CATHEDRAL

2016 Q3 INTERIM REPORT

FINANCIAL HIGHLIGHTS

Dollars in 000's except per share amounts

	Three months ended September 30		Nine months ended September 30	
	2016	2015	2016	2015
Revenues	$ 21,101	$ 31,374	$ 57,783	$ 111,130
Adjusted gross margin % (1)	21%	19%	19%	17%
Adjusted EBITDAS (1)	$ 2,171	$ 3,013	$ 2,009	$ 7,562
Diluted per share	$ 0.06	$ 0.08	$ 0.06	$ 0.21
As % of revenues	10%	10%	3%	7%
Funds from (used for) operations (1)	$ 626	$ 2,723	$ (1,005)	$ 5,835
Diluted per share	$ 0.02	$ 0.08	$ (0.03)	$ 0.16
Loss before income taxes	$ (3,188)	$ (10,688)	$ (4,239)	$ (17,825)
Basic per share	$ (0.09)	$ (0.29)	$ (0.12)	$ (0.49)
Diluted per share	$ (0.09)	$ (0.29)	$ (0.12)	$ (0.49)
Gain on disposal of foreign subsidiary	$ -	$ -	$ 10,865	$ -
Provision for settlement	$ -	$ -	$ (3,796)	$ -
Write-down of deferred taxes related to CRA settlement	$ -	$ -	$ -	$ (10,768)
Impairment of goodwill	$ -	$ (5,848)	$ -	$ (5,848)
Net earnings (loss)	$ (2,126)	$ (8,852)	$ 641	$ (24,842)
Basic per share	$ (0.06)	$ (0.24)	$ 0.02	$ (0.68)
Diluted per share	$ (0.06)	$ (0.24)	$ 0.02	$ (0.68)
Dividends declared per share	$ -	$ 0.04	$ -	$ 0.12
Property and equipment additions - cash basis	$ 146	$ 296	$ 484	$ 6,444
Weighted average shares outstanding				
Basic (000s)	36,295	36,295	36,295	36,295
Diluted (000s)	36,297	36,295	36,295	36,295

	September 30 2016	December 31 2015
Working capital	$ 18,974	$ 13,550
Total assets	$ 133,888	$ 155,610
Loans and borrowings excluding current portion	$ 25,212	$ 30,477
Shareholders' equity	$ 96,025	$ 96,607

(1) Refer to "NON-GAAP MEASUREMENTS"

MANAGEMENT'S DISCUSSION & ANALYSIS

This Management's Discussion & Analysis ("MD&A") for the three and nine months ended September 30, 2016 should be read in conjunction with the annual audited consolidated financial statements and notes thereto for the year ended December 31, 2015, as well as the MD&A in the 2015 Annual Report of Cathedral Energy Services Ltd. (the "Company" or "Cathedral"). This MD&A has been prepared as of November 10, 2016. Dollar amounts are in '000's except for day rates and per share amounts.

2016 Q3 KEY TAKEAWAYS

Adjusted gross margin improved to 21% in 2016 Q3 from 19% in 2015 Q3. The adjusted gross margin was achieved based on cost management and efficiency initiatives despite a significant decrease in revenue day rates in the period;

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

Revenues of $21,101 in 2016 Q3 compared to $31,374 in 2015 Q3, a 33% decline and Adjusted EBITDAS of $2,171 in 2016 Q3 compared to $3,013 in 2015 Q3. Adjusted EBITDAS margin remained at 10% for both quarters even with drop in revenues;

Revenues and profitability were significantly affected by reduced industry activity and pricing pressures resulting from continued decline in commodity prices in early 2016; and

With an improved industry outlook, management continues to focus on initiatives to manage costs, improve margins, improve revenue through enhanced focus on our sales and marketing capabilities and manage Cathedral's financial obligations and liquidity.

OUTLOOK

With WTI oil pricing seemingly moving more firmly toward the $50 per barrel ("bbl") U.S. dollars ("USD") range through October, improved natural gas pricing and indications of producers expanding 2017 capital budgets, we are seeing an improved outlook for industry activity levels going into Q4 and 2017. Although we continue to expect volatility in energy commodity prices, we believe prices settling more firmly into the $50 bbl range and an improved natural gas pricing will translate into improved activity levels for our business.

Our funds from operations for the third quarter was positive. However, like most oilfield services companies we also experienced a tough quarter due to lower year-over-year activity levels and continued pricing pressure from our customers. The results of the quarter were buoyed with gain on equipment sales resulting from equipment lost downhole. When our equipment cannot be retrieved from a wellbore due to the drilling environment, customers reimburse us for its value. During the quarter we also continued to experience an increase in our U.S. directional drilling market share and continued strengthening of this business division.

Throughout the downturn we have remained cash flow positive on a rolling 12 month basis which has been achieved through managing our costs and continuing to work on our strategic initiatives to improve our business.

The challenge with our more positive industry outlook is our ability to fund future growth in our business. As the market improves, we will need additional funds to hire staff, ensure our equipment fleet is sufficient to meet demand and to fund the working capital needs associated with accounts receivable growth. Although we have significantly reduced our debt since December 2014 and remained cash flow positive, our lenders continue to put pressure on our credit availability. Our credit facility availability is currently $33,000, but will be reduced to $28,000 by March 31, 2017. As at September 30, we had positive working capital of approximately $19,000 and our total drawn facility was $27,000 (including outstanding Letters of Credit) with a cash balance of $570 so we are currently already within the lenders future requirements. To assist with securing additional liquidity, in August, the Company invited Export Development Canada ("EDC") to join our lending syndicate. EDC has a mandate to support the energy industry and in particular companies with growing international operations like Cathedral. EDC allowed our existing lending syndicate to reduce their exposure while at the same time also allowing Cathedral to increase our available credit by $3,000.

The above credit availability situation, in part, led us to consider a strategic alternatives process. In August, Cathedral's board analyzed the various alternatives available to the Company to provide its stakeholders with the best solution to achieve the growth prospects the Company believes are available as industry conditions improve. The result of this was a proactive decision to retain the services of an investment banking firm to assist in the process of determining the best available options for the Company. Our primary objective with this undertaking is to secure financial capacity to augment and accelerate Cathedral's growth capabilities. In addition to seeking growth capital, finding a way for Cathedral to gain future size and scale is also a key objective in order to maximize our potential for our shareholders. The strategic alternatives process is well underway, however, there are no guarantees that this process will result in an outcome that fully achieves our objectives.

Based on the current commodity prices and associated positive outlook we are optimistic about our business prospects. We have very good platform for growth in the Canadian and U.S. market, industry leading technology and a team of experienced and motivated employees. We have also made great progress over the past 20 months with improving our business operations in a very tough industry environment. We will continue to explore ways to grow and manage our business to ensure we create long-term value for our shareholders.

