



2011 Q3 INTERIM REPORT

FINANCIAL HIGHLIGHTS

Dollars in '000's except per share amounts

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Revenues	\$ 63,409	\$ 42,022	\$ 150,004	\$ 106,720
Adjusted gross margin % ⁽¹⁾	35%	35%	31%	34%
EBITDAS from continuing operations ⁽¹⁾	\$ 17,666	\$ 12,206	\$ 34,668	\$ 26,777
Diluted per share	\$ 0.47	\$ 0.33	\$ 0.91	\$ 0.73
EBITDAS ⁽¹⁾	\$ 17,666	\$ 12,216	\$ 35,117	\$ 25,006
Diluted per share	\$ 0.47	\$ 0.33	\$ 0.92	\$ 0.68
Funds from continuing operations ⁽¹⁾	\$ 16,701	\$ 10,566	\$ 32,197	\$ 23,191
Diluted per share	\$ 0.44	\$ 0.29	\$ 0.85	\$ 0.63
Earnings (loss) from continuing operations before income taxes	\$ 11,741	\$ 8,349	\$ 20,446	\$ 15,950
Net earnings (loss)	\$ 8,575	\$ 6,084	\$ 15,083	\$ 9,556
Basic per share	\$ 0.23	\$ 0.17	\$ 0.41	\$ 0.26
Diluted per share	\$ 0.23	\$ 0.16	\$ 0.40	\$ 0.26
Dividends declared per share	\$ 0.06	\$ 0.06	\$ 0.18	\$ 0.18
Property and equipment additions	\$ 11,774	\$ 8,757	\$ 37,341	\$ 24,929
Weighted average shares outstanding				
Basic (000s)	37,119	36,423	37,009	36,411
Diluted (000s)	37,877	36,915	38,073	36,889

	September 30	December 31
	2011	2010
Working capital	\$ 21,465	\$ 19,516
Loans and borrowings excluding current portion	\$ 42,544	\$ 35,435
Total shareholders' equity	\$ 125,023	\$ 112,191

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

MANAGEMENT'S DISCUSSION & ANALYSIS

This Management's Discussion & Analysis ("MD&A") for the three and nine months ended September 30, 2011 should be read in conjunction with the annual audited consolidated financial statements and notes thereto for the year ended December 31, 2010, as well as the MD&A in the 2010 Annual Report of Cathedral Energy Services Ltd. ("the Company" / "Cathedral"). This MD&A has been prepared as of November 2, 2011. Dollar amounts are in '000's except for day rates and per share amounts.

Effective January 1, 2011, Cathedral began reporting its results in accordance with International Financial Reporting Standards ("IFRS"). Prior year comparative amounts have been restated to reflect results as if the Company had always prepared its financial results using IFRS. This MD&A for the three and nine months ended September 30, 2011 should be read in conjunction with the disclosures made in the March 31, 2011 MD&A related to the transition to IFRS and notes 3, 4 and 15 for the three months ended March 31, 2011 which discuss the transition to IFRS.

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: access to capital; projected capital expenditures and commitments and the financing thereof; areas of further growth; customer commitments; financial results; activity levels; U.S. expansion; expected increased utilization 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 the Company's businesses, including current business and economic trends;
- oil and natural gas commodity prices and production levels;
- capital expenditure programs and other expenditures by the Company and its customers;
- the ability of the Company to retain and hire qualified personnel;
- the ability of the Company to obtain parts, consumables, equipment, technology, and supplies in a timely manner to carry out its activities;
- the ability of the Company to maintain good working relationships with key suppliers;
- the ability of the Company to market its services successfully to existing and new customers;
- the ability of the Company to obtain timely financing on acceptable terms;
- currency exchange and interest rates;
- risks associated with foreign operations including Venezuela;
- the ability of the Company to realize the benefit of its conversion from an income trust to a corporation;
- risks associated with finalizing ancillary joint venture agreements that are required prior to the commencement of operations of the Venezuela joint venture;
- risks associated with Venezuela joint venture company being awarded work by the Venezuela state run oil and natural gas corporation;
- changes under governmental regulatory regimes and tax, environmental and other laws in Canada, United States ("U.S.") and Venezuela; and
- a stable competitive environment.

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

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

NON-IFRS MEASUREMENTS

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

The specific measures being referred to include the following:

- i) "Adjusted gross margin" - calculated as gross margin plus non-cash items (depreciation and share-based compensation); is considered a primary indicator of operating performance (see tabular calculation on the following page);
- ii) "Adjusted gross margin %" - calculated as adjusted gross margin divided by revenues; is considered a primary indicator of operating performance (see tabular calculation on the following page);
- iii) "EBITDAS" - defined as earnings before finance costs, unrealized foreign exchange on intercompany balances, unrealized foreign exchange due to hyper-inflation accounting, taxes, depreciation and share-based compensation; is considered an indicator of the Company's ability to generate funds flow from operations prior to consideration of how activities are financed, how the results are taxed and measured and non-cash expenses (see tabular calculation on the following page);
- iv) "EBITDAS from continuing operations" - defined as earnings before finance costs, unrealized foreign exchange on intercompany balances, unrealized foreign exchange due to hyper-inflation accounting, taxes, depreciation and share-based compensation excluding the portion due from discontinued operations in each component of the calculation; 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 on the following page);
- v) "EBITDAS from discontinued operations" - defined as earnings before finance costs, unrealized foreign exchange on intercompany balances, unrealized foreign exchange due to hyper-inflation accounting, taxes, depreciation and share-based compensation from discontinued operations of the Company's former wireline division in each component of the calculation;
- vi) "Maintenance capital expenditures" - refers to capital expenditures required to maintain existing levels of service but excludes replacement cost of lost-in-hole equipment to the extent the replacement equipment is financed from the proceeds on disposal of the equipment lost-in-hole; and
- vii) "Funds from continuing operations" - calculated as cash provided by operating activities before changes in non-cash working capital, cash flow from discontinued operations 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 on the following page).

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

Adjusted gross margin

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Gross margin	\$ 17,946	\$ 11,699	\$ 35,597	\$ 28,030
Add non-cash items included in cost of sales:				
Depreciation	4,105	3,043	11,172	7,905
Share-based compensation	82	79	245	232
Adjusted gross margin	\$ 22,133	\$ 14,821	\$ 47,014	\$ 36,167
Adjusted gross margin %	35%	35%	31%	34%

EBITDAS

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Earnings (loss) from continuing operations before income taxes	\$ 11,741	\$ 8,349	\$ 20,446	\$ 15,950
Add (deduct):				
Depreciation included in cost of sales	4,105	3,043	11,172	7,905
Depreciation included in selling, general and administrative expenses	41	85	118	248
Share-based compensation included in cost of sales	82	79	245	232
Share-based compensation included in selling, general and administrative expenses	357	640	1,105	1,901
Unrealized foreign exchange (gain) loss on intercompany balances	868	(464)	294	(231)
Unrealized foreign exchange gain due to hyper-inflation accounting	-	-	-	(510)
Finance costs	472	474	1,288	1,282
EBITDAS from continuing operations	17,666	12,206	34,668	26,777
EBITDAS from discontinued operations	-	10	449	(1,771)
EBITDAS	\$ 17,666	\$ 12,216	\$ 35,117	\$ 25,006

Funds from continuing operations

	Nine months ended September 30	
	2011	2010
Cash flow from operating activities	\$ 18,170	\$ 16,126
Add (deduct):		
Cash flow from discontinued operations	-	1,694
Changes in non-cash operating working capital	12,987	5,343
Income taxes paid	1,191	1,005
Current tax recovery (expense)	(151)	(977)
Funds from continuing operations	\$ 32,197	\$ 23,191

OVERVIEW

The Company completed 2011 Q3 with quarterly revenues of \$63,409 and year-to-date revenues of \$150,004 compared to 2010 Q3 revenues of \$42,022 and 2010 year-to-date revenues of \$106,720. Year-to-date revenues have increased 41% from 2010. The 2011 Q3 revenues were comprised of 75% (2010 Q3 - 79%) from the directional drilling division and 25% (2010 Q3 - 21%) from the production testing division.

