2013 Q2 INTERIM REPORT

FINANCIAL HIGHLIGHTS

Dollars in 000's except per share amounts

	Three months ended June 30		Six months ended June 30	
	2013	2012	2013	2012
Revenues	$ 45,639	$ 40,699	$ 99,713	$ 108,528
Adjusted gross margin % (1)	22.0%	19.1%	23.4%	28.4%
EBITDAS (1)	$ 5,342	$ 2,068	$ 13,934	$ 24,024
Diluted per share	$ 0.15	$ 0.05	$ 0.38	$ 0.63
EBITDAS (1) as % of revenues	11.7%	5.1%	14.0%	22.1%
Funds from operations (1)	$ 3,576	$ 1,148	$ 11,083	$ 18,645
Diluted per share	$ 0.10	$ 0.03	$ 0.30	$ 0.49
Net earnings (loss)	$ (309)	$ (3,222)	$ 1,750	$ 9,406
Basic per share	$ (0.01)	$ (0.09)	$ 0.05	$ 0.25
Diluted per share	$ (0.01)	$ (0.09)	$ 0.05	$ 0.25
Dividends declared per share	$ 0.075	$ 0.075	$ 0.150	$ 0.150
Property and equipment additions (cash)	$ 6,476	$ 6,542	$ 13,174	$ 18,487
Weighted average shares outstanding				
Basic (000s)	35,854	37,485	36,307	37,420
Diluted (000s)	35,898	37,744	36,361	37,911

	June 30 2013	December 31 2012
Working capital	$ 23,686	$ 29,173
Total assets	$ 230,572	$ 224,080
Loans and borrowings excluding current portion	$ 51,345	$ 46,151
Total shareholders' equity	$ 132,464	$ 137,932

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

MANAGEMENT'S DISCUSSION & ANALYSIS

This Management's Discussion & Analysis ("MD&A") for the three and six months ended June 30, 2013 should be read in conjunction with the annual audited consolidated financial statements and notes thereto for the year ended December 31, 2012, as well as the MD&A in the 2012 Annual Report of Cathedral Energy Services Ltd. ("the Company" / "Cathedral"). This MD&A has been prepared as of August 13, 2013. Dollar amounts are in '000's except for day rates and per share amounts.

2013 Q2 KEY TAKEAWAYS

- $0.075/ share dividend for 2013 Q2 paid in July 2013 and approved a $0.075/share dividend for 2013 Q3;
- Expanded U.S. production testing with 3 new high pressure units for a total of 33 U.S. units. During 2013, the Company entered the Texas market and now has a fleet of 7 units in the region;
- 2013 Q2 set a record for U.S. production testing revenue. This is the second consecutive quarter of record revenues for U.S. production testing;
- Continued growth in U.S. directional drilling activity;
- Combined U.S. revenues have increased 10% on a year-to-date basis;
- Successfully drilled several wells in an Oklahoma basin with the Company's proprietary Fusion EM/MWD platform ("Fusion MWD platform") in formations where other service providers have not had success with EM technology. This is expected to open new opportunities for long-term work;
- Canadian operations were reduced due to weather and customer delays; and

- The Company's international subsidiaries completed signing of all required agreements with Vencana Servicios Petroleros, S.A. ("Vencana") in which the Company has 40% ownership.

OVERVIEW

The Company completed 2013 Q2 with quarterly revenues of $45,639 and year-to-date revenues of $99,713 compared to 2012 Q2 revenues of $40,699 and 2012 year-to-date revenues of $108,528. Year-to-date revenues have decreased 8% from 2012. The 2013 Q2 revenues were comprised of 60% (2012 Q2 - 65%) from the directional drilling division, 28% (2012 Q2 - 35%) from the production testing division and 12% (2012 Q2 – nil) from international operations.

2013 Q2 EBITDAS were $5,342 ($0.15 per share diluted) which represents a $3,274 increase from 2012 Q2 EBITDAS of $2,068 ($0.05 per share diluted). For the three months ended June 30, 2013, the Company's loss was $309 ($0.01 per share diluted) as compared to a loss $3,222 ($0.09 per share diluted) in 2012. The quarter-over-quarter increase in EBITDAS is due to 2013 Q2 including international resale of equipment to Cathedral's Venezuela joint venture, increased operating levels in both U.S. divisions, offset by a decline in Canadian operating levels. 2013 year-to-date EBITDAS was $13,934 ($0.38 per share diluted) which represents a $10,090 or 42% decrease from $24,024 ($0.63 per share diluted) in 2012. On a 2013 year-to-date basis, the Company's net income was $1,750 ($0.05 per share diluted) as compared to a $9,406 ($0.25 per share diluted) in 2012.

OUTLOOK

The investment in the U.S. continues to be the focus of the Company. This investment is beginning to bear fruit as both the Texas and new Oklahoma regions are seeing increased activity levels. This along with the success of Cathedral's Fusion MWD platform and "nDurance" mud motors is leading to positive events happening in all of Cathedral's U.S. operating regions.

Cathedral continues to see delays in Canadian field operations as weather has been an issue that has carried on since late Q2. The rig count continues to lag that of last year. The access to capital has continued to be an issue for most Canadian oil and natural gas operators, although Canadian oil differentials have tightened.

