2016 ANNUAL REPORT

BETTER PERFORMANCE EVERY DAY

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FIVE YEAR FINANCIAL HISTORY

Dollars in 000's except per share amounts

		2016		2015		2014		2013		2012
			2015 to 2012 restated for Discontinued Operations [4]							
Revenues	**$**	**80,866**	$	106,243	$	208,655	$	150,850	$	139,935
Adjusted gross margin % [1]		**22%**		18%		21%		22%		30%
Total Adjusted EBITDAS [1]	**$**	**5,840**	$	7,699	$	38,487	$	32,815	$	40,824
Diluted per share	**$**	**0.16**	$	0.21	$	1.06	$	0.91	$	1.08
Funds from continuing operations [1]	**$**	**1,031**	$	4,410	$	32,114	$	25,359	$	33,270
Gain on disposal / (Write-down of) recovery on investment in associate and related assets	**$**	**10,865**	$	-	$	177	$	(13,070)	$	-
Write-downs of goodwill, equipment and inventory	**$**	**(277)**	$	(12,773)	$	-	$	-	$	-
Write-down of deferred taxes related to CRA settlement	**$**	**-**	$	(10,346)	$	-	$	-	$	-
Earnings (loss) before income taxes	**$**	**(722)**	$	(24,894)	$	8,112	$	5,241	$	13,861
Basic per share	**$**	**(0.02)**	$	(0.69)	$	0.22	$	0.14	$	0.37
Diluted per share	**$**	**(0.02)**	$	(0.69)	$	0.22	$	0.14	$	0.37
Net earnings (loss)	**$**	**(5,779)**	$	(35,342)	$	10,283	$	(1,542)	$	14,797
Basic per share	**$**	**(0.16)**	$	(0.97)	$	0.28	$	(0.04)	$	0.40
Diluted per share	**$**	**(0.16)**	$	(0.97)	$	0.28	$	(0.04)	$	0.39
Cash dividends declared per share [2]	**$**	**-**	$	0.1200	$	0.3300	$	0.3075	$	0.3000
Property and equipment additions [3]	**$**	**899**	$	6,908	$	30,763	$	28,283	$	30,650
Weighted average shares outstanding										
Basic (000s)		**36,295**		36,295		36,244		36,171		37,376
Diluted (000s)		**36,295**		36,295		36,255		36,241		37,756
Working capital	**$**	**39,324**	$	13,550	$	38,135	$	26,031	$	29,173
Total assets	**$**	**136,017**	$	155,610	$	230,534	$	205,375	$	224,080
Loans and borrowings excluding current portion	**$**	**26,322**	$	30,477	$	56,142	$	38,462	$	46,151
Shareholders' equity	**$**	**90,772**	$	96,607	$	128,368	$	126,612	$	137,932

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

(2) Quarterly dividend was suspended in November 2015

(3) Equipment additions exclude non-cash additions

(4) Revenues and Adjusted gross margin % for 2012 to 2016 exclude Discontinued Operations. 2012 to 2015 amounts have been restated from prior presentation. Refer to note 10 in the audited financial statements

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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 June 7, 2017 at our Head Office 6030 – 3 Street SE, Calgary, Alberta.

REPORT TO SHAREHOLDERS

In our report to shareholders for 2015, we described 2015 as a "challenging year" for the oilfield services industry and Cathedral. In hindsight, the challenges of 2015 were merely a dress rehearsal for an even more challenging and demanding business environment for most of 2016. Although we were faced with very strong head winds throughout most of 2016, we made significant progress in strengthening our financial position, mitigating liabilities and improving our business operations. As the saying goes - what doesn't kill you makes you stronger.

2016 opened with a significant decline in WTI oil prices into the $30/bbl U.S. dollar ("USD") range and hitting lows in the $26/bbl range in January and February. These price declines were all largely related to a persistent oversupply situation in the market. With many producing plays uneconomic at price levels below $40/bbl and bankers putting pressure on energy companies' borrowing bases, the industry quickly jumped into survival mode. The average number of active drilling rigs in the U.S. declined 73% from 1,862 on average in calendar 2014 to a low of 404 active rigs in May 2016 (source: Baker Hughes Rig Count data). A similar rig count drop was experienced in Canada exasperated by the annual spring break-up activity slowdown, which in 2016 was more economically driven than by the onset of warmer weather. In Canada, there was an average of 48 rigs operating in 2016 Q2 compared to 96 rigs in the comparable quarter in 2015. As goes the rig count, so goes oilfield service company activity levels, especially those leveraged to drilling such as Cathedral.

Our strategic themes for 2016 expanded on the objectives we set out in 2015 to get through the downturn:

1. Fiscal Management - Continue 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.

A summary of our key accomplishments in each of these areas follows:

Fiscal Management

At the beginning of 2016, further wage rollbacks were implemented in the U.S. and Canada. Due to 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. We also continued working with our suppliers to reduce costs in many areas of our business. Of note were savings we negotiated with our landlords to reduce facility related expenditures and savings we achieved by rationalizing our facilities.

At the same time activity levels were decreasing, we came under increasing price pressure from our customers. For most of 2016, the only source of competitive differentiation for Cathedral and the oil field industry in general was price. This was despite the fact Cathedral can demonstrate to customers the ability to reduce drilling days and thereby reduce their total well costs. Fortunately, many of our clients acknowledged our "Better Performance Every Day" value proposition and we were still able to source and maintain work in early 2016.

With the declining cash flow in our business continuing from 2015 we were challenged to maintain our banking covenants in 2016. By the end of June, following two amendments to our credit facility in the first half of 2016, we were under serious pressure from our banking syndicate to reduce our debt levels. This pressure was further augmented by the lending syndicate members having different views on the outlook for our business and their respective longer-term commitment to us as a client. In early summer, our lending syndicate dictated a significant reduction in our credit facility availability starting in 2016 Q3.

In early 2016, we had approached Export Development Canada ("EDC") to assist with securing additional liquidity. EDC has a mandate to support the energy industry and in particular, companies with growing international operations like Cathedral. In August, EDC joined our lending syndicate allowing the prior lending syndicate members to reduce their lending exposure while at the same time also allowing Cathedral to increase our available credit by $3,000. EDC came into support Cathedral at what was the darkest hour for the industry and we are truly grateful for their support and their belief in our business strategy.

By mid-2016, it was beginning to appear that the supply and demand fundamentals for oil and natural gas were starting to improve as WTI prices moved into the $45/bbl range. As a result, customer and investor confidence in the sector started to improve and more funds were dedicated to drilling and completions activity. This was evidenced in the uptick in the rig count from the lows in May and increases in our activity levels starting in the late summer. At the same time our lenders were reducing our credit availability, we recognized we would need funds to hire staff, ensure our equipment fleet was sufficient to meet demand and to fund the working capital needs associated with increasing accounts receivables. This situation, in part, led us to consider a strategic alternatives process.

In August, Cathedral's board analyzed the various alternatives available to the Company to provide its stakeholders with the best solution to achieve the growth prospects available to the Company with improving industry conditions. The result of this was a proactive decision to retain the services of an investment-banking firm to assist us with securing additional financial capacity and examine ways for Cathedral to gain future size and scale in order to maximize our potential for our shareholders.

In late 2016, as a result of the strategic alternatives process, we elected to divest our Flowback and Production Testing ("F&PT") division for proceeds of $17,800. Due to low activity levels in 2016, we had made the decision to downsize and restructure our U.S. F&PT business. The challenges with restarting the U.S. F&PT business along with the value we extracted for the assets relative to their future cash flow generating potential supported the decision to divest the business.

Subsequent to the sale of the F&PT business, in mid-January we finalized our seventh amendment to our credit facility with the Bank of Nova Scotia and EDC continuing to support us. Immediately thereafter, we were able to complete an equity financing in mid-February for gross proceeds of $14,100. The public equity financing, conducted by way of a bought deal offering, was oversubscribed by investors resulting in us increasing the offering size. Management and the board participated in the financing by way of a private placement. The net proceeds from this financing were initially used to repay bank indebtedness. Post financing, our bank debt will effectively be nil, except for outstanding letters of credit, down from $56,000 at the end of 2014. The F&PT divestiture and the equity financing gives Cathedral capacity to fund ongoing working capital requirements driven by increased business activity, increase our productive capacity through funding equipment upgrades and capital expenditures and to support other growth initiatives.

At the same time we were dealing with the above challenges, we also made progress on dealing with a number of other corporate matters and contingent liabilities. In 2016 Q1, Cathedral completed the sale of its wholly owned Barbados subsidiary, Directional Plus International Ltd. ("DPI"). DPI held the Company's investment in Venezuela and this sale completed Cathedral's exit from carrying on a business in Venezuela. Although the net sale proceeds on sale of DPI were $nil, the purchaser assumed liabilities of approximately $13 million. In 2016 Q3, we negotiated a settlement of our collective action wage and hour lawsuits in the U.S. We employed an innovative approach to dealing with this challenge which involved a

structured payment plan. It was important to deal with this liability as it was creating significant uncertainty in the market with investors and consuming a large amount of management's time and energy. In 2016 Q4 we also resolved a dispute with a customer related to an alleged down-hole drilling incident under favorable terms to both parties along with a structured payment plan.

Going into 2017, Cathedral has a very strong balance sheet and we can now focus our full attention on operations and exploring ways to further grow our business both organically and through potential transactions.

Retaining Key Employees

Although we have had to reduce our employee base significantly over the past two years, we have retained our core team. Retaining this team was critical to ensuring we had the capability to ramp our business back up. Having a talented team in place is important as attracting people back to the industry is going to be a key challenge in 2017. The fact that our core team is intact was facilitated in part by favoring salary and wage rollbacks over layoffs during the downturn. We sincerely thank our staff for their support over the past 2 years.

Operational Excellence

As a consequence of a lower commodity price environment, energy companies are acutely focused on cost reduction and performance. Our value proposition, "Better Performance Every Day", positions Cathedral favorably with our customers from a cost impact perspective as we have the ability to reduce their drilling days for a well. Our value proposition is supported by three key attributes; our proprietary technology, our Drilling Optimization offering and the quality and experience of our people. In addition, due to our size and scale, we offer larger customers the ability to assist them on larger multi-well drilling programs and across the many geographies we operate in North America.

In 2016 we continued to set records for drilling performance with customers in both Canada and the U.S. which was key to retaining customers during the downturn and attracting new customers as industry prospects improved.

In 2016 we continued with the introduction of a new organizational function to ensure Cathedral's in-house technology and operating standards are better leveraged across all locations in which we operate. This product line management function has allowed us to achieve better control over capital asset allocation, equipment repair and parts procurement, training, policies, procedures and standards.

We also continued to develop our Drilling Optimization offering. This engineering team is focused on working closer with customers on the technical aspects of their drilling programs to analyze factors contributing to better performance and make recommendations on how to improve performance on a daily and even hourly basis. This contrasts with the traditional view of drilling optimization in our industry where performance and improvements are typically only addressed at the end-of-well. 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 initiated a strategic initiative called Target Zero aimed at reducing personnel on the rig site. This initiative involves rethinking our operational processes and the people involved, considering new designs, configurations and logistics for deploying our equipment and improving and leveraging our management information systems including our remote drilling capability.

In 2016 we continued to make incremental improvements to our proprietary Measurement-While-Drilling ("MWD") and drilling motor technology to improve the capabilities of this equipment and also to improve its reliability. Improving equipment reliability has been a continual focus due to the downhole drilling environment being increasingly more demanding as rigs get more powerful and wellbores get longer.

