CATHEDRAL

2015 Q2 INTERIM REPORT

FINANCIAL HIGHLIGHTS

Dollars in 000's except per share amounts

	Three months ended June 30 2015	Three months ended June 30 2014	Six months ended June 30 2015	Six months ended June 30 2014
Revenues	$ 29,679	$ 56,797	$ 79,756	$ 124,817
Adjusted gross margin % (1)	11.3%	19.8%	16.9%	20.1%
Adjusted EBITDAS (1)	$ (1,237)	$ 6,151	$ 4,549	$ 14,732
Diluted per share	$ (0.03)	$ 0.17	$ 0.13	$ 0.41
As % of revenues	-4%	11%	6%	12%
Funds from operations (1)	$ (853)	$ 3,767	$ 3,112	$ 11,887
Diluted per share	$ (0.02)	$ 0.10	$ 0.09	$ 0.33
Earnings (loss) before income taxes	$ (6,342)	$ 1,023	$ (7,137)	$ 3,899
Basic per share	$ (0.17)	$ 0.03	$ (0.20)	$ 0.11
Diluted per share	$ (0.17)	$ 0.03	$ (0.20)	$ 0.11
Write-down of deferred taxes related to CRA settlement	$ (10,768)	$ -	$ (10,768)	$ -
Net earnings (loss)	$ (15,266)	$ 253	$ (15,990)	$ 2,702
Basic per share	$ (0.42)	$ 0.01	$ (0.44)	$ 0.07
Diluted per share	$ (0.42)	$ 0.01	$ (0.44)	$ 0.07
Dividends declared per share	$ 0.04	$ 0.0825	$ 0.08	$ 0.1650
Property and equipment additions - cash basis	$ 1,845	$ 7,062	$ 6,148	$ 16,979
Weighted average shares outstanding				
Basic (000s)	36,295	36,230	36,295	36,208
Diluted (000s)	36,295	36,253	36,295	36,235

	June 30 2015	December 31 2014
Working capital	$ 17,820	$ 38,135
Total assets	$ 176,071	$ 230,534
Loans and borrowings excluding current portion	$ 32,793	$ 56,142
Shareholders' equity	$ 112,639	$ 128,368

MANAGEMENT'S DISCUSSION & ANALYSIS

This Management's Discussion & Analysis ("MD&A") for the three and six months ended June 30, 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 August 13, 2015. Dollar amounts are in '000's except for day rates and per share amounts.

2015 Q2 KEY TAKEAWAYS

- Revenues and profitability significantly affected by reduced industry activity and pricing pressures due to the decline in commodity prices;
- Q2 revenues of $29,679 in 2015 compared to $56,797 in 2014, a 48% decline;
- Year-to-date revenues of $79,756 for 2015 and 2014 year-to-date revenues of $124,817, a decline of 36%;
- Adjusted EBITDAS was a loss of $(1,237) in 2015 Q2 compared to $6,151 in 2014 Q2 and year-to-date EBITDAS of $4,549 in 2015 compared to $14,732 in 2014;
- Net loss of ($15,266) for the period includes $10,768 write-down of tax attributes as result of settlement agreement with Canada Revenue Agency;
- An amendment to our credit facility was negotiated with our lenders in the quarter to reduce overall facility size and obtain relaxation of financial covenants through to 2016 Q3;
- Management continued to focus on initiatives; to reduce costs, improve margins and to better position our product offering in the market through improving our sales and marketing capabilities; and
- Cathedral's proprietary directional technology and customer service focus continues to be a key factor in retaining and securing work in a challenging industry environment.

OUTLOOK

As we anticipated, 2015 Q2 was a challenging quarter for the Company from a financial performance perspective. Soft crude oil prices in the first half of the year resulted in oil and gas producers adopting a very cautious approach to their capital spending. As a consequence, North American drilling and completions activity dropped dramatically which are the key drivers of the Company's business. In Canada, an early and lengthy spring break-up compared to previous years negatively impacted Canadian operations. In the U.S. directional business we were successful in gaining new opportunities based on showing customers how our technology and services could reduce their drilling times. These new opportunities helped offset work with customers who significantly reduced their capital spending, however, we still experienced activity reductions consistent with the overall industry declines. Throughout the quarter, we continued to experience pricing pressure on our services which we were partly able to accommodate through reducing our variable costs to preserve margins, however, the impact was still muted by overall lower activity levels.

Sustained WTI pricing in the $60 bbl. range through May and June, accompanied by customer indications they would be increasing their drilling and completions programs, originally supported our earlier outlook that the second half of 2015 would have higher activity levels than experienced in the first half. This outlook changed dramatically in July when oil prices rapidly declined again into the sub-$50 bbl. range and into the $45 bbl. range in early August. This recent drop in oil prices was driven by the Saudi strategy to maintain market share, the potential removal of sanctions against Iran, economic instability in China and Greece and indications that U.S. storage levels and production was not decreasing at the rates previously expected with lower drilling activity. The current oil price volatility and continued oil pricing in the current sub-$50 bbl. range will likely delay a rebound in activity levels with the result that the outlook for the Company for the second half of the year is very uncertain at this time.

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.

In Q2 we continued our focus on cost reductions. Adjusted SG&A in 2015 Q2 was reduced a further 14% over 2015 Q1 and was reduced 23% from 2014 Q4 levels. These reductions have exceeded our initially targeted reduction in SG&A of 20%. Unfortunately the bulk of our cost reductions have had to come from workforce and compensation reductions. At the end of July, our employee count has been reduced 39% since December. Salary and wage rollbacks ranging from 5% to over 20% have been implemented at all levels in the Company. We have been able to maintain our core employee base throughout this downturn which will position us well for an eventual industry recovery. We continue to look for short and long-term efficiency and cost savings opportunities.

