CATHEDRAL

2015 Q3 INTERIM REPORT

FINANCIAL HIGHLIGHTS

Dollars in 000's except per share amounts

	Three months ended September 30		Nine months ended September 30	
	2015	2014	2015	2014
Revenues	$ 31,374	$ 77,376	$ 111,130	$ 202,193
Adjusted gross margin % (1)	18.7%	25.1%	17.4%	22.1%
Adjusted EBITDAS (1)	$ 3,013	$ 14,347	$ 7,562	$ 29,079
Diluted per share	$ 0.08	$ 0.40	$ 0.21	$ 0.80
As % of revenues	10%	19%	7%	14%
Funds from operations (1)	$ 2,723	$ 11,832	$ 5,835	$ 23,719
Diluted per share	$ 0.08	$ 0.33	$ 0.16	$ 0.65
Earnings (loss) before income taxes	$ (10,688)	$ 8,008	$ (17,825)	$ 11,907
Basic per share	$ (0.29)	$ 0.22	$ (0.49)	$ 0.33
Diluted per share	$ (0.29)	$ 0.22	$ (0.49)	$ 0.33
Write-down of deferred taxes related to CRA settlement	$ -	$ -	$ (10,768)	$ -
Impairment of goodwill	$ (5,848)	$ -	$ (5,848)	$ -
Net earnings (loss)	$ (8,852)	$ 5,805	$ (24,842)	$ 8,507
Basic per share	$ (0.24)	$ 0.16	$ (0.68)	$ 0.23
Diluted per share	$ (0.24)	$ 0.16	$ (0.68)	$ 0.23
Dividends declared per share	$ 0.04	$ 0.0825	$ 0.12	$ 0.2475
Property and equipment additions - cash basis	$ 296	$ 9,958	$ 6,444	$ 26,937
Weighted average shares outstanding				
Basic (000s)	36,295	36,264	36,295	36,227
Diluted (000s)	36,295	36,280	36,295	36,250

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

MANAGEMENT'S DISCUSSION & ANALYSIS

This Management's Discussion & Analysis ("MD&A") for the three and nine months ended September 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 November 10, 2015. Dollar amounts are in '000's except for day rates and per share amounts.

2015 Q3 KEY TAKEAWAYS

- Revenues and profitability were significantly affected by reduced industry activity and pricing pressures due to a further decline in commodity prices;
- Revenues of $31,374 in 2015 Q3 compared to $77,376 in 2014, a 59% decline and adjusted EBITDAS of $3,013 in 2015 Q3 compared to $14,347 in 2014 Q3, a 79% decline;
- Cathedral's proprietary directional technology and customer service focus continues to be a key factor in retaining and securing work in a challenging industry environment. Cathedral remains committed to investing in technology development as a key future success factor;
- Delivered drilling records derived from our proprietary nDurance® motor and FUSION™ Measurement-While-Drilling (MWD) system technologies;
- Due to the strong performance of Cathedral's proprietary motors, motor rental revenues continued to increase on a year-over-year and sequential basis;
- Bank debt net of cash balances remained consistent with June 30, 2015 level;
- Cathedral's presence in all key North American basins has facilitated operational efficiencies through the movement of equipment and people between operating areas; and
- Management continues to focus on initiatives to reduce costs, improve margins and improve our sales and marketing capabilities.

OUTLOOK

The third quarter of 2015 was impacted significantly by a rapid drop in WTI from the $60 United States Dollar ("USD") bbl. range in May and June to below $40 USD bbl. at the end of August. Lower commodity prices in the quarter resulted in customers curtailing their drilling and completions programs with indications they would be looking at lower activity levels for the remainder of the year. In addition to reducing activity levels, customers also requested further reductions in pricing.

Although WTI prices have settled into the $45 USD bbl. range, this price level is too low to allow for any significant increase in industry activity levels. Until WTI prices move above $50 USD bbl. or producers raise additional capital, we expect activity levels to be mediocre with the potential for further

customer activity reductions in the short-term. We continue to take steps to deal with this current situation and look for revenue generation opportunities and expense reductions to maintain positive cash flow. At the same time we are mindful of retaining as many of our key employees as possible to be in a position to react favorably when industry conditions rebound. We have reduced our field labour rates and other variable expenses significantly to offset pricing pressure and maintain individual job profitability. Field labour rates in directional drilling are up to 40% less than they were in 2014. Our employee head count has been reduced from 725 at the end of December 2014 to 370 at the end of October 2015 – a 49% reduction. We also have reduced the number of field sub-contractors in 2015 which has traditionally been a significant component of our workforce. Quarterly SG&A has been reduced 26% from the beginning of the year resulting from employee attrition, wage and benefit rollbacks and other cost cutting measures. These reductions have exceeded our initially targeted reduction in SG&A of 20%.

