4. In 2015 there were continued industry wide activity declines due to reductions in commodity prices and day rate decreases directly related to pricing concessions requested by customers due to market conditions. In comparison, 2014 Q4 set a record for quarterly revenue. The active land rig count for Canada and U.S. was down 56% and 58% respectively in 2015 Q4 compared to 2014 Q4. Canadian wells completed fell approximately 71% in 2015 Q4 compared to 2014 Q4.

Canadian Directional Drilling revenues decreased to $7,024 in 2015 Q4 from $22,582 in 2014 Q4; a 69% decrease. This decrease was the result of: i) a 66% decrease in activity days to 671 in 2015 Q4 from 1,951 in 2014 Q4; and ii) a 34% decrease in the average day rate to $7,580 in 2015 Q4 from $11,442 in 2014 Q4. Offsetting these declines was an increase of $1,680 on the rental of mud motors, particularly the Cathedral's CLAW™ motor. Motor rental revenues for 2015 Q4 were $1,938.

U.S. Directional Drilling revenues decreased to $14,137 in 2015 Q4 from $32,408 in 2014 Q4; a 56% decrease. This decrease was the net result of: i) a 61% decrease in activity days to 1,038 in 2015 Q4 from 2,673 in 2014 Q4; and ii) a 3% increase in the average day rate to $12,318 in 2015 Q4 from $12,020 in 2014 Q4 (when converted to Canadian dollars). All U.S. districts experienced a decrease in activity levels. The U.S. average day rates in Canadian dollars increased due to the stronger U.S. dollar. Rates in USD fell to $9,259 USD in 2015 Q4 from $10,588 USD in 2014 Q4, a 13% decline. U.S. day rate decreases were partially tempered by the U.S. division providing footage drilling services to certain clients which can result in higher relative day rates. Motor rental revenues for 2015 Q4 were $1,351 compared to $278 in 2014 Q4.

Canadian Flowback and Production Testing revenues decreased to $2,377 in 2015 Q4 from $7,656 in 2014 Q4; a 69% decrease. The decrease was due to the reduction in activity levels due to the industry downturn as well as a 18% decline in pricing.

U.S. Flowback and Production Testing revenues decreased to $1,411 in 2015 Q4 from $10,596 in 2014 Q4, an 87% decrease. The decrease was due to the reduction in activity levels due to the industry downturn. Pricing when converted to CAD was down slightly, but there was a 16% decline in pricing in USD.

Gross margin and adjusted gross margin Gross margin for 2015 Q4 was negative 4.4% compared to 13.3% in 2014 Q4. Adjusted gross margin (see Non-GAAP Measurements) for 2015 Q4 was $4,283 or 17.2% compared to $14,983 or 20.5% for 2014 Q4, a decline of $10,700 or 3.3%.

The Company initiated a number of cost reductions throughout 2015 including; reducing wages for field, support and office staff, implementing work force adjustments and reducing other direct cost items. These cost reductions continued as the year progressed. Despite these measures, these cost reductions could not offset lower revenue day rates in the Directional Drilling divisions, especially Canadian operations, resulting in lower gross margins.

Although there was a reduction in the fixed component of direct cost of sales of 35.4% compared with 2014 Q4, the percentage of revenue for these costs was greater in 2015 Q4 due to the reduction in revenues. On a percentage of revenue basis, the fixed costs increased 10.9% from 2014 Q4. As stated above, the 2015 Q4 adjusted gross margin had decreased by 3.3%. The remaining 7.6% increase in adjusted gross margin relates to reductions in field labour, rentals, chargeback expenditures and accommodations offset by higher repair costs as percentage of revenue.

Depreciation allocated to cost of sales increased to $5,357 in 2015 Q4 from $5,231 in 2014 Q4. Depreciation included in cost of sales as a percentage of revenue was 21.0% for 2015 Q4 and 7.1% in 2014 Q4.

Selling, general and administrative expenses ("SG&A") SG&A expenses were $5,178 in 2015 Q4; a decrease of $1,027 compared with $6,205 in 2014 Q4. As a percentage of revenue, SG&A was 21% in 2015 Q4 and 8% in 2014 Q4. Included in 2015 Q4 amounts are $233 of bad debts.

Excluding the non-cash items of depreciation and share-based compensation and bad debts, SG&A was $4,853 in 2015 Q4 compared to $6,084 in 2014 Q4, a decrease of $1,231 or 20%. SG&A decreased primarily due to work force reductions, wage rollbacks and reductions in variable compensation. SG&A wage rollbacks were implemented February 1, 2015 at a range of 5% to 15%. There have been additional reductions to staffing levels in 2015. Staffing costs included in SG&A include executives, sales, accounting, human resources, payroll, safety, research and development and related support staff.

Gain on disposal of property and equipment During 2015 Q4, the Company had a gain on disposal of property and equipment of $421 compared to $392 in 2014 Q4. These 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.

Write-down of property and equipment Due to the reduction in demand for services, in 2015 Q4 the Company carried out a review of equipment and wrote-down those where there was a significant lack of demand by clients. The result of this review was a write-down of property and equipment of $3,189.

Write-down of inventory The Company's inventory is used to construct new tools and maintain existing tools. Due to the decrease in operating activities and the reduction in capital build out programs, there was a reduction in inventory turn-over. As the prospect of recovery has been further delayed, in 2015 Q4 the company conducted a review of inventory items and the projected usage for the various lines of inventory and wrote-down the value of inventory by $3,736. $2,607 of this write-down relates to parts for third party, non-Cathedral manufactured motors, which currently have lower utilization and demand from clients.

Foreign exchange loss The Company had foreign exchange loss of $1,103 in 2015 Q4 compared to a loss of $335 in 2014 Q4 due to the fluctuations in the Canadian dollar relative to the U.S. dollar. The Company's foreign operations are denominated in a currency other than the Canadian dollar and therefore, upon consolidation gains and losses due to fluctuations in the foreign currency exchange rates are recorded 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 2015 Q4 foreign currency gains are unrealized losses of $1,188 (2014 Q4 - $452) related to intercompany balances.

Finance costs Finance costs consist of interest expenses on operating loans, loans and borrowings and bank charges of $386 for 2015 Q4 versus $699 for 2014 Q4. The decrease in finance costs relate mainly to a decreased utilization of the Company's credit facility and to a lesser extent decreases in interest rates.

Income tax For 2015 Q4, the Company had an income tax recovery of $(2,696) compared to expense of $1,287 in 2014 Q4. The effective tax rate was 26% for 2015 Q4 and 42% for 2014 Q4. Income tax expense is booked based upon expected annualized effective rates.

Net loss for 2015 Q4 was $(7,830) (loss $0.38 per share - basic) compared to net earnings of $1,776 ($0.16 per share - diluted) in 2014 Q4.

