

Cathedral Energy Services reports results for 2015 Q4

/NOT FOR DISSEMINATION IN THE UNITED STATES OF AMERICA/

CALGARY, March 2, 2016 /CNW/ - Cathedral Energy Services Ltd. (the "Company" or "Cathedral" / TSX: CET) announces its consolidated financial results for the three and nine months ended December 31, 2015 and 2014. Dollars in 000's except per share amounts.

This news release contains "forward-looking statements" within the meaning of applicable Canadian securities laws. For a full disclosure of forward-looking statements and the risks to which they are subject, see "Forward-Looking Statements" later in this news release.

2015 Q4 KEY TAKEAWAYS

Revenues and profitability were significantly affected by reduced industry activity and pricing pressures resulting from continued decline in commodity prices through 2015;

Revenues of \$24,949 in 2015 Q4 compared to \$73,242 in 2014 Q4, a 66% decline and adjusted EBITDAS of \$(169) in 2015 Q4 compared to \$9,408 in 2014;

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 support and development as a key future success factor;

Delivered numerous drilling records in 2015 as a result of 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 for each quarter of 2015;

Cathedral's presence in all key North American basins 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 revenue through enhanced focus on our sales and marketing capabilities.

FINANCIAL HIGHLIGHTS

Dollars in 000's except per share amounts

	Three months ended December 31		Year ended December 31	
	2015	2014	2015	2014
Revenues	\$ 24,949	\$ 73,242	\$ 136,079	\$ 275,435
Adjusted gross margin % ⁽¹⁾	17.2%	20.5%	17.4%	21.6%
Adjusted EBITDAS ⁽¹⁾	\$ (169)	\$ 9,408	\$ 7,393	\$ 38,487
Diluted per share	\$ -	\$ 0.26	\$ 0.20	\$ 1.06
As % of revenues	-1%	13%	5%	14%
Funds from operations ⁽¹⁾	\$ (1,425)	\$ 8,395	\$ 4,410	\$ 32,114
Diluted per share	\$ (0.04)	\$ 0.23	\$ 0.12	\$ 0.89
Earnings (loss) before income taxes	\$ (14,262)	\$ 3,063	\$ (32,087)	\$ 14,970
Basic per share	\$ (0.39)	\$ 0.08	\$ (0.88)	\$ 0.41
Diluted per share	\$ (0.39)	\$ 0.08	\$ (0.88)	\$ 0.41
Write-down of deferred taxes related to CRA settlement	\$ 422	\$ -	\$ (10,346)	\$ -
Write-down of goodwill	\$ -	\$ -	\$ (5,848)	\$ -
Write-down of property and equipment	\$ (3,189)	\$ -	\$ (3,189)	\$ -
Write-down of inventory	\$ (3,736)	\$ -	\$ (3,736)	\$ -
Net earnings (loss)	\$ (10,500)	\$ 1,776	\$ (35,342)	\$ 10,283
Basic per share	\$ (0.29)	\$ 0.05	\$ (0.97)	\$ 0.28
Diluted per share	\$ (0.29)	\$ 0.05	\$ (0.97)	\$ 0.28
Dividends declared per share	\$ -	\$ 0.0825	\$ 0.12	\$ 0.3300
Property and equipment additions - cash basis	\$ 464	\$ 3,826	\$ 6,908	\$ 30,763
Weighted average shares outstanding				
Basic (000s)	36,295	36,295	36,295	36,244
Diluted (000s)	36,295	36,295	36,295	36,255

(1) Refer to "NON-GAAP MEASUREMENTS"

OUTLOOK

At the beginning of 2015, industry experts and analysts were prognosticating a rebound in oil prices toward the end of the year. In fact the opposite occurred with oil prices declining into the \$40 to \$50 bbl range in the second half of the year from to \$60 bbl range in May and June. Beginning in November prices dropped precipitously into the \$35 bbl range by year end. The New Year brought oil prices sliding into the \$30 bbl range and hitting recent lows of \$26 bbl. These price declines were all largely related to a persistent oversupply situation in the market. Although there is optimism about Russian and OPEC production stabilizing or potentially reducing and North American production and storage level increases abating, the words "Lower for Longer" are now regularly used in the industry lexicon.

The recent oil and gas price declines have had a dramatic impact on oilfield service activity levels as exploration and production companies continue to cut their drilling and completions budgets. Both the U.S. and Canadian rig counts have declined significantly since the beginning of the year. The U.S. rig count has declined 28% since January 1, 2016 to 502 active rigs (as at February 26, 2016) – down from an average rig count of 807 for the second half of 2015. Until WTI prices move above \$50 USD bbl. or producers raise additional capital, as some have accomplished in recent weeks, we expect activity levels to be mediocre with the potential for further customer activity reductions in the short-term.