On the new technology front, of note in 2016 was our downhole generator technology reaching commercial status. The downhole generator uses mud flow to create power for the MWD equipment thereby reducing battery use and the associated high costs of batteries. The downhole generator also facilitates improved Electro-Magnetic ("EM") MWD data transmission capabilities to improve its performance and allow it to be used in difficult formations and areas where competitor technologies have limitations. We will start building out a fleet of downhole generators in 2017.

Workplace safety is extremely important to Cathedral and our customers. In our Health, Safety and Environment ("HSE") area we continued to promote our 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 achieved our corporate performance targets for HSE including having zero lost time injuries and zero environmental incidents and we exceeded 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.

Enhance Sales Effectiveness

We continue to implement new sales strategies and processes in our business to ensure we are targeting customers and regions where our equipment and services can result in a material reduction in well costs by reducing days drilled or offering other customer benefits. We also have developed a sales program focused on capturing the key players in each of the basins where we operate (e.g. Montney and Permian).

The success of these programs can be quantified based on our North American market share growth. We measure market share based on the rigs/jobs we are working on in a particular week versus the active rigs drilling directional wells as reported weekly by Baker Hughes. In the U.S. we have doubled our market share from where it was in 2014 with most of the gains made in 2016. In Canada we have maintained our market share at historical levels despite a severe contraction in this market and intense competitive pressure including coming from the major international oilfield services companies.

Going forward we see the biggest opportunities for Cathedral in the U.S. market. We are still a small player in this market and believe there are more growth opportunities for us in the U.S. relative to Canada. Our success in the U.S. to date has been a result of having differentiated technology and having an active presence and growing reputation in the key U.S. basins such as the Permian.

Our Focus in 2017

Going into 2017 we expect to be impacted positively or negatively by three key themes:

- continued commodity price volatility – with the potentially to impacting activity levels throughout the year;
- intense competitive pressure and continued customer attention on drilling costs - impacting pricing; and,
- labour availability and vendor supply and price challenges - impacting expenses

Although the above factors potentially sound forbidding, we believe they are no more intimidating than what we have faced over the past two years and we are confident in our ability to manage around them. With our balance sheet now in a strong position, we can focus our attention on operational improvements and growth initiatives and make the necessary investments to ramp up our business profitably.

With hopefully the worst of the past two years behind us, as we look to the future we will continue to focus on the aspects of 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 thank our employees for their continued dedication and hard work and our customers, vendors and business partners for their support though the trying times experienced over the past couple of years. Finally, we thank our shareholders for their support and confidence in our business prospects and strategy.

Sincerely,

Signed: *"P. Scott MacFarlane"*

P. Scott MacFarlane

President and Chief Executive Officer

Cathedral Energy Services Ltd.

March 2, 2017

MANAGEMENT'S DISCUSSION & ANALYSIS

This Management's Discussion and Analysis ("MD&A") for the year ended December 31, 2016 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, 2016, as well as the Company's 2016 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, 2017.

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: expectation we will see continued price volatility going forward; favorably to capitalize on an upturn in our industry; explore and execute ways to grow and manage our business in what we hope is an improved business environment going forward compared to the past two years; 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; Cathedral 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;
- 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. ("INC"), is engaged in the business of providing directional drilling services to oil and natural gas companies in western Canada and the U.S.

In late 2016, the Company made the decision to sell its Flowback and Production Testing ("F&PT") business and focus its resources fully on the directional drilling business where it believes it has a strong competitive advantage and better future growth prospects. A definitive agreement to sell the assets of this division was executed in December 2016 and the sale closed in January 2017.

Cathedral is a trusted partner to North American energy companies requiring high performance directional drilling services. We work in partnership with our customers to tailor our equipment and expertise to meet their specific geographical and technical needs. Our experience, technologies and responsive personnel enable our customers to achieve higher efficiencies and lower project costs.

FINANCIAL HIGHLIGHTS

		2016		2015		2014
Revenue	$	**80,866**	$	106,243	$	208,655
Adjusted gross margin % (1)		**22%**		18%		21%
Adjusted EBITDAS from continuing operations (1)	$	**7,459**	$	5,229	$	25,758
Diluted per share	$	**0.21**	$	0.14	$	0.71
As % of revenues		**9%**		5%		12%
Total Adjusted EBITDAS (1)	$	**5,840**	$	7,699	$	38,487
Diluted per share	$	**0.16**	$	0.21	$	1.06
Funds from operations (1)	$	**1,031**	$	4,410	$	32,114
Gain on disposal of foreign subsidiary	$	**10,865**	$	-	$	-
Write-downs of goodwill, inventory and equipment	$	**(277)**	$	(12,773)	$	-
Provision for settlements	$	**(4,217)**	$	-	$	-
Write-down of deferred taxes related to CRA settlement	$	**-**	$	(10,346)	$	-
Earnings (loss) before income taxes	$	**(722)**	$	(24,894)	$	8,112
Basic per share	$	**(0.02)**	$	(0.69)	$	0.22
Diluted per share	$	**(0.02)**	$	(0.69)	$	0.22
Net earnings (loss) from continuing operations	$	**2,617**	$	(28,841)	$	10,283
Basic per share	$	**0.07**	$	(0.79)	$	0.28
Diluted per share	$	**0.07**	$	(0.79)	$	0.28
Net earnings (loss)	$	**(5,779)**	$	(35,342)	$	10,283
Basic per share	$	**(0.16)**	$	(0.97)	$	0.28
Diluted per share	$	**(0.16)**	$	(0.97)	$	0.28
Cash dividends declared per share (2)	$	**-**	$	0.1200	$	0.3300
Property and equipment additions (3)	$	**899**	$	6,908	$	30,763
Weighted average shares outstanding						
Basic (000s)		**36,295**		36,295		36,244
Diluted (000s)		**36,295**		36,295		36,255
Working capital	$	**39,324**	$	13,550	$	38,135
Total assets	$	**136,017**	$	155,610	$	230,534
Long-term debt excluding current portion	$	**26,322**	$	30,477	$	56,142
Shareholders' equity	$	**90,772**	$	96,607	$	128,368

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

(2) Quarterly dividend was suspended in November 2015

(3) Equipment additions exclude non-cash additions

FISCAL 2016 KEY TAKEAWAYS

Although revenues decreased by $25,377 or 24% Adjusted EBITDAS from continuing operations increased $2,230 or 43% due to cost reduction and containment measures that were the focus of everyone in the Company;

2016 Q4 financial results improved significantly year-over-year and sequentially to 2016 Q3 as a result of improved activity levels and continued focus on expense management and sales and marketing initiatives. Adjusted EBITDAS from continuing operations was $4,367 in 2016 Q4 an increase of $4,248 from 2015 Q4;

Adjusted gross margin increased from 18% to 22% due to reduced equipment repairs and field labour rates;

In December, the Company executed a definitive agreement to sell its F&PT assets for net proceeds of $17,241. This sale closed in January 2017;

During 2016 Q1, the Company completed the sale of its wholly owned Barbados subsidiary, Directional Plus International Ltd. ("DPI"), for net proceeds of $nil which resulted in a non-cash gain on sale of $10,865. DPI held the Company's investment in Venezuela and this sale completes Cathedral's exit from carrying on a business in Venezuela;

During 2016 Q2, the Company negotiated a settlement of our collective action wage and hour lawsuits in the United States ("U.S.");

In 2016 Q3, Export Development Canada ("EDC") joined Cathedral's lending syndicate resulting in an increase in Cathedral's credit facility through to March 31, 2017; and

In February 2017, the Company closed a bought deal public offering and insider private placement financing for total gross proceeds of $14,130. As a consequence of this financing and the sale of the F&PT assets, the Company currently has no bank debt (excluding letters of credit).

OUTLOOK

Throughout the second half of 2016, we continued to see improvements in the prospects for the energy industry and in particular our activity levels.

After hitting a low of 404 active rigs in May 2016, the U.S. rig count grew to 658 active rigs at the end of December 2016. This improvement in active rigs drilling was largely attributable to improvements in oil and natural gas pricing in the second half of 2016 as a result of anticipation that supply and demand fundamentals were coming into balance. Further confidence in the oil pricing was secured at the end of November with Saudi Arabia and OPEC finally announcing production cuts. Since then, WTI has maintained a price range in the $50/bbl to $55/bbl range. This is the price level we

previously anticipated requiring to see an improvement in our activity levels which would in turn provide the job volume to contribute favorably against our fixed cost burden.

The improvement in Cathedral's business prospects starting in 2016 Q4 has been dramatic. Our active job count has doubled since September 2016 and more than tripled since the lows in early 2016. This has presented a completely new set of challenges as we have had to aggressively ramp up our business. Compared to the last two years, these are good challenges to have. The big issue for Cathedral and our industry in this improved environment has been staffing up to meet demand. Attracting workers back to the industry has been a challenge particularly in Canada due to the industry seasonality factors. After being in contraction mode for the past couple years, there are also challenges managing the impact of increasing activity levels on our administration resources and ensuring our people, systems and processes are continuing to deliver quality services. The industry supply chain is also suffering from the same challenges. Lead times on parts and equipment has increased significantly since mid-2016 and we are experiencing cost pressure from vendors.

In addition to labor supply concerns, we are managing our business cautiously with the expectation we will see continued price volatility going forward. With the increased productivity of North American shale wells, the industry now has the capability to ramp up production and inventories quickly which could put pressure on prices. OPEC's adherence to their proposed production cuts has historically always been a wildcard. On the competitive side, there is still an oversupply of equipment in the market and further rationalization of suppliers is required. Competing based on price alone is not a sustainable strategy for our competitors and we are fortunate that we are in a position to compete based on offering verifiable performance improvements to our customers.

We are fortunate that many of the aspects of our business that we focused on in the face of adversity have set us up favorably to capitalize on an upturn in our industry. Many of the strategic initiatives we have been working on over the last two years have been focused on making sure we can ramp up our business effectively. On the sales side, we have strategies to help us secure higher pricing for our services. On the operations side, we are looking at ways to better manage our labor pool, keep our expenses in line and continue to deliver a high quality service. Our technology group continues to make equipment improvements and explore new products aimed at revenue generation and expense and capital cost reductions.

We will continue to explore and execute ways to grow and manage our business in what we hope is an improved business environment going forward compared to the past two years.

RESULTS OF OPERATIONS - 2016 COMPARED TO 2015

Overview

As the Company entered into a definitive agreement to dispose of its F&PT assets in December 2016, at December 31, 2016, these assets are classified as held for sale and the related operations are presented as discontinued operations. This MD&A will focus on the results from the continuing directional drilling related operations.

The Company completed 2016 with revenues of $80,866 compared to 2015 revenues of $106,243 a decrease of 24%. However, 2016 Adjusted EBITDAS from continuing operations was $7,459 ($0.21 per share diluted) which represents a $2,230 or 43% increase from $5,229 ($0.14 per share diluted) in 2015. The increase in Adjusted EBITDAS from operations was primarily a result of operational efficiencies and cost savings initiatives. In 2016 the Company's net loss was $5,779 ($0.16 per share) compared to net loss of $35,342 ($0.21 per share) in 2015.

Revenues		2016		2015
Canada	$	22,220	$	38,868
United States		58,646		67,375
Total	$	80,866	$	106,243

Revenues 2016 revenues were $80,866, which represented a decrease of $25,377 or 24% from 2015 revenues of $106,243. Both Canadian and U.S. operations experienced decreases due mainly to overall decline in drilling activity because of a reduction in commodity prices. In late 2016, due to a limited supply of motors, the Company made the decision to reduce the number of rental motors available in both Canada and the U.S. in favor of redirecting CLAW™ motors on jobs where both equipment and staff are deployed and the total cash flow contribution is typically higher.

