2014 Q3 INTERIM REPORT

FINANCIAL HIGHLIGHTS

Dollars in 000's except per share amounts

	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Revenues	$ 77,376	$ 59,734	$ 202,193	$ 159,447
Adjusted gross margin % (1)	24.8%	25.1%	22.0%	24.1%
EBITDAS (1)	$ 14,347	$ 10,757	$ 29,079	$ 24,691
Diluted per share	$ 0.40	$ 0.30	$ 0.80	$ 0.68
EBITDAS (1) as % of revenues	18.5%	18.0%	14.4%	15.5%
Funds from operations (1)	$ 11,832	$ 7,876	$ 23,719	$ 18,959
Diluted per share	$ 0.33	$ 0.22	$ 0.65	$ 0.52
Net earnings	$ 5,805	$ 7,956	$ 8,507	$ 9,706
Basic per share	$ 0.16	$ 0.22	$ 0.23	$ 0.27
Diluted per share	$ 0.16	$ 0.22	$ 0.23	$ 0.27
Dividends declared per share	$ 0.0825	$ 0.0750	$ 0.2475	$ 0.2250
Property and equipment additions (cash)	$ 9,958	$ 8,373	$ 26,937	$ 21,547
Weighted average shares outstanding				
Basic (000s)	36,264	35,915	36,227	36,175
Diluted (000s)	36,280	36,013	36,250	36,238

	September 30 2014	December 31 2013
Working capital	$ 38,538	$ 26,031
Total assets	$ 243,888	$ 205,375
Loans and borrowings excluding current portion	$ 59,158	$ 38,462
Total shareholders' equity	$ 127,913	$ 126,612

(1) see "NON-GAAP MEASUREMENTS"

MANAGEMENT'S DISCUSSION & ANALYSIS

This Management's Discussion & Analysis ("MD&A") for the three and nine months ended September 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" or "Cathedral"). This MD&A has been prepared as of November 4, 2014. Dollar amounts are in '000's except for day rates and per share amounts.

2014 Q3 KEY TAKEAWAYS

- Record quarterly revenues:
  - Overall record for all quarterly revenues;
  - Record quarterly U.S. directional drilling revenues; and
  - U.S. production testing had second highest revenues;
- Third quarter revenues were up 30% compared to 2013 Q3 and year-to-date revenues excluding international operations are up 31% over 2013;
- Record nine month revenues;
- 2014 Q3 EBITDAS increased 33% over 2013 and year-to-date EBITDAS excluding international operations has increased 26% over 2013; and
- Increase in capital budget from $24,000 to $30,600.

OVERVIEW

The Company completed 2014 Q3 with record quarterly revenues of $77,376 and year-to-date revenues of $202,193 compared to 2013 Q3 revenues of $59,734 and 2013 nine months revenues of $159,447. Q3 revenues increased 30% from 2013 and year-to-date revenues, excluding revenues from International operations which were terminated in early 2014, increased 31% from 2013. 2014 Q3 revenues were split 77% (2013 Q3 - 71%) from the directional drilling division and 23% (2013 Q3 - 29%) from the production testing division.

2014 Q3 EBITDAS was $14,347 ($0.40 per share diluted) representing $3,590 or a 33% increase from 2013 Q3 EBITDAS of $10,757 ($0.30 per share diluted). For the three months ended September 30, 2014, the Company's net earnings were $5,805 ($0.16 per share diluted) as compared to $7,956 ($0.22 per share diluted) in 2013. The quarter-over-quarter increase in EBITDAS was due to increases in Canadian operating results. 2014 year-to-date EBITDAS was $29,079 ($0.80 per share diluted) which represents a $4,388 or 18% increase from $24,691 ($0.68 per share diluted) in 2013. Excluding international operations 2014 EBITDAS has increased 26% over 2013. On a 2014 year-to-date basis, the Company's net earnings were $8,507 ($0.23 per share diluted) compared to a $9,706 ($0.27 per share diluted) in 2013. The reason for the higher net earnings in 2013 was due to the gain on sale of land and buildings of Alberta properties under a sale and leaseback.

OUTLOOK

Cathedral continued to benefit from strong industry fundamentals in Q3 as evidenced by record revenues in our U.S. directional drilling division and continued strong revenue performance in our other divisions.

Both directional drilling divisions were able to increase activity levels by adding new customers, securing additional work from existing customers and having good exposure in all the key resource plays. Continued focus on providing exceptional service and deployment of our proprietary Fusion™ MWD systems and nDurance™ mud motor line has resulted in increased sales opportunities. In particular, we are seeing strong interest in the "Claw" series of our nDurance motor line based on achieving record drilling results for customers in both the US and Canada. The nDurance motors are offered either as part of our directional drilling service package or on a standalone rental basis. We expect to continue to invest in building up our capacity in this motor line.

