2013 Q3 INTERIM REPORT

FINANCIAL HIGHLIGHTS

Dollars in 000's except per share amounts

	Three months ended September 30		Nine months ended September 30	
	2013	2012	2013	2012
Revenues	$ 59,734	$ 49,830	$ 159,447	$ 158,358
Adjusted gross margin % [(1)]	25.1%	28.0%	24.1%	28.3%
EBITDAS [(1)]	$ 10,757	$ 10,538	$ 24,691	$ 32,528
Diluted per share	$ 0.30	$ 0.28	$ 0.68	$ 0.86
EBITDAS [(1)] as % of revenues	18.0%	21.1%	15.5%	20.5%
Funds from operations [(1)]	$ 7,876	$ 8,039	$ 18,959	$ 26,684
Diluted per share	$ 0.22	$ 0.21	$ 0.52	$ 0.70
Net earnings	$ 7,956	$ 3,813	$ 9,706	$ 13,219
Basic per share	$ 0.22	$ 0.10	$ 0.27	$ 0.35
Diluted per share	$ 0.22	$ 0.10	$ 0.27	$ 0.35
Dividends declared per share	$ 0.075	$ 0.075	$ 0.225	$ 0.225
Property and equipment additions (cash)	$ 8,373	$ 5,229	$ 21,547	$ 23,716
Weighted average shares outstanding				
Basic (000s)	35,915	37,455	36,175	37,432
Diluted (000s)	36,013	37,721	36,238	37,861

	September 30 2013	December 31 2012
Working capital	$ 30,055	$ 29,173
Total assets	$ 225,938	$ 224,080
Loans and borrowings excluding current portion	$ 38,253	$ 46,151
Total shareholders' equity	$ 138,240	$ 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 nine months ended September 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 November 5, 2013. Dollar amounts are in '000's except for day rates and per share amounts.

2013 Q3 KEY TAKEAWAYS

- 2013 Q3 set records for U.S. directional drilling revenues and U.S. production testing revenues;
- Continued growth in U.S. activity levels for both divisions – 25% increase in year-to-date revenues;
- Cathedral continues to "win" incremental work due to success of its proprietary Fusion EM/MWD platform;
- Sale/leaseback of Nisku and Calgary, Alberta facilities is completed with net proceeds of $22,260 and gain of $5,354 – net proceeds used to reduce bank debt; and
- Continued operational success, confident outlook and balance sheet flexibility have provided a sound basis for a 10% dividend increase to $0.0825 per share.

OVERVIEW

The Company completed 2013 Q3 with quarterly revenues of $59,734 and year-to-date revenues of $159,447 compared to 2012 Q3 revenues of $49,830 and 2012 year-to-date revenues of $158,358. Year-to-date revenues have increased 1% from 2012 and Q3 revenues have increased 20% from 2012. The 2013 Q3 revenues were comprised of 71% (2012 Q3 - 72%) from the directional drilling division, 29% (2012 Q3 - 24%) from the production testing division and nil% (2012 Q3 – 4%) from international operations.

2013 Q3 EBITDAS were $10,757 ($0.30 per share diluted) which represents a $219 increase from 2012 Q3 EBITDAS of $10,538 ($0.28 per share diluted). For the three months ended September 30, 2013, the Company's net earnings were $7,956 ($0.22 per share diluted) as compared to a $3,813 ($0.10 per share diluted) in 2012. The quarter-over-quarter increase in EBITDAS is due to increases in U.S. operating results. 2013 year-to-date EBITDAS was $24,691 ($0.68 per share diluted) which represents a $7,837 or 29% decrease from $32,528 ($0.86 per share diluted) in 2012. On a 2013 year-to-date basis, the Company's net income was $9,706 ($0.27 per share diluted) as compared to a $13,219 ($0.35 per share diluted) in 2012.

OUTLOOK

Cathedral continues its focus on the build out of its U.S. services. On the directional drilling side of the business we expect continued expansion in Oklahoma and Texas markets. Additional technical sales representatives have been added and the Company continues to "win" work based upon the success of Cathedral's Fusion MWD platform and "nDurance" mud motors and performance based work. The Company's U.S. production testing division has completed 3 consecutive quarters of record revenues, but the Company expects 2013 Q4 activity levels to decline from 2013 Q3 levels due to a client deferring work into 2014 and the fact one customer has provided the Company notice that they will be moving work to another service provider as current work is completed. The Company has increased its marketing efforts for U.S. production testing service line by hiring additional technical sales representatives as well as utilizing U.S. directional drilling sales team to market production testing services.