In October we entered into discussions with our lending syndicate about obtaining further covenant relief for 2015 Q4 and into 2017. This request reflected the further deterioration of industry activity levels and our earlier amendments to our banking covenants in June 2015 anticipating a return to more robust activity levels in the second half of 2015 and into 2016. A significant change that has been negotiated on a go forward basis is the inclusion of lost-in-hole proceeds in the definition of EBITDA under the lending agreement. The lending syndicate has been very supportive of the steps we have taken to manage through this downturn and we expect to continue to work proactively with them. To protect our balance sheet we have had to make the hard decision to suspend our dividend for 2015 Q4 and anticipate that we will not reinstate dividend payments until industry conditions and ongoing operating cash flow improves to a level that can sustain the quarterly dividend.

Our Capital Expenditure program continues to be $7,200 for 2015 with the remaining expenditures of $756 in the fourth quarter focused on improving utilization of our equipment fleet.

Despite the overall industry malaise, we have made significant progress on our strategic initiatives to increase sales and marketing effectiveness and improve operational efficiencies and effectiveness. In October we refreshed our website and we continue to update our sales and marketing materials with a focus on better articulating our value proposition. We have put in place sales processes to actively target customers and regions where our equipment and services can result in a material change in well costs by reducing days drilled or offer customer efficiencies in our flowback and production testing area. Of note was the opening of a new facility in Eunice, New Mexico for our U.S. flowback and production testing group but also to support our directional drilling activity in this area.

In the quarter we continued to deliver achievements and drilling records derived from our nDurance® motor and FUSION™ Measurement-While-Drilling (MWD) system performance. These achievements have resulted in increased customer interest in our capabilities and have assisted us in securing new work in this challenging environment. We are particularly pleased with business development results in the U.S. Our EM-MWD continues to be recognized for its performance advantages in difficult formations resulting in new customer additions with both stand-alone and packaged solutions.

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

As we conclude 2015 and look ahead to 2016, we will continue to focus on managing our costs, right-sizing our structure for industry activity levels, deploy our proprietary technology and expertise to assist our customers reduce their drilling and completion costs, while at the same time continuing to demonstrate our value proposition, quality, safety and integrity with our customers and employees. We remain confident that global oil and gas production is moving toward supply/demand balance that will eventually result in stronger commodity prices, and increased activity levels. We are confident we will come out of this current downturn well positioned to deliver increased value to our customers and our shareholders.

DIVIDENDS

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

2015 CAPITAL PROGRAM

During the nine months ended September 30, 2015 Company invested $6,444 (2014 - $26,937) in property and equipment. The following table details the current period's net property and equipment additions:

	Nine months ended September 30, 2015
Property and equipment additions:	
Growth capital [(1)]	$ 4,347
Maintenance capital [(1)]	877
Replacement capital [(1)]	504
Infrastructure capital [(1)]	716
Total cash additions	6,444
Less: proceeds on disposal of property and equipment	(4,153)
Less: proceeds on disposal of land and buildings	(6,174)
Net property and equipment additions [(1)]	$ (3,883)

(1) See "NON-GAAP MEASUREMENTS"

The major additions for growth capital were $2,958 for additional drilling motors and related equipment for specific job requirements, $86 for MWD equipment and $1,303 for additional ancillary flowback and production testing equipment to reduce future rental costs. Infrastructure capital relates to the construction of an operations facility in Oklahoma that was completed and subject to a sale and leaseback in 2015 Q1. Maintenance capital included $423 related to MWD upgrades, $32 for ancillary motor components, $42 for flowback and production testing units and ancillary equipment, $181 for automobiles and $199 related to shop, office and computer equipment additions. Replacement capital included $395 for MWD equipment and $109 for motor equipment.

Cathedral's 2015 capital budget remains at $7,200 which includes $4,700 of growth capital, $1,725 of maintenance and replacement capital and $775 of infrastructure expenditures.

Cathedral intends to finance its 2015 capital budget from proceeds from the Oklahoma City facility sale and leaseback 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:

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

RESULTS OF OPERATIONS – THREE MONTHS ENDED SEPTEMBER 30

	Three months ended September 30, 2015			Three months ended September 30, 2014		
Revenues	Directional drilling	Flow back and production testing	Total	Directional drilling	Flow back and production testing	Total
Canada	$ 10,171	$ 2,158	$ 12,329	$ 28,765	$ 7,889	$ 36,654
United States	16,194	2,851	19,045	30,991	9,731	40,722
Total	$ 26,365	$ 5,009	$ 31,374	$ 59,756	$ 17,620	$ 77,376

Revenues 2015 Q3 revenues were $31,374 which represented a decrease of $46,002 or 59% from 2014 Q3 revenues of $77,376. All divisions experienced decreases compared to 2014 Q3. 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 requested by customers due to market conditions. These declines continued into the remainder of 2015. In comparison, 2014 Q3 set a record for highest quarterly revenue. The active land rig count for Canada and U.S. was down 51% and 55% respectively in 2015 Q3 compared to 2014 Q3. Canadian wells completed fell approximately 48% in 2015 Q3 compared to 2014 Q3. Land rig count is a key driver of activity levels in the directional drilling industry and wells completed is a key driver for flowback and production testing industry.