The Company continues to move forward with its Venezuelan joint venture. The Company's subsidiaries have now signed all required agreements prior to commencement of operations. Over the last few months there has been a renewed urgency to move things forward with the Venezuelan national oil company and its subsidiaries. The Company's Directional Plus International Ltd. subsidiary is now focused on delivering the remaining required equipment to initiate operations.

Cathedral has signed a non-binding letter of intent for the sale and leaseback of its Calgary 6030 Campus and its Nisku, Alberta motor repair facility. The net proceeds are expected to be approximately $22,000 and will be used to reduce debt. The sale is expected to close in September 2013.

Cathedral has renewed its normal course issuer bid as it believes that the trading price of its common shares does not accurately reflect the value of the Company and it will assist in stabilizing the trading price and to provide liquidity in the market for its shareholders.

The Company has expanded its 2013 capital program by an additional $5,000. This will allow the Company to continue its expansion in the Texas, Oklahoma and Rocky Mountain regions of the U.S.

2013 CAPITAL PROGRAM

For the six months ended June 30, 2013 the Company has invested an additional $13,174 (2012 - $18,487) in property and equipment. The main 2013 capital additions were upgrades and replacement of downhole tools, the addition of 3 retrievable positive pulse systems, 3 high pressure production testing units and auxiliary production testing equipment. In 2013, $5,956 of the additions related to growth capital, with the remaining $7,218 for maintenance, upgrade and replacement capital. . The net property and equipment additions (additions net of proceeds on the disposal of property and equipment) to date in 2013 were $10,556 (2012 - $12,099).

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

	June 30 2013	December 31 2012	June 30 2012
Directional drilling - MWD systems [(1)]	134	136	129
Production testing units	72	69	67

(1) The Company has 15 Geolink MWD systems that have been excluded from the June 30, 2013 figures as they are held for sale. As at June 30 and December 31, 2012 there were 10 Geolink MWD systems that were excluded.

Cathedral's 2013 capital budget has increased by $5,000 for U.S. drilling expansion. The budget has increased from the initially announced amount of $22,000 to $27,000.

The additional $5,000 is for additional capital for the drilling division are addition of mud motors, drill collars and power sections for the expected expansion of Company's U.S. Rocky Mountain, Houston and Oklahoma City operation bases.

The maintenance capital remains unchanged at $12,000.

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

RESULTS OF OPERATIONS – THREE MONTHS ENDED JUNE 30

	Three months ended June 30, 2013				Three months ended June 30, 2012		
Revenues	Directional drilling	Production testing	Resale and Rental	Total	Directional drilling	Production testing	Total
Canada	$ 8,650	$ 4,066	$ -	$ 12,716	$ 10,522	$ 6,368	$ 16,890
United States	18,835	8,914	-	27,749	15,988	7,821	23,809
International	-	-	5,174	5,174	-	-	-
Total	$ 27,485	$ 12,980	$ 5,174	$ 45,639	$ 26,510	$ 14,189	$ 40,699

Revenues 2013 Q2 revenues were $45,639 which represented an increase of $4,940 or 12% from 2012 Q2 revenues of $40,699. The increase was attributed to international and U.S. operations which were offset by declines in Canada operations.

Canadian directional drilling revenues decreased from $10,522 in 2012 Q2 to $8,650 in 2013 Q2; an 18% decrease. This decrease was the result of: i) a 15% decrease in activity days from 801 in 2012 Q2 to 679 in 2013 Q2; and ii) a 3% decrease in the average day rate from $13,136 in 2012 Q2 to $12,739 in 2013 Q2. Canadian activity days decreased due to a number of factors including: i) a decline in industry activity due to oil take away restrictions; marginal natural gas prices and a general lack of access to equity markets; ii) a decline in work for a significant client that carried over from 2013 Q1: and iii), a slow start after the spring break-up and further delays due to weather in June that pushed start dates for certain jobs in to 2013 Q3.

U.S. directional drilling revenues increased from $15,988 in 2012 Q2 to $18,835 in 2013 Q2; an 18% increase. This increase was the result of: i) a 7% increase in activity days from 1,493 in 2012 Q2 to 1,602 in 2013 Q2; and ii) a 10% increase in the average day rate from $10,709 in 2012 Q2 to $11,757 in 2013 Q2 (when converted to Canadian dollars). The increase in U.S. activity days were due to increased traction in the Texas and Oklahoma markets, offset by reduced drilling in the Rocky Mountain and Pennsylvania areas within the existing client base. The increased average day rate was mainly due to higher rates that were achieved in the Rocky Mountain and Texas regions.

Canadian production testing revenues decreased from $6,368 in 2012 Q2 to $4,066 in 2013 Q2; a 36% decrease. The Canadian operations were affected by a general industry wide decline in wells completed in 2013 Q2 versus 2012 Q2 and client specific delays in completion work that has been deferred into 2013 Q3.

U.S. production testing revenues increased from $7,821 in 2012 Q2 to $8,914 in 2013 Q2; a 14% increase. This increase is attributable to having 3 additional units in 2013 Q2 versus 2012 Q2 and expansion into the Eagleford (Texas) market.

Gross margin and adjusted gross margin The gross margin for 2013 Q2 was 11.5% compared to 7.8% in 2012 Q2. Adjusted gross margin for 2013 Q2 was $10,018 (22.0%) compared to $7,792 (19.1%) for 2012 Q2. The increase in adjusted gross margin of 2.9% 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 2012 Q2.