Our bank debt was further reduced in Q2 to $32,881 from $35,000 at the end of Q1 2015. We also amended our credit facility to reduce standby fees and obtained relaxation on our covenants to provide us with more financial flexibility. The amended credit facility should also support revenue growth when industry activity levels increase.

Our original capital expenditure program for 2015 was targeted at $7,000 and has subsequently increased to $7,200. Our current capital expenditure focus is on upgrading our FUSION™ Measurement-While-Drilling (MWD) technology platform to incorporate next generation features and increasing the capacity of our nDURANCE® motor fleet.

Our proprietary MWD platform and motors provide our customers superior reliability and performance compared to other systems and have been a significant contributor to new sales and client retention in 2015. In 2015 we began renting our proprietary motors and Electro-Magnetic Measurement-While-Drilling ("EM-MWD") systems on a stand-alone basis. Incremental motor rental revenue in 2015 Q2 affirmed our business plan in this area. In the U.S. our EM-MWD continues to be recognized for its performance advantages in difficult formations resulting in us securing new customer opportunities with both stand-alone and packaged solutions. We are also seeing opportunities for increased application for our proprietary dual telemetry MWD system in the U.S. Our dual telemetry system allows data to be transmitted via mud pulse, electro-magnetic or both simultaneously which offers clients reduced drilling times in formation areas and situations where EM transmission signal can be temporarily disrupted.

We continue to push forward and invest in our strategic improvement initiatives to set our company to be in a stronger position coming out of this downturn. Our marketing and sales efforts are much better focused on articulating our advantages to customers which has allowed us to gain work and offset pricing pressure. 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 continued to achieve records for drilling performance with customers in both Canada and the U.S. which reinforces our customer value proposition.

As we go into the second half of 2015 we will continue to focus on the things in our business we can control, deploying our technology and expertise to assist our customers reduce their costs and continuing to demonstrate our quality, safety and integrity with our employees and customers. We remain confident that we will come out of this current downturn in a very strong position to deliver increased value to our customers and our shareholders.

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 Q3 dividend in the amount of $0.04 per share which will have a date of record of September 30, 2015 and a payment date of October 15, 2015.

2015 CAPITAL PROGRAM

During the six months ended June 30, 2015 Company invested $6,148 (2014 - $16,979) in property and equipment. The following table details the current period's net property and equipment additions:

		Six months ended June 30, 2015
Property and equipment additions:		
Growth capital (1)	$	4,109
Maintenance capital (1)		837
Replacement capital (1)		497
Infrastructure capital (1)		705
Total cash additions		6,148
Less: proceeds on disposal of property and equipment		(2,151)
Less: proceeds on disposal of land and buildings		(6,174)
Net property and equipment additions (1)	$	(2,177)

(1) See "NON-GAAP MEASUREMENTS"

The major additions for growth capital were $2,728 for additional drilling motors and related equipment for specific job requirements, $78 for MWD equipment and $1,303 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 $416 related to MWD upgrades, $29 for ancillary motor components, $42 for production testing units and ancillary equipment, $181 for automobiles and $169 related to shop, office and computer equipment additions.

Cathedral's 2015 capital budget has increased slightly from $7,000 to $7,200 which includes $4,700 of growth capital, $1,700 of maintenance and replacement capital and $800 of infrastructure expenditures.

Cathedral intends to finance its 2015 capital budget from proceeds from the Oklahoma City facility sale and leaseback, proceeds from redundant asset sales and recoveries from tools lost-in-hole and if necessary, its existing credit facility.

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

	June 30 2015	December 31 2014	June 30 2014
Directional drilling - MWD systems	140	140	140
Production testing units	66	66	66

RESULTS OF OPERATIONS – THREE MONTHS ENDED JUNE 30

	Three months ended June 30, 2015			Three months ended June 30, 2014		
Revenues	Directional drilling	Production testing	Total	Directional drilling	Production testing	Total
Canada	$ 6,629	$ 2,936	$ 9,565	$ 12,821	$ 7,991	$ 20,812
United States	15,290	4,824	20,114	28,636	7,349	35,985
Total	$ 21,919	$ 7,760	$ 29,679	$ 41,457	$ 15,340	$ 56,797

Revenues 2015 Q2 revenues were $29,679 which represented a decrease of $27,118 or 48% from 2014 Q2 revenues of $56,797. All divisions experienced decreases compared to 2014 Q2. In 2015 Q1 there was an industry wide activity decline due to reductions in commodity prices and day rate decreases directly related to pricing concessions granted to customers due to market conditions. These declines continued into 2015 Q2, which also had the impact of an early spring break-up for Canadian operations. 2014 Q2 saw several divisions achieve record revenues. U.S. directional drilling achieved an all-time quarterly record for revenues and Canadian directional drilling and Canadian production testing had records for Q2 revenues. The active land rig count for both Canada and U.S. was down approximately 51% in 2015 Q2. Canadian wells completed fell approximately 62% in 2015 Q2 compared to 2014 Q2. Land rig count is a key driver of activity levels in the directional drilling industry and wells completed is a key driver for production testing industry.

Canadian directional drilling revenues decreased to $6,629 in 2015 Q2 from $12,821 in 2014 Q2; a 48% decrease. This decrease was the result of: i) a 47% decrease in activity days to 522 in 2015 Q2 from 987 in 2014 Q2; and ii) a 20% decrease in the average day rate to $10,370 in 2015 Q2 from $12,941 in 2014 Q2. Offsetting these declines was an increase of $1,168 on the rental of Cathedral's CLAW mud motor for 2015 Q2 revenues of $1,216.