2011 Q3 EBITDAS were \$17,666 (\$0.47 per share diluted) which represents a \$5,450 increase from 2010 Q3 EBITDAS of \$12,216 (\$0.33 per share diluted). For the three months ended September 30, 2011, the Company's net earnings were \$8,575 (\$0.23 per share diluted) as compared to a \$6,084 (\$0.16 per share diluted) in 2010.

2011 year-to-date EBITDAS were \$35,117 (\$0.92 per share diluted) which represents a \$10,111 or 40% increase from \$25,006 (\$0.68 per share diluted) in 2010. On a 2011 year-to-date basis, the Company's net earnings were \$15,083 (\$0.40 per share diluted) as compared to a \$9,556 (\$0.26 per share diluted) in 2010. The increase in revenues and EBITDAS was a result of a combination of increased activity associated with the use of horizontal, multi-stage fracturing technology to complete conventional and unconventional resource plays in both Canada and the U.S., pricing increases and additional equipment over the prior year.

RESULTS OF OPERATIONS – THREE MONTHS ENDED SEPTEMBER 30

Revenues	Three months ended September 30, 2011			Three months ended September 30, 2010		
	Directional drilling	Production testing	Total	Directional drilling	Production testing	Total
Canada	\$ 34,732	\$ 8,837	\$ 43,569	\$ 22,257	\$ 4,075	\$ 26,332
United States	13,125	6,715	19,840	11,050	4,640	15,690
Total	\$ 47,857	\$ 15,552	\$ 63,409	\$ 33,307	\$ 8,715	\$ 42,022

Revenues and gross margin 2011 Q3 revenues were \$63,409 which represented an increase of \$21,387 or 51% from 2010 Q3 revenues of \$42,022. The increase was due to increased drilling activity, additions to major equipment in the last 12 months and day rate pricing increases.

The directional drilling division revenues have increased from \$33,307 in 2010 Q3 to \$47,857 in 2011 Q3. This increase was the result of: i) a 33% increase in activity days from 3,340 in 2010 to 4,443 in 2011; and ii) an 9% increase in the average day rate from \$9,842 in 2010 Q3 to \$10,683 in 2011 Q3. For comparison, the 2011 Q2 average day rate was \$10,348. On year-over-year basis, Canadian day rates have increased 10% and this increase was attributable to a combination of passing on increased field labour rates to customers and general rate increases. U.S. day rates have increased 3% when converted to Canadian dollars. The U.S. day rates have increased 9% in U.S. dollars, mainly due to the change in types of drilling work performed in 2011. The day rates disclosed in this MD&A reflect revenue as classified under IFRS – see notes to financial statements for explanation of changes in revenue classifications. Canadian activity days increased from 2,179 to 3,100 and U.S. activity days increased from 1,161 to 1,343.

The Company's production testing division contributed \$15,552 in revenues during 2011 Q3 which was a 78% increase over 2010 revenues of \$8,715. This increase is attributable to the overall increase in testing units from 51 at the end of 2010 Q3 to 62 at the end of 2011 Q3, plus an increase in oilfield service activities on a year-over-year basis. There were 9 units included in the 2010 Q3 number that were purchased prior to September 30, 2010, but which were not in service until 2010 Q4.

The gross margin was 28% for both 2011 and 2010 Q3. Under IFRS, cost of sales includes the non-cash expenses for a portion of depreciation and share-based compensation and these non-cash expenses total \$4,187 for 2011 Q3 and \$3,122 for 2010 Q3. Adjusted gross margin for 2011 Q3 was \$22,133 (35%) compared to \$14,821 (35%) for 2010 Q3. There were no significant changes between the quarters in the components of cost of sales.

Depreciation allocated to cost of sales increased from \$3,043 in 2010 Q3 to \$4,105 in 2011 Q3 due to capital additions in the period from 2010 Q3 to 2011 Q3. Depreciation included in cost of sales as a percentage of revenue was 6% in 2011 Q3 and 7% in 2010 Q3.

For 2011 Q3 the Company had share-based compensation included in cost of sales of \$82 compared to \$79 recognized in 2010 Q3. The fair value of the options is being amortized against income over the three-year vesting periods.

Selling, general and administrative expenses ("SG&A") SG&A expenses were \$5,790 in 2011 Q3; an increase of \$745 compared with \$5,045 in 2010 Q3. As a percentage of revenue, these costs were 9% in 2011 Q3 and 12% in 2010 Q3. Under IFRS, SG&A includes the non-cash expenses for a portion of depreciation and share-based compensation. These non-cash expenses total \$398 for 2011 Q3 and \$725 for 2010 Q3. SG&A net of these non-cash items were \$5,392 in 2011 Q3 and \$4,320 in 2010 Q3, an increase of \$1,072. Staffing costs increased \$1,070; this increase was primarily related to staff additions for research and development department, staff positions added to accommodate growth, wage increases for existing staff as well as changes in variable compensation. The staffing costs included in SG&A relate to executives, sales, accounting, human resources, payroll, safety, research and development and related support staff. The remaining net increase of \$2 relates to several items, none of which were significant individually.

Depreciation allocated to SG&A decreased from \$85 in 2010 Q3 to \$41 in 2011 Q3 due to aging assets and less depreciation under the declining balance method of depreciation.

For 2011 Q3 the Company had share-based compensation included in SG&A of \$357 compared to \$640 recognized in 2010 Q3. The fair value of the options is being amortized against income over the three-year vesting periods.

Gain on disposal of property and equipment During 2011 Q3 the Company had a gain on disposal of property and equipment of \$712, compared to \$1,397 in 2010 Q3. 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.

Foreign exchange gain (loss) The Company's foreign exchange changed from a gain of \$772 in 2010 Q3 to a loss of \$655 in 2011 Q3 due to the fluctuations in the Canadian dollar compared to U.S. dollars and Venezuelan bolivars. Upon consolidation the Company's foreign operations are considered to be self-sustaining and therefore 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 2011 Q3 foreign currency gain are unrealized losses of \$868 (2010 Q3 - \$464 gain) related to intercompany balances.

Finance costs Finance costs consist of interest expenses on operating loans, loans and borrowings and bank charges of \$472 for 2011 Q3 versus \$474 for 2010 Q3. As expected, there were no significant changes in these expenses.

Income tax For 2011 Q3, the Company had an income tax expense of \$3,171 as compared to a \$2,277 in 2010 Q3. The 2011 Q3 provision consists of current tax expense of \$253 (2010 - \$243) and a deferred tax expense of \$2,918 (2010 - \$2,034). The effective tax rate is 27% for both 2011 Q3 and 2010 Q3. The current tax provision is lower than otherwise would be anticipated due to utilization of tax pools in Canada.

RESULTS OF OPERATIONS – NINE MONTHS ENDED SEPTEMBER 30

Revenues	Nine months ended September 30, 2011			Nine months ended September 30, 2010		
	Directional drilling	Production testing	Total	Directional drilling	Production testing	Total
Canada	\$ 75,794	\$ 21,291	\$ 97,085	\$ 52,921	\$ 11,812	\$ 64,733
United States	35,635	17,284	52,919	30,552	11,435	41,987
Total	\$ 111,429	\$ 38,575	\$ 150,004	\$ 83,473	\$ 23,247	\$ 106,720

Revenues and gross margin 2011 revenues were \$150,004 which represented an increase of \$43,284 or 41% from 2010 revenues of \$106,720. The increase was primarily attributed to the focus on horizontal, multi-stage fracturing technology to complete conventional and unconventional resource plays in both Canada and the U.S. which allowed for continued strength in activity levels for the oilfield services sector. Demand for Cathedral's services has also been driven by both oil and liquids-rich natural gas plays.