The Company's Canadian directional drilling division continues to focus its marketing efforts on targeting clients in the Deep Basin reservoirs where reduction in drilling times resulting from equipment and technology improvements allow the Company to compete on a performance basis rather than on lowest cost for services. For 2013 Q4 both Canadian divisions are expecting to see increased activity over Q3 which was affected negatively by weather and customers that deferred work to later in the year. 2013 Q4 should also benefit from the addition of new customers as a result of ongoing marketing efforts.

Prior to the end of 2013 Q3, Cathedral completed the sale and leaseback of its Alberta operating facilities with net proceeds of $22,260 which was used to reduce bank debt. This debt repayment will provide the Company with additional financial flexibility as it moves forward.

In 2013 Q4, the Company's Directional Plus International Ltd. subsidiary is expected to ship all of the remaining production testing and wireline equipment which it has committed to sell to its international joint venture.

In mid-October, the Company's President and Chief Executive Officer, Mark Bentsen, left the employment of Cathedral. Until a replacement is secured, Mr. Bentsen's functions will be assumed by P. Scott MacFarlane as Interim Chief Executive Officer and Randy Pustanyk as President and Chief Operating Officer. Messrs. MacFarlane and Pustanyk will maintain their current roles with Cathedral as Chief Financial Officer and Vice President, Operations, respectively. Cathedral has an excellent team of executives in place on a companywide basis, and the Board of Directors are confident that we have the key people necessary to advance our strategy and guide our directional drilling and production testing businesses successfully forward.

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 an increase of 10% for 2013 Q4 dividend. The 2013 Q4 dividend will be in the amount of $0.0825 per share which will have a date of record of December 31, 2013 and a payment date of January 15, 2014.

2013 CAPITAL PROGRAM

For the nine months ended September 30, 2013 the Company has invested an additional $21,547 (2012 - $23,716) in property and equipment, excluding non-cash capital lease additions. The main 2013 capital additions were upgrades and replacement of downhole tools, the addition of 4 retrievable positive pulse systems, 3 high pressure production testing units and auxiliary production testing equipment. In 2013, $9,835 of the additions related to growth capital, with the remaining $11,712 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 $16,683 (2012 - $13,758).

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

	September 30 2013	December 31 2012	September 30 2012
Directional drilling - MWD systems [(1)]	135	136	132
Production testing units	72	69	69

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

In 2013 Q3 Cathedral's 2013 capital budget has increased from the previously announced amount of $27,000 to $30,000 for an increase of $3,000 for production testing ancillary equipment in Canada and U.S., as well as for land and building in Oklahoma City.

The maintenance capital for 2013 has increased to $16,000 with additional upgrades to existing production testing equipment and maintenance of downhole tools.

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 SEPTEMBER 30

	Three months ended September 30, 2013				Three months ended September 30, 2012			
Revenues	Directional drilling	Production testing	Resale and Rental	Total	Directional drilling	Production testing	Resale and Rental	Total
Canada	$ 19,571	$ 7,572	$ -	$ 27,143	$ 21,621	$ 5,272	$ -	$ 26,893
United States	22,836	9,755	-	32,591	13,926	6,793	-	20,719
International	-	-	-	-	-	-	2,218	2,218
Total	$ 42,407	$ 17,327	$ -	$ 59,734	$ 35,547	$ 12,065	$ 2,218	$ 49,830

Revenues 2013 Q3 revenues were $59,734 which represented an increase of $9,904 or 20% from 2012 Q3 revenues of $49,830. All areas, except for Canadian directional drilling were up on a year-over-year basis.

Canadian directional drilling revenues decreased from $21,621 in 2012 Q3 to $19,571 in 2013 Q3; a 9% decrease. This decrease was the result of: i) a 6% decrease in activity days from 1,885 in 2012 Q3 to 1,771 in 2013 Q3; and ii) a 4% decrease in the average day rate from $11,470 in 2012 Q3 to $11,051 in 2013 Q3. Canadian activity days decreased due to a number of factors including a decline in work for a significant client and clients delaying work until future quarters. These declines were partially offset by increases in work for existing clients and addition of new clients.