Canadian revenues (excluding motor rental revenues) decreased to $16,164 in 2016 from $33,593 in 2015; a 52% decrease. This decrease was the result of: i) a 35% decrease in activity days to 2,440 in 2016 from 3,766 in 2015; and ii) a 26% decrease in the average day rate to $6,625 in 2016 from $8,920 in 2015. Partially offsetting these declines was an increase of $781 on the rental of motors, particularly Cathedral's CLAW™ motor. Motor rental revenues for 2016 were $6,056 (2015 - $5,275).

The decrease in activity days was mainly due to overall reductions in activity levels in Canada as well as certain of Cathedral's customers reducing their drilling programs. The average active land rig count for Canada was down 34% in 2016 compared to 2015. The decrease in day rates was in part due to the type of work performed, but mainly due to decreases in day rates charged to customers, which were a result of competitive pressure, and pricing concessions provided to customers to secure work.

U.S. Directional Drilling revenues (excluding motor rental revenues) decreased to $55,451 in 2016 from $65,038 in 2015; a 15% decrease. This decrease was the result of: i) a 6% decrease in activity days to 5,145 in 2016 from 5,496 in 2015; and ii) a 9% decrease in the average day rate to $10,778 in 2016 from $11,834 in 2015 (when converted to Canadian dollars). The activity days for the Rocky Mountain and Northeast regions were down, but these were offset by increases in the Texas and Oklahoma operating areas. The average active land rig count for the U.S. was down 46% in 2016 compared to 2015. Rates in USD fell to $8,124 USD in 2016 from $9,323 USD in 2015; 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. U.S. motor rental revenues for 2016 were $3,195 compared to $2,337 in 2015.

Gross margin and adjusted gross margin Gross margin for 2016 was 7% compared to 3% in 2015. Adjusted gross margin (see Non-GAAP Measurements) for 2016 was $17,875 or 22% compared to $18,726 or 18% for 2015.

The Company implemented a number of cost reductions throughout 2015 and 2016 including reducing wages for field, support and office staff, implementing work force reductions and reducing other direct cost items. Even with lower revenue day rates in many districts the adjusted gross margin improved due to reduced field labour costs and repairs, however, these reductions were offset by higher equipment rentals and battery costs on a percentage of revenue basis.

Additionally, there was a reduction in the fixed component of cost of sales of 22% compared with 2015 amount. However, on a percentage of revenue basis, fixed cost of sales were greater in 2016 increasing 1% over 2015.

Depreciation allocated to cost of sales decreased to $12,358 in 2016 from $15,189 in 2015. Depreciation included in cost of sales as a percentage of revenue was 15% for 2016 and 14% in 2015.

Selling, general and administrative expenses ("SG&A") SG&A expenses were $15,185 in 2016; a decrease of $2,373 compared with $17,558 in 2015. As a percentage of revenue, SG&A was 19% in 2016 and 17% in 2015.

Excluding the non-cash items of depreciation and share-based compensation, SG&A was $14,921 in 2016 compared to $17,231 in 2015, a decrease of $2,310 or 13%. 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% and a further 5% to 9% on January 1, 2016. There were additional reductions to staffing levels in 2015 and 2016. Staffing costs included in SG&A include executive, sales, accounting, human resources, payroll, safety, technology support and related support staff. As well, there were year-over-year reductions in virtually every other SG&A item due to efforts to reduce expenditures.

Gain on disposal of equipment During 2016, the Company had a gain on disposal of equipment of $3,212 compared to $3,257 in 2015. These gains mainly relate to equipment lost-in-hole. Proceeds from clients on lost-in-hole equipment are based on amounts specified in service agreements and, in most cases, these proceeds exceed the net book value of the equipment and result in a gain. The timing of lost-in-hole recoveries is not in the control of the Company and therefore can fluctuate significantly from quarter-to-quarter. In 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.

Finance costs Finance costs consist of interest expenses on operating loans, loans and borrowings and bank charges of $2,061 for 2016 versus $1,613 for 2015. The increase in finance costs relate to increases in interest rates partially offset by a decreased utilization of the Company's credit facility.

Foreign exchange loss The Company had a foreign exchange gain of $1,438 in 2016 compared to a loss of $(4,374) in 2015 due to the fluctuations of the Canadian dollar relative to the U.S. dollar. The Company's foreign operations are denominated in a currency other than the Canadian dollar and therefore, upon consolidation, gains and losses due to fluctuations in the foreign currency exchange rates are recorded 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 2016 foreign currency gains are unrealized gains of $1,455 (2015 – loss of $4,191) related to intercompany balances.

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

The Settlement Agreement resolved all claims from INC employed and contracted MWD and DD operators. Under the terms of the Settlement Agreement, the parties established an initial settlement fund of up to $3,400 USD. The final determination of the settlement fund amount was based on the number of claimants that participated in the settlement at the end of December 2016, which under the terms of the Settlement Agreement is confidential. The settlement fund payments will be paid quarterly by the Company over a three-year period with the final payment due on or before September 2019. The quarterly payments may be accelerated in the event Cathedral meets certain financial targets over the payment period and can be deferred if a scheduled payment would put Cathedral in violation of its credit facility covenants subject to not more than three payments being deferred. Any FLSA settlement fund payments made by Cathedral exceeding $200 USD are subject to the approval of Cathedral's banking syndicate. During 2016, payments of $851 were made.

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

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

Write-down of goodwill In 2015 Q3 the Company recorded an impairment of goodwill of $5,848. 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's expectations for future 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 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 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 turnover. 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. In 2016 Q1, an additional $277 was written-down.

Net loss from discontinued operations In 2016 Q4, the Company made the decision to sell its F&PT assets and focus its attention and resources fully on the directional drilling business where it believes it has a strong competitive advantage and better future growth prospects. The proceeds from this sale were used to pay down debt As such, operating results for the years ended December 31, 2016 and 2015 for the F&PT business have been included in the statements of operations and retained earnings and statements of cash flows as discontinued operations. For 2016, the net loss from discontinued operations was $4,089 compared to $6,501 for 2015.

Write-down of assets held for sale from discontinued operations, net of tax The F&PT assets have been written down by $5,900 to their net realizable value of approximately $17,241. This write-down of $5,900 was offset by a deferred tax recovery of $1,593.

Income tax For 2016, the Company had an income tax recovery of $3,339 compared to an expense of $(3,947) in 2015. Excluding the non-cash gain on disposal of foreign subsidiary, write-down of goodwill and adjustments to prior years' tax provisions, the effective tax rate was 31% for 2016 and 31% for 2015. Income tax expense is booked based upon expected annualized effective rates.

Included in the 2015 Q2 amount is a charge to earnings 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"). Cathedral elected to enter into the agreement with Canada Revenue Agency ("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.

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, 2016, the Company had funds from operations (see Non-GAAP Measurements) of $1,031 (2015 - $4,410). 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, 2016 the Company had working capital of $39,324 (2015 - $13,550) and a working capital ratio of 3.3 to 1 (2015 – 1.5 to 1). Included in the December 31, 2016 balance is $17,241 related to Assets held for sale. This amount has previously been classified as equipment and categorized as part of non-current assets. $17,200 of proceeds on this sale were used to repay the secured revolving term loan in January 2017. Excluding Assets held for sale, the December 31, 2016 working capital was $22,083 and the increase in this amount compared to $13,550 at December 31, 2015 was mainly due to an increase in accounts receivable due to the overall increase in revenues in 2016 Q4.

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

The current Facility has been amended seven times. These amendments have certain restrictions, including, but not limited to; paying dividends, utilization of the accordion feature, enhanced lender financial reporting and a cap on any litigation settlement payments without lender approval. As well, effective 2015 Q4, the Company includes lost-in-hole equipment proceeds in the definition of Bank EBITDA (as defined in the credit agreement).

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

Quarter ending:	Maximum Funded Debt to Bank EBITDA Ratio	Minimum Debt Service Ratio
December 31, 2016	Waived	Waived
March 31, 2017	3.50:1	2.00:1
June 30, 2017	3.50:1	2.50:1
September 30, 2017	3.50:1	3.00:1
December 31, 2017	3.25:1	3.00:1
March 31, 2018 and thereafter	3.00:1	3.00:1

Under the Fourth Amending Agreement dated August 9, 2016, the working capital covenant in the Facility was waived.

Under the Fifth Amending Agreement dated September 2, 2016, Export Development Canada ("EDC") joined Cathedral's lending syndicate resulting in the lending exposure from the prior lending syndicate members being reduced and the Facility increasing by $3,000 from that contained in the Fourth Amendment, and the maturity of the Facility was extended by three months to November 2017. The Fifth Amendment provided for credit availability of $36,000, further reducing to $33,000 by December 31, 2016.

The Sixth Amending Agreement, dated December 22, 2016 the Maturity Date of the facility was extended to February 2018.

The Seventh Amending Agreement, dated January 16, 2017, required a minimum cumulative Bank EBITDA of $2,500 for the three months ended December 31, 2016. In addition, the aggregate commitment was reduced to $23,000 after $17,200 was repaid upon the sale of F&PT CGU assets and the maturity date was extended to December 2018.

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

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

The Company's financial ratios in the 2016 Q4 waiver period were:

Ratio	Actual	Required
Debt service ratio	3.34:1	Waived
Funded debt to Bank EBITDA ratio	3.83:1	Waived
Working capital ratio	3.31:1	Waived
Minimum Bank EBITDA for the three months ended December 31, 2016	$4,522	$2,500

The following table outlines the drawings on the credit facility and the Company's Net Debt as at December 31, 2016 and 2015:

		December 31 2016		December 31 2015
Total credit facility	$	33,000	$	60,000
Drawings on credit facility:				
Operating loan		2,105		2,484
Revolving term loan		26,250		30,000
Letters of credit		1,528		1,554
Total drawn facility	$	29,883	$	34,038
Undrawn portion of credit facility	$	3,117	$	25,962
Net debt (see NON-GAAP MEASUREMENTS):				
Loans and borrowings, net of current portion	$	26,322	$	30,477
Working capital:				
Current assets	$	56,368	$	41,575
Current liabilities		(17,044)		(28,025)
Working capital	$	39,324	$	13,550
Net debt	$	(13,002)	$	16,927

Contractual obligations In the normal course of business, the Company incurs contractual obligations and those obligations are disclosed below. As at December 31, 2016, the Company had a commitment to purchase equipment of approximately $384. Cathedral anticipates expending these funds 2017 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 CAD 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	2017	2018	2019	2020	2021	Thereafter
Purchase obligations	$ 384	$ 384	$ -	$ -	$ -	$ -	$ -
Secured revolving term loan	26,250	-	26,250	-	-	-	-
Operating lease obligations	35,330	3,577	3,495	2,969	2,747	2,723	19,819
Finance lease obligations	541	488	34	19	-	-	-
Total	$ 62,505	$ 4,449	$ 29,779	$ 2,988	$ 2,747	$ 2,723	$ 19,819

Subsequent events In January 2017, the Company completed the Seventh Amendment to its credit facility. The Seventh Amending Agreement reduced the aggregate commitment to $23,000 after $17,200 was repaid upon the sale of F&PT assets and extended the expiry to December 2018.

The sale of F&PT assets closed in January 2017 for net proceeds of $17,241.

In February 2017, the Company closed a bought deal public offering of 11,500,000 common shares of the Company at a price of $1.12 per share, which includes 1,500,000 common shares pursuant to the exercise in full of the over-allotment option, for gross proceeds of $12,880 (the "Offering"). Concurrent with the closing of the Offering, certain directors and officers of Cathedral purchased 1,116,071 common shares at a price of $1.12 per share on a private placement basis for gross proceeds of approximately $1,250 (the "Concurrent Private Placement"). The gross proceeds from the Offering and Concurrent Private Placement totaled approximately $14,130.

