CATHEDRAL

2013 Q1 INTERIM REPORT

FINANCIAL HIGHLIGHTS

Dollars in 000's except per share amounts

	Three months ended March 31	
	2013	2012
Revenues	$ 54,074	$ 67,829
Adjusted gross margin % [(1)]	24.7%	34.0%
EBITDAS [(1)]	$ 8,592	$ 21,956
Diluted per share	$ 0.23	$ 0.58
EBITDAS [(1)] as % of revenues	16%	32%
Funds from operations [(1)]	$ 7,507	$ 17,497
Diluted per share	$ 0.20	$ 0.46
Net earnings	$ 2,059	$ 12,628
Basic per share	$ 0.06	$ 0.34
Diluted per share	$ 0.06	$ 0.33
Dividends declared per share	$ 0.075	$ 0.075
Property and equipment additions	$ 6,698	$ 11,945
Weighted average shares outstanding		
Basic (000s)	36,765	37,356
Diluted (000s)	36,826	38,021

	March 31 2013	December 31 2012
Working capital	$ 26,431	$ 29,173
Total assets	$ 237,604	$ 224,080
Loans and borrowings excluding current portion	$ 46,330	$ 46,151
Total shareholders' equity	$ 135,580	$ 137,932

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

MANAGEMENT'S DISCUSSION & ANALYSIS

This Management's Discussion & Analysis ("MD&A") for the three months ended March 31, 2013 should be read in conjunction with the annual audited consolidated financial statements and notes thereto for the year ended December 31, 2012, as well as the MD&A in the 2012 Annual Report of Cathedral Energy Services Ltd. ("the Company" / "Cathedral"). This MD&A has been prepared as of May 6, 2013. Dollar amounts are in '000's except for day rates and per share amounts.

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: capital expenditures are expected to be financed by way of cash flow from operations and the Company's credit facility; development and deployment of new technologies; expected growth in the U.S. market on a quarter-over-quarter basis for the remainder of the year in both operating divisions; opportunities to deploy additional "green completions"/ closed loop production testing units and expansion of its completions activity in the U.S; components of expected 2013 capital budget and financing thereof; timing of payment of purchase commitments; expected activity levels; expected future recoveries of international expenditures; future expansion; commencement of operations in Venezuela; intent to pay quarterly dividends; sources to fund liquidity requirements; and that recent additions to its sales team in Cathedral's Canadian market is expected to result in an increase in activity levels in this region. 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 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 the Company's businesses, including current business and economic trends;
- oil and natural gas commodity prices and production levels;
- capital expenditure programs and other expenditures by the Company and its customers;
- the ability of the Company to retain and hire qualified personnel;
- the ability of the Company to obtain parts, consumables, equipment, technology, and supplies in a timely manner to carry out its activities;
- the ability of the Company to maintain good working relationships with key suppliers;
- the ability of the Company to market its services successfully to existing and new customers;
- the ability of the Company to obtain timely financing on acceptable terms;
- currency exchange and interest rates;
- risks associated with foreign operations including Venezuela;
- the ability of the Company to realize the benefit of its conversion from an income trust to a corporation;
- risks associated with finalizing ancillary joint venture agreements that are required prior to the commencement of operations of the Venezuela joint venture;
- risks associated with Venezuela joint venture company being awarded work by the Venezuela state run oil and natural gas corporation;
- changes under governmental regulatory regimes and tax, environmental and other laws in Canada, United States ("U.S.") and Venezuela; and
- a stable competitive environment.

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

This MD&A refers to certain non-GAAP measurements that do not have any standardized meaning within IFRS and therefore may not be comparable to similar measures provided by other companies. Management utilizes these non-GAAP measurements to evaluate Cathedral's performance.

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

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. 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 form customers. Such additions do not provide incremental revenues. The identification of replacement property and equipment additions is considered important as such additions are financed by way of proceeds on disposal of property and equipment (see discussion within the MD&A on “gain on disposal of property and equipment);

viii) “Net property and equipment additions” – is property and equipment additions expenditures less proceeds on the disposal of property and equipment. Cathedral uses net property and equipment additions to assess net cash flows related to the financing of Cathedral’s property and equipment additions;

ix) “Borrowing capacity” - is total available credit facility less drawings on credit facilities;

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

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

Adjusted gross margin

	Three months ended March 31 2013	2012
Gross margin	$ 8,617	$ 18,698
Add non-cash items included in cost of sales:		
Depreciation	4,665	4,264
Share-based compensation	76	102
Adjusted gross margin	$ 13,358	$ 23,064
Adjusted gross margin %	24.7%	34.0%

