2016 Q1 INTERIM REPORT

FINANCIAL HIGHLIGHTS

Dollars in 000's except per share amounts

		Three months ended March 31		
		2016		2015
Revenues	$	21,095	$	50,077
Adjusted gross margin % (1)		23.3%		20.2%
Adjusted EBITDAS (1)	$	1,476	$	5,786
Diluted per share	$	0.04	$	0.16
As % of revenues		7%		12%
Funds from continuing operations (1)	$	167	$	3,965
Diluted per share	$	-	$	0.11
Earnings (loss) before income taxes	$	9,171	$	(795)
Basic per share	$	0.25	$	(0.02)
Diluted per share	$	0.25	$	(0.02)
Net earnings (loss)	$	9,683	$	(724)
Basic per share	$	0.27	$	(0.02)
Diluted per share	$	0.27	$	(0.02)
Dividends declared per share	$	-	$	0.04
Equipment additions - cash basis	$	268	$	4,303
Weighted average shares outstanding				
Basic (000s)		36,295		36,295
Diluted (000s)		36,295		36,295

		March 31 2016		December 31 2015
Working capital	$	22,892	$	13,550
Total assets	$	141,608	$	155,610
Loans and borrowings excluding current portion	$	27,848	$	30,477
Shareholders' equity	$	104,493	$	96,607

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

MANAGEMENT'S DISCUSSION & ANALYSIS

This Management's Discussion & Analysis ("MD&A") for the three months ended March 31, 2016 should be read in conjunction with the annual audited consolidated financial statements and notes thereto for the year ended December 31, 2015, as well as the MD&A in the 2015 Annual Report of Cathedral Energy Services Ltd. ("the Company" / "Cathedral"). This MD&A has been prepared as of May 10, 2016. Dollar amounts are in '000's except for day rates and per share amounts.

2016 Q1 KEY TAKEAWAYS

Revenues and profitability were significantly affected by reduced industry activity and pricing pressures resulting from continued decline in commodity prices;

Revenues of $21,095 in 2016 Q1 compared to $50,077 in 2015 Q1, a 58% decline and Adjusted EBITDAS of $1,476 in 2016 Q1 compared to $5,786 in 2015 Q1;

Adjusted gross margin improved to 23.3% in 2016 Q1 from 20.2% in 2015 Q1;

Bank loans were reduced by $4,579 compared to December 31, 2015 including a reduction of the revolving term loan of $2,500 to $27,500;

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; and

Management continues to focus on initiatives to reduce costs, improve margins and improve revenue through enhanced focus on our sales and marketing capabilities.

OVERVIEW

The Company completed 2016 Q1 with quarterly revenues of $21,095 compared to 2015 Q1 revenues of $50,077. 2016 Q1 revenues decreased 58% from 2015 Q1. The 2016 Q1 revenues were comprised of 89% (2015 Q1 - 73%) from the Directional Drilling division and 11% (2015 Q1 - 27%) from the Flowback and Production Testing ("F&PT") division. The decrease in revenues was primarily attributed to the decline in drilling and completion activity due to the declines in commodity prices.

2016 Q1 Adjusted EBITDAS was $1,476 ($0.04 per share diluted) which represents a $4,310 decrease from 2015 Q1 Adjusted EBITDAS of $5,786 ($0.16 per share diluted). For the three months ended March 31, 2016, the Company's net earnings were $9,683 ($0.27 per share diluted) as compared to net loss of $(724) ($(0.02) loss per share) in 2015.

OUTLOOK

2016 Q1 was challenging for the oilfield services sector, particularly for those companies tied to drilling and well completion activity. During the quarter oil prices (WTI) slid into the $30/bbl U.S. dollar ("USD") range hitting lows of $26/bbl USD in January due to worldwide supply-demand imbalances. The price of natural gas was also weak, again due to oversupply issues related to a warm winter in the U.S. and Canada. These low pricing levels had a dramatic impact on oilfield service activity levels as exploration and production companies continued to cut their drilling and completions budgets in light of their reduced cash flow.

As a result of the weak commodity pricing, both the U.S. and Canadian rig counts declined significantly in the first quarter. The U.S. rig count declined 36% from January 1, 2016 to 450 active rigs as at April 1 – down from an average rig count of 807 for the second half of 2015. Canada suffered similar activity declines which were further exacerbated by energy companies curtailing activities in the quarter due to warm weather causing an early spring breakup. In Canada there was an average of 165 rigs operating in 2016 Q1 compared to 313 rigs in the comparable quarter in 2015. There were 49 rigs operating in Canada on April 1, 2016 a decline of 74% from the January average. The Canadian rig count has declined further since April 1.

Oil prices have recently firmed up into the $40/bbl USD range and there are indications pricing may continue to improve into the back half of 2016 based on supply and demand fundamentals improving. However, for any meaningful increase in industry activity levels we believe oil prices have to move firmly into the $50 plus USD range. We also expect to see oilfield service activity levels lag energy price increases based on companies having to rebuild their balance sheets before they can commit to increased capital spending. In short, we expect the remainder of 2016 to be challenging for Cathedral and the energy industry in general.