Share capital At March 2, 2017, the Company has 48,916,451 common shares and 2,470,083 options outstanding with a weighted average exercise price of $1.52.

In 2016, the Company issued 30,000 stock options to employees with an exercise price of $0.43 per option. In January 2017, the Company issued 1,141,250 options to staff and directors with an exercise price of $1.13 per option.

Related party transactions 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 16).

Certain executive officers have employment agreements. Upon resignation at the Company's request, they are entitled to termination benefits including: i) 1.5 to 2.0 times base salary; ii) 1.5 to 2.0 times average annual bonus over the past 3 years; and iii) health, dental, life insurance and disability coverage for 18 to 24 months.

Key management personnel (including directors) compensation comprised:

		2016		2015
Short-term employment benefits	$	1,850	$	1,897
Share-based compensation		99		124
Total expense recognized as share-based compensation	$	1,949	$	2,021

Key management personnel and director transactions

Directors and executive officers of the Company control 5% of the common shares of the Company.

There have been no other transactions over the reporting period with key management personnel (2015 - nil), and no outstanding balances exist as at period end (2015 - nil).

OFF-BALANCE SHEET ARRANGEMENTS

As at December 31, 2016, the Company has entered into $35,330 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 notes 23 and 24 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.

2016 CAPITAL PROGRAM

During the year ended December 31, 2016 Company invested $899 (2015 - $6,908) in equipment. The following table details the net equipment additions:

		December 31 2016		December 31 2015
Property and equipment additions:				
Growth capital [(1)]	$	324	$	4,571
Maintenance capital [(1)]		105		1,171
Replacement capital [(1)]		470		510
Infrastructure capital [(1)]		-		656
Total cash additions		899		6,908
Less: proceeds on disposal of property and equipment		(5,286)		(4,944)
Less: proceeds on disposal of land and buildings		-		(6,174)
Net property and equipment additions (disposals) [(1)]	$	(4,387)	$	(4,210)

(1) See "NON-GAAP MEASUREMENTS"

The growth additions are primarily for MWD system enhancements, replacement capital is primarily to replace items, which have been lost-in-hole, and maintenance capital is required to maintain existing capacity levels. Proceeds from disposal of property and equipment are primarily related to equipment lost-in-hole. At December 31, 2016, the Company had 126 MWD systems (2015 – 140).

2017 CAPITAL PROGRAM

Cathedral's 2017 capital budget reviewed by the Board of Directors in December 2016 was for expenditures of $3,400 with $350 for growth capital and $1,500 for replacement and $1,550 for maintenance capital. The growth additions are primarily for additional MWD systems and motors and the maintenance capital is primarily to replace items that have been lost-in-hole. The 2017 capital budget will be reviewed quarterly and board of directors who have approved capital expenditures for 2017 Q1 of $1,050. The capital program may increase as 2017 progresses based on improving activity levels and improved capital availability achieved through the F&PT sale and the Offering. Cathedral intends to finance its 2017 capital budget from cash flow from operations, proceeds from redundant asset sales or assets lost-in-hole, working capital (cash) and credit facility availability.

DIVIDENDS

Based on the reductions in commodity prices and the resulting decline in industry activity levels in 2015 and 2016 and uncertainties around future expected activity levels, the Board of Directors made the decision to suspend the payment of Cathedral's quarterly dividend in late 2015. The decision to suspend the dividend 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 improved industry conditions. The Board of Directors will review dividend distributions on a quarterly basis considering current performance, historical and future trends in the business and the expected sustainability of those trends in addition to considering the growth and maintenance capital expenditures required to support the business and other factors impacting the business. 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

	2016 Q4	2015 Q4	$ Change	% Change
Revenues	28,009	21,161	6,848	32%
Cost of sales	(24,454)	(21,439)	(3,015)	14%
Gross margin - $	3,555	(278)	3,833	-1379%
Gross margin - %	13%	-1%	14%	
Adjusted gross margin $ (1)	6,634	3,773	2,861	76%
Adjusted gross margin % (1)	24%	18%	6%	

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

Revenues		2016		2015
Canada	$	7,428	$	7,024
United States		20,581		14,137
Total	$	28,009	$	21,161

Revenues 2016 Q4 revenues were $28,009, which represented an increase of $6,848 or 32% from 2015 Q4 revenues of $21,161. Both Canada and U.S. operations had increases due to increase in drilling activity. In late 2016, due to a limited supply of the Company's proprietary CLAW motors, the Company made the decision to reduce the number of rental motors available in both Canada and the U.S. in favor of redirecting CLAW™ motors on jobs where both equipment and staff are deployed and the total cash flow contribution is typically higher.

Canadian revenues (excluding motor rental revenues) increased to $6,509 in 2016 Q4 from $5,086 in 2015 Q4; a 28% increase. This increase was the result of: i) a 48% increase in activity days to 995 in 2016 Q4 from 671 in 2015 Q4; net of ii) a 14% decrease in the average day rate to $6,542 in 2016 Q4 from $7,580 in 2015 Q4. Partially offsetting these increases was a decrease of $1,019 on the rental of motors. Motor rental revenues for 2016 Q4 were $919 (2015 Q4 - $1,938).

The average active land rig count for Canada was down 3% in 2016 Q4 compared to 2015 Q4. The increase in the Company's activity days relative to the active rigs drilling was a result of sales and marketing efforts and the Company's performance on client jobs. The decrease in day rates was in part due to type of work performed, but mainly due to decreases in day rates charged to customers, which were a result of competitive pressure, and pricing concessions provided to customers to secure work.

U.S. Directional Drilling revenues (excluding motor rental revenues) increased to $20,032 in 2016 Q4 from $12,786 in 2015 Q4; a 57% increase. This increase was the result of: i) an 83% increase in activity days to 1,899 in 2016 Q4 from 1,038 in 2015 Q4; net of ii) a 14% decrease in the average day rate to $10,549 in 2016 Q4 from $12,318 in 2015 Q4 (when converted to Canadian dollars). All operating areas saw increases in activity days. The average active land rig count for the U.S. was down 25% in 2016 Q4 compared to 2015 Q4. Again, due to efforts of sales and marketing staff and performance, the Company was able to increase market share compared to 2015 Q4. Rates in USD fell to $7,907 USD in 2016 Q4 from $9,259 USD in 2015 Q4; a 15% decline. U.S. day rate increases were partially tempered by the U.S. division providing footage drilling services to certain clients, which can result in higher relative day rates. U.S. motor rental revenues for 2016 Q4 were $549 compared to $1,351 in 2015 Q4.

Gross margin and adjusted gross margin Gross margin for 2016 Q4 was 13% compared to negative 1% in 2015 Q4. Adjusted gross margin (see Non-GAAP Measurements) for 2016 Q4 was $6,634 or 24% compared to $3,773 or 18% for 2015 Q4.

Even with lower revenue day rates in many districts, the adjusted gross margin improved due to reduced repairs, however, these reductions were offset by increases in field labour and higher equipment rentals on a percentage of revenue basis.

Additionally, there was a reduction in the fixed component of cost of sales of 12% compared with 2015 Q4 amount. These costs were 8% lower on a percentage of revenue basis in 2016 compared to 2015 with the decrease largely attributable to the increase in revenues in the comparable periods.

Depreciation allocated to cost of sales decreased to $3,073 in 2016 Q4 from $4,036 in 2015 Q4. Depreciation included in cost of sales as a percentage of revenue was 11% for 2016 Q4 and 19% in 2015 Q4.

Selling, general and administrative expenses ("SG&A") SG&A expenses were $3,857 in 2016 Q4; a decrease of $784 compared with $4,641 in 2015 Q4. As a percentage of revenue, SG&A was 14% in 2016 Q4 and 22% in 2015 Q4.

Excluding the non-cash items of depreciation and share-based compensation, SG&A was $3,804 in 2016 Q4 compared to $4,550 in 2015 Q4, a decrease of $746 or 16%. 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% and a further 5% to 9% on January 1, 2016. There were additional reductions to staffing levels in 2016. Staffing costs included in SG&A include executive, sales, accounting, human resources, payroll, safety, technology support and related support staff. As well, there were year-over-year reductions in virtually every other SG&A item due to efforts to reduce expenditures.

Gain on disposal of equipment During 2016 Q4, the Company had a gain on disposal of equipment of $1,010 compared to $377 in 2015 Q4. These gains mainly relate to equipment lost-in-hole. Proceeds from clients on lost-in-hole equipment are based on amounts specified in service agreements and, in most cases; these proceeds exceed the net book value of the equipment and result in a gain. The timing of lost-in-hole recoveries is not in the control of the Company and therefore can fluctuate significantly from quarter-to-quarter.

Finance costs Finance costs consist of interest expenses on operating loans, loans and borrowings and bank charges of $679 for 2016 Q4 versus $377 for 2015 Q4. The increase in finance costs relate to increases in interest rates partially offset by a decreased utilization of the Company's credit facility.

Foreign exchange loss The Company had a foreign exchange loss of $701 in 2016 Q4 compared to a loss of $1,103 in 2015 Q4 due to the fluctuations of the Canadian dollar relative to the U.S. dollar. The Company's foreign operations are denominated in a currency other than the Canadian dollar and therefore, upon consolidation, gains and losses due to fluctuations in the foreign currency exchange rates are recorded in 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 comprehensive income (loss). Included in the 2016 Q4 foreign currency gains are unrealized loss of $719 (2015 Q4 – loss of $1,188) related to intercompany balances.

Provision for settlement During 2016 Q4, the participation rate related to the FLSA matter was finalized. Additionally in 2017 Q1, the Company entered a settlement with one of its U.S. clients related to an alleged down-hole drilling incident, which impacted two of their wells in December 2013. This settlement is payable based on an initial payment in 2017 Q1 and the remainder in quarterly installments concluding in 2021. As a consequence of the above there was an increase the settlement provision of $421. During Q4, there were payments related to the above matters of $281.

Write-down of 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 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 turnover. 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.

Net loss from discontinued operations In 2016 Q4, the Company made the decision to sell its F&PT assets and focus its attention and resources fully on the directional drilling business where it believes it has a strong competitive advantage and better future growth prospects. The proceeds from this sale were used to pay down debt. As such, operating results for the years ended December 31, 2016, 2016 Q4 and 2015 Q4 for the F&PT business have been included in the statements of comprehensive income (loss) and retained earnings and statements of cash flows as discontinued operations. For 2016 Q4, the net earnings from discontinued operations was $424 compared to $(952) net loss for 2015 Q4.

Write-down of assets held for sale from discontinued operations, net of tax The F&PT assets have been written down by $5,900 to their net realizable value of approximately $17,241. This write-down of $5,900 was offset by a deferred tax recovery of $1,593.

Income tax For 2016 Q4, the Company had an income tax expense of $1,444 compared to recovery of $3,398 in 2015 Q4. Excluding adjustments to prior years' tax provisions, the effective tax rate was 25% for 2016 Q4 and 26% for 2015 Q4. Income tax expense is booked based upon expected annualized effective rates.

SUMMARY OF QUARTERLY RESULTS

Three month periods ended	Dec 2016	Sep 2016	Jun 2016	Mar 2016	Dec 2015	Sep 2015	Jun 2015	Mar 2015
Revenues	$ 28,009	$ 19,489	$ 14,624	$ 18,744	$ 21,161	$ 26,366	$ 21,920	$ 36,796
Total Adjusted EBITDAS [1]	$ 3,829	$ 2,173	$ (1,638)	$ 1,476	$ (169)	$ 3,319	$ (1,237)	$ 5,786
Adjusted EBITDAS [1] per share - diluted	$ 0.11	$ 0.06	$ (0.05)	$ 0.04	$ (0.00)	$ 0.08	$ (0.03)	$ 0.16
Net earnings (loss)	$ (6,420)	$ (2,126)	$ (6,916)	$ 9,683	$ (10,500)	$ (8,852)	$ (15,266)	$ (724)
Net earnings (loss) per share - basic and diluted	$ (0.18)	$ (0.06)	$ (0.19)	$ 0.27	$ (0.29)	$ (0.24)	$ (0.42)	$ (0.02)
Dividends declared per share	$ -	$ -	$ -	$ -	$ -	$ 0.04	$ 0.04	$ 0.04

(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 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 critical.

