CATHEDRAL

2015 Q1 INTERIM REPORT

FINANCIAL HIGHLIGHTS

Dollars in 000's except per share amounts

		Three months ended March 31		
		2015		2014
Revenues	$	50,077	$	68,020
Adjusted gross margin % (1)		20.2%		20.5%
Adjusted EBITDAS (1)	$	5,786	$	8,581
Diluted per share	$	0.16	$	0.24
As % of revenues		12%		13%
Funds from continuing operations (1)	$	3,965	$	8,120
Diluted per share	$	0.11	$	0.22
Earnings (loss) before income taxes	$	(795)	$	2,876
Basic per share	$	(0.02)	$	0.08
Diluted per share	$	(0.02)	$	0.08
Net earnings (loss)	$	(724)	$	2,449
Basic per share	$	(0.02)	$	0.07
Diluted per share	$	(0.02)	$	0.07
Dividends declared per share	$	0.0400	$	0.0825
Property and equipment additions - cash basis	$	4,303	$	9,917
Weighted average shares outstanding				
Basic (000s)		36,295		36,186
Diluted (000s)		36,295		36,219

		March 31 2015		December 31 2014
Working capital	$	25,304	$	38,135
Total assets	$	201,943	$	230,534
Loans and borrowings excluding current portion	$	36,091	$	56,142
Shareholders' equity	$	130,040	$	128,368

(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, 2015 should be read in conjunction with the annual audited consolidated financial statements and notes thereto for the year ended December 31, 2014, as well as the MD&A in the 2014 Annual Report of Cathedral Energy Services Ltd. ("the Company" / "Cathedral"). This MD&A has been prepared as of May 6, 2015. Dollar amounts are in '000's except for day rates and per share amounts.

2015 Q1 KEY TAKEAWAYS

Revenue in the quarter was $50,077 and EBITDAS was $5,786 consistent with management's expectations.

Positive impacts from our cost containment initiatives resulted in us maintaining adjusted gross margin percentage for the quarter compared to the prior year.

Reduction in bank debt by 38% to $35,000 at March 31, 2015 compared to $56,069 as at December 31, 2014.

Positive customer response to our product offering resulted in us maintaining customer work and securing new work in a challenging industry environment.

OVERVIEW

The Company completed 2015 Q1 with quarterly revenues of $50,077 compared to 2014 Q1 revenues of $68,020. Revenues have decreased 26% from 2014. The 2015 Q1 revenues were comprised of 73% (2014 Q1 - 77%) from the directional drilling division and 27% (2014 Q1 - 23%) from the production testing division.

2015 Q1 adjusted EBITDAS were $5,786 ($0.16 per share diluted) which represents a $2,795 decrease from 2014 Q1 adjusted EBITDAS of $8,581 ($0.24 per share diluted). For the three months ended March 31, 2015, the Company's net loss was $724 ($(0.02) per share) as compared to net earnings of $2,449 ($0.07 per share diluted) in 2014. The decrease in revenues was primarily attributed to the decline in drilling and completion activity due to the declines in commodity prices.

OUTLOOK

During the first quarter, the Company experienced the impact of the rapid decline in industry activity levels as a consequence of energy companies reducing their capital spending programs due to low energy prices. Revenues were impacted by a drop in activity days along with pricing pressure from the customers who were still active. An early spring breakup in Canada had a further negative impact on activity levels toward the end of the quarter. Despite the challenging business environment we were pleased with our first quarter results based on business Cathedral was able to secure and maintain and the progress made on our expense reduction initiatives. However, the second quarter has historically been our most challenging due to lower activity levels in Canada and we are prepared for 2015 Q2 to be further challenging due to low commodity prices.

Although oil prices appear to have stabilized, there continues to be lack of visibility into activity levels in North America for the remainder of year. Natural gas prices also continue to be soft. Industry analysts are anticipating oil prices will firm up in the second half of 2015 with the implication there may be corresponding positive impact on energy company drilling and completion activity levels.

Going into this downturn, we focused on three priorities for our business:

1. Adjust our cost structure and financial obligations to reflect the decline in activity levels and protect our balance sheet;

2. Preserve our key employee base so when industry conditions improve we are able to ramp up quickly; and

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

Beginning in January, we significantly reduced our cost structure in order to match anticipated industry activity levels and manage our financial obligations. Our workforce has been reduced by over 25% since December. We have implemented salary and wage rollbacks at all levels in the company ranging from 5% to over 20%. Our suppliers have supported us by providing cost reductions and we continue to review all expense categories looking for savings opportunities both short and long-term. These expense reductions were partly reflected in our Q1 results as some savings were not fully realized until March. We were pleased with our performance in the quarter from an expense management perspective and we are on track to achieve our targeted reduction in SG&A of 20% from 2014 levels.