Cathedral is expecting very challenging activity levels in Canada for the first half of the year. Drilling activity is currently very low as a result of energy company budget cuts compounded by warm weather. Expectations are that activity levels will not improve until the second half of 2016 even if commodity prices improve earlier. This is in part a result of the traditional spring-breakup period in Canada impacting the first half of the year. In the Canadian Flowback and Production Testing division our business is benefiting from clients who remain busy however, pricing pressure remains a challenge.

Prospects in the U.S. for the next quarters are better than in Canada, however, visibility is still challenged and there is a high potential for project delays and a lower active rig count in the short-term. In late 2015 we shifted our Directional Drilling sales strategy in the U.S. which has opened up prospects with new customers and confirmed drilling prospects with existing customers. Our success in the U.S. is also a result of our differentiated technology in this market and having an active presence and growing reputation in the key U.S. basins such as the Permian. Activity levels in the U.S. Flowback and Production Testing business have been very challenging as many of our customers have suspended their well completion programs. We are focused on generating sales opportunities in the short-term and further ensuring this division is positioned to participate in the large backlog of wells that will need to be completed or re-frac'd once commodity prices improve.

Our strategic themes for 2016 expand on the objectives we set out in 2015 to get through this downturn and position ourselves favorably for the eventual rebound in activity levels:

1. Fiscal Management - Continuing to balance our cost structure and short term revenue prospects to ensure we meet our financial obligations and not impact the long-term viability of the business.
2. Retaining Key Employees - Preserve our key employee base so when industry conditions improve we are able to ramp up our business quickly.
3. Operational Excellence - Continue to pursue operational and technology improvements to mitigate the impact of reduced activity levels and pricing pressure and ensure we offer high operational performance levels to attract and retain customer work.
4. Enhance Sales Effectiveness – focus on short and long-term revenue generation and market share growth opportunities.

We are making good progress in all the above areas. At the beginning of January 2016 additional wage rollbacks were implemented in the U.S. and Canada. Unfortunately due to expected very low activity levels in Canada for the first half of 2016, additional layoffs were required at the end of February to further contain costs. Our banking covenants were relaxed in early 2016 to reflect decreased activity levels in 2016 and 2017. Our lending syndicate continues to be supportive of Cathedral based on our cost cutting initiatives and strategy to manage through the downturn.

In late 2015 we implemented an organization change to ensure Cathedral's in-house technology and high level of operating standards are better leveraged across all locations in which we operate. Through introducing corporate product line manager functions, we expect to achieve better managerial control over capital asset allocation, equipment repair and parts procurement, training, policies, procedures and standards.

We are also in the process of further refining our marketing and sales efforts. Our sales and marketing initiatives are aimed at strategically targeting customer in basins where we can provide a significant improvement in well costs by reducing days drilled in our Directional Drilling area or offer customer efficiencies in our Flowback and Production Testing area. We are actively pursuing, or engaged in, alliances with industry partners and suppliers to facilitate this approach. We are also implementing new processes and sales performance management systems to improve sales effectiveness.

We remain highly focused on managing through this current industry downturn and continuing to build a business that will prosper once activity levels improve.

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.

ANNUAL MEETING

Cathedral will be holding its Annual Meeting ("Meeting") at 2:00 pm (MDT) on May 12, 2016 at our Head Office 6030 - 3 Street SE, Calgary, Alberta. Business at the meeting will include the election of directors and appointment of auditors.

2015 CAPITAL PROGRAM

During the year ended December 31, 2015 Company invested \$6,908 (2014 - \$30,763) in property and equipment. The following table details the net property and equipment additions:

	December 31 2015	December 31 2014
Property and equipment additions:		
Growth capital ⁽¹⁾	\$ 4,571	\$ 15,543
Maintenance capital ⁽¹⁾	1,171	1,257
Replacement capital ⁽¹⁾	510	4,324
Infrastructure capital ⁽¹⁾	656	9,639
Total cash additions	6,908	30,763
Less: proceeds on disposal of property and equipment	(4,944)	(5,550)
Less: proceeds on disposal of land and buildings	(6,174)	-
Net property and equipment additions ⁽¹⁾	\$ (4,210)	\$ 25,213

(1)See "NON-GAAP MEASUREMENTS"

The major additions for growth capital were \$3,161 for additional drilling motors and related equipment for specific job requirements, \$107 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 \$607 related to MWD upgrades, \$32 for ancillary motor components, \$52 for Flowback and Production Testing units and ancillary equipment, \$181 for automobiles and \$299 related to shop, office and computer equipment additions. Replacement capital included \$401 for MWD equipment and \$109 for motor equipment.

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

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

2016 CAPITAL PROGRAM

Cathedral's 2016 capital budget is \$1,000 with \$200 for growth capital and \$800 for replacement or maintenance capital. The growth additions are primarily for additional MWD systems and the maintenance capital is primarily to replace items which have been lost-in-hole. The capital budget will be reviewed quarterly.