SUMMARY OF QUARTERLY RESULTS

Three month periods ended	Dec 2015	Sep 2015	Jun 2015	Mar 2015	Dec 2014	Sep 2014	Jun 2014	Mar 2014
Revenues	$ 24,949	$ 31,374	$ 29,679	$ 50,077	$ 73,242	$ 77,376	$ 56,797	$ 68,020
EBITDAS [1]	$ (169)	$ 3,013	$ (1,237)	$ 5,786	$ 9,408	$ 14,347	$ 6,151	$ 8,581
EBITDAS [1] per share - diluted	$ (0.00)	$ 0.08	$ (0.03)	$ 0.16	$ 0.26	$ 0.40	$ 0.17	$ 0.24
Net earnings (loss)	$ (16,348)	$ (3,004)	$ (15,266)	$ (724)	$ 1,776	$ 5,805	$ 253	$ 2,449
Net earnings (loss) per share - basic and diluted	$ (0.45)	$ (0.08)	$ (0.42)	$ (0.02)	$ 0.05	$ 0.16	$ 0.01	$ 0.07
Dividends declared per share	$ -	$ 0.04	$ 0.04	$ 0.04	$ 0.0825	$ 0.0825	$ 0.0825	$ 0.0825

(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 Goodwill was assessed for impairment when circumstances suggest that the carrying amount may exceed the recoverable amount for the asset or at least annually. Property and equipment and intangibles are assessed for impairment 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 notes 8 and 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 25 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. See note 7 for discussion of the current year write-down of inventory.

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 14 to the audited consolidated financial statements.

FUTURE ACCOUNTING POLICIES

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, 2015. 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.

(iii) Leases

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

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

For lessors, the accounting treatment remains the same which provides a lessor the choice of classifying a lease as either a finance or operating lease. IFRS 16 comes into effect on January 1, 2019. The Company is currently evaluating the impact of adopting IFRS 16 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 (2013 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, 2015. 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, 2015.

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, 2015 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, 2015 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 have 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 U.S. 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 or hourly 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. In November 2015, The Board made the decision to suspend the payment of the Corporation's quarterly dividend until industry conditions improve (see "Dividend Policy") and there is no assurance that dividends will be declared at all in the future and, if declared, 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 such future dividends. 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.

Cathedral's dividend policy is subject to change at the discretion of its Board of Directors. In addition, Cathedral's credit facility covenants include certain restrictions on the payment of cash dividends without the consent of the lenders in certain circumstances. See "Dividend Policy" herein.

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 or less 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 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.

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 $45,000 with a maturity date of August 8, 2017. Although it is believed that the credit facility and amendments thereto 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.

In light of the current volatility in oil and gas prices and uncertainty regarding the timing for recovery in such prices, management's ability to prepare financial forecasts is challenging. As a consequence there is a risk that the Corporation could temporarily breach the covenants included in its credit facility, as amended, in 2016 or 2017. If the Corporation does temporarily breach these covenants, the secured revolving term loan could become due and payable on demand.

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 Common 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. It is also possible that tax authorities may retroactively or prospectively amend tax legislation or its interpretation, which could affect Cathedral's current and future income taxes. It should be noted that effective July 1, 2015 the general corporate tax rate in the Province of Alberta was increased from 10% to 12%.

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 for 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 in the future. 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 Corporation. 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.

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.

Cathedral made the decision to terminate its pursuit of operations in Venezuela in 2014 which were 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, was owned 60% by the PDVSA wholly-owned subsidiary and 40% by Cathedral's wholly-owned subsidiary, DPI. On February 29, 2016, Cathedral announced it had closed the sale of its Venezuelan investment by way of selling its wholly-owned Barbados subsidiary, DPI.

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. 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.

In addition, Cathedral is exposed to currency exchange risk on those of its assets denominated in U.S. dollars. Since Cathedral presents its financial statements in Canadian dollars, any change in the value of the Canadian dollar relative to the U.S. dollar, 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 two customers accounting for revenues in excess of 10% (one customer at 12% and another at 10% of Cathedral's consolidated revenues for 2015) (2014 – a different customer at 12%). 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 in the future. 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 previously announced its intention to regulate greenhouse gases ("GHG") and other air pollutants. In December 2015 the Government signed the Paris Agreement on climate change, committing to hold "the increase in the global average temperature to well below 2 °C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5 °C above pre-industrial levels." The Paris Agreement has yet to be ratified in Canada; however, the Government is in the process of developing a framework that outlines its clean air and climate change action plan and it is possible that a nation-wide plan will be developed and adopted in the near future.

On November 22, 2015 the Government of Alberta released its Climate Leadership Plan ("Climate Plan"). Under the Climate Plan the Government of Alberta will, among other things: (i) phase out coal-burning electricity production and transition to more renewable energy and natural gas electricity generation by 2030; (ii) implement an Alberta economy-wide price on GHG emissions of $20 per tonne in January 2017, and $30 per tonne in January 2018; (iii) limit overall oil sands emissions to 100 megatonnes per year; and (iv) reduce methane emissions from oil and gas operations by 45% from 2014 levels by 2025.

As a result of the federal program still being under development, and the lack of substantive details regarding the implementation of the Climate Plan, Cathedral is unable to predict the total impact of the potential and forthcoming regulations upon its business. Cathedral's customers may face increases in operating costs in order to comply with 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.

On January 29, 2016 the Government of Alberta released the Royalty Review Advisory Panel Report (the “Report”). The Report recommends making changes to the royalties framework for oil and gas wells drilled starting in 2017, while preserving existing royalties for wells drilled before 2017 (for a period of 10 years) and for oil sands production. The recommendations provided by the Report have been accepted by the Government of Alberta, which will begin adopting and putting them into effect in the spring of 2016. Although any resulting changes in the Albertan royalty framework are not anticipated to materially impact Cathedral’s operations, some uncertainty still remains regarding the actual implementation of the recommendations.