The directional drilling division revenues have increased from \$83,474 in 2010 to \$111,429 in 2011. This increase was the result of: i) a 23% increase in activity days from 8,555 in 2010 to 10,553 in 2011; and ii) an 9% increase in the average day rate from \$9,365 in 2010 to \$10,440 in 2011. On year-over-year basis, Canadian day rates have increased 12% and this increase was attributable to a combination of passing on increased field labour rates to customers and general rate increases. U.S. day rates have increased 2% when converted to Canadian dollars. The U.S. day rates have increased 8% in U.S. dollars, mainly due to the change in types of drilling work performed in 2011. The day rates disclosed in this MD&A reflect revenue as classified under IFRS – see notes to financial statements for explanation of changes in revenue classifications. Canadian activity days increased from 5,359 to 6,881 and U.S. activity days increased from 3,196 to 3,672.

The Company's production testing division contributed \$38,575 in revenues during 2011 which was a 66% increase over 2010 revenues of \$23,247. This increase was attributable to the overall increase in testing units from 35 at the start of 2010 to 62 at the end of 2011 Q3, plus an increase in oilfield service activities on a year-over-year basis.

The gross margin for 2011 was 24% compared to 26% in 2010. Under IFRS, cost of sales includes the non-cash expenses for a portion of depreciation and share-based compensation and these non-cash expenses total \$11,417 for 2011 and \$8,137 for 2010. Adjusted gross margin for 2011 was \$47,014 (31%) compared to \$36,167 (34%) for 2010.

The decline in adjusted gross margin of 3% was primarily attributed to an increase in labour costs including variable compensation. Field labour rates have increased and such increases have not been fully compensated for by revenue increases for the entire year. Startup costs have been incurred with respect to Houston operations facility and training of field staff for future Venezuela operations. Additional operating administrative staff positions were added to accommodate growth. In addition there has been a slight increase in field consumables for the U.S. production testing division.

Depreciation allocated to cost of sales increased from \$7,905 in 2010 to \$11,172 in 2011 due to capital additions in 2011. Depreciation included in cost of sales as a percentage of revenue was 7% for both 2011 and 2010.

For 2011 the Company had share-based compensation included in cost of sales of \$245 compared to \$232 recognized in 2010. The fair value of the options is being amortized against income over the three-year vesting periods.

Selling, general and administrative expenses SG&A expenses were \$16,162 in 2011; an increase of \$1,920 compared with \$14,242 in 2010. As a percentage of revenue, these costs were 11% in 2011 and 13% in 2010. Under IFRS, SG&A includes the non-cash expenses for a portion of depreciation and share-based compensation. These non-cash expenses totaled \$1,223 in 2011 and \$2,149 in 2010. SG&A net of these non-cash items were \$14,939 for 2011 and \$12,093 for 2010, an increase of \$2,846. Staffing costs increased \$2,521; this increase was primarily related to staff additions for research and development department, staff positions added to accommodate growth, wage increases for existing staff as well as changes 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. There was an increase in audit and accounting services of \$185 primarily related to audit of IFRS balances. The remaining increase of \$140 relates to several items, none of which were significant individually.

Depreciation allocated to SG&A decreased from \$248 in 2010 to \$118 in 2011 due to aging assets and less depreciation under the declining balance method of depreciation.

For 2011 the Company had share-based compensation included in SG&A of \$1,105 compared to \$1,901 recognized in 2010. The fair value of the options is being amortized against income over the three-year vesting periods.

Gain on disposal of property and equipment During 2011 the Company had a gain on disposal of property and equipment of \$2,320 which compares to \$2,609 in 2010. 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.

Foreign exchange gain (loss) The Company's foreign exchange gain was \$835 in 2010 compared with a loss of \$21 in 2011 due to the fluctuations in the Canadian dollar compared to U.S. dollars and Venezuelan bolivars. Upon consolidation the Company's foreign operations are considered to be self-sustaining and therefore gains and losses due to fluctuations in the foreign currency exchange rates are recorded in 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 2011 foreign currency gain are unrealized losses of \$294 (2010 - \$231 gain) related to intercompany balances.

Finance costs Finance costs consist of interest expenses on operating loans, loans and borrowings and bank charges of \$1,288 for 2011 and \$1,282 for 2010. As expected, there were no significant changes in these expenses.

Income tax The Company recorded a 2011 income tax expense of \$5,692 as compared to \$4,685 in 2010. The 2011 provision consists of current tax expense of \$151 (2010 - \$977) and a deferred tax expense of \$5,541 (2010 - \$3,708). The effective tax rate for 2011 is 28% compared to 29% in 2010. The current tax provision is lower than otherwise would be anticipated due to utilization of tax pools in Canada.

LIQUIDITY AND CAPITAL RESOURCES

The Company's principal source of liquidity is cash generated from operations. The Company also has the ability to fund liquidity requirements through its credit facility and the issuance of debt and/or equity. At September 30, 2011, the Company had an operating loan with a major Canadian bank in the amount of \$20,000 (December 31, 2010 - \$20,000) of which \$17,833 (December 31, 2010 - \$8,765) was drawn. In addition, the

Company has a non-reducing revolving term loan facility in the amount of \$45,000 (December 31, 2010 - \$45,000) of which \$42,500 was drawn as at September 30, 2011 (December 31, 2010 - \$34,500.) In addition, at September 30, 2011, the Company had finance lease liabilities of \$1,657 (December 31, 2010 - \$1,580) and other long-term debt of \$2 (December 31, 2010 - \$29).

Operating activities For the nine months ended September 30, 2011, cash flows from operating activities were \$18,170 as compared to \$16,126 for the comparative 2010 period, which was an increase of \$2,044 or 13%. Cash flow from operating activities for the nine months ended September 30, 2011 net of a \$12,987 (2010 - \$5,343) use of funds related to increase in non-cash working capital was a result of increased activities levels. The Company had a working capital position at September 30, 2011 of \$21,465 compared to \$19,516 at December 31, 2010.

Funds from continuing operations (see Non-IFRS Measurements) for the nine months ended September 30, 2011 were \$32,197 compared to \$23,191 for the same period in 2010, which were an increase of \$9,006. This increase was caused mainly by the increase in earnings (excluding non-cash items) due to increased activity levels.

Investing activities Cash used in investing activities for the nine months ended September 30, 2011 amounted to \$27,781 compared to \$15,923 for the 2010 comparative period. During 2011 the Company invested an additional \$37,341 (2010 - \$24,929) in property and equipment and intangible assets. The main 2011 additions were 31 MWD systems, \$3,216 in maintenance capital for retro-fit, upgrades and replacement of downhole tools, progress payments for the Calgary operations facility which is currently under construction, six high pressure production testing units and related auxiliary production testing equipment. The Company received proceeds on disposal of property and equipment and assets held for sale of \$7,631 during the nine months ended September 30, 2011 (2010 - \$9,233). For the nine months ended September 30, 2011 Cathedral had a use of funds by way of non-cash investing working capital in the amount of \$1,929 (2010 - use of funds of \$227); fluctuations in non-cash working capital related to investing activities are a function of when proceeds on disposal of property and equipment are received and when payments for property and equipment are made.

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

	September 30 2011	December 31 2010	September 30 2010
Directional drilling - MWD systems ⁽¹⁾	123	102	99
Production testing units	62	56	51

(1) September 30, 2011 MWD systems are net of 10 systems that are held for sale.