Cathedral intends to finance its 2016 capital budget from cash flow from operations and proceeds from redundant asset sales or assets lost-in-hole.

RESULTS OF OPERATIONS – THREE MONTHS ENDED DECEMBER 31

	Three months ended December 31, 2015			Three months ended December 31, 2014		
Revenues	Directional Drilling	Flowback and Production Testing	Total	Production Testing	Flowback and Directional Drilling	Total
Canada	\$ 7,024	\$ 2,377	\$ 9,401	\$ 22,582	\$ 7,656	\$ 30,238
United States	14,137	1,411	15,548	32,408	10,596	43,004
Total	\$ 21,161	\$ 3,788	\$ 24,949	\$ 54,990	\$ 18,252	\$ 73,242

Revenues 2015 Q4 revenues were \$24,949 which represented a decrease of \$48,293 or 66% from 2014 Q4 revenues of \$73,242. All divisions experienced decreases compared to 2014 Q4. In 2015 there were continued industry wide activity declines due to reductions in commodity prices and day rate decreases directly related to pricing concessions requested by customers due to market conditions. In comparison, 2014 Q4 set a record for quarterly revenue. The active land rig count for Canada and U.S. was down 56% and 58% respectively in 2015 Q4 compared to 2014 Q4. Canadian wells completed fell approximately 71% in 2015 Q4 compared to 2014 Q4.

Canadian Directional Drilling revenues decreased to \$7,024 in 2015 Q4 from \$22,582 in 2014 Q4; a 69% decrease. This decrease was the result of: i) a 66% decrease in activity days to 671 in 2015 Q4 from 1,951 in 2014 Q4; and ii) a 34% decrease in the average day rate to \$7,580 in 2015 Q4 from \$11,442 in 2014 Q4. Offsetting these declines was an increase of \$1,680 on the rental of mud motors, particularly the Cathedral's CLAW™ motor. Motor rental revenues for 2015 Q4 were \$1,938.

U.S. Directional Drilling revenues decreased to \$14,137 in 2015 Q4 from \$32,408 in 2014 Q4; a 56% decrease. This decrease was the net result of: i) a 61% decrease in activity days to 1,038 in 2015 Q4 from 2,673 in 2014 Q4; and ii) a 3% increase in the average day rate to \$12,318 in 2015 Q4 from \$12,020 in 2014 Q4 (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 \$9,259 USD in 2015 Q4 from \$10,588 USD in 2014 Q4, 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. Motor rental revenues for 2015 Q4 were \$1,351 compared to \$278 in 2014 Q4.

Canadian Flowback and Production Testing revenues decreased to \$2,377 in 2015 Q4 from \$7,656 in 2014 Q4; a 69% decrease. The decrease was due to the reduction in activity levels due to the industry downturn as well as a 18% decline in pricing.

U.S. Flowback and Production Testing revenues decreased to \$1,411 in 2015 Q4 from \$10,596 in 2014 Q4, an 87% decrease. The decrease was due to the reduction in activity levels due to the industry downturn. Pricing when converted to CAD was down slightly, but there was a 16% decline in pricing in USD.

Gross margin and adjusted gross margin Gross margin for 2015 Q4 was negative 4.4% compared to 13.3% in 2014 Q4. Adjusted gross margin (see Non-GAAP Measurements) for 2015 Q4 was \$4,283 or 17.2% compared to \$14,983 or 20.5% for 2014 Q4, a decline of \$10,700 or 3.3%.

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 continued as the year 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 35.4% compared with 2014 Q4, the percentage of revenue for these costs was greater in 2015 Q4 due to the reduction in revenues. On a percentage of revenue basis, the fixed costs increased 10.9% from 2014 Q4. As stated above, the 2015 Q4 adjusted gross margin had decreased by 3.3%. The remaining 7.6% increase in adjusted gross margin relates to reductions in field labour, rentals, chargeback expenditures and accommodations offset by higher repair costs as percentage of revenue.

Depreciation allocated to cost of sales increased to \$5,357 in 2015 Q4 from \$5,231 in 2014 Q4. Depreciation included in cost of sales as a percentage of revenue was 21.0% for 2015 Q4 and 7.1% in 2014 Q4.

Selling, general and administrative expenses ("SG&A") SG&A expenses were \$5,178 in 2015 Q4; a decrease of \$1,027 compared with \$6,205 in 2014 Q4. As a percentage of revenue, SG&A was 21% in 2015 Q4 and 8% in 2014 Q4. Included in 2015 Q4 amounts are \$233 of bad debts.

Excluding the non-cash items of depreciation and share-based compensation and bad debts, SG&A was \$4,853 in 2015 Q4 compared to \$6,084 in 2014 Q4, a decrease of \$1,231 or 20%. 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. 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 Q4, the Company had a gain on disposal of property and equipment of \$421 compared to \$392 in 2014 Q4. 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.