In the Canadian and U.S. drilling markets, there have been declines in the total per day revenue rates which have a negative effect on the gross margin realized. The Canadian testing division saw increased labour costs due to increased use of senior field personnel while the U.S. testing division saw a slight decline in labour costs. The increased labour costs were offset by decreases in repairs and battery costs, for the overall slight increase in North American margin.

Depreciation allocated to cost of sales increased from $4,530 in 2012 Q2 to $4,709 in 2013 Q2 due to capital additions in the period from 2012 Q2 to 2013 Q2. Depreciation included in cost of sales as a percentage of revenue was 10.3% for 2013 Q2 and 11.1% in 2012 Q2.

Selling, general and administrative expenses ("SG&A") SG&A expenses were $6,151 in 2013 Q2; an increase of $108 compared with $6,043 in 2012 Q2. As a percentage of revenue, these costs were 13% in 2013 Q2 and 15% in 2012 Q2. Non-cash expenses total $293 for 2013 Q2 and $405 for 2012 Q2. SG&A net of these non-cash items were $5,858 in 2013 Q2 and $5,638 in 2012 Q2, an increase of $220.

Wages increased $351; this increase was primarily related to staff additions for research and development department and staff positions added to accommodate current and future U.S. growth; net of decreases in variable compensation. The staffing costs included in SG&A relate to executives, sales, accounting, human resources, payroll, safety, research and development and related support staff. The remaining net decrease of $131 relates to various changes none of which are individually significant.

Gain on disposal of property and equipment During 2013 Q2 the Company had a gain on disposal of property and equipment of $1,125, compared to $28 in 2012 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 loss The Company's foreign exchange loss of $315 in 2012 Q2 has declined to a loss of $273 in 2013 Q2 due to the fluctuations in the Canadian dollar compared to U.S. dollars and Venezuelan bolivars. The Company's foreign operations are denominated in a currency other than the Canadian dollar and therefore, upon consolidation gains and losses due to fluctuations in the foreign currency exchange rates are recorded in other comprehensive income ("OCI") on the balance sheet as a component of equity. However, gains and losses in the Canadian entity on U.S. denominated intercompany balances continue to be recognized in the statement of income. Included in the 2013 Q2 foreign currency loss are unrealized losses of $330 (2012 Q2 - $201) related to intercompany balances.

Finance costs Finance costs consist of interest expenses on operating loans, loans and borrowings and bank charges of $648 for 2013 Q2 versus $513 for 2012 Q2. The increase in finance costs relate to increases in interest rates as well as increased utilization of the Company's operating loan.

Income tax For 2013 Q2, the Company had an income tax recovery of $372 compared to $428 in 2012 Q2. The effective tax rate was 55% for 2013 Q2 and 12% for 2012 Q2. 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 2013 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%.

RESULTS OF OPERATIONS – SIX MONTHS ENDED JUNE 30

	Six months ended June 30, 2013				Six months ended June 30, 2012		
Revenues	Directional drilling	Production testing	Resale and Rental	Total	Directional drilling	Production testing	Total
Canada	$ 32,244	$ 11,832	$ -	$ 44,076	$ 44,034	$ 18,753	$ 62,787
United States	33,344	17,119	-	50,463	30,895	14,846	45,741
International	-	-	5,174	5,174	-	-	-
Total	$ 65,588	$ 28,951	$ 5,174	$ 99,713	$ 74,929	$ 33,599	$ 108,528

Revenues 2013 revenues were $99,713 which represented a decrease of $8,815 or 8% from 2012 revenues of $108,528. The increase was attributed to international and U.S. operations which were offset by declines in Canada operations.

Canadian directional drilling revenues decreased from $44,034 in 2012 to $32,244 in 2013; a 27% decrease. This decrease was the result of: i) a 21% decrease in activity days from 3,514 in 2012 to 2,781 in 2013; and ii) a 7% decrease in the average day rate from $12,531 in 2012 to $11,594 in 2013. Canadian activity days decreased due to a number of factors including: i) a decline in industry activity due to oil take away restrictions, marginal natural gas prices and a general lack of access to equity markets; ii) a decline in work for a significant client; and iii) a slow start after the spring break-up and further delays due to weather in June that pushed start dates for certain jobs in to 2013 Q3. There were new clients added, but these were not enough to offset the decreased work on existing clients.

U.S. directional drilling revenues increased from $30,895 in 2012 to $33,344 in 2013; an 8% increase. This increase was the result of: i) an1% increase in activity days from 2,915 in 2012 to 2,931 in 2013; and ii) a 7% increase in the average day rate from $10,599 in 2012 to $11,376 in 2013 (when converted to Canadian dollars). The increase in U.S. activity days were due to increased traction in the Texas and Oklahoma markets, offset by reduced drilling in the Rocky Mountain and Pennsylvania areas within the existing client base. The increased average day rate is increase was due to increases that were achieved in the Rocky Mountain and Texas regions, net of declines in the northeast.

Canadian production testing revenues decreased from $18,753 in 2012 to $11,832 in 2013; a 37% decrease. The Canadian operations were affected by a general industry wide decline in wells completed and client specific delays in completion work that has resulted in such work being delayed until 2013 Q3.

U.S. production testing revenues increased from $14,846 in 2012 to $17,119 in 2013; a 15% increase. This increase is attributable to having 3 additional units in 2013 versus 2012 and expansion into the Eagleford (Texas) market.