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. 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 EBITDAS" - defined as earnings before share of income/loss from associate, write-down/recovery on investment in associate finance costs, unrealized foreign exchange on intercompany balances, unrealized foreign exchange due to hyper-inflation accounting, taxes, non-recurring gains and losses on disposal of property and equipment (see non-GAAP measurement), depreciation, write-down of goodwill, write-down of property and equipment, write-down of inventory and share-based compensation; is considered an indicator of the Company's ability to generate funds flow from operations prior to consideration of how activities are financed, how the results are taxed and measured and non-cash expenses (see tabular calculation);

iv) "Funds from operations" - calculated as cash provided by operating activities before changes in non-cash working capital and income taxes paid less current tax expense; is considered an indicator of the Company's ability to generate funds flow from operations on an after tax basis but excluding changes in non-cash working capital which is financed using the Company's operating loan (see tabular calculation);

v) “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;

vi) “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;

vii) “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);

viii) “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;

ix) “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;

x) “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

xi) “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	
	2015	2014	2015	2014
Gross margin	$ (1,091)	$ 9,733	$ 3,014	$ 40,085
Add non-cash items included in cost of sales:				
Depreciation	5,357	5,231	20,566	19,373
Share-based compensation	17	19	59	112
Adjusted gross margin	$ 4,283	$ 14,983	$ 23,639	$ 59,570
Adjusted gross margin %	17.2%	20.5%	17.4%	21.6%

EBITDAS

	Three months ended December 31		Year ended December 31	
	2015	2014	2015	2014
Earnings (loss) before income taxes	$ (14,262)	$ 3,063	$ (32,087)	$ 14,970
Add:				
Depreciation included in cost of sales	5,357	5,231	20,566	19,373
Depreciation included in selling, general and administrative expenses	46	76	179	280
Share-based compensation included in cost of sales	17	19	59	112
Share-based compensation included in selling, general and administrative expenses	46	45	150	200
Finance costs	386	699	1,664	2,563
EBITDAS	(8,410)	9,133	(9,469)	37,498
Unrealized foreign exchange loss on intercompany balances	1,188	452	4,191	1,166
Write-down of goodwill	-	-	5,848	-
Write-down of property and equipment	3,189	-	3,189	-
Write-down of inventory	3,736	-	3,736	-
Recovery on investment in associate and related assets	-	(177)	-	(177)
Non-recurring compensation	128	-	354	-
Non-recurring gain on disposal of land and building	-	-	(456)	-
Adjusted EBITDAS	$ (169)	$ 9,408	$ 7,393	$ 38,487

Funds from operations

	Three months ended December 31		Year ended December 31	
	2015	2014	2015	2014
Cash flow from operating activities	$ 1,794	$ 12,028	$ 25,931	$ 36,941
Add (deduct):				
Changes in non-cash operating working capital	(2,790)	(3,204)	(25,794)	(2,160)
Income taxes paid	278	192	3,539	604
Current tax recovery (expense)	(707)	(621)	734	(3,271)
Funds from (used in) operations	$ (1,425)	$ 8,395	$ 4,410	$ 32,114

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, 2015 and December 31, 2014, the consolidated statements of comprehensive income (loss), 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, 2015 and December 31, 2014, and 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 Professional Accountants

Calgary, Alberta

March 2, 2016

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2015 and 2014

Dollars in '000s

	December 31 2015	December 31 2014
Assets		
Current assets:		
Cash and cash equivalents (notes 5 and 25)	$ 1,426	$ 5,109
Trade receivables (note 6)	23,107	58,770
Current taxes recoverable	2,962	-
Prepaid expenses and deposits	1,988	2,383
Inventories (note 7)	12,092	17,130
Total current assets	41,575	83,392
Property and equipment (note 8)	108,918	131,877
Intangible assets (note 9)	2,006	1,905
Deferred tax assets (note 10)	3,111	7,512
Goodwill (note 9)	-	5,848
Total non-current assets	114,035	147,142
Total assets	$ 155,610	$ 230,534
Liabilities and Shareholders' Equity		
Current liabilities:		
Operating loans (note 11)	$ 2,484	$ 1,069
Trade and other payables (note 12)	20,198	35,201
Dividends payable	-	2,994
Current taxes payable	-	1,232
Loans and borrowings (note 13)	686	857
Deferred revenue	4,657	3,904
Total current liabilities	28,025	45,257
Loans and borrowings (note 13)	30,477	56,142
Deferred tax liabilities (note 10)	501	767
Total non-current liabilities	30,978	56,909
Total liabilities	59,003	102,166
Shareholders' equity:		
Share capital (note 14)	74,481	74,481
Contributed surplus	9,470	9,261
Accumulated other comprehensive income	11,577	3,850
Retained earnings	1,079	40,776
Total shareholders' equity	96,607	128,368
Total liabilities and shareholders' equity	$ 155,610	$ 230,534

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 (LOSS)

Years ended December 31, 2015 and 2014

Dollars in '000s except per share amounts

	December 31 2015	December 31 2014
Revenues (note 19)	$ 136,079	$ 275,435
Cost of sales (notes 7 and 16):		
Direct costs	(112,440)	(215,865)
Depreciation	(20,566)	(19,373)
Share-based compensation	(59)	(112)
Total cost of sales	(133,065)	(235,350)
Gross margin	3,014	40,085
Selling, general and administrative expenses (note 16):		
Direct costs	(19,780)	(24,470)
Depreciation	(179)	(280)
Share-based compensation	(150)	(200)
Total selling, general and administrative expenses	(20,109)	(24,950)
	(17,095)	15,135
Gain on disposal of property and equipment	3,363	3,102
Gain on disposal of land and buildings (note 8)	456	-
Earnings (loss) from operating activities	(13,276)	18,237
Write-down of inventory (note 7)	(3,736)	-
Write-down of property and equipment (note 8)	(3,189)	-
Write-down of goodwill (note 9)	(5,848)	-
Recovery on investment in associate and related assets	-	177
Foreign exchange loss (note 17)	(4,374)	(881)
Finance costs (note 17)	(1,664)	(2,563)
Earnings (loss) before income taxes	(32,087)	14,970
Income tax recovery (expense) (note 10):		
Current	734	(3,271)
Deferred	(3,989)	(1,416)
Total income tax expense	(3,255)	(4,687)
Net earnings (loss)	(35,342)	10,283
Other comprehensive income:		
Foreign currency translation differences for foreign operations	7,727	2,611
Total comprehensive income (loss)	$ (27,615)	$ 12,894
Net earnings (loss) (note 15)		
Basic	$ (0.97)	$ 0.28
Diluted	$ (0.97)	$ 0.28

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Years ended December 31, 2015 and 2014
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, 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 14)	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**
Total comprehensive income (loss) for the year ended December 31, 2015	-	-	7,727	(35,342)	(27,615)
Transactions with shareholders, recorded directly in equity contributions by and distributions to shareholders for the year ended December 31, 2015:					
Dividends to equity holders	-	-	-	(4,355)	(4,355)
Share-based compensation	-	209	-	-	209
Share options exercised (note 14)	-	-	-	-	-
Total contributions by and distributions to shareholders	-	209	-	(4,355)	(4,146)
Balance at December 31, 2015	**$ 74,481**	**$ 9,470**	**$ 11,577**	**$ 1,079**	**$ 96,607**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2015 and 2014

