

2013

ANNUAL REPORT

FIVE YEAR FINANCIAL HISTORY

Dollars in 000's except per share amounts

	Presented under IFRS ⁽³⁾				Presented under previous CGAAP ⁽³⁾
	2013	2012	2011	2010	2009
Revenues	\$ 224,685	\$ 203,194	\$ 220,363	\$ 153,085	\$ 82,100
Adjusted gross margin % ⁽¹⁾	23.1%	28.2%	32.5%	35.0%	49.0%
EBITDAS ⁽¹⁾	\$ 32,815	\$ 40,824	\$ 56,085	\$ 38,398	\$ 16,652
Diluted per share	\$ 0.91	\$ 1.08	\$ 1.47	\$ 1.03	\$ 0.48
Funds from continuing operations ⁽¹⁾	\$ 25,359	\$ 33,270	\$ 50,011	\$ 35,921	\$ 12,268
Diluted per share	\$ 0.70	\$ 0.88	\$ 1.31	\$ 0.97	\$ 0.35
Write-down of investment in associate and related assets	\$ (13,066)	\$ -	\$ -	\$ -	\$ -
Earnings from continuing operations before income taxes	\$ 1,114	\$ 20,381	\$ 37,102	\$ 25,486	\$ 8,941
Net earnings (loss)	\$ (1,542)	\$ 14,797	\$ 27,634	\$ 16,327	\$ 5,281
Basic per share	\$ (0.04)	\$ 0.40	\$ 0.75	\$ 0.45	\$ 0.15
Diluted per share	\$ (0.04)	\$ 0.39	\$ 0.73	\$ 0.44	\$ 0.15
Dividends declared per share	\$ 0.3075	\$ 0.3000	\$ 0.2400	\$ 0.2400	\$ 0.3100
Property and equipment additions ⁽²⁾	\$ 28,283	\$ 30,650	\$ 44,413	\$ 35,155	\$ 8,923
Weighted average shares outstanding					
Basic (000s)	36,171	37,376	37,062	36,453	34,841
Diluted (000s)	36,241	37,756	38,047	37,170	34,857

	Presented under IFRS				Presented under previous CGAAP
	2013	2012	2011	2010	2009
Working capital	\$ 26,031	\$ 29,173	\$ 40,052	\$ 19,516	\$ 22,451
Total assets	\$ 205,375	\$ 224,080	\$ 231,923	\$ 180,801	\$ 173,537
Loans and borrowings excluding current portion	\$ 38,462	\$ 46,151	\$ 50,694	\$ 35,435	\$ 39,526
Total shareholders' equity	\$ 126,612	\$ 137,932	\$ 136,107	\$ 112,191	\$ 97,422

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

(2) Property and equipment additions exclude non-cash additions

(3) Effective January 1, 2010, Cathedral Energy Services Ltd. ("the Company" / "Cathedral") began reporting its financial results in accordance with International Financial Reporting Standards ("IFRS") and accordingly comparatives for the year ended December 31, 2010 were restated from amounts issued under the previous Canadian Generally Accepted Accounting Principles ("previous CGAAP") to reflect results as if the Company had always prepared its financial statements using IFRS. Historic financial information for the year ended December 31, 2009 is presented under previous CGAAP. Refer to notes to the Company's financial statements for the year ended December 31, 2011 for an explanation of the transition to IFRS.

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Annual General Meeting:

Shareholders are invited to attend the Annual General Meeting which will be held at 3:00 pm on April 23, 2014 in the Plaza Room of the Metropolitan Centre, 333 – 4th Avenue S.W., Calgary, Alberta.

REPORT TO SHAREHOLDERS

2013 was a significant year for Cathedral and a turning point for the oilfield service industry. Numerous factors, including significant narrowing of oil differentials, meaningful increase in transportation of oil by rail, decline in natural gas inventories and improved access to capital markets for producers, have set up 2014 as a year of stronger producer cash flows which is expected to lead to increased expenditures by producers.

One of our key objectives for 2013 was further expansion in the U.S. market and we closed 2013 with record revenue levels from our U.S. operations, in total and for each operating division. U.S. revenues were up 33%. We continue to see the U.S. as an area in which we should see meaningful growth.

Canadian industry activity levels remained relatively flat on a year-over-year basis. Canadian directional drilling revenues suffered a market share decline primarily due to a lower activity level of a significant customer and Canadian production testing revenues experienced a modest decline. After a slow first half of the year we saw improved activity levels in the back half of the year as new customers were added and our existing customers increased activity levels.

After careful consideration, management determined the expected political, financial and operational risks do not warrant continuing to pursue business opportunities in Venezuela. This decision will allow senior management to refocus on near-term and long-term growth opportunities within North America.

We continue to re-invest in our operating assets to provide for growth in the U.S. market as well as to move our directional drilling technology forward. We are very pleased with the advancements made on our proprietary Fusion MWD platform and nDurance mud motor design as they have allowed Cathedral to win incremental work and are expected to allow Cathedral to compete on a performance basis rather than on lowest cost for services. In particular, we consider our EM MWD technology to be industry leading; we are currently operating EM technology in areas in which other providers cannot.

In 2013 Q4 there was a change in senior management of Cathedral. Our team is now lead by myself and Randy Pustanyk, Executive Vice President & COO. During the fourth quarter, we have refocused our sales and marketing strategy with the goal of enhancing our customer base with an emphasis on Cathedral's strategic and proprietary technology advantages and improving operating margins.

With an expanded geographic footprint focused on the North American market, increased operating capacity, leading edge technology, a focused management team and a solid balance sheet, Cathedral is well positioned to move forward with its priorities of increasing market share and improving operating margins and overall profitability.

Sincerely,

Signed: "P. Scott MacFarlane"

P. Scott MacFarlane

President and Chief Executive Officer

Cathedral Energy Services Ltd.

March 5, 2014

MANAGEMENT'S DISCUSSION & ANALYSIS

This Management's Discussion and Analysis ("MD&A") for the year ended December 31, 2013 provides an analysis of the consolidated results of operations, financial position and cash flows of Cathedral Energy Services Ltd. (the "Company" or "Cathedral") and should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2013, as well as the Company's 2013 interim MD&A's. This MD&A is intended to assist the reader in the understanding and assessment of significant changes and trends, as well as the risks and uncertainties, related to the results of the operations and financial position of the Company. Currency amounts are in '000's except for day rates and per share amounts. This MD&A is dated March 5, 2014.

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: activity levels; focus of marketing activities; market share gains, in particular in Texas and Oklahoma; addition of production testing sales staff to secure additional work; industry activity levels; growth through increased market share; enhancing profitability through managing costs; projected capital expenditures and commitments and the financing thereof; timing of expenditures on purchase commitments; equipment delivery and deployment dates; reductions in future field labour costs; geographic allocation of equipment; ability to remain competitive; tax provisions are adequate; intention to defend its filing position with regard to conversion from a trust to a corporation; Cathedral's intention to file future tax returns on a basis consistent with its view of the outcome of the conversion from a trust to a corporation; intention to continue relationships with customers; expected benefits from maintenance capital expenditures; expected political, financial and operational risks associated with carrying on business opportunities in Venezuela; expected reduction in on-going costs associated with the wind-down of Venezuela operations; expected completion date of Oklahoma City operations facility; intention to sell and leaseback the Oklahoma City operations facility following its completion; expectation to continue to selectively seek strategic acquisitions; continued expansion of U.S. operations; no expected changes in production testing technology; benefits associated with in-house mud motor design; benefits associated with financial results; technology advances; availability of insurance coverage; ability to deploy within North American market equipment that was scheduled to be deployed to Venezuela, stronger commodity prices contributing to higher producer netbacks, renewed interest in the energy industry by the investment community, oil and gas producers having additional funds for capital programs, potential for a significant increase in spending in western Canada, producers realizing higher netbacks from a combination of enhanced refining capacity, increased shipment of crude by rail, new and expanded oil pipelines together with development of proposed west coast liquefied natural gas terminals, continued investment in research and development of proprietary technologies and dividends. 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 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;
- the ability of Cathedral to obtain timely financing on acceptable terms;
- currency exchange and interest rates;
- risks associated with foreign operations;
- the ability of Cathedral to realize the benefits of its conversion from an income trust to a corporation;
- risks associated with winding up operations in Venezuela, including the ability to sell Cathedral's interest in the Venezuela joint venture;
- changes under governmental regulatory regimes and tax, environmental and other laws in Canada, United States ("U.S.") and Venezuela; and
- 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 which has been filed with Canadian provincial securities commissions and are available on www.sedar.com.

HIGHLIGHTS OF FISCAL 2013

- 2013 set records for U.S. revenues in total and for both U.S. operating divisions
- Continued growth in U.S. activity levels for both divisions – on a year-over-year basis revenues increased 33%;
- Cathedral continues to "win" incremental work due to success of its proprietary Fusion EM/MWD platform and nDurance drilling motor;
- Build out of personnel infrastructure for future growth opportunities in U.S. resulted in reduced adjusted gross margin;
- Sale/leaseback of Nisku and Calgary, Alberta facilities was completed with net proceeds of \$22,260 and gain of \$4,852 – net proceeds used to reduce bank debt; and

- Decision made to discontinue operations in Venezuela and records write-down of \$13,066 of its investment in Venezuela joint venture as well as certain assets located within Venezuela.

SELECTED ANNUAL INFORMATION

	2013		2012		2011
Revenue	\$	224,685	\$	203,194	\$ 220,363
Adjusted gross margin % ⁽¹⁾		23.1%		28.2%	32.5%
EBITDAS ⁽¹⁾	\$	32,815	\$	40,824	\$ 56,085
Diluted per share	\$	0.91	\$	1.08	\$ 1.47
As % of revenues		15%		20%	25%
Funds from continuing operations ⁽¹⁾	\$	25,359	\$	33,270	\$ 50,011
Write-down of investment in associate and related assets	\$	(13,066)	\$	-	\$ -
Earnings from continuing operations before income taxes	\$	1,114	\$	20,381	\$ 37,102
Basic per share	\$	0.03	\$	0.55	\$ 1.00
Diluted per share	\$	0.03	\$	0.54	\$ 0.98
Net earnings (loss)	\$	(1,542)	\$	14,797	\$ 27,634
Basic per share	\$	(0.04)	\$	0.40	\$ 0.75
Diluted per share	\$	(0.04)	\$	0.39	\$ 0.73
Cash dividends declared per share	\$	0.3075	\$	0.3000	\$ 0.2400
Weighted average shares outstanding					
Basic (000s)		36,171		37,376	37,062
Diluted (000s)		36,241		37,756	38,047
Working capital	\$	26,031	\$	29,173	\$ 40,052
Total assets	\$	205,375	\$	224,080	\$ 231,923
Long-term debt excluding current portion	\$	38,462	\$	46,151	\$ 50,694
Shareholders' equity	\$	126,612	\$	137,932	\$ 136,107

(1) Refer to "NON-GAAP MEASUREMENTS"

OUTLOOK

The Canadian directional drilling division is off to a strong start in 2014 as activity levels ramped up quickly after the December 2013 holiday season. Activity levels are expected to be strong until spring breakup. The Company will continue to focus its marketing efforts on targeting clients in the Deep Basin reservoirs where reduction in drilling times resulting from equipment and technology improvements allow the Company to compete on a performance basis rather than on lowest cost for services.

2013 Q4 activity levels for Cathedral's Canadian production testing division benefited from work which was deferred from Q3. Going forward Cathedral is expecting more normalized activity levels.

The U.S. directional drilling division closed 2013 with a significant increase in activity as evidenced by a 39% increase in annual revenues. To achieve this growth, we expanded our operations, secured new facilities, hired new employees, and incurred equipment rental charges, all of which caused downward pressure on operating margins. 2014 activity levels are expected to continue to increase as we move through the year. In particular, Cathedral is expecting market share gains in the Texas and Oklahoma operating areas. Construction on the Oklahoma City operations and repair facility continues and occupancy is expected in early 2015.

For the U.S. production testing division, activity levels in 2013 Q4 were down due to the loss of one significant customer as well as lower revenues from another customer which had planned to reduce its completion activities for that quarter. As we moved into 2014 we have added additional customers and expect continued growth throughout the year. To enhance sales and marketing efforts, Cathedral is looking to add additional production testing sales staff combined with utilizing the services of its directional drilling sales staff to secure work.

Recently, stronger commodity prices have contributed to higher producer netbacks, resulting in renewed interest in the energy industry by the investment community as evidenced by increased financing activity, all of which should provide oil and gas producers with additional funds for capital programs. On a longer term basis, there is potential for a significant increase in spending in western Canada as producers realize higher netbacks from a combination of enhanced refining capacity, increased shipment of crude by rail, new and expanded oil pipelines together with development of proposed west coast liquefied natural gas terminals.

For 2014, Cathedral's focus will remain on: i) increasing market share in both operating divisions and geographic areas; ii) enhancing profitability through managing costs, and iii) continued investment in research and development of proprietary technologies.

OVERVIEW

Cathedral Energy Services Ltd. (the "Company" or "Cathedral") is incorporated under the Business Corporations Act (Alberta) (the "Act"). The Company is publicly traded on the Toronto Stock Exchange under the symbol "CET". The Company together with its wholly owned subsidiary, Cathedral Energy Services Inc., is engaged in the business of providing selected oilfield services to oil and natural gas companies in western Canada and the U.S. Subsequent to year-end, Cathedral decided to discontinue operations in Venezuela. The Company strives to provide its clients with value added technologies and solutions to meet their drilling and production testing requirements.

RESULTS OF OPERATIONS - 2013 COMPARED TO 2012

Overview

The Company completed 2013 with revenues of \$224,685 compared to 2012 revenues of \$203,194 an increase of 11% from 2012. The 2013 revenues were comprised of 67% (2012 - 69%) from the directional drilling division, 28% (2012 - 29%) from the production testing division and 5% (2012 - 2%) from resale and rental of equipment.

2013 EBITDAS were \$32,815 (\$0.91 per share diluted) which represents an \$8,009 or 20% decrease from \$40,824 (\$1.08 per share diluted) in 2012. In 2013 the Company's net loss was \$1,542 (\$0.04 loss per share) as compared to net earnings of \$14,797 (\$0.39 per share diluted) in 2012. The decrease in net earnings and EBITDAS was a result of a combination of a decline in adjusted gross margin due to increased field labour and increased fixed costs within cost of sales (primarily labour related and office rent due to sale and leaseback of Alberta properties as well as expansion into Oklahoma) and increased selling, general and administrative expenses related to expansion into new areas of operation. In addition, net earnings were reduced by a charge of \$13,066 on the write-down of the Company's investment in the Vencana Servicios Petroleros, S.A. ("Vencana") of which Cathedral own 40% and related Venezuelan assets.

Revenues	Year ended December 31, 2013				Year ended December 31, 2012			
	Directional drilling	Production testing	Resale and rental	Total	Directional drilling	Production testing	Resale and rental	Total
Canada	\$ 71,135	\$ 28,645	\$ -	\$ 99,780	\$ 82,432	\$ 30,816	\$ -	\$ 113,248
United States	79,716	34,024	-	113,740	57,503	28,030	-	85,533
International	-	-	11,165	11,165	-	-	4,413	4,413
Total	\$ 150,851	\$ 62,669	\$ 11,165	\$ 224,685	\$ 139,935	\$ 58,846	\$ 4,413	\$ 203,194

Revenues 2013 revenues were \$224,685 which represented an increase of \$21,491 or 11% from 2012 revenues of \$203,194. The Company saw gains in the U.S., which were offset by declines in Canada. For 2013, U.S. revenues in total and for each operating division represented record revenues. As well, 2013 was the first year in which Cathedral's U.S. revenues exceeded Canadian source revenues.

Canadian directional drilling revenues decreased from \$82,432 in 2012 to \$71,135 in 2013; a 14% decrease. This decrease was the result of: i) a 9% decrease in activity days from 6,823 in 2012 to 6,235 in 2013; and ii) a 6% decrease in the average day rate from \$12,081 in 2012 to \$11,409 in 2013. Cathedral's Canadian activity days decreased while on a year-over-year basis overall industry activity in the Western Canada Sedimentary Basin ("WCSB") as measured by wells drilled and meters drilling both increased by 3%. Cathedral's 9% decrease in activity days is mainly due to a reduction in market share which was partially attributable to a decline in work for a significant customer. As well, a number of Cathedral's clients deferred work into 2014. There were new clients added, but these were not enough to offset the decreased work on existing clients.

U.S. directional drilling revenues increased from \$57,503 in 2012 to a record level of \$79,716 in 2013; a 39% increase. This increase was the result of: i) a 25% increase in activity days from 5,552 in 2012 to 6,954 in 2013; and ii) a 11% increase in the average day rate from \$10,357 in 2012 to \$11,463 in 2013 (when converted to Canadian dollars). The increase in U.S. activity days were due to market share gains in the Texas region and to a lesser extent the Rocky Mountain area as well as expansion into Oklahoma (Oklahoma commenced operations in November 2012). The increased average day rate was due to increases that were achieved due to performance based pricing, net of declines in the less active northeast region.