Gross margin and adjusted gross margin The gross margin for 2013 was 13.9% compared to 20.2% in 2012. Adjusted gross margin for 2013 was $23,376 (23.4%) compared to $30,856 (28.4%) for 2012. The decrease in adjusted gross margin of 5.0% was offset in part to the impact of international operations. Excluding international operations, adjusted gross margin for 2013 was 22.6%.

In the Canadian and U.S. drilling markets, there have been declines in the total per day revenue rates which have a negative effect on the gross margin realized. The Canadian production testing division saw increased labour costs due to increased use of senior field personnel while the U.S. production testing division saw a slight decline in labour costs. In addition there were increases in costs for accommodation of field staff and increases in non-field wages. The increase in non-field wages relates to the continued build out of personnel in the Houston, Texas facility and staff for the newly established facility in Oklahoma City, Oklahoma. The Company is expecting increased levels of activity from the markets covered by these facilities. Despite Cathedral's highly variable field cost structure, non-field salaries are of a fixed nature and therefore when the Company's revenue declines as which was experienced in the Canadian market, such costs become a higher percentage of revenues.

Depreciation allocated to cost of sales increased from $8,794 in 2012 to $9,374 in 2013 due to capital additions in the period from July 2012 to June 2013. Depreciation included in cost of sales as a percentage of revenue was 9.4% for 2013 and 8.1% in 2012.

Selling, general and administrative expenses ("SG&A") SG&A expenses were $11,722 in 2013; an increase of $238 compared with $11,484 in 2012. As a percentage of revenue, these costs were 12% in 2013 and 11% in 2012. Non-cash expenses total $661 for 2013 and $829 for 2012. SG&A net of these non-cash items were $11,061 in 2013 and $10,655 in 2012, an increase of $406.

In 2013 Q1, there was a recovery of international SG&A offset by one-time costs for severance. The recovery of international SG&A was from the Company's joint venture partner in Vencana Servicios Petroleros, S.A. ("Vencana"), of which Cathedral owns 40%, for amounts previously expended by the Company on the start-up of Vencana. These costs had been previously expensed by Cathedral. The Company is currently in negotiations with its joint venture partner for the re-imbursement of additional costs. If we remove these items from SG&A, net of non-cash items, adjusted SG&A was $11,644 in 2013 compared to $10,655 in 2012 Q1, an increase of $989.

Wages increased $2,088; this increase was primarily related to staff additions for research and development department and staff positions added to accommodate current and future U.S. growth, net of decreases in variable compensation. The staffing costs included in SG&A relate to executives, sales, accounting, human resources, payroll, safety, research and development and related support staff. The remaining net decrease of $244 relates to various changes none of which are individually significant.

Gain on disposal of property and equipment During 2013 the Company had a gain on disposal of property and equipment of $1,630, compared to $3,732 in 2012. Included in the 2012 gain of $3,732 was $2,034 related to the sale of property and equipment by Cathedral's subsidiaries to Vencana. The Vencana related portion of the gain includes the portion of the gain related to the joint venture partner's share. The Company's remaining gains are mainly due to recoveries of lost-in-hole equipment costs including previously expensed depreciation on the related assets. The timing of lost-in-hole recoveries is not in the control of the Company and therefore can fluctuate significantly from quarter-to-quarter.

Foreign exchange loss The Company's foreign exchange loss of $54 in 2012 has increased to a loss of $553 in 2013 due to the fluctuations in the Canadian dollar compared to U.S. dollars and Venezuelan bolivars. The Company's foreign operations are denominated in a currency other than the Canadian dollar and therefore, upon consolidation gains and losses due to fluctuations in the foreign currency exchange rates are recorded in other comprehensive income ("OCI") on the balance sheet as a component of equity. However, gains and losses in the Canadian entity on U.S. denominated intercompany balances continue to be recognized in the statement of income. Included in the 2013 foreign currency loss are unrealized losses of $542 (2012 - $145) related to intercompany balances.

Finance costs Finance costs consist of interest expenses on operating loans, loans and borrowings and bank charges of $1,128 for 2013 versus $1,086 for 2012. The increase in finance costs relate to increases in interest rates as well as increased utilization of the Company's operating loan.

Income tax For 2013, the Company had an income tax expense of $356 compared to $3,593 in 2012. The effective tax rate was 17% for 2013 and 28% 2012. 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 2013 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 year-to-date tax rate of 17%.

LIQUIDITY AND CAPITAL RESOURCES

On an annualized basis the Company’s principal source of liquidity is cash generated from operations. In addition, the Company has the ability to fund liquidity requirements through its credit facility and the issuance of debt and/or equity. For the six months ended June 30, 2013, the Company had funds from operations of $11,083 (2012 - $18,645). The decline in funds from operations is due to the Company’s reduced levels of Canadian source revenues on a year-over-year basis.

At June 30, 2013 the Company had a working capital position of $23,686 (December 31, 2012 - $29,173) and a working capital ratio of 1.52 to 1 (December 31, 2012 – 1.75 to 1).