Throughout the quarter we continued to focus on our key strategic initiatives as outlined in our year-end report. From a cost containment perspective we undertook further staff reductions in Canada to counter the low activity levels we experienced in Q1 and anticipated for Q2. These reductions followed wage rollbacks which were implemented in Canada and the U.S. in early Q1. Despite the low activity and related revenue challenges in the quarter, we generated positive Adjusted EBITDAS and cash flow and reduced our bank debt. Our EBITDA per credit agreement well exceeded the minimum EBITDA per credit agreement required under our banking covenants for the first quarter.

We recently made the decision to centralize our Canadian F&PT operations in Grande Prairie, Alberta to further rationalize costs and gain operating efficiencies. To ensure we are still responsive to customer geographical needs, we have put in place a strategy to stage our equipment in additional key locations in Western Canada including out of our Nisku facility. In the U.S. we are in the process of restructuring our F&PT division having made the decision to change this division's leadership team. We are now better using our U.S. Directional Drilling sales resources to expand our U.S. F&PT business development prospects and have recalibrated this division's cost base to better align with lower activity levels expected for the next couple of quarters. Despite the current low activity levels in our F&PT divisions, we still believe this will be the first area of our business to benefit from an activity level rebound as this service offering is tied more directly to generating short-term cash flow for producers.

Our business prospects in the U.S. directional drilling are trending favorably based on the shift we made in our sales strategy in late 2015. Our success in the U.S. is also a result of having differentiated technology in this market and having an active presence and growing reputation in the key U.S. basins such as the Permian. We are currently implementing new sales strategies and processes in Canada to ensure we are favorably positioned with a tailored product and services suite specific to each targeted basin (e.g. Montney). Our drilling motors continue to be recognized in the market as best-in-breed resulting in our motor rental business continuing to grow both in the U.S. and Canada. Our continuing efforts to ruggedize and advance our proprietary Measurement-While-Drilling ("MWD") equipment to improve reliability in ever-demanding downhole environments stands to position us favorably in the future from a competitive perspective.

We recognize our business and industry has experienced transformational changes and the way things were done in the past will not be the way things will work tomorrow. We recognize the future will demand different ways of doing business and that we need to adapt and innovate to ensure that we are on the forefront of these changes. The many challenges we have faced, and the significant changes we have made to our business as a result, have made Cathedral a much stronger company and positioned us favorably for when industry activity levels improve.

DIVIDENDS

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

2016 CAPITAL PROGRAM

During 2016 Q1 the Company invested $268 (2015 Q1 - $4,303) in equipment. The following table details the current period's net equipment additions:

		Three months ended March 31, 2016
Equipment additions:		
Growth capital [(1)]	$	74
Maintenance capital [(1)]		6
Replacement capital [(1)]		188
Total cash additions		268
Less: proceeds on disposal of equipment		(1,205)
Net equipment additions [(1)]	$	(937)

(1) See "NON-GAAP MEASUREMENTS"

The growth capital additions were $74 for MWD system enhancements. Replacement capital relates to ancillary motor equipment.

Cathedral's 2016 capital budget remains at $1,000 with $200 for growth capital and $800 for replacement or maintenance capital. The growth additions are primarily for MWD system enhancements and maintenance capital is primarily to replace items which have been lost-in-hole, that are required to maintain existing capacity levels. The capital budget will be reviewed quarterly.

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

	March 31 2016	December 31 2015	March 31 2015
Directional Drilling - MWD systems	140	140	140
F&PT units	66	66	66

RESULTS OF OPERATIONS – THREE MONTHS ENDED MARCH 31

	Three months ended March 31, 2016						Three months ended March 31, 2015					
Revenues		Directional Drilling [(1)]		F&PT		Total		Directional Drilling [(1)]		F&PT		Total
Canada	$	5,663	$	1,864	$	7,527	$	15,044	$	4,998	$	20,042
United States		13,082		486		13,568		21,753		8,282		30,035
Total	$	18,745	$	2,350	$	21,095	$	36,797	$	13,280	$	50,077

(1) Includes motor rental revenue

Revenues 2016 Q1 revenues were $21,095 which represented a decrease of $28,982 or 58% from 2015 Q1 revenues of $50,077. All divisions experienced revenue decreases compared to 2015 Q1 due to reductions in commodity prices and day rate decreases directly related to pricing concessions requested by customers due to market conditions. The active land rig count for Canada and U.S. was down 47% and 60% respectively in 2016 Q1 compared to 2015 Q1. Canadian wells completed fell approximately 62% in 2016 Q1 compared to 2015 Q1.

Canadian Directional Drilling revenues (excluding motor rental revenues) decreased to $3,354 in 2016 Q1 from $14,792 in 2015 Q1; a 77% decrease. This decrease was the result of: i) a 67% decrease in activity days to 501 in 2016 Q1 from 1,507 in 2015 Q1; and ii) a 32% decrease in the average day rate to $6,695 in 2016 Q1 from $9,816 in 2015 Q1.

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 more than industry average and some who stopped drilling. The decrease in 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.

Partially offsetting these declines was an increase of $2,057 on the rental of motors, particularly Cathedral's CLAW™ motor. Motor rental revenues for 2016 Q1 were $2,309 (2015 Q1 - $252).

U.S. Directional Drilling revenues (excluding motor rental revenues) decreased to $11,977 in 2016 Q1 from $21,470 in 2015 Q1; a 44% decrease. This decrease was the net result of: i) a 47% decrease in activity days to 979 in 2016 Q1 from 1,831 in 2015 Q1; and ii) a 4% increase in the average day rate to $12,234 in 2016 Q1 from $11,726 in 2015 Q1 (when converted to Canadian dollars). All U.S. districts experienced a decrease in activity levels. The U.S. average day rate in Canadian dollars increased due to the stronger U.S. dollar. Rates in USD fell to $8,906 USD in 2016 Q1 from $9,486 USD in 2015 Q1, a 6% 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 Q1 were $1,105 compared to $283 in 2015 Q1.