Write-down of property and equipment Due to the reduction in demand for services, in 2015 Q4 the Company carried out a review of equipment and wrote-down those where there was a significant lack of demand by clients. The result of this review was a write-down of property and equipment of \$3,189.

Write-down of inventory The Company's inventory is used to construct new tools and maintain existing tools. Due to the decrease in operating activities and the reduction in capital build out programs, there was a reduction in inventory turn-over. As the prospect of recovery has been further delayed, in 2015 Q4 the company conducted a review of inventory items and the projected usage for the various lines of inventory and wrote-down the value of inventory by \$3,736. \$2,607 of this write-down relates to parts for third party, non-Cathedral manufactured motors, which currently have lower utilization and demand from clients.

Foreign exchange loss The Company had foreign exchange loss of \$1,103 in 2015 Q4 compared to a loss of \$335 in 2014 Q4 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 Q4 foreign currency gains are unrealized losses of \$1,188 (2014 Q4 - \$452) related to intercompany balances.

Finance costs Finance costs consist of interest expenses on operating loans, loans and borrowings and bank charges of \$386 for 2015 Q4 versus \$699 for 2014 Q4. 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 Q4, the Company had an income tax recovery of \$(2,696) compared to expense of \$1,287 in 2014 Q4. The effective tax rate was 26% for 2015 Q4 and 42% for 2014 Q4. Income tax expense is booked based upon expected annualized effective rates.

Net loss for 2015 Q4 was \$(7,830) (loss \$0.38 per share - basic) compared to net earnings of \$1,776 (\$0.16 per share - diluted) in 2014 Q4.

RESULTS OF OPERATIONS – YEAR ENDED DECEMBER 31

	Year ended December 31, 2015			Year ended December 31, 2014		
	Directional Drilling	Flowback and Production Testing	Total	Directional Drilling	Flowback and Production Testing	Total
Revenues						
Canada	\$ 38,868	\$ 12,469	\$ 51,337	\$ 92,958	\$ 32,114	\$ 125,072
United States	67,374	17,368	84,742	115,707	34,656	150,363
Total	\$ 106,242	\$ 29,837	\$ 136,079	\$ 208,665	\$ 66,770	\$ 275,435

Revenues 2015 revenues were \$136,079 which represented a decrease of \$139,356 or 51% from 2014 revenues of \$275,435. All areas experienced decreases due mainly to overall decline in drilling activity as a result of reduction in commodity prices. In comparison several quarters in 2014 saw several divisions achieve record revenues. The active land rig count for Canada was down 50% and down 48% for U.S. in 2015. Canadian wells completed fell approximately 60% in 2015 compared to 2014. 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 \$38,868 in 2015 from \$92,958 in 2014; a 58% decrease. This decrease was the result of: i) a 54% decrease in activity days to 3,766 in 2015 from 8,221 in 2014; and ii) a 21% decrease in the average day rate to \$8,920 in 2015 from \$11,233 in 2014. Offsetting these declines was an increase of \$4,665 on the rental of mud motors, particularly the Cathedral's CLAW™ motor. Rental revenue for 2015 revenues was \$5,275.

U.S. Directional Drilling revenues decreased to \$67,374 in 2015 from \$115,707 in 2014; a 42% decrease. This decrease was the net result of: i) a 45% decrease in activity days to 5,496 in 2015 from 9,940 in 2014; and ii) a slight increase in the average day rate to \$11,834 in 2015 from \$11,557 in 2014 (when converted to Canadian dollars). All U.S. districts experienced a decrease in activity levels except the Northeast district which had a modest increase on a year-over-year basis. The U.S. average day rates in Canadian dollars were relatively unchanged due to the stronger U.S. dollar. Rates in USD fell to \$9,323 USD in 2015 from \$10,460 USD in 2014, an 11% decline. As with Canadian directional, there were pressures from clients to reduce pricing. Rental revenue increased to \$2,336 from \$829 and in particular increased in 2015 Q4.

Canadian Flowback and Production Testing revenues decreased to \$12,469 in 2015 from \$32,114 in 2014; a 61% decrease. The decrease was primarily due to the reduction in activity levels due to the industry downturn. There was a 5% decrease in the pricing on a year-over-year basis.

U.S. Flowback and Production Testing revenues decreased to \$17,368 in 2015 from \$34,656 in 2014, a 50% decrease. The decrease was due to the reduction in activity levels due to the industry downturn as pricing in CAD increased 12%. In USD the pricing decreased 1% on a year-over-year basis.

Gross margin and adjusted gross margin Gross margin for 2015 was 2.2% compared to 14.6% in 2014. Adjusted gross margin (see Non-GAAP Measurements) for 2015 was \$23,639 or 17.4% compared to \$59,570 or 21.6% for 2014, a change of 4.2%.