The following table outlines the current credit facility:

		June 30 2013		December 31 2012
Available credit facility	$	75,000	$	75,000
Drawings on credit facility:				
Operating loan		13,133		880
Revolving term loan		50,000		45,000
Total drawn facility	$	63,133	$	45,880
Borrowing capacity (see NON-GAAP MEASUREMENTS)	$	11,867	$	29,120
Net debt (see NON-GAAP MEASUREMENTS):				
Loans and borrowings, net of current portion	$	51,345	$	46,151
Working capital:				
Current assets	$	69,463	$	68,142
Current liabilities		(45,777)		(38,969)
Working capital	$	23,686	$	29,173
Net debt	$	27,659	$	16,978

The Company’s credit facility includes a $35,000 accordion feature which is subject to approval of the Company’s bank. As at June 30, 2013, the Company is in compliance with all covenants under its credit facility. During 2013 Q2, the credit facility was renewed with new expiry date of June 30, 2014.

NORMAL COURSE ISSUER BID

In 2013 Q2, the Company repurchased and cancelled an additional 416,521 common shares at a cost of $1,730 or an average cost of $4.15 per common share. A total of 1,838,075 of common share at a cost of $8,395 or an average cost of $4.57 per common share were repurchased under the Company’s Normal Course Issuer Bid that expired on June 19, 2013. The Normal Course Issuer Bid was renewed and has an expiry date of July 7, 2014. At August 13, 2013, the Company has 35,824,877 common shares and 3,288,733 share options outstanding.

DIVIDENDS

It is the intent of the Company to pay quarterly dividends to shareholders. The Board of Directors will review the amount of dividends on a quarterly basis with due consideration to current performance, historical and future trends in the business, the expected sustainability of those trends and enacted tax legislation which will affect future taxes payable as well as required long-term debt repayments, maintenance capital expenditures required to sustain performance and future growth capital expenditures. The Directors have approved a 2013 Q3 dividend in the amount of $0.075 per share which will have a date of record of September 30, 2013 and a payment date of October 15, 2013.

CONTRACTUAL OBLIGATIONS

In the normal course of business, the Company incurs contractual obligations and those obligations are disclosed in the Company’s MD&A for the year ended December 31, 2012. As at June 30, 2013, the Company had a commitment to purchase approximately $4,917 of property and equipment. Cathedral anticipates expending these funds in 2013 Q3.

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, 2013 that have materially affected, or are reasonably likely to materially affect, Cathedral's ICFR.

BUSINESS RISKS

The MD&A for the year ended December 31, 2012, which is included in the Company's 2012 Annual Report, includes an overview on business risks associated with the Company and its operating entities. Those business risks remain in effect as at June 30, 2013.

GOVERNANCE

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

NEW AND FUTURE ACCOUNTING POLICIES

There were no new or amended standards issued during the six months ended June 30, 2013 that are applicable to the Company in future periods. A description of standards and interpretations that will be adopted by the Company in future periods can be found in the MD&A for the year ended December 31, 2012.

SUMMARY OF QUARTERLY RESULTS

Three month periods ended	Jun 2013	Mar 2013	Dec 2012	Sep 2012	Jun 2012	Mar 2012	Dec 2011	Sep 2011
Revenues	$ 45,639	$ 54,074	$ 44,836	$ 49,830	$ 40,699	$ 67,829	$ 70,359	$ 63,409
EBITDAS [1]	$ 5,342	$ 8,592	$ 8,296	$ 10,538	$ 2,068	$ 21,956	$ 20,969	$ 17,666
EBITDAS [1] per share - diluted	$ 0.15	$ 0.23	$ 0.22	$ 0.28	$ 0.05	$ 0.58	$ 0.55	$ 0.47
Net earnings (loss)	$ (309)	$ 2,059	$ 1,578	$ 3,813	$ (3,222)	$ 12,628	$ 12,551	$ 8,575
Net earnings (loss) per share - basic	$ (0.01)	$ 0.06	$ 0.04	$ 0.10	$ (0.09)	$ 0.34	$ 0.34	$ 0.23
Net earnings (loss) per share - diluted	$ (0.01)	$ 0.06	$ 0.04	$ 0.10	$ (0.09)	$ 0.33	$ 0.33	$ 0.23
Dividends declared per share	$ 0.075	$ 0.075	$ 0.075	$ 0.075	$ 0.075	$ 0.075	$ 0.060	$ 0.060

(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: capital expenditures are expected to be financed by way of cash flow from operations and the Company's credit facility; development and deployment of new technologies; expected growth in the U.S. market on a quarter-over-quarter basis for the remainder of the year in both operating divisions; components of expected 2013 capital budget and financing thereof; timing of payment of purchase commitments; expected activity levels; future expansion; that no further agreements are required to be signed prior to commencement of operations in Venezuela; intent to pay quarterly dividends; sources to fund liquidity requirements; and reduction in debt levels from the sale and leaseback transaction. The Company believes the expectations reflected in such forward-looking statements are reasonable as of the date hereof but no assurance can be given that these expectations will prove to be correct and such forward-looking statements should not be unduly relied upon.