U.S. directional drilling revenues decreased to $15,290 in 2015 Q2 from $28,636 in 2014 Q2; a 47% decrease. This decrease was the result of: i) a 45% decrease in activity days to 1,254 in 2015 Q2 from 2,264 in 2014 Q2; and ii) a 4% decrease in the average day rate to $12,022 in 2015 Q2 from $12,517 in 2014 Q2 (when converted to Canadian dollars). All U.S. districts experienced a decrease in activity levels except the Northeast district which added a significant customer in the last year. The U.S. average day rates in Canadian dollars decreased slightly due to the stronger U.S. dollar. Rates in USD fell to $9,784 USD in 2015 Q2 from $11,480 USD in 2014 Q2, a 15% decline.

Canadian production testing revenues decreased to $2,936 in 2015 Q2 from $7,991 in 2014 Q2; a 63% decrease. The decrease was due to the reduction in operating days due to the industry downturn.

U.S. production testing revenues decreased to $4,824 in 2015 Q2 from $7,349 in 2014 Q2, a 34% decrease. The decrease was due to the reduction in operating days due to the industry downturn.

Gross margin and adjusted gross margin Gross margin for 2015 Q2 was (6.1%) compared to 11.4% in 2014 Q2. Adjusted gross margin (see Non-GAAP Measurements) for 2015 Q2 was $3,355 or 11.3% compared to $11,220 or 19.8% for 2014 Q2, a decline of 8.5%.

The Company implemented a number of cost reductions in 2015 Q1 which included reductions for external services and for field, support and office staff, including work force adjustments and wage rollbacks. Overall costs were lower than in 2014 Q2, but higher as a percentage of revenue basis. The revenue day rate declines for directional drilling divisions, especially Canadian operations, resulted in lower gross margin despite the cost reductions.

Although there was a reduction in the fixed component of direct cost of sales of 23% compared with 2014 Q2, the overall impact of these costs on margins was greater in 2015 Q2 due to the reduction in revenues. On a percentage of revenue basis the fixed costs increased 7.1% from 2014 Q2. As stated above, the 2015 Q2 adjusted gross margin had decreased by 8.5%, the remaining 1.1% reduction in adjusted gross margin relates to increases in repairs offset by reductions in field labour.

Depreciation allocated to cost of sales increased to $5,134 in 2015 Q2 from $4,733 in 2014 Q2. Depreciation included in cost of sales as a percentage of revenue was 17.3% for 2015 Q2 and 8.3% in 2014 Q2.

Selling, general and administrative expenses ("SG&A") SG&A expenses were $4,724 in 2015 Q2; a decrease of $1,467 compared with $6,191 in 2014 Q2.

Adjusted SG&A (see Non-GAAP Measurements) was $4,621 in 2015 Q2 compared to $6,255 in 2014 Q2, a decrease of $1,634 or 26%. As a percentage of revenue, adjusted SG&A was 16% in 2015 Q2 and 11% in 2014 Q2. Adjusted SG&A decreased primarily due to work force reductions, wage rollbacks and reduction in variable compensation. SG&A wage rollbacks were implemented February 1, 2015 at a range of 5% to 15% with an average reduction of 10%. Staffing costs included in SG&A include executives, sales, accounting, human resources, payroll, safety, research and development and related support staff.

Gain on disposal of property and equipment During 2015 Q2, the Company had a gain on disposal of property and equipment of $135 compared to $880 in 2014 Q2. 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 gain of $543 in 2015 Q2 compared to $478 in 2014 Q2 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 Q2 foreign currency gains are unrealized gains of $647 (2014 Q2 - $332) related to intercompany balances.

Finance costs Finance costs consist of interest expenses on operating loans, loans and borrowings and bank charges of $446 for 2015 Q2 versus $606 for 2014 Q2. 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 Q2, the Company had net income tax expense of $8,924 compared to $770 in 2014 Q2. Included in the 2015 Q2 amount is a charge to earnings of $10,768 related to a write-off of a portion of the tax attributes obtained as part of the December 18, 2009 conversion from an income trust to a corporation ("Conversion"). On April 21, 2015, the Company received a proposal letter from the Canada Revenue Agency ("CRA") which disclosed its intention to challenge all of the tax attributes obtained as part of the Conversion under the general anti-avoidance rules of the Income Tax Act (Canada). Subsequently, Cathedral elected to enter into the agreement with CRA as a highly satisfactory solution to avoid potential costly and time consuming legal proceedings and allow management to focus its efforts on business operations and enhancing shareholder value. The CRA agreement will not give rise to any cash outlay by Cathedral for prior taxation years. Cathedral continues to have access to a portion of the tax attributes obtained as part of the Conversion to offset federal and provincial taxes in subsequent taxation years.

Excluding this and other minor adjustments to prior period amounts, the tax recovery related to the current year was $1,844 (29% effective rate) in 2015 Q2 compared to expense of $806 (79% effective rate) in 2014. The 2015 Q2 effective rate is in line with anticipated annual rates, however, the 2014 Q2 effective rate was impacted by estimated tax losses in Canada and estimated taxable income in the U.S.