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 continued as the year 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 25.2% compared with 2014, the percentage of revenue of these costs was greater in 2015 due to the reduction in revenues. On a percentage of revenue basis the fixed costs increased 6.5% from 2014. As stated above, the year-to-date adjusted gross margin had decreased by 4.2%. The remaining 2.3% net increase in adjusted gross margin relates mainly to reductions in field labour and chargeback expenditures offset by higher repair costs as percentage of revenue.

Depreciation allocated to cost of sales increased to \$20,566 in 2015 from \$19,373 in 2014. Depreciation included in cost of sales as a percentage of revenue was 15.1% for 2015 and 7.0% in 2014.

Selling, general and administrative expenses ("SG&A") SG&A expenses were \$20,109 in 2015; a decrease of \$4,841 compared with \$24,950 in 2014. As a percentage of revenue, SG&A was 15% in 2015 and 9% in 2014. Included in 2015 amounts are \$233 of bad debts.

Excluding the non-cash items of depreciation and share-based compensation and bad debts, SG&A was \$19,547 in 2015 compared to \$24,470 in 2014, a decrease of \$4,923 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 were additional reductions to staffing levels throughout the year. 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 for the Oklahoma City operating facility. During 2015, the Company had a gain on disposal of property and equipment of \$3,363 compared to \$3,102 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.

Write-down 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.

Write-down of property and equipment Due to the reduction in demand for services, in 2015 Q4 the Company carried out a review of equipment and wrote-down those where there was a significant lack of demand by clients. The result of this review was a write-down of property and equipment of \$3,189.

Write-down of inventory The Company's inventory is used to construct new tools and maintain existing tools. Due to the decrease in operating activities and the reduction in capital build out programs, there was a reduction in inventory turn-over. As the prospect of recovery has been further delayed, in 2015 Q4 the company conducted a review of inventory items and the projected usage for the various lines of inventory and wrote-down the value of inventory by \$3,736. \$2,607 of this write-down relates to parts for third party, non-Cathedral manufactured motors, which currently have lower utilization and demand from clients.

Foreign exchange loss The Company had foreign exchange loss of \$4,374 in 2015 compared to \$881 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 \$4,191 (2014 - \$1,166) related to intercompany balances.

Finance costs Finance costs consist of interest expenses on operating loans, loans and borrowings and bank charges of \$1,664 for 2015 compared to \$2,563 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 \$3,255 compared to \$4,687 in 2014. Included in the 2015 amount is a charge to earnings from 2015 of \$10,346 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 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.

Excluding this and other minor adjustments to prior period amounts, the tax recovery related to the current year was \$6,495 (25% effective rate excluding write-down of goodwill which is an item without tax consequence) in 2015 compared to expense of \$4,664 (31% effective rate) in 2014. These effective rates are in line with anticipated annual rates.

LIQUIDITY AND CAPITAL RESOURCES

	December 31 2015	December 31 2014
Working capital	\$ 13,550	\$ 38,135
Total assets	\$ 155,610	\$ 230,534
Loans and borrowings excluding current portion	\$ 30,477	\$ 56,142
Shareholders' equity	\$ 96,607	\$ 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 year ended December 31, 2015, the Company had funds from operations (see Non-GAAP Measurements) of \$4,410 (2014 - \$32,114). 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 December 31, 2015 the Company had working capital of \$13,550 (2014 - \$38,135) and a working capital ratio of 1.5 to 1 (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 "First Amendment") to reduce the facility to \$60,000 (previously \$85,000), increase the accordion feature to \$35,000 (previously \$25,000) and to provide a temporary relaxation of financial covenants. The accordion feature is subject to approval of the syndicate of lenders which currently consists of The Bank of Nova Scotia and National Bank of Canada.

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

After the First and Second Amendment discussed above, the facility bears interest at the bank's prime rate plus 0.50% to 5.00% or bankers' acceptance rate plus 1.75% to 6.25% with interest payable monthly. Interest rate spreads for the credit facility depends on the level of funded debt to EBITDA (earnings before interest on long-term debt, taxes, depreciation, amortization and non-cash compensation expense – as defined in the credit agreement).

As at December 31, 2015, the Company was in compliance with all covenants under its credit facility, which are:

Ratio	December 31, 2015 value
Debt service ratio – must be not less than 1.25:1	4.07:1
Funded debt to EBITDA (as defined in credit facility) – must be not greater than 4.75:1	4.02:1

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

Quarter ending:	Maximum Funded Debt to EBITDA Ratio	Minimum Debt Service Ratio
December 31, 2015	4.75	1.25
March 31, 2016	Waived	1.25
June 30, 2016	Waived	1.25
September 30, 2016	5.50	1.75
December 31, 2016	5.00	1.75
March 31, 2017	4.50	1.75
June 30, 2017	4.00	1.75
September 30, 2017 and thereafter	3.00	1.75

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

During the waiver period there is a requirement for minimum EBITDA for the quarter ended March 31, 2016 of \$850 and minimum cumulative EBITDA for the two quarters ending June 30, 2016 of \$1,600. The amended facility has certain restrictions, including, but not limited to; paying dividends, utilization of the accordion feature, enhanced lender financial reporting and a cap on any litigation settlement payments without lender approval.