In October we announced that we had supplied directional drilling equipment and services for over 1,000 wells completed by Tundra Oil and Gas Partnership ("Tundra") in Manitoba and Saskatchewan. This 1,000-well milestone is testimony to how our partnership strategy with customers and our team approach with their suppliers has significantly reduced our customer's drilling costs and provided other beneficial efficiencies.

The U.S. continues to be a focus point for Cathedral's future growth. We are pleased with our revenue growth in the U.S. directional division and how we have established ourselves as a credible player across all key geographies with major energy company clients. We are also making progress with increasing our margins in the U.S. through gaining traction with our performance based drilling offering, better job execution and optimizing the use of our own equipment rather than using third party rentals.

In Canada, our ability to demonstrate we can reduce drilling times significantly has resulted in increased interest from customers. We intend to exploit this competitive advantage further as a means to grow revenue at increased margins.

Both our production testing divisions have experienced strong performance in 2014. In particular, our U.S. testing division has made significant progress rebuilding its revenue to prior levels having lost a couple of significant customers in late 2013 and early 2014. In Canada, our production testing division is capitalizing on its experience with multi-pad well programs which are not as susceptible to adverse weather conditions and reduced activity levels resulting from spring break-up.

The impact from the recent decline in oil prices is not determinable at this time, although we expect industry activity levels will ultimately be impacted in a potentially sustained lower oil price environment. We are monitoring our customer's spending plans to assess any potential impact on our business. 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 better job execution and 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 giving 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 Q4 dividend in the amount of $0.0825 per share which will have a date of record of December 31, 2014 and a payment date of January 15, 2015.

2014 CAPITAL PROGRAM

During the nine months ended September 30, 2014 the Company invested $26,937 (2013 - $21,547) in property and equipment excluding non-cash items. The following table details the current period's net property and equipment additions:

	Three months ended September 30, 2014	Nine months ended September 30, 2014
Property and equipment additions:		
Growth capital [(1)]	$ 5,123	$ 13,424
Maintenance capital [(1)]	3,162	9,157
Replacement capital [(1)]	125	1,157
Infrastructure capital [(1)]	1,548	3,199
Total cash additions	9,958	26,937
Less: proceeds on disposal of property and equipment	(1,642)	(4,842)
Net property and equipment additions [(1)]	$ 8,316	$ 22,095

(1) See "NON-GAAP MEASUREMENTS"

The major additions for growth capital were $10,735 for additional directional drilling motors and related equipment for specific job requirements and $2,689 for additional ancillary production testing equipment which will reduce future rental costs. Infrastructure capital relates to progress payments on the construction of an operating facility in Oklahoma City which is expected to be operational in early 2015 and computer system upgrades.

Cathedral intends to increase its capital budget to $30,600, primarily to meet the growth needs of the business in the U.S. The original capital budget for 2014 was $24,000.

The increase of $6,600 is for additional drilling motors and specialized power sections, MWD system upgrades, replacement capital and IT network infrastructure.

The revised 2014 capital budget includes $15,500 of growth capital, $10,800 of maintenance capital and $4,300 of infrastructure expenditures.

Cathedral intends to finance its 2014 capital budget from cash flow from operations, its existing credit facility and proceeds on disposal of property and equipment. In addition, the Company expects to sell and leaseback the Oklahoma City operations facility in 2015 Q1 for net proceeds of approximately $4,800.

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

	September 30 2014	December 31 2013	September 30 2013
Directional drilling - MWD systems [1]	140	139	135
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 not suited to Cathedral's customer requirements for proceeds of $550.

RESULTS OF OPERATIONS – THREE MONTHS ENDED SEPTEMBER 30

	Three months ended September 30, 2014			Three months ended September 30, 2013		
Revenues	Directional drilling	Production testing	Total	Directional drilling	Production testing	Total
Canada	$ 28,765	$ 7,889	$ 36,654	$ 19,571	$ 7,572	$ 27,143
United States	30,991	9,731	40,722	22,836	9,755	32,591
Total	$ 59,756	$ 17,620	$ 77,376	$ 42,407	$ 17,327	$ 59,734

Revenues 2014 Q3 revenues were $77,376 which represented an increase of $17,642 or 30% from 2013 Q3 revenues of $59,734. With the exception of the U.S. production testing division, all divisions experienced an increase in revenue. U.S. directional drilling revenues for 2014 Q3 were a record for the division. U.S. production testing revenues for 2014 Q3 were the second highest quarterly revenues, which was a significant achievement in light of the loss of a significant client in 2013 Q4.