Canadian directional drilling revenues decreased to $10,171 in 2015 Q3 from $28,765 in 2014 Q3; a 65% decrease. This decrease was the result of: i) a 60% decrease in activity days to 965 in 2015 Q3 from 2,423 in 2014 Q3; and ii) a 27% decrease in the average day rate to $8,603 in 2015 Q3 from $11,797 in 2014 Q3. Offsetting these declines was an increase of $1,688 on the rental of mud motors, particularly the Cathedral's CLAW motor. Rental revenues for 2015 Q3 were $1,869.

U.S. directional drilling revenues decreased to $16,194 in 2015 Q3 from $30,991 in 2014 Q3; a 48% decrease. This decrease was the result of: i) a 52% decrease in activity days to 1,188 in 2015 Q3 from 2,454 in 2014 Q3; and ii) a 5% increase in the average day rate to $13,221 in 2015 Q3 from $12,569 in 2014 Q3 (when converted to Canadian dollars). All U.S. districts experienced a decrease in activity levels. The U.S. average day rates in Canadian dollars increased due to the stronger U.S. dollar. Rates in USD fell to $10,094 USD in 2015 Q3 from $11,540 USD in 2014 Q3, a 13% decline. U.S. day rate decreases were partially tempered by the U.S. division providing footage drilling services to certain clients which can result in higher relative day rates.

Canadian flowback and production testing revenues decreased to $2,158 in 2015 Q3 from $7,889 in 2014 Q3; a 73% decrease. The decrease was due to the reduction in activity levels due to the industry downturn as well as a 23% decline in pricing.

U.S. flowback and production testing revenues decreased to $2,851 in 2015 Q3 from $9,731 in 2014 Q3, a 71% decrease. The decrease was due to the reduction in activity levels due to the industry downturn. Pricing when converted to CAD were unchanged, but there was a 16% decline in pricing in USD.

Gross margin and adjusted gross margin Gross margin for 2015 Q3 was 2.8% compared to 18.7% in 2014 Q3. Adjusted gross margin (see Non-GAAP Measurements) for 2015 Q3 was $5,881 or 18.7% compared to $19,442 or 25.1% for 2014 Q3, a decline of 6.4%.

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

Although there was a reduction in the fixed component of direct cost of sales of 29% compared with 2014 Q3, the overall impact of these costs on margins was greater in 2015 Q3 due to the reduction in revenues. On a percentage of revenue basis, the fixed costs increased 8.4% from 2014 Q3. As stated above, the 2015 Q3 adjusted gross margin had decreased by 6.4%, the remaining 2.0% reduction in adjusted gross margin relates to reductions in field labour offset by higher repair costs as percentage of revenue.

Depreciation allocated to cost of sales increased to $4,984 in 2015 Q3 from $4,945 in 2014 Q3. Depreciation included in cost of sales as a percentage of revenue was 15.9% for 2015 Q3 and 6.4% in 2014 Q3.

Selling, general and administrative expenses ("SG&A") SG&A expenses were $4,614 in 2015 Q3; a decrease of $1,762 compared with $6,376 in 2014 Q3. As a percentage of revenue, SG&A was 15% in 2015 Q3 and 8% in 2014 Q3.

Excluding the non-cash items of depreciation and share-based compensation SG&A was $4,533 in 2015 Q3 compared to $6,256 in 2014 Q3, a decrease of $1,723 or 28%. SG&A decreased primarily due to work force reductions, wage rollbacks and reductions in variable compensation. SG&A wage rollbacks were implemented February 1, 2015 at a range of 5% to 15%. There have been additional reductions to staffing levels in 2015 Q2 and Q3. 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 Q3, the Company had a gain on disposal of property and equipment of $1,638 compared to $1,096 in 2014 Q3. 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.

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

drilling CGU and $4,224 related to the flowback and production testing CGU. This impairment represented the total amount of goodwill allocated to each CGU.

Foreign exchange loss The Company had foreign exchange loss of $2,388 in 2015 Q3 compared to a loss of $527 in 2014 Q3 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 Q3 foreign currency gains are unrealized losses of $2,374 (2014 Q3 - $592) related to intercompany balances.

Finance costs Finance costs consist of interest expenses on operating loans, loans and borrowings and bank charges of $365 for 2015 Q3 versus $662 for 2014 Q3. 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 Q3, the Company had an income tax recovery of $(1,836) compared to expense of $2,203 in 2014 Q3. The effective tax rate was 38% for 2015 Q3 and 28% for 2014 Q3. Income tax expense is booked based upon expected annualized effective rates.

RESULTS OF OPERATIONS – NINE MONTHS ENDED SEPTEMBER 30

	Nine months ended September 30, 2015			Nine months ended September 30, 2014		
Revenues	Directional drilling	Flow back and production testing	Total	Directional drilling	Flow back and production testing	Total
Canada	$ 31,844	$ 10,092	$ 41,936	$ 70,376	$ 24,458	$ 94,834
United States	53,237	15,957	69,194	83,299	24,060	107,359
Total	$ 85,081	$ 26,049	$ 111,130	$ 153,675	$ 48,518	$ 202,193

Revenues 2015 revenues were $111,130 which represented a decrease of $91,063 or 45% from 2014 revenues of $202,193. All areas experienced decreases due mainly to overall decline in drilling activity as a result of reduction in commodity prices. 2014 Q2 and Q3 saw several divisions achieve record revenues. The active land rig count for Canada was down 46% and down 43% for U.S. in 2015. Canadian wells completed fell approximately 46% in 2015 compared to 2014.