Various material factors and assumptions are typically applied in drawing conclusions or making the forecasts or projections set out in forward-looking statements. Those material factors and assumptions are based on information currently available to the Company, including information obtained from third party industry analysts and other third party sources. In some instances, material assumptions and material factors are presented elsewhere in this MD&A in connection with the forward-looking statements. You are cautioned that the following list of material factors and assumptions is not exhaustive. Specific material factors and assumptions include, but are not limited to:

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

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

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

NON-GAAP MEASUREMENTS

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

The specific measures being referred to include the following:

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

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

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

iv) "Funds from operations" - calculated as cash provided by operating activities before changes in non-cash working capital and income taxes paid less current tax expense; is considered an indicator of the Company's ability to generate funds flow from operations on an after tax basis but excluding changes in non-cash working capital which is financed using the Company's operating loan (see tabular calculation);

v) "Growth property and equipment additions" or "Growth capital" – is capital spending which is intended to result in incremental revenues. Growth capital is considered to be a key measure as it represents the total expenditures on property and equipment expected to add incremental revenues and funds flow to the Company;

vi) "Maintenance property and equipment additions" or "Maintenance capital" – is capital spending incurred in order to refurbish or replace previously acquired other than "replacement property and equipment additions" described below. Such additions do not provide incremental revenues. Maintenance capital is a key component in understanding the sustainability of the Company's business as cash resources retained within Cathedral must be sufficient to meet maintenance capital needs to replenish the assets for future cash generation;

vii) "Replacement property and equipment additions" or "Replacement capital" – is capital spending incurred in order to replace equipment that is lost downhole. Cathedral recovers lost-in-hole costs including previously expensed depreciation on the related assets form customers. Such additions do not provide incremental revenues. The identification of replacement property and equipment additions is considered important as such additions are financed by way of proceeds on disposal of property and equipment (see discussion within the MD&A on "gain on disposal of property and equipment);

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

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

x) "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	
	2013	2012	2013	2012
Gross margin	$ 5,266	$ 3,193	$ 13,883	$ 21,891
Add non-cash items included in cost of sales:				
Depreciation	4,709	4,530	9,374	8,794
Share-based compensation	43	69	119	171
Adjusted gross margin	$ 10,018	$ 7,792	$ 23,376	$ 30,856
Adjusted gross margin %	22.0%	19.1%	23.4%	28.4%

EBITDAS

		Three months ended June 30				Six months ended June 30		
		2013		2012		2013		2012
Earnings (loss) before income taxes	$	(681)	$	(3,650)	$	2,106	$	12,999
Add (deduct):								
Depreciation included in cost of sales		4,709		4,530		9,374		8,794
Depreciation included in selling, general and administrative expenses		159		159		316		315
Share-based compensation included in cost of sales		43		69		119		171
Share-based compensation included in selling, general and administrative expenses		134		246		345		514
Unrealized foreign exchange loss on intercompany balances		330		201		542		145
Finance costs		648		513		1,128		1,086
Share of loss from associate		-		-		4		-
EBITDAS	$	5,342	$	2,068	$	13,934	$	24,024

Funds from operations

		Six months ended June 30		
		2013		2012
Cash flow from operating activities	$	2,728	$	59,229
Add (deduct):				
Changes in non-cash operating working capital		7,628		(41,950)
Income taxes paid		1,948		3,013
Current tax expense		(1,221)		(1,647)
Funds from operations	$	11,083	$	18,645

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

June 30, 2013 and December 31, 2012
Dollars in '000s
(unaudited)

	June 30 2013	December 31 2012
Assets		
Current assets:		
Cash and cash equivalents	$ 5,723	$ 8,470
Trade receivables	39,530	36,094
Current taxes recoverable	897	153
Prepaid expenses	9,039	10,419
Inventories	14,274	13,006
Total current assets	69,463	68,142
Property and equipment (note 4)	137,579	135,093
Intangible assets	589	719
Deferred tax assets	10,147	9,379
Investment in associate (note 5)	6,946	4,899
Goodwill	5,848	5,848
Total non-current assets	161,109	155,938
Total assets	$ 230,572	$ 224,080
Liabilities and Shareholders' Equity		
Current liabilities:		
Operating loan	$ 13,133	$ 880
Trade and other payables	21,030	21,773
Dividends payable	2,687	2,768
Loans and borrowings (note 6)	662	711
Deferred revenue	8,265	12,837
Total current liabilities	45,777	38,969
Loans and borrowings (note 6)	51,345	46,151
Deferred tax liabilities	986	1,028
Total non-current liabilities	52,331	47,179
Total liabilities	98,108	86,148
Shareholders' equity:		
Share capital (note 7)	72,244	74,408
Contributed surplus	9,322	8,863
Accumulated other comprehensive loss	(541)	(2,679)
Retained earnings	51,439	57,340
Total shareholders' equity	132,464	137,932
Total liabilities and shareholders' equity	$ 230,572	$ 224,080

See accompanying notes to condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Three and six months ended June 30, 2013 and 2012

Dollars in '000s except per share amounts

(unaudited)

	Three months ended June 30		Six months ended June 30	
	2013	2012	2013	2012
Revenues	$ 45,639	$ 40,699	$ 99,713	$ 108,528
Cost of sales:				
Direct costs	(35,621)	(32,907)	(76,337)	(77,672)
Depreciation	(4,709)	(4,530)	(9,374)	(8,794)
Share-based compensation	(43)	(69)	(119)	(171)
Total cost of sales	(40,373)	(37,506)	(85,830)	(86,637)
Gross margin	5,266	3,193	13,883	21,891
Selling, general and administrative expenses:				
Direct costs	(5,858)	(5,638)	(11,061)	(10,655)
Depreciation	(159)	(159)	(316)	(315)
Share-based compensation	(134)	(246)	(345)	(514)
Total selling, general and administrative expenses	(6,151)	(6,043)	(11,722)	(11,484)
	(885)	(2,850)	2,161	10,407
Gain on disposal of property and equipment	1,125	28	1,630	3,732
Earnings (loss) from operating activities	240	(2,822)	3,791	14,139
Foreign exchange loss	(273)	(315)	(553)	(54)
Finance costs	(648)	(513)	(1,128)	(1,086)
Share of loss from associate	-	-	(4)	-
Earnings (loss) before income taxes	(681)	(3,650)	2,106	12,999
Income tax recovery (expense):				
Current expense	(641)	(892)	(1,221)	(1,647)
Deferred recovery (expense)	1,013	1,320	865	(1,946)
Total income tax recovery (expense)	372	428	(356)	(3,593)
Net earnings (loss)	(309)	(3,222)	1,750	9,406
Other comprehensive income:				
Foreign currency translation differences for foreign operations	1,433	940	2,138	293
Total comprehensive income (loss)	$ 1,124	$ (2,282)	$ 3,888	$ 9,699
Net earnings (loss) per share				
Basic	$ (0.01)	$ (0.09)	$ 0.05	$ 0.25
Diluted	$ (0.01)	$ (0.09)	$ 0.05	$ 0.25

