CATHEDRAL

2014 Q2 INTERIM REPORT

FINANCIAL HIGHLIGHTS

Dollars in 000's except per share amounts

	Three months ended June 30		Six months ended June 30	
	2014	2013	2014	2013
Revenues	$ 56,797	$ 45,639	$ 124,817	$ 99,713
Adjusted gross margin % (1)	19.7%	22.0%	20.2%	23.4%
EBITDAS (1)	$ 6,151	$ 5,342	$ 14,732	$ 13,934
Diluted per share	$ 0.17	$ 0.15	$ 0.41	$ 0.38
EBITDAS (1) as % of revenues	10.8%	11.7%	11.8%	14.0%
Funds from operations (1)	$ 3,767	$ 3,576	$ 11,887	$ 11,083
Diluted per share	$ 0.10	$ 0.10	$ 0.33	$ 0.30
Net earnings (loss)	$ 253	$ (309)	$ 2,702	$ 1,750
Basic per share	$ 0.01	$ (0.01)	$ 0.07	$ 0.05
Diluted per share	$ 0.01	$ (0.01)	$ 0.07	$ 0.05
Dividends declared per share	$ 0.0825	$ 0.0750	$ 0.1650	$ 0.1500
Property and equipment additions (cash)	$ 7,062	$ 6,476	$ 16,979	$ 13,174
Weighted average shares outstanding				
Basic (000s)	36,230	35,854	36,208	36,307
Diluted (000s)	36,253	35,898	36,235	36,361

	June 30 2014	December 31 2013
Working capital	$ 29,729	$ 26,031
Total assets	$ 216,873	$ 205,375
Loans and borrowings excluding current portion	$ 51,333	$ 38,462
Total shareholders' equity	$ 122,986	$ 126,612

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

MANAGEMENT'S DISCUSSION & ANALYSIS

This Management's Discussion & Analysis ("MD&A") for the three and six months ended June 30, 2014 should be read in conjunction with the annual audited consolidated financial statements and notes thereto for the year ended December 31, 2013, as well as the MD&A in the 2013 Annual Report of Cathedral Energy Services Ltd. ("the Company" / "Cathedral"). This MD&A has been prepared as of August 12, 2014. Dollar amounts are in '000's except for day rates and per share amounts.

2014 Q2 KEY TAKEAWAYS

- Record revenues for Q2 period;
- U.S. directional drilling achieved all-time record quarterly revenues and Canadian directional drilling and production testing divisions achieved record revenues for Q2;
- Excluding revenues related to International operations which were terminated in early 2014, quarterly revenues increased by 40% and year-to-date revenues increased 32%;
- Market share gains were realized by Canadian and U.S. directional drilling divisions;
- Increase in quarterly EBITDAS of 15% and year-to-date EBITDAS increased by 6%; and
- 54% increase in year-to-date net earnings.

OVERVIEW

The Company completed 2014 Q2 with quarterly revenues of $56,797 and year-to-date revenues of $124,817 compared to 2013 Q2 revenues of $45,639 and 2013 year-to-date revenues of $99,713. Excluding revenues related to International operations which were terminated in early 2014, year-to-date revenues have increased 32% from 2013 and Q2 revenues have increased 40% from 2013. The 2014 Q2 revenues were split 73%

(2013 Q2 - 60%) from the directional drilling division, 27% (2013 Q2 - 29%) from the production testing division and nil% (2013 Q2 – 11%) from international operations.

2014 Q2 EBITDAS was $6,151 ($0.17 per share diluted) which represents an $809 or 15% increase from 2013 Q2 EBITDAS of $5,342 ($0.15 per share diluted). For the three months ended June 30, 2014, the Company's net earnings were $253 ($0.01 per share diluted) as compared to a loss of $309 ($0.01 loss per share basic) in 2013. The quarter-over-quarter increase in EBITDAS is due to increases in both Canadian and U.S. operating results. 2014 year-to-date EBITDAS was $14,732 ($0.41 per share diluted) which represents a $798 or 6% increase from $13,934 ($0.38 per share diluted) in 2013. On a 2014 year-to-date basis, the Company's net earnings were $2,702 ($0.07 per share diluted) compared to a $1,750 ($0.05 per share diluted) in 2013.

OUTLOOK

Industry fundamentals that contributed to a strong first half of 2014 in the Canadian market place are expected to continue into the back half of the year. Overall, oil and natural gas producers have been able to increase their capital spending due to improved cash flows from operations and access to capital markets. Upside for the Canadian industry continues to focus around increased take away capacity by rail and new and expanded pipelines as well as further liquefied natural gas related developments.

Based upon performance, Cathedral's Canadian directional drilling division has been able to increase market share by adding new customers and incremental work from existing customers. The key to our performance at the field level is a combination of quality staff and equipment, specifically our EM-MWD system and nDurance ™ mud motor line. Cathedral's Canadian directional drilling division started 2014 Q3 slower than expected due to rain and flooding issues in Saskatchewan and Manitoba but is expecting year-over-year growth for the remainder of 2014. Key resource plays in which Cathedral is active includes the Montney, Bakken, Cardium, Viking, Duvernay, Falher, Glaucontic, Ostracod and Wilrich plays.

Our Canadian production testing division completed a very strong first half of 2014 and is expected to complete the balance of the year at high operating levels.

Industry analysts are expecting the U.S. market to experience a year-over-year increase in capital spending with producers directing capital to oil and liquids targets. U.S. producers are expected to continue to expand the use of horizontal, multi-stage fracturing to complete conventional and unconventional oil and natural gas plays both of which align with Cathedral's service offerings.