Canadian directional drilling revenues decreased to $31,844 in 2015 from $70,376 in 2014; a 55% decrease. This decrease was the result of: i) a 52% decrease in activity days to 2,904 in 2015 from 6,059 in 2014; and ii) a 15% decrease in the average day rate to $9,816 in 2015 from $11,557 in 2014. Offsetting these declines was an increase of $2,985 on the rental of mud motors, particularly the Cathedral's CLAW motor for 2015 revenues of $3,337.

U.S. directional drilling revenues decreased to $53,237 in 2015 from $83,299 in 2014; a 36% decrease. This decrease was the result of: i) a 38% decrease in activity days to 4,109 in 2015 from 6,598 in 2014; and ii) a slight increase in the average day rate to $12,716 in 2015 from $12,541 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 U.S. average day rates in Canadian dollars were relatively unchanged due to the stronger U.S. dollar. Rates in USD fell to $10,131 USD in 2015 from $11,468 USD in 2014, a 12% decline. As with Canadian directional, there were pressures from clients to reduce pricing.

Canadian flowback and production testing revenues decreased to $10,092 in 2015 from $24,458 in 2014; a 59% decrease. The decrease was due to the reduction in activity levels due to the industry downturn. There was no significant change in the pricing on a year-over-year basis.

U.S. flowback and production testing revenues decreased to $15,957 in 2015 from $24,060 in 2014, a 34% decrease. The decrease was due to the reduction in activity levels due to the industry downturn as pricing in CAD increased 19%. In USD the pricing increased 5% on a year-over-year basis.

Gross margin and adjusted gross margin Gross margin for 2015 was 3.7% compared to 15.0% in 2014. Adjusted gross margin (see Non-GAAP Measurements) for 2015 was $19,356 or 17.4% compared to $44,587 or 22.1% for 2014, a decline of 4.7%.

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

Although there was a reduction in the fixed component of direct cost of sales of 21.6% 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 5.4% from 2014. As stated above, the year-to-date adjusted gross margin had decreased by 4.7%, the remaining 0.7% net reduction in adjusted gross margin relates mainly to reductions in field labour offset by higher repair costs as percentage of revenue.

Depreciation allocated to cost of sales increased to $15,209 in 2015 from $14,142 in 2014. Depreciation included in cost of sales as a percentage of revenue was 13.7% for 2015 and 7.0% in 2014.

Selling, general and administrative expenses ("SG&A") SG&A expenses were $14,931 in 2015; a decrease of $3,814 compared with $18,745 in 2014. As a percentage of revenue, SG&A was 13% in 2015 and 9% in 2014.

Excluding the non-cash items of depreciation and share-based compensation SG&A was $14,694 in 2015 compared to $18,386 in 2014, a decrease of $3,692 or 20%. SG&A decreased primarily due to work force reductions, wage rollbacks and reduction in variable compensation. SG&A wage rollbacks were implemented February 1, 2015 at a range of 5% to 15% with an average reduction of 10%. There have been additional reduction to staffing levels in 2015 Q2 and Q3. 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 $2,942 compared to $2,710 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.

Impairment of goodwill Due to the further decline in commodity prices and the impact on drilling and completion activity levels the Company recorded an impairment of goodwill of $5,848 in 2015 Q3. The recoverable amount of each CGU was determined using a value in use calculation based on cash flow projections over the expected life of the assets. The cash flow projections were based on expected outcomes taking into account past experience and management expectation of market conditions. $1,624 of the impairment related to the directional drilling CGU and $4,224 related to the flowback and production testing CGU. This impairment represented the total amount of goodwill allocated to each CGU.

Foreign exchange loss The Company had foreign exchange loss of $3,271 in 2015 compared to $546 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 $3,003 (2014 - $714) related to intercompany balances.

Finance costs Finance costs consist of interest expenses on operating loans, loans and borrowings and bank charges of $1,278 for 2015 compared to $1,864 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 $7,017 compared to $3,400 in 2014. Included in the 2015 amount is a charge to earnings from 2015 Q2 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 $3,815 (32% effective rate) in 2015 compared to expense of $3,400 (29% effective rate) in 2014. These effective rate are in line with anticipated annual rates.

LIQUIDITY AND CAPITAL RESOURCES

		September 30 2015		December 31 2014
Working capital	$	20,779	$	38,135
Total assets	$	170,186	$	230,534
Loans and borrowings excluding current portion	$	32,675	$	56,142
Shareholders' equity	$	105,552	$	128,368

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 September 30, 2015, the Company had funds from operations (see Non-GAAP Measurements) of $5,835 (2014 - $23,719). 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 September 30, 2015 the Company had working capital of $20,779 (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 use of working capital to reduce long-term debt.