EBITDAS

	Three months ended March 31 2013	2012
Earnings before income taxes	$ 2,787	$ 16,649
Add (deduct):		
Depreciation included in cost of sales	4,665	4,264
Depreciation included in selling, general and administrative expenses	157	156
Share-based compensation included in cost of sales	76	102
Share-based compensation included in selling, general and administrative expenses	211	268
Unrealized foreign exchange gain on intercompany balances	212	(56)
Finance costs	480	573
Share of loss from associate	4	-
EBITDAS	$ 8,592	$ 21,956

Funds from operations

	Three months ended March 31 2013	2012
Cash flow from operating activities	$ (4,741)	$ 21,049
Add (deduct):		
Changes in non-cash operating working capital	12,641	(3,115)
Income taxes paid	187	318
Current tax expense	(580)	(755)
Funds from operations	$ 7,507	$ 17,497

OVERVIEW

The Company completed 2013 Q1 with quarterly revenues of $54,074 compared to 2012 Q1 revenues of $67,829. Revenues have decreased 20% from 2012. The 2013 Q1 revenues were comprised of 70% (2012 Q1 - 71%) from the directional drilling division and 30% (2012 Q1 - 29%) from the production testing division.

2013 Q1 EBITDAS were $8,592 ($0.23 per share diluted) which represents a $13,364 decrease from 2012 Q1 EBITDAS of $21,956 ($0.58 per share diluted). For the three months ended March 31, 2013, the Company's net earnings were $2,059 ($0.06 per share diluted) as compared to $12,628 ($0.33 per share diluted) in 2012. The decrease in revenues and EBITDAS was primarily attributed to declines sales in the Canadian operations as well as more moderate declines in the U.S. directional drilling operations, net of increases for U.S. production testing.

RESULTS OF OPERATIONS – THREE MONTHS ENDED MARCH 31

	Three months ended March 31, 2013			Three months ended March 31, 2012		
Revenues	Directional drilling	Production testing	Total	Directional drilling	Production testing	Total
Canada	$ 23,594	$ 7,766	$ 31,360	$ 33,512	$ 12,385	$ 45,897
United States	14,509	8,205	22,714	14,907	7,025	21,932
Total	$ 38,103	$ 15,971	$ 54,074	$ 48,419	$ 19,410	$ 67,829

Revenues 2013 Q1 revenues were $54,074 which represented a decrease of $13,755 or 20% from 2012 Q1 revenues of $67,829. The decrease was mainly attributed to the Canadian operations.

Canadian directional drilling revenues decreased from $33,512 in 2012 Q1 to $23,594 in 2013 Q1; a 30% decrease. This decrease was the result of: i) a 23% decrease in activity days from 2,713 in 2012 Q1 to 2,102 in 2013 Q1; and ii) a 9% decrease in the average day rate from $12,352 in 2012 Q1 to $11,224 in 2013 Q1. Canadian activity days decreased from 2,713 to 2,102 due to a number of factors including a decline in work for a significant client, other client specific reduction in activity levels (including lack of access to equity markets and operating within reduced cash flow forecasts) and increased competition in the directional drilling market. There were some new clients added, but these were not enough to offset the decreased work on existing clients.

U.S. directional drilling revenues decreased from $14,907 in 2012 Q1 to $14,509 in 2013 Q1; a 3% decrease. This decrease was the result of: i) a 7% decrease in activity days from 1,422 in 2012 Q1 to 1,329 in 2013 Q1; and ii) a 4% increase in the average day rate from $10,483 in 2012 Q1 to $10,917 in 2013 Q1(when converted to Canadian dollars). The decrease in U.S. activity days were due to reduced drilling in the Rocky Mountain and Pennsylvania areas within the existing client base, offset by increased days in the Texas market. The increased average day rate is increase was mainly due to increases that were achieved in the Rocky Mountain region due to modest increases in demand for services.

Canadian production testing revenues decreased from $12,385 in 2012 Q1 to $7,766 in 2013 Q1; a 37% decrease. The Canadian operations were affected by a decline in work for a significant client and other client specific delays in completion work in 2013 Q1 and by comparison the 2012 Q1 revenues were one of the highest ever for the division.

U.S. production testing revenues increased from $7,025 in 2012 Q1 to $8,205 in 2013 Q1; a 17% decrease. This increase is attributable to having 3 additional units in 2013 Q1 versus 2012 Q1 and expansion into the Eagleford (Texas) market.

