CATHEDRAL 2011 ANNUAL REPORT

FIVE YEAR FINANCIAL HISTORY

Dollars in 000's except per share amounts

Effective January 1, 2011, Cathedral Energy Services Ltd. ("the Company" / "Cathedral") began reporting its financial results in accordance with International Financial Reporting Standards ("IFRS") which is now the basis for Canadian Generally Accepted Accounting Principles ("GAAP"). Prior year comparatives have been restated from amounts issued under the previous Canadian Generally Accepted Accounting Principles ("previous CGAAP") to reflect results as if the Company had always prepared its financial statements using IFRS including the reclassification of costs previously classified as general and administrative expenses under previous CGAAP to cost of sales under IFRS. Please see note 29 ("Explanation of transition to IFRS") in the notes to the consolidated financial statements.

	Presented under IFRS		*Presented under previous CGAAP*		
	2011	**2010**	*2009*	*2008*	*2007*
Revenues	**$ 220,363**	**$ 153,085**	*$ 82,100*	*$ 153,120*	*$ 123,424*
Adjusted gross margin % (1)	**33%**	**35%**	*49%*	*47%*	*53%*
EBITDAS from continuing operations (1)	**$ 55,637**	**$ 40,184**	*$ 19,831*	*$ 48,907*	*$ 46,046*
Diluted per share	**$ 1.46**	**$ 1.08**	*$ 0.57*	*$ 1.51*	*$ 1.45*
EBITDAS (1)	**$ 56,085**	**$ 38,398**	*$ 16,652*	*$ 50,468*	*$ 46,731*
Diluted per share	**$ 1.47**	**$ 1.03**	*$ 0.48*	*$ 1.55*	*$ 1.47*
Funds from continuing operations (1)	**$ 50,011**	**$ 35,921**	*$ 12,268*	*$ 40,824*	*$ 39,693*
Diluted per share	**$ 1.31**	**$ 0.97**	*$ 0.35*	*$ 1.26*	*$ 1.25*
Earnings from continuing operations before income taxes	**$ 37,102**	**$ 25,486**	*$ 8,941*	*$ 36,563*	*$ 35,761*
Net earnings	**$ 27,634**	**$ 16,327**	*$ 5,281*	*$ 30,139*	*$ 24,863*
Basic per share	**$ 0.75**	**$ 0.45**	*$ 0.15*	*$ 0.94*	*$ 0.79*
Diluted per share	**$ 0.73**	**$ 0.44**	*$ 0.15*	*$ 0.93*	*$ 0.78*
Dividends declared per share	**$ 0.24**	**$ 0.24**	*$ 0.31*	*$ 0.84*	*$ 0.84*
Property and equipment additions (2)	**$ 44,413**	**$ 35,155**	*$ 8,923*	*$ 47,618*	*$ 19,857*
Weighted average shares outstanding					
Basic (000s)	**37,062**	**36,453**	*34,841*	*32,215*	*31,402*
Diluted (000s)	**38,047**	**37,170**	*34,857*	*32,463*	*31,781*

	Presented under IFRS		*Presented under previous CGAAP*		
	2011	**2010**	*2009*	*2008*	*2007*
Working capital	**$ 40,052**	**$ 19,516**	*$ 22,451*	*$ 17,435*	*$ 16,947*
Total assets	**$ 231,923**	**$ 180,801**	*$ 173,537*	*$ 183,872*	*$ 131,032*
Loans and borrowings excluding current portion	**$ 50,694**	**$ 35,435**	*$ 39,526*	*$ 40,233*	*$ 17,441*
Total shareholders' equity	**$ 136,107**	**$ 112,191**	*$ 97,422*	*$ 91,859*	*$ 79,250*

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

(2) Property and equipment additions exclude non-cash additions.

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Annual Meeting:

Shareholders are invited to attend the Annual Meeting which will be held at 3:30pm on April 19, 2012 in the Plaza Room of the Metropolitan Centre, 333 – 4th Avenue S.W., Calgary, Alberta.

REPORT TO SHAREHOLDERS

Cathedral is pleased to report record operating results for 2011. The positive momentum we realized in 2011 Q1 carried forward throughout the remainder of the year. Both Directional Drilling and Production Testing showed year-over-year increases in activity days which resulted in improvement in terms of revenue and operating margins.

This performance was largely based on strong pricing for crude oil and related products. Oil and liquids rich natural gas plays continue to be tremendous drivers for increasing drilling and completion activity. It appears that natural gas pricing will continue to be weak and will likely remain weak until storage levels and natural gas driven demand comes in balance with supply. This will likely keep natual gas driven activity to a minimum for the foreseeable future.

Cathedral has recently moved into its long anticipated 80,000 square foot “6030 Campus” in November. This facility houses the companies head office, Canadian directional operations, MWD manufacturing and repair, engineering groups and training center. This new facility will allow the Company to increase capacity and efficiencies in its manufacturing of equipment and repair capability as well as improving overall communications.