See accompanying notes to condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Six months ended June 30, 2013 and 2012

Dollars in '000s

(unaudited)

	Share capital	Contributed surplus	Accumulated other comprehensive loss	Retained earnings	Total shareholders' equity
Balance at December 31, 2011	**$ 74,208**	**$ 7,845**	**$ (2,141)**	**$ 56,195**	**$ 136,107**
Total comprehensive income for six months ended June 30, 2012	-	-	293	9,406	9,699
Transactions with shareholders, recorded directly in equity contributions by and distributions to shareholders for six months ended June 30, 2012:					
Dividends to equity holders	-	-	-	(5,622)	(5,622)
Repurchase of common shares	(20)	-	-	(30)	(50)
Share-based compensation	-	677	-	-	677
Share options exercised	972	(187)	-	-	785
Total contributions by and distributions to shareholders	952	490	-	(5,652)	(4,210)
Balance at June 30, 2012	**$ 75,160**	**$ 8,335**	**$ (1,848)**	**$ 59,949**	**$ 141,596**
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**

See accompanying notes to condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Six months ended June 30, 2013 and 2012
Dollars in '000s
(unaudited)

	2013	2012
Cash provided by (used in):		
Operating activities:		
Net earnings from continuing operations	$ 1,750	$ 9,406
Items not involving cash:		
Depreciation	9,690	9,109
Total income tax expense	356	3,593
Unrealized foreign exchange loss on intercompany balances	542	145
Finance costs	1,128	1,086
Share-based compensation	464	685
Gain on disposal of property and equipment	(1,630)	(3,732)
Share of loss from associate	4	-
Cash flow from continuing operations	12,304	20,292
Changes in non-cash operating working capital	(7,628)	41,950
Income taxes paid	(1,948)	(3,013)
Cash flow from operating activities	2,728	59,229
Investing activities:		
Property and equipment additions (note 4)	(13,174)	(18,487)
Intangible asset additions	-	(677)
Proceeds on disposal of property and equipment	2,618	6,388
Investment in associate	(1,580)	-
Changes in non-cash investing working capital	(56)	503
Cash flow used ininvesting activities	(12,192)	(12,273)
Financing activities:		
Change in operating loan	12,272	(12,888)
Interest paid	(1,220)	(1,094)
Advances of loans and borrowings	5,000	-
Repayments on loans and borrowings	(278)	(251)
Proceeds on exercise of share options	25	786
Repurchase of common shares	(4,434)	(50)
Dividends paid	(5,492)	(5,048)
Cash flow from (used in) financing activities	5,873	(18,545)
Effect of exchange rate on changes in cash and cash equivalents	844	144
Change in cash and cash equivalents	(2,747)	28,555
Cash and cash equivalents, beginning of period	8,470	2,902
Cash and cash equivalents, end of period	$ 5,723	$ 31,457

See accompanying notes to condensed consolidated interim financial statements.

1. Reporting entity

Cathedral Energy Services Ltd. (the "Company" or "Cathedral") is a company domiciled in Canada. The Company is a publicly-traded company listed on the Toronto Stock Exchange under the symbol "CET". The unaudited condensed consolidated interim financial statements of the Company as at and for the period ended June 30, 2013 comprise the Company and its subsidiaries (together referred to as "Cathedral"). Cathedral is engaged in the business of providing selected oilfield services to oil and natural gas companies in western Canada and selected oil and natural gas basins in the United States. The Company is in the process of establishing operations in Venezuela for providing directional drilling services through its wholly owned subsidiaries Directional Plus International Ltd. ("DPI"). Directional Plus de Venezuela, C.A. ("DPV") and a joint venture company, Vencana Servicios Petroleros, S.A. ("Vencana").

2. Basis of preparation

(a) Statement of compliance

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

Accordingly, certain information and footnote disclosures normally included in the annual financial statements prepared in accordance with IFRS, as issued by the International Accounting Standards Board ("IASB"), have been omitted or condensed. It also requires management to exercise judgment in applying the Company's accounting policies. These unaudited condensed consolidated interim financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2012, which are included in the Company's 2012 Annual Report.

The unaudited condensed consolidated interim financial statements were authorized for issue by the Board of Directors on August 13, 2013.