Gross margin and adjusted gross margin The gross margin for 2013 Q1 was 15.9% compared to 27.6% in 2012 Q1. Adjusted gross margin for 2013 Q1 was $13,358 (24.7%) compared to $23,064 (34.0%) for 2012 Q1. The decline in adjusted gross margin of 9.3% was due in part to a 3.8% increase in field labour as a percentage of revenue.

In the Canadian market, there have been declines in the total per day revenue rates, but there were not corresponding decreases in the field labour rates. In addition there were increases in costs for accommodation of field staff and increases in non-field wages. The increase in non-field wages relates to the continued build out of personnel in the Houston, Texas facility and staff for the newly established facility in Oklahoma City, Oklahoma. The Company is expecting increased levels of activity from the markets covered by these facilities. Despite Cathedral’s highly variable field cost structure, non-field salaries are of a fixed nature and therefore when the Company’s revenue declines, such costs become a higher percentage of revenues.

Depreciation allocated to cost of sales increased from $4,264 in 2012 Q1 to $4,665 in 2013 Q1 due to capital additions in the period from 2012 Q1 to 2013 Q1. Depreciation included in cost of sales as a percentage of revenue was 8.6% for 2013 Q1 and 6.3% in 2012 Q1.

Selling, general and administrative expenses ("SG&A") SG&A expenses were $5,571 in 2013 Q1; an increase of $130 compared with $5,441 in 2012 Q1. As a percentage of revenue, these costs were 10% in 2013 Q1 and 8% in 2012 Q1. Non-cash expenses total $368 for 2013 Q1 and $424 for 2012 Q1. SG&A net of these non-cash items were $5,203 in 2013 Q1 and $5,017 in 2012 Q1, an increase of $186.

In 2013 Q1, there was a recovery of international SG&A offset by one-time costs for severance. The recovery of international SG&A was from the Company’s joint venture partner in Vencana Servicios Petroleros, S.A. (“Vencana”), of which Cathedral owns 40%, for amounts previously expended by the Company on the start-up of Vencana. These costs had been previously expensed by Cathedral. The Company is currently in negotiations with its joint venture partner for the re-imbursement of additional costs. If we remove these items from SG&A, net of non-cash items, 2013 Q1 adjusted SG&A was $5,804 compared to $5,017 in 2012 Q1, an increase of $787.

Wages increased $911; this increase was primarily related to staff additions for research and development department and staff positions added to accommodate expected U.S. growth; net of decreases in variable compensation. The staffing costs included in SG&A relate to executives, sales, accounting, human resources, payroll, safety, research and development and related support staff. The remaining net decrease of $124 relates to various changes none of which are individually significant.

Gain on disposal of property and equipment During 2013 Q1 the Company had a gain on disposal of property and equipment of $505, compared to $3,704 in 2012 Q1. Included in the 2012 Q1 gain of $3,704 was $2,034 related to the sale of property and equipment by Cathedral’s subsidiaries to Vencana. The Vencana related portion of the gain includes the portion of the gain related to the joint venture partner’s share. The Company’s remaining gains are mainly due to recoveries of lost-in-hole equipment costs including previously expensed depreciation on the related assets. The timing of lost-in-hole recoveries is not in the control of the Company and therefore can fluctuate significantly from quarter-to-quarter.

Foreign exchange gain (loss) The Company’s foreign exchange has changed from a gain of $261 in 2012 Q1 to a loss of $280 in 2013 Q1 due to the fluctuations in the Canadian dollar compared to U.S. dollars and Venezuelan bolivars. 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 2013 Q1 foreign currency loss are unrealized losses of $212 (2012 Q1 - $56 gains) related to intercompany balances.

Finance costs Finance costs consist of interest expenses on operating loans, loans and borrowings and bank charges of $480 for 2013 Q1 versus $573 for 2012 Q1. The decrease in finance costs mainly relate to the slight decrease in interest rates and a reduction in the outstanding balance for the secured revolving term loan in 2013 Q1.

Income tax For 2013 Q1, the Company had an income tax expense of $728 compared to $4,021 in 2012 Q1. The effective tax rate was 26% for 2013 Q1 and 24% 2012 Q1.

2013 CAPITAL PROGRAM

During 2013 Q1 the Company invested an additional $6,698 (2012 Q1 - $11,945) in property and equipment. To March 31, 2013 the main 2013 additions were upgrades and replacement of downhole tools, progress payments on 3 production testing units and auxiliary production testing equipment. In 2013 Q1, $2,135 of the additions related to growth capital, with the remaining $4,563 for maintenance and replacement capital.