Canadian production testing revenues decreased from \$30,816 in 2012 to \$28,645 in 2013. This 7% decrease in revenues is in line with the decline in wells completed in 2013 versus 2012 within the WCSB. 2013 Q3 and Q4 saw increases over 2012 levels, but they were not sufficient to offset the declines in the first half of the year.

U.S. production testing revenues increased from \$28,030 in 2012 to a record level of \$34,024 in 2013; a 21% increase. This increase is attributable to having 3 additional units in 2013 versus 2012, expansion into the Eagleford (Texas) market and an overall increase in utilization of units.

The international resale and rental revenue commenced in 2012 Q3 and relates to the resale of assets by Cathedral's subsidiaries to Vencana Servicios Petroleros, S.A. ("Vencana"). This amount includes only the portion of the resale revenue related to the other joint venture partner's share (60% of total selling price).

Gross margin and adjusted gross margin The gross margin for 2013 was 14.4% compared to 18.9% in 2012. Adjusted gross margin, excluding non-cash costs, for 2013 was \$51,822 (23.1%) compared to \$57,257 (28.2%) for 2012.

The largest contributing factor to the decline in the adjusted gross margin are field labour costs which increased by 2.2% of revenues. In Canada directional drilling field labour rates have remained fairly constant with the prior year, but due to the decline in the average revenue day rate, the cost as percentage of revenue has increased. In U.S., the work performed in Oklahoma increased and it had higher per day labour costs relative to revenue levels. As activity levels increase in Oklahoma we are expecting to average these costs down with the mix of staff levels. Cathedral is reviewing its mix of staff utilized on jobs, its revenue day rates and the amount paid to field staff on a per day basis to reduce this cost.

In addition, compensation costs included in fixed portion of cost of sales have increased as a percentage of revenues due to: i) Canadian costs being spread over a lower revenue base; and ii) costs being incurred in U.S. to accommodate current year and future growth.

Depreciation allocated to cost of sales increased from \$18,479 in 2012 to \$19,270 in 2013 due to capital additions in 2013. Depreciation included in cost of sales as a percentage of revenue was 8.5% for 2013 and 9.1% in 2012.

Selling, general and administrative expenses ("SG&A") SG&A expenses were \$24,669 in 2013; an increase of \$1,961 compared with \$22,708 in 2012. As a percentage of revenue, these costs were 11% in both 2013 and 2012. Non-cash expenses total \$892 for 2013 and \$1,696 for 2012. SG&A net of these non-cash items were \$23,777 in 2013 and \$21,012 in 2012, an increase of \$2,765.

In 2013 there were severance costs of \$2,380 and a recovery of \$1,438 for international SG&A from the Company's joint venture partner in Vencana for amounts previously expended by the Company on the start-up of Vencana. If we remove these items from SG&A, net of non-cash items, adjusted SG&A was \$22,835 in 2013 compared to \$21,012 in 2012, an increase of \$1,823.

North American payroll, excluding severance, increased \$866; this increase was primarily related to staff additions for research and development department and staff positions added to accommodate current and future 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.

In addition, SG&A increased due to further expansion in Texas and Oklahoma and rent increased as a result of the sale and leaseback of Alberta facilities.

Gain on disposal of property and equipment During 2013, the Company had a gain on disposal of property and equipment of \$4,852, compared to \$6,421 in 2012. Included in the 2012 gain was \$2,024 related to the sale of property and equipment by Cathedral's subsidiaries to Vencana. 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.

Additionally, in 2013 Q3 the Company finalized the sale and leaseback of its Calgary and Nisku, Alberta land and buildings and has recognized a gain of \$4,894. The Company has entered into a 15 year lease on the related properties.

Write-down of investment in associate and related assets Subsequent to year-end, Cathedral decided to discontinue operations in Venezuela. Management determined the expected political, financial and operational risks do not warrant continuing to pursue business opportunities in Venezuela. Furthermore, management is of the belief there are greater growth opportunities in the North American market and particularly in the U.S. In 2013 Q4, the Company recorded a charge in the amount of \$13,066 related to the write-off of its investment in Vencana as well as certain assets located within Venezuela.

Management has taken action to reduce Venezuela costs and on-going costs associated with the wind down of Venezuela operations are expected to be significantly reduced. In 2013 Cathedral incurred \$2,017 (2012 - \$2,221) of SG&A (this figure excludes the recovery of \$1,438 from its joint venture partner in 2013 Q1 in relation to previously expensed SG&A) related to its Venezuelan operations.

Cathedral will be providing its joint venture partner, a wholly-owned subsidiary of Petr leos de Venezuela S.A. ("PDVSA"), the state-owned oil and natural gas corporation of the Bolivarian Republic of Venezuela, with notice that it is pursuing its contractual alternative to find a third-party to purchase Cathedral's 40% interest in Vencana or having Cathedral's joint venture partner purchase its interest. Future proceeds, if any, with respect to the sale of its joint venture interest will be recorded on a cash received basis as a recovery of this write-down. Cathedral expects to re-deploy existing equipment currently located in Calgary, Alberta that was previously scheduled for Venezuela to its current North American operations including six Measurement-While-Drilling ("MWD") tools systems as well as Logging-While-Drilling ("LWD") tools.

Foreign exchange gain (loss) The Company's foreign exchange was a gain of \$269 in 2012 compared to a loss of \$752 in 2013 due to the fluctuations in the Canadian dollar compared to U.S. dollars. 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 foreign currency gain are unrealized losses of \$670 (2012 - \$77 gain) related to intercompany balances.

Finance costs Finance costs consist of interest expenses on operating loans, loans and borrowings and bank charges of \$2,516 for 2013 versus \$2,041 for 2012. The increase in finance costs relate mainly to an increased utilization of the Company's operating loan and to a lesser extent increases in interest rates.

Income tax For 2013, the Company had an income tax expense of \$2,656 as compared to \$5,584 in 2012. The 2013 provision consists of current tax expense of \$2,604 (2012 - \$3,167) and a deferred tax expense of \$52 (2012 - \$2,417). The effective tax rate is 21% for 2013 (after adjustment for the write-down of associate and related assets and adjustment to prior year provisions) and 27% for 2012.

LIQUIDITY AND CAPITAL RESOURCES

Overview On an annualized basis the Company's principal source of liquidity is cash generated from operations. In addition, the Company has the ability to fund liquidity requirements through its credit facility and the issuance of debt and/or equity. In 2013 Q3, the Company completed a sale/leaseback of Nisku and Calgary, Alberta facilities with net proceeds of \$22,260. These net proceeds were used to reduce the Company's bank debt including \$8,000 of long-term debt. For the year ended December 31, 2013, the Company had funds from continuing operations of \$25,359 (2012 - \$33,270). The decline in funds from continuing operations is due to the Company's reduced levels of Canadian source revenues on a year-over-year basis.

Working capital At December 31, 2013 the Company had a working capital position of \$26,031 (December 31, 2012 - \$29,173) and a working capital ratio of 1.66 to 1 (December 31, 2012 - 1.75 to 1).

Credit facility The Company has a \$20,000 demand operating line of credit with a major Canadian bank that bears interest, at the Company's option, at the bank's prime rate plus 0.50% to 2.00% or bankers' acceptance rate plus 1.75% to 3.25% with interest payable monthly and is secured as described in note 14 of the audited consolidated financial statements. 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).

The Company also has a secured revolving term loan with a major Canadian bank at an authorized amount of \$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 30, 2014 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. The Company's credit facility includes a \$35,000 accordion feature which is subject to approval of the Company's bank.

The credit facility is secured by a general security agreement over all present and future personal property and is subject to certain covenants regarding the payment of dividends and the maintenance of certain financial ratios. As at December 31, 2013, the Company is in compliance with all covenants under its credit facility

The following table outlines the current credit facility:

	December 31 2013	December 31 2012
Available credit facility	\$ 75,000	\$ 75,000
Drawings on credit facility:		
Operating loan	10,119	880
Revolving term loan	37,000	45,000
Letter of credit	700	-
Total drawn facility	\$ 47,819	\$ 45,880
Borrowing capacity (see NON-GAAP MEASUREMENTS)	\$ 27,181	\$ 29,120
Net debt (see NON-GAAP MEASUREMENTS):		
Loans and borrowings, net of current portion	\$ 38,462	\$ 46,151
Working capital:		
Current assets	\$ 65,409	\$ 68,142
Current liabilities	(39,378)	(38,969)
Working capital	\$ 26,031	\$ 29,173
Net debt	\$ 12,431	\$ 16,978

Contractual obligations In the normal course of business, the Company incurs contractual obligations and those obligations are disclosed below. As at December 31, 2013, the Company had a commitment to purchase approximately \$3,937 of property and equipment and Cathedral anticipates expending these funds in 2014 Q1 and Q2.

The Company has entered into an agreement to sell certain inventory and property and equipment for proceeds of \$2,750. The transaction is estimated to result in a gain of approximately \$1,100. Approximately, the first 1/3 of the goods were shipped in 2013 Q4 with the remainder expected to be delivered to the purchaser in 2014 Q2 and Q3.

The following table outlines the anticipated payments related to purchase commitments subsequent to December 31, 2014:

	Total	2014	2015	2016	2017	2018	Thereafter
Purchase obligations	\$ 3,937	\$ 3,937	\$ -	\$ -	\$ -	\$ -	\$ -
Secured revolving term loan ⁽¹⁾	37,000	-	-	-	-	-	37,000
Operating lease obligations	30,797	3,160	2,940	2,685	2,373	2,076	17,563
Finance lease obligations	2,490	886	506	857	241	-	-
Total	\$ 74,224	\$ 7,983	\$ 3,446	\$ 3,542	\$ 2,614	\$ 2,076	\$ 54,563

(1) Minimum principal amounts to be paid under secured revolving term loan based the loan being renewed on the same terms and not converted to a non-revolving term loan.

Share capital At March 5, 2014, the Company had 36,186,380 common shares and 1,509,996 options outstanding with a weighted average exercise price of \$6.43.

OFF-BALANCE SHEET ARRANGEMENTS

As at December 31, 2013, the Company has entered into \$30,797 of commitments under operating leases for premises and issued a standby letter of credit in the amount of \$700 (refer to note 22 to the audited consolidated financial statements). The Company has indemnified obligations to its directors and officers. Pursuant to such obligations, the Company indemnifies these individuals, to the extent permitted by law, against any and all claims or losses (including amounts paid in settlement of claims) incurred as a result of their service to the Company. The maximum amount payable under these indemnities cannot be reasonably estimated. The Company expects that it would be covered by insurance for most tort liabilities.

2013 CAPITAL PROGRAM

For 2013 the Company has invested an additional \$28,283 (2012 - \$30,650) in property and equipment, excluding non-cash capital lease additions. The main 2013 capital additions were upgrades and replacement of downhole tools, the addition of 8 retrievable positive pulse systems, 3 high pressure production testing units and auxiliary production testing equipment. Maintenance capital included additional upgrades to existing production testing equipment and maintenance of downhole tools. Infrastructure capital included a building addition prior to its sale/leaseback as well as the purchase of land and construction progress payments on an Oklahoma City, Oklahoma operations facility. The net property and equipment additions (additions net of proceeds on the disposal of property and equipment) to date in 2013 were negative \$1,264 (2012 - \$19,054).

The following table summarizes the capital expenditures:

	December 31 2013	December 31 2012
Growth capital ⁽¹⁾	\$ 12,897	\$ 19,621
Replacement capital ⁽¹⁾	2,498	2,450
Infrastructure capital ⁽¹⁾	1,330	767
Maintenance capital ⁽¹⁾	11,558	7,812
Property and equipment expenditures	28,283	30,650
Less: proceeds on the regular disposal of property and equipment	(29,547)	(11,596)
Add back: non-recurring proceeds on disposal of property and equipment	22,260	7,985
Net property and equipment additions ⁽¹⁾	\$ 20,996	\$ 27,039

(1) Refer to "NON-GAAP MEASUREMENTS"

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

	December 31 2013	December 31 2012
Directional drilling - MWD systems ⁽¹⁾	139	136
Production testing units	72	69

(1) The Company has 10 Geolink MWD systems that have been excluded from the December 31, 2013 and 2012 figures as they are held for sale.

2014 CAPITAL PROGRAM

Cathedral's 2014 capital budget is \$24,000 which includes \$13,000 of growth capital, \$7,000 of maintenance capital and \$4,000 of infrastructure expenditures.

The Directional Drilling division is expected to invest \$20,000 of the 2014 capital budget including \$10,000 for growth, \$6,000 for maintenance and \$4,000 for infrastructure. Growth capital expenditures will include the addition of mud motors and drill collars for the expansion of Company's U.S. operations. Maintenance capital expenditures are expected to allow for: 1) continued enhancement of the Company's Fusion MWD platform electronics; 2) addition of mud pulse transmitters to allow for expanded Fusion MWD dual telemetry capabilities; 3) continued conversion to Cathedral's proprietary mud motor bearing section; and 4) expansion of mud motor power section fleet to accommodate extended repair times and new configurations requested by customers. The infrastructure investment relates to the construction of an operations facility in Oklahoma City, Oklahoma with full service repair capabilities. It is the intent of Cathedral to sell and leaseback the Oklahoma City operations facility following its completion.

The Production Testing division anticipates investing \$3,000 of growth capital expenditures comprised of auxiliary equipment and line pipe that would otherwise be rented and \$1 million of maintenance expenditures.

Cathedral intends to finance its initial 2014 capital budget from cash flow from operations and, if necessary, its existing credit facility.

Overall, for 2014 the focus for Cathedral will be the continuation of its U.S. expansion, increasing market share in Canada and its continuing review of all operating costs and selling, general and administrative expenditures with the goal of enhancing profitability.

RELATED PARTY TRANSACTIONS

A director of the Company is a partner in a law firm and, through that law firm, is involved in providing and managing the legal services provided to the Company at market rates. The total amount paid for these legal services in 2013 was \$77 (2012 - \$88).

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 2014 Q1 dividend in the amount of \$0.0825 per share which will have a date of record March 31, 2014 and a payment date of April 15, 2014.

RESULTS OF OPERATIONS – THREE MONTHS ENDED DECEMBER 31

Revenues and operating expenses

	2013 Q4	2012 Q4	\$ Change	% Change
Revenues	65,238	44,836	20,402	46%
Cost of sales	(56,816)	(37,535)	(19,281)	51%
Gross margin - \$	8,422	7,301	1,121	15%
Gross margin - %	12.9%	16.3%	-3.4%	
Adjusted gross margin - \$	13,474	12,444	1,030	8%
Adjusted gross margin - %	20.7%	27.8%	-7.1%	

Revenues	Three months ended December 31, 2013				Three months ended December 31, 2012			
	Directional drilling	Production testing	Resale and rental	Total	Directional drilling	Production testing	Resale and rental	Total
Canada	\$ 19,320	\$ 9,241	\$ -	\$ 28,561	\$ 16,777	\$ 6,791	\$ -	\$ 23,568
United States	23,536	7,150	-	30,686	12,682	6,391	-	19,073
International	-	-	5,991	5,991	-	-	2,195	2,195
Total	\$ 42,856	\$ 16,391	\$ 5,991	\$ 65,238	\$ 29,459	\$ 13,182	\$ 2,195	\$ 44,836

Revenues 2013 Q4 revenues were \$65,238 which represented an increase of \$20,402 or 46% from 2012 Q4 revenues of \$44,836. All areas were up on a year-over-year basis.

Canadian directional drilling revenues increased from \$19,320 in 2012 Q4 to \$16,777 in 2013 Q4; a 15% increase. This increase was the result of: i) an 18% increase in activity days from 1,425 in 2012 Q4 to 1,683 in 2013 Q4; net of ii) a 3% decrease in the average day rate from \$11,782 in 2012 Q4 to \$11,480 in 2013 Q4. The increase in Canadian activity days on quarter-over-quarter basis is due the Company's ability to replace work after one significant customer suspended drilling activity in late 2012 Q3 as well as work deferred from 2013 Q3. Canadian activity days in 2013 Q4 were expected to increase over 2013 Q3 levels but certain clients ceased their 2013 drilling programs earlier than expected; such work was deferred into 2014.

U.S. directional drilling revenues increased from \$12,682 in 2012 Q4 to a record level of \$23,536 in 2013 Q4; an 86% increase. This increase was the result of: i) a 60% increase in activity days from 1,266 in 2012 Q4 to 2,027 in 2013 Q4; and ii) a 16% increase in the average day rate from \$10,018 in 2012 Q4 to \$11,611 in 2013 Q4 (when converted to Canadian dollars). The increase in U.S. activity days were due to market share gains in the Texas region and to a lesser extent the Rocky Mountain area as well as expansion into Oklahoma (Oklahoma commenced operations in November 2012). The increased average day rate was due to increases that were achieved due to performance based pricing.