DIVIDENDS

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

2016 CAPITAL PROGRAM

During the nine months ended September 30, 2016 the Company invested $484 (2015 - $6,444) in property and equipment. The following table details the current period's net property and equipment additions:

	Nine months ended September 30, 2016
Property and equipment additions:	
Growth capital [1]	$ 117
Maintenance capital [1]	153
Replacement capital [1]	214
Total cash additions	484
Less: proceeds on disposal of property and equipment	(3,750)
Net property and equipment additions [1]	$ (3,266)

(1) See "NON-GAAP MEASUREMENTS"

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

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

	September 30 2016	December 31 2015	September 30 2015
Directional Drilling - MWD systems	128	140	140
Flow back and Production Testing ("F&PT") units	64	66	66

The stated number of MWD systems represent current equipment availability. Although some MWD equipment has been lost-in-hole, the Company has also made the decision not to refurbish certain equipment due to having sufficient equipment availability to meet current job requirements. In 2016 Q3 two production testing units were sold as they were deemed to be redundant assets in our fleet.

RESULTS OF OPERATIONS – THREE MONTHS ENDED SEPTEMBER 30

	Three months ended September 30, 2016			Three months ended September 30, 2015		
Revenues	Directional drilling	Flow back and production testing	Total	Directional drilling	Flow back and production testing	Total
Canada	$ 5,844	$ 1,536	$ 7,380	$ 10,171	$ 2,158	$ 12,329
United States	13,644	77	13,721	16,194	2,851	19,045
Total	$ 19,488	$ 1,613	$ 21,101	$ 26,365	$ 5,009	$ 31,374

Revenues 2016 Q3 revenues were $21,101 representing a decrease of $10,273 or 33% from 2015 Q3 revenues of $31,374. All divisions experienced revenue decreases compared to 2015 Q3 due to reduced activity levels resulting from customer reactions to decreases in commodity prices and day rate decreases primarily related to competitive pressure and pricing concessions requested by customers due to market conditions.

Canadian Directional Drilling revenues (excluding motor rental revenues) decreased to $4,502 in 2016 Q3 from $8,302 in 2015 Q3; a 46% decrease. This decrease was the result of: i) a 35% decrease in activity days to 673 in 2016 Q3 from 1.036 in 2015 Q3; and ii) a 17% decrease in the average day rate to $6,689 in 2016 Q3 from $8,014 in 2015 Q3. Motor rental revenues for 2016 Q3 were $1,342 (2015 Q3 - $1,869); a decrease of $527. Motor rentals declined in Q3 as a result of lower activity levels with customer jobs the motors were deployed on and changes in specific job equipment requirements. Due to a limited supply of drilling motors, Cathedral is also shifting the use of these motors to Cathedral full service directional drilling jobs which have higher revenue associated with them than would a motor rental only.

The decrease in activity days was mainly due to overall reductions in activity levels in Canada as well as certain Cathedral customers reducing their drilling programs and others who ceased drilling during the period. The average active land rig count for Canada was down 38% in 2016 Q3 compared to 2015 Q3. The decrease in day rates was in part due to type of work performed, but mainly due to decreases in day rates charged to customers which were a result of competitive pressure and pricing concessions provided to customers to secure work.

U.S. Directional Drilling revenues (excluding motor rental revenues) decreased to $13,011 in 2016 Q3 from $15,707 in 2015 Q3; a 17% decrease. This decrease was the result of: i) small increase in activity days to 1,283 in 2016 Q3 from 1,278 in 2015 Q3; and ii) a 17% decrease in the average day rate to $10,141 in 2016 Q3 from $12,290 in 2015 Q3 (when converted to Canadian dollars). The activity days for the Rocky Mountain and Northeast regions were down, but these were offset by increases in the Texas and Oklahoma operating areas. The average active land rig count for the U.S. was down 44% in 2016 Q3 compared to 2015 Q3. Rates in USD fell to $7,768 USD in 2016 Q3 from $9,383 USD in 2015 Q3. U.S. day rate decreases were partially offset by the U.S. division providing footage drilling services to certain clients which can result in higher relative day rates. U.S. motor rental revenues for 2016 Q3 were $633 compared to $487 in 2015 Q3.

Canadian F&PT revenues decreased to $1,536 in 2016 Q3 from $2,158 in 2015 Q3; a 29% decrease. The decrease resulted from a reduction in activity levels due to the industry downturn as well as a 14% decline in pricing. Wells completed in Canada fell approximately 41% in 2016 Q3 compared to 2015 Q3.

U.S. F&PT revenues decreased to $77 in 2016 Q3 from $2,851 in 2015 Q3; a 98% decrease. In Q1 2016, the Company made the decision to scale down the operations of its U.S. F&PT division to reflect current industry activity levels and mitigate losses. Business development activities have continued in order to enable the business to secure work where it makes economic sense. Sales activities have been supported by the U.S. Directional Drilling sales team and in addition the division currently has 2 dedicated sales staff. As industry activity levels improve, management's intention is to further ramp up operations commensurately.

Gross margin and adjusted gross margin Gross margin for 2016 Q3 was 1% compared to 3% in 2015 Q3. Adjusted gross margin (see Non-GAAP Measurements) for 2016 Q3 was $4,375 or 21% compared to 5,881 or 19% for 2015 Q3.

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

Additionally, there was a reduction in the fixed component of cost of sales of 28% compared with 2015 Q3 amount. However, on a percentage of revenue basis, these costs were greater in 2016 Q3 increasing 1% over 2015 Q3.

Depreciation allocated to cost of sales decreased to $4,153 in 2016 Q3 from $4,984 in 2015 Q3. Depreciation included in cost of sales as a percentage of revenue was 20% for 2016 Q3 and 16% in 2015 Q3.

Selling, general and administrative expenses ("SG&A") SG&A expenses were $3,884 in 2016 Q3; a decrease of $730 compared with $4,614 in 2015 Q3. As a percentage of revenue, SG&A was 18% in 2016 Q3 and 15% in 2015 Q3.

Excluding the non-cash items of depreciation and share-based compensation, SG&A was $3,818 in 2016 Q3 compared to $4,533 in 2015 Q3; a decrease of $715 or 16%. SG&A decreased primarily due to work force reductions, wage rollbacks and reductions in variable compensation. SG&A wage rollbacks were implemented February 1, 2015 at a range of 5% to 15% and a further 5% to 9% on January 1, 2016. There were additional reductions to staffing levels in 2015 and 2016. Staffing costs included in SG&A include executive, sales, accounting, human resources, payroll, safety, technology support and related support staff. As well there were year-over-year reductions in virtually every other SG&A item due to efforts to reduce expenditures.

Gain on disposal of equipment During 2016 Q3, the Company had a gain on disposal of equipment of $1,239 compared to $1,638 in 2015 Q3. These gains mainly relate to equipment lost-in-hole. Proceeds from clients on lost-in-hole equipment are based on amounts specified in service agreements and in most cases these proceeds exceed the net book value of the equipment and result in a gain. The timing of lost-in-hole recoveries is not in the control of the Company and therefore can fluctuate significantly from quarter-to-quarter.

Finance costs Finance costs consist of interest expenses on operating loans, loans and borrowings and bank charges of $599 for 2016 Q3 versus $365 for 2015 Q3. The increase in finance costs relate to increases in interest rates partially offset by a decreased utilization of the Company's credit facility.

Foreign exchange loss The Company had a foreign exchange loss of $(160) in 2016 Q3 compared to $(2,388) in 2015 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 2016 Q3 foreign currency gains are unrealized losses of $166 (2015 Q3 –$2,374) related to intercompany balances.