Financing activities Cash provided by financing activities for the nine months ended September 30, 2011 amounted to \$9,285 as compared to \$857 during the 2010 comparative period. During the nine months ended September 30, 2011 the Company made interest payments of \$1,559 compared to \$1,622 in 2010. Advances on operating loans for the same period in 2011 were \$8,794 (2010 - \$12,185). The Company received advances of long-term debt in the amount of \$7,000 (2010 - \$nil), the proceeds of which were used to finance property and equipment additions. Cathedral made payments on loans and borrowings of \$446 during the nine months ended September 20, 2011 (2010 - \$5,553). The Company made payments of dividends of \$6,653 for the nine months ended September 30, 2011 (2010 - \$4,369). During the same period the Company received proceeds on the exercise of share options of \$2,149 (2010 - \$216). As at September 30, 2011, the Company was in compliance with all covenants under its credit facility. At November 2, 2011, the Company has 37,167,651 common shares and 3,028,676 share options outstanding.

Contractual obligations In the normal course of business, the Company incurs contractual obligations and those obligations are disclosed in the Company's MD&A for the year ended December 31, 2010. As at September 30, 2011, the Company had a commitment to purchase approximately \$3,627 of property and equipment. Cathedral anticipates expending these funds in 2011 Q4 and 2012 Q1.

2011 CAPITAL PROGRAM

Cathedral's 2011 capital budget increased from \$40,000 to \$42,500. The increase mainly relates to amounts for lost-in-hole tool replacements and the Calgary head office and operations facility. In summary, the major items within the 2011 capital budget are: thirty-three MWD systems (including seven carried forward from the 2010 capital budget) and related mud motors and collars to complement the increased job capability, LWD (resistivity) equipment, six high pressure production testing units and auxiliary production testing equipment to complement the overall fleet, \$6,500 allocated to the new head office and operations facility in Calgary and \$3,500 of maintenance capital. The maintenance capital includes the retro-fit, upgrades and replacement of downhole tools. These capital expenditures are expected to be financed by way of cash flow from operations, the Company's credit facility and proceeds from disposition of capital assets.

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 2011 Q4 dividend in the amount of \$0.06 per share which will have a date of record of December 31, 2011 and a payment date of January 16, 2012.

CONTROLS AND PROCEDURES

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

Cathedral's DC&P have been designed to provide reasonable assurance that material information relating to Cathedral is made known to the CEO and the CFO by others and that information required to be disclosed by Cathedral in its annual filings, interim filings or other reports filed or submitted by Cathedral under securities legislation is recorded, processed, summarized and reported within the time periods specified in applicable securities legislation. On January 1, 2011, Cathedral adopted IFRS as its standard for financial reporting. In connection with the adoption of IFRS, Cathedral updated its internal controls over financial reporting, as necessary, to facilitate the respective IFRS convergence and transition activities performed. Other than the adoption of IFRS, no other significant changes in internal controls over financial reporting occurred during the period ended September 30, 2011. Cathedral's ICFR have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

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

The CEO and CFO have concluded that there have been no changes in internal controls for the period ended on September 30, 2011 that have materially affected, or are reasonably likely to materially affect, Cathedral's ICFR.

BUSINESS RISKS

The MD&A for the year ended December 31, 2010, which is included in the Company's 2010 Annual Report, includes an overview on business risks associated with the Company and its operating entities. Those business risks remain in effect as at September 30, 2011.

GOVERNANCE

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

NEW 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, 2010. The Company has reviewed these and determined that the following may have an impact on the Company:

As of January 1, 2013, the Company will be required to adopt IFRS 9, "Financial Instruments", which is the result of the first phase of the IASB's project to replace IAS 39, "Financial Instruments: Recognition and Measurement". 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. Cathedral is in the process of determining the impact of this Standard.

As of January 1, 2013, the Company will be required to adopt IFRS 10 "Consolidated Financial Statements", IFRS 11, "Joint Arrangements", IFRS 12 "Disclosures of Interests in Other Entities" and the changes to IAS 27, "Separate Financial Statements" and IAS 28, "Investments in Associates and Joint Ventures". IFRS 10 revises the definition of control of subsidiaries. IFRS 11 defines joint arrangements as an arrangement where two or more parties have joint control. IFRS 12 set out disclosures related to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated entities. Cathedral is in the process of determining the impact of these Standards.

As of January 1, 2013, the Company will be required to adopt amendments to IAS 19, "Employee Benefits". The changes mainly relate to defined benefit plans, which the Company does not have. Cathedral is in the process of determining the impact of this Standard.

As of January 1, 2013, the Company will be required to adopt IFRS 13, "Fair Value Measurements". IFRS 13 establishes a single source for determining fair value measurements. Cathedral is in the process of determining the impact of this Standard.

SUMMARY OF QUARTERLY RESULTS

Three month periods ended	Presented under IFRS							Presented under CGAAP
	Sep 2011	Jun 2011	Mar 2011	Dec 2010	Sep 2010	Jun 2010	Mar 2010	Dec 2009
Revenues	\$ 63,409	\$ 31,746	\$ 54,849	\$ 46,364	\$ 42,022	\$ 25,417	\$ 39,281	\$ 24,741
EBITDAS ⁽¹⁾	17,666	2,643	14,808	13,391	12,216	1,824	10,966	5,864
Net earnings (loss)	8,575	(1,609)	8,117	6,771	6,084	(1,894)	5,366	2,236
Net earnings (loss) per share - basic	\$ 0.23	\$ (0.04)	\$ 0.22	\$ 0.19	\$ 0.17	\$ (0.05)	\$ 0.15	\$ 0.06
Net earnings (loss) per share - diluted	\$ 0.23	\$ (0.04)	\$ 0.21	\$ 0.18	\$ 0.16	\$ (0.05)	\$ 0.15	\$ 0.06
Dividends declared per share	\$ 0.06	\$ 0.06	\$ 0.06	\$ 0.06	\$ 0.06	\$ 0.06	\$ 0.06	\$ -

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

OUTLOOK

Field activity levels in Q3 responded as expected with a record amount of activity. Cathedral expects the market to continue to expand with the Company furthering its presence in all of its operating regions and in both business lines. This is despite a weakening outlook for the global economy which has been influenced by the potential fallout from the European debt crisis.

Canadian activity levels remain extremely robust with both divisions expected to operate at capacity through to spring break-up next year. Early indications from Cathedral's customers is that 2012 activity levels should be higher than 2011.

U.S. activity levels continue to expand with growth in all regions. The Marcellus region has added several significant customers who have potential to add multiple drilling programs. In the Gulf Coast, the Company is operating on several ongoing projects and expects activity levels to increase further before year-end.

The Production Testing division (frac-flow back), has now received all equipment from its 2011 capital build program and all of its equipment is deployed. The division continues to see high demand for its services and is currently operating at record levels.

Cathedral continues to focus on the hiring and training of new field personnel. With the expansion of qualified field personnel, the Company will be able to meet its growth expectations.

Cathedral will be moving into its new Calgary Head Office/Operations Center in early November. This new facility will allow the Company to increase capacity and efficiencies in its manufacturing of equipment and repair capability as well as improving overall communications.

Cathedral continues to move forward with the preparation of various ancillary joint venture agreements that are required prior to the joint venture company commencing directional drilling operations in Venezuela.