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

	March 31 2013	December 31 2012	March 31 2012
Directional drilling - MWD systems [(1)]	136	136	129
Production testing units	69	69	65

(1) Net of 10 systems that have been removed from service.

Cathedral's 2013 capital budget remains at the previously announced amount of $22,000 which includes $10,000 of growth capital and $12,000 of maintenance capital.

The major items within the 2013 of growth capital are for the drilling division are addition of mud motors and drill collars for the expected expansion of Company’s Houston and Oklahoma City operation bases and the commencement of the build-out of the Company’s at-bit technology system. In addition, the production testing division plans to add 3 frac-flowback units and related ancillary equipment. Delivery of the 3 frac-blowback units occurred in April 2013.

The maintenance capital is expected to allow for: i) expanded rollout of the Company's enhanced Fusion MWD platform electronics; ii) addition of mud pulse transmitters to the fleet to allow for expanded Fusion MWD platform capabilities; iii) continued conversion to Cathedral's proprietary mud motor bearing section; and iv) expansion of mud motor power section fleet to accommodate the nature of oil bores being drilled.

These capital expenditures are expected to be financed by way of cash flow from operations, proceeds of disposal of property and equipment and the Company's credit facility.

NORMAL COURSE ISSUER BID

In 2013 Q1, the Company repurchased an additional 671,562 common shares (of which 594,247 were cancelled before quarter end) at a cost of $2,704 or an average cost of $4.03 per common share. This along with repurchases in April 2013 brings the total number of common share repurchased under the Company's Normal Course Issuer Bid that expires on June 19, 2013 to 1,824,992 common shares at a cost of $8,343 or an average cost of $4.57 per common share. At May 6, 2013, the Company has 35,837,960 common shares and 3,419,623 share options outstanding.

DIVIDENDS

It is the intent of the Company to pay quarterly dividends to shareholders. The Board of Directors will review the amount of dividends on a quarterly basis with due consideration to current performance, historical and future trends in the business, the expected sustainability of those trends and enacted tax legislation which will affect future taxes payable as well as required long-term debt repayments, maintenance capital expenditures required to sustain performance and future growth capital expenditures. The Directors have approved a 2013 Q2 dividend in the amount of $0.075 per share which will have a date of record of June 30, 2013 and a payment date of July 15, 2013.

LIQUIDITY AND CAPITAL RESOURCES

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 three months ended March 31, 2013, the Company had funds from operations of $7,507 (2012 - $17,497). The decline in funds from operations is due to the Company's reduced levels of Canadian source revenues on a quarter-over-quarter basis.

At March 31, 2013 the Company had a working capital position of $26,431 (December 31, 2012 - $29,173) and a working capital ratio of 1.48 to 1 (December 31, 2012 – 1.74 to 1).

The following table outlines the current credit facility:

		March 31 2013		December 31 2012
Available credit facility	$	75,000	$	75,000
Drawings on credit facility:				
Operating loan		16,658		880
Revolving term loan		45,000		45,000
Total drawn facility	$	61,658	$	45,880
Borrowing capacity (see NON-GAAP MEASUREMENTS)	$	13,342	$	29,120
Net debt (see NON-GAAP MEASUREMENTS):				
Loans and borrowings, net of current portion	$	46,330	$	46,151
Working capital:				
Current assets	$	81,124	$	68,142
Current liabilities		(54,693)		(38,969)
Working capital	$	26,431	$	29,173
Net debt	$	19,899	$	16,978

As at March 31, 2013, the Company is in compliance with all covenants under its credit facility.

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, 2012. As at March 31, 2013, the Company had a commitment to purchase approximately $4,157 of property and equipment. Cathedral anticipates expending these funds in 2013 Q2.

CONTROLS AND PROCEDURES

The Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") are responsible for designing disclosure controls and procedures ("DC&P") and internal controls over financial reporting ('ICFR') as defined in National Instrument 52-109 Certification of Disclosure in Issuer's Annual and Interim Filings ("52-109"), or causing them to be designed under their supervision, in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

Cathedral's DC&P have been designed to provide reasonable assurance that material information relating to Cathedral is made known to the CEO and the CFO by others and that information required to be disclosed by Cathedral in its annual filings, interim filings or other reports filed or submitted by Cathedral under securities legislation is recorded, processed, summarized and reported within the time periods specified in applicable securities legislation.

Because of their inherent limitations, DC&P and ICFR may not prevent or detect all misstatements, errors or fraud. Control systems, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control systems are met.