Canadian directional drilling revenues increased to $28,765 in 2014 Q3 from $19,571 in 2013 Q3; a 47% increase. This increase was the result of: i) a 37% increase in activity days to 2,423 in 2014 Q3 from 1,771 in 2013 Q3; and ii) a 7% increase in the average day rate to $11,872 in 2014 Q3 from $11,051 in 2013 Q3. In 2014 Q3 there were activity level improvements in the overall market in addition to continued efficiencies related to pad drilling and increases in work from both new customers and incremental work from existing customers. In comparison, in 2013 Q3 revenue was down relative to other quarters as a result of customers delaying work to future quarters.

U.S. directional drilling revenues increased to a record of $30,991 in 2014 Q3 from $22,836 in 2013 Q3; a 36% increase. This increase was the result of: i) a 23% increase in activity days to 2,454 in 2014 Q3 from 1,996 in 2013 Q3; and ii) an 10% increase in the average day rate to $12,629 in 2014 Q3 from $11,441 in 2013 Q3 (when converted to Canadian dollars). The increase in U.S. activity days were due to the Texas and Oklahoma markets, with continued increased activity levels coming from existing and new customers. The U.S. average day rates increased with the impact of pricing tied to performance and also due to the stronger U.S. dollar. Approximately half of this gain on day rate is due to the change in the U.S. dollar. On a sequential basis, U.S. directional drilling revenues for 2014 Q3 are up from 2014 Q2 revenues of $28,636. U.S activity days are up on a sequential basis (2014 Q3 – 2,454 versus 2014 Q2 – 2,260) due to further expansion of work in the Texas region, increased activity and new customers in the U.S. northeast.

Canadian production testing revenues increased to $7,889 in 2014 Q3 from $7,572 in 2013 Q3; a 4% increase. In the prior year, 2013 Q3 had benefited from delays in completion jobs which were deferred into that quarter. Revenues in 2014 Q3 also benefited from increased day rates achieved when compared with 2013 Q3 from customers using multi-pad well programs that requires additional ancillary equipment and staff to be onsite.

U.S. production testing revenues of $9,731 in 2014 Q3 were virtually unchanged from $9,755 in 2013 Q3. 2013 Q3 holds the record for the highest quarterly revenues for the division and 2014 Q3 has the second highest quarterly revenues. Both activity levels and day rates remained consistent year-over-year. In 2013 Q4 and 2014 Q1, the division lost work with two significant clients and the division has now replaced this work with work with new clients.

Gross margin and adjusted gross margin The gross margin for 2014 Q3 was 18.4% compared to 16.9% in 2013 Q3. Adjusted gross margin for 2014 Q3 was $19,222 (24.8%) compared to $14,972 (25.1%) for 2013 Q3. The slight decrease in adjusted gross margin of 0.3% in 2014 Q3 was primarily due to increased equipment rentals and equipment repairs which were offset by decreased field labour costs. Equipment rentals were 3.1% of revenues in 2014 Q3 compared to 1.2% in 2013 Q3 (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 to $4,945 in 2014 Q3 from $4,860 in 2013 Q3. Depreciation included in cost of sales as a percentage of revenue was 6.4% for 2014 Q3 and 8.1% in 2013 Q3.

Selling, general and administrative expenses ("SG&A") SG&A expenses were $6,156 in 2014 Q3 which represented a decrease of $72 when compared with $6,228 in 2013 Q3. As a percentage of revenue, these costs were 8% in 2014 Q3 and 10% in 2013 Q3. Non-cash expenses (depreciation and share-based compensation) totaled $120 for 2014 Q3 and $288 for 2013 Q3. 2013 Q3 SG&A includes expenses related to international operations which were not incurred in 2014 Q3 after the wind down of those operations. Excluding these non-cash and non-recurring items SG&A increased $580 in 2014 Q3 ("Adjusted SG&A").

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

The remaining increase in Adjusted SG&A is mainly attributable to increased rent due to the sale and leaseback of Alberta properties which closed in 2013 Q3 which was almost fully offset by decreases in several various components none of which were individually significant.

Gain on disposal of property and equipment During 2014 Q3 the Company had a gain on disposal of property and equipment of $1,096 compared to $1,760 in 2013 Q3. In 2013 Q3 the Company also had a gain on sale of land and buildings of $5,354 on the sale and leaseback of Alberta properties. The remaining gains are mainly due to recoveries of lost-in-hole equipment costs including previously expensed depreciation on the related assets. The timing of lost-in-hole recoveries is not in the control of the Company and therefore can fluctuate significantly from quarter-to-quarter.

Foreign exchange gain/loss The Company had foreign exchange loss of $527 in 2014 Q3 compared to $173 gain in 2013 Q3 due to the fluctuations in the Canadian dollar compared to the U.S. dollar. The Company's foreign operations are denominated in a currency other than the Canadian dollar and therefore, upon consolidation gains and losses due to fluctuations in the foreign currency exchange rates are recorded in other comprehensive income ("OCI") on the balance sheet as a component of equity. However, gains and losses in the Canadian entity on U.S. denominated intercompany balances continue to be recognized in the statement of income. Included in the 2014 Q3 foreign currency gain are unrealized loss of $592 (2013 Q3 –$208 unrealized gain) related to intercompany balances.