Credit facility The Company has a 3 year committed revolving credit facility that expires in August 2017. The credit facility was amended on June 12, 2015 (the "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 September 30, 2015 the Company is in compliance with all covenants under the credit facility including the following financial covenants:

	September 30, 2015
Debt service ratio - must be not less than 2.00:1	2.42 : 1
Funded debt to EBITDAS (as defined in the credit facility) - must be not greater than 3.75:1	2.41 : 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

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

The following table outlines the current credit facility:

		September 30 2015		December 31 2014
Total credit facility	$	60,000	$	85,000
Drawings on credit facility:				
Operating loan		1,825		1,069
Revolving term loan		32,000		55,000
Letters of credit		1,411		700
Total drawn facility	$	35,236	$	56,769
Undrawn portion of credit facility	$	24,764	$	28,231
Net debt (see NON-GAAP MEASUREMENTS):				
Loans and borrowings, net of current portion	$	32,675	$	56,142
Working capital:				
Current assets	$	50,903	$	83,392
Current liabilities		(30,124)		(45,257)
Working capital	$	20,779	$	38,135
Net debt	$	11,896	$	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. 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. As at September 30, 2015, the Company had a commitment to purchase approximately $5 of equipment. Cathedral anticipates expending these funds in 2015 Q4.

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 Q3 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 is currently reviewing its options including litigation. Based upon a preliminary assessment of information available and certain assumptions the Company believes to be reasonable at this time and potential impact of this matter is indeterminable.

Share capital At November 10, 2015, the Company has 36,295,380 common shares and 1,527,097 options outstanding with a weighted average exercise price of $4.23.

In 2015, the Company issued 749,000 stock options to directors, officers and employees with an exercise prices of $1.99 or $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 September 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 September 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 nine months ended September 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	Sep 2015	Jun 2015	Mar 2015	Dec 2014	Sep 2014	Jun 2014	Mar 2014	Dec 2013
Revenues	$ 31,374	$ 29,679	$ 50,077	$ 73,242	$ 77,376	$ 56,797	$ 68,020	$ 65,238
Adjusted EBITDAS (1)	$ 3,013	$ (1,237)	$ 5,786	$ 9,408	$ 14,347	$ 6,151	$ 8,581	$ 8,124
Adjusted EBITDAS (1) per share - diluted	$ 0.08	$ (0.03)	$ 0.16	$ 0.26	$ 0.40	$ 0.17	$ 0.24	$ 0.22
Net earnings (loss)	$ (3,004)	$ (15,266)	$ (724)	$ 1,776	$ 5,805	$ 253	$ 2,449	$ (11,248)
Net earnings (loss) per share - basic and diluted	$ (0.08)	$ (0.42)	$ (0.02)	$ 0.05	$ 0.16	$ 0.01	$ 0.07	$ (0.31)
Dividends declared per share	$ 0.04	$ 0.04	$ 0.04	$ 0.0825	$ 0.0825	$ 0.0825	$ 0.0825	$ 0.0825

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

FORWARD LOOKING STATEMENTS

This MD&A contains certain forward-looking statements and forward-looking information (collectively referred to herein as "forward-looking statements") within the meaning of applicable Canadian securities laws. All statements other than statements of present or historical fact are forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "anticipate", "achieve", "believe", "plan", "intend", "objective", "continuous", "ongoing", "estimate", "outlook", "expect", "may", "will", "project", "should" or similar words suggesting future outcomes. In particular, this MD&A contains forward-looking statements relating to, among other things: lower activity levels for the remainder of the year; expect activity levels to be mediocre with the potential for further customer activity reductions in the short-term; obtaining further covenant relief for 2015 Q4 and into 2017; anticipate that we will not reinstate dividend payments until industry conditions and operating cash flow improves; remaining capital expenditures in the fourth quarter focused on improving margins and utilization of our equipment fleet; Drilling Optimization will assist us with client retention, securing new business, incremental revenue generation and exploiting operational efficiencies to improve job margins and return on assets employed; continue to focus on managing our costs, right-sizing our structure for industry activity levels, deploy our proprietary technology and expertise to assist our customers reduce their drilling and completion costs, while at the same time continuing to demonstrate our value proposition, quality, safety and integrity with our customers and employees; global oil and gas production is moving toward supply/demand balance that will eventually result in stronger commodity prices, and increased activity levels; come out of this current downturn well positioned to deliver increased value to our customers and our shareholders; projected capital expenditures and commitments and the financing thereof; and long-term intent of the Company to pay quarterly dividends to shareholders.