Dollars in '000s except per share amounts

		December 31 2015		December 31 2014
Cash provided by (used in):				
Operating activities:				
Net earnings (loss)	$	(35,342)	$	10,283
Items not involving cash				
Depreciation		20,745		19,653
Income tax expense		3,255		4,687
Unrealized foreign exchange loss on intercompany balances		4,191		1,166
Finance costs		1,664		2,563
Share-based compensation		209		312
Gain on disposal of property and equipment		(3,363)		(3,102)
Gain on disposal of land and building		(456)		-
Write-down of goodwill		5,848		-
Write-down of property and equipment		3,189		-
Write-down of inventory		3,736		-
Recovery on investment in associate and related assets		-		(177)
Cash flow from (used in) continuing operations		3,676		35,385
Changes in non-cash operating working capital (note 18)		25,794		2,160
Income taxes paid		(3,539)		(604)
Cash flow from operating activities		25,931		36,941
Investing activities:				
Property and equipment additions		(6,908)		(30,763)
Intangible asset additions		(289)		(675)
Proceeds on disposal of property and equipment		4,944		5,550
Proceeds on disposal of land and building		6,174		-
Changes in non-cash investing working capital (note 18)		(1,012)		(632)
Cash flow from investing activities		2,909		(26,520)
Financing activities:				
Change in operating loan		1,448		(9,120)
Interest paid		(1,989)		(2,610)
Advances of loans and borrowings		-		28,000
Repayments on loans and borrowings		(25,626)		(10,673)
Proceeds on exercise of share options		-		515
Dividends paid		(7,350)		(11,955)
Cash flow from financing activities		(33,517)		(5,843)
Effect of exchange rate on changes in cash and cash equivalents		994		242
Change in cash and cash equivalents		(3,683)		4,820
Cash and cash equivalents, beginning of year		5,109		289
Cash and cash equivalents, end of year	$	1,426	$	5,109

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, 2015 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, 2014.

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 the United States (“U.S."). In 2014, Cathedral decided to terminate its pursuit of operations in Venezuela.

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 2, 2016.

(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) 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.

(iii) 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, 2015, contingent liabilities are disclosed in note 22.

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

Goodwill was assessed at least annually or when circumstances suggest that the carrying amount may exceed the recoverable amount for the asset. Property and equipment and intangibles are assessed for impairment 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 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 25 "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. The estimates used in the 2015 write-down of inventory are discussed in note 7.

(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 14.

(v) Liquidity

As part of its capital management process, the Company prepares a forecast / budget. Management and the board of directors use the forecast / budget to direct and monitor the strategy and ongoing operations and liquidity of the Company. Forecasts / budgets are subject to significant judgment and estimates relating to activity levels, future cash flows and the timing thereof and other factors which may or may not be within the control of the Company. See further discussions relating to liquidity in note 25.

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.

(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, 2015 and 2014, 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.

(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 20	13 to 20%	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	8 to 11.5	20 to 30%	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. Effective January 1, 2015 the estimated useful life of the following equipment:

Equipment type	Prior estimated useful life	Revised estimated useful life
Certain vehicles	10 years	8 years
Certain computer hardware	8 years	5 years
Certain Directional Drilling equipment	15 years	12 years
Certain Directional Drilling equipment	25 years	20 years

These changes in estimates have been accounted for prospectively beginning January 1, 2015.

(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) 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.

(iv) 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.

(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, directors and consultants 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 Flowback 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.

(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 not yet adopted

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, 2015. 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.

(iii) Leases

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

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

For lessors, the accounting treatment remains the same which provides a lessor the choice of classifying a lease as either a finance or operating lease. IFRS 16 comes into effect on January 1, 2019. The Company is currently evaluating the impact of adopting IFRS 16 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.

(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 25.

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 25.

7. Inventories

All of the Company's inventories are composed of raw materials, consumables and work-in-progress. There are no finished goods inventories. For the year ended December 31, 2015, raw materials and consumables recognized as cost of sales were $28,211 (2014 - $34,913). During 2015 Q4, a review of expected demand for inventory balances to be used in equipment repairs was conducted. A write-down of $3,736 was recognized related to obsolete or slow moving inventory. $2,607 of this write-down relates to parts from third party supplied (non-Cathedral manufactured) motors, which currently have lower utilization and demand from clients.

8. Property and equipment

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
Flow back and 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
Flow back and 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

Cost	Balance December 31 2014	Additions	Disposals and write-downs	Effects of movements in exchange rates	Balance December 31 2015
Directional Drilling equipment	$ 158,924	$ 4,442	$ (19,032)	$ 436	$ 144,770
Flow back and Production Testing equipment	62,554	1,345	(212)	361	64,048
Automotive equipment	1,210	181	(259)	176	1,308
Office and computer equipment	7,810	273	(3)	359	8,439
Buildings	3,698	604	(4,680)	378	-
Land	415	-	(451)	36	-
Automotive equipment under capital lease	3,523	-	(1,183)	469	2,809
Leasehold improvements	1,266	63		112	1,441
Total	$ 239,400	$ 6,908	$ (25,820)	$ 2,327	$ 222,815

Accumulated depreciation	Balance December 31 2014	Additions	Disposals and write-downs	Effects of movements in exchange rates	Balance December 31 2015
Directional Drilling equipment	$ 66,710	$ 13,876	$ (14,284)	$ 260	$ 66,562
Flow back and Production Testing equipment	31,855	4,854	(144)	183	36,748
Automotive equipment	880	85	(182)	162	945
Office and computer equipment	5,611	879	-	309	6,799
Buildings	-	-	-	-	-
Land	-	-	-	-	-
Automotive equipment under capital lease	1,558	569	(722)	263	1,668
Leasehold improvements	909	179	-	87	1,175
Total	$ 107,523	$ 20,442	$ (15,332)	$ 1,264	$ 113,897

Net book values		2015		2014
Directional Drilling equipment	$	78,208	$	92,214
Flow back and Production Testing equipment		27,300		30,699
Automotive equipment		363		330
Office and computer equipment		1,640		2,199
Buildings		-		3,698
Land		-		415
Automotive equipment under capital lease		1,141		1,965
Leasehold improvements		266		357
Total	$	108,918	$	131,877

On March 30, 2015, the Company closed the sale of its land and buildings in Oklahoma City, Oklahoma and entered into a lease for these premises. As the lease is classified as an operating lease and the sale proceeds were at fair market value, the entire amount of the gain has been recognized in the current period. The net proceeds were $6,174 and the resulting gain on sale of land and buildings was $456.

Due to the reduction in demand for services, in 2015 Q4 the Company carried out a review of equipment and wrote-down those where there was a significant lack of demand by clients. The result of this review was a write-down of property and equipment of $3,189.