Canadian F&PT revenues decreased to $1,864 in 2016 Q1 from $4,998 in 2015 Q1; a 63% decrease. The decrease was due to the reduction in activity levels due to the industry downturn as well as a 32% decline in pricing.

U.S. F&PT revenues decreased to $486 in 2016 Q1 from $8,282 in 2015 Q1, a 94% decrease. The decrease was due to a number of Cathedral's key customers ceased completion activity and work lost when work went through rebid process. In Q1 2016, the company made the decision to restructure its U.S. F&PT division to position it better for the current industry dynamics.

Gross margin and adjusted gross margin Gross margin for 2016 Q1 was 3.1% compared to 10.0% in 2015 Q1. Adjusted gross margin (see Non-GAAP Measurements) for 2016 Q1 was $4,905 or 23.3% compared to $10,120 or 20.2% for 2015 Q1.

The Company initiated a number of cost reductions throughout 2015 and into 2016 Q1 including reducing wages for field, support and office staff, implementing work force reductions and reducing other direct cost items. Even with lower day rates in many divisions the adjusted gross margin improved due to reduced field labour costs, which were offset by higher repairs on percentage of revenue basis.

Additionally, there was a reduction in the fixed component of direct cost of sales of 28.6% compared with 2015 Q1 amount. However, the percentage of revenue for these costs was greater in 2016 Q1 due to the reduction in revenues. On a percentage of revenue basis, the fixed costs increased 10.2% from 2015 Q1.

Depreciation allocated to cost of sales decreased to $4,233 in 2016 Q1 from $5,091 in 2015 Q1. Depreciation included in cost of sales as a percentage of revenue was 20.1% for 2016 Q1 and 10.2% in 2015 Q1.

Selling, general and administrative expenses ("SG&A") SG&A expenses were $4,938 in 2016 Q1; a decrease of $655 compared with $5,593 in 2015 Q1. As a percentage of revenue, SG&A was 23% in 2016 Q1 and 11% in 2015 Q1. Included in 2016 Q1 amounts are $364 of severance costs compared to $134 in 2015 Q1

Excluding the non-cash items of depreciation and share-based compensation and severance, SG&A was $4,490 in 2016 Q1 compared to $5,388 in 2015 Q1, a decrease of $898 or 17%. 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 have been additional reductions to staffing levels in 2015 and 2016. Staffing costs included in SG&A include executive, sales, accounting, human resources, payroll, safety, research and development and related support staff.

Gain on disposal of equipment During 2016 Q1, the Company had a gain on disposal of equipment of $892 compared to $1,169 in 2015 Q1. These gains mainly relate to equipment lost-in-hole. Proceeds from clients on lost-in-hole equipment are based on amounts specified in service agreements and in most cases these proceeds exceed the net book value of the equipment and result in a gain. The timing of lost-in-hole recoveries is not in the control of the Company and therefore can fluctuate significantly from quarter-to-quarter. In 2015 Q1 the Company completed the previously discussed sale and leaseback of its Oklahoma City operating facility. This resulted in a gain on sale of land and buildings of $508.

Gain on disposal of foreign subsidiary During 2016 Q1, the Company completed the sale of its wholly-owned Barbados subsidiary, 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.

Foreign exchange loss The Company had foreign exchange gain of $2,354 in 2016 Q1 compared to a loss of $1,426 in 2015 Q1 due to the fluctuations in the Canadian dollar relative to the U.S. dollar. The Company's foreign operations are denominated in a currency other than the Canadian dollar and therefore, upon consolidation, gains and losses due to fluctuations in the foreign currency exchange rates are recorded in other comprehensive income ("OCI") on the balance sheet as a component of equity. However, gains and losses in the Canadian entity on U.S. denominated intercompany balances continue to be recognized in the statement of income. Included in the 2016 Q1 foreign currency gains are unrealized gains of $2,364 (2015 Q1 – loss of $1,276) related to intercompany balances.

Finance costs Finance costs consist of interest expenses on operating loans, loans and borrowings and bank charges of $387 for 2016 Q1 versus $467 for 2015 Q1. The decrease in finance costs relate to a decreased utilization of the Company's credit facility.

Income tax For 2016 Q1, the Company had an income tax recovery of $512 compared to recovery of $71 in 2015 Q1. Excluding the non-cash gain on disposal of foreign subsidiary, the effective tax rate was 30% for 2016 Q1 and 9% for 2015 Q1. Income tax expense is booked based upon expected annualized effective rates. The 2015 Q1 tax rate was lower than anticipated due to losses in Canada recorded at effective rate of 23.25% and income in U.S. recorded at effective rate of 42.5%.

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 period ended March 31, 2016, the Company had funds from continuing operations (see Non-GAAP Measurements) of $167 (2015 - $3,965). The decrease in funds from continuing operations is due to lower activity levels and reductions in revenue day rates. In 2016 Q1 the Company reduced its bank loans by $4,579 which included a reduction in the revolving term loan of $2,500. Cash balances as at March 31, 2016 were $2,200.