The Company is currently reviewing its 2012 capital budget and expects to issue a news release on this prior to year end. The Company is well positioned to capitalize on strategic opportunities.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

September 30, 2011 and December 31, 2010

Dollars in '000s
(unaudited)

	September 30 2011	December 31 2010
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,790	\$ 1,740
Trade receivables	57,620	37,794
Current tax assets	996	-
Prepaid expenses	3,107	1,980
Inventories	11,973	7,663
Assets held for sale (note 10)	1,475	3,344
Total current assets	76,961	52,521
Property and equipment	126,377	102,546
Intangible assets	264	387
Deferred tax assets	14,686	19,499
Goodwill	5,848	5,848
Total non-current assets	147,175	128,280
Total assets	\$ 224,136	\$ 180,801
Liabilities and Shareholders' Equity		
Current liabilities:		
Operating loan	\$ 17,833	\$ 8,765
Trade and other payables	34,819	21,309
Dividends payable	2,229	2,204
Loans and borrowings (note 12)	615	674
Current taxes payable	-	53
Total current liabilities	55,496	33,005
Loans and borrowings (note 12)	42,544	35,435
Deferred tax liabilities	1,073	170
Total non-current liabilities	43,617	35,605
Shareholders' equity:		
Share capital (note 11)	73,476	70,753
Contributed surplus	7,551	6,775
Accumulated other comprehensive loss	(1,887)	(2,814)
Retained earnings	45,883	37,477
Total shareholders' equity	125,023	112,191
Total liabilities and shareholders' equity	\$ 224,136	\$ 180,801

See accompanying notes to condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Three and nine months ended September 30, 2011 and 2010

Dollars in '000s except per share amounts
(unaudited)

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Revenues	\$ 63,409	\$ 42,022	\$ 150,004	\$ 106,720
Cost of sales (note 5):				
Direct costs	(41,276)	(27,201)	(102,990)	(70,553)
Depreciation	(4,105)	(3,043)	(11,172)	(7,905)
Share-based compensation	(82)	(79)	(245)	(232)
Total cost of sales	(45,463)	(30,323)	(114,407)	(78,690)
Gross margin	17,946	11,699	35,597	28,030
Selling, general and administrative expenses (note 5):				
Direct costs	(5,392)	(4,320)	(14,939)	(12,093)
Depreciation	(41)	(85)	(118)	(248)
Share-based compensation	(357)	(640)	(1,105)	(1,901)
Total selling, general and administrative expenses	(5,790)	(5,045)	(16,162)	(14,242)
	12,156	6,654	19,435	13,788
Gain on disposal of property and equipment	712	1,397	2,320	2,609
Earnings from operating activities	12,868	8,051	21,755	16,397
Foreign exchange gain (loss) (note 6)	(655)	772	(21)	835
Finance costs (note 6)	(472)	(474)	(1,288)	(1,282)
Earnings from continuing operations before income taxes	11,741	8,349	20,446	15,950
Income tax expense (note 7):				
Current	(253)	(243)	(151)	(977)
Deferred	(2,918)	(2,034)	(5,541)	(3,708)
Total income tax expense	(3,171)	(2,277)	(5,692)	(4,685)
Net earnings from continuing operations	8,570	6,072	14,754	11,265
Net earnings (loss) from discontinued operations (note 8)	5	12	329	(1,709)
Net earnings	8,575	6,084	15,083	9,556
Other comprehensive income (loss):				
Foreign currency translation differences for foreign operations	2,030	(894)	927	(1,562)
Total comprehensive income	\$ 10,605	\$ 5,190	\$ 16,010	\$ 7,994
Net earnings from continuing operations per share				
Basic	\$ 0.23	\$ 0.17	\$ 0.40	\$ 0.31
Diluted	\$ 0.23	\$ 0.16	\$ 0.39	\$ 0.31
Net earnings (loss) from discontinued operations per share				
Basic and diluted (note 8)	\$ 0.00	\$ 0.00	\$ 0.01	\$ (0.05)
Net earnings				
Basic	\$ 0.23	\$ 0.17	\$ 0.41	\$ 0.26
Diluted	\$ 0.23	\$ 0.16	\$ 0.40	\$ 0.26

See accompanying notes to condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Nine months ended September 30, 2011 and 2010

Dollars in '000s

(unaudited)

	Share capital	Contributed surplus	Accumulated other comprehensive income (loss)	Retained earnings	Total equity
Balance at January 1, 2010	\$ 68,995	\$ 4,532	\$ -	\$ 29,911	\$ 103,438
Total comprehensive income (loss) for nine months ended September 30, 2010	-	-	(1,562)	9,556	7,994
Transactions with shareholders, recorded directly in equity contributions by and distributions to shareholders for nine months ended September 30, 2010:					
Dividends to equity holders	-	-	-	(6,556)	(6,556)
Share-based compensation - continuing operations	-	2,133	-	-	2,133
Share-based compensation - discontinued operations	-	39	-	-	39
Share options exercised	277	(61)	-	-	216
Total contributions by and distributions to shareholders	277	2,111	-	(6,556)	(4,168)
Balance at September 30, 2010	\$ 69,272	\$ 6,643	\$ (1,562)	\$ 32,911	\$ 107,264
Balance at December 31, 2010	\$ 70,753	\$ 6,775	\$ (2,814)	\$ 37,477	\$ 112,191
Total comprehensive income for nine months ended September 30, 2011	-	-	927	15,083	16,010
Transactions with shareholders, recorded directly in equity contributions by and distributions to shareholders for nine months ended September 30, 2011:					
Dividends to equity holders	-	-	-	(6,677)	(6,677)
Share-based compensation	-	1,350	-	-	1,350
Share options exercised (note 11)	2,723	(574)	-	-	2,149
Total contributions by and distributions to shareholders	2,723	776	-	(6,677)	(3,178)
Balance at September 30, 2011	\$ 73,476	\$ 7,551	\$ (1,887)	\$ 45,883	\$ 125,023

See accompanying notes to condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Nine months ended September 30, 2011 and 2010

Dollars in '000s
(unaudited)

	2011	2010
Cash provided by (used in):		
Operating activities:		
Net earnings from continuing operations	\$ 14,754	\$ 11,265
Items not involving cash:		
Depreciation	11,290	8,153
Total income tax expense	5,692	4,685
Unrealized foreign exchange (gain) loss on intercompany balances (note 6)	294	(231)
Unrealized foreign exchange gain due to hyper-inflation accounting (note 6)	-	(510)
Finance costs	1,288	1,282
Share-based compensation	1,350	2,133
Gain on disposal of property and equipment	(2,320)	(2,609)
Cash flow from continuing operations	32,348	24,168
Cash flow from discontinuing operations (note 8)	-	(1,694)
Changes in non-cash operating working capital	(12,987)	(5,343)
Income taxes paid	(1,191)	(1,005)
Cash flow from operating activities	18,170	16,126
Investing activities:		
Property and equipment additions	(37,341)	(24,929)
Proceeds on disposal of property and equipment	3,838	3,732
Proceeds on disposal of assets held for sale	3,793	5,501
Changes in non-cash investing working capital	1,929	(227)
Cash flow from investing activities	(27,781)	(15,923)
Financing activities:		
Change in operating loan	8,794	12,185
Interest paid	(1,559)	(1,622)
Advances of loans and borrowings	7,000	-
Repayments on loans and borrowings	(446)	(5,553)
Proceeds on exercise of share options	2,149	216
Dividends paid	(6,653)	(4,369)
Cash flow from financing activities	9,285	857
Effect of exchange rate on changes in cash and cash equivalents	376	(116)
Change in cash and cash equivalents	50	944
Cash and cash equivalents, beginning of period	1,740	491
Cash and cash equivalents, end of period	\$ 1,790	\$ 1,435

See accompanying notes to condensed consolidated interim financial statements.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Three and nine months ended September 30, 2011 and 2010

Dollars in '000s except per share amounts
(unaudited)

1. Reporting entity

Cathedral Energy Services Ltd. (the "Company" or "Cathedral") is a company domiciled in Canada. The Company is a publicly-traded company listed on the Toronto Stock Exchange under the symbol "CET". The unaudited condensed consolidated interim financial statements of the Company as at and for the period ended September 30, 2011 comprise the Company and its subsidiaries (together referred to as "Cathedral"). Cathedral is engaged in the business of providing selected oilfield services to oil and natural gas companies in western Canada and selected oil and natural gas basins in the United States. The Company is in the process of establishing operations in Venezuela for providing directional drilling services through its wholly owned subsidiaries Directional Plus International Ltd. ("DPI") and Directional Plus de Venezuela, C.A. ("DPV").

2. Basis of preparation

(a) Statement of compliance

The unaudited condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* ("IAS 34") and IFRS 1 First-time Adoption of International Financial Reporting Standards has been applied.