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

- the performance of Cathedral's businesses, including current business and economic trends;
- oil and natural gas commodity prices and production levels;
- capital expenditure programs and other expenditures by Cathedral and its customers;
- the ability of Cathedral to retain and hire qualified personnel;
- the ability of Cathedral to obtain parts, consumables, equipment, technology, and supplies in a timely manner to carry out its activities;
- the ability of Cathedral to maintain good working relationships with key suppliers;
- the ability of Cathedral to market its services successfully to existing and new customers and reliance on major customers;
- risks associated with technology development and intellectual property rights;
- the ability of Cathedral to maintain safety performance;
- the ability of Cathedral to obtain timely financing on acceptable terms;
- the ability to obtain sufficient insurance coverage to mitigate operational risks;
- currency exchange and interest rates;
- risks associated with foreign operations;
- risks associated with acquisitions and business development efforts;
- environmental risks;
- 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, 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 EBITDAS" - defined as earnings before finance costs, taxes, depreciation and amortization, impairment losses, share-based compensation, unrealized foreign exchange on intercompany balances, non-recurring compensation and non-recurring gains and losses on disposal of property and equipment (see non-GAAP measurement); is considered an indicator of the Company's ability to generate funds flow from operations prior to consideration of how activities are financed, how the results are taxed and measured and non-cash expenses (see tabular calculation);

iv) "Funds from operations" - calculated as cash 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);

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

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

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

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

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

x) "Net property and equipment additions" – is property and equipment additions expenditures less proceeds on the 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

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

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

Adjusted gross margin

	Three months ended September 30		Nine months ended September 30	
	2015	2014	2015	2014
Gross margin	$ 889	$ 14,477	$ 4,105	$ 30,352
Add non-cash items included in cost of sales:				
Depreciation	4,984	4,945	15,209	14,142
Share-based compensation	8	20	42	93
Adjusted gross margin	$ 5,881	$ 19,442	$ 19,356	$ 44,587
Adjusted gross margin %	18.7%	25.1%	17.4%	22.1%

Adjusted EBITDAS

	Three months ended September 30		Nine months ended September 30	
	2015	2014	2015	2014
Earnings (loss) before income taxes	$ (10,688)	$ 8,008	$ (17,825)	$ 11,907
Add:				
Depreciation included in cost of sales	4,984	4,945	15,209	14,142
Depreciation included in selling, general and administrative expenses	45	74	133	204
Impairment of goodwill	5,848	-	5,848	-
Share-based compensation included in cost of sales	8	20	42	93
Share-based compensation included in selling, general and administrative expenses	36	46	104	155
Finance costs	365	662	1,278	1,864
EBITDAS	598	13,755	4,789	28,365
Unrealized foreign exchange loss on intercompany balances	2,374	592	3,003	714
Non-recurring compensation	41	-	226	-
Non-recurring gain on disposal of land and building	-	-	(456)	-
Adjusted EBITDAS	$ 3,013	$ 14,347	$ 7,562	$ 29,079

Funds from operations

	Three months ended September 30		Nine months ended September 30	
	2015	2014	2015	2014
Cash flow from operating activities	$ 1,708	$ 11,561	$ 24,137	$ 24,913
Add (deduct):				
Changes in non-cash operating working capital	(2,050)	2,186	(23,004)	1,044
Income taxes paid (recovered)	1,676	(496)	3,261	412
Current tax recovery (expense)	1,389	(1,419)	1,441	(2,650)
Funds from operations	$ 2,723	$ 11,832	$ 5,835	$ 23,719

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	September 30 2015	December 31 2014
Assets		
Current assets:		
Cash and cash equivalents	$ 1,636	$ 5,109
Trade receivables	27,252	58,770
Income taxes refundable	3,296	-
Prepaid expenses	2,149	2,383
Inventories	16,570	17,130
Total current assets	50,903	83,392
Property and equipment (note 4)	117,244	131,877
Intangible assets	2,039	1,905
Deferred tax assets (note 9)	-	7,512
Goodwill (note 5)	-	5,848
Total non-current assets	119,283	147,142
Total assets	$ 170,186	$ 230,534
Liabilities and Shareholders' Equity		
Current liabilities:		
Operating loan	$ 1,825	$ 1,069
Trade and other payables	21,573	35,201
Dividends payable	1,452	2,994
Income taxes payable	-	1,232
Loans and borrowings (note 6)	767	857
Deferred revenue	4,507	3,904
Total current liabilities	30,124	45,257
Loans and borrowings (note 6)	32,675	56,142
Deferred tax liabilities (note 9)	1,835	767
Total non-current liabilities	34,510	56,909
Total liabilities	64,634	102,166
Shareholders' equity:		
Share capital (note 7)	74,481	74,481
Contributed surplus	9,407	9,261
Accumulated other comprehensive income	10,085	3,850
Retained earnings	11,579	40,776
Total shareholders' equity	105,552	128,368
Total liabilities and shareholders' equity	$ 170,186	$ 230,534

See accompanying notes to condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