Equipment The Company makes estimates about the residual value and expected useful life of 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. 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 equipment and goodwill are disclosed in notes 8 and 9 to the audited consolidated financial statements.

Trade accounts receivable 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 27 to the audited consolidated financial statements "Credit risk" for further details.

Trade accounts payable 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 2015 and 2016 write-downs 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.

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, 2017 and have not been applied in preparing the Consolidated Financial Statements for the year ended December 31, 2016. The standards applicable to the Company are as follows and will be adopted on their respective effective dates:

(i) Revenue Recognition

On May 28, 2015, 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 in accordance with a five step model. Disclosure requirements have also been expanded.

The new standard is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The standard may be applied retrospectively or using a modified retrospective approach.

The Company will adopt the new standard on the effective date of January 1, 2018. As the Company continues its analysis, it will also quantify the impact, if any, on prior period revenues. The Company will address any system and process changes necessary to compile the information to meet the disclosure requirements of the new standard. As the Company is currently evaluating the impact of this standard, it has not yet determined the effect on its consolidated financial statements.

(ii) Financial Instruments

On July 24, 2015, 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 and does not value any financial liabilities at fair value.

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. As the Company does not apply hedge accounting and does not measure any financial liabilities at fair value it is anticipated that the impact of adopting IFRS 9 will not have a material impact 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.

(iv) Amendments to IAS 7, Statement of Cash Flows

In January 2016, the IASB issued Disclosure Initiative (Amendments to IAS 7) which requires reporting issuers to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is effective for annual reporting periods beginning on or after January 1, 2017 with earlier adoption permitted. Comparative information is not required to be disclosed when entities first apply the amendments. The effect of this initiative will only relate to the Company's disclosures and will be adopted on January 1, 2017.

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, 2016. 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, 2016.

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, 2016 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, 2016 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. The prices received and the volumes produced 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. Recent developments in the transportation of liquefied natural gas ("LNG") in ocean going tanker ships could introduce more of 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"), government 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, technological advances improving the efficiency of oil and natural gas extraction and production, and the availability of alternative fuel sources and other advances that reduce energy use efficiency impacting consumption. 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 related to the current state of the world economies, OPEC actions and credit availability and liquidity concerns in the energy industry.

During 2016, the price of West Texas Intermediate Crude more than doubled from its February low of approximately US$26/bbl to end the year at approximately US$54/bbl. This price improvement positively impacted the Company’s business; however, crude prices remain approximately 50% below the price of approximately US$108/bbl achieved in June 2014. Commodity prices at the current levels may not be supportive of oil and natural gas development and exploration spending historically. Furthermore, continued price movements of this magnitude may impact E&P companies’ willingness to commit to capital spending, which in turn may have a significant adverse effect on the Company’s business and financial results.

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 cost structure that can be adjusted to reflect activity levels. A significant portion of Cathedral's fieldwork is performed by sub-contractors and employees paid on a day rate or hourly basis which allows us to operate with lower variable costs and 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 price and production of hydrocarbons may be adversely impacted resulting in lower oilfield service industry activity levels. 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 Company 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 Company's quarterly dividend based the reductions in commodity prices and the resulting decline in industry activity levels in 2015 and uncertainties around expected activity levels in the future. 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, 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.

Performance of Obligations The Company'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, makes errors in the provision of its services, or does not perform its services to the expectations of its clients, 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 committed extendible revolving credit facility with a syndicate of lenders consisting of The Bank of Nova Scotia and Export Development Canada in the amount of $18 million (excluding the $5 million swingline facility) with a maturity date of December 31, 2018. 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 commodity price levels in the future there is a risk that the Company could temporarily breach the covenants included in its credit facility. If the Company 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. In addition, in the event a dividend is paid the annual dividend 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 and employees 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. As a consequence of the industry downturn experienced since mid-2014 resulting in workforce reductions, many former industry workers have left the industry either temporarily or permanently. As a consequence of this, attracting and retaining staff may be more challenging in the future than in the past. 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.

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. 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 result in equipment levels which exceed actual demand. In periods of low demand, there may be excess equipment available within the industry. Excess equipment supply in the industry 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 in the industry and for the Company.

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. 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.

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, failures, 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 Company. 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 Company 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 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 acquisitions in connection with its growth strategy. 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. In 2016, approximately 13% of the Company's revenue was attributable to sales transactions with a single customer. In 2015, two different customers represented approximately 12% and 10% of the Company's revenue. 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.

Over the past two years both the Canadian federal government and the Government of Alberta have announced various programs related to climate change and have made certain commitments regarding regulating greenhouse gases ("GHG") and other air pollutants. These proposals also contemplate taxes on GHG emissions to be paid by the users of hydrocarbons and caps on emissions by producers of hydrocarbons such as oilsands and energy companies.

As a result of these programs still being developed and their implementation still in the early stages, Cathedral is unable to predict the total impact of the potential and forthcoming regulations upon its business. As a user of hydrocarbons in its business for heating and vehicles, Cathedral is impacted on an operational cost basis. 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.

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 of Cathedral are also directors 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 Business Corporations Act (Alberta).

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 oilfield companies. Investors should be cautioned, however, that these measures should not be construed as alternatives to measures determined in accordance with GAAP as an indicator of Cathedral’s performance. Cathedral’s method of calculating these measures may differ from that of other organizations, and accordingly, may not be comparable.

The specific measures being referred to include the following:

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

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

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

iv) "Adjusted EBITDAS from discontinued operations" – Total Adjusted EBITDAS as calculated above from discontinued F&PT operations only;

v) "Adjusted EBITDAS from continuing operations" – Total Adjusted EBITDAS as calculated above for ongoing Directional Drilling as well as corporate administrative costs;

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

vii) “Growth equipment additions” or “Growth capital” – is capital spending which is intended to result in incremental revenues or decreased operating costs. Growth capital is considered to be a key measure as it represents the total expenditures on equipment expected to add incremental revenues and funds flow to the Company;

viii) “Maintenance equipment additions” or “Maintenance capital” – is capital spending incurred in order to refurbish or replace previously acquired other than “replacement equipment additions” described below. Such additions do not provide incremental revenues. Maintenance capital is a key component in understanding the sustainability of the Company’s business as cash resources retained within Cathedral must be sufficient to meet maintenance capital needs to replenish the assets for future cash generation;

ix) “Replacement equipment additions” or “Replacement capital” – is capital spending incurred in order to replace equipment that is lost downhole. Cathedral recovers lost-in-hole costs including previously expensed depreciation on the related assets from customers. Such additions do not provide incremental revenues. The identification of replacement equipment additions is considered important as such additions are financed by way of proceeds on disposal of equipment (see discussion within the MD&A on “gain on disposal of equipment);

x) “Infrastructure equipment additions” or “Infrastructure capital” – is capital spending incurred on land, buildings and leasehold improvements. Infrastructure capital is a component in understanding the sustainability of the Company’s business as cash resources retained within Cathedral must be sufficient to meet maintenance capital needs;

xi) “Non-recurring gains and losses on disposal of equipment” – are disposals of equipment that do not occur on a regular or periodic basis. Unlike the lost-in-hole recoveries, the proceeds from these gains are not used on equivalent replacement property. These are often on non-field equipment such as land and buildings;

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

xiii) "Net debt" – is loans and borrowing less working capital. Management uses net debt as a metric to 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	
	2016	2015	2016	2015
Gross margin	$ 3,555	$ (278)	$ 5,503	$ 3,487
Add non-cash items included in cost of sales:				
Depreciation	3,073	4,036	12,358	15,189
Share-based compensation	6	15	14	50
Adjusted gross margin	$ 6,634	$ 3,773	$ 17,875	$ 18,726
Adjusted gross margin %	24%	18%	22%	18%

Total Adjusted EBITDAS

	Three months ended December 31		Year ended December 31	
	2016	2015	2016	2015
Earnings (loss) before income taxes	$ (1,093)	$ (12,947)	$ (722)	$ (24,894)
Add:				
Depreciation included in cost of sales	3,073	4,036	12,358	15,189
Depreciation included in selling, general and administrative expenses	34	45	134	177
Share-based compensation included in cost of sales	6	15	14	50
Share-based compensation included in selling, general and administrative expenses	19	46	130	150
Finance costs	679	377	2,061	1,613
Subtotal	2,718	(8,428)	13,975	(7,715)
Unrealized foreign exchange (gain) loss on intercompany balances	719	1,188	(1,455)	4,191
Write-down of goodwill	-	-	-	1,624
Write-down of property and equipment	-	3,189	-	3,189
Write-down of inventory	-	3,736	277	3,736
Provision for settlement	421	-	4,217	-
Gain on disposal of foreign subsidiary	-	-	(10,865)	-
Non-recurring expenses	509	434	1,310	660
Non-recurring gain on disposal of land and building	-	-	-	(456)
Adjusted EBITDAS from continuing operations	4,367	119	7,459	5,229
Adjusted EBITDAS from discontinued operations	(538)	(288)	(1,619)	2,470
Total Adjusted EBITDAS	$ 3,829	$ (169)	$ 5,840	$ 7,699

Funds from operations

	Three months ended December 31		Year ended December 31	
	2016	2015	2016	2015
Cash flow from operating activities	$ (479)	$ 1,794	$ 4,140	$ 25,931
Add (deduct):				
Changes in non-cash operating working capital	2,537	(2,790)	(1,570)	(25,794)
Income taxes paid (recovered)	407	278	(1,433)	3,539
Current tax recovery (expense)	(429)	(707)	(106)	734
Funds from (used in) operations	$ 2,036	$ (1,425)	$ 1,031	$ 4,410

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, 2016 and December 31, 2015, 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, 2016 and December 31, 2015, 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

March 3, 2017

Calgary, Canada

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2016 and 2015
Dollars in '000s

	December 31 2016	December 31 2015
Assets		
Current assets:		
Cash and cash equivalents (notes 5 and 27)	$ 1,898	$ 1,426
Trade receivables (note 6)	26,245	23,107
Current taxes recoverable	1,336	2,962
Prepaid expenses and deposits	1,611	1,988
Inventories (note 7)	8,037	12,092
Assets held for sale (note 10)	17,241	-
Total current assets	56,368	41,575
Equipment (note 8)	68,158	108,918
Intangible assets (note 9)	1,978	2,006
Deferred tax assets (note 11)	9,513	3,111
Total non-current assets	79,649	114,035
Total assets	$ 136,017	$ 155,610
Liabilities and Shareholders' Equity		
Current liabilities:		
Operating loans (note 12)	$ 2,105	$ 2,484
Trade and other payables (note 13)	12,837	20,198
Loans and borrow ings (note 14)	459	686
Provision for settlements (note 15)	1,643	-
Deferred revenue	-	4,657
Total current liabilities	17,044	28,025
Loans and borrow ings (note 14)	26,322	30,477
Provision for settlement (note 15)	1,879	-
Deferred tax liabilities (note 11)	-	501
Total non-current liabilities	28,201	30,978
Total liabilities	45,245	59,003
Shareholders' equity:		
Share capital (note 16)	74,481	74,481
Contributed surplus	9,620	9,470
Accumulated other comprehensive income	11,371	11,577
Retained earnings (deficit)	(4,700)	1,079
Total shareholders' equity	90,772	96,607
Total liabilities and shareholders' equity	$ 136,017	$ 155,610