Working capital At March 31, 2016 the Company had working capital of $22,892 (December 31, 2015 - $13,550) and a working capital ratio of 3.6 to 1 (December 31, 2015 – 1.5 to 1). The increase working capital level was primarily due to the sale of DPI.

Credit facility The Company has a 3 year committed revolving credit facility (the "Facility") that expires in August 2017. The Facility was amended on June 12, 2015 (the "First Amendment"). In January 2016, the Company negotiated further amendments to the Facility were negotiated ("Second Amendment").

The Second Amendment has less restrictive financial covenants than the prior Facility terms. The Second Amendment provides for credit availability of $45,000, representing a $15,000 decrease from the First Amendment. The First Amendment increased the accordion feature to $35,000 (previously $25,000) and this was unchanged in the Second Amendment. The Second Amendment matures in August, 2017, consistent with the duration of the original Facility.

After the First and Second Amendment discussed above, the Facility bears interest at the bank's prime rate plus 0.50% to 5.00% or bankers' acceptance rate plus 1.75% to 6.25% with interest payable monthly. Interest rate spreads for the Facility depends on the level of funded debt to the 12 month trailing EBITDA per credit agreement. 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. The Company has historically maximized the use of this option thereby lowering its interest costs, however, the ability to achieve these lower rates will be impacted in the future based on current rates which increase based on the Company's funded debt to EBITDA per credit agreement.

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

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

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

During the waiver period of the Second Amendment there is a requirement for minimum EBITDA per credit agreement for the quarter ended March 31, 2016 of $850 and minimum cumulative EBITDA per credit agreement for the two quarters ending June 30, 2016 of $1,600. The First and Second 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.

Effective 2015 Q4 the Company includes lost-in-hole equipment proceeds in the definition of EBITDA per credit agreement. The applicable EBITDA per credit agreement for the lending agreement in 2016 Q1 was $1,761.

The Company currently is in compliance with each of the financial covenants under the Second Amendment. 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 Q1 waiver period were:

Ratio	March 31, 2016 value
Debt service ratio	2.29:1
Funded debt to EBITDA per credit agreement	6.51:1

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

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

The following table outlines the current credit facility:

		March 31 2016		December 31 2015
Total credit facility	$	45,000	$	60,000
Drawings on credit facility:				
Operating loan		405		2,484
Revolving term loan		27,500		30,000
Letters of credit		1,500		1,554
Total drawn facility	$	29,405	$	34,038
Undrawn portion of credit facility	$	15,595	$	25,962
Net debt (see NON-GAAP MEASUREMENTS):				
Loans and borrowings, net of current portion	$	27,848	$	30,477
Working capital:				
Current assets	$	31,782	$	41,575
Current liabilities		(8,890)		(28,025)
Working capital	$	22,892	$	13,550
Net debt	$	4,956	$	16,927

Contractual obligations In the normal course of business, the Company incurs contractual obligations and those obligations are disclosed in the Company's MD&A for the year ended December 31, 2015. As at March 31, 2016, the Company had a commitment to purchase approximately $nil of equipment.

Contingencies On October 29, 2014 Cathedral received a letter from one of its U.S. clients ("the Complainant") alleging a down-hole drilling incident which impacted two of their wells in December 2013. The Complainant had indicated potential damages of $3,000 USD and in 2015 Q3 increased this indication to $3,700 USD. Cathedral does not carry insurance for this type of incident. In January 2016, the Complainant filed a formal complaint in Pennsylvania court initiating a formal legal process related to their claim. Cathedral, with its legal counsel is responding to the complaint and intends to vigorously defend this action. Due to the uncertainty around what amount, if any, and the means of settlement, the Company has made no provision in the financial statements for this incident.

The Company's wholly-owned subsidiary, Cathedral Energy Services Inc. ("INC"), has been named in a legal action in Houston, Texas commenced by a former employee. INC has also been named in a second legal action in Denver, Colorado by a former employee. In both these legal actions the employees and consultants (collectively "Claimants") allege that they were improperly classified as exempt under the Fair Labour Standards Act and therefore entitled to unpaid overtime or additional compensation for improperly calculated overtime. Subsequently, ten additional claimants have joined the first action and five additional claimants have joined the second action. Legal actions involving similar alleged violations have been filed in the United States against a number of other oilfield service companies. The Claimants assert that they will seek to have the action certified as a collective action which may result in additional employees, former employees or consultants of INC joining the actions. INC has filed defenses for both actions and is currently reviewing its settlement and legal options. The Company believes that the potential impact of this matter is indeterminable.

Share capital At May 10, 2016, the Company has 36,295,380 common shares and 1,705,165 options outstanding with a weighted average exercise price of $2.32.

CONTROLS AND PROCEDURES

The Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") are responsible for designing disclosure controls and procedures ("DC&P") and internal controls over financial reporting ('ICFR') as defined in National Instrument 52-109 Certification of Disclosure in Issuer's Annual and Interim Filings ("52-109"), or causing them to be designed under their supervision, in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

Cathedral's DC&P have been designed to provide reasonable assurance that material information relating to Cathedral is made known to the CEO and the CFO by others and that information required to be disclosed by Cathedral in its annual filings, interim filings or other reports filed or submitted by Cathedral under securities legislation is recorded, processed, summarized and reported within the time periods specified in applicable securities legislation.