Our U.S. directional drilling division continues to make strides increasing activity levels at favorable day rates and further growth in activity days is expected in all U.S. operating areas over the balance of 2014. The Company's efforts towards enhancing profitability through managing costs have resulted in improved U.S. margins. Cathedral's current activity is focused in the Permian, Eagle Ford, DJ Basin, Mississippian Lime, San Juan, Utica and Marcellus plays with additional work in Bakken, Woodford Shale, Granite Wash and Piceance Basin plays.

The U.S. production testing division is making substantive progress with expanding its customer base and has a favorable outlook for the remainder of the year.

Cathedral's "Claw" series of the nDurance ™ mud motor line continues to open doors to new and existing customers either as part of our directional drilling service package or on a standalone rental basis. Our build out of the Claw mud motor line continues and at the end of 2014 Q2 had built 58 of a planned fleet of 81. The Claw is designed to operate at higher flow rates and has superior torque output compared to conventional power sections. This motor has significantly increased drilling rate of penetration which leads to reduced drilling time and costs for Cathedral's customers.

Cathedral's focus for 2014 continues to be on: i) increasing revenue and 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.

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 Q3 dividend in the amount of $0.0825 per share which will have a date of record of September 30, 2014 and a payment date of October 15, 2014.

2014 CAPITAL PROGRAM

During the six months ended June 30, 2014 the Company invested $16,979 (2013 - $13,174) in property and equipment excluding non-cash items. The following table details the current period's net property and equipment additions:

	Six months ended June 30, 2014
Property and equipment additions:	
Growth capital [(1)]	$ 8,301
Maintenance capital [(1)]	5,995
Replacement capital [(1)]	1,032
Infrastructure capital [(1)]	1,651
Total cash additions	16,979
Less: proceeds on disposal of property and equipment	(3,200)
Net property and equipment additions [(1)]	$ 13,779

(1) See "NON-GAAP MEASUREMENTS"

The major additions for growth capital were $6,116 for additional drilling motors and related equipment for specific job requirements and $2,185 for additional ancillary production testing equipment which will reduce future rental costs. Infrastructure capital relates to the construction of a new shop in Oklahoma which is expected to be operational in early 2015 and computer system upgrades.

Cathedral's 2014 capital budget remains at $24,000 which includes $12,000 of growth capital, $8,000 of maintenance capital and $4,000 of infrastructure expenditures.

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

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

	June 30 2014	December 31 2013	June 30 2013
Directional drilling - MWD systems [1]	140	139	134
Production testing units	66	72	72

(1) The Company has 10 Geolink MWD systems that have been excluded from the above figures as they are held for sale.

During 2014 Q2, the Company disposed of 6 production testing units that were low pressure and not suited to Cathedral's customer requirements for proceeds of $550.

RESULTS OF OPERATIONS – THREE MONTHS ENDED JUNE 30

	Three months ended June 30, 2014				Three months ended June 30, 2013			
Revenues	Directional drilling	Production testing	Resale and Rental	Total	Directional drilling	Production testing	Resale and Rental	Total
Canada	$ 12,821	$ 7,991	$ -	$ 20,812	$ 8,650	$ 4,066	$ -	$ 12,716
United States	28,636	7,349	-	35,985	18,835	8,914	-	27,749
International	-	-	-	-	-	-	5,174	5,174
Total	$ 41,457	$ 15,340	$ -	$ 56,797	$ 27,485	$ 12,980	$ 5,174	$ 45,639

Revenues 2014 Q2 revenues were $56,797 which represented an increase of $11,158 or 24% from 2013 Q2 revenues of $45,639. Both Canadian divisions and U.S. directional drilling division experienced revenue increases. Excluding international operations, 2014 Q2 revenues have increased 40% over 2013 Q2.

Canadian directional drilling revenues increased from $8,650 in 2013 Q2 to $12,821 in 2014 Q2; a 48% increase. Canadian revenues were at record levels for Q2. This increase was the result of: i) a 45% increase in activity days from 679 in 2013 Q2 to 987 in 2014 Q2; and ii) a 2% increase in the average day rate from $12,739 in 2013 Q2 to $12,990 in 2014 Q2. In 2013 Q2 there had been an overall industry slow-down, a decline in work for a significant client that carried over from 2013 Q1 and a slow start after spring break-up. In addition to the general improvements in the overall market, there was increased activity in 2014 compared to 2013 due to efficiencies related to pad drilling which is an expanding industry trend, new customers and incremental work for existing customers. This increase was achieved despite the decline in work during the latter half of June 2014 due to weather delays and certain clients delaying projects to later dates.

U.S. directional drilling revenues increased from $18,835 in 2013 Q2 to $28,636 in 2014 Q2; a 52% increase. This increase was the result of: i) a 41% increase in activity days from 1,602 in 2013 Q2 to 2,260 in 2014 Q2; and ii) an 8% increase in the average day rate from $11,757 in 2013 Q2 to $12,671 in 2014 Q2 (when converted to Canadian dollars). The increase in U.S. activity days were due to further expansion in the Texas and Oklahoma markets, offset by reduced drilling in the U.S. northeast area within the existing customer base. The increased average day rate was primarily due to a stronger U.S. dollar and somewhat due to higher rates that were achieved on jobs where the pricing was tied to performance. On a sequential basis, U.S. directional drilling revenues for 2014 Q2 are up significantly over 2014 Q1 revenues of $23,672. U.S activity days are up on a sequential basis (2014 Q2 – 2,260 versus 2014 Q1 – 1,880) due to gains in the Rocky Mountain region and further expansion of work in Oklahoma and Texas regions.