Given the uncertain industry outlook, we continue to monitor and optimize our capital expenditure program. Going into the year, we had a backlog of capital commitments which we were able to reduce. We believe we currently have sufficient equipment capacity to meet customer needs in the short term. However, we are continuing to upgrade our fleet in anticipation of an eventual industry upturn to be able to exploit our competitive advantages. In the quarter, we completed the sale and leaseback of our Oklahoma City facility and benefited from the lower Canadian dollar when repatriating the funds. These actions along with lower working capital requirements and a focus on accounts receivable collections allowed us to reduce our bank debt from $56,069 at December 31, 2014 to $35,000 at March 31, 2015.

In the quarter, we commenced discussions with our banking syndicate on getting additional room on our banking covenants should industry conditions deteriorate further or the current industry downturn is prolonged. The banking syndicate has indicated they will work with us to allow financial covenant relaxation for an appropriate time period, if required. As explained later in this MD&A, we have received a proposal letter from Canada Revenue Agency ("CRA") which challenges the tax pools we obtained as part of the conversion from an income trust to a corporation in late 2009. We remain confident in the appropriateness of our tax-filing position and are reviewing our response to the CRA.

On a positive note, we have gained incremental business from customers in the U.S. and Canada as a result of our performance advantages. We are renting our nDurance™ series drilling motors on a stand-alone basis to major energy company customers and are receiving positive market feedback on their performance. In the U.S., our Electro-Magnetic Measurement-While-Drilling ("EM-MWD") system is now being recognized for its performance advantages in difficult formations resulting in us securing new customer opportunities. We are also providing our EM-MWD on a standalone basis. With customers now focused on cost reduction and drilling performance, our capabilities play well in this environment. As a service provider we are in a unique position from a cost impact perspective as our ability to reduce drilling days can result in significant cost savings for our customers. During the quarter, we accomplished a number of records for drilling performance with customers in both Canada and the U.S. which reinforces our customer value proposition. We continue to push forward and invest in our strategic improvement initiatives to set our company to be in a stronger position coming out of this downturn.

We remain confident that we will come out of this current downturn in a very strong position to deliver increased value to our customers and our shareholders.

DIVIDENDS

It is the intent of the Company to pay quarterly dividends to shareholders. The Board of Directors will review the amount of dividends on a quarterly basis with due consideration to current performance, historical and future trends in the business, the expected sustainability of those trends and enacted tax legislation which will affect future taxes payable as well as required long-term debt repayments, maintenance capital expenditures required to sustain performance and future growth capital expenditures. The Directors have approved a 2015 Q2 dividend in the amount of $0.04 per share which will have a date of record of June 30, 2015 and a payment date of July 15, 2015.

2015 CAPITAL PROGRAM

During 2015 Q1 the Company invested $4,303 (2014 Q1 - $9,917) in property and equipment. The following table details the current period's net property and equipment additions:

		Three months ended March 31, 2015
Property and equipment additions:		
Growth capital (1)	$	3,218
Maintenance capital (1)		267
Replacement capital (1)		252
Infrastructure capital (1)		566
Total cash additions		4,303
Less: proceeds on disposal of property and equipment		(1,672)
Less: proceeds on disposal of land and buildings		(6,174)
Net property and equipment additions (1)	$	(3,543)

(1) See "NON-GAAP MEASUREMENTS"

The major additions for growth capital were $2,231 for additional drilling motors and related equipment for specific job requirements and $987 for additional ancillary production testing equipment to reduce future rental costs. Infrastructure capital relates to the construction of an operation facility in Oklahoma that was completed and subject to a sale and leaseback in 2015 Q1. Maintenance capital included $159 related to MWD upgrades, $42 for production testing units and ancillary equipment and $66 related to office and computer equipment additions.

Cathedral's 2015 capital budget remains at $7,000 which includes $4,600 of growth capital, $1,775 of maintenance capital and $625 of infrastructure expenditures.

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

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

	March 31 2015	December 31 2014	March 31 2014
Directional drilling - MWD systems	140	140	139
Production testing units	66	66	72

RESULTS OF OPERATIONS – THREE MONTHS ENDED MARCH 31

Revenues	Three months ended March 31, 2015 Directional drilling	Production testing	Total	Three months ended March 31, 2014 Directional drilling	Production testing	Total
Canada	$ 15,044	$ 4,998	$ 20,042	$ 28,790	$ 8,578	$ 37,368
United States	21,753	8,282	30,035	23,672	6,980	30,652
Total	$ 36,797	$ 13,280	$ 50,077	$ 52,462	$ 15,558	$ 68,020

Revenues 2015 Q1 revenues were $50,077 which represented a decrease of $17,943 or 26% from 2014 Q1 revenues of $68,020. U.S. production testing had higher revenues than 2014 Q1. However, all other areas experienced declines due mainly to overall decline in drilling activity as a result of decline in commodity prices.