Impairment of goodwill In 2015 Q3 the Company recorded an impairment of goodwill of $5,848. The recoverable amount of each cash generating unit ("CGU") was determined using a value in use calculation based on cash flow projections over the expected life of the assets. The cash flow projections were based on expected outcomes taking into account past experience and management's expectations for future market conditions. $1,624 of the impairment related to the directional drilling CGU and $4,224 related to the flowback and production testing CGU. This impairment represented the total amount of goodwill allocated to each CGU.

Income tax For 2016 Q3, the Company had an income tax recovery of $1,062 compared to $1,836 in 2015 Q3. Excluding adjustment to prior years' tax provisions, the effective tax rate was 27% for 2016 Q3 and 38% for 2015 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, 2016			Nine months ended September 30, 2015		
Revenues	Directional drilling	Flow back and production testing	Total	Directional drilling	Flow back and production testing	Total
Canada	$ 14,794	$ 4,313	$ 19,107	$ 31,844	$ 10,092	$ 41,936
United States	38,064	612	38,676	53,237	15,957	69,194
Total	$ 52,858	$ 4,925	$ 57,783	$ 85,081	$ 26,049	$ 111,130

Revenues 2016 revenues were $57,783 representing a decrease of $53,347 or 48% from 2015 revenues of $111,130. All divisions experienced revenue decreases compared to 2015 due to reduced activity levels resulting from customer reactions to decreases in commodity prices and day rate decreases primarily related to competitive pressure and pricing concessions requested by customers due to market conditions.

Canadian Directional Drilling revenues (excluding motor rental revenues) decreased to $9,655 in 2016 from $28,507 in 2015; a 66% decrease. This decrease was the result of: i) a 53% decrease in activity days to 1,445 in 2016 from 3,095 in 2015; and ii) a 27% decrease in the average day rate to $6,682 in 2016 from $9,211 in 2015. Partially offsetting these declines was an increase of $1,802 on the rental of motors, particularly Cathedral's CLAW™ motor. Motor rental revenues for 2016 were $5,139 (2015 - $3,337).

The decrease in activity days was mainly due to overall reductions in activity levels in Canada as well as certain of Cathedral's customers reducing their drilling programs and some who ceased drilling during the period. The average active land rig count for Canada was down 45% in 2016 compared to 2015. The decrease in day rates was in part due to type of work performed, but mainly due to decreases in day rates charged to customers which were a result of competitive pressure and pricing concessions provided to customers to secure work.

U.S. Directional Drilling revenues (excluding motor rental revenues) decreased to $35,419 in 2016 from $52,252 in 2015; a 32% decrease. This decrease was the result of: i) a 27% decrease in activity days to 3,246 in 2016 from 4,458 in 2015; and ii) a 7% decrease in the average day rate to $10,912 in 2016 from $11,721 in 2015 (when converted to Canadian dollars). The activity days for the Rocky Mountain and Northeast regions were down, but these were offset by increases in the Texas and Oklahoma operating areas. The average active land rig count for the U.S. was down 53% in 2016 compared to 2015. Rates in USD fell to $8,250 USD in 2016 from $9,338 USD in 2015; a 12% decline. U.S. day rate decreases were partially tempered by the U.S. division providing footage drilling services to certain clients which can result in higher relative day rates. U.S. motor rental revenues for 2016 were $2,645 compared to $985 in 2015.

Canadian F&PT revenues decreased to $4,313 in 2016 from $10,092 in 2015; a 57% decrease. The decrease was due to the reduction in activity levels due to the industry downturn as well as a 26% decline in pricing. Wells completed in Canada fell approximately 52% in 2016 compared to 2015.

U.S. F&PT revenues decreased to $612 in 2016 Q3 from $15,957 in 2015 Q3; a 96% decrease. In Q1 2016, the Company made the decision to scale down the operations of its U.S. F&PT division to reflect current industry activity levels and mitigate losses. Business development activities have continued in order to enable the business to secure work where it makes economic sense. As industry activity levels improve, management's intention is to further ramp up operations commensurately.

Gross margin and adjusted gross margin Gross margin for 2016 was negative (2%) compared to 4% in 2015. Adjusted gross margin (see Non-GAAP Measurements) for 2016 was $11,260 or 19% compared to $19,356 or 17% for 2015.

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

Additionally, there was a reduction in the fixed component of cost of sales of 31% compared with 2015 amount. However, on a percentage of revenue basis, these costs were greater in 2016 increasing 6% over 2015.

Depreciation allocated to cost of sales decreased to $12,581 in 2016 from $15,209 in 2015. Depreciation included in cost of sales as a percentage of revenue was 22% for 2016 and 14% in 2015.

Selling, general and administrative expenses ("SG&A") SG&A expenses were $12,769 in 2016; a decrease of $2,162 compared with $14,931 in 2015. As a percentage of revenue, SG&A was 22% in 2016 and 13% in 2015.

Excluding the non-cash items of depreciation and share-based compensation, SG&A was $12,553 in 2016 compared to $14,694 in 2015, a decrease of $2,141 or 15%. SG&A decreased primarily due to work force reductions, wage rollbacks and reductions in variable compensation. SG&A wage rollbacks were implemented February 1, 2015 at a range of 5% to 15% and a further 5% to 9% on January 1, 2016. There were additional reductions to staffing levels in 2015 and 2016. Staffing costs included in SG&A include executive, sales, accounting, human resources, payroll, safety, technology support and related support staff. As well there were year-over-year reductions in virtually every other SG&A item due to efforts to reduce expenditures.

Gain on disposal of equipment During 2016, the Company had a gain on disposal of equipment of $2,325 compared to $2,942 in 2015. These gains mainly relate to equipment lost-in-hole. Proceeds from clients on lost-in-hole equipment are based on amounts specified in service agreements and in most cases these proceeds exceed the net book value of the equipment and result in a gain. The timing of lost-in-hole recoveries is not in the control of the Company and therefore can fluctuate significantly from quarter-to-quarter. In 2015 Q1, the Company completed the sale and leaseback of its Oklahoma City operating facility. This resulted in a gain on sale of land and buildings of $456.

Finance costs Finance costs consist of interest expenses on operating loans, loans and borrowings and bank charges of $1,397 for 2016 versus $1,278 for 2015. The increase in finance costs relate to increases in interest rates partially offset by a decreased utilization of the Company's credit facility.

Foreign exchange loss The Company had a foreign exchange gain of $2,139 in 2016 compared to a loss of $(3,271) in 2015 due to the fluctuations in the Canadian dollar relative to the U.S. dollar. The Company's foreign operations are denominated in a currency other than the Canadian dollar and therefore, upon consolidation, gains and losses due to fluctuations in the foreign currency exchange rates are recorded in other comprehensive income ("OCI") on the balance sheet as a component of equity. However, gains and losses in the Canadian entity on U.S. denominated intercompany balances continue to be recognized in the statement of income. Included in the 2016 foreign currency gains are unrealized gains of $2,174 (2015 – loss of $3,003) related to intercompany balances.