Accordingly, certain information and footnote disclosure normally included in annual financial statements prepared in accordance with IFRS, as issued by the International Accounting Standards Board ("IASB"), have been omitted or condensed. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements have been set out in note 2 (d) below. These unaudited condensed consolidated interim financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2010, which are included in the Company's 2010 annual report. An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of Cathedral is provided in note 14.

The unaudited condensed consolidated interim financial statements were authorized for issue by the Board of Directors on November 2, 2011.

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

The preparation of the unaudited condensed consolidated interim financial statements in conformity with IFRS 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.

The most significant estimates relate to the depreciation of property and equipment, the cost recovery of property and equipment, valuation of goodwill, valuation and recognition of income taxes and the determination of share-based compensation. Actual results could differ from those estimates.

3. Significant accounting policies and determination of fair values

These unaudited condensed interim consolidated financial statements for the period ended September 30, 2011 do not include all disclosures required in the annual financial statements and should be read in conjunction with the annual consolidated financial statements and notes thereto for the year ended December 31, 2010 included in the Company's 2010 Annual Report and other public disclosure documents of the Company and with the unaudited condensed consolidated interim financial statements for the three months ended March 31, 2011. These unaudited condensed interim consolidated financial statements have been prepared in accordance with IFRS and using the same accounting policies as outlined in note 3 and the same method for determination of fair values as outlined in note 4 of the unaudited condensed interim consolidated financial statements for the three months ended March 31, 2011. The accounting policies have been applied consistently by the Company.

4. 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 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 United States are not subject to the seasonality to the same extent that it occurs in the western Canada region.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

5. Nature of expenses

The nature of expenses can be specified as follows:

	Cost of sales		Selling, general and administrative		Total
<i>Three months ended September 30, 2011</i>					
Depreciation	\$	(4,105)	\$	(41)	\$ (4,146)
Share-based compensation		(82)		(357)	(439)
Staffing costs, excluding share-based compensation		(24,900)		(4,050)	(28,950)
Other expenses		(16,376)		(1,342)	(17,718)
Total	\$	(45,463)	\$	(5,790)	\$ (51,253)
<i>Nine months ended September 30, 2011</i>					
Depreciation	\$	(11,172)	\$	(118)	\$ (11,290)
Share-based compensation		(245)		(1,105)	(1,350)
Staffing costs, excluding share-based compensation		(61,251)		(10,668)	(71,919)
Other expenses		(41,739)		(4,271)	(46,010)
Total	\$	(114,407)	\$	(16,162)	\$ (130,569)
<i>Three months ended September 30, 2010</i>					
Depreciation	\$	(3,043)	\$	(85)	\$ (3,128)
Share-based compensation		(79)		(640)	(719)
Staffing costs, excluding share-based compensation		(16,666)		(2,984)	(19,650)
Other expenses		(10,535)		(1,336)	(11,871)
Total	\$	(30,323)	\$	(5,045)	\$ (35,368)
<i>Nine months ended September 30, 2010</i>					
Depreciation	\$	(7,905)	\$	(248)	\$ (8,153)
Share-based compensation		(232)		(1,901)	(2,133)
Staffing costs, excluding share-based compensation		(42,227)		(8,181)	(50,408)
Other expenses		(28,326)		(3,912)	(32,238)
Total	\$	(78,690)	\$	(14,242)	\$ (92,932)

6. Foreign exchange gain (loss) and finance costs

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Foreign exchange gain (loss):				
Realized foreign exchange gain	\$ 213	\$ 308	\$ 273	\$ 94
Unrealized foreign exchange gain due to hyper-inflation accounting	-	-	-	510
Unrealized foreign exchange gain (loss) on intercompany balances	(868)	464	(294)	231
Foreign exchange gain (loss)	\$ (655)	\$ 772	\$ (21)	\$ 835
Finance costs:				
Interest on revolving term loan	\$ (261)	\$ (292)	\$ (760)	\$ (855)
Interest on bank indebtedness	(155)	(122)	(389)	(306)
Interest on finance lease liabilities	(25)	(26)	(73)	(73)
Other interest	(31)	(34)	(66)	(48)
Finance costs	\$ (472)	\$ (474)	\$ (1,288)	\$ (1,282)

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

7. Income tax recovery (expense)

The quarterly income taxes are based upon the estimated annual effective rates of 27% (2010 – 25%) for Canadian entities and 39% (2010 – 42%) for U.S. entities. The income tax recovery (expense) for the period is comprised as follows:

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Current tax recovery (expense):				
Current period	\$ (253)	\$ (179)	\$ (605)	\$ (913)
Adjustment to prior period provisions	-	(64)	454	(64)
Total current tax expense	(253)	(243)	(151)	(977)
Deferred tax expense:				
Origination and reversal of temporary differences	(2,918)	(2,034)	(5,371)	(3,708)
Adjustment to prior period provisions	-	-	(170)	-
Total deferred tax expense	(2,918)	(2,034)	(5,541)	(3,708)
Income tax expense	\$ (3,171)	\$ (2,277)	\$ (5,692)	\$ (4,685)

8. Discontinued operations

Effective March 31, 2010, the Company ceased operating its Canadian slickline business. On April 20, 2010, the Company also completed the sale of the assets of its U.S. based electric wireline business. As such, all wireline inventory and property and equipment have been reclassified as assets held for sale on the consolidated statement of financial position as at March 31, 2010. No impairment losses were recognized on the reclassification of the inventory and property and equipment as held for sale.

Operating results related to this division have been included in net earnings from discontinued operations in these consolidated financial statements.

The following table provides additional information with respect to amounts included in the statement of comprehensive income (loss) related to discontinued operations:

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Revenues	\$ -	\$ -	\$ -	\$ 2,359
Cost of sales	-	(59)	-	(3,095)
Gross margin	-	(59)	-	(736)
Selling, general and administrative expenses	-	82	-	(1,683)
Gain (loss) on disposal of property and equipment	-	(15)	449	(77)
Earnings (loss) from operating activities	-	8	449	(2,496)
Finance costs	-	(7)	-	(41)
Earnings (loss) before income tax	-	1	449	(2,537)
Income tax recovery (expense)	5	11	(120)	828
Net earnings (loss) from discontinued operations	\$ 5	\$ 12	\$ 329	\$ (1,709)
Net earnings (loss) from discontinued operations per share				
Basic and diluted	\$ -	\$ -	\$ 0.01	\$ (0.05)

The following table provides additional information with respect to amounts included in the statement of cash flows related to discontinued operations:

	Nine months ended September 30	
	2011	2010
Net earnings (loss) from discontinued operations	\$ 329	\$ (1,709)
Items not involving cash:		
Depreciation	-	686
(Gain) loss on disposal of property and equipment	(449)	77
Share-based compensation	-	39
Income tax (recovery) expense	120	(828)
Finance costs	-	41
Cash flow from discontinued operations	\$ -	\$ (1,694)

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

9. Property and equipment

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

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Directional drilling equipment	\$ 7,384	\$ 3,258	\$ 21,722	\$ 17,827
Production testing equipment	2,137	5,010	9,533	11,090
Land and buildings	1,941	190	5,332	387
Automotive equipment	148	302	687	774
Office and computer equipment	254	119	577	323
Property and equipment additions	\$ 11,864	\$ 8,879	\$ 37,851	\$ 30,401

Included in the above additions are non-cash additions of \$90 for the three months ended September 30, 2011 and \$510 for the nine months ended September 30, 2011 (2010 - \$122 for the three months ended September 30 and \$5,472 for the nine months ended September 30).