Canadian production testing revenues increased from $4,066 in 2013 Q2 to $7,991 in 2014 Q2; a 97% increase. The Canadian operating days and revenues were up in each month of the quarter compared to 2013 and resulted in record revenues for a Q2. In 2013 Q2 there was downturn in work due to general industry wide decline in wells completed and client specific delays in completion work that has been deferred into future periods. However, in 2014 Q2 there were new customers added and customers were able to work during the traditionally slow spring breakup season due to use of multi-well pad designs.

U.S. production testing revenues decreased from $8,914 in 2013 Q2 to $7,349 in 2014 Q2; an 18% decrease. The year-over-year decline in revenue is attributable to a significant customer shifting work to a competitor in 2013 Q4. The division was successful with securing work from new customers, but they did not make up for the lost customer.

Gross margin and adjusted gross margin The gross margin for 2014 Q2 was 11.3% compared to 11.5% in 2013 Q2. Adjusted gross margin for 2014 Q2 was $11,176 (19.7%) compared to $10,018 (22.0%) for 2013 Q2. The decrease in adjusted gross margin of 2.3% was due in part to the impact of international operations. Excluding international operations, adjusted gross margin for 2013 Q2 was 19.8% which is marginally higher than the adjusted gross margin in 2014 Q2 of 19.7%.

The slight decrease in adjusted gross margin excluding 2013 Q2 international operations of 0.1% was primarily due to increased equipment rentals and equipment repairs which were offset by decreased field labour costs. Equipment rentals were 2.7% of revenues in 2014 Q2 compared to 1.9% in 2013 Q2 (excluding international operations). The Company is in the process of reducing equipment rental costs through capital additions.

Depreciation allocated to cost of sales increased marginally from $4,709 in 2013 Q2 to $4,733 in 2014 Q2. Depreciation included in cost of sales as a percentage of revenue was 8.3% for 2014 Q2 and 10.3% in 2013 Q2.

Selling, general and administrative expenses ("SG&A") SG&A expenses were $6,147 in 2014 Q2 which represents a decrease of $4 when compared with $6,151 in 2013 Q2. As a percentage of revenue, these costs were 11% in 2014 Q2 and 13% in 2013 Q2. Non-cash expenses (depreciation and share-based compensation) totaled $96 for 2014 Q2 and $293 for 2013 Q2. 2014 Q2 SG&A included non-recurring recovery of prior period SG&A related to international operations and 2013 Q2 SG&A includes expenses related to international operations which were not incurred in 2014 Q2 after the wind down of those operations. Excluding these non-cash and non-recurring items SG&A increased $748 ("Adjusted SG&A").

Adjusted SG&A increased primarily due to wages, benefits and variable compensation. These increases relate to increased sales commissions, additions to sales staff to accommodate current and future U.S. growth and additions to research and development personnel. Staffing costs included in SG&A relate to executives, sales, accounting, human resources, payroll, safety, research and development and related support staff.

The remaining increase in adjusted SG&A is attributable to increased rent due to the sale and leaseback of Alberta properties which closed in 2013 Q3.

Gain on disposal of property and equipment During 2014 Q2 the Company had a gain on disposal of property and equipment of $880 compared to $1,125 in 2013 Q2. 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 had foreign exchange gain of $478 in 2014 Q2 compared to a loss of $273 in 2013 Q2 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 2014 Q2 foreign currency gain are unrealized gains of $332 (2013 Q2 – losses of $330) related to intercompany balances.

Finance costs Finance costs consist of interest expenses on operating loans, loans and borrowings and bank charges of $606 for 2014 Q2 versus $648 for 2013 Q2.

Income tax For 2014 Q2, the Company had an income tax expense of $770 compared to a recovery of $372 in 2013 Q2. The effective tax rate was 75% for 2014 Q2 and 55% for 2013 Q2. Income tax expense is booked based upon expected annualized effective rates. Annually, Q2 typically results in Canadian operations experiencing a loss for the quarter due to "spring breakup" which has significantly reduced activity levels. In both 2013 Q2 and 2014 Q2 such losses were offset by International income which has a nominal effective tax rate and when combined with a U.S. effective tax rate that is higher than in Canada, resulted in the effective 2013 Q2 tax rate of 55% and a 2014 Q2 tax rate of 75%.

RESULTS OF OPERATIONS – SIX MONTHS ENDED JUNE 30

	Six months ended June 30, 2014				Six months ended June 30, 2013			
Revenues	Directional drilling	Production testing	Resale and Rental	Total	Directional drilling	Production testing	Resale and Rental	Total
Canada	$ 41,611	$ 16,569	$ -	$ 58,180	$ 32,244	$ 11,832	$ -	$ 44,076
United States	52,308	14,329	-	66,637	33,344	17,119	-	50,463
International	-	-	-	-	-	-	5,174	5,174
Total	$ 93,919	$ 30,898	$ -	$ 124,817	$ 65,588	$ 28,951	$ 5,174	$ 99,713

Revenues 2014 revenues were $124,817 which represented an increase of $25,104 or 25% from 2013 revenues of $99,713. The increase was attributed to both Canadian divisions and U.S. directional drilling operations which were offset by declines in U.S. production testing and international operations. Excluding international operations, year-to-date revenues have increased 32% over 2013.