Finance costs Finance costs consist of interest expenses on operating loans, loans and borrowings and bank charges of $662 for 2014 Q3 versus $727 for 2013 Q3. The decrease in finance costs relate mainly to an increased utilization of the Company's operating loan offset by decreases in interest rates.

Income tax For 2014 Q3, the Company had an income tax expense of $2,203 compared to $2,446 in 2013 Q3. The effective tax rate was 28% for 2014 Q3 and 24% for 2013 Q3. Income tax expense is booked based upon expected annualized effective rates.

RESULTS OF OPERATIONS – NINE MONTHS ENDED SEPTEMBER 30

	Nine months ended September 30, 2014				Nine months ended September 30, 2013			
Revenues	Directional drilling	Production testing	Resale and Rental	Total	Directional drilling	Production testing	Resale and Rental	Total
Canada	$ 70,376	$ 24,458	$ -	$ 94,834	$ 51,815	$ 19,403	$ -	$ 71,218
United States	83,299	24,060	-	107,359	56,181	26,874	-	83,055
International	-	-	-	-	-	-	5,174	5,174
Total	$ 153,675	$ 48,518	$ -	$ 202,193	$ 107,996	$ 46,277	$ 5,174	$ 159,447

Revenues 2014 revenues were $202,193 which represented an increase of $42,746 or 27% from 2013 revenues of $159,447. The revenue 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 31% over 2013.

Canadian directional drilling revenues increased to $70,376 in 2014 from $51,815 in 2013; a 36% increase. This increase was the result of: i) an 34% increase in activity days to 6,059 in 2014 from 4,522 in 2013; and ii) a 2% increase in the average day rate to $11,615 in 2014 from $11,383 in 2013. Activity levels increased due to market share gains from securing additional work from existing and new customers. Also, the comparative 2013 activity levels were lower due customers delaying work.

U.S. directional drilling revenues increased to $83,299 in 2014 from $56,181 in 2013; a 48% increase. This increase was the result of: i) a 34% increase in activity days to 6,594 in 2014 from 4,927 in 2013; and ii) an 11% increase in the average day rate to $12,633 in 2014 from $11,402 in 2013 (when converted to Canadian dollars). Approximately 4% of this increase relates to increases in rates due primarily performance based pricing and the remaining amount relates to strengthening of the U.S. dollar. Continued expansion in the Texas and Oklahoma markets has increased the U.S. activity days and is partially offset by reduced drilling in the U.S. northeast.

Canadian production testing revenues increased to $24,458 in 2014 from $19,403 in 2013; a 26% increase. In 2014, the division benefitted from the addition of work from new customers and expanded use of multi-pad well programs which enables work to continue during the break-up season. In comparison, 2013 was impacted by customers deferring work into future periods.

U.S. production testing revenues decreased to $24,060 in 2014 from $26,874 in 2014; a 10% decrease. The year-over-year decline in revenue is attributable to a significant customer shifting work to a competitor in early 2013 Q4 and another in customer loss 2014 Q1. The division has made significant gains to offset the lost customers by successfully securing work from new customers and increasing rates with the industry's shift to multi-pad programs that requires additional ancillary equipment and staff to be onsite.

Gross margin and adjusted gross margin The gross margin for 2014 was 14.9% compared to 15.0% in 2013. Adjusted gross margin for 2014 was $44,415 (22.0%) compared to $38,348 (24.1%) for 2013. The decrease in adjusted gross margin of 2.1% was due in part to the impact of international operations which only impacted 2013. Excluding international operations, adjusted gross margin for 2014 was 22.0% compared to 23.5% in 2013.

The decrease in adjusted gross margin, excluding 2013 international operations, of 1.5% was primarily due to increased equipment rentals and equipment repairs, offset by declines in field labour. Equipment rentals were 2.9% of revenues in 2014 compared to 1.4% in 2013 (excluding international operations). The Company is in the process of reducing equipment rental costs through capital additions.

Depreciation allocated to cost of sales decreased marginally to $14,142 in 2014 from $14,234 in 2013. Depreciation included in cost of sales as a percentage of revenue was 7.0% for 2014 and 8.9% in 2013.

Selling, general and administrative expenses ("SG&A") SG&A expenses were $18,573 in 2014 which represents an increase of $623 when compared with $17,950 in 2013. As a percentage of revenue, these costs were 9% in 2014 and 11% in 2013. Non-cash expenses (depreciation and share-based compensation) totaled $359 for 2014 and $949 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 operations and other 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 $2,249 ("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 U.S. growth and additions to research and development personnel. Staffing costs included in SG&A include 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 various professional fees.