10. Assets held for sale

The wireline assets classified as held for sale (see Note 8) have been sold in their entirety by September 30, 2011. In addition, in 2011 Q2 the Company reclassified ten third-party supplied negative pulse MWD systems as held for sale. No impairment loss was recognized as a result of this classification. The assets held for sale comprise of the following:

	September 30 2011	December 31 2010
Discontinued operations property and equipment	\$ -	\$ 3,344
Directional drilling property and equipment	1,475	-
Total	\$ 1,475	\$ 3,344

11. Share capital

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

Common shares issued:

	Nine months ended September 30, 2011		Year ended December 31, 2010	
	Number	Amount	Number	Amount
Issued, beginning of period	36,739,070	\$ 70,753	36,400,061	\$ 68,995
Issued on exercise of options	411,915	2,149	339,009	1,312
Contributed surplus on options exercised		574		446
Issued, end of period	37,150,985	\$ 73,476	36,739,070	\$ 70,753

Issuance of common shares

411,915 common shares were issued as a result of the exercise of vested options arising from 2009 and 2010 grants to employees and consultants. Options were exercised at an average strike price of \$5.22 per option. All issued shares are fully paid.

Dividends

Cathedral declared a dividend of \$2,229 in 2011 Q3 (2010 - \$2,187) or \$0.06 per share (2010 - \$0.06 per share.) After the reporting date the directors approved a dividend of \$0.06 per share with a record date of December 31, 2011 and payable January 16, 2012.

Issuance of share options

During the period ended September 30, 2011, the Company issued 494,000 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 values:

	2011 Q3	2011 Q2	2011 Q1
Number of options issued	36,000	60,000	398,000
Exercise price	\$ 8.34	\$ 8.66	\$ 10.51
Fair value per option (w eighted average)	\$ 2.15	\$ 2.35	\$ 3.06
Expected annual dividend per share	\$ 0.24	\$ 0.24	\$ 0.24
Risk-free interest rate (w eighted average)	1.7%	1.9%	1.9%
Expected share price volatility (w eighted average)	46.1%	48.3%	50.7%
Forfeiture rate per annum	10.0%	10.0%	10.0%

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

12. Loans and borrowings

	September 30 2011	December 31 2010
Current liabilities:		
Current portion of finance lease liabilities	\$ 613	\$ 647
Current portion of conditional sales contracts	2	27
Total	\$ 615	\$ 674
Non-current liabilities:		
Finance lease liabilities	\$ 1,044	\$ 933
Secured conditional sales contracts	-	2
Secured revolving term loan	41,500	34,500
Total	\$ 42,544	\$ 35,435

In the nine months ended September 30, 2011, an additional \$7,000 was advanced on the Company's secured revolving term loan to finance capital additions.

The Company signed a second amending agreement to its existing credit agreement on June 29, 2011. The second amending agreement has similar terms as described in notes 5 and 6 of the annual audited financial statements as at December 31, 2010 and has added a \$35 million accordion feature, available upon request by the Company and is subject to review and approval by the lenders.

13. 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, 2010. As at September 30, 2011, the Company's commitment to purchase property and equipment is approximately \$3,627. Cathedral anticipates expending these funds in 2011 Q4 and 2012 Q1.

14. Explanation of transition to IFRS

These financial statements should be read in conjunction with the unaudited condensed consolidated interim financial statements for the three months ended March 31, 2011 Note 15 "Explanation of transition to IFRS". The accounting policies set out in note 3 of the unaudited condensed consolidated interim financial statements for the three months ended March 31, 2011 will be applied in preparing the financial statements for the year ended December 31, 2011, the comparative information presented in these financial statements for the year ended December 31, 2010 and in the preparation of an opening IFRS statement of financial position at January 1, 2010 (Cathedral's date of transition).

In preparing its opening IFRS statement of financial position, Cathedral has adjusted amounts reported previously in financial statements prepared in accordance with CGAAP. An explanation of how the transition from Canadian Generally Accepted Accounting Principles "CGAAP" to IFRS has affected Cathedral's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

14. Explanation of transition to IFRS (continued)

Reconciliation of total comprehensive income for the nine months ended September 30, 2010	Canadian		IFRS		IFRS	
	GAAP	Reclassifications		adjustments		IFRS
Revenues (note h)	\$ 98,519	\$ 8,201	\$ -	\$ -	\$ 106,720	
Cost of sales (note h)	(52,820)	(25,123)	(747)	(747)	(78,690)	
Gross margin	45,699	(16,922)	(747)	(747)	28,030	
Selling, general and administrative expenses (note h)	(22,062)	7,463	357	357	(14,242)	
Depreciation (note h)	(7,488)	7,488	-	-	-	
Share-based compensation (note h)	(2,020)	2,020	-	-	-	
	14,129	49	(390)	(390)	13,788	
Gain on disposal of property and equipment	2,606	-	3	3	2,609	
Results from operating activities	16,735	49	(387)	(387)	16,397	
Interest - long-term debt (note h)	(964)	964	-	-	-	
Interest - other (note h)	(306)	306	-	-	-	
Foreign exchange gain (loss) (note h)	346	-	489	489	835	
Finance costs (note h)	-	(1,319)	37	37	(1,282)	
Earnings from continuing operations before income taxes	15,811	-	139	139	15,950	
Income tax expense	(2,790)	-	(1,895)	(1,895)	(4,685)	
Net earnings from continuing operations	13,021	-	(1,756)	(1,756)	11,265	
Net earnings from discontinued operations (note i)	(2,668)	-	959	959	(1,709)	
Net earnings	10,353	-	(797)	(797)	9,556	
Other comprehensive income:						
Foreign currency translation differences for foreign operations	(443)	-	(1,119)	(1,119)	(1,562)	
Total comprehensive income for the period	\$ 9,910	\$ -	\$ (1,916)	\$ (1,916)	\$ 7,994	
Net earnings from continuing operations per share						
Basic and diluted	\$ 0.36	\$ -	\$ (0.05)	\$ (0.05)	\$ 0.31	
Net earnings from discontinued operations						
Basic and diluted	\$ (0.07)	\$ -	\$ 0.03	\$ 0.03	\$ (0.05)	
Net earnings for the period per share						
Basic	\$ 0.28	\$ -	\$ (0.02)	\$ (0.02)	\$ 0.26	
Diluted	\$ 0.28	\$ -	\$ (0.02)	\$ (0.02)	\$ 0.26	

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

14. Explanation of transition to IFRS (continued)

Reconciliation of total comprehensive income for the three months ended September 30, 2010	Canadian GAAP	IFRS Reclassifications	IFRS adjustments	IFRS
Revenues (note h)	\$ 38,864	\$ 3,158	\$ -	\$ 42,022
Cost of sales (note h)	(20,605)	(9,462)	(256)	(30,323)
Gross margin	18,259	(6,304)	(256)	11,699
Selling, general and administrative expenses (note h)	(7,935)	2,769	121	(5,045)
Depreciation (note h)	(2,894)	2,894	-	-
Share-based compensation (note h)	(675)	675	-	-
	6,755	34	(135)	6,654
Gain on disposal of property and equipment	1,398	-	(1)	1,397
Results from operating activities	8,153	34	(136)	8,051
Interest - long-term debt (note h)	(350)	350	-	-
Interest - other (note h)	(122)	122	-	-
Foreign exchange loss (note h)	778	-	(6)	772
Finance costs (note h)	-	(506)	32	(474)
Earnings from continuing operations before income taxes	8,459	-	(110)	8,349
Income tax expense	(1,319)	-	(958)	(2,277)
Net earnings from continuing operations	7,140	-	(1,068)	6,072
Net earnings from discontinued operations (note i)	(84)	-	96	12
Net earnings	7,056	-	(972)	6,084
Other comprehensive income:				
Foreign currency translation differences for foreign operations	(876)	-	(18)	(894)
Total comprehensive income for the period	\$ 6,180	\$ -	\$ (990)	\$ 5,190
Net earnings from continuing operations per share				
Basic	\$ 0.20	\$ -	\$ (0.03)	\$ 0.17
Diluted	\$ 0.19	\$ -	\$ (0.03)	\$ 0.16
Net earnings from discontinued operations				
Basic and diluted	\$ (0.00)	\$ -	\$ 0.00	\$ 0.00
Net earnings for the period per share				
Basic	\$ 0.19	\$ -	\$ (0.03)	\$ 0.17
Diluted	\$ 0.19	\$ -	\$ (0.03)	\$ 0.16

(a) Goodwill

In accordance with IFRS, for purposes of assessing impairment of goodwill, intangibles and property and equipment, management has identified cash-generating units ("CGUs") based on the smallest group of assets that are capable of generating largely independent cash inflows. Under CGAAP, impairment was allocated to asset groups defined as the lowest level of assets and liabilities for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. In addition, the recoverable amount for impairment analysis is based on discounted cash flows under IFRS, unlike CGAAP, where the recoverable amount was assessed on an undiscounted basis.