Leased automotive equipment

The Company leases equipment under a number of finance lease agreements. The leased equipment secures lease obligations (see note 13). During 2015, there were non-cash fixed asset additions of $nil (2014 - $512) related to finance lease arrangements.

Review for impairment

The Company reviews the carrying value of property and equipment and intangible assets at each reporting period where there are indicators of impairment. In addition to the review conducted at September 30, 2015 discussed in note 9, the Company also conducted a review for impairment of property and equipment as at December 31, 2015.

The recoverable amount of each CGU was determined using the discounted cash flow model for value-in-use for each CGU. For 2016, a detailed budget of revenues was prepared based upon revenue forecasted by heads of sales departments. 2016 expense budget was prepared with consultation of senior operating managers and accounting staff based upon existing costs, historical information and anticipated cost reductions. The 2016 detailed budget was used to prepare a high level 2017 and 2018 budget where it was anticipated that revenues for 2017 would be at 2015 levels and then increase in 2018 to be at 75% of 2014 levels. Variable costs were adjusted based on percentage of sales, while fixed costs were maintained at 2016 levels, with increases to wages as the recovery progresses. Total cash flows for 2019 and 2020 were projected at an average 3% growth from 2018. Cash flow projections thereafter have been extrapolated based on a 1.5% per annum growth rate and also incorporate a future 25% downturn in the 11th year of the forecast for the Directional Drilling CGU. The Flowback and Production Testing CGU does not extend out past 9 years, so no downturn was forecast.

The forecasted cash flows are based on management's best estimates of pricing, activity levels, costs to maintain equipment and a pre-tax discount rate of 19% (December 31, 2014 - 18%) per annum. A terminal value was used assuming 1.5% annual growth rate for cash flows through the remainder of the segment's life.

Based on these cash flows to determine value in use, there was no impairment of property and equipment or intangible assets for either CGU.

9. Intangible assets and goodwill

The Company's intangible assets consist of internally generated development costs related to its drilling division. To date the Company has recorded no impairment losses on these assets.

		2015		2014
Cost				
Balance at January 1	$	4,971	$	4,296
Internally developed additions		289		675
Write-off of fully amortized balances		(2,755)		-
Balance at end of year	$	2,505	$	4,971
Accumulated amortization				
Balance at January 1	$	3,066	$	2,822
Amortization for year		188		244
Write-off of fully amortized balances		(2,755)		-
Balance at end of year	$	499	$	3,066
Net carrying value at end of year	$	2,006	$	1,905

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:

		2015		2014
Directional drilling	$	-	$	1,624
Production testing		-		4,224
Total	$	-	$	5,848

During the period ended September 30, 2015 the Corporation determined that the further decline in commodity prices and the impact on drilling and completion activity levels was an indicator of impairment and performed a comprehensive assessment of the carrying values of property and equipment and goodwill for the Directional Drilling and Flowback and Production Testing CGUs.

The recoverable amount of each CGU was determined using a value in use calculation based on cash flow projections over the expected life of the assets. The cash flow projections were based on expected outcomes taking into account past experience and management expectation of market conditions.

Management anticipated that the current downturn in the oilfield service industry will continue through 2016. Cash flow projections for 2017 to 2019 have assumed a gradual recovery to historical activity levels. Cash flow projections thereafter have been extrapolated based on a 1.5% per annum growth rate and also incorporate a future 25% downturn in the 9th year of the forecast. The forecasted cash flows are based on management's best estimates of pricing, activity levels, costs to maintain equipment and a pre-tax discount rate of 19% (December 31, 2014 - 18%) per annum. A terminal value was used assuming 1.5% annual growth rate for cash flows through the remainder of the segment's life.

The results of the tests indicated a recoverable amount of approximately $140,000 and an impairment of goodwill at September 30, 2015 of $5,848, with $1,624 related to the Directional Drilling CGU and $4,224 related to the Flowback and Production Testing CGU. This impairment represented the total amount of goodwill allocated to each CGU. There was no impairment in the carrying value of property and equipment based upon the value in use calculation.

10. Deferred tax assets and liabilities and income tax expense

On April 21, 2015, the Company received a proposal letter from the Canada Revenue Agency ("CRA") which stated its intention to challenge the tax consequences of the Company's December 2009 conversion transaction. CRA was seeking to apply the general anti-avoidance rules of the Income Tax Act (Canada) to the conversion transaction. The Company made a proposal for settlement that was accepted by CRA on June 30, 2015. The result of the settlement was a reduction to the tax pools in the conversion transaction. No cash taxes were payable for prior periods. As a result of the reduction in pool balances there was a charge to earnings in the amount of $10,346 with the offset to eliminate the deferred tax asset and the remaining amount increasing the deferred tax liability.

Recognized deferred tax assets and liabilities

Deferred tax assets are attributable to the following:

		2015		2014
Property and equipment	$	(10,658)	$	(10,476)
Inventory valuation allowance		737		-
Intangible assets		231		240
Investment tax credits		2,339		4,920
Non-capital loss carryforwards		5,686		3,377
Scientific research and development expenditures		4,776		9,451
Total	$	3,111	$	7,512

Deferred tax liabilities are attributable to the following:

		2015		2014
Property and equipment	$	(835)	$	(767)
Inventory valuation adjustment		334		-
Total	$	(501)	$	(767)

Movement in temporary differences during the year

		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
Total	$	8,234	$	(1,405)	$	(84)	$	6,745

	Balance December 31 2014	Impact of CRA propsal in profit	Recognized in profit	Recognized in OCI	Balance December 31 2015
Property and equipment	$ (11,243)	$ -	$ (102)	$ (148)	$ (11,493)
Inventory valuation allow ance	-		1,071		1,071
Intangible assets	240		(9)	-	231
Investment tax credits	4,920	(2,261)	(320)	-	2,339
Non-capital loss carryforw ards	3,377	(3,377)	5,686	-	5,686
Scientific research and development expenditures	9,451	(4,708)	33	-	4,776
Total	$ 6,745	$ (10,346)	$ 6,359	$ (148)	$ 2,610

The income taxes are based upon the estimated annual effective rates of 26% (2014 – 25%) for Canadian entities and 37% (2014 – 37%) for U.S. entities. The income tax expense for the period is comprised as follows:

	2015	2014
Current tax (expense) recovery:		
Current period	$ 373	$ (3,248)
Adjustment to prior period provisions	361	(23)
Total current tax expense	734	(3,271)
Deferred tax expense:		
Origination and reversal of temporary differences	6,122	(1,416)
Adjustment to prior period provisions	(10,111)	-
Total deferred tax expense	(3,989)	(1,416)
Income tax expense	$ (3,255)	$ (4,687)

Income tax expense for 2015 and 2014 differs from the amount that would be expected by applying the expected statutory income tax rates for the following reasons:

	2015	2014
Expected statutory tax rate	26.07%	25.17%
Earnings (loss) before income tax	$ (32,087)	$ 14,970
Effective tax rate applied to earnings before income tax	$ 8,365	$ (3,768)
Adjustment to deferred taxes for change in effective tax rates	(71)	(19)
Income taxed in jurisdictions w ith different tax rates	428	(766)
Non-deductible expenses	(1,708)	(235)
Recognition of previously unrecognized tax losses	-	15
Adjustment to prior year deferred tax provision	(10,111)	-
Non-taxable portion of gain on disposal of property and equipment	(214)	113
Other	56	(27)
Total tax expense	(3,255)	(4,687)

Unrecognized deferred tax assets

At December 31, 2015, a deferred tax asset of $nil (2014 - $651) for capital losses of $nil (2014 - $5,175) 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.