Because of their inherent limitations, DC&P and ICFR may not prevent or detect all misstatements, errors or fraud. Control systems, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control systems are met.

The CEO and CFO have concluded that there have been no changes in internal controls for the period ended on March 31, 2016 that have materially affected, or are reasonably likely to materially affect, Cathedral's ICFR.

RISK FACTORS

The MD&A for the year ended December 31, 2015, which is included in the Company's 2015 Annual Report, includes an overview on risk factors associated with the Company and its operating entities. Those risk factors remain in effect as at March 31, 2016.

GOVERNANCE

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

NEW AND FUTURE ACCOUNTING POLICIES

There were no other new or amended standards issued during the three months ended March 31, 2016 that are applicable to the Company in future periods. A description of standards and interpretations that will be adopted by the Company in future periods can be found in the notes to the consolidated financial statements for the year ended December 31, 2015.

SUMMARY OF QUARTERLY RESULTS

Three month periods ended	Mar 2016	Dec 2015	Sep 2015	Jun 2015	Mar 2015	Dec 2014	Sep 2014	Jun 2014
Revenues	$ 21,095	$ 24,949	$ 31,374	$ 29,679	$ 50,077	$ 73,242	$ 77,376	$ 56,797
Adjusted EBITDAS [1]	$ 1,476	$ (169)	$ 3,013	$ (1,237)	$ 5,786	$ 9,408	$ 14,347	$ 6,151
Adjusted EBITDAS [1] per share - diluted	$ 0.04	$ (0.00)	$ 0.08	$ (0.03)	$ 0.16	$ 0.26	$ 0.40	$ 0.17
Net earnings (loss)	$ 9,683	$ (16,348)	$ (3,004)	$ (15,266)	$ (724)	$ 1,776	$ 5,805	$ 253
Net earnings (loss) per share - basic and diluted	$ 0.27	$ (0.45)	$ (0.08)	$ (0.42)	$ (0.02)	$ 0.05	$ 0.16	$ 0.01
Dividends declared per share	$ -	$ -	$ 0.04	$ 0.04	$ 0.04	$ 0.0825	$ 0.0825	$ 0.0825

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

FORWARD LOOKING STATEMENTS

This MD&A contains certain forward-looking statements and forward-looking information (collectively referred to herein as "forward-looking statements") within the meaning of applicable Canadian securities laws. All statements other than statements of present or historical fact are forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "anticipate", "achieve", "believe", "plan", "intend", "objective", "continuous", "ongoing", "estimate", "outlook", "expect", "may", "will", "project", "should" or similar words suggesting future outcomes. In particular, this MD&A contains forward-looking statements relating to, among other things: indications pricing may continue to improve into the back half of 2016 based on supply and demand fundamentals improving; for any meaningful increase in industry activity levels we believe oil prices have to move firmly into the $50 plus USD range; expect to see oilfield service activity levels lag energy price increases based on companies having to rebuild their balance sheets before they can commit to increased capital spending; expect the remainder of 2016 to be challenging; believe F&PT will be the first area of our business to benefit from an activity level rebound; continuing efforts to ruggedize and advance our proprietary MWD equipment to improve reliability in ever-demanding downhole environments stands to position us favorably in the future from a competitive perspective; need to adapt and innovate to ensure that we are on the forefront of these changes; changes have positioned Cathedral favorably for when industry activity levels improve; projected capital expenditures and commitments and the financing thereof; anticipate that we will not reinstate dividend payments until industry conditions and operating cash flow improves; the Company could breach the covenants included in the Second Amended Credit Facility; management expects to be able to successfully negotiate acceptable Agreement amendments however, there is no guarantee this will occur; Cathedral expects to comply with all covenants during 2016; and long-term intent of the Company to pay quarterly dividends to shareholders.

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

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

- risks associated with foreign operations;
- risks associated with acquisitions and business development efforts;
- environmental risks;
- changes under governmental regulatory regimes and tax, environmental and other laws in Canada and U.S.; and
- competitive risks.

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

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

NON-GAAP MEASUREMENTS

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

The specific measures being referred to include the following:

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

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

iii) "Adjusted EBITDAS" - defined as earnings before finance costs, unrealized foreign exchange on intercompany balances, taxes, non-recurring gains and losses on disposal of property and equipment (see non-GAAP measurement), depreciation, non-recurring compensation, write-down of inventory, gain on disposal of foreign subsidiary and share-based compensation; is considered an indicator of the Company's ability to generate funds flow from operations prior to consideration of how activities are financed, how the results are taxed and measured and non-cash expenses (see tabular calculation);

iv) "EBITDA per credit agreement" – defined in the Company's credit agreement as Adjusted EBITDAS less gains on disposal of equipment not previously excluded, less any unusual or non-recurring cash expenses approved by the Lenders (excluding non-recurring compensation previously deducted from Adjusted EBITDAS" and plus lost-in-hole equipment proceeds. EBITDA per credit agreement is used in calculation of banking covenants;

v) "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);

vi) "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;

vii) "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;

viii) "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);

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

x) "Net 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

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

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

Adjusted gross margin

	Three months ended March 31 2016	2015
Gross margin	$ 662	$ 5,014
Add non-cash items included in cost of sales:		
Depreciation	4,233	5,091
Share-based compensation	10	15
Adjusted gross margin	$ 4,905	$ 10,120
Adjusted gross margin %	23.3%	20.2%