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

	Three months ended September 30		Nine months ended September 30	
	2015	2014	2015	2014
Revenues	$ 31,374	$ 77,376	$ 111,130	$ 202,193
Cost of sales:				
Direct costs	(25,493)	(57,934)	(91,774)	(157,606)
Depreciation	(4,984)	(4,945)	(15,209)	(14,142)
Share-based compensation	(8)	(20)	(42)	(93)
Total cost of sales	(30,485)	(62,899)	(107,025)	(171,841)
Gross margin	889	14,477	4,105	30,352
Selling, general and administrative expenses:				
Direct costs	(4,533)	(6,256)	(14,694)	(18,386)
Depreciation	(45)	(74)	(133)	(204)
Share-based compensation	(36)	(46)	(104)	(155)
Total selling, general and administrative expenses	(4,614)	(6,376)	(14,931)	(18,745)
	(3,725)	8,101	(10,826)	11,607
Gain on disposal of property and equipment	1,638	1,096	2,942	2,710
Gain on disposal of land and buildings (note 8)	-	-	456	-
Earnings (loss) from operating activities	(2,087)	9,197	(7,428)	14,317
Impairment of goodw ill (note 5)	(5,848)	-	(5,848)	-
Finance costs	(365)	(662)	(1,278)	(1,864)
Foreign exchange loss	(2,388)	(527)	(3,271)	(546)
Earnings (loss) before income taxes	(10,688)	8,008	(17,825)	11,907
Income tax recovery (expense):				
Current	1,389	(1,419)	1,441	(2,650)
Deferred curent year	610	(784)	2,374	(750)
Deferred adjustment to prior years (note 9)	(163)	-	(10,832)	-
Total income tax recovery (expense)	1,836	(2,203)	(7,017)	(3,400)
Net earnings (loss)	(8,852)	5,805	(24,842)	8,507
Other comprehensive income:				
Foreign currency translation differences for foreign operations	3,171	1,917	6,235	1,002
Total comprehensive income (loss)	$ (5,681)	$ 7,722	$ (18,607)	$ 9,509
Net earnings (loss) per share				
Basic	$ (0.24)	$ 0.16	$ (0.68)	$ 0.23
Diluted	$ (0.24)	$ 0.16	$ (0.68)	$ 0.23

See accompanying notes to condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Nine months ended September 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 for nine months ended September 30, 2014	-	-	1,002	8,507	9,509
Transactions with shareholders, recorded directly in equity contributions by and distributions to shareholders for nine months ended September 30, 2014:					
Dividends to equity holders	-	-	-	(8,971)	(8,971)
Share-based compensation	-	248	-	-	248
Share options exercised	631	(116)	-	-	515
Total contributions by and distributions to shareholders	631	132	-	(8,971)	(8,208)
Balance at September 30, 2014	**$ 74,481**	**$ 9,197**	**$ 2,241**	**$ 41,994**	**$ 127,913**
Balance at December 31, 2014	**$ 74,481**	**$ 9,261**	**$ 3,850**	**$ 40,776**	**$ 128,368**
Total comprehensive income (loss) for nine months ended September 30, 2015	-	-	6,235	(24,842)	(18,607)
Transactions with shareholders, recorded directly in equity contributions by and distributions to shareholders for nine months ended September 30, 2015:					
Dividends to equity holders	-	-	-	(4,355)	(4,355)
Share-based compensation	-	146	-	-	146
Total contributions by and distributions to shareholders	-	146	-	(4,355)	(4,209)
Balance at September 30, 2015	**$ 74,481**	**$ 9,407**	**$ 10,085**	**$ 11,579**	**$ 105,552**

See accompanying notes to condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Three and nine months ended September 30, 2015 and 2014

Dollars in '000s

(unaudited)

	Three months ended September 30		Nine months ended September 30	
	2015	2014	2015	2014
Cash provided by (used in):				
Operating activities:				
Net earnings (loss)	$ (8,852)	$ 5,805	$ (24,842)	$ 8,507
Items not involving cash:				
Depreciation	5,029	5,019	15,342	14,346
Impairment of goodw ill (note 5)	5,848	-	5,848	-
Total income tax (recovery) expense	(1,836)	2,203	7,017	3,400
Unrealized foreign exchange loss on intercompany balances	2,374	592	3,003	714
Finance costs	365	662	1,278	1,864
Share-based compensation	44	66	146	248
Gain on disposal of property and equipment	(1,638)	(1,096)	(2,942)	(2,710)
Gain on disposal of land and building (note 8)	-	-	(456)	-
Cash flow from operations	1,334	13,251	4,394	26,369
Changes in non-cash operating w orking capital	2,050	(2,186)	23,004	(1,044)
Income taxes recovered (paid)	(1,676)	496	(3,261)	(412)
Cash flow from operating activities	1,708	11,561	24,137	24,913
Investing activities:				
Property and equipment additions	(296)	(9,958)	(6,444)	(26,937)
Intangible asset additions	(87)	(148)	(276)	(486)
Proceeds on disposal of property and equipment	2,002	1,642	4,153	4,842
Proceeds on disposal of land and buildings	-	-	6,174	-
Changes in non-cash investing w orking capital	(2,114)	1,560	(2,207)	255
Cash flow from (used for) investing activities	(495)	(6,904)	1,400	(22,326)
Financing activities:				
Change in operating loan	944	(4,085)	789	(4,559)
Advances on loans and borrow ings	-	12,000	-	25,000
Repayments on loans and borrow ings	(41)	(4,171)	(23,381)	(4,493)
Interest paid	(174)	(470)	(1,303)	(1,643)
Proceeds on exercise of share options	-	133	-	515
Dividends paid	(1,452)	(2,992)	(5,898)	(8,961)
Cash flow from (used for) financing activities	(723)	415	(29,793)	5,859
Effect of exchange rate on changes in cash and cash equivalents	435	89	783	177
Change in cash and cash equivalents	925	5,161	(3,473)	8,623
Cash and cash equivalents, beginning of period	711	3,751	5,109	289
Cash and cash equivalents, end of period	$ 1,636	$ 8,912	$ 1,636	$ 8,912

See accompanying notes to condensed consolidated interim financial statements.