U.S. directional drilling revenues increased from $13,926 in 2012 Q3 to $22,836 in 2013 Q3; a 64% increase. This increase was the result of: i) a 46% increase in activity days from 1,371 in 2012 Q3 to 1,996 in 2013 Q3; and ii) a 13% increase in the average day rate from $10,158 in 2012 Q3 to $11,441 in 2013 Q3 (when converted to Canadian dollars). The increase in U.S. activity days were due to further expansion in the Texas and Oklahoma markets, increases in the Rocky Mountain region, offset by reduced drilling in the 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 on certain jobs where the pricing was tied to performance.

Canadian production testing revenues increased from $5,272 in 2012 Q3 to $7,572 in 2013 Q3; a 44% increase. The Canadian operating days were up in each month of the quarter compared to 2012. Both 2013 and 2012 Q3 activity levels were negatively affected by customers deferring work.

U.S. production testing revenues increased from $6,793 in 2012 Q3 to $9,755 in 2013 Q3; a 44% increase. This increase is attributable to having 3 additional units in 2013 Q3 versus 2012 Q3 and expansion into the Eagleford (Texas) market and an increased utilization of units.

Gross margin and adjusted gross margin The gross margin for 2013 Q3 was 16.9% compared to 18.7% in 2012 Q3. Adjusted gross margin for 2013 Q3 was $14,972 (25.1%) compared to $13,957 (28.0%) for 2012 Q3. The decrease in adjusted gross margin of 2.9% was primarily due to increased field labour costs in the directional drilling divisions.

Depreciation allocated to cost of sales increased from $4,614 in 2012 Q3 to $4,860 in 2013 Q3 due to capital additions in the period from 2012 Q3 to 2013 Q3. Depreciation included in cost of sales as a percentage of revenue was 8.1% for 2013 Q3 and 9.3% in 2012 Q3.

Selling, general and administrative expenses ("SG&A") SG&A expenses were $6,228 in 2013 Q3; an increase of $577 compared with $5,651 in 2012 Q3. As a percentage of revenue, these costs were 10% in 2013 Q3 and 11% in 2012 Q3. Non-cash expenses total $288 for 2013 Q3 and $419 for 2012 Q3. SG&A net of these non-cash items were $5,940 in 2013 Q3 and $5,232 in 2012 Q3, an increase of $708.

Wages increased $438; 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 increase of $270 relates to various changes none of which are individually significant.

Gain on disposal of property and equipment During 2013 Q3 the Company had a gain on disposal of property and equipment of $1,760 compared to $1,732 in 2012 Q3. The Company's gains are mainly due to recoveries of lost-in-hole equipment costs including previously expensed depreciation on the related assets. The timing of lost-in-hole recoveries is not in the control of the Company and therefore can fluctuate significantly from quarter-to-quarter. In addition, in 2013 Q3 the Company had a gain on sale of land and buildings of $5,354 and has entered into a 15 year lease on the related assets.

Foreign exchange loss The Company had foreign exchange gain of $173 in 2013 Q3 compared to $459 in 2012 Q3 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 Q3 foreign currency gain are unrealized gains of $208 (2012 Q3 - $378) related to intercompany balances.

Finance costs Finance costs consist of interest expenses on operating loans, loans and borrowings and bank charges of $727 for 2013 Q3 versus $491 for 2012 Q3. The increase in finance costs relate mainly to an increased utilization of the Company's operating loan and to a lesser extent increases in interest rates.

Income tax For 2013 Q3, the Company had an income tax expense of $2,446 compared to $1,535 in 2012 Q3. The effective tax rate was 24% for 2013 Q3 and 29% for 2012 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, 2013				Nine months ended September 30, 2012			
Revenues	Directional drilling	Production testing	Resale and Rental	Total	Directional drilling	Production testing	Resale and Rental	Total
Canada	$ 51,815	$ 19,403	$ -	$ 71,218	$ 65,655	$ 24,025	$ -	$ 89,680
United States	56,181	26,874	-	83,055	44,821	21,639	-	66,460
International	-	-	5,174	5,174	-	-	2,218	2,218
Total	$ 107,996	$ 46,277	$ 5,174	$ 159,447	$ 110,476	$ 45,664	$ 2,218	$ 158,358

Revenues 2013 revenues were $159,447 which represented an increase of $1,089 or 1% from 2012 revenues of $158,358. The increase was attributed to international and U.S. operations which were offset by declines in Canada operations.