The CEO and CFO have concluded that there have been no changes in internal controls for the period ended on March 31, 2013 that have materially affected, or are reasonably likely to materially affect, Cathedral's ICFR.

BUSINESS RISKS

The MD&A for the year ended December 31, 2012, which is included in the Company's 2012 Annual Report, includes an overview on business risks associated with the Company and its operating entities. Those business risks remain in effect as at March 31, 2013.

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

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the International Accounting Standards Board (" IASB") or International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory for accounting periods beginning after January 1, 2013. The Company has reviewed these and determined that the following may have an impact on the Company:

As of January 1, 2015 the Company will be required to adopt IFRS 9, "Financial Instruments". IFRS 9 introduces new requirements for the classification and measurement of financial assets and financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting. Cathedral is in the process of determining the impact of this Standard.

SUMMARY OF QUARTERLY RESULTS

Three month periods ended	Mar 2013	Dec 2012	Sep 2012	Jun 2012	Mar 2012	Dec 2011	Sep 2011	Jun 2011
Revenues	$ 54,074	$ 44,836	$ 49,830	$ 40,699	$ 67,829	$ 70,359	$ 63,409	$ 31,746
EBITDAS [(1)]	$ 8,592	$ 8,296	$ 10,538	$ 2,068	$ 21,956	$ 20,969	$ 17,666	$ 2,643
EBITDAS [(1)] per share - diluted	$ 0.23	$ 0.22	$ 0.28	$ 0.05	$ 0.58	$ 0.55	$ 0.47	$ 0.07
Net earnings (loss)	$ 2,059	$ 1,578	$ 3,813	$ (3,222)	$ 12,628	$ 12,551	$ 8,575	$ (1,609)
Net earnings (loss) per share - basic	$ 0.06	$ 0.04	$ 0.10	$ (0.09)	$ 0.34	$ 0.34	$ 0.23	$ (0.04)
Net earnings (loss) per share - diluted	$ 0.06	$ 0.04	$ 0.10	$ (0.09)	$ 0.33	$ 0.33	$ 0.23	$ (0.04)
Dividends declared per share	$ 0.075	$ 0.075	$ 0.075	$ 0.075	$ 0.075	$ 0.060	$ 0.060	$ 0.060

OUTLOOK

Over the last few quarters Cathedral has continued to invest in the U.S. by way of infrastructure and capital equipment. This investment has now put the Company in a position to access and exploit all U.S, major plays including the Bakken, Niobrara, Marcellus, Eagleford, Permian, Piceance to name a few. The Company recently completed the build out of 3 high pressure frac-flowback units. These units have begun operations and along with 4 others from the U.S. fleet gives the Company 7 units now operating in Texas. The Company continues to see opportunities to deploy additional "green completions"/ closed loop units and expects to continue to expand its completions activity in the U.S.

U.S. drilling services is seeing significant growth in several operating areas due to success in the deployment of industry leading technology including our "Fusion MWD (EM)" technology and Cathedral's "nDurance" motor. The technologies are showing dramatic improvements in operational performance and have significantly reduced drilling times for our customers. This is resulting in additional work being awarded. With bases now setup in both Houston, Texas and Oklahoma City, Oklahoma the Company is able to exploit the largest drilling market in the U.S.

A key take away from the quarter is the expected growth in the U.S. market on a quarter-over-quarter basis for the remainder of the year in both operating divisions.

Although activity was down for Cathedral's Canadian operations, the Company has broadened its customer base through the first quarter. In order to build on these additions, the Company has expanded its sales and marketing group and expects to see additional work secured. We are focused on expanding our marketing efforts and to bring on specialty technologies to increase revenues once the spring break-up season has ended.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

March 31, 2013 and December 31, 2012
Dollars in '000s
(unaudited)

	March 31 2013	December 31 2012
Assets		
Current assets:		
Cash and cash equivalents	$ 7,199	$ 8,470
Trade receivables	47,757	36,094
Current taxes recoverable	-	153
Prepaid expenses	8,777	10,419
Inventories	17,391	13,006
Total current assets	81,124	68,142
Property and equipment (note 4)	136,325	135,093
Intangible assets	642	719
Deferred tax assets	9,184	9,379
Investment in associate (note 5)	4,481	4,899
Goodwill	5,848	5,848
Total non-current assets	156,480	155,938
Total assets	$ 237,604	$ 224,080
Liabilities and Shareholders' Equity		
Current liabilities:		
Operating loan	$ 16,658	$ 880
Trade and other payables	21,184	21,773
Dividends payable	2,724	2,768
Loans and borrowings (note 6)	783	711
Deferred revenue	13,105	12,837
Current taxes payable	239	-
Total current liabilities	54,693	38,969
Loans and borrowings (note 6)	46,330	46,151
Deferred tax liabilities	1,001	1,028
Total non-current liabilities	47,331	47,179
Total liabilities	102,024	86,148
Shareholders' equity:		
Share capital (note 7)	73,084	74,408
Contributed surplus	9,145	8,863
Accumulated other comprehensive loss	(1,974)	(2,679)
Retained earnings	55,325	57,340
Total shareholders' equity	135,580	137,932
Total liabilities and shareholders' equity	$ 237,604	$ 224,080