Canadian directional drilling revenues decreased to $15,044 in 2015 Q1 from $28,790 in 2014 Q1; a 48% decrease. This decrease was the result of: i) a 47% decrease in activity days to 1,417 in 2015 Q1 from 2,649 in 2014 Q1; and ii) a 2% decrease in the average day rate to $10,617 in 2015 Q1 from $10,868 in 2014 Q1. In 2015 Q1 there was an industry wide decline in activity due to declines in commodity prices and day rate declines directly relate to pricing concessions granted to customers due to market conditions. In 2015 Q1, the Western Canada Sedimentary Basin ("WCSB") had a decline in non-vertical wells drilled of 45% compared to 2014 Q1.

U.S. directional drilling revenues decreased to $21,753 in 2015 Q1 from $23,672 in 2014 Q1; an 8% decrease. This decrease was the result of: i) a 11% decrease in activity days to 1,667 in 2015 Q1 from 1,880 in 2014 Q1; net of ii) a 4% increase in the average day rate to $13,049 in 2015 Q1 from $12,591 in 2014 Q1 (when converted to Canadian dollars). The decrease in U.S. activity days was primarily due to the decrease in operations in the Rocky Mountain region of the U.S. along with slight declines in the Company's operations in the Texas and Oklahoma markets. These declines were partially offset by an increase in days in the Northeastern U.S. where the Company had a significant decline in operations in 2014. The U.S. active land rig count was down 21% from 2014 Q1. The U.S. average day rates in Canadian dollars increased due to the stronger U.S. dollar. Rates in USD declined to $10,558 USD in 2015 Q1 from $11,412 USD in 2014 Q1, a 7% decline. As with Canadian directional, there were pressures from clients to reduce pricing.

Canadian production testing revenues decreased to $4,998 in 2015 Q1 from $8,578 in 2014 Q1; a 42% decrease. In the prior year, 2014 Q1 had benefited from delays in completion jobs which were deferred into that quarter. While day rates in 2015 remained consistent with 2014 Q1, there was a decline in operating days due to the industry downturn. The number of wells completed in the WCSB declined by 36% in 2015 Q1 compared to 2014 Q1.

U.S. production testing revenues increased to $8,282 in 2015 Q1 from $6,980 in 2014 Q1, a 19% increase. In 2014 Q1 the division was working to rebuild its client base after a significant customer had shifted work to a competitor in 2013 Q4. In 2014 Q1, the division had lowered rates significantly to assist in gaining new customers. In 2015 Q1 the activity levels were down consistent with other divisions, but day rates in USD increased to expected levels and these rates were higher when converted into CAD.

Gross margin and adjusted gross margin Gross margin for 2015 Q1 was 10.0% compared to 13.8% in 2014 Q1. Adjusted gross margin (see Non-GAAP Measurements) for 2015 Q1 was $10,120 (20.2%) compared to $13,925 (20.5%) for 2014 Q1.

There were multiple reasons for the change in adjusted gross margin in the period. The Company began a thorough review of all expenses in late 2014 that became the major point of emphasis in 2015 and obtained a number of cost reductions for external services and for field, support and office staff, including work force adjustments and wage rollbacks. As a result, even though revenue day rates declined in most divisions, the Company was able to maintain its adjusted gross margin compared to 2014 Q1.

There were a number of factors that individually changed in the composition of cost of sales including a decline in field labour costs as a percentage of revenue year-over-year due to cuts in labor rates and reductions in usage of batteries in the period compared to prior year. These reductions were offset by increase in repairs and fixed costs on a percentage of revenue basis. Overall costs were lower than in 2014 Q1, but higher as a percentage of revenue basis. There was also a lag in certain repairs and costs in 2015 Q1 related to earlier operations.

Depreciation allocated to cost of sales increased to $5,091 in 2015 Q1 from $4,464 in 2014 Q1. Depreciation included in cost of sales as a percentage of revenue was 10.2% for 2015 Q1 and 6.6% in 2014 Q1.

Selling, general and administrative expenses ("SG&A") SG&A expenses were $5,593 in 2015 Q1; a decrease of $585 compared with $6,178 in 2014 Q1. Excluding non-cash depreciation and share-based compensation, the sequentially SG&A was $5,522 in 2015 Q1 a reduction of 13% compared with 2014 Q4 at $6,377 and we believe we are on target to reduce the 2014 Q4 amount by a total of 20% in subsequent quarters.

Adjusted SG&A (see Non-GAAP Measurements) was $5,356 in 2015 Q1 compared to $5,964 in 2014 Q1, a decrease of $608. As a percentage of revenue, adjusted SG&A was 11% in 2015 Q1 and 9% in 2014 Q1. Adjusted SG&A decreased primarily due to wages, benefits and variable compensation due to work force adjustments and wage rollbacks. Staffing costs included in SG&A include executives, sales, accounting, human resources, payroll, safety, research and development and related support staff.