Adjusted EBITDAS

	Three months ended March 31 2016	2015
Earnings (loss) before income taxes	$ 9,171	$ (795)
Add:		
Depreciation included in cost of sales	4,233	5,091
Depreciation included in selling, general and administrative expenses	34	44
Share-based compensation included in cost of sales	10	15
Share-based compensation included in selling, general and administrative expenses	50	27
Finance costs	387	467
EBITDAS	13,885	4,849
Unrealized foreign exchange (gain) loss on intercompany balances	(2,364)	1,276
Non-recurring compensation	543	169
Non-recurring gain on disposal of land and building	-	(508)
Write-down of inventory	277	-
Gain on disposal of foreign subsidiary	(10,865)	-
Adjusted EBITDAS	$ 1,476	$ 5,786

Funds from operations

	Three months ended March 31 2016	2015
Cash flow from operating activities	$ 4,156	$ 21,932
Add (deduct):		
Changes in non-cash operating working capital	(4,235)	(18,811)
Income taxes paid (recovered)	120	1,327
Current tax recovery (expense)	126	(483)
Funds from operations	$ 167	$ 3,965

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

March 31, 2016 and December 31, 2015
Dollars in '000s
(unaudited)

		March 31 2016		December 31 2015
Assets				
Current assets:				
Cash and cash equivalents	$	2,200	$	1,426
Trade receivables		15,494		23,107
Current taxes recoverable		3,017		2,962
Prepaid expenses		1,451		1,988
Inventories		9,620		12,092
Total current assets		31,782		41,575
Equipment (note 4)		104,419		108,918
Intangible assets		2,005		2,006
Deferred tax assets		3,402		3,111
Total non-current assets		109,826		114,035
Total assets	$	141,608	$	155,610
Liabilities and Shareholders' Equity				
Current liabilities:				
Operating loan	$	405	$	2,484
Trade and other payables		7,843		20,198
Loans and borrowings (note 5)		642		686
Deferred revenue		-		4,657
Total current liabilities		8,890		28,025
Loans and borrowings (note 5)		27,848		30,477
Deferred tax liabilities		377		501
Total non-current liabilities		28,225		30,978
Total liabilities		37,115		59,003
Shareholders' equity:				
Share capital (note 6)		74,481		74,481
Contributed surplus		9,530		9,470
Accumulated other comprehensive income		9,720		11,577
Retained earnings		10,762		1,079
Total shareholders' equity		104,493		96,607
Total liabilities and shareholders' equity	$	141,608	$	155,610

See accompanying notes to condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Three months ended March 31, 2016 and 2015

Dollars in '000s except per share amounts

(unaudited)

	Three months ended March 31	
	2016	2015
Revenues	$ 21,095	$ 50,077
Cost of sales:		
Direct costs	(16,190)	(39,957)
Depreciation	(4,233)	(5,091)
Share-based compensation	(10)	(15)
Total cost of sales	(20,433)	(45,063)
Gross margin	662	5,014
Selling, general and administrative expenses:		
Direct costs	(4,854)	(5,522)
Depreciation	(34)	(44)
Share-based compensation	(50)	(27)
Total selling, general and administrative expenses	(4,938)	(5,593)
	(4,276)	(579)
Gain on disposal of equipment	892	1,169
Gain on disposal of land and buildings	-	508
Earnings (loss) from operating activities	(3,384)	1,098
Finance costs	(387)	(467)
Foreign exchange gain (loss)	2,354	(1,426)
Write-down of inventory	(277)	-
Gain on disposal of foreign subsidiary (note 7)	10,865	-
Earnings (loss) before income taxes	9,171	(795)
Income tax recovery (expense):		
Current	126	(483)
Deferred	386	554
Total income tax recovery	512	71
Net earnings (loss)	9,683	(724)
Other comprehensive income (loss):		
Foreign currency translation differences for foreign operations	(3,205)	3,806
Total comprehensive income	$ 6,478	$ 3,082
Net earnings (loss) per share		
Basic	$ 0.27	$ (0.02)
Diluted	$ 0.27	$ (0.02)

See accompanying notes to condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Three months ended March 31, 2016 and 2015
Dollars in '000s
(unaudited)

	Share capital	Contributed surplus	Accumulated other comprehensive income	Retained earnings	Total shareholders' equity
Balance at December 31, 2014	**$ 74,481**	**$ 9,261**	**$ 3,850**	**$ 40,776**	**$ 128,368**
Total comprehensive income (loss) for three months ended March 31, 2015	-	-	3,806	(724)	3,082
Transactions with shareholders, recorded directly in equity contributions by and distributions to shareholders for three months ended March 31, 2015:					
Dividends to equity holders	-	-	-	(1,452)	(1,452)
Share-based compensation	-	42	-	-	42
Total contributions by and distributions to shareholders	-	42	-	(1,452)	(1,410)
Balance at March 31, 2015	**$ 74,481**	**$ 9,303**	**$ 7,656**	**$ 38,600**	**$ 130,040**
Balance at December 31, 2015	**$ 74,481**	**$ 9,470**	**$ 11,577**	**$ 1,079**	**$ 96,607**
Total comprehensive income (loss) for three months ended March 31, 2016	-	-	(3,205)	9,683	6,478
Accumulated other comprehensive income recognized in income on sale of subsidiary	-	-	1,348	-	1,348
Transactions with shareholders, recorded directly in equity contributions by and distributions to shareholders for three months ended March 31, 2016:					
Share-based compensation	-	60	-	-	60
Total contributions by and distributions to shareholders	-	60	-	-	60
Balance at March 31, 2016	**$ 74,481**	**$ 9,530**	**$ 9,720**	**$ 10,762**	**$ 104,493**