RESULTS OF OPERATIONS – SIX MONTHS ENDED JUNE 30

	Six months ended June 30, 2015			Six months ended June 30, 2014		
Revenues	Directional drilling	Production testing	Total	Directional drilling	Production testing	Total
Canada	$ 21,673	$ 7,934	$ 29,607	$ 41,611	$ 16,569	$ 58,180
United States	37,043	13,106	50,149	52,308	14,329	66,637
Total	$ 58,716	$ 21,040	$ 79,756	$ 93,919	$ 30,898	$ 124,817

Revenues 2015 revenues were $79,756 which represented a decrease of $45,061 or 36% from 2014 revenues of $124,817. All areas experienced decreases due mainly to overall decline in drilling activity as a result of reduction in commodity prices. 2014 Q2 saw several divisions achieve record revenues. U.S. directional drilling achieved an all-time quarterly record for revenues and Canadian directional drilling and Canadian production testing had records for Q2 revenues. The active land rig count for Canada was down 44% and down 37% for U.S. in 2015.

Canadian directional drilling revenues decreased to $21,673 in 2015 from $41,611 in 2014; a 48% decrease. This decrease was the result of: i) a 47% decrease in activity days to 1,939 in 2015 from 3,636 in 2014; and ii) a 9% decrease in the average day rate to $10,420 in 2015 from $11,397 in 2014. Offsetting these declines was an increase of $1,297 on the rental of Cathedral's CLAW mud motor for 2015 revenues of $1,468.

U.S. directional drilling revenues decreased to $37,043 in 2015 from $52,308 in 2014; a 29% decrease. This decrease was the result of: i) a 30% decrease in activity days to 2,921 in 2015 from 4,144 in 2014; and ii) a slight decrease in the average day rate to $12,511 in 2015 from $12,525 in 2014 (when converted to Canadian dollars). All U.S. districts experienced a decrease in activity levels except the Northeast district which added a significant customer in the last year. The division had set an all-time revenue record in 2014 Q2. The U.S. average day rates in Canadian dollars were relatively unchanged due to the stronger U.S. dollar. Rates in USD fell to $10,147 USD in 2015 from $11,427 USD in 2014, an 11% decline. As with Canadian directional, there were pressures from clients to reduce pricing.

Canadian production testing revenues decreased to $7,934 in 2015 from $16,569 in 2014; a 52% decrease. The decrease was due to the reduction in operating days due to the industry downturn.

U.S. production testing revenues decreased to $13,106 in 2015 from $14,329 in 2014, a 9% decrease. The decrease was due to the reduction in operating days due to the industry downturn.

Gross margin and adjusted gross margin Gross margin for 2015 was 4.0% compared to 12.7% in 2014. Adjusted gross margin (see Non-GAAP Measurements) for 2015 was $13,475 or 16.9% compared to $25,145 or 20.1% for 2014, a decline of 3.2%.

The Company implemented a number of cost reductions in 2015 Q1 which included reductions for external services and for field, support and office staff, including work force adjustments and wage rollbacks. Overall costs were lower than in 2014, but higher as a percentage of revenue basis.

Although there was a reduction in the fixed component of direct cost of sales of 17.6% compared with 2014, the overall impact of these costs on margins was greater in 2015 due to the reduction in revenues. On a percentage of revenue basis the fixed costs increased 3.9% from 2014. As stated above, the year-to-date adjusted gross margin had decreased by 3.2%, the remaining 0.7% net reduction in adjusted gross margin relates mainly to increases in repairs offset by reductions in field labour.

Depreciation allocated to cost of sales increased to $10,225 in 2015 from $9,197 in 2014. Depreciation included in cost of sales as a percentage of revenue was 12.8% for 2015 and 7.4% in 2014.

Selling, general and administrative expenses ("SG&A") SG&A expenses were $10,317 in 2015; a decrease of $2,052 compared with $12,369 in 2014.

Adjusted SG&A (see Non-GAAP Measurements) was $9,977 in 2015 compared to $12,219 in 2014, a decrease of $2,242 or 18%. As a percentage of revenue, adjusted SG&A was 13% in 2015 and 10% in 2014. Adjusted SG&A decreased primarily due to work force reductions, wage rollbacks and reduction in variable compensation. SG&A wage rollbacks were implemented February 1, 2015 at a range of 5% to 15% with an average reduction of 10%. Staffing costs included in SG&A include executives, sales, accounting, human resources, payroll, safety, research and development and related support staff.

Gain on disposal of property and equipment In 2015 Q1 the Company completed the sale and leaseback of its Oklahoma City operating facility. This resulted in a gain on sale of land and buildings of $456. The Company has entered into a 15 year lease on the related assets. During 2015, the Company had a gain on disposal of property and equipment of $1,304 compared to $1,614 in 2014. These gains are mainly due to recoveries of lost-in-hole equipment costs including previously expensed depreciation on the related assets. The timing of lost-in-hole recoveries is not in the control of the Company and therefore can fluctuate significantly from quarter-to-quarter.

Foreign exchange loss The Company had foreign exchange loss of $883 in 2015 compared to $19 in 2014 due to the fluctuations in the Canadian dollar relative to the U.S. dollar. The Company's foreign operations are denominated in a currency other than the Canadian dollar and therefore, upon consolidation gains and losses due to fluctuations in the foreign currency exchange rates are recorded in other comprehensive income ("OCI") on the balance sheet as a component of equity. However, gains and losses in the Canadian entity on U.S. denominated intercompany balances continue to be recognized in the statement of income. Included in the 2015 foreign currency loss are unrealized losses of $629 (2014 - $122) related to intercompany balances.

Finance costs Finance costs consist of interest expenses on operating loans, loans and borrowings and bank charges of $913 for 2015 versus $1,202 for 2014. The decrease in finance costs relate mainly to a decreased utilization of the Company's credit facility and to a lesser extent decreases in interest rates.