11. Operating loans

	2015	2014
Canadian dollar operating loan	$ 2,370	$ 710
U.S. dollar operating loan	114	359
Total	$ 2,484	$ 1,069

The Company has a $5,000 swingline facility (2014 - $10,000) with a major Canadian bank. The terms and conditions of this loan are as disclosed in note 13.

12. Trade and other payables

	2015	2014
Trade payables	$ 16,208	$ 16,747
Accrued payables	3,990	18,454
Total	$ 20,198	$ 35,201

The Company's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 25.

13. Loans and borrowings

	2015	2014
Current liabilities:		
Current portion of finance lease liabilities	$ 686	$ 857
Non-current liabilities:		
Finance lease liabilities	$ 477	$ 1,142
Secured revolving term loan	30,000	55,000
Total	$ 30,477	$ 56,142

In the year there were advances of $nil and repayments of $25,000 on the Company's secured revolving term loan.

Terms and debt repayment schedule

The Company has a 3 year committed revolving credit facility that expires in August 2017. The credit facility was amended on June 12, 2015 (the "First Amendment") to reduce the facility to $60,000 (previously $85,000), increase the accordion feature to $35,000 (previously $25,000) and to provide a temporary relaxation of financial covenants. The accordion feature is subject to approval of the syndicate of lenders which currently consists of The Bank of Nova Scotia and National Bank of Canada.

In January 2016, the Company negotiated further amendments to the credit agreement were negotiated ("Second Amendment"). The Second Amendment has less restrictive financial covenants than the prior facility terms. The Second Amendment provides for credit availability of $45,000, representing a $15,000 decrease from the prior amended credit facility. The Second Amendment matures in August, 2017, consistent with the duration of the original facility.

After the First and Second Amendment discussed above, the facility bears interest at the bank's prime rate plus 0.50% to 5.00% or bankers' acceptance rate plus 1.75% to 6.25% with interest payable monthly. Interest rate spreads for the 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).

As at December 31, 2015, the Company was in compliance with all covenants under its credit facility, which are:

Ratio	December 31, 2015 value
Debt service ratio – must be not less than 1.25:1	4.07:1
Funded debt to EBITDA (as defined in credit facility) – must be not greater than 4.75:1	4.02:1

The financial covenants associated with the First and Second Amendments are as follows:

Quarter ending:	Maximum Funded Debt to EBITDA Ratio	Minimum Debt Service Ratio
December 31, 2015	4.75	1.25
March 31, 2016	Waived	1.25
June 30, 2016	Waived	1.25
September 30, 2016	5.50	1.75
December 31, 2016	5.00	1.75
March 31, 2017	4.50	1.75
June 30, 2017	4.00	1.75
September 30, 2017 and thereafter	3.00	1.75

The credit facility is secured by a general security agreement over all present and future personal property. See further discussion regarding liquidity and covenants in notes 2(v) and 25.

During the waiver period there is a requirement for minimum EBITDA for the quarter ended March 31, 2016 of $850 and minimum cumulative EBITDA for the two quarters ending June 30, 2016 of $1,600. The amended facility has certain restrictions, including, but not limited to; paying dividends, utilization of the accordion feature, enhanced lender financial reporting and a cap on any litigation settlement payments without lender approval.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Finance lease liabilities

Finance lease liabilities bear interest at rates between 4.0% and 8.1% with maturities from 2016 to 2018 and are payable as follows:

	2015			2014		
	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	$ 382	$ (3)	$ 379	$ 361	$ (4)	$ 357
Between one and four years	811	(27)	784	1,753	(111)	1,642
Total	$ 1,193	$ (30)	$ 1,163	$ 2,114	$ (115)	$ 1,999

These amounts are secured by the automotive equipment under capital lease which has a net book value of $1,141 (2014 - $1,965).

14. Share capital

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

Common shares issued:

	2015		2014	
	Number	Amount	Number	Amount
Issued, beginning of year	36,295,380	$ 74,481	36,166,380	$ 73,850
Issued on exercise of options	-	-	129,000	515
Contributed surplus on options exercised		-		116
Issued, end of year	36,295,380	$ 74,481	36,295,380	$ 74,481

Issuance of common shares

There were no shares issued in 2015. In 2014, 129,000 common shares were issued as a result of the exercise of vested options arising from grants to employees, directors 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 dividends in the amount of $4,355 in 2015 (2014 - $11,965) or $0.12 per share (2014 - $0.3075 per share.) Effective November 10, 2015 the Company suspended quarterly dividend payments.

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, 2015 and 2014, and changes during the years then ended is presented below:

		2015		2014
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding, beginning of year	1,233,863	$ 6.94	2,296,864	$ 6.94
Granted	1,389,500	1.49	165,000	4.89
Exercised	-	-	(129,000)	3.99
Expired or forfeited	(476,766)	7.99	(1,099,001)	(5.91)
Outstanding, end of year	2,146,597	$ 3.18	1,233,863	$ 6.94
Exercisable, end of year	687,097	$ 6.25	803,950	$ 7.65

The range of exercise prices for the options outstanding at December 31, 2015 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
$0.75 to $2.25	1,339,500	$ 1.47	3.06	-	$ -
$2.26 to $4.00	60,000	3.78	1.33	40,001	3.78
$4.01 to $5.50	398,999	5.12	1.53	298,998	5.18
$5.51 to $7.55	348,098	7.45	0.20	348,098	7.45
$0.75 to $7.55 total	2,146,597	$ 3.18	2.26	687,097	$ 6.25

During the year ended December 31, 2015, the Company has recorded share-based compensation expense of $209 (2014 - $312) related to the share option plan.