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

In light of the current volatility in oil and gas prices and uncertainty regarding the timing for recovery in such prices, management's ability to prepare financial forecasts is challenging. As a consequence the Company could breach the covenants included in the 2015 Amended Credit Facility (the "Agreement") in 2016 and 2017. An actual breach would constitute an event of default under the Agreement, which provides the lenders several alternatives including a waiver of the breach, an amendment to the Agreement 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

Agreement to avoid such a breach. Based on successfully negotiating amendments to the Agreement in 2015 and 2016, management expects to be able to successfully negotiate acceptable Agreement amendments however, there is no guarantee this will occur.

The Company currently is in compliance with each of the financial covenants under its lending agreement. Based on current available information, Cathedral expects to comply with all covenants during 2016.

The following table outlines the current credit facility:

	December 31 2015	December 31 2014
Total credit facility	\$ 60,000	\$ 85,000
Drawings on credit facility:		
Operating loan	2,484	1,069
Revolving term loan	30,000	55,000
Letters of credit	1,554	700
Total drawn facility	\$ 34,038	\$ 56,769
Undrawn portion of credit facility	\$ 25,962	\$ 28,231
Net debt (see NON-GAAP MEASUREMENTS):		
Loans and borrowings, net of current portion	\$ 30,477	\$ 56,142
Working capital:		
Current assets	\$ 41,575	\$ 83,392
Current liabilities	(28,025)	(45,257)
Working capital	\$ 13,550	\$ 38,135
Net debt	\$ 16,927	\$ 18,007

Contractual obligations In the normal course of business, the Company incurs contractual obligations and those obligations are disclosed below. As at December 31, 2015, the Company had a commitment to purchase equipment of approximately \$5. Cathedral anticipates expending these funds 2016 Q1.

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. WCB coverage.

The following table outlines the anticipated payments related to purchase commitments subsequent to December 31, 2016:

	Total	2016	2017	2018	2019	2020	Thereafter
Purchase obligations	\$ 5	\$ 5	\$ -	\$ -	\$ -	\$ -	\$ -
Secured revolving term loan	30,000	-	30,000	-	-	-	-
Operating lease obligations	39,789	4,090	3,870	3,389	3,106	2,789	22,545
Finance lease obligations	1,194	738	446	10	-	-	-
Total	\$ 70,988	\$ 4,833	\$ 34,316	\$ 3,399	\$ 3,106	\$ 2,789	\$ 22,545

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

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

Share capital At March 2, 2016, the Company has 36,295,380 common shares and 2,128,597 options outstanding with a weighted average exercise price of \$3.16.

In 2015, the Company issued 1,389,500 stock options to directors, officers and employees with exercise prices of \$0.75 to \$2.13 per share.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2015 and 2014

Dollars in '000s

(unaudited)

	December 31 2015	December 31 2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,426	\$ 5,109

Trade receivables	23,107	58,770
Income taxes refundable	2,962	-
Prepaid expenses	1,988	2,383
Inventories	12,092	17,130

Total current assets	41,575	83,392
Property and equipment	108,918	131,877
Intangible assets	2,006	1,905
Deferred tax assets	3,111	7,512
Goodwill	-	5,848

Total non-current assets	114,035	147,142
Total assets	\$ 155,610	\$ 230,534

Liabilities and Shareholders' Equity

Current liabilities:

Operating loan	\$ 2,484	\$ 1,069
Trade and other payables	20,198	35,201
Dividends payable	-	2,994
Income taxes payable	-	1,232
Loans and borrowings	686	857
Deferred revenue	4,657	3,904

Total current liabilities	28,025	45,257
Loans and borrowings	30,477	56,142
Deferred tax liabilities	501	767

Total non-current liabilities	30,978	56,909
Total liabilities	59,003	102,166

Shareholders' equity:

Share capital	74,481	74,481
Contributed surplus	9,470	9,261
Accumulated other comprehensive income	11,577	3,850
Retained earnings	1,079	40,776

Total shareholders' equity	96,607	128,368
Total liabilities and shareholders' equity	\$ 155,610	\$ 230,534

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

Three months and year ended December 31, 2015 and 2014

Dollars in '000s except per share amounts

(unaudited)