Canadian production testing revenues increased from \$6,791 in 2012 Q4 to \$9,241 in 2013 Q4; a 36% increase. The Canadian operating days were up in each month of the quarter compared to 2012. Canadian activity days increased as certain clients had deferred work from earlier in the year to 2013 Q4.

U.S. production testing revenues increased from \$6,391 in 2012 Q4 to \$7,150 in 2013 Q4; a 12% increase. This increase is attributable to having 3 additional units in 2013 Q4 versus 2012 Q4 and increased utilization of units. On a quarter-over-quarter basis revenue declined in 2013 Q4 compared to 2013 Q3 due to loss of a customer and another customer which had planned to have low activity levels in 2013 Q4. 2013 Q3 had established the record for divisional revenues.

The international resale and rental revenue relates to the resale of assets by Cathedral's subsidiaries to Vencana Servicios Petroleros, S.A. ("Vencana"). This amount includes only the portion of the resale revenue related to the other joint venture partner's share (60% of total selling price).

Gross margin and adjusted gross margin The gross margin for 2013 Q4 was 12.9% compared to 16.3% in 2012 Q4. Adjusted gross margin for 2013 Q4 was \$13,474 (20.7%) compared to \$12,444 (27.8%) for 2012 Q4. The decrease in adjusted gross margin of 7.1% was primarily due to increases in field labour costs, non-recoverable battery usage in directional drilling and equipment rentals.

In Canada directional drilling field labour rates have remained fairly constant with the prior year, but due to the decline in the average revenue day rate, the cost as percentage of revenue has increased. In U.S., the work performed in Oklahoma increased and it had higher per day labour costs relative to revenue levels. As activity levels increase in Oklahoma we are expecting to average these costs down with the mix of staff levels.

Depreciation allocated to cost of sales decreased slightly from \$5,071 in 2012 Q4 to \$5,036 in 2013 Q4. Depreciation included in cost of sales as a percentage of revenue was 7.7% for 2013 Q4 and 11.3% in 2012 Q4.

Selling, general and administrative expenses ("SG&A") SG&A expenses were \$6,719 in 2013 Q4; an increase of \$1,146 compared with \$5,573 in 2012 Q4. As a percentage of revenue, these costs were 10% in 2013 Q4 and 12% in 2012 Q4. Total non-cash expenses were a recovery of \$57 for 2013 Q4 and an expense of \$448 for 2012 Q4. In 2013 Q4, there was a non-recurring cost for severance in the amount of \$1,494. Excluding severance, SG&A, net of non-cash items, adjusted SG&A was \$5,282 in 2013 Q4 compared to \$5,125 in 2012 Q4, an increase of \$157. This increase was primarily due to increased wages; this increase was primarily related to staff additions for research and development department and staff positions added to accommodate current and future U.S. growth, net of decreases in variable compensation.

Gain on disposal of property and equipment During 2013 Q4 the Company had a gain on disposal of property and equipment of \$1,462 compared to \$957 in 2012 Q4. The Company's 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.

Additionally, in 2013 Q3 the Company completed the sale and leaseback of its Calgary and Nisku, Alberta land and buildings. In 2014 Q4, there was an adjustment to reduce the gain by \$460 due to costs incurred to complete renovations of the Nisku facility.

Write-down of investment in associate and related assets Subsequent to year-end, Cathedral decided to discontinue operations in Venezuela. Management determined the expected political, financial and operational risks do not warrant continuing to pursue business opportunities in Venezuela. Furthermore, management is of the belief there are greater growth opportunities in the North American market and particularly in the U.S. In 2013 Q4, the Company recorded a charge in the amount of \$13,066 related to the write-off of its investment in Vencana as well as certain assets located within Venezuela. Any proceeds with respect to the sale of its joint venture interest will be recorded on a cash received basis as a recovery of this write-down.

Foreign exchange loss The Company had foreign exchange loss of \$372 in 2013 Q4 compared to \$136 in 2012 Q4 due to the fluctuations in the Canadian dollar compared to U.S. dollars. 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 Q4 foreign currency gain are unrealized losses of \$336 (2012 Q4 - \$156) related to intercompany balances.

Finance costs Finance costs consist of interest expenses on operating loans, loans and borrowings and bank charges of \$661 for 2013 Q4 versus \$464 for 2012 Q4. The increase in finance costs relate mainly to an increased utilization of the Company's operating loan and to a lesser extent increases in interest rates.

Income tax For 2013 Q4, the Company had an income tax recovery of (\$146) compared to expense of \$456 in 2012 Q4. Included in the 2013 Q4 amount is an adjustment to prior year's deferred tax recovery of \$313. Due to the write-off of investment in associate in the quarter the effective tax rate is not meaningful and is not presented.

Net loss for 2013 Q4 was \$(11,248) (\$0.31 loss per share) compared to net earnings of \$1,578 (\$0.04 per share - diluted) in 2012 Q4.

SUMMARY OF QUARTERLY RESULTS

Three month periods ended	Dec 2013	Sep 2013	Jun 2013	Mar 2013	Dec 2012	Sep 2012	Jun 2012	Mar 2012
Revenues	\$ 65,238	\$ 59,734	\$ 45,639	\$ 54,074	\$ 44,836	\$ 49,830	\$ 40,699	\$ 67,829
EBITDAS ⁽¹⁾	\$ 8,124	\$ 10,757	\$ 5,342	\$ 8,592	\$ 8,296	\$ 10,538	\$ 2,068	\$ 19,922
EBITDAS ⁽¹⁾ per share - diluted	\$ 0.22	\$ 0.30	\$ 0.15	\$ 0.23	\$ 0.22	\$ 0.28	\$ 0.05	\$ 0.52
Net earnings (loss)	\$ (11,248)	\$ 7,956	\$ (309)	\$ 2,059	\$ 1,578	\$ 3,813	\$ (3,222)	\$ 12,628
Net earnings (loss) per share - basic	\$ (0.31)	\$ 0.22	\$ (0.01)	\$ 0.06	\$ 0.04	\$ 0.10	\$ (0.09)	\$ 0.34
Net earnings (loss) per share - diluted	\$ (0.31)	\$ 0.22	\$ (0.01)	\$ 0.06	\$ 0.04	\$ 0.10	\$ (0.09)	\$ 0.33
Dividends declared per share	\$ 0.0825	\$ 0.0750	\$ 0.0750	\$ 0.0750	\$ 0.0750	\$ 0.0750	\$ 0.0750	\$ 0.0750

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

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 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.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company's audited consolidated financial statements have been prepared in accordance with Generally Accepted Accounting Principles ("GAAP") and significant accounting policies utilized by the Company are described in note 3 to the Company's audited consolidated financial statements. Management believes the accounting principles selected are appropriate under the circumstances and the Audit Committee of the Company has approved the policies selected.

Under GAAP, the Company is required to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the audited consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The estimates and assumptions utilized are based on past experience and other information available to management at the time the estimate or assumption is made. The estimates and assumptions used by management are constantly evaluated for relevance under the circumstances and if circumstances on which the estimates or assumptions were based change, the impact is included in the results of operations for the period in which the change occurs. Management believes the estimates, judgments and assumptions involved in its financial reporting are reasonable.

The following accounting policies require management's more significant judgments and estimates in the preparation of the Company's audited consolidated financial statements, and as such, are considered to be critical.

Property and equipment Property and equipment are recorded at cost less accumulated depreciation. Depreciation is computed based upon the Company's depreciation policies (see note 3 to the audited consolidated financial statements). The depreciation policies selected are intended to depreciate the related property and equipment over their useful life. The use of different assumptions with regard to the useful life could result in different carrying amount for these assets as well as for depreciation expense.

Impairment of long-lived assets Property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value of assets may not be recoverable. In the assessment process management is required to make certain judgments, assumptions and estimates in identifying such events and changes in circumstances, and in assessing their impact on the valuations and economic lives of the affected assets. Impairments are recognized when the book values exceed management's estimate of the undiscounted future cash flows, or net recoverable amounts, associated with the affected assets.

Goodwill and intangibles The carrying value of goodwill and intangibles on acquisitions is compared to its fair value at least annually to determine if a permanent impairment exists, at which time the impairment would be recorded as a charge to earnings. Valuations are inherently subjective and necessarily involve judgments and estimates regarding future cash flows and other operational variables.

Income taxes The Company uses the asset and liability method of accounting for future income taxes whereby deferred income tax assets and liabilities are determined based on temporary differences between the accounting basis and the tax basis of the assets and liabilities, and are measured using substantively enacted tax rates and laws expected to apply when these differences reverse. As a result, a projection of taxable income is required for those years, as well as an assumption of the ultimate recovery/settlement period for the temporary differences.

The business and operations of the Company are complex and the Company has executed a number of significant financings, reorganizations, acquisitions and other material transactions over the course of its history. The computation of income taxes payable as a result of these transactions involves many complex factors as well as the Company's interpretation of relevant tax legislation and regulations. The Company's management believes that the provision for income tax is adequate and in accordance with GAAP and applicable legislation and regulations. However, tax filing positions are subject to review by taxation authorities who may successfully challenge the Company's interpretation of the applicable tax legislation and regulations.

Share-based compensation Share-based compensation is calculated using the fair value method based upon the Black-Scholes model. In order to establish fair value, estimates and assumptions are used to determine risk-free interest rate, expected term, anticipated volatility, anticipated forfeiture rate and anticipated dividend yield. The use of different assumptions could result in different book values for share-based compensation.

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, 2014. The Company has reviewed these and determined that the following may have an impact on the Company:

In May 2013, the IASB issued amendments to IAS 36 "Impairment of Assets" which reduces the circumstances in which the recoverable amount of CGUs is required to be disclosed and clarify the disclosures required when an impairment loss has been recognized or reversed in the period. The amendments are required to be adopted retrospectively for fiscal years beginning January 1, 2014, with earlier adoption permitted. These amendments have been adopted by Cathedral in these financial statements. The application of the amendment had no impact on any of the Company's Financial Statements.

The IASB has undertaken a three-phase project to replace IAS 39 "Financial Instruments: Recognition and Measurement" with IFRS 9 "Financial Instruments." In November 2009, the IASB issued the first phase of IFRS 9, which details the classification and measurement requirements for financial assets. Requirements for financial liabilities were added to the standard in October 2010. The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value.

In November 2013, the IASB issued the third phase of IFRS 9 which details the new general hedge accounting model. Hedge accounting remains optional and the new model is intended to allow reporters to better reflect risk management activities in the financial statements and provide more opportunities to apply hedge accounting. Cathedral does not employ hedge accounting.

In July 2013, the IASB deferred the mandatory effective date of IFRS 9 and has left this date open pending the finalization of the impairment and classification and measurement requirements. IFRS 9 is still available for early adoption. The full impact of the standard on the financial statements will not be known until the project is complete.

CONTROLS AND PROCEDURES

In order to ensure that information with regard to reports filed or submitted under securities legislation present fairly in all material respect the financial information of the Company, management including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") are responsible for establishing and maintaining disclosure controls and procedures, as well as internal controls over financial reporting.

Disclosure controls and procedures The Company's disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Company is reported within the time periods specified under securities laws, and include controls and procedures that are designed to ensure that information is communicated to management of the Company, including the CEO and CFO, to allow timely decisions regarding required disclosure. An evaluation of the effectiveness of the Company's disclosure controls and procedures (as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual Financial and Interim Filings) was conducted as at December 31, 2013. Based on this evaluation, the CEO and CFO of Cathedral have concluded that the design and operation of the Company's disclosure controls and procedures were effective as at December 31, 2013.

Internal controls over financial reporting Management is responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The CEO and CFO have designed or have caused such internal controls over financial reporting (as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual Financial and Interim Filings) to be designed under their supervision to provide reasonable assurance regarding the reliability of financial reporting and preparation of the Company's financial statements for external purposes in accordance with GAAP. In addition, the CEO and CFO directed the assessment of the design and operating effectiveness of the Company's internal controls over financial reporting as at December 31, 2013 and based upon that assessment determined that the Company's internal controls over financial reporting were, in all material respects, appropriately designed and operating effectively.

Management of the Company believe that "cost effective" disclosure controls and procedures and internal controls over financial reporting, no matter how well conceived or implemented, can only provide reasonable assurance, and not absolute assurance, that the objective of controls and procedures are met. Because of inherent limitations, disclosure controls and procedures and internal control over financial reporting may not prevent errors or fraud.

There has been no change in the Company's internal controls over financial reporting during the year ended December 31, 2013 that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

RISK FACTORS

Crude Oil and Natural Gas Prices Demand for the services provided by Cathedral is directly impacted by the prices that Cathedral's customers receive for the crude oil and natural gas they produce and the prices received has a direct correlation to the cash flow available to invest in drilling activity and other oilfield services. The markets for oil and natural gas are separate and distinct. Oil is a global commodity with a vast distribution network. As natural gas is most economically transported in its gaseous state via pipeline, its market is dependent on pipeline infrastructure and is subject to regional supply and demand factors. However, recent developments in the transportation of liquefied natural gas ("LNG") in ocean going tanker ships have introduced an element of globalization to the natural gas market. Crude oil and natural gas prices are quite volatile, which accounts for much of the cyclical nature of the oilfield services business. Since 2012, Canadian oil producers experienced a widening of the price they realized on a per barrel basis of oil versus "world" prices such as West Texas Intermediate. This "differential" is largely attributable to the lack of pipeline or other transportation capacity to move the oil to the U.S. market as well as the fact that the U.S. is now producing record levels of oil and therefore relying less on imported oil to meet demand. World crude oil prices and North American natural gas prices, including LNG, are not subject to control by Cathedral. With that in mind, Cathedral attempts to partially manage this risk by way of maintaining a low cost structure and a variable cost structure that can be adjusted to reflect activity levels. A significant portion of Cathedral's fieldwork is performed by sub-contractors and staff paid on a day rate basis which allows us to operate with lower fixed overhead costs in seasonally low activity periods as well as extended downturns in the oilfield services sector.

Take Away Capacity for Cathedral's Customers Cathedral's customers rely on various transportation methods to deliver the produced oil and natural gas to the end market including: pipelines, truck and railway. If such take away capacity becomes full and incremental capacity is not added, the production of hydrocarbons may be impacted and certain wells may be shut in. This could have a material adverse effect on Cathedral's business operations, financial condition, results of operations, cash flow and the ability to pay dividends to Shareholders.

Alternatives to and Changing Demand for Hydrocarbon Products Fuel conservation measures, alternative fuel requirements, increasing consumer demand for alternatives to oil and natural gas, and technological advances in fuel economy and energy generation devices could reduce the demand for crude oil and other liquid hydrocarbons. The Company cannot predict the impact of changing demand for oil and natural gas products, and any major changes may have a material adverse effect on the Cathedral's business, financial condition, results of operations and cash flows and therefore on the dividends declared on the common shares.

Cash Dividends to Shareholders are Dependent on the Performance of Cathedral

Cathedral's ability to make dividend payments to shareholders is dependent upon the operations and business of Cathedral. There is no assurance regarding the amounts of cash that may be available from Cathedral's operations and business that could be available to fund future dividends or if dividends will be declared at all. The actual amount of any dividends will depend on a variety of factors, including without limitation, the 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, future growth capital expenditures, effect of acquisitions or dispositions on Cathedral's business, and other factors that may be beyond the control of Cathedral or not anticipated by management of Cathedral. In the event significant cash requirements are necessary for non-dividend purposes or the profitability of Cathedral declines, there would be a decrease in the amount of cash available for dividends to shareholders and such decrease could be material.

Cathedral's dividend policy is subject to change at the discretion of its Board of Directors. In addition, Cathedral's credit facility covenants include restrictions on the payment of cash dividends if Cathedral is not in compliance with debt covenants.

Performance of Obligations

The Corporation's success depends in large part on whether it fulfills its obligations with clients and maintains client satisfaction. If Cathedral fails to satisfactorily perform its obligations, or makes professional errors in the services that it provides, its clients could terminate working relationships, including master service agreements, exposing Cathedral to loss of its professional reputation and risk of loss or reduced profits, or in some cases, the loss of a project. Typically, Cathedral's master service agreements do not contain any guaranteed payments and are cancellable on 30 days' notice.

Access to Capital

The credit facilities of Cathedral contain covenants that require it to meet certain financial tests and that restrict, among other things, the ability of Cathedral to incur additional debt, make significant acquisitions, dispose of assets or pay dividends in certain circumstances. To the extent the cash flow from operations is not adequate to fund Cathedral's cash requirements and therefore external financing may be required. Lack of timely access to such additional financing, or which may not be on favorable terms, could limit the future growth of the business of Cathedral and, potentially have a material adverse effect on the amount of cash available for dividends. To the extent that external sources of capital, including public and private markets, become limited or unavailable, Cathedral's ability to make the necessary capital investments to maintain or expand its current business and to make necessary principal payments under its credit facility may be impaired.