Gain on disposal of property and equipment During 2014 the Company had a gain on disposal of property and equipment of $2,710 compared to $3,390 in 2013. In 2013 Q3 the Company had a gain on sale of land and buildings of $5,354 due to the sale and leaseback of Alberta properties. The remaining gains are mainly due to recoveries of lost-in-hole equipment costs including previously expensed depreciation on the related assets. The timing of lost-in-hole recoveries is not in the control of the Company and therefore can fluctuate significantly from quarter-to-quarter.

Foreign exchange loss The Company had foreign exchange loss of $546 in 2014 compared to $380 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 $714 (2013 – $334) related to intercompany balances.

Finance costs Finance costs consist of interest expenses on operating loans, loans and borrowings and bank charges of $1,864 for 2014 versus $1,855 for 2013.

Income tax For 2014, the Company had an income tax expense of $3,400 compared to $2,802 in 2013. The effective tax rate was 29% for 2014 and 22% 2013. Income tax expense is booked based upon expected annualized effective rates.

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 nine months ended September 30, 2014, the Company's significant sources of cash flows were funds from operations of $24,913 (2013 - $7,949), advances on loans and borrowings of $25,000 (2013 - $8,000), proceeds on disposal of property and equipment of $4,842 (2013 - $4,864), proceeds from sale of land and buildings of $nil (2013 - $22,260) and increase in operating loan of $nil (2013 - $9,144). The Company's significant uses of cash flows were property and equipment additions, excluding non-cash items, of $26,937 (2013 - $21,547), a decrease to operating loan of $4,559 (2013 - $nil), repayments on loans and borrowings of $4,493 (2013 - $16,416) and payment of dividends of $8,961 (2013 - $8,179).

Working capital At September 30, 2014 the Company had a working capital position of $38,538 (December 31, 2013 - $26,031) and a working capital ratio of 1.69 to 1 (December 31, 2013 – 1.66 to 1). Since 2014 Q1 Cathedral has been communicating with its Venezuela joint venture partner with regard to the windup of Vencana. During 2014 Q3 Cathedral's joint venture partner advanced Cathedral $6,782 U.S. In the context that the joint venture will be wound up the ultimate characterization of this payment is not determinable at this time. Accordingly, Cathedral has recorded the Canadian dollar equivalent as a trade payable and this amount is included in the change in non-cash working capital.

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 can be increased by 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 depends on the level of funded debt to EBITDA (earnings before interest on long-term debt, taxes, depreciation, amortization and non-cash compensation expense – as defined in the credit agreement).

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 September 30, 2014, the Company was in compliance with all covenants under its credit facility.

The new credit facility has a "swing line" (operating loan component) of $10,000 compared to $20,000 under the prior facility. As a result, $10,000 of debt has been moved from the operating loan to the long-term facility. This has also caused working capital to increase by the same amount.

The following table outlines the credit facility existing at September 30, 2014 and December 31, 2013:

		September 30 2014		December 31 2013
Available credit facility	$	85,000	$	75,000
Drawings on credit facility:				
Operating loan	$	5,635	$	10,119
Secured revolving term loan		58,000		37,000
Letter of credit		700		700
Total drawn facility	$	64,335	$	47,819
Borrowing capacity (see NON-GAAP MEASUREMENTS)	$	20,665	$	27,181
Net debt (see NON-GAAP MEASUREMENTS):				
Loans and borrowings, net of current portion	$	59,158	$	38,462
Working capital:				
Current assets	$	94,537	$	65,409
Current liabilities		(55,999)		(39,378)
Working capital	$	38,538	$	26,031
Net debt	$	20,620	$	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 September 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 $1,374. Cathedral anticipates expending the funds related to the purchase equipment obligations and the building obligations over the next two financial quarters ending in 2015 Q1.

Contingency On October 29, 2014 Cathedral received a letter from one of its U.S. clients alleging a down-hole drilling incident which impacted two of their wells in December 2013. The client has indicated potential damages of $3 million. Cathedral does not normally carry insurance for this type of incident. Cathedral is currently in the process of investigating the particulars related to this letter to understand its potential liability and the impact any liability may have on the Company. Due to the uncertainty around what amount, if any, and the means of settlement, the Company has made no provision in the financial statements for this incident.

Share capital At November 4, 2014, the Company has 36,295,380 common shares and 1,239,863 share options outstanding with a weighted average exercise price of $6.96.