Provision for settlement The Company has entered into a Settlement Agreement and Release (the "Settlement Agreement") in respect of two wage and hour lawsuits (the "Collective Actions") that were filed against Company's wholly-owned subsidiary, Cathedral Energy Services Inc. ("INC"). The first Collective Action lawsuit, Wallace vs. Cathedral Energy Services Inc. ("Wallace"), was filed on November 6, 2014, in the United States District Court for the Southern District of Texas, Houston Division (the "Houston Court") alleging that INC employed or contracted Measurement While Drilling ("MWD") and Directional Drilling ("DD") operators were entitled to recover unpaid overtime wages under the Fair Labor Standards Act ("FLSA"). The second Collective Action lawsuit, Price vs. Cathedral Energy Services Inc., was filed on April 9, 2015, in the United States District Court District of Colorado, Denver Division (and subsequently transferred to Houston Court) alleging that the Company incorrectly calculated the overtime pay for certain hourly paid operators in violation of the FLSA. Legal actions involving similar alleged FLSA violations have been filed in the United States against a number of other oilfield service companies. Cathedral has denied the allegations, and vigorously defended the litigation leading up to entering into the Settlement Agreement.

The Settlement Agreement provides a mechanism for finally resolving and releasing the claims for all INC employed and contracted MWD and DD operators. Under the terms of the Settlement Agreement, the parties will establish a settlement fund of up to $3,400 USD. The final determination of the settlement fund amount will be based on the number of claimants that participate in the settlement and Cathedral estimates the final settlement amount will be in the $2,900 USD range. The settlement fund payments will be paid quarterly by the Company over a three-year period with the final payment due on or before September 2019. The quarterly payments may be accelerated in the event Cathedral meets certain financial targets over the payment period and can be deferred if a scheduled payment would put Cathedral in violation of its credit facility covenants subject to not more than three payments being deferred.

Any settlement fund payments made by Cathedral are subject to the approval of Cathedral's banking syndicate. During 2016 Q3, the initial settlement payment of $570 was made.

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

Impairment of goodwill In 2015 Q3 the Company recorded an impairment of goodwill of $5,848. The recoverable amount of each cash generating unit ("CGU") was determined using a value in use calculation based on cash flow projections over the expected life of the assets. The cash flow projections were based on expected outcomes taking into account past experience and management's expectations for future market conditions. $1,624 of the impairment related to the directional drilling CGU and $4,224 related to the flowback and production testing CGU. This impairment represented the total amount of goodwill allocated to each CGU.

Income tax For 2016, the Company had an income tax recovery of $4,880 compared to expense of $(7,017) in 2015. Excluding the non-cash gain on disposal of foreign subsidiary, write-down of goodwill and adjustments to prior years' tax provisions, the effective tax rate was 32% for 2016 and 29% for 2015. Income tax expense is booked based upon expected annualized effective rates.

Included in the 2015 Q2 amount is a charge to earnings of $10,768 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"). Cathedral elected to enter into the agreement with Canada Revenue Agency ("CRA") as a highly satisfactory solution to avoid potential costly and time consuming legal proceedings and allow management to focus its efforts on business operations and enhancing shareholder value. The CRA agreement did not give rise to any cash outlay by Cathedral for prior taxation years. Cathedral continues to have access to a portion of the tax attributes obtained as part of the Conversion to offset federal and provincial taxes in subsequent taxation years.

LIQUIDITY AND CAPITAL RESOURCES

Overview On an annualized basis the Company's principal source of liquidity is cash generated from operations. In addition, the Company has the ability to fund liquidity requirements through its credit facility and the issuance of debt and/or equity. For the nine months ended September 30, 2016, the Company had funds used for continuing operations (see Non-GAAP Measurements) of $1,005 (2015 – funds from continuing operations of $5,835). The decrease in funds related to continuing operations is due to lower activity levels and reductions in day rates. In 2016 the Company reduced its loans and borrowings by $5,405 which included a reduction in the revolving term loan of $5,000. Cash balances as at September 30, 2016 were $570.

Working capital At September 30, 2016 the Company had working capital of $18,974 (December 31, 2015 - $13,550) and a working capital ratio of 2.8 to 1 (December 31, 2015 – 1.5 to 1). The increase in working capital level was primarily due to the sale of DPI which had the effect of reducing certain payables recorded. Working Capital increased $1,174 from June 30, 2016 primarily a result of accounts receivable increasing by $4,312 reflecting the quarter-over-quarter revenue increase. The Company continues to retain a good accounts receivable aging profile with 87% of receivables under 60 days.

Credit facility The Company has a 3 year committed revolving credit facility (the "Facility") that expires in November 2017. The Facility is secured by a general security agreement over all present and future personal property.

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

On August 9, 2016, the Company completed negotiations on the Fourth Amending Agreement and on September 2, 2016 the Fifth Amending Agreement.

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

Quarter ending:	Maximum Funded Debt to Bank EBITDA Ratio	Minimum Debt Service Ratio
September 30, 2016	Waived	Waived
December 31, 2016	Waived	Waived
March 31, 2017	Waived	Waived
June 30, 2017	Waived	Waived
September 30, 2017 and thereafter	3.00	1.75

Under the Fourth Amendment the working capital covenant in the Facility was also waived.

The Fourth Amendment has the following required minimum cumulative Bank EBITDA per the credit agreement:

Three months ended September 30, 2016	$1,100
Six months ended December 31, 2016	$2,500
Nine months ended March 31, 2017	$4,900
Twelve months ended September 30, 2017	$5,000

Under the Fourth Amendment the lending syndicate required the Company provide a plan by September 15, 2016 to get Cathedral's Facility within more typical industry covenant levels based on cash flow the business is able to generate in this current environment. Under the Fourth Amendment, the lending syndicate required that Cathedral's credit facility availability be reduced to $25,000 as at March 31, 2016. The plan presented to the lending syndicate, in part, resulted in Cathedral proactively initiating a process to identify, examine and consider a range of strategic alternatives available to the Company, with a view to maximizing shareholder value. Strategic alternatives may include, but are not limited to, debt and/or equity financings, joint venture or partnership transactions, the sale of the Company or a portion of the Company's assets, a merger or other such options as may be determined by the Company's Board of Directors to be in the best interests of the Company and its shareholders. For the purposes of considering strategic alternatives, Cathedral has established a special committee of independent directors ("the Special Committee"). The Special Committee has retained GMP FirstEnergy as its financial advisor in connection with this review of strategic alternatives.

Under the Fifth Amendment, Export Development Corporation joined Cathedral's lending syndicate resulting in the lending exposure from the prior lending syndicate members being reduced and the Facility increasing by $3,000 from that contained in the Fourth Amendment, and the maturity of the Facility was extended by three months to November 2017. The Fifth Amendment provides for credit availability of $36,000, further reducing to $33,000 by December 31, 2016 and $28,000 by March 31, 2017.

There is no guarantee the lending syndicate will either extend the existing Facility beyond November 2017 or enter into a new Facility with a later maturity date. As such the entire Facility may become due and payable within 12 months of November 2016. The Company will continue to work with the existing lenders or as part of the strategic alternatives process noted above seek other alternatives in respect of the maturity of its existing Facility.

After the amendments discussed above, the Facility bears interest at the bank's prime rate plus 0.50% to 5.00% or bankers' acceptance rate plus 1.75% to 6.25% with interest payable monthly. Interest rate spreads for the Facility depend on the level of funded debt to the 12 month trailing Bank EBITDA. The Facility provides a means to lock in a portion of the debt at interest rates through bankers' acceptance ("BA") based on the interest rate spread on the date the BA was entered into. The Company has historically maximized the use of this option thereby lowering its interest costs, however, the ability to achieve these lower rates will be impacted in the future based on current rates which increase based on the Company's funded debt to Bank EBITDA ratio.