Canadian directional drilling revenues decreased from $65,655 in 2012 to $51,815 in 2013; a 21% decrease. This decrease was the result of: i) a 847 decrease in activity days from 5,399 in 2012 to 4,552 in 2013; and ii) a 6% decrease in the average day rate from $12,161 in 2012 to $11,383 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 into 2013 Q3 and Q4. 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 $44,821 in 2012 to $56,181 in 2013; a 25% increase. This increase was the result of: i) a 15% increase in activity days from 4,286 in 2012 to 4,927 in 2013; and ii) a 9% increase in the average day rate from $10,458 in 2012 to $11,402 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 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 $24,025 in 2012 to $19,403 in 2013; a 19% 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 later in 2013.

U.S. production testing revenues increased from $21,639 in 2012 to $26,874 in 2013; a 24% increase. This increase is attributable to having 3 additional units in 2013 versus 2012 and expansion into the Eagleford (Texas) market and an increased utilization of units.

Gross margin and adjusted gross margin The gross margin for 2013 was 15.0% compared to 19.7% in 2012. Adjusted gross margin for 2013 was $38,348 (24.1%) compared to $44,813 (28.3%) for 2012.

In the Canadian and U.S. drilling markets, there have been increases in the per day field labour rates, while the combined per day revenue rate has fallen slightly. These increases were offset by the Canadian and U.S. production testing divisions where field labour rates have declined as 2012 saw a shortage of junior field staff. These staff were replaced with senior staff who have higher day rates. These net increases in field labour were partially offset by declines in repairs and maintenance for all divisions other than U.S. directional drilling where certain districts were drilling in difficult environments.

Depreciation allocated to cost of sales increased from $13,408 in 2012 to $14,234 in 2013 due to capital additions in the period from October 2012 to September 2013. Depreciation included in cost of sales as a percentage of revenue was 8.9% for 2013 and 8.5% in 2012.

Selling, general and administrative expenses ("SG&A") SG&A expenses were $17,950 in 2013; an increase of $815 compared with $17,135 in 2012. As a percentage of revenue, these costs were 11% for both 2013 and 2012. Non-cash expenses total $949 for 2013 and $1,248 for 2012. SG&A net of these non-cash items were $17,001 in 2013 and $15,887 in 2012, an increase of $1,114.

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 $17,604 in 2013 compared to $15,887 in 2012, an increase of $1,717.

Wages, excluding severance, increased $1,691; 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 increase of $26 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 $3,390, compared to $5,464 in 2012. Included in the 2012 gain 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. In addition, in 2013 Q3 the company had a gain on sale of land and buildings of $5,354. The Company has entered into a 15 year lease on the related assets.

Foreign exchange loss The Company had foreign exchange loss of $380 in 2013 compared to a gain of $405 in 2012 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 $334 (2012 - $233 gain) related to intercompany balances.

Finance costs Finance costs consist of interest expenses on operating loans, loans and borrowings and bank charges of $1,855 for 2013 versus $1,577 for 2012. The increase in finance costs relate mainly to an increased utilization of the Company's operating loan and to a lesser extent increases in interest rates.

Income tax For 2013, the Company had an income tax expense of $2,802 compared to $5,128 in 2012. The effective tax rate was 22% for 2013 and 28% 2012. Income tax expense is booked based upon expected annualized effective rates.

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 nine months ended September 30, 2013, the Company had funds from operations of $18,959 (2012 - $26,684). 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 September 30, 2013 the Company had a working capital position of $30,055 (December 31, 2012 - $29,173) and a working capital ratio of 1.62 to 1 (December 31, 2012 – 1.75 to 1).