Income tax For 2015, the Company had net income tax expense of $8,853 compared to $1,197 in 2014. Included in this figure is a charge to earnings of $10,768 related to a write-off of a portion of the tax attributes obtained as part of the December 18, 2009 conversion from an income trust to a corporation. On April 21, 2015, the Company received a proposal letter from the CRA which disclosed its intention to challenge all of the tax attributes obtained as part of the Conversion under the general anti-avoidance rules of the Income Tax Act (Canada). Subsequently, Cathedral elected to enter into the agreement with CRA as a highly satisfactory solution to avoid potential costly and time consuming legal proceedings and allow management to focus its efforts on business operations and enhancing shareholder value. The CRA agreement will not give rise to any cash outlay by Cathedral for prior taxation years. Cathedral continues to have access to a portion of the tax attributes obtained as part of the Conversion to offset federal and provincial taxes in subsequent taxation years.

Excluding this and other minor adjustments to prior period amounts, the tax recovery related to the current year was $1,576 (22% effective rate) in 2015 Q2 compared to expense of $1,233 (32% effective rate) in 2014. The 2015 effective rate is in line with anticipated annual rates, however, the 2014 Q2 effective rate was impacted by estimated tax losses in Canada and estimated taxable income in the U.S.

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 June 30, 2015, the Company had funds from operations (see Non-GAAP Measurements) of $3,112 (2014 - $11,887). The decrease in funds from operations is due to a reductions in cash from operations due to lower activity levels and reductions in revenue day rates.

Working capital At June 30, 2015 the Company had working capital of $17,820 (December 31, 2014 - $38,135) and a working capital ratio of 1.6 to 1 (December 31, 2014 – 1.8 to 1). The lower working capital level was directly related to the reduction in activity levels and collection of accounts receivable.

Credit facility The Company has a 3 year committed revolving credit facility that expires in August 2017. The credit facility was amended on June 12, 2015 (the "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.

After the Amendment discussed above, the facility bears interest at the bank's prime rate plus 0.50% to 4.00% or bankers' acceptance rate plus 1.75% to 5.25% 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 June 30, 2015 the Company is in compliance with all covenants under the credit facility including the following financial covenants:

	June 30, 2015
Debt service ratio - must be not less than 2.50:1	5.65 : 1
Funded debt to EBITDAS (as defined in the credit facility) - must be not greater than 3.00:1	1.36 : 1

The financial covenants associated with the amended credit facility are as follows:

Quarter ending:	Maximum Funded Debt to EBITDA Ratio	Minimum Debt Service Ratio
September 30, 2015	3.75	2.00
December 31, 2015	4.75	1.25
March 31, 2016	4.25	1.75
June 30, 2016	3.75	2.25
September 30, 2016	3.50	2.50
December 31, 2016 and thereafter	3.00	2.50

The following table outlines the current credit facility:

	June 30 2015	December 31 2014
Total credit facility	$ 60,000	$ 85,000
Drawings on credit facility:		
Operating loan	881	1,069
Revolving term loan	32,000	55,000
Letters of credit	1,362	700
Total drawn facility	$ 34,243	$ 56,769
Undrawn portion of credit facility	$ 25,757	$ 28,231
Net debt (see NON-GAAP MEASUREMENTS):		
Loans and borrowings, net of current portion	$ 32,793	$ 56,142
Working capital:		
Current assets	$ 46,240	$ 83,392
Current liabilities	(28,420)	(45,257)
Working capital	$ 17,820	$ 38,135
Net debt	$ 14,973	$ 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 June 30, 2015, the Company had a commitment to purchase approximately $61 of equipment. Cathedral anticipates expending these funds in 2015 Q3. In connection with the sale and leaseback of its Oklahoma City operating facility, the company issued a letter of credit in the amount of $531 USD.

Contingencies On October 29, 2014 Cathedral received a letter from one of its U.S. clients alleging a down-hole drilling incident which impacted two of their wells in December 2013. The client had indicated potential damages of $3,000 USD and in 2015 Q2 increased this indication to $3,700 USD. Cathedral does not normally carry insurance for this type of incident. Cathedral is currently in the process of investigating the particulars related to this letter to understand its potential liability and the impact any liability may have on the Company. Due to the uncertainty around what amount, if any, and the means of settlement, the Company has made no provision in the financial statements for this incident.

The Company's wholly-owned subsidiary, Cathedral Energy Services Inc. ("INC"), has been named in a legal action in Houston, Texas commenced by a former employee and was subsequently joined by one former employee and two former consultants. 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. 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.

Share capital At August 13, 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 to directors, officers and employees 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 June 30, 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 June 30, 2015 except as noted below.

Tax related risks associated with conversion This entire section no longer applies due to the settlement with CRA discussed previously.