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

The Company's financial ratios in the 2016 Q3 waiver period were:

Ratio	**Actual**	**Required**
Debt service ratio	1.83:1	Waived
Funded debt to Bank EBITDA ratio	8.20:1	Waived
Working capital ratio	2:81:1	Waived
Minimum Bank EBITDA for the three months ended September 30, 2016	$2,613	$1,100

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

In the event the Company believes it could be in breach of its loan covenants it will first enter into discussions on amendments to the financial covenants in the Facility to avoid such a breach.

The following table outlines the current credit Facility:

		September 30 2016		December 31 2015
Total credit facility	$	36,000	$	60,000
Drawings on credit facility:				
Operating loan		960		2,484
Revolving term loan		25,000		30,000
Letters of credit		1,008		1,554
Total drawn facility	$	26,968	$	34,038
Undrawn portion of credit facility	$	9,032	$	25,962
Net debt (see NON-GAAP MEASUREMENTS):				
Loans and borrowings, net of current portion	$	25,212	$	30,477
Working capital:				
Current assets	$	29,468	$	41,575
Current liabilities		(10,494)		(28,025)
Working capital	$	18,974	$	13,550
Net debt	$	6,238	$	16,927

Contractual obligations In the normal course of business, the Company incurs contractual obligations and those obligations are disclosed in the Company's MD&A for the year ended December 31, 2015. As at September 30, 2016, the Company had a commitment to purchase approximately $267 of equipment.

Contingency On October 29, 2014 Cathedral received a letter from one of its U.S. clients ("the Complainant") alleging a down-hole drilling incident which impacted two of their wells in December 2013. The Complainant had indicated potential damages of $3,000 USD and in 2015 Q3 increased this indication to $3,700 USD. Cathedral does not carry insurance for this type of incident. In January 2016, the Complainant filed a formal complaint in Pennsylvania court initiating a formal legal process related to their claim. On June 17, 2016, the Complainant initiated the "Discovery/Interrogatory" process (which is a normal part of the litigation process) where they are requesting Cathedral provide certain information and documents related to the case. Cathedral has prepared responses to these interrogatories and prepared a list of interrogatories for the Complainant. On July 12, 2016, Cathedral, with its legal counsel, filed a formal response to the complaint. It is anticipated the interrogatories process potentially leading to a court process will commence in Q4 of 2016. 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.

Share capital At November 10, 2016, the Company has 36,295,380 common shares and 1,450,500 options outstanding with a weighted average exercise price of $2.02.

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, 2016 that have materially affected, or are reasonably likely to materially affect, Cathedral's ICFR.

RISK FACTORS

The MD&A for the year ended December 31, 2015, which is included in the Company's 2015 Annual Report, includes an overview on risk factors associated with the Company and its operating entities. Those risk factors remain in effect as at September 30, 2016.

GOVERNANCE

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

NEW AND FUTURE ACCOUNTING POLICIES

There were no other new or amended standards issued during the nine months ended September 30, 2016 that are applicable to the Company in future periods. A description of standards and interpretations that will be adopted by the Company in future periods can be found in the notes to the consolidated financial statements for the year ended December 31, 2015.

SUMMARY OF QUARTERLY RESULTS

Three month periods ended	Sep 2016	Jun 2016	Mar 2016	Dec 2015	Sep 2015	Jun 2015	Mar 2015	Dec 2014
Revenues	$ 21,101	$ 15,587	$ 21,095	$ 24,949	$ 31,374	$ 29,679	$ 50,077	$ 73,242
Adjusted EBITDAS (1)	$ 2,171	$ (1,638)	$ 1,476	$ (169)	$ 3,013	$ (1,237)	$ 5,786	$ 9,408
Adjusted EBITDAS (1) per share - diluted	$ 0.06	$ (0.05)	$ 0.04	$ (0.00)	$ 0.08	$ (0.03)	$ 0.16	$ 0.26
Net earnings (loss)	$ (2,126)	$ (6,916)	$ 9,683	$ (16,348)	$ (3,004)	$ (15,266)	$ (724)	$ 1,776
Net earnings (loss) per share - basic and diluted	$ (0.06)	$ (0.19)	$ 0.27	$ (0.45)	$ (0.08)	$ (0.42)	$ (0.02)	$ 0.05
Dividends declared per share	$ -	$ -	$ -	$ -	$ 0.04	$ 0.04	$ 0.04	$ 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: an improved outlook for industry activity levels going into 2017; customer indications drilling programs will be increasing in the next couple of quarters; believe prices settling more firmly into the $50 bbl range and an improved natural gas pricing outlook will translate into improved activity levels for our business; confident we will capitalize on all the hard work we have done over the past 20 month to sharpen our game; based on the current commodity prices and associated positive outlook we are optimistic about our business prospects; have very good platform for growth in the Canadian and U.S. market, industry leading technology and a team of experienced and motivated employees; projected capital expenditures and commitments and the financing thereof; anticipate that we will not reinstate dividend payments until industry conditions and operating cash flow improves; the Company could breach the covenants included in the amended Facility; Cathedral expects to comply with all covenants during 2016; and long-term intent of the Company to pay quarterly dividends to shareholders.

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

- the performance of Cathedral's businesses, including current business and economic trends;
- oil and natural gas commodity prices and production levels;
- capital expenditure programs and other expenditures by Cathedral and its customers;
- the ability of Cathedral to retain and hire qualified personnel;
- the ability of Cathedral to obtain parts, consumables, equipment, technology, and supplies in a timely manner to carry out its activities;
- the ability of Cathedral to maintain good working relationships with key suppliers;
- the ability of Cathedral to market its services successfully to existing and new customers and reliance on major customers;
- risks associated with technology development and intellectual property rights;
- the ability of Cathedral to maintain safety performance;
- the ability of Cathedral to obtain timely financing on acceptable terms;
- the ability to obtain sufficient insurance coverage to mitigate operational risks;
- currency exchange and interest rates;
- risks associated with foreign operations;
- risks associated with acquisitions and business development efforts;
- environmental risks;
- the number of claimants that participate in the FLSA settlement;
- changes under governmental regulatory regimes and tax, environmental and other laws in Canada and U.S.; and
- competitive risks.