The following table outlines the current credit facility:

		September 30 2013		December 31 2012
Available credit facility	$	75,000	$	75,000
Drawings on credit facility:				
Operating loan		10,005		880
Revolving term loan		37,000		45,000
Letter of credit		700		-
Total drawn facility	$	47,705	$	45,880
Borrowing capacity (see NON-GAAP MEASUREMENTS)	$	27,295	$	29,120
Net debt (see NON-GAAP MEASUREMENTS):				
Loans and borrowings, net of current portion	$	38,253	$	46,151
Working capital:				
Current assets	$	78,598	$	68,142
Current liabilities		(48,543)		(38,969)
Working capital	$	30,055	$	29,173
Net debt	$	8,198	$	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 September 30, 2013, the Company is in compliance with all covenants under its credit facility.

NORMAL COURSE ISSUER BID

The Normal Course Issuer Bid was renewed on July 8, 2013 and has an expiry date of July 7, 2014. For the three months ended September 30, 2013, the Company did not repurchase and cancel common shares. For the year-to-date at September 30, 2013, the Company has repurchased 1,088,083 of common shares at a cost of $4,434 or an average cost of $4.07 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. At November 5, 2013, the Company has 36,163,380 common shares and 2,678,198 share options outstanding.

CONTRACTUAL OBLIGATIONS

In the normal course of business, the Company incurs contractual obligations and those obligations are disclosed in the Company's MD&A for the year ended December 31, 2012. As at September 30, 2013, the Company had a commitment to purchase approximately $4,871 of equipment. Cathedral anticipates expending these funds in 2013 Q4 and 2014 Q1.

The Company has entered into a contract to construct an operating facility in Oklahoma City at a cost of approximately $3,700 (excluding land cost of $360) of which $1,115 is expected to be incurred in the balance of 2013 and the remaining $2,585 will be expended in 2014. The Company expects to complete the facility in 2014 Q3.

As part of the sale and leaseback of Calgary and Nisku, Alberta facilities, the Company entered into a 15 year triple net lease for premises with base rent escalating at 2% per year. The lease has a provision for one free month of rent annually, provided Cathedral is in good standing and not in default under the lease terms. The contractual cash outflow on the lease net of the reduction for one free month of rent annually will be as follows:

2013 Q4	$	395
2014		1,458
2015		1,487
2016		1,516
2017		1,547
2018		1,578
Thereafter		17,089

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, 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 September 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 nine months ended September 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	Sep 2013	Jun 2013	Mar 2013	Dec 2012	Sep 2012	Jun 2012	Mar 2012	Dec 2011
Revenues	$ 59,734	$ 45,639	$ 54,074	$ 44,836	$ 49,830	$ 40,699	$ 67,829	$ 70,359
EBITDAS [(1)]	$ 10,757	$ 5,342	$ 8,592	$ 8,296	$ 10,538	$ 2,068	$ 19,922	$ 20,969
EBITDAS [(1)] per share - diluted	$ 0.30	$ 0.15	$ 0.23	$ 0.22	$ 0.28	$ 0.05	$ 0.52	$ 0.55
Net earnings (loss)	$ 7,956	$ (309)	$ 2,059	$ 1,578	$ 3,813	$ (3,222)	$ 12,628	$ 12,551
Net earnings (loss) per share - basic	$ 0.22	$ (0.01)	$ 0.06	$ 0.04	$ 0.10	$ (0.09)	$ 0.34	$ 0.34
Net earnings (loss) per share - diluted	$ 0.22	$ (0.01)	$ 0.06	$ 0.04	$ 0.10	$ (0.09)	$ 0.33	$ 0.33
Dividends declared per share	$ 0.075	$ 0.075	$ 0.075	$ 0.075	$ 0.075	$ 0.075	$ 0.075	$ 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; success of new technologies will lead to additional work; expected growth in the Texas and Oklahoma markets for directional drilling in 2013 Q4; the expectation that U.S. production testing activity will decline in 2013 Q4; increased activity for 2013 Q4 for both Canadian divisions; components of expected 2013 capital budget and financing thereof; timing of payment of purchase commitments; expected activity levels; future expansion; that all remaining product will be shipped to Venezuela in 2013 Q4; intent to pay quarterly dividends; and sources to fund liquidity requirements. 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, 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” described below. Such additions do not provide incremental revenues. Maintenance capital is a key component in understanding the sustainability of the Company’s business as cash resources retained within Cathedral must be sufficient to meet maintenance capital needs to replenish the assets for future cash generation;