Canadian directional drilling revenues increased from $32,244 in 2013 to $41,611 in 2014; a 29% increase. This increase was the result of: i) an 31% increase in activity days from 2,781 in 2013 to 3,636 in 2014; and ii) a 1% decrease in the average day rate from $11,594 in 2013 to $11,444 in 2014. Cathedral's was able to increase its activity levels by 31% due to increased industry activity, efficiencies related to pad drilling which is an expanding industry trend and market share gains. Such market share gains were the result of securing work from existing customers and the addition of new customers.

U.S. directional drilling revenues increased from $33,344 in 2013 to $52,308 in 2014; a 57% increase. This increase was the result of: i) a 41% increase in activity days from 2,931 in 2013 to 4,140 in 2014; and ii) an 11% increase in the average day rate from $11,376 in 2013 to $12,635 in 2014 (when converted to Canadian dollars). The increase in U.S. activity days were due to further expansion in the Texas and Oklahoma markets, offset by reduced drilling in the U.S. northeast area within the existing customer base. The increased average day rate was due to the stronger U.S. dollar and higher rates that were achieved in the Rocky Mountain and Texas regions on jobs where the pricing was tied to performance.

Canadian production testing revenues increased from $11,832 in 2013 to $16,569 in 2014; a 40% increase. In 2013 Q1 and Q2, the Canadian operations were affected by a general industry wide decline in wells completed and client specific delays in completion work. There were no significant delays in 2014 and the Company benefitted from the addition of work for new customers and expanded use of multi-well pad designs that allowed customers to work during the traditionally slow breakup season.

U.S. production testing revenues decreased from $17,119 in 2013 to $14,329 in 2014; a 16% decrease. The year-over-year decline in revenue is attributable to a significant customer shifting work to a competitor in early 2013 Q4. The division was successful with securing work from new customers, but they did not make up for the lost customer.

Gross margin and adjusted gross margin The gross margin for 2014 was 12.8% compared to 13.9% in 2013. Adjusted gross margin for 2014 was $25,193 (20.2%) compared to $23,376 (23.4%) for 2013. The decrease in adjusted gross margin of 3.2% was due in part to the impact of international operations which only impacted 2013. Excluding international operations, adjusted gross margin for 2013 was 22.6% compared to 20.2% in 2014.

The decrease in adjusted gross margin excluding 2013 international operations of 2.4% was primarily due to increased equipment rentals and equipment repairs.

Depreciation allocated to cost of sales decreased marginally from $9,374 in 2013 to $9,197 in 2014. Depreciation included in cost of sales as a percentage of revenue was 7.4% for 2014 and 9.4% in 2013.

Selling, general and administrative expenses ("SG&A") SG&A expenses were $12,417 in 2014 which represents an increase of $695 when compared with $11,722 in 2013. As a percentage of revenue, these costs were 10% in 2014 and 12% in 2013. Non-cash expenses (depreciation and share-based compensation) total $239 for 2014 and $661 for 2013. Additionally 2014 SG&A included non-recurring recovery of prior period SG&A related to international operations while 2013 SG&A included non-recurring items related to severance costs, a recovery of prior period SG&A related to international and costs related to international operations which were not incurred in 2014 after the wind down of those operations. Excluding these non-cash and non-recurring items SG&A increased $1,608 ("Adjusted SG&A").

Adjusted SG&A increased primarily due to wages, benefits and variable compensation. These increases relate to increased sales commissions, additions to sales staff to accommodate current and future U.S. growth and additions to research and development personnel. Staffing costs included in SG&A relate to executives, sales, accounting, human resources, payroll, safety, research and development and related support staff. The remaining increase in adjusted SG&A is attributable to increased rent due to the sale and leaseback of Alberta properties which closed in 2013 Q3 and insurance.

Gain on disposal of property and equipment During 2014 the Company had a gain on disposal of property and equipment of $1,614 compared to $1,630 in 2013. 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 loss The Company had foreign exchange loss of $19 in 2014 compared to $553 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 2014 foreign currency loss are unrealized losses of $122 (2013 – $542) related to intercompany balances.

Finance costs Finance costs consist of interest expenses on operating loans, loans and borrowings and bank charges of $1,202 for 2014 versus $1,128 for 2013. 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 2014, the Company had an income tax expense of $1,197 compared to $356 in 2013. The effective tax rate was 31% for 2014 and 17% 2013. Income tax expense is booked based upon expected annualized effective rates. Annually, Q2 typical results in Canadian operations experiencing a loss for the quarter due to "spring breakup" which has significantly reduced activity levels. In both 2013 Q2 and 2014 Q2 such losses were offset by International income which has a nominal effective tax rate and when combined with a U.S. effective tax rate that is higher than in Canada, resulted in the effective rates as above

LIQUIDITY AND CAPITAL RESOURCES

Overview On an annualized basis the Company's principal source of liquidity is cash generated from operations. In addition, the Company has the ability to fund liquidity requirements through its credit facility and the issuance of debt and/or equity. For the six months ended June 30, 2014, the Company's significant sources of cash flows were funds from operations of $11,887 (2013 - $11,083), advances on loans and borrowings of $13,000 (2013 - $5,000) and increase in operating loan of $nil (2013 - $12,272). The Company's significant uses of cash flows were property and equipment additions, excluding non-cash items, of $16,979 (2013 - $13,174), decrease to operating loan of $474 (2013 - $nil) and payment of dividends of $5,969 (2013 - $5,492).

Working capital At June 30, 2014 the Company had a working capital position of $29,729 (December 31, 2013 - $26,031) and a working capital ratio of 1.71 to 1 (December 31, 2013 – 1.66 to 1).