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

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

NON-GAAP MEASUREMENTS

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

The specific measures being referred to include the following:

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

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

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

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

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

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

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

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

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

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

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

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

Adjusted gross margin

	Three months ended September 30		Nine months ended September 30	
	2016	2015	2016	2015
Gross margin	$ 216	$ 889	$ (1,329)	$ 4,105
Add non-cash items included in cost of sales:				
Depreciation	4,153	4,984	12,581	15,209
Share-based compensation	6	8	8	42
Adjusted gross margin	$ 4,375	$ 5,881	$ 11,260	$ 19,356
Adjusted gross margin %	21%	19%	19%	17%

Adjusted EBITDAS

	Three months ended September 30		Nine months ended September 30	
	2016	2015	2016	2015
Earnings (loss) before income taxes	$ (3,188)	$ (10,688)	$ (4,239)	$ (17,825)
Add:				
Depreciation included in cost of sales	4,153	4,984	12,581	15,209
Depreciation included in selling, general and administrative expenses	33	45	101	133
Impairment of goodw ill	-	5,848	-	5,848
Share-based compensation included in cost of sales	6	8	8	42
Share-based compensation included in selling, general and administrative expenses	33	36	115	104
Finance costs	599	365	1,397	1,278
EBITDAS	1,636	598	9,963	4,789
Unrealized foreign exchange (gain) loss on intercompany balances	166	2,374	(2,174)	3,003
Non-recurring expenses	369	41	1,012	226
Non-recurring gain on disposal of land and building	-	-	-	(456)
Write-dow n of inventory	-	-	277	-
Provision for settlement	-	-	3,796	-
Gain on disposal of foreign subsidiary	-	-	(10,865)	-
Adjusted EBITDAS	$ 2,171	$ 3,013	$ 2,009	$ 7,562

Funds from (used for) operations

	Three months ended September 30		Nine months ended September 30	
	2016	2015	2016	2015
Cash flow from (used for) operating activities	$ (2,479)	$ 1,708	$ 4,619	$ 24,137
Add (deduct):				
Changes in non-cash operating w orking capital	4,743	(2,050)	(4,107)	(23,004)
Income taxes paid (recovered)	(1,701)	1,676	(1,840)	3,261
Current tax recovery (expense)	63	1,389	323	1,441
Funds from (used for) operations	$ 626	$ 2,723	$ (1,005)	$ 5,835

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

September 30, 2016 and December 31, 2015
Dollars in '000s
(unaudited)

	September 30 2016	December 31 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 570	$ 1,426
Trade receivables	17,503	23,107
Current taxes recoverable	1,286	2,962
Prepaid expenses	1,484	1,988
Inventories	8,625	12,092
Total current assets	29,468	41,575
Equipment (note 4)	95,235	108,918
Intangible assets	1,978	2,006
Deferred tax assets	7,207	3,111
Total non-current assets	104,420	114,035
Total assets	$ 133,888	$ 155,610
Liabilities and Shareholders' Equity		
Current liabilities:		
Operating loan	$ 960	$ 2,484
Trade and other payables	8,052	20,198
Loans and borrowings (note 6)	348	686
Provision for settlement, current (note 7)	1,134	-
Deferred revenue	-	4,657
Total current liabilities	10,494	28,025
Loans and borrowings (note 6)	25,212	30,477
Provision for settlement, long-term (note 7)	2,157	-
Deferred tax liabilities	-	501
Total non-current liabilities	27,369	30,978
Total liabilities	37,863	59,003
Shareholders' equity:		
Share capital (note 8)	74,481	74,481
Contributed surplus	9,593	9,470
Accumulated other comprehensive income	10,231	11,577
Retained earnings	1,720	1,079
Total shareholders' equity	96,025	96,607
Total liabilities and shareholders' equity	$ 133,888	$ 155,610

See accompanying notes to condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

Three and nine months ended September 30, 2016 and 2015
Dollars in '000s except per share amounts
(unaudited)

	Three months ended September 30		Nine months ended September 30	
	2016	2015	2016	2015
Revenues	$ 21,101	$ 31,374	$ 57,783	$ 111,130
Cost of sales:				
Direct costs	(16,726)	(25,493)	(46,523)	(91,774)
Depreciation	(4,153)	(4,984)	(12,581)	(15,209)
Share-based compensation	(6)	(8)	(8)	(42)
Total cost of sales	(20,885)	(30,485)	(59,112)	(107,025)
Gross margin	216	889	(1,329)	4,105
Selling, general and administrative expenses:				
Direct costs	(3,818)	(4,533)	(12,553)	(14,694)
Depreciation	(33)	(45)	(101)	(133)
Share-based compensation	(33)	(36)	(115)	(104)
Total selling, general and administrative expenses	(3,884)	(4,614)	(12,769)	(14,931)
	(3,668)	(3,725)	(14,098)	(10,826)
Gain on disposal of equipment	1,239	1,638	2,325	2,942
Gain on disposal of land and buildings	-	-	-	456
Loss from operating activities	(2,429)	(2,087)	(11,773)	(7,428)
Finance costs	(599)	(365)	(1,397)	(1,278)
Foreign exchange gain (loss)	(160)	(2,388)	2,139	(3,271)
Write-down of inventory	-	-	(277)	-
Provision for settlement (note 7)	-	-	(3,796)	-
Gain on disposal of foreign subsidiary (note 9)	-	-	10,865	-
Impairment of goodwill (note 5)	-	(5,848)	-	(5,848)
Loss before income taxes	(3,188)	(10,688)	(4,239)	(17,825)
Income tax recovery (expense):				
Current	63	1,389	323	1,441
Deferred current year	999	610	4,646	2,374
Deferred adjustment to prior years (note 10)	-	(163)	(89)	(10,832)
Total income tax recovery (expense)	1,062	1,836	4,880	(7,017)
Net earnings (loss)	(2,126)	(8,852)	641	(24,842)
Other comprehensive income (loss):				
Foreign currency translation gain on disposal of foreign subsidiary	-	-	1,348	-
Foreign currency translation differences for foreign operations	388	3,171	(2,694)	6,235
Total comprehensive loss	$ (1,738)	$ (5,681)	$ (705)	$ (18,607)
Net earnings (loss) per share				
Basic	$ (0.06)	$ (0.24)	$ 0.02	$ (0.68)
Diluted	$ (0.06)	$ (0.24)	$ 0.02	$ (0.68)

See accompanying notes to condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Nine months ended September 30, 2016 and 2015
Dollars in '000s
(unaudited)

	Share capital	Contributed surplus	Accumulated other comprehensive income	Retained earnings	Total shareholders' equity
Balance at December 31, 2014	**$ 74,481**	**$ 9,261**	**$ 3,850**	**$ 40,776**	**$ 128,368**
Total comprehensive income (loss) for 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**
Balance at December 31, 2015	**$ 74,481**	**$ 9,470**	**$ 11,577**	**$ 1,079**	**$ 96,607**
Total comprehensive income (loss) for nine months ended September 30, 2016	-	-	(2,694)	641	(2,053)
Accumulated other comprehensive income recognized in income on sale of subsidiary	-	-	1,348	-	1,348
Transactions with shareholders, recorded directly in equity contributions by and distributions to shareholders for nine months ended September 30, 2016:					
Share-based compensation	-	123	-	-	123
Total contributions by and distributions to shareholders	-	123	-	-	123
Balance at September 30, 2016	**$ 74,481**	**$ 9,593**	**$ 10,231**	**$ 1,720**	**$ 96,025**

See accompanying notes to condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Three and nine months ended September 30, 2016 and 2015
Dollars in '000s
(unaudited)