Forward-looking Information May Prove Inaccurate

Numerous statements containing forward-looking information are found in this MD&A, documents incorporated by reference herein and other documents forming part of Cathedral's public disclosure record. Such statements and information are subject to risks and uncertainties and involve certain assumptions, some, but not all, of which are discussed elsewhere in this document. The occurrence or non-occurrence, as the case may be, of any of the events described in such risks could cause actual results to differ materially from those expressed in the forward-looking information.

Tax Related Risks Associated with the Conversion

The Company was created as a result of the conversion of Cathedral Energy Services Income Trust (the "Trust") to a corporation pursuant to a plan of arrangement ("Plan of Arrangement") under the Income Tax Act of Canada (the "Tax Act"), entered into by various entities including the Trust, Cathedral Energy Services Ltd. ("CES") and SemBioSys Genetics Inc. ("SBS") (the "Reorganization"). The steps under the Plan of Arrangement pursuant to which the conversion was completed, were structured to be tax-deferred to the entities within the Trust's structure and Trust unit holders based on certain rules under the Tax Act. During 2013, Canada Revenue Agency ("CRA") has requested information relating to the Plan of Arrangement involving Cathedral and SBS that was completed in December 2009. For clarity, at this time, CRA has only requested information from Cathedral and has not issued a reassessment of Cathedral's tax filings nor has it proposed to issue a reassessment. Cathedral remains confident in the appropriateness of its tax-filing position and the expected tax consequences of the conversion and intends to defend such position vigorously if a notice of reassessment is received from CRA. Cathedral strongly believes that the general anti-avoidance rule does not apply to the conversion and intends to file its future tax returns on a basis consistent with its view of the outcome of the conversion. While Cathedral is confident in the appropriateness of its tax-filing position and the expected tax consequences of the arrangement and the conversion transaction, there remains a possibility that, if CRA elects to challenge Cathedral tax filings and such challenge is successful, it could potentially negatively affect the availability or quantum of the tax losses or other tax accounts of Cathedral. If, at some point, Cathedral receives such a reassessment, to appeal it Cathedral will be required to make a payment of 50% of the taxes CRA claims are owed for such years. Based on Cathedral's 2009 to 2013 taxation years, that 50% amount is approximately \$3.3 million. Cathedral could also be required to make a payment of 50% of the taxes CRA claims are owed in any future tax year if CRA issues a similar notice of reassessment for such years and Cathedral appeals it. If Cathedral is ultimately successful in defending its position, such payments, plus applicable interest, will be refunded to Cathedral. If CRA is successful, Cathedral will be required to pay the balance of the taxes claimed plus applicable interest.

Interest Rates

Cathedral's operating loan and revolving term loan bear interest at a floating interest rate and, therefore, to the extent Cathedral borrows under this facility, is at risk of rising interest rates. Management continually monitors interest rates and would consider locking in the rate of its term debt.

Debt Service

Cathedral has a secured credit facility with a major Canadian bank in the amount of \$75 million (\$20 million demand operating loan and a \$55 million revolving term loan). Although it is believed that the credit facility is sufficient, there can be no assurance that the amount will be adequate for the financial obligations of Cathedral. As well, if Cathedral requires additional financing such financing may not be available or, if available, may not be available on favorable terms. Cathedral's lender has been provided with security over substantially all of the assets of Cathedral. The credit facility is subject to an annual renewal and there is no assurance the current lender will renew the existing credit facility. Even if the credit facility is renewed it may only be renewable upon unfavorable terms including, but not limited to, an increase interest rate margin, more stringent debt covenants, reduction in the credit amount available and additional loan fees.

Additional Shares

If the Board of Cathedral decides to issue additional common shares, preferred shares or securities convertible into common shares, existing shareholders may suffer significant dilution.

Unpredictability and Volatility of Share Price

The prices at which the common shares trade cannot be predicted. The market price of the common shares could be subject to significant fluctuations in response to variations in quarterly operating results and other factors. The annual yield on the common shares as compared to the annual yield on other financial instruments may also influence the price of common shares in the public trading markets. An increase in prevailing interest rates will result in higher yield on other financial instruments, which could adversely affect the market price of the common shares.

In addition, the securities markets have experienced significant market wide and sectorial price and volume fluctuations from time to time that often have been unrelated or disproportionate to the operating performance of particular issuers. Such fluctuations may adversely affect the market price of the common shares.

Income Tax Matters

The business and operations of Cathedral are complex and Cathedral and its predecessors have executed a number of significant financings, reorganizations, acquisitions and other material transactions over the course of its history. The computation of income taxes payable as a result of these transactions involves many complex factors as well as Cathedral's interpretation of relevant tax legislation and regulations. Cathedral's management believes that the provision for income tax is adequate and in accordance with generally accepted accounting principles and applicable legislation and regulations. However, tax filing positions are subject to review by taxation authorities who may successfully challenge Cathedral's interpretation of the applicable tax legislation and regulations.

Key Personnel and Employee/Sub-contractor Relationships Shareholders must rely upon the ability, expertise, judgment, discretion, integrity and good faith of the management of Cathedral. The success of Cathedral is dependent upon its personnel and key sub-contractors. The unexpected loss or departure of any of Cathedral's key officers, employees or sub-contractors could be detrimental to the future operations of Cathedral. Cathedral does not maintain key man insurance on any of its officers. The success of Cathedral's business will depend, in part, upon Cathedral's ability to attract and retain qualified personnel as they are needed. Additionally, the ability of Cathedral to expand its services is dependent upon its ability to attract additional qualified employees. Historically, Cathedral has not had any significant issues with respect to attracting and the retention of quality office, shop and field staff. During high levels of activity, attracting quality staff can be challenging due to competition for such services. Cathedral provides its staff with a quality working environment, effective training, tools with current technology and competitive remuneration packages that allows it to attract and retain the quality of its workforce, whether in the field, shop or office. There can be no assurance that Cathedral will be able to engage the services of such personnel or retain its current personnel.

Competition The oil and natural gas service industry in which Cathedral and its operating entities conduct business is highly competitive. Cathedral competes with other more established companies which have greater financial, marketing and other resources and certain of which are large international oil and natural gas service companies which offer a wider array of oil and natural gas services to their clients than does Cathedral.

Access to Parts, Consumables and Technology and Relationships with Key Suppliers The ability of Cathedral to compete and expand will be dependent on Cathedral having access, at a reasonable cost, to equipment, parts and components, which are at least technologically equivalent to those utilized by competitors and to the development and acquisition of new competitive technologies. Failure by Cathedral to do so could have a material adverse effect on Cathedral's business, financial condition, results of operations and cash flow and therefore on Cathedral's ability to pay dividends. Cathedral's equipment may become obsolete or experience a decrease in demand due to competing products that are lower in cost, have enhanced performance capabilities or are determined by the market to be more preferable for environmental or other reasons. Although Cathedral has very good relationships with its key suppliers, there can be no assurances that those sources of equipment, parts, components or relationships with key suppliers will be maintained. If these are not maintained, Cathedral's ability to compete may be impaired. If the relationships with key suppliers come to an end, the availability and cost of securing certain parts, components and equipment may be adversely affected. In addition, Cathedral competes with other more established companies which have greater financial resources to develop new technologies.

Technology The success and ability of Cathedral to compete depends in part on the technologies that it brings to the market, and the ability of Cathedral to prevent others from copying such technologies. Cathedral currently relies on industry confidentiality practices ("trade secrets"), including entering into industry standard confidentiality agreements and in some cases patents (or patents pending) to protect its proprietary technology. Cathedral may have to engage in litigation in order to protect its intellectual property rights, including patents or patents pending, or to determine the validity or scope of the proprietary rights of itself or others. This kind of litigation can be time-consuming and expensive, regardless of whether or not Cathedral is successful.

Despite efforts of Cathedral, the intellectual property rights of Cathedral may be invalidated, circumvented, challenged, infringed or required to be licensed to others. It cannot be assured that any steps Cathedral may take to protect its intellectual property rights and other rights to such proprietary technologies that are central to Cathedral's operations will prevent misappropriation or infringement.

Competitors may also develop similar tools, equipment and technology to ours thereby adversely affecting our competitive advantage in one or more of our businesses. Additionally, there can be no assurance that certain tools, equipment or technology developed by us may not be the subject of future patent infringement claims or other similar matters which could result in litigation, the requirement to pay licensing fees or other results that could have a material adverse effect on our business, results of operations and financial condition.

Potential Replacement or Reduced Use of Products and Services Certain of our equipment or systems may become obsolete or experience a decrease in demand through the introduction of competing products that are lower in cost, exhibit enhanced performance characteristics or are determined by the market to be more preferable for environmental or other reasons. We will need to keep current with the changing market for oil and natural gas services and technological and regulatory changes. If we fail to do so, this could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Operating Risks and Insurance Cathedral has an insurance and risk management plan in place to protect its assets, operations and employees. Cathedral also has programs in place to address compliance with current safety and regulatory standards. Cathedral has a corporate safety manager responsible for maintaining and developing policies and monitoring operations vis-a-vis those policies. However, Cathedral's oilfield services are subject to risks inherent in the oil and gas industry, such as equipment defects, malfunctions, failure, natural disasters and errors by staff. These risks could expose Cathedral to substantial liability for personal injury, loss of life, business interruption, property damage or destruction, pollution and other environmental damages. In addition, Cathedral's operating activities includes a significant amount of transportation and therefore is subject to the inherent risks including potential liability which could result from, among other things, personal injury, loss of life or property damage derived from motor vehicle accidents. Cathedral carries insurance to provide protection in the event of destruction or damage to its property and equipment, subject to appropriate deductibles and the availability of coverage. Liability insurance is also maintained at prudent levels to limit exposure to unforeseen incidents. An annual review of insurance coverage is completed to assess the risk of loss and risk mitigation alternatives. It is anticipated that insurance coverage will be maintained in the future, but there can be no assurance that such insurance coverage will be available in the future on commercially reasonable terms or be available on terms as favorable as Cathedral's current arrangements. The occurrence of a significant event outside of the coverage of Cathedral's insurance policies could have a material adverse effect on the results of the organization.

Business continuity, disaster recovery and crisis management Inability to restore or replace critical capacity in a timely manner may impact business and operations. A serious event could have a material adverse effect on Cathedral's business, results of operations and financial condition. This risk is mitigated by the development of business continuity arrangements, including disaster recovery plans and back-up delivery systems, to minimize any business disruption in the event of a major disaster. Insurance coverage may minimize any losses in certain circumstances.

Risks of Foreign Operations Cathedral is in the process of discontinuing operations in Venezuela which were to be provided through a joint venture with a wholly-owned subsidiary of PDVSA, the state-owned oil and natural gas corporation of the Bolivarian Republic of Venezuela. The joint venture company, Vencana, is owned 60% by the PDVSA wholly-owned subsidiary and 40% by Cathedral's wholly-owned subsidiary, Directional Plus International Ltd. Carrying on business outside of Canada gives rise to the risk of dealing with business and political systems that are different than Cathedral is accustomed to in Canada. Prior to the decision to discontinuing operations in Venezuela, there had been delays in the formation of the joint venture company as well as the execution of various operational agreements which have prevented the commencement of operations in Venezuela. These delays have been out of the control of Cathedral. As well, in recent history, PDVSA has been late in paying its bills as they come due. There are risks inherent in the basic "joint venture" structure in that business decisions require both parties to the joint venture, Cathedral and PDVSA, to agree on key business decisions. There may be times when Cathedral and PDVSA do not agree on key business decisions including the sale of Cathedral's interest in Vencana or a wind up of Vencana and this may result in consequences that are detrimental to Cathedral. To assist in mitigating risks associated with foreign expansion, Cathedral is committed to continuing expansion of its North American market. Potential risks associated with foreign operations, in addition to those noted above, include: trade and economic sanctions or other restrictions imposed by the Canadian government or other governments or organizations, expropriation or nationalization; terrorist threats; civil

insurrection; labour unrest; strikes and other political risks; fluctuation in foreign currency and exchange control; foreign currency devaluations; increases in duties and taxes; and changes in laws and policies governing operations of foreign based companies. At December 31, 2013, Cathedral's has recorded a write-down its investment in Vencana and certain assets located in Venezuela in the amount of \$13,066. Cathedral will attempt to sell its interest in Vencana and any proceeds with respect to the sale of its joint venture interest will be recorded on a cash received basis as a recovery of this write-down.

Weather and Seasonality A significant portion of Cathedral'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 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.

Foreign Currency Exchange Rates Cathedral derives revenues from the U.S. which are denominated in the local currency. This causes a degree of foreign currency exchange rate risk which Cathedral attempts to mitigate by matching local purchases in the same currency. Furthermore, Cathedral's Canadian operations are subject to foreign currency exchange rate risk in that some purchases for parts, supplies and components in the manufacture of equipment are denominated in U.S. dollars. In addition to foreign currency risk associated with U.S. dollar, Cathedral is also exposed to foreign currency fluctuations in relation to Venezuelan Bolivar but exposure will decrease as Cathedral winds up its Venezuelan operations. In the recent past (2010, 2012 and again in early 2014), the Venezuelan government has devalued the Venezuelan Bolivar relative to its benchmark currency the U.S. dollar. Cathedral's foreign currency policy is to monitor foreign current risk exposure in its areas of operations and mitigate that risk where possible by matching foreign currency denominated expense with revenues denominated in foreign currencies. Cathedral strives to maintain limited amounts of cash and cash equivalents denominated in foreign currency on hand and attempts to further limit its exposure to foreign currency through collecting and paying foreign currency denominated balance in a timely fashion. Specifically with respect to the foreign exchange risk, including currency controls associated with the Venezuelan Bolivar, Cathedral's has to the extent possible denominated Venezuelan contracts in U.S. dollars.

In addition, Cathedral is exposed to currency exchange risk on those of our assets denominated in U.S. dollars and Venezuelan Bolivar. Since Cathedral presents its financial statements in Canadian dollars, any change in the value of the Canadian dollar relative to the U.S. dollar, and to a lesser extent, Venezuelan Bolivar, during a given financial reporting period would result in a foreign currency loss or gain on the translation of its assets measured in other currencies into Canadian dollars. Consequently, Cathedral's reported earnings could fluctuate materially as a result of foreign exchange translation gains or losses. Other than natural hedges arising from the normal course of business in foreign jurisdictions, Cathedral does not currently have any hedging positions.

Acquisitions and Development Risks Cathedral expects to continue to selectively seek strategic acquisitions. Cathedral's ability to consummate and to integrate effectively any future acquisitions on terms that are favourable to it may be limited by the number of attractive acquisition targets, internal demands on Cathedral's resources, and to the extent necessary, Cathedral's ability to obtain financing on satisfactory terms for larger acquisitions, if at all. Acquisitions may expose Cathedral to additional risks, including: difficulties in integrating administrative, financial reporting, operational and information systems and managing newly-acquired operations and improving their operating efficiency; difficulties in maintaining uniform standards, controls, procedures and policies through all of Cathedral's operations; entry into markets in which Cathedral has little or no direct prior experience; difficulties in retaining key employees of the acquired operations; disruptions to Cathedral's ongoing business; and diversion of management time and resources.

Implementing Strategy In implementing its strategy, Cathedral may pursue new business opportunities or growth opportunities in new geographic markets and may not be successful in implementing those opportunities. Cathedral may have difficulty executing the strategy because of, among other things, increased global competition, difficulty entering new markets, ability to attract qualified personnel, barriers to entry into geographic markets, and changes in regulatory requirements.

Credit Risk All of Cathedral's accounts receivables are with customers involved in the oil and natural gas industry, whose revenue may be impacted by fluctuations in commodity prices. Although collection of these receivables could be influenced by economic factors affecting this industry and thereby have a materially adverse effect on operations, management considers risk of significant loss to be minimal at this time. To mitigate this risk, Cathedral's customers are subject to an internal credit review along with ongoing monitoring of the amount and age of receivables balances outstanding.

Reliance on Major Customers Management of Cathedral believes it currently has a good mix of customers with only one customer accounting for revenues in excess of 10% (at 15% of Cathedral's consolidated revenues for 2013; 2012 one customer at 14%). While Cathedral believes that its relationship with existing customers is good, the loss of any one or more of these customers, or a significant reduction in business done with Cathedral by one or more of these customers, if not offset by sales to new or existing customers, could have a material adverse effect on Cathedral's business, results of operations and prospects and therefore on the ability to pay dividends to shareholders. Mergers and acquisitions activity in the oil and natural gas exploration and production sector can impact demand for our services as customers focus on internal reorganization prior to committing funds to significant oilfield services. In addition, demand for Cathedral's services could be negatively affected in that upon completion, the merger and acquisitions customers may re-direct their work to Cathedral's competitors.