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

viii) “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;

ix) “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;

x) “Borrowing capacity” - is total available credit facility less drawings on credit facilities; and

xi) “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	
	2013	2012	2013	2012
Gross margin	$ 10,070	$ 9,299	$ 23,953	$ 31,190
Add non-cash items included in cost of sales:				
Depreciation	4,860	4,614	14,234	13,408
Share-based compensation	42	44	161	215
Adjusted gross margin	$ 14,972	$ 13,957	$ 38,348	$ 44,813
Adjusted gross margin %	25.1%	28.0%	24.1%	28.3%

EBITDAS

	Three months ended September 30		Nine months ended September 30	
	2013	2012	2013	2012
Earnings before income taxes	$ 10,402	$ 5,348	$ 12,508	$ 18,347
Add (deduct):				
Depreciation included in cost of sales	4,860	4,614	14,234	13,408
Depreciation included in selling, general and administrative expenses	171	163	487	478
Share-based compensation included in cost of sales	42	44	161	215
Share-based compensation included in selling, general and administrative expenses	117	256	462	770
Non-recurring gains on disposal of property and equipment	(5,354)	-	(5,354)	(2,034)
Unrealized foreign exchange (gain) loss on intercompany balances	(208)	(378)	334	(233)
Finance costs	727	491	1,855	1,577
Share of loss from associate	-	-	4	-
EBITDAS	$ 10,757	$ 10,538	$ 24,691	$ 32,528

Funds from operations

	Nine months ended September 30	
	2013	2012
Cash flow from operating activities	$ 7,949	$ 56,718
Add (deduct):		
Changes in non-cash operating working capital	10,343	(30,419)
Income taxes paid	3,009	2,799
Current tax expense	(2,342)	(2,414)
Funds from operations	$ 18,959	$ 26,684

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

	September 30 2013	December 31 2012
Assets		
Current assets:		
Cash and cash equivalents	$ 4,441	$ 8,470
Trade receivables	50,270	36,094
Current taxes recoverable	826	153
Prepaid expenses	6,396	10,419
Inventories	16,665	13,006
Total current assets	78,598	68,142
Property and equipment (note 4)	123,367	135,093
Intangible assets	1,254	719
Deferred tax assets	8,759	9,379
Investment in associate (note 5)	8,112	4,899
Goodwill	5,848	5,848
Total non-current assets	147,340	155,938
Total assets	$ 225,938	$ 224,080
Liabilities and Shareholders' Equity		
Current liabilities:		
Operating loan	$ 10,005	$ 880
Trade and other payables	27,057	21,773
Dividends payable	2,705	2,768
Loans and borrowings (note 6)	689	711
Deferred revenue	8,087	12,837
Total current liabilities	48,543	38,969
Loans and borrowings (note 6)	38,253	46,151
Deferred tax liabilities	902	1,028
Total non-current liabilities	39,155	47,179
Total liabilities	87,698	86,148
Shareholders' equity:		
Share capital (note 7)	73,405	74,408
Contributed surplus	9,270	8,863
Accumulated other comprehensive loss	(1,125)	(2,679)
Retained earnings	56,690	57,340
Total shareholders' equity	138,240	137,932
Total liabilities and shareholders' equity	$ 225,938	$ 224,080

See accompanying notes to condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Three and nine months ended September 30, 2013 and 2012

Dollars in '000s except per share amounts

(unaudited)