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 six months ended June 30, 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	Jun 2015	Mar 2015	Dec 2014	Sep 2014	Jun 2014	Mar 2014	Dec 2013	Sep 2013
Revenues	$ 29,679	$ 50,077	$ 73,242	$ 77,376	$ 56,797	$ 68,020	$ 65,238	$ 59,734
Adjusted EBITDAS (1)	$ (1,237)	$ 5,786	$ 9,408	$ 14,347	$ 6,151	$ 8,581	$ 8,124	$ 10,757
Adjusted EBITDAS (1) per share - diluted	$ (0.03)	$ 0.16	$ 0.26	$ 0.40	$ 0.17	$ 0.24	$ 0.22	$ 0.30
Net earnings (loss)	$ (15,266)	$ (724)	$ 1,776	$ 5,805	$ 253	$ 2,449	$ (11,248)	$ 7,956
Net earnings (loss) per share - basic and diluted	$ (0.42)	$ (0.02)	$ 0.05	$ 0.16	$ 0.01	$ 0.07	$ (0.31)	$ 0.22
Dividends declared per share	$ 0.04	$ 0.04	$ 0.0825	$ 0.0825	$ 0.0825	$ 0.0825	$ 0.0825	$ 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: oil price volatility will likely delay a rebound in activity levels; adjusted cost structure; position to be a stronger company; preserve key employee base; maintaining core employee base will position us well for an eventual industry recovery; continue to look for short and long-term efficiency and cost savings opportunities; amended credit facility should also support revenue growth when industry activity levels increase; projected capital expenditures and commitments and the financing thereof; seeing opportunities for increased application for our proprietary dual telemetry MWD system in the U.S.; invest in our strategic improvement initiatives to set our company to be in a stronger position coming out of this downturn; deploying our technology and expertise to assist our customers reduce their costs and continuing to demonstrate our quality, safety and integrity with our employees and customers; come out of this current downturn in a very strong position to deliver increased value to our customers and our shareholders; 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
- 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 operations" - calculated as cash flow from 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 June 30		Six months ended June 30	
	2015	2014	2015	2014
Gross margin	$ (1,798)	$ 6,462	$ 3,216	$ 15,875
Add non-cash items included in cost of sales:				
Depreciation	5,134	4,733	10,225	9,197
Share-based compensation	19	25	34	73
Adjusted gross margin	$ 3,355	$ 11,220	$ 13,475	$ 25,145
Adjusted gross margin %	11.3%	19.8%	16.9%	20.1%

Adjusted SG&A

	Three months ended June 30		Six months ended June 30	
	2015	2014	2015	2014
Total selling, general and administrative expenses	$ 4,724	$ 6,191	$ 10,317	$ 12,369
Less:				
Non-recurring compensation	-	-	(134)	-
Expenses related to international operations	(18)	160	(50)	89
Depreciation	(44)	(69)	(88)	(130)
Share-based compensation	(41)	(27)	(68)	(109)
Adjusted selling, general and administrative expenses	$ 4,621	$ 6,255	$ 9,977	$ 12,219

Adjusted EBITDAS

	Three months ended June 30		Six months ended June 30	
	2015	2014	2015	2014
Earnings (loss) before income taxes	$ (6,342)	$ 1,023	$ (7,137)	$ 3,899
Add:				
Depreciation included in cost of sales	5,134	4,733	10,225	9,197
Depreciation included in selling, general and administrative expenses	44	69	88	130
Share-based compensation included in cost of sales	19	25	34	73
Share-based compensation included in selling, general and administrative expenses	41	27	68	109
Finance costs	446	606	913	1,202
EBITDAS	(658)	6,483	4,191	14,610
Unrealized foreign exchange (gain) loss on intercompany balances	(647)	(332)	629	122
Non-recurring compensation	16	-	185	-
Non-recurring (gain) loss on disposal of land and building	52	-	(456)	-
Adjusted EBITDAS	$ (1,237)	$ 6,151	$ 4,549	$ 14,732

Funds from operations

	Three months ended June 30		Six months ended June 30	
	2015	2014	2015	2014
Cash flow from operating activities	$ 497	$ 11,758	$ 22,429	$ 13,352
Add (deduct):				
Changes in non-cash operating working capital	(2,143)	(7,455)	(20,954)	(1,142)
Income taxes paid	258	968	1,585	908
Current tax recovery (expense)	535	(1,504)	52	(1,231)
Funds from operations	$ (853)	$ 3,767	$ 3,112	$ 11,887

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2015 and December 31, 2014
Dollars in '000s
(unaudited)

		June 30 2015		December 31 2014
Assets				
Current assets:				
Cash and cash equivalents	$	711	$	5,109
Trade receivables		27,013		58,770
Income taxes refundable		256		-
Prepaid expenses		1,680		2,383
Inventories		16,580		17,130
Total current assets		46,240		83,392
Property and equipment (note 4)		121,985		131,877
Intangible assets		1,998		1,905
Deferred tax assets (note 8)		-		7,512
Goodwill		5,848		5,848
Total non-current assets		129,831		147,142
Total assets	$	176,071	$	230,534
Liabilities and Shareholders' Equity				
Current liabilities:				
Operating loan	$	881	$	1,069
Trade and other payables		21,131		35,201
Dividends payable		1,452		2,994
Income taxes payable		-		1,232
Loans and borrowings (note 5)		758		857
Deferred revenue		4,198		3,904
Total current liabilities		28,420		45,257
Loans and borrowings (note 5)		32,793		56,142
Deferred tax liabilities (note 8)		2,219		767
Total non-current liabilities		35,012		56,909
Total liabilities		63,432		102,166
Shareholders' equity:				
Share capital (note 6)		74,481		74,481
Contributed surplus		9,362		9,261
Accumulated other comprehensive income		6,914		3,850
Retained earnings		21,882		40,776
Total shareholders' equity		112,639		128,368
Total liabilities and shareholders' equity	$	176,071	$	230,534

See accompanying notes to condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

Three and six months ended June 30, 2015 and 2014
Dollars in '000s except per share amounts
(unaudited)