Gain on disposal of property and equipment In 2015 Q1 the Company completed the previously discussed sale and leaseback of its Oklahoma City operating facility. This resulted in a gain on sale of land and buildings of $508. The Company has entered into a 15 year lease on the related assets. During 2015 Q1, the Company had a gain on disposal of property and equipment of $1,169 compared to $734 in 2014 Q1. These gains are mainly due to recoveries of lost-in-hole equipment costs including previously expensed depreciation on the related assets. The timing of lost-in-hole recoveries is not in the control of the Company and therefore can fluctuate significantly from quarter-to-quarter.

Foreign exchange loss The Company had foreign exchange loss of $1,426 in 2015 Q1 compared to $497 in 2014 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 2015 Q1 foreign currency loss are unrealized losses of $1,276 (2014 Q1 - $454) related to intercompany balances.

Finance costs Finance costs consist of interest expenses on operating loans, loans and borrowings and bank charges of $467 for 2015 Q1 versus $596 for 2014 Q1. The decrease in finance costs relate mainly to a decreased utilization of the Company's credit facility and to a lesser extent decreases in interest rates.

Income tax For 2015 Q1, the Company had net income tax recovery of $71 compared to expense of $427 in 2014 Q1. The effective tax rate was 9% for 2015 Q1 and 15% for 2014 Q1. Income tax expense is booked based upon expected annualized effective rates. The current period tax rate is 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, 2015, the Company had funds from continuing operations (see Non-GAAP Measurements) of $3,965 (2014 - $8,120). The decrease in funds from continuing operations is due to lower activity levels and reductions in revenue day rates.

Working capital At March 31, 2015 the Company had working capital of $25,304 (December 31, 2014 - $38,135) and a working capital ratio of 1.7 to 1 (December 31, 2014 – 1.8 to 1). The lower working capital level was directly related to the reduction in activity levels.

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

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

The credit facility is secured by a general security agreement over all present and future personal property and is subject to certain covenants regarding the payment of dividends. As at March 31, 2015 the Company is in compliance with all covenants under the credit facility including the following financial covenants:

	March 31, 2015
Debt service ratio - must be not less than 2.50:1	6.71:1
Funded debt to EBITDAS (as defined in the credit facility) - must be not greater than 3.00:1	0.98:1

The following table outlines the current credit facility:

		March 31 2015		December 31 2014
Total credit facility	$	85,000	$	85,000
Drawings on credit facility:				
Operating loan		-		1,069
Revolving term loan		35,000		55,000
Letters of credit		1,373		700
Total drawn facility	$	36,373	$	56,769
Undrawn portion of credit facility	$	48,627	$	28,231
Net debt (see NON-GAAP MEASUREMENTS):				
Loans and borrowings, net of current portion	$	36,091	$	56,142
Working capital:				
Current assets	$	60,346	$	83,392
Current liabilities		(35,042)		(45,257)
Working capital	$	25,304	$	38,135
Net debt	$	10,787	$	18,007

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, 2014. As at March 31, 2015, the Company had a commitment to purchase approximately $696 of equipment. Cathedral anticipates expending these funds in 2015 Q2.

Share capital At May 6, 2015, the Company has 36,295,380 common shares and 1,695,197 options outstanding with a weighted average exercise price of $4.49.

In 2015 Q1, the Company issued 729,000 stock options with an exercise price of $2.13 per share.

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, 2015 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, 2014, which is included in the Company's 2014 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, 2015 except as noted below.

Tax related risks associated with conversion

On April 21, 2015, the Company received a proposal letter from the Canada Revenue Agency ("CRA") which discloses its intention to challenge the tax attributes obtained as part of the December 18, 2009 conversion from an income trust to a corporation; such a challenge is based on the general anti-avoidance rules of the Income Tax Act (Canada). Cathedral has 30 days to respond to the letter and believes that the CRA will then proceed with a Notice of Reassessment for the Company's 2010, 2011 and 2012 taxation years. Cathedral is currently reviewing the proposal with its external tax advisors.

If the Notice of Reassessment is received, to challenge the reassessment Cathedral will be required to make a payment of 50% of the taxes and interest CRA claims are owed for such years. Based on Cathedral's 2009 to 2012 taxation years, that 50% amount related to taxes is approximately $3,300. If the Company is ultimately successful in defending its position, such payments plus applicable interest, will be refunded to the Company. If the CRA is successful, the Company will be required to pay the balance of the taxes claimed plus applicable interest and penalties.

The Company's 2015 Q1 financial results do not include the impact of a potential reassessment.