	Three months ended September 30		Nine months ended September 30	
	2013	2012	2013	2012
Revenues	$ 59,734	$ 49,830	$ 159,447	$ 158,358
Cost of sales:				
Direct costs	(44,762)	(35,842)	(121,099)	(113,514)
Depreciation	(4,860)	(4,614)	(14,234)	(13,408)
Share-based compensation	(42)	(75)	(161)	(246)
Total cost of sales	(49,664)	(40,531)	(135,494)	(127,168)
Gross margin	10,070	9,299	23,953	31,190
Selling, general and administrative expenses:				
Direct costs	(5,940)	(5,232)	(17,001)	(15,887)
Depreciation	(171)	(163)	(487)	(478)
Share-based compensation	(117)	(256)	(462)	(770)
Total selling, general and administrative expenses	(6,228)	(5,651)	(17,950)	(17,135)
	3,842	3,648	6,003	14,055
Gain on disposal of property and equipment	1,760	1,732	3,390	5,464
Gain on sale of land and buildings (note 8)	5,354	-	5,354	-
Earnings from operating activities	10,956	5,380	14,747	19,519
Foreign exchange gain (loss)	173	459	(380)	405
Finance costs	(727)	(491)	(1,855)	(1,577)
Share of loss from associate	-	-	(4)	-
Earnings before income taxes	10,402	5,348	12,508	18,347
Income tax expense:				
Current expense	(1,121)	(767)	(2,342)	(2,414)
Deferred expense	(1,325)	(768)	(460)	(2,714)
Total income tax expense	(2,446)	(1,535)	(2,802)	(5,128)
Net earnings	7,956	3,813	9,706	13,219
Other comprehensive income (loss):				
Foreign currency translation differences for foreign operations	(584)	(1,555)	1,554	(1,262)
Total comprehensive income	$ 7,372	$ 2,258	$ 11,260	$ 11,957
Net earnings per share				
Basic	$ 0.22	$ 0.10	$ 0.27	$ 0.35
Diluted	$ 0.22	$ 0.10	$ 0.27	$ 0.35

See accompanying notes to condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Nine months ended September 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 (loss) for nine months ended September 30, 2012	-	-	(1,262)	13,219	11,957
Transactions with shareholders, recorded directly in equity contributions by and distributions to shareholders for nine months ended September 30, 2012:					
Dividends to equity holders	-	-	-	(8,432)	(8,432)
Repurchase of common shares	(215)	-	-	(370)	(585)
Share-based compensation	-	985	-	-	985
Share options exercised	1,328	(254)	-	-	1,074
Total contributions by and distributions to shareholders	1,113	731	-	(8,802)	(6,958)
Balance at September 30, 2012	**$ 75,321**	**$ 8,576**	**$ (3,403)**	**$ 60,612**	**$ 141,106**
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**

See accompanying notes to condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Nine months ended September 30, 2013 and 2012
Dollars in '000s
(unaudited)

	September 30 2013	September 30 2012
Cash provided by (used in):		
Operating activities:		
Net earnings from continuing operations	$ 9,706	$ 13,219
Items not involving cash:		
Depreciation	14,721	13,886
Total income tax expense	2,802	5,128
Unrealized foreign exchange gain (loss) on intercompany balances	334	(233)
Finance costs	1,855	1,577
Share-based compensation	623	985
Gain on disposal of property and equipment	(3,390)	(5,464)
Gain on sale of land and buildings	(5,354)	-
Share of loss from associate	4	-
Cash flow from continuing operations	21,301	29,098
Changes in non-cash operating working capital	(10,343)	30,419
Income taxes paid	(3,009)	(2,799)
Cash flow from operating activities	7,949	56,718
Investing activities:		
Property and equipment additions (note 4)	(21,547)	(23,716)
Intangible asset additions	(717)	(677)
Proceeds on disposal of property and equipment	4,864	9,958
Proceeds on disposal of land and buildings	22,260	-
Investment in associate	(3,011)	(2,472)
Changes in non-cash investing working capital	(1,555)	217
Cash flow from (used in) investing activities	294	(16,690)
Financing activities:		
Change in operating loan	9,144	(12,128)
Interest paid	(1,837)	(1,601)
Advances of loans and borrowings	8,000	-
Repayments on loans and borrowings	(16,416)	(5,376)
Proceeds on exercise of share options	975	1,074
Repurchase of common shares	(4,434)	(585)
Dividends paid	(8,179)	(7,861)
Cash flow used in financing activities	(12,747)	(26,477)
Effect of exchange rate on changes in cash and cash equivalents	475	(165)
Change in cash and cash equivalents	(4,029)	13,386
Cash and cash equivalents, beginning of period	8,470	2,902
Cash and cash equivalents, end of period	$ 4,441	$ 16,288

See accompanying notes to condensed consolidated interim financial statements.