	Three months ended September 30		Nine months ended September 30	
	2016	2015	2016	2015
Cash provided by (used in):				
Operating activities:				
Net earnings (loss)	$ (2,126)	$ (8,852)	$ 641	$ (24,842)
Items not involving cash:				
Depreciation	4,186	5,029	12,682	15,342
Impairment of goodw ill	-	5,848	-	5,848
Total income tax (recovery) expense	(1,062)	(1,836)	(4,880)	7,017
Unrealized foreign exchange (gain) loss on intercompany balances	166	2,374	(2,174)	3,003
Finance costs	599	365	1,397	1,278
Share-based compensation	39	44	123	146
Gain on disposal of equipment	(1,239)	(1,638)	(2,325)	(2,942)
Gain on disposal of land and building	-	-	-	(456)
Write-dow n of inventory	-	-	277	-
Provision for settlement (note 7)	-	-	3,796	-
Gain on disposal of foreign subsidiary (note 9)	-	-	(10,865)	-
Cash flow from operations	563	1,334	(1,328)	4,394
Changes in non-cash operating w orking capital	(4,743)	2,050	4,107	23,004
Income taxes recovered (paid)	1,701	(1,676)	1,840	(3,261)
Cash flow from (used for) operating activities	(2,479)	1,708	4,619	24,137
Investing activities:				
Equipment additions	(146)	(296)	(484)	(6,444)
Intangible asset additions	(18)	(87)	(113)	(276)
Proceeds on disposal of equipment	2,039	2,002	3,750	4,153
Proceeds on disposal of land and buildings	-	-	-	6,174
Changes in non-cash investing w orking capital	(1)	(2,114)	10	(2,207)
Cash flow from (used for) investing activities	1,874	(495)	3,163	1,400
Financing activities:				
Change in operating loan	175	944	(1,533)	789
Repayments on loans and borrow ings	(88)	(41)	(5,405)	(23,381)
Interest paid	(600)	(174)	(1,054)	(1,303)
Provision for settlement	(570)	-	(570)	-
Dividends paid	-	(1,452)	-	(5,898)
Cash flow used for financing activities	(1,083)	(723)	(8,562)	(29,793)
Effect of exchange rate on changes in cash and cash equivalents	14	435	(76)	783
Change in cash and cash equivalents	(1,674)	925	(856)	(3,473)
Cash and cash equivalents, beginning of period	2,244	711	1,426	5,109
Cash and cash equivalents, end of period	$ 570	$ 1,636	$ 570	$ 1,636

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

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

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

2. Basis of preparation

(a) Statement of compliance

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

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

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

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Significant accounting policies

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

Future Accounting Pronouncements
There were no other new or amended standards issued during the period ended September 30, 2016 that are applicable to the Company in future periods. A description of standards and interpretations that will be adopted by the Company in future periods can be found in the notes to the consolidated financial statements for the year ended December 31, 2015.

3. Seasonality of operations

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

4. Equipment

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

	Nine months ended September 30	
	2016	2015
Directional Drilling equipment	$ 484	$ 4,047
Flow back and Production Testing equipment	-	1,345
Land and buildings	-	613
Automotive equipment	-	181
Office and computer equipment	-	258
Equipment additions	$ 484	$ 6,444

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 Company 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 2016	December 31 2015
Current liabilities:		
Current portion of finance lease liabilities	$ 348	$ 686
Non-current liabilities:		
Finance lease liabilities	$ 212	$ 477
Secured revolving term loan	25,000	30,000
Total	$ 25,212	$ 30,477

Terms and debt repayment schedule

The Company has a 3 year committed revolving credit facility (the "Facility") that expires in November 2017. The Facility is secured by a general security agreement over all present and future personal property.

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

On August 9, 2016, the Company completed negotiations on the Fourth Amending Agreement and on September 2, 2016 the Fifth Amending Agreement.

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

Quarter ending:	Maximum Funded Debt to Bank EBITDA Ratio	Minimum Debt Service Ratio
September 30, 2016	Waived	Waived
December 31, 2016	Waived	Waived
March 31, 2017	Waived	Waived
June 30, 2017	Waived	Waived
September 30, 2017 and thereafter	3.00	1.75

Under the Fourth Amendment the working capital covenant in the Facility was also waived.

The Fourth Amendment has the following required minimum cumulative Bank EBITDA per the credit agreement:

Three months ended September 30, 2016	$1,100
Six months ended December 31, 2016	$2,500
Nine months ended March 31, 2017	$4,900
Twelve months ended September 30, 2017	$5,000

Under the Fourth Amendment the lending syndicate required the Company provide a plan by September 15, 2016 to get Cathedral's Facility within more typical industry covenant levels based on cash flow the business is able to generate in this current environment. Under the Fourth Amendment, the lending syndicate required that Cathedral's credit facility availability be reduced to $25,000 as at March 31, 2016. The plan presented to the lending syndicate, in part, resulted in Cathedral proactively initiating a process to identify, examine and consider a range of strategic alternatives available to the Company, with a view to maximizing shareholder value. Strategic alternatives may include, but are not limited to, debt and/or equity financings, joint venture or partnership transactions, the sale of the Company or a portion of the Company's assets, a merger or other such options as may be determined by the Company's Board of Directors to be in the best interests of the Company and its shareholders. For the purposes of considering strategic alternatives, Cathedral has established a special committee of independent directors ("the Special Committee"). The Special Committee has retained GMP FirstEnergy as its financial advisor in connection with this review of strategic alternatives.

Under the Fifth Amendment, Export Development Corporation joined Cathedral's lending syndicate resulting in the lending exposure from the prior lending syndicate members being reduced and the Facility increasing by $3,000 from that contained in the Fourth Amendment, and the maturity of the Facility was extended by three months to November 2017. The Fifth Amendment provides for credit availability of $36,000, further reducing to $33,000 by December 31, 2016 and $28,000 by March 31, 2017.

There is no guarantee the lending syndicate will either extend the existing Facility beyond November 2017 or enter into a new Facility with a later maturity date. As such the entire Facility may become due and payable within 12 months of November 2016. The Company will continue to work with the existing lenders or as part of the strategic alternatives process noted above seek other alternatives in respect of the maturity of its existing Facility.

After the amendments discussed above, the Facility bears interest at the bank's prime rate plus 0.50% to 5.00% or bankers' acceptance rate plus 1.75% to 6.25% with interest payable monthly. Interest rate spreads for the Facility depend on the level of funded debt to the 12 month trailing Bank EBITDA. The Facility provides a means to lock in a portion of the debt at interest rates through bankers' acceptance ("BA") based on the interest rate spread on the date the BA was entered into. The Company has historically maximized the use of this option thereby lowering its interest costs, however, the ability to achieve these lower rates will be impacted in the future based on current rates which increase based on the Company's funded debt to Bank EBITDA ratio.

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

The Company's financial ratios in the 2016 Q3 waiver period were:

Ratio	Actual	Required
Debt service ratio	1.83:1	Waived
Funded debt to Bank EBITDA ratio	8.20:1	Waived
Working capital ratio	2:81:1	Waived
Minimum Bank EBITDA for the three months ended September 30, 2016	$2,613	$1,100

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

In the event the Company believes it could be in breach of its loan covenants it will first enter into discussions on amendments to the financial covenants in the Facility to avoid such a breach.