Environmental Risks Cathedral is subject to various environmental laws and regulations enacted in the jurisdictions in which it operates which govern the manufacture, processing, importation, transportation, handling and disposal of certain materials used in Cathedral's operations. Cathedral has established procedures to address compliance with current environmental laws and regulations and monitors its practices concerning the handling of environmentally hazardous materials. However, there can be no assurance that Cathedral's procedures will prevent environmental damage occurring from spills of materials handled by Cathedral or that such damage has not already occurred. On occasion, substantial liabilities to third parties may be incurred. Cathedral may have the benefit of insurance maintained by it or the operator; however Cathedral may become liable for damages against which it cannot adequately insure or against which it may elect not to insure because of high costs or other reasons.

There is growing concern about the apparent connection between the burning of fossil fuels and climate change. The issue of energy and the environment has created intense public debate in Canada, the U.S. and around the world in recent years that is likely to continue for the foreseeable future and could potentially have a significant impact on all aspects of the economy including the demand for hydrocarbons and resulting in lower demand for Cathedral's services. There can be no assurance that the provincial, state and local governments or the Federal Governments of Canada and U.S. and other jurisdictions in which Cathedral enters into to provide its services will not adopt new environmental regulations, rules or legislation or make modifications to existing regulations, rules or legislation which could increase costs paid by Cathedral's customers. An increase in environmental related costs could reduce Cathedral's customers' earnings and/or it could make capital expenditures by Cathedral's customers uneconomic. The Canadian Federal Government has announced its intention to regulate greenhouse gases ("GHG") and other air pollutants. The Government is currently developing a framework that outlines its clean air and climate change action plan. As this federal program is under development, Cathedral is unable to predict the total impact of the potential regulations upon its business. It is possible that Cathedral's customers could face increases in operating costs in order to comply with GHG emissions legislation which could have the effect of curtailing exploration and development by oil and natural gas producers and that in turn, could adversely affect Cathedral's operations by reducing demand for its services.

Government Regulation The oil and natural gas industry in Canada and the U.S. is subject to federal, provincial, state and municipal legislation and regulation governing such matters as land tenure, commodity prices, production royalties, production rates, environmental protection controls, the exportation of crude oil, natural gas and other products, as well as other matters. The industry is also subject to regulation by governments in such matters, including laws and regulations relating to health and safety, the conduct of operations, the protection of the environment and the manufacture, management, transportation, storage and disposal of certain materials used in Cathedral's operations.

Government regulations may change from time to time in response to economic or political conditions. The exercise of discretion by governmental authorities under existing regulations, the implementation of new regulations or the modification of existing regulations affecting the crude oil and natural gas industry could reduce demand for Cathedral's services or increase its costs, either of which could have a material adverse impact on Cathedral.

There can be no assurance that the provincial, state and local governments or the Federal Governments of Canada and U.S. and other jurisdictions in which Cathedral enters into to provide its services will not adopt a new royalty regime or modify the methodology of royalty calculation which could increase the royalties paid by Cathedral's customers. An increase in royalties could reduce Cathedral's customers' earnings and/or it could make capital expenditures by Cathedral's customers uneconomic. Although Cathedral is not a direct investor in the oil and natural gas market, it does affect Cathedral's customers' cash flow available to invest in drilling activity and other oilfield services.

Conflict of Interest Certain directors and officers of Cathedral are also directors and/or officers of oil and natural gas exploration and/or production entities and conflicts of interest may arise between their duties as officers and directors of Cathedral and as officers and directors of such other companies. Such conflicts must be disclosed in accordance with, and are subject to such other procedures and remedies as apply under the ABCA.

Legal Proceedings Cathedral is involved in litigation from time to time in the ordinary course of business. Although Cathedral is not currently a party to any material legal proceedings, legal proceedings could be filed against Cathedral in the future. No assurance can be given as to the final outcome of any legal proceedings or that the ultimate resolution of any legal proceedings will not have a materially adverse effect on Cathedral.

GOVERNANCE

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

SUPPLEMENTARY INFORMATION

Additional information regarding the Company, including the Annual Information Form ("AIF"), is available on SEDAR at www.sedar.com.

NON-GAAP MEASUREMENTS

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

The specific measures being referred to include the following:

- i) "Adjusted gross margin" - calculated as gross margin plus non-cash items (depreciation and share-based compensation); is considered a primary indicator of operating performance (see tabular calculation);
- ii) "Adjusted gross margin %" - calculated as adjusted gross margin divided by revenues; is considered a primary indicator of operating performance (see tabular calculation);
- iii) "EBITDAS" - defined as earnings before share of income/loss from associate, finance costs, unrealized foreign exchange on intercompany balances, unrealized foreign exchange due to hyper-inflation accounting, taxes, non-recurring gains and losses on disposal of property and equipment (see non-GAAP measurement), depreciation and share-based compensation plus dividends from associate; is considered an indicator of the Company's ability to generate funds flow from operations prior to consideration of how activities are financed, how the results are taxed and measured and non-cash expenses (see tabular calculation);
- iv) "Funds from continuing 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 from customers. Such additions do not provide incremental revenues. The identification of replacement property and equipment additions is considered important as such additions are financed by way of proceeds on disposal of property and equipment (see discussion within the MD&A on "gain on disposal of property and equipment");
- viii) "Infrastructure property and equipment additions" or "Infrastructure capital" – is capital spending incurred on land, buildings and leasehold improvements. Infrastructure capital is a component in understanding the sustainability of the Company's business as cash resources retained within Cathedral must be sufficient to meet maintenance capital needs;
- ix) "Non-recurring gains and losses on disposal of property and equipment" – are disposals of property and equipment that do not occur on a regular or periodic basis. Unlike the lost-in-hole recoveries the proceeds from these gains are not used on equivalent replacement property. These are often on non-field equipment such as land and buildings;

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

xi) "Borrowing capacity" - is total available credit facility less drawings on credit facilities; and

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

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

Adjusted gross margin

	Three months ended December 31		Year Ended December 31	
	2013	2012	2013	2012
Gross margin	\$ 8,422	\$ 7,301	\$ 32,375	\$ 38,491
Add non-cash items included in cost of sales:				
Depreciation	5,036	5,071	19,270	18,479
Share-based compensation	16	72	177	287
Adjusted gross margin	\$ 13,474	\$ 12,444	\$ 51,822	\$ 57,257
Adjusted gross margin %	20.7%	27.8%	23.1%	28.2%

EBITDAS

	Three months ended December 31		Year Ended December 31	
	2013	2012	2013	2012
Earnings (loss) before income taxes	\$ (11,394)	\$ 2,034	\$ 1,114	\$ 20,381
Add (deduct):				
Depreciation included in cost of sales	5,036	5,071	19,270	18,479
Depreciation included in selling, general and administrative expenses	70	164	557	642
Share-based compensation included in cost of sales	16	72	177	287
Share-based compensation included in selling, general and administrative expenses	(127)	284	335	1,054
Non-recurring (gain) loss on disposal of property and equipment	460	-	(4,894)	(2,034)
Write-down of investment in associate and related assets	13,066	-	13,066	-
Unrealized foreign exchange (gain) loss on intercompany balances	336	156	670	(77)
Finance costs	661	464	2,516	2,041
Share of loss from associate	-	51	4	51
EBITDAS	\$ 8,124	\$ 8,296	\$ 32,815	\$ 40,824

Funds from continuing operations

	Three months ended December 31		Year ended December 31	
	2013	2012	2013	2012
Cash flow from operating activities	\$ 6,077	\$ 4,094	\$ 14,026	\$ 60,811
Add (deduct):				
Changes in non-cash operating working capital	(261)	2,694	10,082	(27,724)
Income taxes paid	846	551	3,855	3,350
Current tax expense	(262)	(753)	(2,604)	(3,167)
Funds from continuing operations	\$ 6,400	\$ 6,586	\$ 25,359	\$ 33,270

MANAGEMENT'S REPORT

The consolidated financial statements have been prepared by the management in accordance with International Financial Reporting Standards which now are the basis for Canadian generally accepted accounting principles and, where appropriate, reflect estimates based upon management's judgment. Financial information contained elsewhere in the annual report has been prepared on a consistent basis with that in the consolidated financial statements.

Management is also responsible for a system of internal controls which is designed to provide reasonable assurance that the Company's assets are safeguarded and accounting systems provide timely, accurate financial reports.

The Audit Committee of the Board of Directors has reviewed in detail the consolidated financial statements with management and the external auditor. The Board of Directors has approved the consolidated financial statements on the recommendation of the Audit Committee.

KPMG LLP, an independent firm of chartered accountants, have examined the Company's consolidated financial statements in accordance with Canadian generally accepted auditing standards and provided an independent professional opinion. The auditors have full and unrestricted access to the Audit Committee to discuss their audit and their related findings as to the integrity of the financial reporting process.

Signed: "*P. Scott MacFarlane*"

P. Scott MacFarlane

President, Chief Executive Officer and Interim Chief Financial Officer

Signed: "*Randy H. Pustanyk*"

Randy H. Pustanyk,

Executive Vice President and Chief Operating Officer

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Cathedral Energy Services Ltd.:

We have audited the accompanying consolidated financial statements of Cathedral Energy Services Ltd., which comprise the consolidated statements of financial position as at December 31, 2013, and December 31, 2012, the consolidated statements of comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Cathedral Energy Services Ltd. as at December 31, 2013, and December 31, 2012, and the results of its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2013 and December 31, 2012 in accordance with International Financial Reporting Standards.

Signed: "KPMG LLP"

Calgary, Canada

March 5, 2014

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31, 2013 and 2012

Dollars in '000s

	December 31 2013	December 31 2012
Assets		
Current assets:		
Cash and cash equivalents (notes 5 and 25)	\$ 289	\$ 8,470
Trade receivables (note 6)	46,400	36,094
Current taxes recoverable	1,473	153
Prepaid expenses and deposits	3,334	10,419
Inventories (note 7)	13,913	13,006
Total current assets	65,409	68,142
Property and equipment (note 8)	123,487	135,093
Intangible assets (note 9)	1,474	719
Deferred tax assets (note 10)	9,157	9,379
Investment in associate (note 11)	-	4,899
Goodwill (note 9)	5,848	5,848
Total non-current assets	139,966	155,938
Total assets	\$ 205,375	\$ 224,080
Liabilities and Shareholders' Equity		
Current liabilities:		
Operating loans (note 12)	\$ 10,119	\$ 880
Trade and other payables (note 13)	22,236	21,773
Dividends payable	2,984	2,768
Loans and borrowings (note 14)	722	711
Deferred revenue	3,317	12,837
Total current liabilities	39,378	38,969
Loans and borrowings (note 14)	38,462	46,151
Deferred tax liabilities (note 10)	923	1,028
Total non-current liabilities	39,385	47,179
Total liabilities	78,763	86,148
Shareholders' equity:		
Share capital (note 15)	73,850	74,408
Contributed surplus	9,065	8,863
Accumulated other comprehensive income (loss)	1,239	(2,679)
Retained earnings	42,458	57,340
Total shareholders' equity	126,612	137,932
Total liabilities and shareholders' equity	\$ 205,375	\$ 224,080

See accompanying notes to consolidated financial statements.

Approved by the Directors:

Signed: "P. Scott MacFarlane"

P. Scott MacFarlane

Director

Signed: "Rod Maxwell"

Rod Maxwell

Director

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years ended December 31, 2013 and 2012

Dollars in '000s except per share amounts

	December 31 2013	December 31 2012
Revenues (note 20)	\$ 224,685	\$ 203,194
Cost of sales (note 17):		
Direct costs	(172,863)	(145,902)
Depreciation	(19,270)	(18,479)
Share-based compensation	(177)	(322)
Total cost of sales	(192,310)	(164,703)
Gross margin	32,375	38,491
Selling, general and administrative expenses (note 17):		
Direct costs	(23,777)	(21,012)
Depreciation	(557)	(642)
Share-based compensation	(335)	(1,054)
Total selling, general and administrative expenses	(24,669)	(22,708)
	7,706	15,783
Gain on disposal of property and equipment	4,852	6,421
Gain on sale of land and buildings (note 8)	4,894	-
Write-down of investment in associate and related assets (note 11)	(13,066)	-
Earnings from operating activities	4,386	22,204
Foreign exchange gain (loss) (note 18)	(752)	269
Finance costs (note 18)	(2,516)	(2,041)
Share of loss from associate	(4)	(51)
Earnings before income taxes	1,114	20,381
Income tax expense (note 10):		
Current	(2,604)	(3,167)
Deferred	(52)	(2,417)
Total income tax expense	(2,656)	(5,584)
Net earnings (loss)	(1,542)	14,797
Other comprehensive income (loss):		
Foreign currency translation differences for foreign operations	3,918	(538)
Total comprehensive income	\$ 2,376	\$ 14,259
Net earnings (loss) (note 16)		
Basic	\$ (0.04)	\$ 0.40
Diluted	\$ (0.04)	\$ 0.39

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Years ended December 31, 2013 and 2012

Dollars in '000s except per share amounts

	Share capital	Contributed surplus	Accumulated other comprehensive income (loss)	Retained earnings	Total shareholders' equity
Balance at December 31, 2011	\$ 74,208	\$ 7,845	\$ (2,141)	\$ 56,195	\$ 136,107
Total comprehensive income for the year ended December 31, 2012	-	-	(538)	14,797	14,259
Transactions with shareholders, recorded directly in equity contributions by and distributions to shareholders for the year ended December 31, 2012:					
Dividends to equity holders	-	-	-	(11,200)	(11,200)
Repurchase of common shares	(1,510)	-	-	(2,452)	(3,962)
Share-based compensation	-	1,341	-	-	1,341
Share options exercised (note 15)	1,710	(323)	-	-	1,387
Total contributions by and distributions to shareholders	200	1,018	-	(13,652)	(12,434)
Balance at December 31, 2012	\$ 74,408	\$ 8,863	\$ (2,679)	\$ 57,340	\$ 137,932
Total comprehensive income for the year ended December 31, 2013	-	-	3,918	(1,542)	2,376
Transactions with shareholders, recorded directly in equity contributions by and distributions to shareholders for the year ended December 31, 2013:					
Dividends to equity holders	-	-	-	(11,100)	(11,100)
Repurchase of common shares	(2,194)	-	-	(2,240)	(4,434)
Share-based compensation	-	512	-	-	512
Share options exercised (note 15)	1,636	(310)	-	-	1,326
Total contributions by and distributions to shareholders	(558)	202	-	(13,340)	(13,696)
Balance at December 31, 2013	\$ 73,850	\$ 9,065	\$ 1,239	\$ 42,458	\$ 126,612

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2013 and 2012

Dollars in '000s except per share amounts

	2013	2012
Cash provided by (used in):		
Operating activities:		
Net earnings (loss)	\$ (1,542)	\$ 14,797
Items not involving cash		
Depreciation	19,827	19,121
Income tax expense	2,656	5,584
Unrealized foreign exchange (gain) loss on intercompany balances	670	(77)
Finance costs	2,516	2,041
Share-based compensation	512	1,341
Gain on disposal of property and equipment	(4,852)	(6,421)
Gain on sale of land and buildings	(4,894)	-
Write-down of investment in associate and related assets	13,066	-
Share of loss from associate	4	51
Cash flow from continuing operations	27,963	36,437
Changes in non-cash operating working capital (note 19)	(10,082)	27,724
Income taxes paid	(3,855)	(3,350)
Cash flow from operating activities	14,026	60,811
Investing activities:		
Property and equipment additions	(28,283)	(30,650)
Intangible asset additions	(990)	(772)
Proceeds on disposal of property and equipment	29,547	11,596
Investment in associate	(6,558)	(3,600)
Changes in non-cash investing working capital (note 19)	(1,032)	1,809
Cash flow from investing activities	(7,316)	(21,617)
Financing activities:		
Change in operating loan	9,255	(12,108)
Interest paid	(2,517)	(2,057)
Advances of loans and borrowings	8,000	-
Repayments on loans and borrowings	(16,578)	(5,509)
Proceeds on exercise of share options	1,326	1,387
Repurchase of common shares	(4,434)	(3,962)
Dividends paid	(10,884)	(10,671)
Cash flow from financing activities	(15,832)	(32,920)
Effect of exchange rate on changes in cash and cash equivalents	941	(706)
Change in cash and cash equivalents	(8,181)	5,568
Cash and cash equivalents, beginning of year	8,470	2,902
Cash and cash equivalents, end of year	\$ 289	\$ 8,470

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2013 and 2012

Dollars in '000s except per share amounts

1. Reporting entity

Cathedral Energy Services Ltd. ("the Company" / "Cathedral") is a company domiciled in Canada. The Company is a publicly-traded company listed on the Toronto Stock Exchange under symbol "CET". The consolidated financial statements of the Company as at and for the year ended December 31, 2013 comprise the Company and its subsidiaries (together referred to as "Cathedral") and its associate as listed below:

Subsidiaries:

	Country of incorporation	Functional Currency	Ownership interest
Cathedral Energy Services Inc. ("INC")	United States	U.S. dollars	100%
Directional Plus International Ltd. ("DPI")	Barbados	U.S. dollars	100%
Directional Plus de Venezuela, C.A. ("DPV")	Venezuela	Venezuelan bolivar	100%

There has been no change in ownership of any subsidiaries in the periods reported on in these financial statements.