Subsequent events (note 25)

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, 2016 and 2015

Dollars in '000s except per share amounts

	2016	2015
		(See note 10)
Revenues (note 22)	$ 80,866	$ 106,243
Cost of sales (notes 7 and 19):		
Direct costs	(62,991)	(87,517)
Depreciation	(12,358)	(15,189)
Share-based compensation	(14)	(50)
Total cost of sales	(75,363)	(102,756)
Gross margin	5,503	3,487
Selling, general and administrative expenses (note 19):		
Direct costs	(14,921)	(17,231)
Depreciation	(134)	(177)
Share-based compensation	(130)	(150)
Total selling, general and administrative expenses	(15,185)	(17,558)
	(9,682)	(14,071)
Gain on disposal of equipment	3,212	3,257
Gain on disposal of land and buildings (note 8)	-	456
Loss from operating activities	(6,470)	(10,358)
Finance costs (note 20)	(2,061)	(1,613)
Foreign exchange gain (loss) (note 20)	1,438	(4,374)
Provision for settlements (note 15)	(4,217)	-
Gain on disposal of foreign subsidiary (note 18)	10,865	-
Write-down of inventory (note 7)	(277)	(3,736)
Write-down of equipment (note 8)	-	(3,189)
Write-down of goodwill (note 9)	-	(1,624)
Loss before income taxes	(722)	(24,894)
Income tax recovery (expense) (note 11):		
Current	(106)	734
Deferred	3,445	(4,681)
Total income tax recovery (expense)	3,339	(3,947)
Net earnings (loss) from continuing operations	2,617	(28,841)
Net loss from discontinued operations (note 10)	(4,089)	(6,501)
Write-down of assets held for sale from discontinued operations, net of tax (note 10)	(4,307)	-
Net loss	(5,779)	(35,342)
Other comprehensive income (loss):		
Foreign currency translation gain on disposal of foreign subsidiary (note 18)	1,348	-
Foreign currency translation differences for foreign operations	(1,554)	7,727
Total comprehensive loss	$ (5,985)	$ (27,615)
Net earnings (loss) from continuing operations per share (note 17)		
Basic and diluted	$ 0.07	$ (0.79)
Net loss from discontinued operations per share (note 17)		
Basic	$ (0.23)	$ (0.18)
Net loss per share (note 17)		
Basic	$ (0.16)	$ (0.97)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Years ended December 31, 2016 and 2015

Dollars in '000s except per share amounts

	Share capital	Contributed surplus	Accumulated other comprehensive income (loss)	Retained earnings (deficit)	Total shareholders' equity
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
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**
Total comprehensive loss for the year ended December 31, 2016	-	-	(206)	(5,779)	(5,985)
Transactions with shareholders, recorded directly in equity contributions by and distributions to shareholders for the year ended December 31, 2016:					
Share-based compensation	-	150	-	-	150
Total contributions by and distributions to shareholders	-	150	-	-	150
Balance at December 31, 2016	**$ 74,481**	**$ 9,620**	**$ 11,371**	**$ (4,700)**	**$ 90,772**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2016 and 2015
Dollars in '000s except per share amounts

	2016	2015
		(See note 10)
Cash provided by (used in):		
Operating activities:		
Net earnings (loss) from continuing operations	$ 2,617	$ (28,841)
Items not involving cash		
Depreciation	12,492	15,366
Share-based compensation	144	200
Income tax expense	(3,339)	3,947
Gain on disposal of equipment	(3,212)	(3,257)
Gain on disposal of land and building	-	(456)
Finance costs	2,061	1,613
Unrealized foreign exchange (gain) loss on intercompany balances	(1,455)	4,191
Provision for settlements	4,217	-
Gain on disposal of foreign subsidiary	(10,865)	-
Write-down of inventory	277	3,736
Write-down of equipment	-	3,189
Write-down of goodwill	-	1,624
Cash flow from continuing operations	2,937	1,312
Cash flow from (used in) discontinued operations (note 10)	(1,800)	2,364
Changes in non-cash operating working capital (note 21)	1,570	25,794
Income taxes paid	1,433	(3,539)
Cash flow from operating activities	4,140	25,931
Investing activities:		
Property and equipment additions	(899)	(6,908)
Intangible asset additions	(160)	(289)
Proceeds on disposal of property and equipment	5,286	4,944
Proceeds on disposal of land and building	-	6,174
Changes in non-cash investing working capital (note 21)	(762)	(1,012)
Cash flow from investing activities	3,465	2,909
Financing activities:		
Change in operating loan	(388)	1,448
Interest paid	(1,605)	(1,989)
Advances of loans and borrowings	1,250	-
Repayments on loans and borrowings	(5,499)	(25,626)
Payment on settlements	(851)	-
Dividends paid	-	(7,350)
Cash flow used in financing activities	(7,093)	(33,517)
Effect of exchange rate on changes on cash	(40)	994
Change in cash and cash equivalents	472	(3,683)
Cash and cash equivalents, beginning of year	1,426	5,109
Cash and cash equivalents, end of year	$ 1,898	$ 1,426

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, 2016 comprise the Company and its 100% owned subsidiary, Cathedral Energy Services Inc. ("INC"), (together referred to as "Cathedral"). INC is incorporated in the United States of America ("U.S.") and its functional currency is U.S. dollars ("USD").

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

During 2016 Q1, the Company disposed of its 100% interest in Directional Plus International Inc. ("DPI"). See note 18 for further details.

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, 2017.

(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 that 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 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 prior annual assessment of goodwill, the Company had to 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. All goodwill was written off in 2015.

(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, 2016, the Company had no material contingent liabilities.

Estimates

(i) Equipment

The Company makes estimates about the residual value and expected useful life of 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

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 2015 and 2016 impairment tests of equipment are disclosed in note 8.

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 27 "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 and 2016 write-downs 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 resulting from 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 16.

(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 27.

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 subsidiary is 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, 2016 and 2015, Cathedral has the following financial instruments: cash and cash equivalents, 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 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) Equipment

(i) Recognition and measurement

Items of 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 equipment have different useful lives, they are accounted for as separate items (major components) of equipment.

Gains and losses on disposal of an item of equipment are determined by comparing the proceeds from disposal with the carrying amount of 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 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 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 on either a straight-line or diminishing balance basis over the estimated useful lives of each part of an item of 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 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).

(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 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.

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 either to terminate employment before the normal retirement date, or to provide termination benefits because 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 because 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 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 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, 2017 and have not been applied in preparing the Consolidated Financial Statements for the year ended December 31, 2016. The standards applicable to the Company are as follows and will be adopted on their respective effective dates:

(i) Revenue Recognition

On May 28, 2015, 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 in accordance with a five step model. Disclosure requirements have also been expanded.

The new standard is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The standard may be applied retrospectively or using a modified retrospective approach.

The Company will adopt the new standard on the effective date of January 1, 2018. As the Company continues its analysis, it will also quantify the impact, if any, on prior period revenues. The Company will address any system and process changes necessary to compile the information to meet the disclosure requirements of the new standard. As the Company is currently evaluating the impact of this standard, it has not yet determined the effect on its consolidated financial statements.

(ii) Financial Instruments

On July 24, 2015, 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 and does not value any financial liabilities at fair value.

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. As the Company does not apply hedge accounting and does not measure any financial liabilities at fair value it is anticipated that the impact of adopting IFRS 9 will not have a material impact 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.

(iv) Amendments to IAS 7, Statement of Cash Flows

In January 2016, the IASB issued Disclosure Initiative (Amendments to IAS 7) which requires reporting issuers to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is effective for annual reporting periods beginning on or after January 1, 2017 with earlier adoption permitted. Comparative information is not required to be disclosed when entities first apply the amendments. The effect of this initiative will only relate to the Company's disclosures and will be adopted on January 1, 2017.

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) Equipment

The fair value of equipment recognized because of a business combination is based on market values. The market value of 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 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 27.

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, 2016, raw materials and consumables recognized as cost of sales were $28,211 (2015 - $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. In 2016 Q1, a further write-down of $277 was recognized.

8. Equipment

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		-		-		-		-		-
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

Cost		Balance December 31 2015		Additions		Disposals and write-downs		Effects of movements in exchange rates		Balance December 31 2016
Directional Drilling equipment	$	144,770	$	591	$	(2,461)	$	(78)	$	142,822
Flow back and production testing equipment		64,048		41		(64,023)		(66)		-
Automotive equipment		1,308		-		(98)		(34)		1,176
Office and computer equipment		8,439		41		(3)		(59)		8,418
Automotive equipment under capital lease		2,809		46		(517)		(77)		2,261
Leasehold improvements		1,441		226		(531)		(22)		1,114
Total	$	222,815	$	945	$	(67,633)	$	(336)	$	155,791

Accumulated depreciation		Balance December 31 2015		Additions		Disposals and write-downs		Effects of movements in exchange rates		Balance December 31 2016
Directional Drilling equipment	$	66,562	$	11,391	$	(1,142)	$	(43)	$	76,768
Flow back and production testing equipment		36,748		3,773		(40,489)		(32)		-
Automotive equipment		945		104		(82)		(23)		944
Office and computer equipment		6,799		570		-		(47)		7,322
Automotive equipment under capital lease		1,668		363		(369)		(41)		1,621
Leasehold improvements		1,175		112		(293)		(16)		978
Total	$	113,897	$	16,313	$	(42,375)	$	(202)	$	87,633

On December 16, 2016, the Company entered into a definitive agreement to sell the fixed assets of its flowback and production testing ("F&PT") CGU. As such, the net realizable value of the F&PT equipment has been reclassified as assets held for sale on the consolidated balance sheet (see note 10).

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 equipment of $3,189.

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

Leased automotive equipment

The Company leases equipment under a number of finance lease agreements. The leased equipment secures lease obligations (see note 14). During 2016, there were non-cash fixed asset additions of $46 (2015 - $nil) related to finance lease arrangements.

Review for impairment

The Company reviews the carrying value of equipment and intangible assets at each reporting period where there are indicators of impairment. In addition to the review of goodwill conducted at September 30, 2015 discussed in note 9, the Company also conducted a review for impairment of equipment as at December 31, 2015 and December 31, 2016.

The recoverable amount of each CGU was determined using the discounted cash flow model for value-in-use for each CGU. This was determined based on a detailed budget of revenues was prepared based upon revenue forecasted by heads of sales departments. The budget was prepared with consultation of senior operating managers and accounting staff based upon existing costs, historical information and anticipated cost reductions. The detailed budget was used to prepare a high level for the next two years. Variable costs were adjusted based on percentage of sales, while fixed costs were maintained at current levels, with increases to wages as the recovery progresses. Cash flow projections thereafter have been extrapolated based on a 5% (2015 – 1.5%) per annum growth rate and incorporate a future 25% downturn in the 11th 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 14% (2015 - 19%) per annum. A terminal value was used based on the 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 equipment or intangible assets for either CGU at December 31,

2015 or 2016.

9. Intangible assets and write-down of goodwill

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

		2016		2015
Cost				
Balance at January 1	$	2,505	$	4,971
Internally developed additions		160		289
Write-off of fully amortized balances		-		(2,755)
Balance at end of year	$	2,665	$	2,505
Accumulated amortization				
Balance at January 1	$	499	$	3,066
Amortization for year		188		188
Write-off of fully amortized balances		-		(2,755)
Balance at end of year	$	687	$	499
Net carrying value at end of year	$	1,978	$	2,006

Impairment testing for cash-generating units containing goodwill

For the purpose of impairment testing, goodwill was 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 was as follows:

		2014
Directional Drilling	$	1,624
Flow back and 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 an impairment test on the carrying values of equipment and goodwill for the Directional Drilling and F&PT 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 would continue through 2016. Cash flow projections for 2017 to 2019 assumed a gradual recovery to historical activity levels. Cash flow projections thereafter were extrapolated based on a 1.5% per annum growth rate and incorporated a future 25% downturn in the 9th year of the forecast. The forecasted cash flows were based on management's best estimates of pricing, activity levels, costs to maintain equipment and a pre-tax discount rate of 19% 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 equipment based upon the value in use calculation.