As noted in last year’s message there was a large industry wide shortage in both personnel and equipment. Cathedral has made huge strides in remedying this problem. The training program that was implemented by Cathedral in early 2010 has yielded a large number of new personnel to meet our needs. The program has focused not only on initial training but on a continued improvement plan. This program continues to expand the service strength of our field personnel. Equipment shortages have not been an issue as the deployment of the Company's Fusion MWD system in the second quarter increased our overall job capacity and reducing the amount of repair required due to the structure and durability of the new system.

Cathedral continues to focus on vertical integration. In the fourth quarter it was announced that the Company had begun the manufacturing of an in house designed mud motor. The new design after significant field testing has proven to exceed our expectations from a performance and durability standpoint. The new motor will not only reduce our capital expenditure needs but should significantly reduce our operating costs and inventories required to maintain the fleet. The Company has set a plan in place to convert the existing fleet of motors to the new proprietary design over the next couple of years.

On February 3, 2012 Cathedral closed the acquisition of an additional two production testing packages and the personnel required to operate the systems. This transaction will benefit the Company in deploying additional equipment as the number of crews that came with the acquisition was more than required for the two packages.

Cathedral is optimistic about the coming year as many accomplishments achieved in 2011 will lead into greater opportunities in the upcoming year. The Company would like to thank our dedicated employees and consultants that make everything possible. As well. we would like to thank the many shareholders that continue to support Cathedral.

Sincerely,

Signed: *"Mark L. Bentsen"*

Mark L. Bentsen

President and Chief Executive Officer

Cathedral Energy Services Ltd.

March 6, 2012

MANAGEMENT'S DISCUSSION & ANALYSIS

Effective January 1, 2011, Cathedral Energy Services Ltd. ("the Company" / "Cathedral") began reporting its financial results in accordance with International Financial Reporting Standards ("IFRS") which is now the basis for Canadian Generally Accepted Accounting Principles ("GAAP"). Prior year comparatives have been restated from amounts issued under the previous Canadian Generally Accepted Accounting Principles ("previous CGAAP") to reflect results as if the Company had always prepared its financial statements using IFRS including the reclassification of costs previously classified as general and administrative expenses under previous CGAAP to cost of sales under IFRS. Please see note 29 ("Explanation of transition to IFRS") in the notes to the consolidated financial statements.

This Management's Discussion and Analysis ("MD&A") for the year ended December 31, 2011 provides an analysis of the consolidated results of operations, financial position and cash flows of Cathedral Energy Services Ltd. (the "Company" or "Cathedral") and should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2011, as well as the Company's 2011 interim MD&A's. This MD&A is intended to assist the reader in the understanding and assessment of significant changes and trends, as well as the risks and uncertainties, related to the results of the operations and financial position of the Company. Currency amounts are in '000's except for day rates and per share amounts. This MD&A is dated March 6, 2012.

FORWARD LOOKING STATEMENTS

This MD&A contains certain forward-looking statements and forward-looking information (collectively referred to herein as "forward-looking statements") within the meaning of applicable Canadian securities laws. All statements other than statements of present or historical fact are forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "anticipate", "achieve", "believe", "plan", "intend", "objective", "continuous", "ongoing", "estimate", "outlook", "expect", "may", "will", "project", "should" or similar words suggesting future outcomes. In particular, this MD&A contains forward-looking statements relating to, among other things: access to capital; projected capital expenditures and commitments and the financing thereof; areas of further growth; financial results; activity levels; proprietary mud motor build out; types and timing of introduction of technological advancements; new equipment delivery dates and areas of deployment; U.S. expansion; additions to U.S. sales staff; Venezuelan operations; and expected dividends. The Company believes the expectations reflected in such forward-looking statements are reasonable as of the date hereof but no assurance can be given that these expectations will prove to be correct and such forward-looking statements should not be unduly relied upon.

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

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

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

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

NON-IFRS MEASUREMENTS

Cathedral uses certain performance measures throughout this document that are not defined under IFRS. Management believes that these measures provide supplemental financial information that is useful in the evaluation of Cathedral's operations and are commonly used by other oil and gas service companies. Investors should be cautioned, however, that these measures should not be construed as alternatives to measures determined in accordance with IFRS as an indicator of Cathedral's performance. Cathedral's method of calculating these measures may differ from that of other organizations, and accordingly, may not be comparable.

The specific measures being referred to include the following:

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

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

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

iv) "EBITDAS from continuing operations" - defined as earnings before finance costs, unrealized foreign exchange on intercompany balances, unrealized foreign exchange due to hyper-inflation accounting, taxes, depreciation and share-based compensation excluding the portion due from discontinued operations in each component of the calculation; is considered an indicator of the Company's ability to generate funds flow from operations prior to consideration of how activities are financed, how the results are taxed and measured and non-cash expenses (see tabular calculation below);

v) "EBITDAS from discontinued operations" - defined as earnings before finance costs, unrealized foreign exchange on intercompany balances, unrealized foreign exchange due to hyper-inflation accounting, taxes, depreciation and share-based compensation from discontinued operations of the Company's former wireline division in each component of the calculation;

vi) "Maintenance capital expenditures" - refers to capital expenditures required to maintain existing levels of service but excludes replacement cost of lost-in-hole equipment to the extent the replacement equipment is financed from the proceeds on disposal of the equipment lost-in-hole; and