See accompanying notes to condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Three months ended March 31, 2016 and 2015
Dollars in '000s
(unaudited)

	Three months ended March 31	
	2016	2015
Cash provided by (used in):		
Operating activities:		
Net earnings (loss)	$ 9,683	$ (724)
Items not involving cash:		
Depreciation	4,267	5,135
Total income tax recovery	(512)	(71)
Unrealized foreign exchange (gain) loss on intercompany balances	(2,364)	1,276
Finance costs	387	467
Share-based compensation	60	42
Gain on disposal of equipment	(892)	(1,169)
Gain on disposal of land and building	-	(508)
Write-down of inventory	277	-
Gain on disposal of foreign subsidiary (note 7)	(10,865)	-
Cash flow from continuing operations	41	4,448
Changes in non-cash operating working capital	4,235	18,811
Income taxes (paid) recovered	(120)	(1,327)
Cash flow from operating activities	4,156	21,932
Investing activities:		
Equipment additions	(268)	(4,303)
Intangible asset additions	(45)	(150)
Proceeds on disposal of equipment	1,205	1,672
Proceeds on disposal of land and buildings	-	6,174
Changes in non-cash investing working capital	646	405
Cash flow from (used for) investing activities	1,538	3,798
Financing activities:		
Change in operating loan	(2,088)	(1,036)
Repayments on loans and borrowings	(2,603)	(20,180)
Interest paid	(134)	(355)
Dividends paid	-	(2,994)
Cash flow from (used for) financing activities	(4,825)	(24,565)
Effect of exchange rate on changes in cash and cash equivalents	(95)	447
Change in cash and cash equivalents	774	1,612
Cash and cash equivalents, beginning of period	1,426	5,109
Cash and cash equivalents, end of period	$ 2,200	$ 6,721

See accompanying notes to condensed consolidated interim financial statements.

1. Reporting entity

Cathedral Energy Services Ltd. ("the Company" / "Cathedral") is a company domiciled in Canada. The Company is a publicly-traded company listed on the Toronto Stock Exchange under symbol "CET". The condensed consolidated interim financial statements of the Company as at and for the period ended March 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 selected oilfield services to oil and natural gas companies in western Canada and the United States ("U.S.").

During 2016 Q1, the Company disposed of its 100% interest in Directional Plus International Inc. ("DPI"). See note 7 for further details.

2. Basis of preparation

(a) Statement of compliance

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

Accordingly, certain information and footnote disclosures normally included in the annual financial statements prepared in accordance with IFRS, as issued by the International Accounting Standards Board ("IASB"), have been omitted or condensed. It also requires management to exercise judgment in applying the Company's accounting policies. These unaudited condensed consolidated interim financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2015, which are included in the Company's 2015 Annual Report.

The unaudited condensed consolidated interim financial statements were authorized for issue by the Board of Directors on May 10, 2016.

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Significant accounting policies

These unaudited condensed interim consolidated financial statements have been prepared in accordance with IFRS and using the same accounting policies as outlined in note 3 of the consolidated financial statements for the year ended December 31, 2015. The accounting policies have been applied consistently by the Company.

Future Accounting Pronouncements
There were no other new or amended standards issued during the three months ended March 31, 2016 that are applicable to the Company in future periods. A description of standards and interpretations that will be adopted by the Company in future periods can be found in the notes to the consolidated financial statements for the year ended December 31, 2015.

3. Seasonality of operations

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

4. Equipment

During the period, the additions to equipment by class are as follows:

	Three months ended March 31	
	2016	2015
Directional Drilling equipment	$ 268	$ 2,601
Flow back and Production Testing equipment	-	1,029
Land and buildings	-	561
Automotive equipment	-	-
Office and computer equipment	-	112
Equipment additions	$ 268	$ 4,303

5. Loans and borrowings

		March 31 2016		December 31 2015
Current liabilities:				
Current portion of finance lease liabilities	$	642	$	686
Non-current liabilities:				
Finance lease liabilities	$	348	$	477
Secured revolving term loan		27,500		30,000
Total	$	27,848	$	30,477

Terms and debt repayment schedule

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

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

After the First and Second Amendment discussed above, the Facility bears interest at the bank’s prime rate plus 0.50% to 5.00% or bankers’ acceptance rate plus 1.75% to 6.25% with interest payable monthly. Interest rate spreads for the Facility depends on the level of funded debt to the 12 month trailing EBITDA per credit agreement.

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

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

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

During the waiver period of the Second Amendment there is a requirement for minimum EBITDA per credit agreement for the quarter ended March 31, 2016 of $850 and minimum cumulative EBITDA per credit agreement for the two quarters ending June 30, 2016 of $1,600. The First and Second 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 at March 31, 2016, the Company was in compliance with all covenants under its credit facility.