See accompanying notes to condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Three months ended March 31, 2013 and 2012
Dollars in '000s except per share amounts
(unaudited)

		Three months ended March 31		
		2013		2012
Revenues	$	54,074	$	67,829
Cost of sales:				
Direct costs		(40,716)		(44,765)
Depreciation		(4,665)		(4,264)
Share-based compensation		(76)		(102)
Total cost of sales		(45,457)		(49,131)
Gross margin		8,617		18,698
Selling, general and administrative expenses:				
Direct costs		(5,203)		(5,017)
Depreciation		(157)		(156)
Share-based compensation		(211)		(268)
Total selling, general and administrative expenses		(5,571)		(5,441)
		3,046		13,257
Gain on disposal of property and equipment		505		3,704
Earnings from operating activities		3,551		16,961
Foreign exchange gain (loss)		(280)		261
Finance costs		(480)		(573)
Share of loss of associate		(4)		-
Earnings before income taxes		2,787		16,649
Income tax expense:				
Current		(580)		(755)
Deferred		(148)		(3,266)
Total income tax expense		(728)		(4,021)
Net earnings		2,059		12,628
Other comprehensive income (loss):				
Foreign currency translation differences for foreign operations		705		(647)
Total comprehensive income	$	2,764	$	11,981
Net earnings per share				
Basic	$	0.06	$	0.34
Diluted	$	0.06	$	0.33

See accompanying notes to condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Three months ended March 31, 2013 and 2012
Dollars in '000s
(unaudited)

	Share capital	Contributed surplus	Accumulated other comprehensive loss	Retained earnings	Total shareholders' equity
Balance at December 31, 2011	**$ 74,208**	**$ 7,845**	**$ (2,141)**	**$ 56,195**	**$ 136,107**
Total comprehensive income (loss) for three months ended March 31, 2012	-	-	(647)	12,628	11,981
Transactions with shareholders, recorded directly in equity contributions by and distributions to shareholders for three months ended March 31, 2012:					
Dividends to equity holders	-	-	-	(2,810)	(2,810)
Share-based compensation	-	356	-	-	356
Share options exercised	783	(152)	-	-	631
Total contributions by and distributions to shareholders	783	204	-	(2,810)	(1,823)
Balance at March 31, 2012	**$ 74,991**	**$ 8,049**	**$ (2,788)**	**$ 66,013**	**$ 146,265**
Balance at December 31, 2012	**$ 74,408**	**$ 8,863**	**$ (2,679)**	**$ 57,340**	**$ 137,932**
Total comprehensive income for three months ended March 31, 2013	-	-	705	2,059	2,764
Transactions with shareholders, recorded directly in equity contributions by and distributions to shareholders for three months ended March 31, 2013:					
Dividends to equity holders	-	-	-	(2,724)	(2,724)
Repurchase of common shares	(1,354)	-	-	(1,350)	(2,704)
Share-based compensation	-	287	-	-	287
Share options exercised	30	(5)	-	-	25
Total contributions by and distributions to shareholders	(1,324)	282	-	(4,074)	(5,116)
Balance at March 31, 2013	**$ 73,084**	**$ 9,145**	**$ (1,974)**	**$ 55,325**	**$ 135,580**

See accompanying notes to condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Three months ended March 31, 2013 and 2012
Dollars in '000s
(unaudited)