During the year ended December 31, 2015, the Company granted 1,389,500 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:

		2015 Q4		2015 Q3		2015 Q1
Number of options issued		640,500		20,000		729,000
Exercise price	$	0.75	$	1.99	$	2.13
Fair value per option (weighted average)	$	0.19	$	0.35	$	0.36
Expected annual dividend per share	$	-	$	0.16	$	0.16
Risk-free interest rate (weighted average)		0.5%		0.5%		0.5%
Expected share price volatility (weighted average)		54.4%		45.2%		43.4%
Forfeiture rate per annum		4.0%		10.0%		5.9%

15. Earnings per share

Basic earnings per share

The calculation of basic earnings per share at December 31, 2015 was based on the profit (loss) attributable to common shareholders of $(32,672) (2014 – $10,283) and a weighted average number of common shares outstanding of 36,295,380 (2014 – 36,244,029), calculated as follows:

Weighted average number of ordinary shares

	2015	2014
Issued January 1	36,295,380	36,166,380
Effect of share options exercised	-	77,649
Weighted average number of common shares at end of year	36,295,380	36,244,029

Diluted earnings per share

For the current year, there is no diluted earnings per share as 2015 is in a loss position. The calculation of diluted earnings per share at December 31, 2014 was based on the profit attributable to common shareholders of $10,283 and a weighted average number of common shares outstanding after adjustment for the effects of all dilutive potential common shares of 36,255,349, calculated as follows:

Weighted average number of common shares (diluted)

	2015	2014
Weighted average number of common shares (basic)	36,295,380	36,244,029
Effect of share options on issue (note 15)	-	11,320
Weighted average number of common shares (diluted) at end of year	36,295,380	36,255,349

At December 31, 2015, 2,146,597 options (2014 – 1,164,863) 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.

16. Nature of expenses

The nature of expenses can be specified as follows:

		Cost of sales		Selling, general and administrative		Total
Year ended December 31, 2015						
Depreciation	$	(20,566)	$	(179)	$	(20,745)
Share-based compensation		(59)		(150)		(209)
Staffing costs, excluding share-based compensation		(56,817)		(13,242)		(70,059)
Repairs and maintenance		(25,419)		-		(25,419)
Other expenses		(30,204)		(6,538)		(36,742)
Total	$	(133,065)	$	(20,109)	$	(153,174)
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)
Repairs and maintenance		(35,120)		-		(35,120)
Other expenses		(60,382)		(7,660)		(68,042)
Total	$	(235,350)	$	(24,950)	$	(260,300)

17. Foreign exchange gain (loss) and finance costs

		2015		2014
Foreign exchange gain (loss):				
Realized foreign exchange gain (loss)	$	(183)	$	285
Unrealized foreign exchange loss on intercompany balances		(4,191)		(1,166)
Foreign exchange loss	$	(4,374)	$	(881)
Finance costs				
Interest on revolving term loan	$	(1,195)	$	(1,818)
Interest on operating loan		(66)		(414)
Standby fees		(143)		(105)
Interest on finance lease liabilities		(76)		(107)
Other interest		(184)		(119)
Finance costs	$	(1,664)	$	(2,563)

18. Changes in non-cash working capital

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

		2015		2014
Trade receivables	$	35,663	$	(12,370)
Inventories		1,301		(2,439)
Prepaid expenses and deposits		720		998
Trade and other payables		(15,003)		12,960
Deferred revenue		753		587
Impact of foreign exchange rate differences		1,348		1,792
Total changes in non-cash working capital		24,782		1,528
Changes in investing non-cash working capital		(1,012)		(632)
Changes in operating non-cash working capital	$	25,794	$	2,160

19. 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		2015		2014
Directional drilling	$	106,242	$	208,665
Production testing		29,837		66,770
Total revenues	$	136,079	$	275,435

Geographical information

The Company conducts operations in the following geographic areas:

	Revenues				Non-current assets			
		Year ended December 31, 2015		Year ended December 31, 2014		December 31, 2015		December 31, 2014
Canada	$	51,337	$	125,072	$	110,067	$	138,015
United States		84,742		150,363		3,968		9,127
Total	$	136,079	$	275,435	$	114,035	$	147,142

Major customer

In 2015 revenues from two customers of the Company represented approximately 22% (2014 – a different single customer represented approximately 12%) of the Company's total revenues.

20. 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, 2015. As at December 31, 2015, the Company's commitment to purchase property and equipment is approximately $5. Cathedral anticipates expending these funds in 2016 Q1.

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

21. Operating leases

Leases as lessee

The Company leases a number of offices, warehouse and operating facilities under operating leases. The leases typically run for a period of at least five years, with an option to renew the lease after that date. Leases incurred in relation to sale and leaseback transactions have longer lease terms. Current leases have expiries ranging from May 2016 to March 2030. Certain leases have set annual increases. 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:

2016	$4,090
2017	3,870
2018	3,389
2019	3,106
2020	2,789
Thereafter	22,545

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, 2015, an amount of $3,952 was recognized as an expense in profit or loss in respect of operating leases (2014 - $3,387).

22. Contingencies

On October 29, 2014 Cathedral received a letter from one of its U.S. clients ("the Complainant") alleging a down-hole drilling incident which impacted two of their wells in December 2013. The Complainant had indicated potential damages of $3,000 USD and in 2015 Q3 increased this indication to $3,700 USD. Cathedral does not carry insurance for this type of incident. In January 2016, the Complainant filed a formal complaint in Pennsylvania court initiating a formal legal process related to their claim. Cathedral, with its legal counsel is responding to the complaint and intends to vigorously defend this action. 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. INC has also been named in a second legal action in Denver, Colorado by a former employee. In both these legal actions the employees and consultants (collectively "Claimants") allege that they were improperly classified as exempt under the Fair Labour Standards Act and therefore entitled to unpaid overtime or additional compensation for improperly calculated overtime. Subsequently, six additional claimants have joined the first action and four additional claimants have joined the second action. Legal actions involving similar alleged violations have been filed in the United States against a number of other oilfield service companies. The Claimants assert that they will seek to have the action certified as a collective action which may result in additional employees, former employees or consultants of INC joining the actions. INC has filed defenses for both actions and is currently reviewing its settlement and legal options. The Company believes that the potential impact of this matter is indeterminable.

23. Subsequent event

In late February 2016, Cathedral successfully negotiated the sale of DPI. Net proceeds from this sale are nominal; however, there will be a non-cash gain on sale of DPI will be approximately $10,800. This gain arises from Cathedral recording a write-down of its Venezuela investment in the amount of $12,900 in 2013 and 2014. The sale will result in a decrease in current assets of approximately $1,500 and a decrease in current liabilities of $13,500.

24. 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:

		2015		2014
Short-term employment benefits	$	1,897	$	2,480
Share-based compensation		124		146
Total expense recognized as share-based compensation	$	2,021	$	2,626

Key management personnel and director transactions

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

There have been no other transactions over the reporting period with key management personnel (2014 - nil), and no outstanding balances exist as at period end (2014 - nil).