Credit facility On August 8, 2014 the Company entered into a 3 year committed revolving credit facility in the amount of $85,000 which represents a $10,000 increase from the prior credit facility. The new credit facility includes a $25,000 accordion feature which is subject to approval of the syndicate of lenders. The syndicate of lenders consists of The Bank of Nova Scotia, the sole lender on the prior facility, and National Bank of Canada.

The facility bears interest 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. 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 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 June 30, 2014, the Company was in compliance with all covenants under its credit facility.

The following table outlines the credit facility existing at June 30, 2014:

		June 30 2014		December 31 2013
Available credit facility (effective August 8, 2014 renewed at $85,000)	$	75,000	$	75,000
Drawings on credit facility:				
Operating loan		9,727		10,119
Revolving term loan		50,000		37,000
Letter of credit		700		700
Total drawn facility	$	60,427	$	47,819
Borrowing capacity (see NON-GAAP MEASUREMENTS)	$	14,573	$	27,181
Net debt (see NON-GAAP MEASUREMENTS):				
Loans and borrowings, net of current portion	$	51,333	$	38,462
Working capital:				
Current assets	$	71,448	$	65,409
Current liabilities		(41,719)		(39,378)
Working capital	$	29,729	$	26,031
Net debt	$	21,604	$	12,431

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, 2013. As at June 30, 2014, the Company's commitment to purchase equipment is approximately $2,737, and the outstanding contractual obligation related to the building of a facility in Oklahoma is $2,597. Cathedral anticipates expending the funds related to the purchase equipment obligations in in 2014 Q3 and the building obligations over the next 3 financial quarters ending in 2015 Q1.

Share capital At August 12, 2014, the Company has 36,260,380 common shares and 1,339,863 share options outstanding with a weighted average exercise price of $7.01.

The Normal Course Issuer Bid ("NCIB") expired on July 7, 2014. There were no repurchases under the expiring NCIB. The Company did not renew the NCIB.

CONTROLS AND PROCEDURES

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

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

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

The CEO and CFO have concluded that there have been no changes in internal controls for the period ended on June 30, 2014 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, 2013, which is included in the Company's 2013 Annual Report, includes an overview on business risks associated with the Company and its operating entities. Those business risks remain in effect as at June 30, 2014.

GOVERNANCE

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

NEW AND FUTURE ACCOUNTING POLICIES

The IASB issued IFRIC 21, "Levies" which has been adopted by the Company on January 1, 2014. The IFRIC clarifies that an entity should recognize a liability for a levy when the activity that triggers payment occurs. The adoption of this interpretation has no impact on the Company's consolidated financial statements.

On May 28, 2014 the IASB issued IFRS 15 "Revenue from Contracts with Customers". The Company intends to adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2017. The extent of the impact of the adoption of the standard has not yet been determined.

There were no other new or amended standards issued during the three and six months ended June 30, 2014 that are applicable to the Company in future periods. A description of standards and interpretations that will be adopted by the Company in future periods can be found in the notes to the consolidated financial statements for the year ended December 31, 2013.

SUMMARY OF QUARTERLY RESULTS

Three month periods ended	Jun 2014	Mar 2014	Dec 2013	Sep 2013	Jun 2013	Mar 2013	Dec 2012	Sep 2012
Revenues	$ 56,797	$ 68,020	$ 65,238	$ 59,734	$ 45,639	$ 54,074	$ 44,836	$ 49,830
EBITDAS [(1)]	$ 6,151	$ 8,581	$ 8,124	$ 10,757	$ 5,342	$ 8,592	$ 8,296	$ 10,538
EBITDAS [(1)] per share - diluted	$ 0.17	$ 0.24	$ 0.22	$ 0.30	$ 0.15	$ 0.23	$ 0.22	$ 0.28
Net earnings (loss)	$ 253	$ 2,449	$ (11,248)	$ 7,956	$ (309)	$ 2,059	$ 1,578	$ 3,813
Net earnings (loss) per share - basic and diluted	$ 0.01	$ 0.07	$ (0.31)	$ 0.22	$ (0.01)	$ 0.06	$ 0.04	$ 0.10
Dividends declared per share	$ 0.0825	$ 0.0825	$ 0.0825	$ 0.075	$ 0.075	$ 0.075	$ 0.075	$ 0.075

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

FORWARD LOOKING STATEMENTS

This MD&A contains certain forward-looking statements and forward-looking information (collectively referred to herein as "forward-looking statements") within the meaning of applicable Canadian securities laws. All statements other than statements of present or historical fact are forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "anticipate", "achieve", "believe", "plan", "intend", "objective", "continuous", "ongoing", "estimate", "outlook", "expect", "may", "will", "project", "should" or similar words suggesting future outcomes. In particular, this MD&A contains forward-looking statements relating to, among other things: industry fundamentals to continue at year-over-year improved levels in the last six months of 2014; growth in year-over-year activity levels; market share gains and margin improvements in all operating areas; timing of expenditures on purchase commitments; a new shop in Oklahoma to be operational in 2015 Q1; improved cash flow for oil and natural gas producers; U.S. oil and natural gas producers accelerate capital programs; U.S. producers to continue to expand the use of horizontal, multi-stage fracturing to complete conventional and unconventional oil and natural gas plays; further expansion of the fleet of "Claw" motors; 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 and Annual Report which have been filed with Canadian provincial securities commissions and are available on www.sedar.com.