10. Assets held for sale and discontinued operations

On December 16, 2016, the Company entered into an agreement to sell the fixed assets of its F&PT CGU. As such, the net realizable value of the F&PT equipment has been reclassified as assets held for sale on the consolidated balance sheet and the related operations have been presented as discontinued operations for 2016 and 2015. The sale closed in January 2017, and as at December 31, 2016 the assets were written down to their estimated net realizable value of $17,241.

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

	2016	2015
Revenues	$ 6,305	$ 29,836
Cost of sales:		
Direct costs	(6,318)	(24,922)
Depreciation	(4,010)	(5,377)
Share-based compensation	-	(10)
Total cost of sales	(10,328)	(30,309)
Gross margin	(4,023)	(473)
Selling, general and administrative expenses:		
Direct costs	(1,787)	(2,550)
Depreciation	(1)	(1)
Share-based compensation	(6)	-
Total selling, general and administrative expenses	(1,794)	(2,551)
	(5,817)	(3,024)
Gain (loss) on disposal of property and equipment	(48)	105
Write-dow n of goodw ill	-	(4,224)
Loss from operating activities	(5,865)	(7,143)
Finance costs	(18)	(51)
Loss before income taxes	(5,883)	(7,194)
Income tax recovery:		
Deferred	1,794	693
Total income tax recovery	1,794	693
Net loss from discontinued operations	(4,089)	(6,501)
Write-dow n of assets held for sale from discontinued operations, net of tax	(4,307)	-
Total loss from discontinued operations	$ (8,396)	$ (6,501)

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

	2016	2015
Cash provided by (used in):		
Operating activities:		
Total loss from discontinued operations	$ (8,396)	$ (6,501)
Items not involving cash		
Depreciation	4,011	5,378
Share-based compensation	6	10
Income tax recovery	(1,794)	(693)
(Gain) loss on disposal of property and equipment	48	(105)
Finance costs	18	51
Write-dow n of assets held for sale	4,307	-
Write-dow n of goodw ill	-	4,224
Cash flow from (used in) discontinuing operations	$ (1,800)	$ 2,364

11. Deferred tax assets and income tax expense

Recognized deferred tax assets and liabilities

Deferred tax assets are attributable to the following:

	2016	2015
Property and equipment	$ (10,402)	$ (10,658)
Inventory valuation allowance	772	737
Provision for settlement	1,250	-
Intangible assets	223	231
Investment tax credits	3,247	2,339
Non-capital loss carry forwards	9,547	5,686
Scientific research and development expenditures	4,876	4,776
Total	$ 9,513	$ 3,111

Deferred tax liabilities are attributable to the following:

	2016	2015
Property and equipment	$ -	$ (835)
Inventory valuation adjustment	-	334
Total	$ -	$ (501)

Movement in temporary differences during the year

	Balance December 31 2014	Impact of CRA proposal in profit	Recognized in profit	Recognized in OCI	Balance December 31 2015
Property and equipment	$ (11,243)	$ -	$ (102)	$ (148)	$ (11,493)
Inventory valuation allowance	-		1,071		1,071
Intangible assets	240		(9)	-	231
Investment tax credits	4,920	(2,261)	(320)	-	2,339
Non-capital loss carry forwards	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

	Balance December 31 2015	Recognized in profit	Recognized in OCI	Balance December 31 2016
Property and equipment	$ (11,493)	$ 1,106	$ (15)	$ (10,402)
Inventory valuation allowance	1,071	(299)	-	772
Provision for settlement	-	1,250	-	1,250
Intangible assets	231	(8)	-	223
Investment tax credits	2,339	908	-	3,247
Non-capital loss carry forwards	5,686	3,861	-	9,547
Scientific research and development expenditures	4,776	100	-	4,876
Total	$ 2,610	$ 6,918	$ (15)	$ 9,513

The income taxes are based upon the estimated annual effective rates of 27% (2015 – 26%) for Canadian entities and 36% (2015 – 37%) for U.S. entities. The income tax expense for the period is comprised as follows:

	2016	2015
Current tax (expense) recovery:		
Current period	$ (161)	$ 373
Adjustment to prior period provisions	55	361
Total current tax (expense) recovery	(106)	734
Deferred tax (expense) recovery:		
Origination and reversal of temporary differences	3,534	5,430
Adjustment to prior period provisions	(89)	(10,111)
Total deferred tax (expense) recovery	3,445	(4,681)
Income tax (expense) recovery	$ 3,339	$ (3,947)

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 2015 in the amount of $10,346 with the offset to eliminate the deferred tax asset and the remaining amount increasing the deferred tax liability.

Income tax expense for 2016 and 2015 differs from the amount that would be expected by applying the expected statutory income tax rates for the following reasons:

	2016	2015
Expected statutory tax rate	27.01%	26.07%
Loss before income tax	$ (722)	$ (24,894)
Effective tax rate applied to loss before income tax	$ 195	$ 6,490
Adjustment to deferred taxes for change in effective tax rates	39	(71)
Income taxed in jurisdictions with different tax rates	(302)	1,611
Non-deductible expenses	3,251	(1,708)
Adjustment to prior year tax provisions	(34)	(10,111)
Non-taxable portion of gain on disposal of property and equipment	177	(214)
Other	13	56
Total tax expense	$ 3,339	$ (3,947)

12. Operating loans

	2016	2015
Canadian dollar operating loan	$ 1,250	$ 2,370
U.S. dollar operating loan	855	114
Total	$ 2,105	$ 2,484

The Company has a $5,000 swingline facility (2015 - $5,000) with a major Canadian bank. The terms and conditions of this loan are as disclosed in note 14.

13. Trade and other payables

	2016	2015
Trade payables	$ 9,325	$ 16,208
Accrued payables	3,512	3,990
Total	$ 12,837	$ 20,198

The Company's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 27.

14. Loans and borrowings

	2016	2015
Current liabilities:		
Current portion of finance lease liabilities	$ 459	$ 686
Non-current liabilities:		
Finance lease liabilities	$ 72	$ 477
Secured revolving term loan	26,250	30,000
Total	$ 26,322	$ 30,477

During 2016, there were advances of $1,250 and repayments of $5,000 on the Company's secured revolving term loan.

Terms and debt repayment schedule

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

The current Facility has been amended seven times. These amendments have certain restrictions, including, but not limited to; paying dividends, utilization of the accordion feature, enhanced lender financial reporting and a cap on any litigation settlement payments without lender approval. As well, effective 2015 Q4, the Company includes lost-in-hole equipment proceeds in the definition of Bank EBITDA (as defined in the credit agreement).

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

Quarter ending:	Maximum Funded Debt to Bank EBITDA Ratio	Minimum Debt Service Ratio
December 31, 2016	Waived	Waived
March 31, 2017	3.50:1	2.00:1
June 30, 2017	3.50:1	2.50:1
September 30, 2017	3.50:1	3.00:1
December 31, 2017	3.25:1	3.00:1
March 31, 2018 and thereafter	3.00:1	3.00:1

Under the Fourth Amending Agreement dated August 9, 2016, the working capital covenant in the Facility was waived.

Under the Fifth Amending Agreement dated September 2, 2016, Export Development Canada ("EDC") joined Cathedral's lending syndicate resulting in the lending exposure from the prior lending syndicate members being reduced and the Facility increasing by $3,000 from that contained in the Fourth Amendment, and the maturity of the Facility was extended by three months to November 2017. The Fifth Amendment provided for credit availability of $36,000, further reducing to $33,000 by December 31, 2016.

The Sixth Amending Agreement, dated December 22, 2016 the Maturity Date of the facility was extended to February 2018.

The Seventh Amending Agreement, dated January 16, 2017, required a minimum cumulative Bank EBITDA of $2,500 for the three months ended December 31, 2016. In addition, the aggregate commitment was reduced to $23,000 after $17,200 was repaid upon the sale of F&PT CGU assets and the maturity date was extended to December 2018.

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

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

The Company's financial ratios in the 2016 Q4 waiver period were:

Ratio	Actual	Required
Debt service ratio	3.34:1	Waived
Funded debt to Bank EBITDA ratio	3.83:1	Waived
Working capital ratio	3.31:1	Waived
Minimum Bank EBITDA for the three months ended December 31, 2016	$4,522	$2,500

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

		2016		2015
Loans and borrowings, current portion	$	459	$	686
Loans and borrowings, long-term portion		26,322		30,477
Loans and borrowings, including current portion	$	26,781	$	31,163
Shareholders' equity	$	90,282	$	96,607
Less Accumulated other comprehensive income ("AOCI")		(11,371)		(11,577)
Shareholders' equity excluding AOCI		78,911		85,030
Loans and borrowings, including current portion		26,781		31,163
Total capitalization	$	105,692	$	116,193
Loans and borrowings, including current portion to total capitalization		0.25		0.27
Loans and borrowings, including current portion	$	26,781	$	31,163
Operating loans		2,105		2,484
Less cash balances		(2,235)		(2,085)
Letter of credit		1,528		1,554
Funded debt per credit agreement	$	28,179	$	33,116
		Year ended 2016		Year ended 2015
Loss before income taxes	$	(722)	$	(24,894)
Add (deduct):				
Depreciation included in cost of sales		12,358		15,189
Depreciation included in selling, general and administrative expenses		134		177
Share-based compensation included in cost of sales		14		50
Share-based compensation included in selling, general and administrative expenses		130		150
Finance costs		2,061		1,613
Unrealized foreign exchange (gain) loss on intercompany balances		(1,455)		4,191
Gain on sale of land and buildings		-		(456)
Non-recurring expenses		1,310		766
Write-down of goodwill		-		1,624
Write-down of equipment		-		3,189
Write-down of inventory		277		3,736
Provision for settlement		4,217		-
Gain on disposal of foreign subsidiary		(10,865)		-
Adjusted EBITDAS on discontinued operations		(1,619)		2,364
Adjusted EBITDAS as per MD&A		5,840		7,699
Gain on disposal of equipment		(3,164)		(3,257)
Proceeds from disposal of equipment per credit agreement		4,673		3,803
Trailing twelve months Bank EBITDA	$	7,349	$	8,245
Funded debt to Bank EBITDA		3.83		4.02

Finance lease liabilities

Finance lease liabilities bear interest at rates between 4.0% and 6.2% with maturities from 2017 to 2019 and are payable as follows:

	2016			2015		
	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	$ 456	(5)	$ 451	$ 382	$ (3)	$ 379
Between one and four years	85	(5)	80	811	(27)	784
Total	$ 541	$ (10)	$ 531	$ 1,193	$ (30)	$ 1,163

These amounts are secured by the automotive equipment under capital lease which has a net book value of $640 (2015 - $1,141).

15. Provisions for settlement

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

The Settlement Agreement resolved all claims from INC employed and contracted MWD and DD operators. Under the terms of the Settlement Agreement, the parties established an initial settlement fund of up to $3,400 USD. The final determination of the settlement fund amount was based on the number of claimants that participated in the settlement at the end of December 2016, which under the terms of the Settlement Agreement is confidential. The settlement fund payments will be paid quarterly by the Company over a three-year period with the final payment due on or before September 2019. The quarterly payments may be accelerated in the event Cathedral meets certain financial targets over the payment period and can be deferred if a scheduled payment would put Cathedral in violation of its credit facility covenants subject to not more than three payments being deferred. Any FLSA settlement fund payments made by Cathedral exceeding $200 USD are subject to the approval of Cathedral’s banking syndicate. During 2016, payments of $851 were made.