The Company's prior 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 September 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 September 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, this 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 nine months ended September 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	Sep 2014	Jun 2014	Mar 2014	Dec 2013	Sep 2013	Jun 2013	Mar 2013	Dec 2012
Revenues	$ 77,376	$ 56,797	$ 68,020	$ 65,238	$ 59,734	$ 45,639	$ 54,074	$ 44,836
EBITDAS [(1)]	$ 14,347	$ 6,151	$ 8,581	$ 8,124	$ 10,757	$ 5,342	$ 8,592	$ 8,296
EBITDAS [(1)] per share - diluted	$ 0.40	$ 0.17	$ 0.24	$ 0.22	$ 0.30	$ 0.15	$ 0.23	$ 0.22
Net earnings (loss)	$ 5,805	$ 253	$ 2,449	$ (11,248)	$ 7,956	$ (309)	$ 2,059	$ 1,578
Net earnings (loss) per share - basic and diluted	$ 0.16	$ 0.01	$ 0.07	$ (0.31)	$ 0.22	$ (0.01)	$ 0.06	$ 0.04
Dividends declared per share	$ 0.0825	$ 0.0825	$ 0.0825	$ 0.0825	$ 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: investment to build up capacity in the nDurance motor line; the U.S. as focus point for Cathedral's future growth; intention to grow Canadian drilling revenues at increased margins; the impact from the recent decline in oil prices not being determinable at this time; expectation that industry activity levels will ultimately be impacted in a potentially sustained lower oil price environment; timing of expenditures on purchase commitments; a new shop in Oklahoma to be operational in 2015 Q1; dividends; focus for 2014 on increasing revenue and market share in both operating divisions and geographic areas; enhancing profitability through better job execution and managing costs; and continued investment in research and development of proprietary

technologies. 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 September 30		Nine months ended September 30	
	2014	2013	2014	2013
Gross margin	$ 14,257	$ 10,070	$ 30,180	$ 23,953
Add non-cash items included in cost of sales:				
Depreciation	4,945	4,860	14,142	14,234
Share-based compensation	20	42	93	161
Adjusted gross margin	$ 19,222	$ 14,972	$ 44,415	$ 38,348
Adjusted gross margin %	24.8%	25.1%	22.0%	24.1%

EBITDAS

	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Earnings before income taxes	$ 8,008	$ 10,402	$ 11,907	$ 12,508
Add (deduct):				
Depreciation included in cost of sales	4,945	4,860	14,142	14,234
Depreciation included in selling, general and administrative expenses	74	171	204	487
Share-based compensation included in cost of sales	20	42	93	161
Share-based compensation included in selling, general and administrative expenses	46	117	155	462
Non-recurring gains on disposal of property and equipmen	-	(5,354)	-	(5,354)
Unrealized foreign exchange (gain) loss on intercompany balances	592	(208)	714	334
Finance costs	662	727	1,864	1,855
Share of loss from associate	-	-	-	4
EBITDAS	$ 14,347	$ 10,757	$ 29,079	$ 24,691

Funds from operations

	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Cash flow from operating activities	$ 11,561	$ 5,221	$ 24,913	$ 7,949
Add (deduct):				
Changes in non-cash operating working capital	2,186	2,715	1,044	10,343
Income taxes paid (recovered)	(496)	1,061	412	3,009
Current tax expense	(1,419)	(1,121)	(2,650)	(2,342)
Funds from operations	$ 11,832	$ 7,876	$ 23,719	$ 18,959

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

September 30, 2014 and December 31, 2013
Dollars in ‘000s
(unaudited)

		September 30 2014		December 31 2013
Assets				
Current assets:				
Cash and cash equivalents	$	8,912	$	289
Trade receivables		67,228		46,400
Current taxes recoverable		-		1,473
Prepaid expenses		2,752		3,334
Inventories		15,645		13,913
Total current assets		94,537		65,409
Property and equipment (note 4)		133,465		123,487
Intangible assets		1,783		1,474
Deferred tax assets		8,255		9,157
Goodwill		5,848		5,848
Total non-current assets		149,351		139,966
Total assets	$	243,888	$	205,375
Liabilities and Shareholders' Equity				
Current liabilities:				
Operating loan	$	5,635	$	10,119
Trade and other payables		42,004		22,236
Dividends payable		2,994		2,984
Current taxes payable		750		-
Loans and borrowings (note 6)		844		722
Deferred revenue		3,772		3,317
Total current liabilities		55,999		39,378
Loans and borrowings (note 6)		59,158		38,462
Deferred tax liabilities		818		923
Total non-current liabilities		59,976		39,385
Total liabilities		115,975		78,763
Shareholders' equity:				
Share capital (note 7)		74,481		73,850
Contributed surplus		9,197		9,065
Accumulated other comprehensive loss		2,241		1,239
Retained earnings		41,994		42,458
Total shareholders' equity		127,913		126,612
Total liabilities and shareholders' equity	$	243,888	$	205,375