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, 2015 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, 2014.

SUMMARY OF QUARTERLY RESULTS

Three month periods ended	Mar 2015	Dec 2014	Sep 2014	Jun 2014	Mar 2014	Dec 2013	Sep 2013	Jun 2013
Revenues	$ 50,077	$ 73,242	$ 77,376	$ 56,797	$ 68,020	$ 65,238	$ 59,734	$ 45,639
Adjusted EBITDAS (1)	$ 5,786	$ 9,408	$ 14,347	$ 6,151	$ 8,581	$ 8,124	$ 10,757	$ 5,342
Adjusted EBITDAS (1) per share - diluted	$ 0.16	$ 0.26	$ 0.40	$ 0.17	$ 0.24	$ 0.22	$ 0.30	$ 0.15
Net earnings (loss)	$ (724)	$ 1,776	$ 5,805	$ 253	$ 2,449	$ (11,248)	$ 7,956	$ (309)
Net earnings (loss) per share - basic and diluted	$ (0.02)	$ 0.05	$ 0.16	$ 0.01	$ 0.07	$ (0.31)	$ 0.22	$ (0.01)
Dividends declared per share	$ 0.0400	$ 0.0825	$ 0.0825	$ 0.0825	$ 0.0825	$ 0.0825	$ 0.075	$ 0.075

(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: expecting 2015 Q2 to be further challenged by low commodity prices; oil prices appear to have stabilized; believe we currently have sufficient equipment capacity to meet customer needs in the short term; be able to exploit our competitive advantages with industry upturn; continue to push forward and invest in our strategic improvement initiatives to set our company to be in a stronger position coming out of this downturn; our lenders will work with us to allow financial covenant relaxation for an appropriate time period; we will come out of this current downturn in a very strong position to deliver increased value to our customers and our shareholders; activity levels and potential declines; adjusted cost structure; position to be a stronger company; preserve key employee base; offer performance advantages; projected capital expenditures and commitments and the financing thereof; timing of expenditures on purchase commitments; opportunity for Cathedral to demonstrate our technology and service capabilities in new areas as both existing and potential customers are more receptive to opportunities to gain efficiencies; and dividends.

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

- the performance of Cathedral's businesses, including current business and economic trends;
- oil and natural gas commodity prices and production levels;
- capital expenditure programs and other expenditures by Cathedral and its customers:
- the ability of Cathedral to retain and hire qualified personnel;
- the ability of Cathedral to obtain parts, consumables, equipment, technology, and supplies in a timely manner to carry out its activities;
- the ability of Cathedral to maintain good working relationships with key suppliers;
- the ability of Cathedral to market its services successfully to existing and new customers and reliance on major customers;
- risks associated with technology development and intellectual property rights;
- the ability of Cathedral to maintain safety performance
- the ability of Cathedral to obtain timely financing on acceptable terms;
- the ability to obtain sufficient insurance coverage to mitigate operational risks;
- currency exchange and interest rates;
- risks associated with foreign operations;
- risks associated with acquisitions and business development efforts;
- environmental risks
- the ability of Cathedral to realize the benefits of its conversion from an income trust to a corporation;
- risks associated with winding up operations in Venezuela, including the ability to sell Cathedral's interest in the Venezuela joint venture;
- changes under governmental regulatory regimes and tax, environmental and other laws in Canada, United States ("U.S.") and Venezuela; and
- competitive risks.

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

All forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement. Further information about the factors affecting forward-looking statements is available in the Company's current Annual Information Form 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 selling, general and administrative expenses" ("Adjusted SG&A") – defined as selling, general and administrative expenses excluding non-cash depreciation and share-based compensation, non-recurring executive compensation (such as severance) and excluding expenses related to operations in Venezuela.

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

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

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

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

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

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

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

xi) "Net property and equipment additions" – is property and equipment additions expenditures less proceeds on the disposal of property and equipment. Cathedral uses net property and equipment additions to assess net cash flows related to the financing of Cathedral's property and equipment additions; and

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

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

Adjusted gross margin

	Three months ended March 31 2015	2014
Gross margin	$ 5,014	$ 9,413
Add non-cash items included in cost of sales:		
Depreciation	5,091	4,464
Share-based compensation	15	48
Adjusted gross margin	$ 10,120	$ 13,925
Adjusted gross margin %	20.2%	20.5%

Adjusted SG&A

	Three months ended March 31 2015	2014
Total selling, general and administrative expenses	$ 5,593	$ 6,178
Less:		
Non-recurring compensation	(134)	-
Expenses related to international operations	(32)	(71)
Depreciation	(44)	(61)
Share-based compensation	(27)	(82)
Adjusted selling, general and administrative expenses	$ 5,356	$ 5,964