	Three months ended June 30		Six months ended June 30	
	2015	2014	2015	2014
Revenues	$ 29,679	$ 56,797	$ 79,756	$ 124,817
Cost of sales:				
Direct costs	(26,324)	(45,577)	(66,281)	(99,672)
Depreciation	(5,134)	(4,733)	(10,225)	(9,197)
Share-based compensation	(19)	(25)	(34)	(73)
Total cost of sales	(31,477)	(50,335)	(76,540)	(108,942)
Gross margin	(1,798)	6,462	3,216	15,875
Selling, general and administrative expenses:				
Direct costs	(4,639)	(6,095)	(10,161)	(12,130)
Depreciation	(44)	(69)	(88)	(130)
Share-based compensation	(41)	(27)	(68)	(109)
Total selling, general and administrative expenses	(4,724)	(6,191)	(10,317)	(12,369)
	(6,522)	271	(7,101)	3,506
Gain on disposal of property and equipment	135	880	1,304	1,614
Gain (loss) on disposal of land and buildings (note 7)	(52)	-	456	-
Earnings (loss) from operating activities	(6,439)	1,151	(5,341)	5,120
Finance costs	(446)	(606)	(913)	(1,202)
Foreign exchange gain (loss)	543	478	(883)	(19)
Earnings (loss) before income taxes	(6,342)	1,023	(7,137)	3,899
Income tax recovery (expense):				
Current	535	(1,504)	52	(1,231)
Deferred curent year	1,210	734	1,764	34
Deferred adjustment to prior years (note 8)	(10,669)	-	(10,669)	-
Total income tax expense	(8,924)	(770)	(8,853)	(1,197)
Net earnings (loss)	(15,266)	253	(15,990)	2,702
Other comprehensive income (loss):				
Foreign currency translation differences for foreign operations	(742)	(1,298)	3,064	(915)
Total comprehensive income (loss)	$ (16,008)	$ (1,045)	$ (12,926)	$ 1,787
Net earnings (loss) per share				
Basic	$ (0.42)	$ 0.01	$ (0.44)	$ 0.07
Diluted	$ (0.42)	$ 0.01	$ (0.44)	$ 0.07

See accompanying notes to condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Six months ended June 30, 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 (loss) for six months ended June 30, 2014	-	-	(915)	2,702	1,787
Transactions with shareholders, recorded directly in equity contributions by and distributions to shareholders for six months ended June 30, 2014:					
Dividends to equity holders	-	-	-	(5,977)	(5,977)
Share-based compensation	-	182	-	-	182
Share options exercised	472	(90)	-	-	382
Total contributions by and distributions to shareholders	472	92	-	(5,977)	(5,413)
Balance at June 30, 2014	**$ 74,322**	**$ 9,157**	**$ 324**	**$ 39,183**	**$ 122,986**
Balance at December 31, 2014	**$ 74,481**	**$ 9,261**	**$ 3,850**	**$ 40,776**	**$ 128,368**
Total comprehensive income (loss) for six months ended June 30, 2015	-	-	3,064	(15,990)	(12,926)
Transactions with shareholders, recorded directly in equity contributions by and distributions to shareholders for six months ended June 30, 2015:					
Dividends to equity holders	-	-	-	(2,904)	(2,904)
Share-based compensation	-	101	-	-	101
Share options exercised	-	-	-	-	-
Total contributions by and distributions to shareholders	-	101	-	(2,904)	(2,803)
Balance at June 30, 2015	**$ 74,481**	**$ 9,362**	**$ 6,914**	**$ 21,882**	**$ 112,639**

See accompanying notes to condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Six months ended June 30, 2015 and 2014
Dollars in ‘000s
(unaudited)

	Three months ended June 30		Six months ended June 30	
	2015	2014	2015	2014
Cash provided by (used in):				
Operating activities:				
Net earnings (loss)	$ (15,266)	$ 253	$ (15,990)	$ 2,702
Items not involving cash:				
Depreciation	5,178	4,802	10,313	9,327
Total income tax (recovery) expense	8,924	770	8,853	1,197
Unrealized foreign exchange (gain) loss on intercompany bala	(647)	(332)	629	122
Finance costs	446	606	913	1,202
Share-based compensation	60	52	102	182
Gain on disposal of property and equipment	(135)	(880)	(1,304)	(1,614)
Gain (loss) on disposal of land and building (note 7)	52	-	(456)	-
Cash flow from operations	(1,388)	5,271	3,060	13,118
Changes in non-cash operating w orking capital	2,143	7,455	20,954	1,142
Income taxes paid	(258)	(968)	(1,585)	(908)
Cash flow from operating activities	497	11,758	22,429	13,352
Investing activities:				
Property and equipment additions	(1,845)	(7,062)	(6,148)	(16,979)
Intangible asset additions	(39)	(287)	(189)	(338)
Proceeds on disposal of property and equipment	479	2,094	2,151	3,200
Proceeds on disposal of land and buildings	-	-	6,174	-
Changes in non-cash investing w orking capital	(498)	(2,192)	(93)	(1,305)
Cash flow from (used for) investing activities	(1,903)	(7,447)	1,895	(15,422)
Financing activities:				
Change in operating loan	881	(5,899)	(155)	(474)
Advances on loans and borrow ings	-	8,000	-	13,000
Repayments on loans and borrow ings	(3,160)	(155)	(23,340)	(322)
Interest paid	(774)	(595)	(1,129)	(1,173)
Proceeds on exercise of share options	-	282	-	382
Dividends paid	(1,452)	(2,985)	(4,446)	(5,969)
Cash flow from (used for) financing activities	(4,505)	(1,352)	(29,070)	5,444
Effect of exchange rate on changes in cash and cash equivalents	(99)	54	348	88
Change in cash and cash equivalents	(6,010)	3,013	(4,398)	3,462
Cash and cash equivalents, beginning of period	6,721	738	5,109	289
Cash and cash equivalents, end of period	$ 711	$ 3,751	$ 711	$ 3,751

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 June 30, 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 August 13, 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 six months ended June 30, 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.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

4. Property and equipment

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

	Six months ended June 30	
	2015	2014
Directional drilling equipment	$ 3,780	$ 12,078
Production testing equipment	1,345	2,904
Land and buildings	613	1,242
Automotive equipment	181	396
Office and computer equipment	229	725
Property and equipment additions	$ 6,148	$ 17,345

Included in the above additions are non-cash additions of $nil for the six months ended June 30, 2015 (2014 - $366) related to acquisition of automotive equipment under finance lease liabilities.