1. Reporting entity

Cathedral Energy Services Ltd. ("the Company" / "Cathedral") is a company domiciled in Canada. The Company is a publicly-traded company listed on the Toronto Stock Exchange under symbol "CET". The condensed consolidated interim financial statements of the Company as at and for the period ended September 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 November 10, 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 nine months ended September 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.

4. Property and equipment

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

	Nine months ended September 30	
	2015	2014
Directional drilling equipment	$ 4,047	$ 22,553
Production testing equipment	1,345	3,512
Land and buildings	613	77
Automotive equipment	181	349
Office and computer equipment	258	852
Property and equipment additions	$ 6,444	$ 27,343

Included in the above additions are non-cash additions of $nil for the nine months ended September 30, 2015 (2014 - $406) related to acquisition of automotive equipment under finance lease liabilities.

5. Impairment of goodwill

In each quarter the Company reviews the carrying value of its long-lived assets at each reporting period for indicators of impairment. During the period ended September 30, 2015 the Corporation determined that the further decline in commodity prices and the impact on drilling and completion activity levels was an indicator of impairment and performed a comprehensive assessment of the carrying values of property and equipment and goodwill for the directional drilling and flowback and production testing cash generating units (CGU).

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

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

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

6. Loans and borrowings

	September 30 2015	December 31 2014
Current liabilities:		
Current portion of finance lease liabilities	$ 767	$ 857
Non-current liabilities:		
Finance lease liabilities	$ 675	$ 1,142
Secured revolving term loan	32,000	55,000
Total	$ 32,675	$ 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 September 30, 2015 the Company is in compliance with all covenants under the credit facility including the following financial covenants:

	September 30, 2015
Debt service ratio - must be not less than 2.00:1	2.42 : 1
Funded debt to EBITDAS (as defined in the credit facility) - must be not greater than 3.75:1	2.41 : 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

7. Share capital

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

Common shares issued:

	Nine months ended September 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 Q3 (2014 Q3 - $2,994) or $0.04 per share (2014 Q3 - $0.0825 per share). Year-to-date dividends were $4,355 ($0.12 per share) in 2015 and $8,971 ($0.2475 per share) in 2014. The Board of Directors has elected to suspend Cathedral's dividend for 2015 Q4.

Basic earnings per share

The calculation of basic earnings per share for the three and nine months ended September 30, 2015 was based on the profit (loss) attributable to common shareholders of $(3,004) and $(18,994) (2014 – $5,805 and $8,507) and a weighted average number of common shares outstanding of 36,295,380 and 36,295,380 (2014 – 36,263,750 and 36,226,725); calculated as follows:

Weighted average number of ordinary shares

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Issued, beginning of period	36,295,380	36,260,380	36,295,380	36,166,380
Effect of share options exercised	-	3,370	-	60,345
Weighted average number of common shares at end of period	36,295,380	36,263,750	36,295,380	36,226,725

Diluted earnings per share

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

The calculation of diluted earnings per share for the three and nine months ended September 30, 2014 was based on the profit attributable to common shareholders of $5,805 and $8,507. For the three and nine months ended September 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 36,279,937 and 36,250,267, calculated as follows:

Weighted average number of common shares (diluted)

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Weighted average number of common shares (basic)	36,295,380	36,263,750	36,295,380	36,226,725
Effect of share options on issue	-	16,187	-	23,542
Weighted average number of common shares (diluted) at end of period	36,295,380	36,279,937	36,295,380	36,250,267

For both the three and nine months ended September 30, 2014, 1,170,863 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 nine months ended September 30, 2015, the Company granted 749,000 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 Q3		2015 Q1
Number of options issued		20,000		729,000
Exercise price	$	1.99	$	2.13
Fair value per option (w eighted average)	$	0.35	$	0.36
Expected annual dividend per share	$	0.16	$	0.16
Risk-free interest rate (w eighted average)		0.5%		0.5%
Expected share price volatility (w eighted average)		45.2%		45.4%
Forfeiture rate per annum		10.0%		5.9%

8. 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

9. 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.

10. 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. 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. As at September 30, 2015, the Company’s commitment to purchase property and equipment is approximately $5. Cathedral anticipates expending these funds in 2015 Q4.

11. 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 had 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 is currently reviewing its options including litigation. 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 potential impact of this matter is indeterminable.

12. Comparative figures

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