Adjusted EBITDAS

	Three months ended March 31 2015	2014
Earnings (loss) before income taxes	$ (795)	$ 2,876
Add:		
Depreciation included in cost of sales	5,091	4,464
Depreciation included in selling, general and administrative expenses	44	61
Share-based compensation included in cost of sales	15	48
Share-based compensation included in selling, general and administrative expenses	27	82
Finance costs	467	596
EBITDAS	4,849	8,127
Unrealized foreign exchange loss on intercompany balances	1,276	454
Non-recurring compensation	169	-
Non-recurring gain on disposal of land and building	(508)	-
Adjusted EBITDAS	$ 5,786	$ 8,581

Funds from operations

	Three months ended March 31 2015	2014
Cash flow from operating activities	$ 21,932	$ 1,594
Add (deduct):		
Changes in non-cash operating working capital	(18,811)	6,313
Income taxes paid (recovered)	1,327	(60)
Current tax recovery (expense)	(483)	273
Funds from operations	$ 3,965	$ 8,120

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

March 31, 2015 and December 31, 2014
Dollars in '000s
(unaudited)

	March 31 2015	December 31 2014
Assets		
Current assets:		
Cash and cash equivalents	$ 6,721	$ 5,109
Trade receivables	34,697	58,770
Prepaid expenses	1,966	2,383
Inventories	16,962	17,130
Total current assets	60,346	83,392
Property and equipment (note 4)	125,748	131,877
Intangible assets	2,003	1,905
Deferred tax assets	7,998	7,512
Goodwill	5,848	5,848
Total non-current assets	141,597	147,142
Total assets	$ 201,943	$ 230,534
Liabilities and Shareholders' Equity		
Current liabilities:		
Operating loan	$ -	$ 1,069
Trade and other payables	27,971	35,201
Dividends payable	1,452	2,994
Income taxes payable	499	1,232
Loans and borrowings (note 5)	852	857
Deferred revenue	4,268	3,904
Total current liabilities	35,042	45,257
Loans and borrowings (note 5)	36,091	56,142
Deferred tax liabilities	770	767
Total non-current liabilities	36,861	56,909
Total liabilities	71,903	102,166
Shareholders' equity:		
Share capital (note 6)	74,481	74,481
Contributed surplus	9,303	9,261
Accumulated other comprehensive income	7,656	3,850
Retained earnings	38,600	40,776
Total shareholders' equity	130,040	128,368
Total liabilities and shareholders' equity	$ 201,943	$ 230,534

See accompanying notes to condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Three months ended March 31, 2015 and 2014
Dollars in '000s except per share amounts
(unaudited)

	Three months ended March 31	
	2015	2014
Revenues	$ 50,077	$ 68,020
Cost of sales:		
Direct costs	(39,957)	(54,095)
Depreciation	(5,091)	(4,464)
Share-based compensation	(15)	(48)
Total cost of sales	(45,063)	(58,607)
Gross margin	5,014	9,413
Selling, general and administrative expenses:		
Direct costs	(5,522)	(6,035)
Depreciation	(44)	(61)
Share-based compensation	(27)	(82)
Total selling, general and administrative expenses	(5,593)	(6,178)
	(579)	3,235
Gain on disposal of property and equipment	1,169	734
Gain on disposal of land and buildings (note 7)	508	-
Earnings from operating activities	1,098	3,969
Finance costs	(467)	(596)
Foreign exchange loss	(1,426)	(497)
Earnings (loss) before income taxes	(795)	2,876
Income tax recovery (expense):		
Current	(483)	273
Deferred	554	(700)
Total income tax recovery (expense)	71	(427)
Net earnings (loss)	(724)	2,449
Other comprehensive income:		
Foreign currency translation differences for foreign operations	3,806	383
Total comprehensive income	$ 3,082	$ 2,832
Net earnings (loss) per share		
Basic	$ (0.02)	$ 0.07
Diluted	$ (0.02)	$ 0.07

See accompanying notes to condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Three months ended March 31, 2015 and 2014
Dollars in '000s
(unaudited)

	Share capital	Contributed surplus	Accumulated other comprehensive income	Retained earnings	Total shareholders' equity
Balance at December 31, 2013	**$ 73,850**	**$ 9,065**	**$ 1,239**	**$ 42,458**	**$ 126,612**
Total comprehensive income for three months ended March 31, 2014	-	-	383	2,449	2,832
Transactions with shareholders, recorded directly in equity contributions by and distributions to shareholders for three months ended March 31, 2014:					
Dividends to equity holders	-	-	-	(2,985)	(2,985)
Share-based compensation	-	130	-	-	130
Share options exercised	124	(24)	-	-	100
Total contributions by and distributions to shareholders	124	106	-	(2,985)	(2,755)
Balance at March 31, 2014	**$ 73,974**	**$ 9,171**	**$ 1,622**	**$ 41,922**	**$ 126,689**
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
Share options exercised	-	-	-	-	-
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**