NON-GAAP MEASUREMENTS

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

The specific measures being referred to include the following:

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

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

iii) "EBITDAS" - defined as earnings before share of income/loss from associate, finance costs, unrealized foreign exchange on intercompany balances, unrealized foreign exchange due to hyper-inflation accounting, taxes, 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 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" (see non-GAAP measurement). 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 June 30		Six months ended June 30	
	2014	2013	2014	2013
Gross margin	$ 6,418	$ 5,266	$ 15,923	$ 13,883
Add non-cash items included in cost of sales:				
Depreciation	4,733	4,709	9,197	9,374
Share-based compensation	25	43	73	119
Adjusted gross margin	$ 11,176	$ 10,018	$ 25,193	$ 23,376
Adjusted gross margin %	19.7%	22.0%	20.2%	23.4%

EBITDAS

	Three months ended June 30		Six months ended June 30	
	2014	2013	2014	2013
Earnings (loss) before income taxes	$ 1,023	$ (681)	$ 3,899	$ 2,106
Add (deduct):				
Depreciation included in cost of sales	4,733	4,709	9,197	9,374
Depreciation included in selling, general and administrative expenses	69	159	130	316
Share-based compensation included in cost of sales	25	43	73	119
Share-based compensation included in selling, general and administrative expenses	27	134	109	345
Unrealized foreign exchange (gain) loss on intercompany balances	(332)	330	122	542
Finance costs	606	648	1,202	1,128
Share of loss from associate	-	-	-	4
EBITDAS	$ 6,151	$ 5,342	$ 14,732	$ 13,934

Funds from operations

	Three months ended June 30		Six months ended June 30	
	2014	2013	2014	2013
Cash flow from operating activities	$ 11,758	$ 7,469	$ 13,352	$ 2,728
Add (deduct):				
Changes in non-cash operating working capital	(7,455)	(5,013)	(1,142)	7,628
Income taxes paid	968	1,761	908	1,948
Current tax expense	(1,504)	(641)	(1,231)	(1,221)
Funds from operations	$ 3,767	$ 3,576	$ 11,887	$ 11,083

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2014 and December 31, 2013
Dollars in '000s
(unaudited)

	June 30 2014	December 31 2013
Assets		
Current assets:		
Cash and cash equivalents	$ 3,751	$ 289
Trade receivables	48,464	46,400
Current taxes recoverable	1,162	1,473
Prepaid expenses	2,374	3,334
Inventories	15,697	13,913
Total current assets	71,448	65,409
Property and equipment (note 4)	128,773	123,487
Intangible assets	1,707	1,474
Deferred tax assets	9,097	9,157
Goodwill	5,848	5,848
Total non-current assets	145,425	139,966
Total assets	$ 216,873	$ 205,375
Liabilities and Shareholders' Equity		
Current liabilities:		
Operating loan	$ 9,727	$ 10,119
Trade and other payables	24,651	22,236
Dividends payable	2,991	2,984
Loans and borrowings (note 6)	757	722
Deferred revenue	3,593	3,317
Total current liabilities	41,719	39,378
Loans and borrowings (note 6)	51,333	38,462
Deferred tax liabilities	835	923
Total non-current liabilities	52,168	39,385
Total liabilities	93,887	78,763
Shareholders' equity:		
Share capital (note 7)	74,322	73,850
Contributed surplus	9,157	9,065
Accumulated other comprehensive loss	324	1,239
Retained earnings	39,183	42,458
Total shareholders' equity	122,986	126,612
Total liabilities and shareholders' equity	$ 216,873	$ 205,375

See accompanying notes to condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Three and six months ended June 30, 2014 and 2013

Dollars in '000s except per share amounts

(unaudited)

	Three months ended June 30		Six months ended June 30	
	2014	2013	2014	2013
Revenues	$ 56,797	$ 45,639	$ 124,817	$ 99,713
Cost of sales:				
Direct costs	(45,621)	(35,621)	(99,624)	(76,337)
Depreciation	(4,733)	(4,709)	(9,197)	(9,374)
Share-based compensation	(25)	(43)	(73)	(119)
Total cost of sales	(50,379)	(40,373)	(108,894)	(85,830)
Gross margin	6,418	5,266	15,923	13,883
Selling, general and administrative expenses:				
Direct costs	(6,051)	(5,858)	(12,178)	(11,061)
Depreciation	(69)	(159)	(130)	(316)
Share-based compensation	(27)	(134)	(109)	(345)
Total selling, general and administrative expenses	(6,147)	(6,151)	(12,417)	(11,722)
	271	(885)	3,506	2,161
Gain on disposal of property and equipment	880	1,125	1,614	1,630
Earnings from operating activities	1,151	240	5,120	3,791
Foreign exchange gain (loss)	478	(273)	(19)	(553)
Finance costs	(606)	(648)	(1,202)	(1,128)
Share of loss from associate	-	-	-	(4)
Earnings (loss) before income taxes	1,023	(681)	3,899	2,106
Income tax recovery (expense):				
Current expense	(1,504)	(641)	(1,231)	(1,221)
Deferred recovery	734	1,013	34	865
Total income tax recovery (expense)	(770)	372	(1,197)	(356)
Net earnings (loss)	253	(309)	2,702	1,750
Other comprehensive income (loss):				
Foreign currency translation differences for foreign operations	(1,298)	1,433	(915)	2,138
Total comprehensive income (loss)	$ (1,045)	$ 1,124	$ 1,787	$ 3,888
Net earnings (loss) per share				
Basic	$ 0.01	$ (0.01)	$ 0.07	$ 0.05
Diluted	$ 0.01	$ (0.01)	$ 0.07	$ 0.05