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

		September 30 2016		December 31 2015
Loans and borrowings, current portion	$	348	$	686
Loans and borrowings, long-term portion		25,212		30,477
Loans and borrowings, including current portion	$	25,560	$	31,163
Shareholders' equity	$	96,025	$	96,607
Less Accumulated other comprehensive income ("AOCI")		(10,231)		(11,577)
Shareholders' equity excluding AOCI		85,794		85,030
Loans and borrowings, including current portion		25,560		31,163
Total capitalization	$	111,354	$	116,193
Loans and borrowings, including current portion to total capitalization		0.23		0.27
Loans and borrowings, including current portion	$	25,560	$	31,163
Operating loans		960		2,484
Less cash balances		(1,008)		(2,085)
Letter of credit		1,509		1,554
Funded debt per lending agreement	$	27,021	$	33,116

		Three months ended September 30 2016		Year ended December 31 2015
Loss before income taxes	$	(3,188)	$	(32,087)
Add (deduct):				
Depreciation included in cost of sales		4,153		20,566
Depreciation included in selling, general and administrative expenses		33		179
Share-based compensation included in cost of sales		6		59
Share-based compensation included in selling, general and administrative expenses		33		150
Finance costs		599		1,664
Unrealized foreign exchange gain on intercompany balances		166		4,191
Gain on sale of land and buildings		-		(456)
Non-recurring expenses		369		766
Write-down of goodwill		-		5,848
Write-down of equipment		-		3,189
Write-down of inventory		-		3,736
Provision for settlement		-		
Gain on disposal of foreign subsidiary		-		-
Adjusted EBITDAS as per MD&A		2,171		7,805
Gain on disposal of equipment		(1,239)		(3,363)
Proceeds from disposal of equipment		1,681		3,803
EBITDA per credit agreement for the period		2,613		8,245
EBITDA per credit agreement from prior 3 trailing quarters		681		N/A
Trailing twelve months EBITDA per credit agreement	$	3,294	$	8,245
Funded debt to EBITDA per credit agreement		8.20		4.02

7. **Provision for settlement**

Subsequent to September 30, 2016, the Company entered into a Settlement Agreement and Release (the "Settlement Agreement") in respect of two wage and hour lawsuits (the "Collective Actions") that were filed against Company's wholly-owned subsidiary, Cathedral Energy Services Inc. ("INC"). The first Collective Action lawsuit, Wallace vs. Cathedral Energy Services Inc. ("Wallace"), was filed on November 6, 2014, in the United States District Court for the Southern District of Texas, Houston Division (the "Houston Court") alleging that INC employed or contracted Measurement While Drilling ("MWD") and Directional Drilling ("DD") operators were entitled to recover unpaid overtime wages under the Fair Labor Standards Act ("FLSA"). The second Collective Action lawsuit, Price vs. Cathedral Energy Services Inc., was filed on April 9, 2015, in the United States District Court District of Colorado, Denver Division (and subsequently transferred to Houston Court) alleging that the Company incorrectly calculated the overtime pay for certain hourly paid operators in violation of the FLSA. Legal actions involving similar alleged FLSA violations have been filed in the United States against a number of other oilfield service companies. Cathedral has denied the allegations, and vigorously defended the litigation leading up to entering into the Settlement Agreement.

The Settlement Agreement provides a mechanism for finally resolving and releasing the claims for all INC employed and contracted MWD and DD operators. Under the terms of the Settlement Agreement, the parties will establish a settlement fund of up to $3,400 USD. The final determination of the settlement fund amount will be based on the number of claimants that participate in the settlement and Cathedral estimates the final settlement amount will be in the $2,900 USD range. The settlement fund payments will be paid quarterly by the Company over a three-year period with the final payment due on or before September 2019. The quarterly payments may be accelerated in the event Cathedral meets certain financial targets over the payment period and can be deferred if a scheduled payment would put Cathedral in violation of its credit facility covenants subject to not more than three payments being deferred.

Any settlement fund payments made by Cathedral are subject to the approval of Cathedral's banking syndicate. During 2016 Q3, the initial settlement payment of $570 was made.

8. 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, 2016			Year ended December 31, 2015		
	Number		Amount	Number		Amount
Issued, beginning and end of period	36,295,380	$	74,481	36,295,380	$	74,481

Issuance of common shares

There were no shares issued in the period.

Basic earnings per share

The calculation of basic earnings per share for the three and nine months ended September 30, 2016 was based on the profit (loss) attributable to common shareholders of $(2,126) and $641 (2015 – $(8,852) and $(24,842)) and a weighted average number of common shares outstanding of 36,295,380 and 36,295,380 (2015 – 36,295,380 and 36,295,380); calculated as follows:

Weighted average number of ordinary shares

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Issued, beginning of period	36,295,380	36,295,380	36,295,380	36,295,380
Effect of share options exercised	-	-	-	-
Weighted average number of common shares at end of period	36,295,380	36,295,380	36,295,380	36,295,380

Diluted earnings per share

As the Company was in a loss position for the three months ended September 30, 2016 and 2015 and for the nine months ended September 30, 2015 there was no calculation of diluted earnings per share.

The calculation of diluted earnings per share for the nine months ended September 30, 2016 was based on profit attributable to common shareholders of $641 and a weighted average number of common shares outstanding after adjustment for the effects of all dilutive potential common shares of 36,295,442 calculated as follows (all other periods were in loss position so no diluted calculation):

Weighted average number of common shares (diluted)

	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Weighted average number of common shares (basic)	36,295,380	36,295,380	36,295,380	36,295,380
Effect of share options on issue	1,661	-	62	-
Weighted average number of common shares (diluted) at end of period	36,297,041	36,295,380	36,295,442	36,295,380

At September 30, 2016, 1,589,499 options (2015 – 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, 2016, the Company granted 30,000 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:

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

9. Gain on disposal of foreign subsidiary

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

10. Deferred tax provision

Included in the 2015 Q3 deferred tax expense 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"). Cathedral elected to enter into the agreement with Canada Revenue Agency ("CRA") as a highly satisfactory solution to avoid potential costly and time consuming legal proceedings and allow management to

focus its efforts on business operations and enhancing shareholder value. The CRA agreement did not give rise to any cash outlay by Cathedral for prior taxation years. Cathedral continues to have access to a portion of the tax attributes obtained as part of the Conversion to offset federal and provincial taxes in subsequent taxation years

11. Commitments

In the normal course of business, the Company incurs contractual obligations and those obligations are disclosed in the Company's consolidated financial statements for the year ended December 31, 2015. As at September 30, 2016, the Company's commitment to purchase equipment is approximately $267.

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

12. Contingency

On October 29, 2014 Cathedral received a letter from one of its U.S. clients ("the Complainant") alleging a down-hole drilling incident which impacted two of their wells in December 2013. The Complainant had indicated potential damages of $3,000 USD and in 2015 Q3 increased this indication to $3,700 USD. Cathedral does not carry insurance for this type of incident. In January 2016, the Complainant filed a formal complaint in Pennsylvania court initiating a formal legal process related to their claim. On June 17, 2016, the Complainant initiated the "Discovery/Interrogatory" process (which is a normal part of the litigation process) where they are requesting Cathedral provide certain information and documents related to the case. Cathedral has prepared responses to these interrogatories and prepared a list of interrogatories for the Complainant. On July 12, 2016, Cathedral, with its legal counsel, filed a formal response to the complaint. It is anticipated the interrogatories process potentially leading to a court process will commence in Q4 of 2016. 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.