See accompanying notes to condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Three months ended March 31, 2015 and 2014
Dollars in '000s
(unaudited)

	Three months ended March 31 2015	2014
Cash provided by (used in):		
Operating activities:		
Net earnings (loss)	$ (724)	$ 2,449
Items not involving cash:		
Depreciation	5,135	4,525
Total income tax (recovery) expense	(71)	427
Unrealized foreign exchange loss on intercompany balances	1,276	454
Finance costs	467	596
Share-based compensation	42	130
Gain on disposal of property and equipment	(1,169)	(734)
Gain on disposal of land and building (note 7)	(508)	-
Cash flow from continuing operations	4,448	7,847
Changes in non-cash operating working capital	18,811	(6,313)
Income taxes (paid) recovered	(1,327)	60
Cash flow from operating activities	21,932	1,594
Investing activities:		
Property and equipment additions	(4,303)	(9,917)
Intangible asset additions	(150)	(51)
Proceeds on disposal of property and equipment	1,672	1,106
Proceeds on disposal of land and buildings	6,174	-
Changes in non-cash investing working capital	405	887
Cash flow from (used for) investing activities	3,798	(7,975)
Financing activities:		
Change in operating loan	(1,036)	5,425
Advances on loans and borrowings	-	5,000
Repayments on loans and borrowings	(20,180)	(167)
Interest paid	(355)	(578)
Proceeds on exercise of share options	-	100
Dividends paid	(2,994)	(2,984)
Cash flow from (used for) financing activities	(24,565)	6,796
Effect of exchange rate on changes in cash and cash equivalents	447	34
Change in cash and cash equivalents	1,612	449
Cash and cash equivalents, beginning of period	5,109	289
Cash and cash equivalents, end of period	$ 6,721	$ 738

See accompanying notes to condensed consolidated interim financial statements.

Dollars in '000s except per share amounts

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, 2015 comprise the Company and its subsidiaries (together referred to as "Cathedral") and it's associate as listed below:

Subsidiaries:

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

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

Investment in associate:

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

Vencana Servicios Petroleros, S.A. was incorporated on March 1, 2012.

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

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, 2014, which are included in the Company's 2014 Annual Report.

The unaudited condensed consolidated interim financial statements were authorized for issue by the Board of Directors on May 6, 2015.

(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, 2014. 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, 2015 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, 2014.

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. Property and equipment

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

	Three months ended March 31			
		2015		2014
Directional drilling equipment	$	2,601	$	7,891
Production testing equipment		1,029		1,855
Land and buildings		561		31
Automotive equipment		-		307
Office and computer equipment		112		154
Property and equipment additions	$	4,303	$	10,238

Included in the above additions are non-cash additions of $nil for the three months ended March 31, 2015 (2014 - $321) related to acquisition of automotive equipment under finance lease liabilities.

5. Loans and borrowings

		March 31 2015		December 31 2014
Current liabilities:				
Current portion of finance lease liabilities	$	852	$	857
Non-current liabilities:				
Finance lease liabilities	$	1,091	$	1,142
Secured revolving term loan		35,000		55,000
Total	$	36,091	$	56,142

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

The Company has a 3 year committed revolving credit facility in the amount of $85,000. The credit facility can be increased by a $25,000 accordion feature which is subject to approval of the syndicate of lenders. The syndicate of lenders consists of The Bank of Nova Scotia and National Bank of Canada.

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

The credit facility is secured by a general security agreement over all present and future personal property and is subject to certain covenants regarding the payment of dividends. As at March 31, 2015, the Company was in compliance with all covenants under its credit facility, which are:

	March 31, 2015
Debt service ratio - must be not less than 2.50:1	6.71:1
Funded debt to EBITDAS (as defined in the credit facility) - must be not greater than 3.00:1	0.98:1

In the quarter, the Company commenced discussions with our banking syndicate on obtaining additional room on our banking covenants should industry conditions deteriorate further or the current industry downturn is prolonged. The banking syndicate has indicated they will work with us to allow financial covenant relaxation for an appropriate time period, if required.

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, 2015			Year ended December 31, 2014		
	Number		Amount	Number		Amount
Issued, beginning of period	36,295,380	$	74,481	36,166,380	$	73,850
Issued on exercise of options	-		-	129,000		515
Contributed surplus on options exercised			-			116
Issued, end of period	36,295,380	$	74,481	36,295,380	$	74,481

Issuance of common shares

There were no shares issued in the period.

Dividends

Cathedral declared a dividend of $1,452 in 2015 Q1 (2014 Q1 - $2,985) or $0.04 per share (2014 Q1 - $0.0825 per share.) After the reporting date, the directors approved a dividend of $0.04 per share with a record date of June 30, 2015 and payable July 15, 2015.