See accompanying notes to condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Six months ended June 30, 2014 and 2013
Dollars in ‘000s
(unaudited)

	Share capital	Contributed surplus	Accumulated other comprehensive loss	Retained earnings	Total shareholders' equity
Balance at December 31, 2012	**$ 74,408**	**$ 8,863**	**$ (2,679)**	**$ 57,340**	**$ 137,932**
Total comprehensive income for six months ended June 30, 2013	-	-	2,138	1,750	3,888
Transactions with shareholders, recorded directly in equity contributions by and distributions to shareholders for six months ended June 30, 2013:					
Dividends to equity holders	-	-	-	(5,411)	(5,411)
Repurchase of common shares	(2,194)	-	-	(2,240)	(4,434)
Share-based compensation	-	464	-	-	464
Share options exercised	30	(5)	-	-	25
Total contributions by and distributions to shareholders	(2,164)	459	-	(7,651)	(9,356)
Balance at June 30, 2013	**$ 72,244**	**$ 9,322**	**$ (541)**	**$ 51,439**	**$ 132,464**
Balance at December 31, 2013	**$ 73,850**	**$ 9,065**	**$ 1,239**	**$ 42,458**	**$ 126,612**
Total comprehensive income (loss) for six months ended June 30, 2014	-	-	(915)	2,702	1,787
Transactions with shareholders, recorded directly in equity contributions by and distributions to shareholders for six months ended June 30, 2014:					
Dividends to equity holders	-	-	-	(5,977)	(5,977)
Share-based compensation	-	182	-	-	182
Share options exercised	472	(90)	-	-	382
Total contributions by and distributions to shareholders	472	92	-	(5,977)	(5,413)
Balance at June 30, 2014	**$ 74,322**	**$ 9,157**	**$ 324**	**$ 39,183**	**$ 122,986**

See accompanying notes to condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Six months ended June 30, 2014 and 2013
Dollars in '000s
(unaudited)

	June 30 2014	June 30 2013
Cash provided by (used in):		
Operating activities:		
Net earnings from continuing operations	$ 2,702	$ 1,750
Items not involving cash:		
Depreciation	9,327	9,690
Total income tax expense	1,197	356
Unrealized foreign exchange loss on intercompany balances	122	542
Finance costs	1,202	1,128
Share-based compensation	182	464
Gain on disposal of property and equipment	(1,614)	(1,630)
Share of loss from associate	-	4
Cash flow from continuing operations	13,118	12,304
Changes in non-cash operating w orking capital	1,142	(7,628)
Income taxes paid	(908)	(1,948)
Cash flow from operating activities	13,352	2,728
Investing activities:		
Property and equipment additions (note 4)	(16,979)	(13,174)
Intangible asset additions	(338)	-
Proceeds on disposal of property and equipment	3,200	2,618
Investment in associate (note 5)	-	(1,580)
Changes in non-cash investing w orking capital	(1,305)	(56)
Cash flow from (used in) investing activities	(15,422)	(12,192)
Financing activities:		
Change in operating loan	(474)	12,272
Interest paid	(1,173)	(1,220)
Advances of loans and borrow ings	13,000	5,000
Repayments on loans and borrow ings	(322)	(278)
Proceeds on exercise of share options	382	25
Repurchase of common shares	-	(4,434)
Dividends paid	(5,969)	(5,492)
Cash flow used in financing activities	5,444	5,873
Effect of exchange rate on changes in cash and cash equivalents	88	844
Change in cash and cash equivalents	3,462	(2,747)
Cash and cash equivalents, beginning of period	289	8,470
Cash and cash equivalents, end of period	$ 3,751	$ 5,723

See accompanying notes to condensed consolidated interim financial statements.

1. Reporting entity

Cathedral Energy Services Ltd. ("the Company” / “Cathedral”) is a company domiciled in Canada. The Company is a publicly-traded company listed on the Toronto Stock Exchange under symbol "CET". The condensed consolidated interim financial statements of the Company as at and for the period ended June 30, 2014 comprise the Company and its subsidiaries (together referred to as “Cathedral”) and it’s 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."). Cathedral has terminated its pursuit of operations in Venezuela (see note 5).

2. Basis of preparation

(a) Statement of compliance

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

Accordingly, certain information and footnote disclosures normally included in the annual financial statements prepared in accordance with International Financial Reporting Standards (“IFRS” or “GAAP”), as issued by the International Accounting Standards Board ("IASB"), have been omitted or condensed. It also requires management to exercise judgment in applying the Company's accounting policies. These unaudited condensed consolidated interim financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2013, which are included in the Company's 2013 Annual Report.

The unaudited condensed consolidated interim financial statements were authorized for issue by the Board of Directors on August 12, 2014.

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Significant accounting policies

These unaudited condensed interim consolidated financial statements have been prepared in accordance with IFRS and using the same accounting policies as outlined in note 3 of the consolidated financial statements for the year ended December 31, 2013, except as identified below. The accounting policies have been applied consistently by the Company.

The following new accounting policies were adopted as at January 1, 2014:
The IASB issued IFRIC 21, “Levies” which has been adopted by the Company on January 1, 2014. The IFRIC clarifies that an entity should recognize a liability for a levy when the activity that triggers payment occurs. The adoption of this interpretation has no impact on the Company's consolidated financial statements

Future Accounting Pronouncements
On May 28, 2014 the IASB issued IFRS 15 “Revenue from Contracts with Customers”. The Company intends to adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2017. The extent of the impact of the adoption of the standard has not yet been determined.