5. Loans and borrowings

	June 30 2015	December 31 2014
Current liabilities:		
Current portion of finance lease liabilities	$ 758	$ 857
Non-current liabilities:		
Finance lease liabilities	$ 793	$ 1,142
Secured revolving term loan	32,000	55,000
Total	$ 32,793	$ 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 that expires in August 2017. The credit facility was amended on June 12, 2015 (the "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.

After the Amendment discussed above, the facility bears interest at the bank’s prime rate plus 0.50% to 4.00% or bankers’ acceptance rate plus 1.75% to 5.25% 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 June 30, 2015 the Company is in compliance with all covenants under the credit facility including the following financial covenants:

	June 30, 2015
Debt service ratio - must be not less than 2.50:1	5.65 : 1
Funded debt to EBITDAS (as defined in the credit facility) - must be not greater than 3.00:1	1.36 : 1

The financial covenants associated with the amended credit facility are as follows:

Quarter ending:	Maximum Funded Debt to EBITDA Ratio	Minimum Debt Service Ratio
September 30, 2015	3.75	2.00
December 31, 2015	4.75	1.25
March 31, 2016	4.25	1.75
June 30, 2016	3.75	2.25
September 30, 2016	3.50	2.50
December 31, 2016 and thereafter	3.00	2.50

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

6. Share capital

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

Common shares issued:

	Six months ended June 30, 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 Q2 (2014 Q2 - $2,991) or $0.04 per share (2014 Q2 - $0.0825 per share). Year-to-date dividends were $2,904 ($0.08 per share) in 2015 and $5,977 ($0.165 per share) in 2014. On August 13, 2015 the directors approved a dividend of $0.04 per share with a record date of September 30, 2015 and payable October 15, 2015.

Basic earnings per share

The calculation of basic earnings per share for the three and six months ended June 30, 2015 was based on the profit (loss) attributable to common shareholders of $(15,266) and $(15,990) (2014 – $253 and $2,702) and a weighted average number of common shares outstanding of 36,295,380 and 36,295,380 (2014 – 36,229,632 and 36,207,905); calculated as follows:

Weighted average number of ordinary shares

	Three months ended June 30, 2015	Three months ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 2014
Issued, beginning of period	36,295,380	36,186,380	36,295,380	36,166,380
Effect of share options exercised	-	43,252	-	41,525
Weighted average number of common shares at end of period	36,295,380	36,229,632	36,295,380	36,207,905

Diluted earnings per share

As the Company was in a loss position at June 30, 2015 there was no calculation of diluted earnings per share.

The calculation of diluted earnings per share for the three and six months ended June 30, 2014 was based on the profit (loss) attributable to common shareholders of $253 and $2,702. For the three and six months ended June 30, 2014 the Company used the weighted average number of common shares outstanding after adjustment for the effects of all dilutive potential common shares of 36,252,712 and 36,234,968, calculated as follows:

Weighted average number of common shares (diluted)

	Three months ended June 30, 2015	Three months ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 2014
Weighted average number of common shares (basic)	36,295,380	36,229,632	36,295,380	36,207,905
Effect of share options on issue	-	23,080	-	27,063
Weighted average number of common shares (diluted) at end of period	36,295,380	36,252,712	36,295,380	36,234,968

For both the three and six months ended June 30, 2014, 1,195,863 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 six months ended June 30, 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:

		Six months ended June 30, 2015
Number of options issued		729,000
Exercise price	$	2.13
Fair value per option (weighted average)	$	0.36
Expected annual dividend per share	$	0.16
Risk-free interest rate (weighted average)		0.5%
Expected share price volatility (weighted average)		45.4%
Forfeiture rate per annum		5.9%

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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 $456.

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. Deferred taxes

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 was seeking to apply the general anti-avoidance rules of the Income Tax Act (Canada) to the conversion transaction. The Company made a proposal for settlement that was accepted by CRA on June 30, 2015. The result of the settlement was a reduction to the tax pools in the conversion transaction. No cash taxes were payable for prior periods. As a result of the reduction in pool balances there was a charge to earnings in the amount of $10,768 with the offset to eliminate the deferred tax asset and the remaining amount increasing the deferred tax liability. In addition, there were $99 net recoveries related to prior years.

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 June 30, 2015, the Company's commitment to purchase property and equipment is approximately $61. Cathedral anticipates expending these funds in 2015 Q3. In connection with the sale and leaseback of its Oklahoma City operating facility, the company issued a letter of credit in the amount of $531 USD.

10. Contingency

On October 29, 2014 Cathedral received a letter from one of its U.S. clients alleging a down-hole drilling incident which impacted two of their wells in December 2013. The client had indicated potential damages of $3,000 USD and in 2015 Q2 has increased this indication to $3,700 USD. Cathedral does not normally carry insurance for this type of incident. Cathedral is currently in the process of investigating the particulars related to this letter to understand its potential liability and the impact any liability may have on the Company. Due to the uncertainty around what amount, if any, and the means of settlement, the Company has made no provision in the financial statements for this incident.

The Company's wholly-owned subsidiary, Cathedral Energy Services Inc., has been named in a legal action in Houston, Texas commenced by a former employee and was subsequently joined by one former employee and two former consultants. 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. 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.