25. 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% of the Company's revenue is attributable to sales transactions with a single customer and another customer made up 10% of revenues. In 2014 a different customer was 12% of the company's revenue.

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.

Carrying amount

		2015		2014
Trade receivables	$	23,107	$	58,770

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

Carrying amount

		2015		2014
Canada	$	8,593	$	24,002
United States		14,514		34,768
Total	$	23,107	$	58,770

The Company's most significant customers account for $6,168 of the trade receivables carrying amount at December 31, 2015 (2014 - $7,181).

Impairment losses

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

	2015				2014			
		Gross		Impairment		Gross		Impairment
Not past due	$	15,116	$	-	$	49,486	$	-
Past due 61-90 days		4,180		-		6,328		-
Past due over 91 days		3,811		(460)		3,144		(188)
Total	$	23,107	$	(460)	$	58,958	$	(188)

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

		2015		2014
Balance, beginning of year	$	188	$	336
Impairment loss recognized		272		-
Reversals of losses previously recognized		-		(148)
Balance, end of year	$	460	$	188

At December 31, 2015 an impairment loss of $460 (2014 - $188) 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.

For the fiscal year ended December 31, 2015 the Company incurred a net loss of $35,342. The current challenging economic climate may lead to further adverse changes in cash flow, working capital levels or debt balances, which may also have a direct impact on our results and financial position. These and other factors may adversely affect our liquidity and our ability to generate profits in the future. Based on current available information, we expect to comply with all covenants during 2016. In light of the current volatility in oil and gas prices and uncertainty regarding the timing for recovery in such prices, management's ability to prepare financial forecasts is challenging. Due to this volatile economic environment, it is possible that the Company could breach the covenants included in the 2015 Amended Credit Facility (the "Agreement") in 2016 or 2017. If the Company does not have sufficient resources to comply with the financial covenants, the secured revolving term loan will become due on demand. If future profitability or available liquidity is not sufficient to meet the Company's operating and debt servicing obligations as they come due, and pass the financial covenants in the Company's credit agreements, management's plans include; further reducing expenditures, pursuing alternative financing arrangements, potential asset dispositions as necessary, or pursuing other corporate strategic alternatives.

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, 2015	Carrying amount	Contractual cash flow	Under 6 months	6-12 months	1-2 years	2-5 years	Thereafter
Demand bank loans	$ 2,484	$ 2,484	$ 2,484	$ -	$ -	$ -	$ -
Secured revolving term loan [(1)]	30,000	30,000	-	-	30,000	-	-
Finance lease liabilities	1,163	1,194	434	304	446	10	-
Trade and other payables	20,198	20,198	20,198	-	-	-	-
	$ 53,845	$ 53,876	$ 23,116	$ 304	$ 30,446	$ 10	$ -

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.

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.

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	2015	2014
Cash	$ 1,202	$ 4,730
Trade receivables	10,490	29,970
Demand bank loan	(82)	(309)
Trade payables	(10,759)	(19,229)
Finance lease liabilities	(695)	(1,406)
Total	$ 156	$ 13,756

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2015	2014	December 31, 2015	December 31, 2014
USD $1 to CAD $	$ 1.28	$ 1.10	$ 1.38	$ 1.16

Sensitivity analysis

A 10% strengthening of CAD against USD at December 31 would decrease equity and other comprehensive income by $20 (2014 - $1,451). The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2014, 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.

Interest rate risk

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

	December 31, 2015		December 31, 2014	
	Fixed rate carrying value	Variable rate carrying value	Fixed rate carrying value	Variable rate carrying value
Financial liabilities	$ 1,163	$ 32,484	$ 1,999	$ 56,069

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 $325 (2014 - $561) per annum based upon the balance of bank indebtedness and long-term debt with a floating interest rate outstanding as at December 31, 2015.

Fair values of financial instruments

The Company has designated its trade and other payables as other financial liabilities carried at amortized cost. Accounts receivable are designated as loans and receivables, measured at amortized cost. The Corporation's carrying values of these items approximate their fair value due to the relatively short periods to maturity of the instruments. Loans and borrowings have been designated as other financial liability, and are measured at amortized cost. The fair value of loans and borrowings included in the consolidated statement of financial position approximates carrying values as the indebtedness is subject to floating rates of interest.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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. In response to the overall decline in activity levels and profitability, the Company implemented a number of cost cutting initiatives to protect the Company's balance sheet. Throughout 2015 and into 2016 management has instituted significant cost reductions including reduction in amounts paid to suppliers plus wage rollbacks and lay offs. In addition, the Board of Directors reduced the quarterly dividend 52% for 2015 Q1 and suspended the quarterly dividend effective November 10, 2015.

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

		2015		2014
Loans and borrowings, current portion	$	686	$	857
Loans and borrowings, long-term portion		30,477		56,142
Loans and borrowings, including current portion	$	31,163	$	56,999
Shareholders' equity	$	96,607	$	128,368
Less Accumulated other comprehensive income ("AOCI")		(11,577)		(3,850)
Shareholders' equity excluding AOCI		85,030		124,518
Loans and borrowings, including current portion		31,163		56,999
Total capitalization	$	116,193	$	181,517
Loans and borrowings, including current portion to total capitalization		0.27		0.31
Loans and borrowings, including current portion	$	31,163	$	56,999
Operating loans		2,484		1,069
Less cash balances		(2,085)		(6,094)
Letter of credit		1,554		700
Funded debt per lending agreement	$	33,116	$	52,674
Earnings (loss) before income taxes	$	(32,087)	$	14,970
Add (deduct):				
Depreciation included in cost of sales		20,566		19,373
Depreciation included in selling, general and administrative expenses		179		280
Share-based compensation included in cost of sales		59		112
Share-based compensation included in selling, general and administrative expenses		150		200
Unrealized foreign exchange gain on intercompany balances		4,191		1,166
Gain on disposal of property and equipment		(3,363)		(3,102)
Proceeds from disposal of property and equipment		3,803		-
Gain on sale of land and buildings		(456)		-
Non-recurring expenses		766		-
Write-down of goodwill		5,848		-
Write-down of property and equipment		3,189		-
Write-down of inventory		3,736		-
Write-down (recovery on write-down) of investment in associate and related assets		-		(177)
Finance costs		1,664		2,563
EBITDAS per lending agreement	$	8,245	$	35,385
Funded debt to EBITDA		4.02		1.49

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

OFFICERS

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Randy H. Pustanyk, Executive Vice President and Chief Operating Officer

Michael F. Hill, Chief Financial Officer

David Diachok, Vice President, Sales

Neil Schappert, Vice President, USA Directional Drilling

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