Under IFRS, management determined that the recoverable amount of goodwill and intangibles of the wireline CGU was \$nil. As a result, the carrying amount of goodwill was written down \$12,600 as at September 30, 2010.

(b) Deferred Credit

Under CGAAP, Cathedral had recorded a deferred credit related to the 2009 reorganization (refer to Note 1 of the 2009 CGAAP annual financial statements). The deferred credit was the result of future tax assets recorded in excess of consideration paid to obtain future tax assets. However, based on the IASB "Framework for the Preparation and Presentation of Financial Statements", this deferred credit does not have the characteristics of a liability and as such, has been de-recognized. The result of this is to decrease the deferred credit and increase retained earnings by \$18,897 as at September 30, 2010.

(c) Property and equipment

i) Capitalization of automotive leases

Under CGAAP, leases of certain automotive equipment were classified as operating leases. Under IFRS, the equipment is classified as a finance lease because of the guaranteed residual value on the lease.

The effect of this change in classification on the statement of financial position is to increase property and equipment by \$1,511 as at September 30, 2010, increase prepaid expenses by \$22 at September 30, 2010 and increase loans and borrowings (current and long-term) by \$1,553 as at September 30, 2010.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

14. Explanation of transition to IFRS (continued)

(c) Property and equipment (continued)

ii) Change in method of foreign subsidiary accounting

For IFRS, two of Cathedral's wholly owned subsidiaries, Directional Plus International Ltd. ("DPI") and Directional Plus de Venezuela, C.A. ("DPV"), were assessed to have functional currencies which are not the Canadian dollar. There were further changes to DPV as Venezuela is considered a hyper-inflationary economy and the accounting for hyper-inflationary economies is different under IFRS.

The effect of this change as at September 30, 2010 in classification on the statement of financial position is to increase inventories by \$15, decrease property and equipment by \$1,576, decreased accumulated other comprehensive loss by \$1,076 and decrease retained earnings by \$485.

iii) IFRS 1 election fair value as deemed cost

In accordance with IFRS 1, Cathedral has elected to use the fair value of its wireline units as the deemed cost as at January 1, 2010. As such property and equipment and retained earnings have increased by \$371 as at September 30, 2010.

iv) Reclassification of development costs to intangibles

Under CGAAP, certain development costs had been classified as property and equipment. Under IFRS, development costs have been reclassified to decrease property and equipment and to increase intangible assets by \$436 as at September 30, 2010.

v) Increased depreciation on assets temporarily removed from service

Under CGAAP, certain assets were classified as temporarily removed from service and no depreciation was charged for these assets. This treatment is not allowed under IFRS. As such, property and equipment and retained earnings have been reduced by \$1,009 as at September 30, 2010 for the additional depreciation.

vi) Capitalized borrowing costs

Under IFRS, borrowing costs related to Cathedral's development of its new Calgary office must be capitalized. No amounts were capitalized prior to April 1, 2010 when the development commenced. As such, \$109 of borrowing costs were capitalized and reduced financings costs as at September 30, 2010.

vii) Classification of Assets held for sale

Under IFRS, assets held for sale are classified as current assets. As a result the CGAAP non-current assets held for sale balance of \$4,319 as at September 30, 2010 has been reclassified as current assets under IFRS reporting.

(d) Deferred taxes

As a result of the preceding changes in the accounting value of goodwill the Company's net deferred tax asset increased by \$84. Based on changes in capital asset balances the Company's net deferred tax asset increased by \$162 and due to the reallocation of the tax provision among the quarters of 2010 the net deferred tax asset decreased \$110 as at September 30, 2010.

The preceding changes increased (decreased) the deferred tax asset as follows based on a tax rate of 29 percent for Canadian entities and 35 percent for U.S. entities:

The other adjustments had no tax impact.

(e) Share-based payments

Cathedral granted share-based payments to certain employees. Cathedral accounted for these share-based payment arrangements on a straight-line basis for each grant under CGAAP. Under IFRS the related expense has been adjusted to reflect the accounting for each award tranche separately taking into account estimated forfeiture rates. As a result of this change, contributed surplus has increased and retained earnings has decreased by \$290 as at September 30, 2010.

(f) Accumulated other comprehensive income

In accordance with IFRS 1, Cathedral has elected to deem all foreign currency translation differences that arose prior to the date of transition in respect of all foreign operations to be \$nil at the date of transition. As such, the accumulated other comprehensive loss of \$1,967 was eliminated and retained earnings was reduced by \$1,967 for all periods.

In addition, as discussed in note c) ii) the accounting for the Company's subsidiaries DPI and DPV has changed. As a result of this change the Company's accumulated other comprehensive loss was increased by \$1,076 as at September 30, 2010.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

14. Explanation of transition to IFRS (continued)

(g) Retained earnings

The preceding changes increased retained earnings by \$3,114 as follows:

	September 30, 2010
Goodwill impairment (note a)	\$ (12,600)
Deferred credit derecognition (note b)	18,897
Reclassification of leases as finance leases (note c)	(7)
Additional depreciation (note c)	(1,009)
Wireline IFRS 1 revaluation (note c)	371
Foreign subsidiary translation adjustment (note c)	(485)
Borrowing costs (note c)	109
Deferred taxes (note d)	95
Share-based payments (note e)	(290)
Accumulated other comprehensive income (note f)	(1,967)
	<u>\$ 3,114</u>

(h) Statement of comprehensive income

Under the CGAAP, \$8,201 of expenses had been classified as reduction of revenues for the nine months ended September 30, 2010 and \$3,158 for the three months ended September 30, 2010. This presentation is not allowed under IFRS and as such both revenues and cost of sales have increased by \$8,201 and \$3,158, respectively.

Under IFRS, Cathedral has elected to present its income statement based on function of expenses. As result \$7,463 of selling, general and administrative expenses for the nine months ended September 30, 2010 and \$2,769 for the three months ended September 30, 2010 have been reclassified as cost of sales.

In addition, under IFRS depreciation and share-based compensation have been re-allocated to cost of sales and selling, general and administrative expenses. Under IFRS, interest – long-term debt, interest – other and foreign exchange gain has been classified as part of financing costs.

(i) Discontinued operations

The following table outlines the changes to loss from discontinued operations upon adoption of IFRS in 2010:

	Three months ended September 30, 2010	Nine months ended September 30, 2010
IFRS adjustments - discontinued operations		
Capitalization of automotive leases	\$ 2	\$ 22
Reversal of CGAAP w rite-off of goodwill; recognized at January 1, 2010 under IFRS	-	1,327
Reversal of CGAAP w rite-off of intangibles; recognized at January 1, 2010 under IFRS	-	293
Increase in depreciation due to IFRS 1 election to fair value	-	(129)
Decrease in gain on disposal of property and equipment due to IFRS 1 election to fair	(194)	(719)
Share-based payments	2	(35)
Reduction in deferred tax expense	286	200
Total IFRS adjustments - discontinued operations	<u>\$ 96</u>	<u>\$ 959</u>