See accompanying notes to condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Three and nine months ended September 30, 2014 and 2013
Dollars in '000s except per share amounts
(unaudited)

	Three months ended September 30		Nine months ended September 30	
	2014	2013	2014	2013
Revenues	$ 77,376	$ 59,734	$ 202,193	$ 159,447
Cost of sales:				
Direct costs	(58,154)	(44,762)	(157,778)	(121,099)
Depreciation	(4,945)	(4,860)	(14,142)	(14,234)
Share-based compensation	(20)	(42)	(93)	(161)
Total cost of sales	(63,119)	(49,664)	(172,013)	(135,494)
Gross margin	14,257	10,070	30,180	23,953
Selling, general and administrative expenses:				
Direct costs	(6,036)	(5,940)	(18,214)	(17,001)
Depreciation	(74)	(171)	(204)	(487)
Share-based compensation	(46)	(117)	(155)	(462)
Total selling, general and administrative expenses	(6,156)	(6,228)	(18,573)	(17,950)
	8,101	3,842	11,607	6,003
Gain on disposal of property and equipment	1,096	1,760	2,710	3,390
Gain on disposal of land and buildings	-	5,354	-	5,354
Earnings from operating activities	9,197	10,956	14,317	14,747
Foreign exchange gain (loss)	(527)	173	(546)	(380)
Finance costs	(662)	(727)	(1,864)	(1,855)
Share of loss from associate	-	-	-	(4)
Earnings before income taxes	8,008	10,402	11,907	12,508
Income tax expense:				
Current	(1,419)	(1,121)	(2,650)	(2,342)
Deferred	(784)	(1,325)	(750)	(460)
Total income tax expense	(2,203)	(2,446)	(3,400)	(2,802)
Net earnings	5,805	7,956	8,507	9,706
Other comprehensive income (loss):				
Foreign currency translation differences for foreign operations	1,917	(584)	1,002	1,554
Total comprehensive income	$ 7,722	$ 7,372	$ 9,509	$ 11,260
Net earnings per share				
Basic	$ 0.16	$ 0.22	$ 0.23	$ 0.27
Diluted	$ 0.16	$ 0.22	$ 0.23	$ 0.27

See accompanying notes to condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Nine months ended September 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 nine months ended September 30, 2013	-	-	1,554	9,706	11,260
Transactions with shareholders, recorded directly in equity contributions by and distributions to shareholders for nine months ended September 30, 2013:					
Dividends to equity holders	-	-	-	(8,116)	(8,116)
Repurchase of common shares	(2,194)	-	-	(2,240)	(4,434)
Share-based compensation	-	623	-	-	623
Share options exercised	1,191	(216)	-	-	975
Total contributions by and distributions to shareholders	(1,003)	407	-	(10,356)	(10,952)
Balance at September 30, 2013	**$ 73,405**	**$ 9,270**	**$ (1,125)**	**$ 56,690**	**$ 138,240**
Balance at December 31, 2013	**$ 73,850**	**$ 9,065**	**$ 1,239**	**$ 42,458**	**$ 126,612**
Total comprehensive income for nine months ended September 30, 2014	-	-	1,002	8,507	9,509
Transactions with shareholders, recorded directly in equity contributions by and distributions to shareholders for nine months ended September 30, 2014:					
Dividends to equity holders	-	-	-	(8,971)	(8,971)
Share-based compensation	-	248	-	-	248
Share options exercised	631	(116)	-	-	515
Total contributions by and distributions to shareholders	631	132	-	(8,971)	(8,208)
Balance at September 30, 2014	**$ 74,481**	**$ 9,197**	**$ 2,241**	**$ 41,994**	**$ 127,913**

See accompanying notes to condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Nine months ended September 30, 2014 and 2013
Dollars in '000s
(unaudited)

	September 30 2014	September 30 2013
Cash provided by (used in):		
Operating activities:		
Net earnings from continuing operations	$ 8,507	$ 9,706
Items not involving cash:		
Depreciation	14,346	14,721
Total income tax expense	3,400	2,802
Unrealized foreign exchange loss on intercompany balances	714	334
Finance costs	1,864	1,855
Share-based compensation	248	623
Gain on disposal of property and equipment	(2,710)	(3,390)
Gain on sale of land and buildings	-	(5,354)
Share of loss from associate	-	4
Cash flow from continuing operations	26,369	21,301
Changes in non-cash operating working capital	(1,044)	(10,343)
Income taxes paid	(412)	(3,009)
Cash flow from operating activities	24,913	7,949
Investing activities:		
Property and equipment additions (note 4)	(26,937)	(21,547)
Intangible asset additions	(486)	(717)
Proceeds on disposal of property and equipment	4,842	4,864
Proceeds on sale of land and buildings	-	22,260
Investment in associate (note 5)	-	(3,011)
Changes in non-cash investing working capital	255	(1,555)
Cash flow from (used in) investing activities	(22,326)	294
Financing activities:		
Change in operating loan	(4,559)	9,144
Interest paid	(1,643)	(1,837)
Advances of loans and borrowings	25,000	8,000
Repayments on loans and borrowings	(4,493)	(16,416)
Proceeds on exercise of share options	515	975
Repurchase of common shares	-	(4,434)
Dividends paid	(8,961)	(8,179)
Cash flow from (used in) financing activities	5,859	(12,747)
Effect of exchange rate on changes in cash and cash equivalents	177	475
Change in cash and cash equivalents	8,623	(4,029)
Cash and cash equivalents, beginning of period	289	8,470
Cash and cash equivalents, end of period	$ 8,912	$ 4,441