Investment in associate:

	Country of incorporation	Functional Currency	Ownership interest
Vencana Servicios Petroleros, S.A. ("Vencana")	Venezuela	Venezuelan bolivar	40%

Vencana Servicios Petroleros, S.A. was incorporated on March 1, 2012.

The Company and INC are primarily involved and engaged in the business of providing selected oilfield services to oil and natural gas companies in western Canada and selected oil and natural gas basins in the United States (U.S.). Subsequent to year-end, Cathedral decided to discontinue operations in Venezuela (see notes 11 and 26).

2. Basis of preparation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") which are defined as International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The consolidated financial statements were authorized for issue by the Board of Directors on March 5, 2014.

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with GAAP requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Areas which require management to make significant judgment and estimates in determining the amounts recognized in these consolidated financial statements include, but are not limited to the following:

Judgments

(i) Current and deferred income taxes

The Company must make determinations on whether to record amounts for various tax pools it has available for future use. In making this determination, the Company looks at its past history and future expectations to determine what amounts, if any can be recognized. The Company also reviews all tax assessments to determine which assessments it concurs with and will record in its records and which assessments it disputes and which it expects to be changed. If the Company believes the assessment was incorrect, it does not make a provision for a liability in its accounts. As such the provisions for current and deferred income taxes are subject to measurement uncertainty.

(ii) Determination of significant influence in associates

In determination of the appropriate accounting treatment of the Company's investment in Vencana it must determine if the investment is under joint control or if it is subject to significant influence. In making this determination, the Company reviews the various agreements governing the operation of Vencana as well as other factors outlined in GAAP. It has concluded that the investment is subject to significant influence and has applied equity accounting to the investment.

(iii) Identification of cash generating units ("CGU")

In the annual assessment of goodwill, the Company must perform the impairment test at the CGU level, which is defined as the smallest group of assets that generates independent cash flow. Significant judgment is required in this assessment and changes to this assessment could materially impact the level at which impairment tests are performed.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Basis of preparation (continued)

- (d) Use of estimates and judgments (continued)
- (iv) Recognition of contingent liabilities

The determination if a contingent liability requires accrual in the financial statement or only requires disclosure is an area that requires significant judgment. In making this determination management reviews the specific details of the contingency and may seek professional help if the matter is of sufficient complexity. For items not recorded as contingent liabilities, there is also a determination required if the amount of claim would be material, as only material amounts are disclosed in financial statements. As at December 31, 2013, there are no contingent liabilities requiring disclosure.

Estimates

- (i) Property and equipment

The Company makes estimates about the residual value and expected useful life of property and equipment. These estimates are based on management's historical experience and industry norms. Expected useful life and depreciation rates are as disclosed in note 3 (d) (iii).

- (ii) Impairment of assets

Subsequent to year-end, Cathedral decided to discontinue operations in Venezuela. As a result, the investment in associate was reviewed at December 31, 2013. The current financial statements include a provision for loss on this investment and other related assets that are located in Venezuela. This write-down has required management to make estimates on the realizable value of various assets.

Property and equipment, goodwill and intangibles are assessed for impairment at least annually and when circumstances suggest that the carrying amount may exceed the recoverable amount for the asset. These calculations require estimates and assumptions and are subject to change as new information becomes available. These estimates include number of years of cash flow available from the assets, growth rates, pre-tax discount rates as well as various estimates and assumptions used in the preparation of revenues and expenses used in the cash flow analysis. The assumptions used in the impairment test of goodwill are disclosed in note 9.

Trade accounts receivable require estimates to be made regarding the financial stability of the Company's customers and the environment in which they operate in order to assess if accounts receivable balances will be received. Credit risks for outstanding accounts receivable are assessed regularly and an allowance for doubtful accounts is recorded based upon specific customer information and experience as well as for groups of similar assets. See note 25 "Credit risk" for further details.

Inventory is reviewed periodically in order to determine if there is obsolescence. This estimate is based upon historic data and management's estimates of future demand.

- (iii) Share-based compensation

The Company accounts for share-based compensation using the fair value method of accounting as calculated under the Black-Scholes option valuation method. This method for share-based compensation requires that management make assumptions on model inputs including forfeiture rate and volatility that could result in material differences if the assumptions were changed. Management uses historical data to make these estimates which are disclosed in note 15.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements unless otherwise indicated.

The accounting policies have been applied consistently by the Company.

- (a) Basis of consolidation

Business combinations are accounted for using the acquisition method of accounting in which the identifiable assets acquired, liabilities assumed and any non-controlling interest are recognized and measured at their fair value at the date of acquisition. Any excess of the purchase price plus any non-controlling interest over the fair value of the net assets acquired is recognized as goodwill. Any deficiency of the purchase price over the fair value of the net assets acquired is credited to net earnings.

At acquisition, goodwill is allocated to each of the CGUs to which it relates. Subsequent measurement of goodwill is at cost less any accumulated impairment losses.

- (i) Subsidiaries

Subsidiaries are entities controlled by Cathedral. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries align with the policies adopted by Cathedral.

- (ii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income, expenses, gains or losses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

- (iii) Investment in associate

Associates are those entities in which the Company has significant influence, but not control or joint control, over the financial and operating policies. Significant influence is presumed to exist when the Company holds between 20 percent and 50 percent of the voting power of another entity. For the sole associate, Vencana, the Company owns 40% of the joint venture company with the remaining 60% 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.

Investments in associates are accounted for under the equity method and are recognized initially at cost. The cost of the investment includes transaction costs.

The consolidated financial statements include the Company's share of the profit or loss and other comprehensive income of equity-accounted investees, after adjustments to align the accounting policies with those of the Company, from the date that significant influence commences until the date that significant influence ceases.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(iii) Investment in associate (continued)

When the Company's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of the investment, including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Company has an obligation or has made payments on behalf of the investee.

(b) Foreign currency

(i) Foreign currency transactions

All transactions that are not denominated in an entity's functional currency are foreign currency transactions. These transactions are initially recorded in the functional currency by applying the appropriate daily rate which best approximates the actual rate of transaction.

The Canadian dollar is the functional and presentation currency of the Company. The functional currency of Cathedral's subsidiaries and associate are listed in Note 1.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. All differences are recognized in the consolidated statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(ii) Foreign operations

The assets and liabilities of foreign operations are translated to CAD at exchange rates at the reporting date. The income and expenses of foreign operations are translated to CAD at exchange rates at the dates of the transactions.

Foreign currency differences are recognized in other comprehensive income and have been recognized in accumulated other comprehensive income ('AOCI') in the cumulative translation. When a foreign operation is disposed of, the relevant amount in AOCI (in the cumulative translation account) is transferred to profit or loss as part of the profit or loss on disposal. On the partial disposal of a subsidiary that includes a foreign operation, the relevant proportion of such cumulative amount is reattributed to non-controlling interest. In any other partial disposal of a foreign operation, the relevant proportion is reclassified to profit or loss.

(c) Financial instruments

At December 31, 2013 and 2012, Cathedral has the following financial instruments: cash and cash equivalents and loans and receivables.

(i) Non-derivative financial assets

Cathedral initially recognizes trade and other receivables on the date that they originate. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date at which Cathedral becomes a party to the contractual provisions of the instrument.

Cathedral derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by Cathedral is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, Cathedral has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

(ii) Non-derivative financial liabilities

Cathedral initially recognizes debt securities issued on the date that they are originated. Cathedral derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, Cathedral has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Cathedral has the following non-derivative financial liabilities: loans and borrowings, operating loan, dividends payable and trade and other payables.

Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

(d) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and borrowing costs on qualifying assets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Significant accounting policies (continued)

(d) Property and equipment (continued)

(i) Recognition and measurement (continued)

Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and are recognized net within other income in profit or loss.

(ii) Subsequent costs

The cost of replacing a part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to Cathedral, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment (repair and maintenance) are recognized in profit or loss as incurred.

(iii) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognized in profit or loss either on a straight-line or diminishing balance basis over the estimated useful lives of each part of an item of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that Cathedral will obtain ownership by the end of the lease term. Land is not depreciated.

Items of property and equipment are depreciated from the date that they are installed and are available for use, or in respect of internally constructed assets, from the date that the asset is completed and available for use.

The estimated useful lives, depreciation rates and depreciation methods for the current and comparative periods are as follows:

	Estimated life in years	Depreciation rates	Depreciation method
Directional drilling equipment	15.5 to 24	10 to 15%	Declining balance
Production testing equipment	11.5 to 15.5	15 to 20%	Declining balance
Office and computer equipment	3.0 to 11.5	20 to 55%	Declining balance
Automotive equipment	9 to 11.5	20 to 25%	Declining balance
Buildings	55	4%	Declining balance
Automotive equipment under capital lease	3 to 4	20% or 33%	Straight-line
Leasehold improvements	5	20%	Straight-line

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

(e) Intangible assets

(i) Goodwill

Goodwill that arises upon the acquisition of subsidiaries is included in the financial statements. For measurement of goodwill at initial recognition, see note 3(a).

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses.

(ii) Internally generated intangible asset - Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and Cathedral intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalized includes the cost of materials, direct labour, overhead costs that are directly attributable to preparing the asset for its intended use, and borrowing costs on qualifying assets. Other development expenditure is recognized in profit or loss as incurred.

Capitalized development expenditure is measured at cost less accumulated amortization and accumulated impairment losses.

(iii) Acquired intangible asset – Non-compete agreements

Intangibles externally acquired are valued at estimated fair value at time of acquisition.

(iv) Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

(v) Amortization

Amortization is calculated on the cost of the asset less its residual value.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life for capitalized development costs is 5 years.

Amortization methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Significant accounting policies (continued)

(f) Leased assets

Leases in terms of which Cathedral assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognized in Cathedral's statement of financial position.

(g) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the average cost principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(h) Impairment

(i) Financial assets (including receivables)

A financial asset other than those carried at fair value through profit or loss is assessed for indicators of impairment at each reporting date. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be reliably estimated.

Cathedral considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment Cathedral uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

(ii) Non-financial assets

The carrying amounts of Cathedral's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit", or "CGU"). For the purposes of goodwill impairment testing, goodwill acquired in a business combination is allocated to CGUs that are expected to benefit from the synergies of the combination. This allocation is subject to an operating segment ceiling test and reflects the lowest level at which that goodwill is monitored for internal reporting purposes.

Cathedral's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(i) Employee benefits

(i) Termination benefits

Termination benefits are recognized as an expense when Cathedral is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if Cathedral has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

(ii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if Cathedral has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Significant accounting policies (continued)

(i) Employee benefits (continued)

(iii) Share-based payment transactions – equity settled

The grant date fair value of share-based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards (vesting period). The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date.

Share-based payment arrangements in which Cathedral receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions.

(j) Revenue

Revenue is recognized when there is persuasive evidence that an arrangement exists (usually when executed), the risks and rewards have been transferred to the buyer, the service has been provided, the rate is fixed, the associated costs can be estimated reliably, the collection of the amounts billed to the customer is considered probable and revenue can be measured reliably. Cathedral considers persuasive evidence to exist when a formal contract is signed or customer acceptance is obtained. Contract terms do not include a provision for significant post-service delivery obligations.

Cathedral's directional drilling and production testing services are generally sold based upon service orders or contracts with customers that include fixed or determinable prices based upon daily, hourly or job rates.

Cathedral's resale activities are recognized when title passes to the purchaser and collection is reasonably certain.

(k) Lease payments

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Determining whether an arrangement contains a lease

At inception of an arrangement, Cathedral determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfillment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to Cathedral the right to control the use of the underlying asset.

At inception or upon reassessment of the arrangement, Cathedral separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If Cathedral concludes for a finance lease that it is impracticable to separate the payments reliably, an asset and a liability are recognized at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognized using Cathedral's incremental borrowing rate.

(l) Finance income and costs

Finance costs comprise interest expense on borrowings, bank charges and other interest and foreign exchange gains or losses. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

(m) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable income will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(n) Earnings per share

Cathedral presents basic and diluted earnings per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for own shares held, for the effects of all dilutive potential common shares, which comprise share options granted to employees, directors and consultants.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Significant accounting policies (continued)

- (o) New standards and interpretations not yet adopted

During 2013, the Company adopted the following standards:

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.

Impairment of Assets

In May 2013, the IASB issued amendments to IAS 36 "Impairment of Assets" which reduces the circumstances in which the recoverable amount of CGUs is required to be disclosed and clarify the disclosures required when an impairment loss has been recognized or reversed in the period. The amendments are required to be adopted retrospectively for fiscal years beginning January 1, 2014, with earlier adoption permitted. These amendments have been adopted by Cathedral in these financial statements. The application of the amendment had no impact on any of the Company's Financial Statements.

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, 2014. The Company has reviewed these and determined that the following may have an impact on the Company:

The IASB has undertaken a three-phase project to replace IAS 39 "Financial Instruments: Recognition and Measurement" with IFRS 9 "Financial Instruments." In November 2009, the IASB issued the first phase of IFRS 9, which details the classification and measurement requirements for financial assets. Requirements for financial liabilities were added to the standard in October 2010. The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value.

In November 2013, the IASB issued the third phase of IFRS 9 which details the new general hedge accounting model. Hedge accounting remains optional and the new model is intended to allow reporters to better reflect risk management activities in the financial statements and provide more opportunities to apply hedge accounting. Cathedral does not employ hedge accounting.

In July 2013, the IASB deferred the mandatory effective date of IFRS 9 and has left this date open pending the finalization of the impairment and classification and measurement requirements. IFRS 9 is still available for early adoption. The full impact of the standard on the financial statements will not be known until the project is complete.

4. Determination of fair values

A number of Cathedral's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

- (a) Property and equipment

The fair value of property and equipment recognized as a result of a business combination is based on market values. The market value of property and equipment is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly. The fair value of items of property and equipment is based on the market approach and cost approaches using quoted market prices for similar items when available and replacement cost when appropriate.

- (b) Intangible assets

The fair value of development costs is based on the discounted cash flows expected to be derived from the use of the assets.

- (c) Inventories

Inventories consist of operating supplies and parts to be used in repairing equipment. The fair value of inventories is determined based on the net realizable value of these items.

- (d) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

- (e) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Determination of fair values (continued)

(f) Share-based payment transactions

The fair value of the employee share options is measured using the Black-Scholes option pricing model. Measurement inputs include the share price on measurement date, the exercise price of the instrument, the expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), the weighted average expected life of the instruments (based on historical experience and general option holder behavior), the expected dividends, forfeiture rate per annum and the risk-free interest rate (based on government bonds). Service and non-market performance conditions are not taken into account in determining fair value.

5. Cash and cash equivalents

All of the Company's amounts consist of bank balances. This balance does not include any term deposits and temporary investments or bank overdrafts. The Company's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities is disclosed in note 25.

6. Trade receivables

All of the Company's amounts are trade receivables. This balance does not include any related party amounts or other loans and receivables. All amounts are current assets. The Company's exposure to credit and currency risks, and impairment losses related to trade and other receivables is disclosed in note 25.

7. Inventories

All of the Company's inventories are composed of raw materials and consumables. There is no work in progress or finished goods inventories. For the year ended December 31, 2013, raw materials and consumables recognized as cost of sales were \$24,502 (2012 - \$20,269).