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

16. Share capital

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

Common shares issued:

	2016		2015	
	Number	Amount	Number	Amount
Issued, beginning and end of year	36,295,380	$ 74,481	36,295,380	$ 74,481

Issuance of common shares

There were no shares issued in 2016 or 2015. .

Dividends

Cathedral declared dividends in the amount of $nil in 2016 (2015 - $4,355 or $0.12 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 issued in 2015 Q4 and subsequent vest over a period of two years, options issued in 2015 Q3 and previously vest over 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, 2016 and 2015, and changes during the years then ended is presented below:

	2016		2015	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding, beginning of year	2,146,597	$ 3.18	1,233,863	$ 6.94
Granted	30,000	0.43	1,389,500	1.49
Expired or forfeited	(826,097)	5.27	(476,766)	7.99
Outstanding, end of year	1,350,500	$ 1.85	2,146,597	$ 3.18
Exercisable, end of year	506,806	$ 2.27	687,097	$ 6.25

The range of exercise prices for the options outstanding at December 31, 2016 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
$0.37 to $1.50	586,500	$ 0.73	1.93	185,494	$ 0.75
$1.51 to $3.00	604,000	2.13	2.21	201,313	2.13
$3.01 to $4.50	10,000	3.96	0.18	10,000	3.96
$4.51 to $5.05	150,000	4.92	1.37	109,999	4.93
$0.37 to $5.05 total	1,350,500	$ 1.85	1.98	506,806	$ 2.27

During the year ended December 31, 2016, the Company has recorded share-based compensation expense of $150 (2015 - $209) related to the share option plan.

During the year ended December 31, 2016, the Company granted 30,000 share options. The following table sets out the assumptions used in applying the Black-Scholes option-pricing model for the options issued as well as the resulting fair value:

	2016 Q3
Number of options issued	30,000
Exercise price per option	$ 0.43
Fair value per option (weighted average)	$ 0.19
Expected annual dividend per share	$ -
Risk-free interest rate (weighted average)	0.6%
Expected share price volatility (weighted average)	86.4%
Forfeiture rate per annum	10.0%

17. Earnings (loss) per share

Basic earnings per share

The calculation of basic earnings per share at December 31, 2016 was based on the profit (loss) attributable to common shareholders of $(5,779) being net earnings from continuing operations and net loss of $(7,697) (2015 – loss $(35,342); continuing operations loss $(28,841); discontinued operations loss $(6,501)) and a weighted average number of common shares outstanding of 36,295,380 (2015 – 36,295,380), calculated as follows:

Weighted average number of ordinary shares

	2016	2015
Issued January 1	36,295,380	36,295,380
Effect of share options exercised	-	-
Weighted average number of common shares at end of year	36,295,380	36,295,380

Diluted earnings per share

For 2015 and 2016, there is no diluted earnings per share as there are no dilutive potential common shares.

Weighted average number of common shares (diluted)

	2016	2015
Weighted average number of common shares (basic)	36,295,380	36,295,380
Effect of share options on issue	-	-
Weighted average number of common shares (diluted) at end of year	36,295,380	36,295,380

At December 31, 2016, 1,350,500 options (2015 – 2,146,597) 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.

18. Gain on disposal of foreign subsidiary

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

19. Nature of expenses

The nature of expenses can be specified as follows:

	Cost of sales	Selling, general and administrative	Total
Year ended December 31, 2016			
Depreciation	$ (12,358)	$ (134)	$ (12,492)
Share-based compensation	(14)	(130)	(144)
Staffing costs, excluding share-based compensation	(28,795)	(9,991)	(38,786)
Repairs and maintenance	(17,207)	-	(17,207)
Other expenses	(16,989)	(4,930)	(21,919)
Total	$ (75,363)	$ (15,185)	$ (90,548)
Year ended December 31, 2015			
Depreciation	$ (15,189)	$ (177)	$ (15,366)
Share-based compensation	(50)	(150)	(200)
Staffing costs, excluding share-based compensation	(43,061)	(11,513)	(54,574)
Repairs and maintenance	(24,492)	-	(24,492)
Other expenses	(19,964)	(5,718)	(25,682)
Total	$ (102,756)	$ (17,558)	$ (120,314)

20. Foreign exchange gain (loss) and finance costs

	2016	2015
Foreign exchange gain (loss):		
Realized foreign exchange loss	$ (17)	$ (183)
Unrealized foreign exchange gain on intercompany balances	1,455	(4,191)
Foreign exchange gain (loss)	$ 1,438	$ (4,374)
Finance costs		
Interest on revolving term loan	$ (1,455)	$ (1,195)
Interest on operating loan	(114)	(66)
Standby fees	(141)	(143)
Interest on finance lease liabilities	(17)	(76)
Other interest	(334)	(133)
Finance costs	$ (2,061)	$ (1,613)

21. Changes in non-cash working capital

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

	2016	2015
Trade receivables	$ (3,139)	$ 35,663
Inventories	2,294	1,301
Prepaid expenses and deposits	(142)	720
Trade and other payables	1,823	(15,003)
Deferred revenue	-	753
Impact of foreign exchange rate differences	(28)	1,348
Total changes in non-cash w orking capital	808	24,782
Changes in investing non-cash w orking capital	(762)	(1,012)
Changes in operating non-cash w orking capital	$ 1,570	$ 25,794

22. Operating segments

The Company and its wholly owned subsidiaries are engaged in the business of providing directional drilling 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.

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

Geographical information

The Company conducts operations in the following geographic areas:

	Revenues		Non-current assets	
	Year ended December 31, 2016	Year ended December 31, 2015	December 31, 2016	December 31, 2015
Canada	$ 22,220	$ 38,868	$ 45,741	$ 110,067
United States	58,646	67,375	33,908	3,968
Total	$ 80,866	$ 106,243	$ 79,649	$ 114,035

Major customer

In 2016 revenues from a customer of the Company represented approximately 13% (2015 – two different customers represented approximately 22%) of the Company's total revenues.

23. 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, 2016. As at December 31, 2016, the Company's commitment to purchase equipment is approximately $384. Cathedral anticipates expending these funds in 2017 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.

24. 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 February 2017 to March 2030. Certain leases have set annual increases. The total future minimum lease payments are as follows:

2017	$3,577
2018	3,495
2019	2,969
2020	2,747
2021	2,723
Thereafter	19,819

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, 2016, an amount of $4,080 was recognized as an expense in profit or loss in respect of operating leases (2015 - $3,952).

25. Subsequent events

In January 2017, the Company completed the Seventh Amendment to its credit facility. The Seventh Amending Agreement reduced the aggregate commitment to $23,000 after $17,200 was repaid upon the sale of F&PT assets and extended the expiry to December 2018.

The sale of F&PT assets closed in January 2017 for net proceeds of $17,241.

In February 2017, the Company closed a bought deal public offering of 11,500,000 common shares of the Company at a price of $1.12 per share, which includes 1,500,000 common shares pursuant to the exercise in full of the over-allotment option, for gross proceeds of $12,880 (the "Offering"). Concurrent with the closing of the Offering, certain directors and officers of Cathedral purchased 1,116,071 common shares at a price of $1.12 per share on a private placement basis for gross proceeds of approximately $1,250 (the "Concurrent Private Placement"). The gross proceeds from the Offering and Concurrent Private Placement totaled approximately $14,130.

26. 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 16).

Certain executive officers have employment agreements. Upon resignation at the Company's request, they are entitled to termination benefits including: i) 1.5 to 2.0 times base salary; ii) 1.5 to 2.0 times average annual bonus over the past 3 years; and iii) health, dental, life insurance and disability coverage for 18 to 24 months.

Key management personnel (including directors) compensation comprised:

	2016	2015
Short-term employment benefits	$ 1,850	$ 1,897
Share-based compensation	99	124
Total expense recognized as share-based compensation	$ 1,949	$ 2,021

Key management personnel and director transactions

Directors and executive officers of the Company control 5% of the common shares of the Company.

There have been no other transactions over the reporting period with key management personnel (2015 - nil), and no outstanding balances exist as at period end (2015 - nil).

27. 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 13% of the Company's revenue is attributable to sales transactions with a single customer. In 2015, two different customers were approximately 12% and 10% 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

	2016	2015
Trade receivables	$ 26,245	$ 23,107

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

Carrying amount

	2016	2015
Canada	$ 7,753	$ 8,593
United States	18,492	14,514
Total	$ 26,245	$ 23,107

The Company's most significant customer accounts for $5,151 of the trade receivables carrying amount at December 31, 2016 (2015 - $6,168).

Impairment losses

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

	2016		2015	
	Gross	Impairment	Gross	Impairment
Not past due	$ 22,680	$ -	$ 15,576	$ -
Past due 61-90 days	3,176	-	4,180	-
Past due over 91 days	822	(433)	3,811	(460)
Total	$ 26,678	$ (433)	$ 23,567	$ (460)

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

	2016	2015
Balance, beginning of year	$ 460	$ 188
Impairment loss recognized	-	272
Reversals of losses previously recognized	(27)	-
Balance, end of year	$ 433	$ 460

At December 31, 2016 an impairment loss of $433 (2015 - $460) was recognized relating to customers that have been unable to make payments in accordance with normal terms and conditions, mainly due to economic circumstances. The Company believes that the unimpaired amounts that are past due are still collectible, based on historic payment behavior and an analysis of the underlying customers' ability to pay.

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

Impairment losses

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

Liquidity risk

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

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

December 31, 2016	Carrying amount	Contractual cash flow	Under 6 months	6-12 months	1-2 years	2-5 years	Thereafter
Demand bank loans	$ 2,105	$ 2,105	$ 2,105	$ -	$ -	$ -	$ -
Secured revolving term loan	26,250	26,250	-	-	26,250	-	-
Finance lease liabilities	531	541	308	180	34	19	-
Trade and other payables	12,837	12,837	12,837	-	-	-	-
	$ 41,723	$ 41,733	$ 15,250	$ 180	$ 26,284	$ 19	$ -

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 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 limit its exposure to foreign currency through collecting and paying foreign currency denominated balance in a timely fashion.

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

USD		2016		2015
Cash	$	1,577	$	1,202
Trade receivables		13,772		10,490
Demand bank loan		-		(82)
Trade payables		(5,827)		(10,759)
Finance lease liabilities		(301)		(695)
Total	$	9,221	$	156

The following significant exchange rates applied during the year:

	Average rate				Reporting date spot rate			
		2016		2015		December 31, 2016		December 31, 2015
USD $1 to CAD $	$	1.33	$	1.27	$	1.34	$	1.38

Sensitivity analysis

A 10% strengthening of CAD against USD at December 31 would decrease equity and other comprehensive income by $1,126 (2015 - $20). The analysis assumes that all other variables, in particular interest rates remain constant. The analysis is performed on the same basis for 2015, 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, 2016				December 31, 2015			
	Fixed rate carrying value		Variable rate carrying value		Fixed rate carrying value		Variable rate carrying value	
Financial liabilities	$	531	$	28,355	$	1,163	$	32,484

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 $284 (2015 - $325) per annum based upon the balance of bank indebtedness and long-term debt with a floating interest rate outstanding as at December 31, 2016.

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 Company'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.

Capital management

The Board of Directors' policy is to maintain a strong capital base 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 (" Bank EBITDA") both of which are defined in the credit agreement and are calculated below.

The Board of Directors 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 2016 and into 2016 management 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 Bank EBITDA ratios at the end of the reporting period are disclosed in note 14.

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

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