There were no other new or amended standards issued during the three and six months ended June 30, 2014 that are applicable to the Company in future periods. A description of standards and interpretations that will be adopted by the Company in future periods can be found in the notes to the consolidated financial statements for the year ended December 31, 2013.

3. Seasonality of operations

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

4. Property and equipment

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

	Six months ended June 30	
	2014	2013
Directional drilling equipment	$ 12,078	$ 8,120
Production testing equipment	2,904	4,274
Land and buildings	1,242	469
Automotive equipment	396	486
Office and computer equipment	725	288
Property and equipment additions	$ 17,345	$ 13,637

Included in the above additions are non-cash additions of $366 for the six months ended June 30, 2014 (2013 - $463) related to the acquisition of automotive equipment under finance lease liabilities.

5. Investment in associate

The Company has a 40% interest in a joint venture company, Vencana Servicios Petroleros, S.A. ("Vencana") in which the Company has significant influence. 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.

During 2014 Q1, Cathedral decided to terminate its pursuit of operations in Venezuela. Management determined the expected political, financial and operational risks do not warrant continuing to pursue business opportunities in 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 minimal.

The investment in associate was written down to $nil at December 31, 2013.

6. Loans and borrowings

	June 30 2014	December 31 2013
Current liabilities:		
Current portion of finance lease liabilities	$ 757	$ 722
Non-current liabilities:		
Finance lease liabilities	$ 1,333	$ 1,462
Secured revolving term loan	50,000	37,000
Total	$ 51,333	$ 38,462

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

The secured revolving term loan with a major Canadian bank at an authorized amount of $55,000 (December 31, 2013 - $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 August 31, 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 credit facility with a major Canadian bank 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 June 30, 2014, the Company was in compliance with all covenants under its credit facility.

Subsequent to quarter end the facility was renewed. See note 9.

7. Share capital

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

Common shares issued:

	Six months ended June 30, 2014		Year ended December 31, 2013	
	Number	Amount	Number	Amount
Issued, beginning of period	36,166,380	$ 73,850	36,906,293	$ 74,408
Issued on exercise of options	94,000	382	348,170	1,326
Contributed surplus on options exercised		90		310
Repurchased and cancelled	-	-	(1,088,083)	(2,194)
Issued, end of period	36,260,380	$ 74,322	36,166,380	$ 73,850

Issuance of common shares

94,000 common shares were issued as a result of the exercise of vested options arising from grants to employees and consultants in 2009 and 2010. Options were exercised at an average strike price of $4.06 per option. All issued shares are fully paid.

Dividends

Cathedral declared a dividend of $2,991 in 2014 Q2 (2013 - $2,687) or $0.0825 per share (2013 - $0.075 per share.) After the reporting date the directors approved a dividend of $0.0825 per share with a record date of September 30, 2014 and payable October 15, 2014.

Basic earnings per share

The calculation of basic earnings per share for the three and six months ended June 30, 2014 was based on the profit (loss) attributable to common shareholders of $253 and $2,702 (2012 – ($309) and $1,750) and a weighted average number of common shares outstanding of 36,229,632 and 36,207,905 (2013 – 35,854,465 and 36,307,313); calculated as follows:

Weighted average number of ordinary shares

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Issued, beginning of period	36,186,380	36,241,398	36,166,380	36,906,293
Effect of share options exercised	43,252	-	41,525	4,236
Effect of share repurchases	-	(386,933)	-	(603,216)
Weighted average number of common shares at end of period	36,229,632	35,854,465	36,207,905	36,307,313

Diluted earnings per share

The calculation of diluted earnings per share for the three and six months ended June 30, 2014 was based on the profit (loss) attributable to common shareholders of $253 and $2,702 (2013 – ($309) and $1,750). For the three and six months ended June 30, 2013 the Company used the weighted average number of common shares outstanding after adjustment for the effects of all dilutive potential common shares of 36,252,712 and 36,234,968 (2013 – 35,898,439 and 36,361,355), calculated as follows:

Weighted average number of common shares (diluted)

	Three months ended June 30,		Six months ended June 30,	
	2014	2013	2014	2013
Weighted average number of common shares (basic)	36,229,632	35,854,465	36,207,905	36,307,313
Effect of share options on issue	23,080	43,974	27,063	54,042
Weighted average number of common shares (diluted) at end of period	36,252,712	35,898,439	36,234,968	36,361,355

For both the three and six months ended June 30, 2014, 1,195,863 options (2013 – 2,722,030 options) were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive. The average market value of the Company's common shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period during which the options were outstanding.

8. Commitments

In the normal course of business, the Company incurs contractual obligations and those obligations are disclosed in the Company's consolidated financial statements for the year ended December 31, 2013. As at June 30, 2014, the Company's commitment to purchase equipment is approximately $2,737, and the outstanding contractual obligation related to the building of a facility in Oklahoma is $2,597. Cathedral anticipates expending the funds related to the purchase equipment obligations in in 2014 Q3 and the building obligations over the next 3 financial quarters ending in 2015 Q1.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

9. Subsequent Event

On August 8, 2014 the Company entered into a 3 year committed revolving credit facility in the amount of $85,000 which represents a $10,000 increase from the prior credit facility. The new credit facility includes a $25,000 accordion feature which is subject to approval of the syndicate of lenders. The syndicate of lenders consists of The Bank of Nova Scotia, the sole lender on the prior facility, and National Bank of Canada.

The facility bears interest 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. 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 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.