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Significant accounting policies

These unaudited condensed interim consolidated financial statements have been prepared in accordance with IFRS and using the same accounting policies as outlined in note 3 of the consolidated financial statements for the year ended December 31, 2012. The accounting policies have been applied consistently by the Company with the following additions:

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

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

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

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

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

Future Accounting Pronouncements
There were no new or amended standards issued during the six months ended June 30, 2013 that are applicable to the Company in future periods. A description of standards and interpretations that will be adopted by the Company in future periods can be found in the notes to the annual Consolidated Financial Statements for the year ended December 31, 2012.

3. Seasonality of operations

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

4. Property and equipment

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

	Six months ended June 30	
	2013	2012
Directional drilling equipment	$ 8,120	$ 11,815
Production testing equipment	4,274	4,733
Land and buildings	469	911
Automotive equipment	486	475
Office and computer equipment	288	872
Property and equipment additions	$ 13,637	$ 18,806

Included in the above additions are non-cash additions of $463 for the six months ended June 30, 2013 (2012 - $319) related to 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. Vencana's mandate is to supply oilfield services in Venezuela to the oil and natural gas industry and will initially commence with the provision of directional drilling services; it is the intent for the services provided by Vencana to expand as mutually agreed between its joint venture partners.

6. Loans and borrowings

	June 30 2013	December 31 2012
Current liabilities:		
Current portion of finance lease liabilities	$ 662	$ 711
Non-current liabilities:		
Finance lease liabilities	$ 1,345	$ 1,151
Secured revolving term loan	50,000	45,000
Total	$ 51,345	$ 46,151

Terms and debt repayment schedule

Terms and conditions of outstanding loans were as follows:

The secured revolving term loan with a major Canadian bank at an authorized amount of $55,000 (December 31, 2012 - $55,000), bearing interest at the bank's prime rate plus 0.50 % to 2.00% or bankers' acceptance rate plus 1.75% to 3.25%, without repayment terms, maturing June 30, 2014 subject to an annual extension upon agreement between the borrower and the bank for a further one-year period. Interest rates spreads for the credit facility will depend on the level of funded debt to EBITDA (earnings before interest on long-term debt, taxes, depreciation, amortization and non-cash compensation expense – as defined in the credit agreement). Prior to maturity the borrower may convert its revolving term loan to a non-revolving term loan repayable monthly over 36 months with interest only for the first 12 months.

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

7. Share capital

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

Common shares issued:

	Six months ended June 30, 2013		Year ended December 31, 2012	
	Number	Amount	Number	Amount
Issued, beginning of period	36,906,293	$ 74,408	37,304,984	$ 74,208
Issued on exercise of options	6,667	25	351,301	1,387
Contributed surplus on options exercised		5		323
Repurchased and cancelled	(1,088,083)	(2,194)	(749,992)	(1,510)
Issued, end of period	35,824,877	$ 72,244	36,906,293	$ 74,408

Issuance of common shares

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

Dividends

Cathedral declared a dividend of $2,687 in 2013 Q2 (2012 - $2,813) or $0.075 per share (2012 - $0.075 per share.) After the reporting date the directors approved a dividend of $0.075 per share with a record date of September 30, 2013 and payable October 15, 2013.

7. Share capital (continued)

Basic earnings per share

The calculation of basic earnings per share for the three and six months ended June 30, 2013 was based on the profit (loss) attributable to common shareholders of ($309) and $1,750 (2012 – ($3,222) and $9,406) and a weighted average number of common shares outstanding of 35,854,465 and 36,307,313 (2012 – 37,484,741 and 37,420,134); calculated as follows:

Weighted average number of ordinary shares

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Issued, beginning of period	36,241,398	37,461,250	36,906,293	37,304,984
Effect of share options exercised	-	23,491	4,236	115,150
Effect of share repurchases	(386,933)	-	(603,216)	-
Weighted average number of common shares at end of period	35,854,465	37,484,741	36,307,313	37,420,134

Diluted earnings per share

The calculation of diluted earnings per share for the three and six months ended June 30, 2013 was based on the profit (loss) attributable to common shareholders of ($309) and $1,750 (2012 – ($3,222) and $9,406). For the three months ended June 30 the Company used the weighted average number of common shares outstanding of 35,845,465 (2012 – 37,484,741) as the Company has a loss. For the six months ended June 30 the Company used the weighted average number of common shares outstanding after adjustment for the effects of all dilutive potential common shares of 36,361,355 (2012 – 37,911,386), calculated as follows:

Weighted average number of common shares (diluted)

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Weighted average number of common shares (basic)	35,854,465	37,484,741	36,307,313	37,420,134
Effect of share options on issue	43,974	259,341	54,042	491,252
Weighted average number of common shares (diluted) at end of period	35,898,439	37,744,082	36,361,355	37,911,386

At June 30, 2013, 2,722,030 options (2012 – 1,101,430 options) were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive. The average market value of the Company's common shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period during which the options were outstanding.

8. Commitments

In the normal course of business, the Company incurs contractual obligations and those obligations are disclosed in the Company's annual financial statements for the year ended December 31, 2012. As at June 30, 2013, the Company's commitment to purchase property and equipment is approximately $4,917. Cathedral anticipates expending these funds in 2013 Q3.

9. Subsequent event

On July 26, 2013, Cathedral signed a non-binding letter of intent for the sale and leaseback of its Calgary 6030 Campus and its Nisku, Alberta motor repair facility. The net proceeds are expected to be approximately $22,000 and will be used to reduce debt. The sale is expected to close in September 2013.