6. Share capital (continued)

Basic earnings per share

The calculation of basic earnings per share for the three months ended March 31, 2015 was based on the loss attributable to common shareholders of $724 (2014 – profit of $2,449) and a weighted average number of common shares outstanding of 36,295,380 (2014 – 36,185,935); calculated as follows:

Weighted average number of ordinary shares

	Three months ended March 31,	
	2015	2014
Issued, beginning of period	36,295,380	36,166,380
Effect of share options exercised	-	19,555
Weighted average number of common shares at end of period	36,295,380	36,185,935

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, 2014 was based on profit attributable to common shareholders of $2,449 and a weighted average number of common shares outstanding after adjustment for the effects of all dilutive potential common shares of 36,219,407 calculated as follows:

Weighted average number of common shares (diluted)

	Three months ended March 31,	
	2015	2014
Weighted average number of common shares (basic)	36,295,380	36,185,935
Effect of share options on issue	-	33,472
Weighted average number of common shares (diluted) at end of period	36,295,380	36,219,407

At March 31, 2015, 1,743,641 options (2014 – 1,301,996 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, 2015, the Company granted 729,000 share options. The following table sets out the assumptions used in applying the Black-Scholes model for the options issued as well as the resulting fair value:

		2015 Q1
Number of options issued		729,000
Exercise price	$	2.13
Fair value per option (w eighted average)	$	0.36
Expected annual dividend per share	$	0.16
Risk-free interest rate (w eighted average)		0.5%
Expected share price volatility (w eighted average)		45.4%
Forfeiture rate per annum		5.9%

7. Gain on sale of land and buildings

On March 30, 2015 the Company closed the sale of its land and buildings in Oklahoma City, Oklahoma and entered into a lease for these premises. As the lease is classified as an operating lease and the sale proceeds were at fair market value, the entire amount of the gain has been recognized in the current period. The net proceeds were $6,174 and the resulting gain on sale of land and buildings was $508.

The Company entered into a 15 year triple net lease for these premises with base rent escalating at 2.5% per year. The contractual cash outflow on the lease net of the reduction for one free month of rent annually will be as follows:

2015	$	269
2016		365
2017		374
2018		384
2019		393
2020		403
Thereafter		4,240

8. Uncertain tax positions

On April 21, 2015, the Company received a proposal letter from the Canada Revenue Agency ("CRA") which states its intention to challenge the tax consequences of the Company's December 2009 conversion transaction. CRA is seeking to apply the general anti-avoidance rules of the Income Tax Act (Canada) to the conversion transaction. Within 30 days CRA will issue a Notice of Reassessment for the Company's 2010, 2011 and 2012 taxation years. The Company has 90 days from the Notice of Reassessment to prepare and file a Notice of Objection, which would be reviewed by the CRA's appeals division. If the CRA is not in agreement with the Company's Notice of Objection, the Company has the option to file its case with the Tax Court of Canada.

The Company is required to make a payment of 50% of the tax liability and interest claimed by the CRA in order to appeal the expected reassessment and, based on the Company's 2010, 2011 and 2012 taxation years, the 50% amount of the tax liability is approximately $3,300. The Company would also be required to make a payment of 50% of the taxes the CRA claims are owed in any future tax year if the CRA were to issue a similar notice of reassessment for such years and the Company was to appeal it.

The impact of the proposal on the Company's tax provision has been considered by management; however, its best estimate of the most likely outcome has not changed. If the Company is unsuccessful in overturning the reassessment, the impact on the Company's future income tax asset at Mach 31, 2015 would be a reduction of approximately $17,750.

The Company's March 31, 2015 financial statements do not include the impact of a potential reassessment.

9. 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, 2014. As at March 31, 2015, the Company's commitment to purchase property and equipment is approximately $696. Cathedral anticipates expending these funds in 2015 Q2.

10. Contingency

The Company's wholly-owned subsidiary, Cathedral Energy Services Inc. ("INC"), has been named in a legal action in Houston, Texas commenced by a former employee and was subsequently joined by one former employee and one former consultant and a second legal action in Denver, Colorado by a former employee (collectively "Claimants"), both legal actions alleging that they were improperly classified as exempt under the Fair Labour Standards Act and therefore entitled to unpaid overtime. 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 a defense to the first action, is in the process of filing a defense on the second action and intends to vigorously defend the same including, without limitation, any motion which may be brought for certification. Based upon a preliminary assessment of information available and certain assumptions the Company believes to be reasonable at this time, Cathedral believes it has a number of defenses to the claims asserted and the action is not currently believed to be material to the Company.

11. Comparative figures

Certain figures in 2014 financial statements have been reclassified to conform to 2015 presentation.