	2013	2012
Cash provided by (used in):		
Operating activities:		
Net earnings from continuing operations	$ 2,059	$ 12,628
Items not involving cash:		
Depreciation	4,822	4,420
Total income tax expense	728	4,021
Unrealized foreign exchange gain on intercompany balances	212	(56)
Finance costs	480	573
Share-based compensation	287	370
Gain on disposal of property and equipment	(505)	(3,704)
Share of loss from associate	4	-
Cash flow from continuing operations	8,087	18,252
Changes in non-cash operating working capital	(12,641)	3,115
Income taxes paid	(187)	(318)
Cash flow from (used for) operating activities	(4,741)	21,049
Investing activities:		
Property and equipment additions	(6,698)	(11,945)
Intangible asset additions	-	(554)
Proceeds on disposal of property and equipment	960	6,278
Investment in associate	(377)	-
Changes in non-cash investing working capital	(354)	(1,643)
Cash flow used for from investing activities	(6,469)	(7,864)
Financing activities:		
Change in operating loan	15,796	(11,016)
Interest paid	(579)	(434)
Repayments on loans and borrowings	(133)	(126)
Proceeds on exercise of share options	25	631
Repurchase of common shares	(2,704)	-
Dividends paid	(2,768)	(2,238)
Cash flow from (used for) financing activities	9,637	(13,183)
Effect of exchange rate on changes in cash and cash equivalents	302	124
Change in cash and cash equivalents	(1,271)	126
Cash and cash equivalents, beginning of period	8,470	2,902
Cash and cash equivalents, end of period	$ 7,199	$ 3,028

See accompanying notes to condensed consolidated interim financial statements.

1. Reporting entity

Cathedral Energy Services Ltd. (the “Company” or “Cathedral”) is a company domiciled in Canada. The Company is a publicly-traded company listed on the Toronto Stock Exchange under the symbol "CET". The unaudited condensed consolidated interim financial statements of the Company as at and for the period ended March 31, 2013 comprise the Company and its subsidiaries (together referred to as “Cathedral”). Cathedral is engaged in the business of providing selected oilfield services to oil and natural gas companies in western Canada and selected oil and natural gas basins in the United States. The Company is in the process of establishing operations in Venezuela for providing directional drilling services through its wholly owned subsidiaries Directional Plus International Ltd. ("DPI"). Directional Plus de Venezuela, C.A. ("DPV") and a joint venture company, Vencana Servicios Petroleros, S.A. (“Vencana”).

2. Basis of preparation

(a) Statement of compliance

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

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, 2012, which are included in the Company's 2012 Annual Report.

The unaudited condensed consolidated interim financial statements were authorized for issue by the Board of Directors on May 6, 2013.

(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, 2012. The accounting policies have been applied consistently by the Company with the following additions:

Joint Arrangements, Consolidation, Associates and Disclosures
As disclosed in the December 31, 2012 annual Consolidated Financial Statements, effective January 1, 2013, the Company adopted, as required, IFRS 10, “*Consolidated Financial Statements*” (“IFRS 10”), IFRS 11, “*Joint Arrangements*” (“IFRS 11”), IFRS 12, “*Disclosure of Interests in Other Entities*” (“IFRS 12”) as well as the amendments to IAS 28, “*Investments in Associates and Joint Ventures*” (“IAS 28”).

There has been no impact on the method of accounting for the Company’s interests in any of its subsidiaries or associates and there was no change to the recognized assets, liabilities and comprehensive income of the Company with the application of these standards.

Fair Value Measurement
Effective January 1, 2013, the Company adopted, as required, IFRS 13, “*Fair Value Measurement*” (“IFRS 13”) and applied the standard prospectively as required by the transitional provisions. The standard provides a consistent definition of fair value and introduces consistent requirements for disclosures related to fair value measurement.

There has been no change to the Company’s methodology for determining the fair value for its financial assets and liabilities and, as such, the adoption of IFRS 13 did not result in any measurement adjustments as at January 1, 2013.

Offsetting Financial Assets and Financial Liabilities
Effective January 1, 2013, the Company complied with the amended disclosure requirements, regarding offsetting financial assets and financial liabilities, found in IFRS 7, “*Financial Instruments: Disclosures*” issued in December 2011. The application of the amendment had no impact on any of the Company’s Financial Statements.

Future Accounting Pronouncements
There were no new or amended standards issued during the three months ended March 31, 2013 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 annual Consolidated Financial Statements for the year ended December 31, 2012.

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 increase in the fall and peak in the winter months from December until mid to late March. Additionally, volatility in the weather and temperatures not only during this period, but year round, can create additional unpredictability in operational results. Activity levels in the oil and natural gas basins in the U.S. are not subject to the seasonality to the same extent that it occurs in the western Canada region.

4. Property and equipment

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

	Three months ended March 31	
	2013	2012
Directional drilling equipment	$ 3,958	$ 7,902
Production testing equipment	2,446	3,303
Land and buildings	84	249
Automotive equipment	429	274
Office and computer equipment	210	335
Property and equipment additions	$ 7,127	$ 12,063

Included in the above additions are non-cash additions of $429 for the three months ended March 31, 2013 (2012 - $118) related to acquisition of automotive equipment under finance lease liabilities.