	Three months ended December 31		Year ended December 31	
	2015	2014	2015	2014
Revenues	\$ 24,949	\$ 73,242	\$ 136,079	\$ 275,435
Cost of sales:				
Direct costs	(20,666)	(58,259)	(112,440)	(215,865)
Depreciation	(5,357)	(5,231)	(20,566)	(19,373)
Share-based compensation	(17)	(19)	(59)	(112)
Total cost of sales	(26,040)	(63,509)	(133,065)	(235,350)
Gross margin	(1,091)	9,733	3,014	40,085
Selling, general and administrative expenses:				
Direct costs	(5,086)	(6,084)	(19,780)	(24,470)
Depreciation	(46)	(76)	(179)	(280)
Share-based compensation	(46)	(45)	(150)	(200)
Total selling, general and administrative expenses	(5,178)	(6,205)	(20,109)	(24,950)
	(6,269)	3,528	(17,095)	15,135
Gain on disposal of property and equipment	421	392	3,363	3,102
Gain on disposal of land and buildings	-	-	456	-
Earnings (loss) from operating activities	(5,848)	3,920	(13,276)	18,237
Write-down of inventory	(3,736)	-	(3,736)	-
Write-down of property and equipment	(3,189)	-	(3,189)	-
Write-down of goodwill	-	-	(5,848)	-
Recovery on investment in associate and related assets	-	177	-	177
Finance costs	(386)	983	(1,664)	(881)
Foreign exchange loss	(1,103)	(2,017)	(4,374)	(2,563)
Earnings (loss) before income taxes	(14,262)	3,063	(32,087)	14,970

Income tax recovery (expense):				
Current	(707)	(621)	734	(3,271)
Deferred current year	3,748	(666)	6,122	(1,416)
Deferred adjustment to prior years	721	-	(10,111)	-
Total income tax recovery (expense)	3,762	(1,287)	(3,255)	(4,687)
Net earnings (loss)	(10,500)	1,776	(35,342)	10,283
Other comprehensive income:				
Foreign currency translation differences for foreign operations	1,488	1,609	7,723	2,611
Total comprehensive income (loss)	\$ (9,012)	\$ 3,385	\$ (27,619)	\$ 12,894
Net earnings (loss) per share				
Basic	\$ (0.29)	\$ 0.05	\$ (0.97)	\$ 0.28
Diluted	\$ (0.29)	\$ 0.05	\$ (0.97)	\$ 0.28

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Three and nine months ended December 31, 2015 and 2014

Dollars in '000s

(unaudited)

	Three months ended December 31		Year ended December 31	
	2015	2014	2015	2014
Cash provided by (used in):				
Operating activities:				
Net earnings (loss)	\$ (10,500)	\$ 1,776	\$ (35,342)	\$ 10,283
Items not involving cash:				
Depreciation	5,403	5,307	20,745	19,653
Income tax expense (recovery)	(3,762)	1,287	3,255	4,687
Unrealized foreign exchange loss on intercompany balances	1,188	452	4,191	1,166
Finance costs	386	699	1,664	2,563
Share-based compensation	63	64	209	312
Gain on disposal of property and equipment	(421)	(392)	(3,363)	(3,102)
Gain on disposal of land and building	-	-	(456)	-
Write-down of goodwill	-	-	5,848	-
Write-down of property and equipment	3,189	-	3,189	-
Write-down of inventory	3,736	-	3,736	-
Recovery on investment in associate and related assets	-	(177)	-	(177)
Cash flow from operations	(718)	9,016	3,676	35,385
Changes in non-cash operating working capital	2,790	3,204	25,794	2,160
Income taxes paid	(278)	(192)	(3,539)	(604)
Cash flow from operating activities	1,794	12,028	25,931	36,941
Investing activities:				
Property and equipment additions	(464)	(3,826)	(6,908)	(30,763)
Intangible asset additions	(13)	(189)	(289)	(675)
Proceeds on disposal of property and equipment	791	708	4,944	5,550
Proceeds on disposal of land and buildings	-	-	6,174	-
Changes in non-cash investing working capital	1,195	(887)	(1,012)	(632)
Cash flow from (used for) investing activities	1,509	(4,194)	2,909	(26,520)
Financing activities:				
Change in operating loan	659	(4,561)	1,448	(9,120)
Advances on loans and borrowings	-	3,000	-	28,000
Repayments on loans and borrowings	(2,245)	(6,180)	(25,626)	(10,673)
Interest paid	(686)	(967)	(1,989)	(2,610)
Proceeds on exercise of share options	-	-	-	515
Dividends paid	(1,452)	(2,994)	(7,350)	(11,955)
Cash flow used for financing activities	(3,724)	(11,702)	(33,517)	(5,843)
Effect of exchange rate on changes in cash and cash equivalents	211	65	994	242
Change in cash and cash equivalents	(210)	(3,803)	(3,683)	4,820
Cash and cash equivalents, beginning of period	1,636	8,912	5,109	289
Cash and cash equivalents, end of period	\$ 1,426	\$ 5,109	\$ 1,426	\$ 5,109

FORWARD LOOKING STATEMENTS

This news release 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 news release contains forward-looking statements relating to, among other things: improving and deploying our proprietary technology and expertise to assist our customers reduce their costs; continuing to demonstrate our quality, safety and integrity with our employees and customers; confident that we will come out of this current downturn in a very strong position to deliver increased value to our customers and our shareholders; expect activity levels to be mediocre with the potential for further customer activity reductions in the short-term; expecting very challenging activity levels in Canada for the first half of the year; activity levels will not improve until the second half of 2016 even if commodity prices improve earlier; prospects in the U.S. for the next quarters are better than in Canada; 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 2015 Amended Credit Facility; management expects to be able to successfully negotiate acceptable Agreement amendments however, there is no guarantee this will occur; Cathedra expects to comply with all covenants during 2016; and long-term intent of the Company to pay quarterly dividends to shareholders.