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Three and nine months ended September 30, 2013 and 2012
Dollars in '000s except per share amounts
(unaudited)

1. Reporting entity

Cathedral Energy Services Ltd. (the "Company" or "Cathedral") is a company domiciled in Canada. The Company is a publicly-traded company listed on the Toronto Stock Exchange under the symbol "CET". The unaudited condensed consolidated interim financial statements of the Company as at and for the period ended September 30, 2013 comprise the Company and its subsidiaries (together referred to as "Cathedral" or "the Company"). Cathedral is engaged in the business of providing selected oilfield services to oil and natural gas companies in western Canada and various 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 November 5, 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 annual 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 nine months ended September 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:

	Nine months ended September 30			
		2013		2012
Directional drilling equipment	$	14,994	$	15,639
Production testing equipment		5,645		5,763
Land and buildings		477		1,107
Automotive equipment		640		978
Office and computer equipment		408		1,046
Property and equipment additions	$	22,164	$	24,533

Included in the above additions are non-cash additions of $617 for the nine months ended September 30, 2013 (2012 - $817) 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

		September 30 2013		December 31 2012
Current liabilities:				
Current portion of finance lease liabilities	$	689	$	711
Non-current liabilities:				
Finance lease liabilities	$	1,253	$	1,151
Secured revolving term loan		37,000		45,000
Total	$	38,253	$	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 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:

	Nine months ended September 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	256,170		975	351,301		1,387
Contributed surplus on options exercised			216			323
Repurchased and cancelled	(1,088,083)		(2,194)	(749,992)		(1,510)
Issued, end of period	36,074,380	$	73,405	36,906,293	$	74,408

Issuance of common shares

256,170 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 $2,705 in 2013 Q3 (2012 - $2,810) or $0.075 per share (2012 - $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, 2013 and payable January 15, 2014.

7. Share capital (continued)

Basic earnings per share

The calculation of basic earnings per share for the three and nine months ended September 30, 2013 was based on the profit (loss) attributable to common shareholders of $7,605 and $9,355 (2012 – $3,813 and $13,219) and a weighted average number of common shares outstanding of 35,914,700 and 36,175,005 (2012 – 37,455,286 and 37,431,864); calculated as follows:

Weighted average number of ordinary shares

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Issued, beginning of period	35,824,877	37,491,949	36,906,293	37,304,984
Effect of share options exercised	89,823	23,261	35,324	150,431
Effect of share repurchases	-	(59,924)	(766,612)	(23,551)
Weighted average number of common shares at end of period	35,914,700	37,455,286	36,175,005	37,431,864

Diluted earnings per share

The calculation of diluted earnings per share for the three and nine months ended September 30, 2013 was based on the profit (loss) attributable to common shareholders of $7,605 and $9,355 (2012 – $3,813 and $13,219). 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 36,013,046 and 36,238,068 (2012 – 37,721,092 and 37,860,515), calculated as follows:

Weighted average number of common shares (diluted)

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Weighted average number of common shares (basic)	35,914,700	37,455,286	36,175,005	37,431,864
Effect of share options on issue	98,346	265,806	63,063	428,651
Weighted average number of common shares (diluted) at end of period	36,013,046	37,721,092	36,238,068	37,860,515

For the three and nine months ended September 30, 2013, 2,712,030 and 2,722,030 options (2012 – 2,290,732 and 1,074,530 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. Gain on sale of land and buildings

On September 27, 2013 the Company closed the sale of its land and buildings in Calgary and Nisku, Alberta and entered into a lease for these premises. As the lease is classified as an operating lease and the sale proceeds were at fair market value, the entire amount of the gain has been recognized in the current period. The net proceeds were $22,260 and the resulting gain on sale of land and buildings was $5,334.

The Company entered into a 15 year triple net lease for these premises with base rent escalating at 2% per year. The lease has a provision for one free month of rent annually, provided Cathedral is in good standing and not in default under the lease terms. The contractual cash outflow on the lease net of the reduction for one free month of rent annually will be as follows:

2013 Q4	$	395
2014		1,458
2015		1,487
2016		1,516
2017		1,547
2018		1,578
Thereafter		17,089

9. 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 September 30, 2013, the Company's commitment to purchase property and equipment is approximately $4,871. Cathedral anticipates expending these funds in 2013 Q4 and 2014 Q1.

The Company has entered into an agreement to sell certain inventory and property and equipment for proceeds of $2,750. The transaction is estimated to result in a gain of approximately $1,100. The goods are expected to be delivered in 2013 Q4 and 2014 Q1.