8. Property and equipment

Cost	Balance December 31 2011	Additions	Disposals	Effects of movements in exchange rates	Balance December 31 2012
Directional drilling equipment	\$ 124,869	\$ 21,606	\$ (9,820)	\$ (16)	\$ 136,639
Production testing equipment	46,849	6,704	(32)	(31)	53,490
Automotive equipment	1,797	206	(660)	(23)	1,320
Office and computer equipment	4,845	1,751	(59)	(413)	6,124
Buildings	15,847	409	(668)	(180)	15,408
Land	3,513	38	(139)	(2)	3,410
Automotive equipment under capital lease	2,799	1,244	(1,289)	(48)	2,706
Leasehold improvements	819	361	(169)	(7)	1,004
Total	\$ 201,338	\$ 32,319	\$ (12,836)	\$ (720)	\$ 220,101

Accumulated depreciation	Balance December 31 2011	Additions	Disposals	Effects of movements in exchange rates	Balance December 31 2012
Directional drilling equipment	\$ 48,950	\$ 10,909	\$ (3,190)	\$ (6)	\$ 56,663
Production testing equipment	16,157	5,225	(13)	(4)	21,365
Automotive equipment	883	267	(400)	(15)	735
Office and computer equipment	2,759	826	(61)	(37)	3,487
Buildings	870	687	(140)	(82)	1,335
Land	-	-	-	-	-
Automotive equipment under capital lease	1,329	495	(943)	(22)	859
Leasehold improvements	461	127	(21)	(3)	564
Total	\$ 71,409	\$ 18,536	\$ (4,768)	\$ (169)	\$ 85,008

Cost	Balance December 31 2012	Additions	Disposals	Effects of movements in exchange rates	Balance December 31 2013
Directional drilling equipment	\$ 136,639	\$ 20,609	\$ (16,046)	\$ 114	\$ 141,316
Production testing equipment	53,490	5,951	-	106	59,547
Automotive equipment	1,320	18	(134)	63	1,267
Office and computer equipment	6,124	758	(160)	47	6,769
Buildings	15,408	530	(15,938)	-	-
Land	3,410	349	(3,238)	(141)	380
Automotive equipment under capital lease	2,706	1,046	(665)	148	3,235
Leasehold improvements	1,004	68	(4)	45	1,113
Total	\$ 220,101	\$ 29,329	\$ (36,185)	\$ 382	\$ 213,627

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Property and equipment (continued)

	Balance December 31 2012	Additions	Disposals	Effects of movements in exchange rates	Balance December 31 2013
Accumulated depreciation					
Directional drilling equipment	\$ 56,663	\$ 11,272	\$ (11,887)	\$ 52	\$ 56,100
Production testing equipment	21,365	5,488	-	29	26,882
Automotive equipment	735	149	(102)	35	817
Office and computer equipment	3,487	1,070	(49)	42	4,550
Buildings	1,335	424	(1,759)	-	-
Land	-	-	-	-	-
Automotive equipment under capital lease	859	590	(417)	46	1,078
Leasehold improvements	564	135	(1)	15	713
Total	\$ 85,008	\$ 19,128	\$ (14,215)	\$ 219	\$ 90,140

Net book values	2013	2012
Directional drilling equipment	\$ 85,216	\$ 79,976
Production testing equipment	32,665	32,125
Automotive equipment	450	585
Office and computer equipment	2,219	2,637
Buildings	-	14,073
Land	380	3,410
Automotive equipment under capital lease	2,157	1,847
Leasehold improvements	400	440
Total	\$ 123,487	\$ 135,093

On September 27, 2013 the Company closed the sale of its land and buildings in Calgary and Nisku, Alberta and entered into a lease for these premises. As the lease is classified as an operating lease and the sale proceeds were at fair market value, the entire amount of the gain has been recognized in the current period. The net proceeds were \$22,260 and the resulting gain on sale of land and buildings was \$4,894.

Leased automotive equipment

The Company leases production equipment under a number of finance lease agreements. The leased equipment secures lease obligations (see note 14). During 2013, there were non-cash fixed asset additions of \$1,046 (2012 - \$1,244) related to finance lease arrangements. Additionally, in 2012 there were non-cash additions related to buyout of capital leases and OCI on international assets of \$425 (2013 - \$nil).

9. Intangible assets and goodwill

The Company's intangible assets consist of internally generated development costs related to its drilling division and acquired non-compete agreements related to its production testing division. To date the Company has recorded no impairment losses on these assets.

	2013	2012
Cost		
Balance at January 1	\$ 3,306	\$ 2,535
Internally developed additions	990	471
Acquisition	-	300
Balance at end of year	\$ 4,296	\$ 3,306
Accumulated amortization		
Balance at January 1	\$ 2,587	\$ 2,305
Amortization for year	235	282
Balance at end of year	\$ 2,822	\$ 2,587
Net carrying value at end of year	\$ 1,474	\$ 719

Impairment testing for cash-generating units containing goodwill

For the purpose of impairment testing, goodwill is allocated to the Company's business units which represent the lowest level within the Company at which the goodwill is monitored for internal management purposes, which is not higher than the Company's operating segments.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. Intangible assets and goodwill (continued)

The aggregate carrying amounts of goodwill allocated to each unit are as follows:

		2013		2012
Drilling	\$	1,624	\$	1,624
Production Testing		4,224		4,224
Total	\$	5,848	\$	5,848

The recoverable amount of each cash-generating unit was based on its value in use. The carrying amount of the unit was determined to be lower than its recoverable amount and no impairment loss has been recognized.

Value in use was determined by discounting the future cash flows generated from the continuing use of the unit. Unless indicated otherwise, value in use in 2013 was determined similarly as in 2012. The calculation of the value in use was based on the following key assumptions.

- Cash flows were projected based on past experience, actual operating results and the current year business plan in both 2012 and 2013. Cash flows for a further 12.5 year (2012 - 12.5 year) period were extrapolated using a constant growth rate of 1% (2012 - 2%), which does not exceed the long-term average growth rate for the industry.
- A pre-tax discount rate of 22% (2012 - 24%) was applied in determining the recoverable amount of the unit. The discount rate was estimated based on past experience, and industry average weighted average cost of capital, which was based on a possible range of debt leveraging of 25% (2012 - 25%) at a market interest rate of 3.0% (2012 - 3.0%).

The values assigned to the key assumptions represent management's assessment of future trends in the service industry and are based on both external sources and internal sources (historical data).

10. Deferred tax assets and liabilities and income tax expense

Unrecognized deferred tax assets

At December 31, 2013, a deferred tax asset of \$666 (2012 - \$552) for capital losses of \$5,294 (2012 - \$4,413) has not been recognized in these financial statements. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable capital gains will be available against which the Company can utilize the related benefits. These losses do not expire.

In addition, no amount has been recognized in these statements related to the write-down of investment in associate and related assets of \$13,066 as it is uncertain what benefit, if any, will be recognized for tax purposes.

Recognized deferred tax assets and liabilities

Deferred tax assets are attributable to the following:

		2013		2012
Property and equipment	\$	(8,849)	\$	(8,372)
Intangible assets		258		277
Investment tax credits		4,920		4,605
Non-capital loss carryforwards		3,377		3,377
Scientific research and development expenditures		9,451		9,452
Other		-		40
Total	\$	9,157	\$	9,379

Deferred tax liabilities are attributable to the following:

		2013		2012
Property and equipment	\$	(923)	\$	(1,028)

Movement in temporary differences during the year

	Balance December 31 2011	Recognized in profit	Recognized in OCI	Balance December 31 2012
Property and equipment	\$ (7,962)	\$ (1,464)	\$ 26	\$ (9,400)
Intangible assets	242	35	-	277
Investment tax credits	5,007	(402)	-	4,605
Non-capital loss carryforwards	3,891	(514)	-	3,377
Scientific research and development expenditures	9,466	(14)	-	9,452
Other	98	(58)	-	40
Total	\$ 10,742	\$ (2,417)	\$ 26	\$ 8,351

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. Deferred tax assets and liabilities and income tax expense (continued)

	Balance December 31 2012	Recognized in profit	Recognized in OCI	Balance December 31 2012
Property and equipment	\$ (9,400)	\$ (307)	\$ (65)	\$ (9,772)
Intangible assets	277	(19)	-	258
Investment tax credits	4,605	315	-	4,920
Non-capital loss carryforwards	3,377	-	-	3,377
Scientific research and development expenditures	9,452	(1)	-	9,451
Other	40	(40)	-	-
Total	\$ 8,351	\$ (52)	\$ (65)	\$ 8,234

The income taxes are based upon the estimated annual effective rates of 25% (2012 – 25%) for Canadian entities and 37% (2012 – 38%) for U.S. entities. The income tax expense for the period is comprised as follows:

	2013	2012
Current tax (expense) recovery:		
Current period	\$ (2,555)	\$ (3,114)
Adjustment to prior period provisions	(49)	(53)
Total current tax expense	(2,604)	(3,167)
Deferred tax expense:		
Origination and reversal of temporary differences	(365)	(2,470)
Adjustment to prior period provisions	313	53
Total deferred tax expense	(52)	(2,417)
Income tax expense	\$ (2,656)	\$ (5,584)

Income tax expense for 2013 and 2012 differs from the amount that would be expected by applying the expected statutory income tax rates for the following reasons:

	2013	2012
Expected statutory tax rate	25.17%	25.17%
Earnings before income tax	\$ 1,114	\$ 20,381
Effective tax rate applied to earnings before income tax	\$ (280)	\$ (5,130)
Adjustment to deferred taxes for change in effective tax rates	15	(19)
Income taxed in jurisdictions with different tax rates	(2,814)	(628)
Non-deductible expenses	(389)	(368)
Recognition of previously unrecognized tax losses	(111)	333
Adjustment to prior year deferred tax provision	313	-
Non-taxable portion of gain on disposal of property and equipment	664	297
Other	(54)	(69)
Total tax expense	(2,656)	(5,584)

11. Investment in associate and write-down of investment in associate and related assets

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; it is the intent for the services provided by Vencana to expand as mutually agreed between its joint venture partners.

Subsequent to year-end, Cathedral decided to discontinue operations in Venezuela. Management determined the expected political, financial and operational risks do not warrant continuing to pursue business opportunities in Venezuela. Furthermore, management is of the belief there are greater growth opportunities in the North American market and particularly in the United States. Management has taken action to reduce Venezuela costs and on-going costs associated with the wind down of Venezuela operations are expected to be minimal.

The following is summarized financial information of Vencana translated to \$CDN (of which DPI has a 40% interest):

	2013	2012
Total assets	\$ 42,483	\$ 19,305
Total liabilities	(3,004)	(12)
Revenues	-	-
Loss	(152)	(128)

Cathedral has made no guarantees or cross guarantees on behalf of Vencana.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. Operating loans

		2013		2012
Canadian dollar operating loan	\$	8,340	\$	880
U.S. dollar operating loan		1,779		-
Total	\$	10,119	\$	880

The Company has a \$20,000 demand operating line of credit with a major Canadian bank that bears interest, at the Company's option, at the bank's prime rate plus 0.50% to 2.00% or bankers' acceptance which can be drawn in \$CDN or \$U.S. rate plus 1.75% to 3.25% with interest payable monthly and is secured as described in note 14. 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). As the loans are due on demand and bear interest based on the prime or bankers' acceptance rate, the carrying value of the loans equals their face value. The Company's exposure to currency and liquidity risk related to operating loans is disclosed in note 25.

13. Trade and other payables

		2013		2012
Trade payables	\$	10,997	\$	12,478
Accrued payables		11,635		9,295
Total	\$	22,632	\$	21,773

The Company's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 25.

14. Loans and borrowings

		2013		2012
Current liabilities:				
Current portion of finance lease liabilities	\$	722	\$	711
Non-current liabilities:				
Finance lease liabilities	\$	1,462	\$	1,151
Secured revolving term loan		37,000		45,000
Total	\$	38,462	\$	46,151

In the year there were advances of \$8,000 and repayments of \$16,000 on the Company's secured revolving term loan.

Terms and debt repayment schedule

The secured revolving term loan with a major Canadian bank at an authorized amount of \$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 30, 2014 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. The Company's credit facility includes a \$35,000 accordion feature which is subject to approval of the Company's bank.

Due to the short-term nature of all the liabilities, the carrying value equals the face value for all amounts.

The credit facility is secured by a general security agreement over all present and future personal property and is subject to certain covenants regarding the payment of dividends and the maintenance of certain financial ratios. As at December 31, 2013, the Company was in compliance with all covenants under its credit facility.

Finance lease liabilities

Finance lease liabilities bear interest at rates between 4.0% and 8.1% with maturities from 2014 to 2017 and are payable as follows:

	2013			2012		
	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	\$ 188	\$ (42)	\$ 146	\$ 302	\$ (170)	\$ 132
Between one and four years	2,304	(266)	2,038	1,911	(181)	1,730
Total	\$ 2,492	\$ (308)	\$ 2,184	\$ 2,213	\$ (351)	\$ 1,862

These amounts are secured by the automotive equipment under capital lease which has a net book value of \$2,157 (2012 - \$1,847).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. Share capital

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

Common shares issued:

	2013		2012	
	Number	Amount	Number	Amount
Issued, beginning of year	36,906,293	\$ 74,408	37,304,984	\$ 74,208
Issued on exercise of options	348,170	1,326	351,301	1,387
Contributed surplus on options exercised		310		323
Repurchased and cancelled	(1,088,083)	(2,194)	(749,992)	(1,510)
Issued, end of year	36,166,380	\$ 73,850	36,906,293	\$ 74,408

Cathedral received regulatory approval to purchase its own common shares in accordance with a Normal Course Issuer Bid ("NCIB") for the period June 20, 2012 through June 19, 2013. At its expiry on June 19, 2013, Cathedral had purchased a total of 1,838,075 common shares at an average price of \$4.57 and the common shares were cancelled. The excess price paid over the average price per common share repurchased has been charged to retained earnings.

Cathedral received a subsequent regulatory approval to purchase its own common shares in accordance with a NCIB for the period July 8, 2013 through July 7, 2014. As at December 31, 2014, Cathedral has not made any purchases of common shares under this NCIB.

Issuance of common shares

348,170 common shares were issued as a result of the exercise of vested options arising from the 2009 grants to employees and consultants. Options were exercised at an average strike price of \$3.81 per option. All issued shares are fully paid.

Dividends

Cathedral declared a total of \$11,100 in 2013 (2012 - \$11,200) or \$0.3075 per share (2012 - \$0.30 per share.) After the reporting date the directors approved a dividend of \$0.0825 per share with a record date of March 31, 2014 and payable April 15, 2014.

Issuance of share options

The Company's share based compensation plan is a "rolling number" type option plan which provides that the number of authorized but unissued common shares that may be subject to options granted under the share option plan at any time can be up to 10% of the number of common shares outstanding from time to time.

Under the plan, the exercise price of each option at the date of issuance equals the fair market value of the Company's common shares on the day immediately prior to the grant, and has a maximum term till expiry of ten years. Options vest over a period of three years from the date of grant as employees, directors or consultants render continuous service to the Company.

A summary of the status of the Company's equity based compensation plan as at December 31, 2013 and 2012, and changes during the years then ended is presented below:

	2013		2012	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding, beginning of year	3,449,900	\$ 6.26	2,944,644	\$ 5.93
Granted	120,000	4.41	994,259	6.56
Exercised	(348,170)	3.81	(351,301)	3.95
Expired	(671,256)	6.33	(39,167)	6.26
Forfeited	(253,610)	6.43	(98,535)	7.57
Outstanding, end of year	2,296,864	\$ 6.26	3,449,900	\$ 6.26
Exercisable, end of year	1,595,213	\$ 6.32	1,559,434	\$ 5.55

The range of exercise prices for the options outstanding at December 31, 2013 is as follows:

Exercise price range	Total outstanding options			Exercisable	
	Number	Weighted average exercise price	Weighted average remaining life (in years)	Number	Weighted average exercise price
\$3.35 to \$3.74	59,000	\$ 3.68	3.08	9,000	\$ 3.35
\$3.81 to \$3.96	149,000	3.82	0.66	139,000	3.81
\$5.00 to \$6.01	1,371,000	5.66	0.95	1,085,893	5.76
\$6.98 to \$10.51	717,864	8.67	1.73	361,320	9.03
\$3.35 to \$10.51 total	2,296,864	\$ 6.43	1.23	1,595,213	\$ 6.32

During the year ended December 31, 2013, the Company has recorded share-based compensation expense of \$512 (2012 - \$1,341) related to the share option plan and \$0 (2012 - \$35) of other share-based compensation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. Share capital (continued)

During the year ended December 31, 2013, the Company granted 120,000 share options. The following table sets out the assumptions used in applying the Black-Scholes model for the options issued as well as the resulting fair value:

	2013 Q4	2013 Q2	2013 Q1
Number of options issued	60,000	50,000	10,000
Exercise price	\$ 5.05	\$ 3.74	\$ 3.96
Fair value per option (weighted average)	\$ 0.77	\$ 0.51	\$ 0.56
Expected annual dividend per share	\$ 0.30	\$ 0.30	\$ 0.30
Risk-free interest rate (weighted average)	1.2%	1.0%	1.1%
Expected share price volatility (weighted average)	36.8%	36.7%	37.1%
Forfeiture rate per annum	10.0%	10.0%	0.0%

16. Earnings per share

Basic earnings per share

The calculation of basic earnings per share at December 31, 2013 was based on the loss attributable to common shareholders of \$1,542 (2012 – profit of \$14,797) and a weighted average number of common shares outstanding of 36,170,672 (2012 – 37,375,822), calculated as follows:

Weighted average number of ordinary shares

	2013	2012
Issued January 1	36,906,293	37,304,984
Effect of share options exercised	112,021	194,044
Effect of share repurchases	(847,642)	(123,206)
Weighted average number of common shares at end of year	36,170,672	37,375,822

Diluted earnings per share

The calculation of diluted earnings per share at December 31, 2013 was based on the loss attributable to common shareholders of \$1,542 (2012 – profit of \$14,797) and a weighted average number of common shares outstanding after adjustment for the effects of all dilutive potential common shares of 36,240,939 (2012 – 37,756,250), calculated as follows:

Weighted average number of common shares (diluted)

	2013	2012
Weighted average number of common shares (basic)	36,170,672	37,375,822
Effect of share options on issue (note 15)	70,267	380,428
Weighted average number of common shares (diluted) at end of year	36,240,939	37,756,250

At December 31, 2013, 2,088,864 options (2012 – 1,454,361) 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.