The Company believes the expectations reflected in such forward-looking statements are reasonable as of the date hereof but no assurance can be given that these expectations will prove to be correct and such forward-looking statements should not be unduly relied upon.

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 news release 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 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 news release 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 news release 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

Cathedra 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 share of income/loss from associate, write-down/recovery on investment in associate finance costs, unrealized foreign exchange on intercompany balances, unrealized foreign exchange due to hyper-inflation accounting, taxes, non-recurring gains and losses on disposal of property and equipment (see non-GAAP measurement), depreciation, write-down of goodwill, write-down of property and equipment, write-down of inventory 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) "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);
- 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 news release 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

recovers 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 regular disposal of property and equipment (the proceeds on sale of land and buildings have been excluded). 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 show the Company's overall debt level.

The following tables provide reconciliations from GAAP measurements to non-GAAP measurements referred to in this news release:

Adjusted gross margin

	Three months ended December 31		Year ended December 31	
	2015	2014	2015	2014
Gross margin	\$ (1,091)	\$ 9,733	\$ 3,014	\$ 40,085
Add non-cash items included in cost of sales:				
Depreciation	5,357	5,231	20,566	19,373
Share-based compensation	17	19	59	112
Adjusted gross margin	\$ 4,283	\$ 14,983	\$ 23,639	\$ 59,570
Adjusted gross margin %	17.2%	20.5%	17.4%	21.6%

EBITDAS

	Three months ended December 31		Year ended December 31	
	2015	2014	2015	2014
Earnings (loss) before income taxes	\$ (14,262)	\$ 3,063	\$ (32,087)	\$ 14,970
Add:				
Depreciation included in cost of sales	5,357	5,231	20,566	19,373
Depreciation included in selling, general and administrative expenses	46	76	179	280
Share-based compensation included in cost of sales	17	19	59	112
Share-based compensation included in selling, general and administrative expenses	46	45	150	200
Finance costs	386	699	1,664	2,563
EBITDAS	(8,410)	9,133	(9,469)	37,498
Unrealized foreign exchange loss on intercompany balances	1,188	452	4,191	1,166
Write-down of goodwill	-	-	5,848	-
Write-down of property and equipment	3,189	-	3,189	-
Write-down of inventory	3,736	-	3,736	-
Recovery on investment in associate and related assets	-	(177)	-	(177)
Non-recurring compensation	128	-	354	-
Non-recurring gain on disposal of land and building	-	-	(456)	-
Adjusted EBITDAS	\$ (169)	\$ 9,408	\$ 7,393	\$ 38,487

Funds from operations

	Three months ended December 31		Year ended December 31	
	2015	2014	2015	2014
Cash flow from operating activities	\$ 1,794	\$ 12,028	\$ 25,931	\$ 36,941
Add (deduct):				
Changes in non-cash operating working capital	(2,790)	(3,204)	(25,794)	(2,160)
Income taxes paid	278	192	3,539	604
Current tax recovery (expense)	(707)	(621)	734	(3,271)
Funds from operations	\$ (1,425)	\$ 8,395	\$ 4,410	\$ 32,114

Cathedral Energy Services Ltd. (the "Company" or "Cathedral"), based in Calgary, Alberta is incorporated under the Business Corporations Act (Alberta) and operates in the U.S. under Cathedral Energy Services Inc. The Company is publicly traded on the Toronto Stock Exchange under the symbol "CET". Cathedral is a trusted partner to North American energy companies requiring high performance directional drilling services and dependable flowback and production testing solutions. We work in partnership with our customers to tailor our equipment and expertise to meet their specific geographical and technical needs. Our experience, technologies and responsive personnel enable our customers to achieve higher efficiencies and lower project costs. For more information, visit www.cathedralenergyservices.com.

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For further information: Requests for further information should be directed to: P. Scott MacFarlane, President and Chief Executive Officer, Michael F. Hill, Chief Financial Officer or Randy Pustanyk, Executive Vice President and Chief Operating Officer, Cathedral Energy Services Ltd., 6030 3 Street S.E., Calgary, Alberta T2H 1K2, Telephone: 403.265.2560, Fax: 403.262.4682, www.cathedralenergyservices.com

CO: Cathedral Energy Services Ltd.