See accompanying notes to condensed consolidated interim financial statements.

1. Reporting entity

Cathedral Energy Services Ltd. (the "Company" or "Cathedral") is a company domiciled in Canada. The Company is a publicly-traded company listed on the Toronto Stock Exchange under symbol "CET". The condensed consolidated interim financial statements of the Company as at and for the period ended September 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 is 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 November 4, 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 nine months ended September 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 activity levels in western Canada are generally lower during "spring breakup" which normally commences in mid to late March and continues through to May. Operating activity levels 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:

	Nine months ended September 30	
	2014	2013
Directional drilling equipment	$ 22,553	$ 14,994
Production testing equipment	3,512	5,645
Land and buildings	77	477
Automotive equipment	349	640
Office and computer equipment	852	408
Property and equipment additions	$ 27,343	$ 22,164

Included in the above additions are non-cash additions of $406 for the nine months ended September 30, 2014 (2013 - $617) 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

	September 30 2014	December 31 2013
Current liabilities:		
Current portion of finance lease liabilities	$ 844	$ 722
Non-current liabilities:		
Finance lease liabilities	$ 1,158	$ 1,462
Secured revolving term loan	58,000	37,000
Total	$ 59,158	$ 38,462

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

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 can be increased by 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 September 30, 2014, the Company was in compliance with all covenants under its credit facility.

7. 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, 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	129,000	515	348,170	1,326
Contributed surplus on options exercised		116		310
Repurchased and cancelled	-	-	(1,088,083)	(2,194)
Issued, end of period	36,295,380	$ 74,481	36,166,380	$ 73,850

Issuance of common shares

129,000 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 $3.99 per option. All issued shares are fully paid.

Dividends

Cathedral declared a dividend of $2,994 in 2014 Q3 (2013 - $2,705) 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 December 31, 2014 and payable January 15, 2015.

Basic earnings per share

The calculation of basic earnings per share for the three and nine months ended September 30, 2014 was based on the profit attributable to common shareholders of $5,805 and $8,507 (2013 – $7,956 and $9,706) and a weighted average number of common shares outstanding of 36,263,750 and 36,226,725 (2013 – 35,914,700 and 36,175,005); calculated as follows:

Weighted average number of ordinary shares

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Issued, beginning of period	36,260,380	35,824,877	36,166,380	36,906,293
Effect of share options exercised	3,370	89,823	60,345	35,324
Effect of share repurchases	-	-	-	(766,612)
Weighted average number of common shares at end of period	36,263,750	35,914,700	36,226,725	36,175,005

Diluted earnings per share

The calculation of diluted earnings per share for the three and nine months ended September 30, 2014 was based on the profit attributable to common shareholders of $5,805 and $8,507 (2013 – $7,956 and $9,706). For the three and nine months ended September 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 36,279,937 and 36,250,267 (2013 – 36,013,046 and 36,238,068), calculated as follows:

Weighted average number of common shares (diluted)

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Weighted average number of common shares (basic)	36,263,750	35,914,700	36,226,725	36,175,005
Effect of share options on issue	16,187	98,346	23,542	63,063
Weighted average number of common shares (diluted) at end of period	36,279,937	36,013,046	36,250,267	36,238,068

For both the three and nine months ended September 30, 2014, 1,170,863 options (2013 – 2,712,030 and 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 September 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 $1,374. Cathedral anticipates expending the funds related to the purchase equipment obligations and the building obligations over the next two financial quarters ending in 2015 Q1.

9. Subsequent event

On October 29, 2014 Cathedral received a letter from one of its U.S. clients alleging a down-hole drilling incident which impacted two of their wells in December 2013. The client has indicated potential damages of $3 million. Cathedral does not normally carry insurance for this type of incident. Cathedral is currently in the process of investigating the particulars related to this letter to understand its potential liability and the impact any liability may have on the Company. Due to the uncertainty around what amount, if any, and the means of settlement, the Company has made no provision in these statements for this incident.