5. Investment in equity accounted investee

The Company has a 40% interest in a joint venture company, Vencana Servicios Petroleros, S.A. ("Vencana"). The remaining 60% of Vencana is owned by a wholly-owned subsidiary of Petróleos de Venezuela S.A. ("PDVSA"), the state-owned oil and natural gas corporation of the Bolivarian Republic of Venezuela. Vencana's mandate is to supply oilfield services in Venezuela to the oil and natural gas industry and will initially commence with the provision of directional drilling services; it is the intent for the services provided by Vencana to expand as mutually agreed between its joint venture partners.

6. Loans and borrowings

	March 31 2013	December 31 2012
Current liabilities:		
Current portion of finance lease liabilities	$ 783	$ 711
Non-current liabilities:		
Finance lease liabilities	$ 1,330	$ 1,151
Secured revolving term loan	45,000	45,000
Total	$ 46,330	$ 46,151

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

- The secured revolving term loan with a major Canadian bank at an authorized amount of $55,000 (December 31, 2012 - $55,000), bearing interest at the bank's prime rate plus 0.50 % to 2.00% or bankers' acceptance rate plus 1.75% to 3.25%, without repayment terms, maturing June 26, 2013 subject to an annual extension upon agreement between the borrower and the bank for a further one-year period. Interest rates spreads for the credit facility will depend 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). Prior to maturity the borrower may convert its revolving term loan to a non-revolving term loan repayable monthly over 36 months with interest only for the first 12 months; and

- Non-interest bearing conditional sales contracts are secured by the related automotive equipment with various maturity dates up to 2013.

The credit facility with a major Canadian bank is secured by a general security agreement over all present and future personal property with a first charge over certain real estate assets and is subject to certain covenants regarding the payment of dividends and the maintenance of certain financial ratios.

7. Share capital

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

Common shares issued:

	Three months ended March 31, 2013		Year ended December 31, 2012	
	Number	Amount	Number	Amount
Issued, beginning of period	36,906,293	$ 74,408	37,304,984	$ 74,208
Issued on exercise of options	6,667	25	351,301	1,387
Contributed surplus on options exercised		5		323
Repurchased and cancelled	(594,247)	(1,198)	(749,992)	(1,510)
Repurchased and not cancelled		(156)		-
Issued, end of period	36,318,713	$ 73,084	36,906,293	$ 74,408

Issuance of common shares

6,667 common shares were issued as a result of the exercise of vested options arising from 2009 grants to employees and consultants. Options were exercised at a strike price of $3.81 per option. All issued shares are fully paid.

Dividends

Cathedral declared a dividend of $2,724 in 2013 Q1 (2012 - $2,810) or $0.075 per share (2012 - $0.075 per share.) After the reporting date the directors approved a dividend of $0.075 per share with a record date of June 30, 2013 and payable July 15, 2013.

Basic earnings per share

The calculation of basic earnings per share at March 31, 2013 was based on the profit attributable to common shareholders of $2,059 (2012 - $12,628) and a weighted average number of common shares outstanding of 36,765,195 (2012 – 37,355,528), calculated as follows:

Weighted average number of ordinary shares

	March 31 2013	March 31 2012
Issued January 1	36,906,293	37,304,984
Effect of share options exercised	1,778	50,544
Effect of share repurchases	(142,876)	-
Weighted average number of common shares at end of period	36,765,195	37,355,528

Diluted earnings per share

The calculation of diluted earnings per share at March 31, 2013 was based on profit attributable to common shareholders of $2,059 (2012 - $12,628) and a weighted average number of common shares outstanding after adjustment for the effects of all dilutive potential common shares of 36,825,808 (2012 - 38,020,949), calculated as follows:

Weighted average number of common shares (diluted)

	March 31 2013	March 31 2012
Weighted average number of common shares (basic)	36,765,195	37,355,528
Effect of share options on issue	60,613	665,421
Weighted average number of common shares (diluted) at end of period	36,825,808	38,020,949

At March 31, 2013, 2,902,920 options (2012 – 530,300 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.

8. Commitments

In the normal course of business, the Company incurs contractual obligations and those obligations are disclosed in the Company's annual financial statements for the year ended December 31, 2012. As at March 31, 2013, the Company's commitment to purchase property and equipment is approximately $4,157. Cathedral anticipates expending these funds in 2013 Q2.