17. Nature of expenses

The nature of expenses can be specified as follows:

	Cost of sales	Selling, general and administrative	Total
<i>Year ended December 31, 2013</i>			
Depreciation	\$ (19,270)	\$ (557)	\$ (19,827)
Share-based compensation	(177)	(335)	(512)
Staffing costs, excluding share-based compensation	(100,723)	(19,645)	(120,368)
Other expenses	(72,140)	(4,132)	(76,272)
Total	\$ (192,310)	\$ (24,669)	\$ (216,979)
<i>Year ended December 31, 2012</i>			
Depreciation	\$ (18,479)	\$ (642)	\$ (19,121)
Share-based compensation	(322)	(1,054)	(1,376)
Staffing costs, excluding share-based compensation	(85,541)	(15,339)	(100,880)
Other expenses	(60,361)	(5,673)	(66,034)
Total	\$ (164,703)	\$ (22,708)	\$ (187,411)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

18. Foreign exchange gain (loss) and finance costs

	2013	2012
Foreign exchange gain (loss):		
Realized foreign exchange gain (loss)	\$ (82)	\$ 192
Unrealized foreign exchange gain on intercompany balances	(670)	77
Foreign exchange gain (loss)	\$ (752)	\$ 269
Finance costs		
Interest on revolving term loan	\$ (1,639)	\$ (1,510)
Interest on bank indebtedness	(650)	(316)
Interest on finance lease liabilities	(103)	(96)
Other interest	(124)	(119)
Finance costs	\$ (2,516)	\$ (2,041)

19. Changes in non-cash working capital

The components of changes in non-cash working capital are as follows:

	2013	2012
Trade receivables	\$ (10,852)	\$ 29,472
Inventories	269	1,384
Prepaid expenses and deposits	7,082	(8,186)
Trade and other payables	345	(6,272)
Deferred revenue	(9,520)	12,837
Impact of foreign exchange rate differences	1,562	298
Total changes in non-cash working capital	(11,114)	29,533
Changes in investing non-cash working capital	(1,032)	1,809
Changes in operating non-cash working capital	\$ (10,082)	\$ 27,724

20. Operating segments

The Company and its wholly-owned subsidiaries are engaged in the business of providing selected oilfield services to oil and natural gas companies in western Canada, selected basins in the U.S. and Venezuela, and is viewed as a single operating segment by the chief operating decision maker of the Company for the purpose of resource allocation and assessing performance.

Oilfield services are currently being provided in both Canada and the U.S. and resale activities occurred in Venezuela in 2012 and 2013. The amounts related to each geographic segment are as follows:

Service information

The Company provides the following services:

Revenues	2013	2012
Directional drilling	\$ 150,851	\$ 139,935
Production testing	62,669	58,846
Resale	11,165	4,413
Total revenues	\$ 224,685	\$ 203,194

Geographical information

The Company conducts operations in the following geographic areas:

	Revenues		Non-current assets	
	Year ended December 31, 2013	Year ended December 31, 2012	December 31, 2013	December 31, 2012
Canada	\$ 99,780	\$ 113,248	\$ 133,190	\$ 144,783
United States	113,740	85,533	5,479	4,401
International	11,165	4,413	1,059	6,754
Total	\$ 224,685	\$ 203,194	\$ 139,728	\$ 155,938

Major customer

Revenues from one customer of the Company represents approximately 15% (2012 - 14%) of the Company's total revenues.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

21. 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 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.

22. 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, 2013. As at December 31, 2013, the Company's commitment to purchase property and equipment is approximately \$3,937. Cathedral anticipates expending these funds in 2014 Q1 and Q2. Additionally, Cathedral has obligations for rental of property that total \$30,797 which will be incurred from 2014 to 2028. In addition, the Company has issued a standby letter of credit which renews annually to a landlord. For the first 15 years of the lease the letter of credit is \$700 and then reduces to \$500 until the expiry of the lease in 2028.

The Company has entered into an agreement to sell certain inventory and property and equipment for proceeds of \$2,750. The transaction is estimated to result in a gain of approximately \$1,100. Approximately, the first 1/3 of the goods were shipped in 2013 Q4 with the remainder expected to be delivered to the purchaser in 2014 Q2 and Q3.

23. Operating leases

Leases as lessee

The Company leases a number of offices, warehouse and factory facilities under operating leases. The leases typically run for a period of six to 15 years, with an option to renew the lease after that date. Lease payments are often increased by 2% every five years to reflect market rentals. Some leases provide for additional rent payments that are based on changes in a local price index. The total future minimum lease payments are as follows:

2014	\$3,160
2015	2,940
2016	2,685
2017	2,373
2018	2,076
Thereafter	17,563

Certain vehicle leases have been renewed on a month to month term at the expiration of the finance type lease. These leases have been classified as operating leases.

During the year ended December 31, 2013, an amount of \$2,134 was recognized as an expense in profit or loss in respect of operating leases (2012 - \$1,624).

24. Related parties

Key management personnel compensation

Cathedral has determined that the key management personnel of the Company consist of its executive officers and directors.

In addition to their salaries and director's fees, the Company also provides non-cash benefits to directors and executive officers including participation in the Company's share option program (see note 15).

Certain executive officers have employment agreements. Upon resignation at the Company's request, they are entitled to termination benefits including: i) 2 times base salary; ii) 2 times average annual bonus over the past 3 years; and iii) health, dental, life insurance and disability coverage for 24 months.

Key management personnel (including directors) compensation comprised:

	2013	2012
Short-term employment benefits	\$ 2,006	\$ 2,931
Termination benefits	2,345	-
Share-based compensation	171	613
Total expense recognized as share-based compensation	\$ 4,522	\$ 3,544

Key management personnel and director transactions

Directors and executive officers of the Company control 3.8% of the common shares of the Company.

A director of the Company is a partner in a law firm and, through that law firm, is involved in providing and managing the legal services provided to the Company at market rates. The total amount paid for these legal services in 2013 was \$77 (2012 - \$88).

There have been no other transactions over the reporting period with key management personnel (2012 - nil), and no outstanding balances exist as at period end (2012 - nil).

25. Financial risk management and financial instruments

Overview

The Company has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

25. Financial risk management and financial instruments (continued)

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers.

Trade and other receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Company's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk. Approximately 15% (2012 - 14%) of the Company's revenue is attributable to sales transactions with a single customer.

The Company has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Company's standard payment and delivery terms and conditions are offered. The Company's review includes external ratings, when available. Customers that fail to meet the Company's benchmark creditworthiness generally are restricted to services on a prepayment basis only.

In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or legal entity, geographic location, industry, aging profile, maturity and existence of previous financial difficulties. Customers that are considered as "high risk" are closely monitored, and future sales may be made on a prepayment basis.

The Company does not require collateral in respect of trade and other receivables.

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

Carrying amount

		2013		2012
Trade receivables	\$	46,400	\$	36,094

The maximum exposure to credit risk for trade and other receivables at the reporting date by geographic region was:

Carrying amount

		2013		2012
Canada	\$	21,120	\$	18,283
United States		25,280		17,811
Total	\$	46,400	\$	36,094

The Company's most significant customer accounts for \$7,181 of the trade receivables carrying amount at December 31, 2013 (2012 - \$4,295).

Impairment losses

The aging of trade and other receivables at the reporting date was:

	2013		2012	
	Gross	Impairment	Gross	Impairment
Not past due	\$ 39,217	\$ -	\$ 29,026	\$ -
Past due 61-90 days	4,855	-	5,237	-
Past due over 91 days	2,664	(336)	1,876	(45)
Total	\$ 46,736	\$ (336)	\$ 36,139	\$ (45)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

25. Financial risk management and financial instruments (continued)

The movement in the allowance for impairment in respect of trade and other receivables during the year was as follows:

		2012		2012
Balance, beginning of year	\$	45	\$	152
Impairment loss recognized		291		(107)
Balance, end of year	\$	336	\$	45

At December 31, 2013 an impairment loss of \$355 (2012 - \$45) was recognized relating to customers that have been unable to make payments in accordance with normal terms and conditions, mainly due to economic circumstances. The Company believes that the unimpaired amounts that are past due are still collectible, based on historic payment behavior and an analysis of the underlying customers' ability to pay.

Based on historic default rates, the Company believes that, apart from the above, no impairment allowance is necessary in respect of trade receivables not past due.

Impairment losses

The allowance accounts in respect of trade and other receivables are used to record impairment losses unless the Company is satisfied that no recovery of the amount owing is possible; at that point the amounts are considered irrecoverable and are written off against the financial asset directly.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements based upon the secured revolving term loan being renewed on the same terms and not converted to a non-revolving term loan.

December 31, 2013		Contractual					
	Carrying amount	cash flow	Under 6 months	6-12 months	1-2 years	2-5 years	
Demand bank loans	\$ 10,119	\$ 10,119	\$ 10,119	\$ -	\$ -	\$ -	
Secured revolving term loan	37,000	37,000	-	-	-	37,000	
Finance lease liabilities	2,184	2,482	481	405	506	1,090	
Trade and other payables	22,632	22,632	22,632	-	-	-	
Dividends payable	2,984	2,984	2,984	-	-	-	
	\$ 74,919	\$ 75,217	\$ 36,216	\$ 405	\$ 506	\$ 38,090	

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

Currency risk

The Company is exposed to currency risk on working capital and borrowings that are denominated in a currency other than the respective functional currencies of Company entities, primarily the Canadian dollar ("CAD"), but also U.S. dollars ("USD"). The currencies in which these transactions primarily are denominated are CAD and USD. In addition, the Company is exposed to fluctuations in CAD versus Venezuelan bolivars ("VEB") foreign currency exchange rate fluctuations related to funds on deposit in Venezuela.

Generally, borrowings are denominated in currencies that match the cash flows generated by the underlying operations of the Company, primarily dollar. This provides a partial economic hedge without derivatives being entered into and therefore hedge accounting is not applied in these circumstances.

Cathedral's foreign currency policy is to monitor foreign current risk exposure in its areas of operations and mitigate that risk where possible by matching foreign currency denominated expense with revenues denominated in foreign currencies. Cathedral strives to maintain limited amounts of cash and cash equivalents denominated in foreign currency on hand and attempts to further limit its exposure to foreign currency through collecting and paying foreign currency denominated balance in a timely fashion.

The Company's exposure to foreign currency risk related to USD denominated balances as follows:

		2013		2012
USD				
Cash	\$	1,794	\$	6,731
Trade receivables		24,848		17,902
Demand bank loan		(1,673)		-
Trade payables		(7,964)		(6,351)
Finance lease liabilities		(1,696)		(1,373)
Total	\$	15,309	\$	16,909

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

25. Financial risk management and financial instruments (continued)

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2013	2012	December 31, 2013	December 31, 2012
USD \$1 to CAD \$	\$ 1.03	\$ 1.00	\$ 1.06	\$ 0.99

The Company's exposure to foreign currency risk related to VEB denominated balances as follows:

VEB	2013	2012
Cash	\$ 300	\$ 5,991
Trade receivables	-	-
Demand loan	-	-
Trade payables	(631)	(1,486)
Total	\$ (331)	\$ 4,505

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate	
	2013	2012	December 31, 2013	December 31, 2012
VEB 1 to CAD \$	\$ 0.17	\$ 0.23	\$ 0.17	\$ 0.23

Sensitivity analysis

A 10% strengthening of the CAD against USD at December 31 would decrease equity and other comprehensive income by \$1,480 (2012 - \$1,528). The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2012, albeit that the reasonably possible foreign exchange rate variances were different.

A weakening of the CAD at December 31 would have had the equal but opposite effect on USD amounts, on the basis that all other variables remain constant.

A 10% strengthening of the CAD against VEB at December 31 would decrease equity and other comprehensive income by the \$51 (2012 - \$95). The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2012, albeit that the reasonably possible foreign exchange rate variances were different.

A weakening of the CAD at December 31 would have had the equal but opposite effect on VEB amounts, on the basis that all other variables remain constant.

Interest rate risk

At the reporting date the interest rate profile of the Company's interest-bearing financial instruments was:

	December 31, 2012		December 31, 2012	
	Fixed rate carrying value	Variable rate carrying value	Fixed rate carrying value	Variable rate carrying value
Financial liabilities	\$ 2,184	\$ 47,119	\$ 1,862	\$ 45,880

Cash flow sensitivity analysis for variable rate instruments

A 1% increase in the Company's bank's lending rate would cause interest expense to increase by approximately \$471 (2012 - \$459) per annum based upon the balance of bank indebtedness and long-term debt with a floating interest rate outstanding as at December 31.

Fair values

Fair values versus carrying amounts

The fair values of financial assets and liabilities are equal to the carrying values on the statement of financial position.

The basis for determining fair values is disclosed in note 4.

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Management and the Board of Directors monitor capital using loans and borrowings, including current portion to total capitalization and funded debt ⁽¹⁾ to EBITDA ⁽²⁾.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

25. Financial risk management and financial instruments (continued)

The Company's loans and borrowings to total capitalization and EBITDA ⁽²⁾ ratios (EBITDA is as defined in the lending agreement) at the end of the reporting period were as follows:

	2013	2012
Loans and borrowings, including current portion	\$ 39,184	\$ 46,862
Shareholders' equity	\$ 126,012	\$ 137,932
Less Accumulated other comprehensive (gain) loss	(1,239)	2,679
Shareholders' equity excluding AOCL	124,773	140,611
Loans and borrowings, including current portion	39,184	46,862
Total capitalization	\$ 163,957	\$ 187,473
Loans and borrowings, including current portion to total capitalization	0.24	0.25
Loans and borrowings, including current portion	\$ 39,184	\$ 46,862
Operating loans	10,119	880
Letter of credit	700	-
Funded debt	\$ 50,003	\$ 47,742
Earnings from before income taxes per lending agreement	\$ 1,114	\$ 20,381
Add (deduct):		
Depreciation included in cost of sales	19,270	18,479
Depreciation included in selling, general and administrative expenses	557	642
Share-based compensation included in cost of sales	177	287
Share-based compensation included in selling, general and administrative expenses	335	1,054
Unrealized foreign exchange gain on intercompany balances	670	(77)
Gain on disposal of property and equipment	(4,852)	(6,421)
Gain on sale of land and buildings	(4,894)	-
Non-recurring severance expenses	2,380	-
Write-down of investment in associate and related assets	13,066	-
Finance costs	2,516	2,041
Share of loss from associate	4	51
EBITDA	\$ 30,343	\$ 36,437
Funded debt to EBITDA	1.65	1.31

There were no changes in the Company's approach to capital management during the year.

(1) Funded debt is not a defined measure under IFRS. Funded debt is a key term within Cathedral's credit agreement and accordingly management closely monitors funded debt levels. Cathedral's method of calculating funded debt may differ from other entities and accordingly, funded debt may not be comparable to measures used by other entities.

(2) EBITDA (as defined in the lending agreement - Earnings before finance costs, taxes, depreciation, amortization, unrealized foreign exchange and share-based compensation and excluding gain on disposal of property and equipment) is a measurement in addition to net earnings that management considers in reviewing operating results. EBITDA is a useful 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. It is regularly provided to and reviewed by management. Cathedral's method of calculation of EBITDA may differ from other entities and accordingly, EBITDA may not be comparable to measures used by other entities.

26. Subsequent event

Subsequent to year-end, Cathedral decided to discontinue operations in Venezuela. Management determined the expected political, financial and operational risks do not warrant continuing to pursue business opportunities in Venezuela. Furthermore, management is of the belief there are greater growth opportunities in the North American market and particularly in the United States. Management has taken action to reduce Venezuela costs and on-going costs associated with the wind down of Venezuela operations are expected to be minimal.

OFFICERS

P. Scott MacFarlane, President, Chief Executive Officer and Interim Chief Financial Officer

Randy H. Pustanyk, Executive Vice President and Chief Operating Officer

David Diachok, Vice President, Sales

DIRECTORS

Rod Maxwell

Jay Zammit

Scott Sarjeant

Robert L. Chaisson

P. Daniel O'Neil

Ian S. Brown

P. Scott MacFarlane

Randy H. Pustanyk

AUDITORS

KPMG LLP

Calgary, Alberta

LEGAL COUNSEL

Burstall Winger LLP

Calgary, Alberta

REGISTRAR AND TRANSFER AGENT

Computershare Trust Company of Canada

Calgary, Alberta

BANKER

The Bank of Nova Scotia

STOCK EXCHANGE LISTING

Toronto Stock Exchange (TSX: CET)



6030 – 3rd Street S.E.

Calgary, Alberta T2H 1K2

Tel: 403.265.2560 Fax: 403.262.4682

www.cathedralenergyservices.com