The Company's financial ratios in the 2016 Q1 waiver period were:

Ratio	March 31, 2016 value
Debt service ratio	2.29:1
Funded debt to EBITDA per credit agreement	6.51:1

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

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

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The Company's loans and borrowings to total capitalization and EBITDA per credit agreement (as defined in the credit agreement) ratios at the end of the reporting period were as follows:

	March 31 2016	December 31 2015
Loans and borrowings, current portion	$ 642	$ 686
Loans and borrowings, long-term portion	27,848	30,477
Loans and borrowings, including current portion	$ 28,490	$ 31,163
Shareholders' equity	$ 104,493	$ 96,607
Less Accumulated other comprehensive income ("AOCI")	(9,720)	(11,577)
Shareholders' equity excluding AOCI	94,773	85,030
Loans and borrowings, including current portion	28,490	31,163
Total capitalization	$ 123,263	$ 116,193
Loans and borrowings, including current portion to total capitalization	0.23	0.27
Loans and borrowings, including current portion	$ 28,490	$ 31,163
Operating loans	405	2,484
Less cash balances	(2,593)	(2,085)
Letter of credit	1,500	1,554
Funded debt per lending agreement	$ 27,802	$ 33,116

	Three months ended March 31 2016	Year ended December 31 2015
Earnings (loss) before income taxes	$ 9,171	$ (32,087)
Add (deduct):		
Depreciation included in cost of sales	4,233	20,566
Depreciation included in selling, general and administrative expenses	34	179
Share-based compensation included in cost of sales	10	59
Share-based compensation included in selling, general and administrative expenses	50	150
Finance costs	387	1,664
Unrealized foreign exchange gain on intercompany balances	(2,364)	4,191
Gain on sale of land and buildings	-	(456)
Non-recurring expenses	543	766
Write-down of goodwill	-	5,848
Write-down of equipment	-	3,189
Write-down of inventory	277	3,736
Gain on disposal of foreign subsidiary	(10,865)	-
Adjusted EBITDAS as per MD&A	1,476	7,805
Gain on disposal of equipment	(892)	(3,363)
Proceeds from disposal of equipment	1,177	3,803
EBITDA per credit agreement for the period	1,761	8,245
EBITDA per credit agreement from prior 3 trailing quarters	2,511	N/A
Trailing twelve months EBITDA per credit agreement	$ 4,272	$ 8,245
Funded debt to EBITDA	6.51	4.02

6. Share capital

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

Common shares issued:

	Three months ended March 31, 2016		Year ended December 31, 2015	
	Number	Amount	Number	Amount
Issued, beginning of period	36,295,380	$ 74,481	36,295,380	$ 74,481
Issued on exercise of options	-	-	-	-
Issued, end of period	36,295,380	$ 74,481	36,295,380	$ 74,481

Issuance of common shares

There were no shares issued in the period.

Basic earnings per share

The calculation of basic earnings per share for the three months ended March 31, 2016 was based on the profit attributable to common shareholders of $9,683 (2015 – loss of $(724)) 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

	Three months ended March 31,	
	2016	2015
Issued, beginning of period	36,295,380	36,295,380
Effect of share options exercised	-	-
Weighted average number of common shares at end of period	36,295,380	36,295,380

Diluted earnings per share

As the Company was in a loss position at March 31, 2015 there was no calculation of diluted earnings per share.

The calculation of diluted earnings per share at March 31, 2016 was based on profit attributable to common shareholders of $9,683 and a weighted average number of common shares outstanding after adjustment for the effects of all dilutive potential common shares of 36,295,380 calculated as follows:

Weighted average number of common shares (diluted)

	Three months ended March 31,	
	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 period	36,295,380	36,295,380

At March 31, 2016, 1,705,165 options (2015 – 1,743,641 options) were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive. The average market value of the Company's common shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period during which the options were outstanding.

During the three months ended March 31, 2016, the Company granted no share options.

7. 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.

8. Commitments

In the normal course of business, the Company incurs contractual obligations and those obligations are disclosed in the Company's consolidated financial statements for the year ended December 31, 2015. As at March 31, 2016, the Company's commitment to purchase equipment is approximately $nil.

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

9. Contingencies

On October 29, 2014 Cathedral received a letter from one of its U.S. clients ("the Complainant") alleging a down-hole drilling incident which impacted two of their wells in December 2013. The Complainant had indicated potential damages of $3,000 USD and in 2015 Q3 increased this indication to $3,700 USD. Cathedral does not carry insurance for this type of incident. In January 2016, the Complainant filed a formal complaint in Pennsylvania court initiating a formal legal process related to their claim. Cathedral, with its legal counsel is responding to the complaint and intends to vigorously defend this action. Due to the uncertainty around what amount, if any, and the means of settlement, the Company has made no provision in the financial statements for this incident.

The Company's wholly-owned subsidiary, Cathedral Energy Services Inc. ("INC"), has been named in a legal action in Houston, Texas commenced by a former employee. INC has also been named in a second legal action in Denver, Colorado by a former employee. In both these legal actions the employees and consultants (collectively "Claimants") allege that they were improperly classified as exempt under the Fair Labour Standards Act and therefore entitled to unpaid overtime or additional compensation for improperly calculated overtime. Subsequently, ten additional claimants have joined the first action and five additional claimants have joined the second action. Legal actions involving similar alleged violations have been filed in the United States against a number of other oilfield service companies. The Claimants assert that they will seek to have the action certified as a collective action which may result in additional employees, former employees or consultants of INC joining the actions. INC has filed defenses for both actions and is currently reviewing its settlement and legal options. The Company believes that the potential impact of this matter is indeterminable.