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

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

Adjusted gross margin

	Three months ended December 31		Year ended December 31	
	2011	2010	2011	2010
Gross margin	$ 20,812	$ 13,972	$ 56,409	$ 42,002
Add non-cash items included in cost of sales:				
Depreciation	3,712	3,310	14,884	11,215
Share-based compensation	136	118	381	350
Adjusted gross margin	$ 24,660	$ 17,400	$ 71,674	$ 53,567

EBITDAS

	Three months ended December 31		Year ended December 31	
	2011	2010	2011	2010
Earnings from continuing operations before income taxes	$ 16,656	$ 9,536	$ 37,102	$ 25,486
Add (deduct):				
Depreciation included in cost of sales	3,712	3,310	14,884	11,215
Depreciation included in selling, general and administrative expenses	56	66	174	314
Share-based compensation included in cost of sales	136	118	381	350
Share-based compensation included in selling, general and administrative expenses	335	404	1,440	2,305
Unrealized foreign exchange gain on intercompany balances	(515)	(499)	(221)	(730)
Unrealized foreign exchange gain due to hyper-inflation accounting	-	-	-	(510)
Finance costs	589	472	1,877	1,754
EBITDAS from continuing operations	20,969	13,407	55,637	40,184
EBITDAS from discontinued operations	-	(15)	448	(1,786)
EBITDAS	$ 20,969	$ 13,392	$ 56,085	$ 38,398

Funds from continuing operations

	2011	2010
Cash flow from operating activities	$ 28,139	$ 29,323
Add (deduct):		
Cash flow from discontinued operations	-	1,733
Changes in non-cash operating working capital	21,857	6,731
Income taxes paid	1,377	(364)
Current tax expense	(1,362)	(1,502)
Funds from continuing operations	$ 50,011	$ 35,921

OVERVIEW

Cathedral Energy Services Ltd. (the "Company" or "Cathedral") is incorporated under the Business Corporations Act (Alberta) (the "Act"). The Company is publicly traded on the Toronto Stock Exchange under the symbol "CET". The Company together with its wholly owned subsidiary, Cathedral Energy Services Inc., 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 U.S. The Company is in the process of establishing operations in Venezuela for providing directional drilling services through a joint venture with Petroleos de Venezuela, S.A. ("PDVSA"), the state owned oil and gas corporation of the Bolivarian Republic of Venezuela. The Company strives to provide its clients with value added technologies and solutions to meet their drilling and production testing requirements.

SELECTED ANNUAL INFORMATION

	Presented under IFRS		Presented under previous CGAAP
	2011	**2010**	2009
Revenue	**$ 220,363**	**$ 153,085**	$ 82,100
Adjusted gross margin % [1]	**33%**	**35%**	49%
EBITDAS from continuing operations [1]	**$ 55,637**	**$ 40,184**	$ 19,831
Diluted per share	**$ 1.46**	**$ 1.08**	$ 0.57
EBITDAS [1]	**$ 56,085**	**$ 38,398**	$ 16,652
Diluted per share	**$ 1.47**	**$ 1.03**	$ 0.48
EBITDAS from continuing operations [1] as % of revenues	**25%**	**25%**	20%
Earnings from continuing operations before income taxes	**$ 37,102**	**$ 25,486**	$ 8,941
Basic per share	**$ 1.00**	**$ 0.70**	$ 0.26
Diluted per share	**$ 0.98**	**$ 0.69**	$ 0.26
Net earnings	**$ 27,634**	**$ 16,327**	$ 5,281
Basic per share	**$ 0.75**	**$ 0.45**	$ 0.15
Diluted per share	**$ 0.73**	**$ 0.44**	$ 0.15
Cash dividends declared per share	**$ 0.24**	**$ 0.24**	$ 0.31
Weighted average shares outstanding			
Basic (000s)	**37,062**	**36,453**	34,841
Diluted (000s)	**38,047**	**37,170**	34,857
Funds from continuing operations [1]	**$ 50,011**	**$ 35,921**	$ 12,268
Working capital	**$ 40,052**	**$ 19,516**	$ 22,451
Total assets	**$ 231,923**	**$ 180,801**	$ 173,537
Long-term debt excluding current portion	**$ 50,694**	**$ 35,435**	$ 39,526
Shareholders' equity	**$ 136,107**	**$ 112,191**	$ 97,422

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

RESULTS OF OPERATIONS - 2011 COMPARED TO 2010

Overview

The Company completed 2011 with record revenues of $220,363 compared to 2010 revenues of $153,085 an increase of 44% from 2010. The 2011 revenues were comprised of 74% (2010 - 77%) from the directional drilling division and 26% (2010 - 23%) from the production testing division.

2011 EBITDAS reached record levels of $56,085 ($1.47 per share diluted) which represents a $17,687 or 46% increase from $38,398 ($1.03 per share diluted) in 2010. In 2011 the Company's net earnings were $27,634 ($0.73 per share diluted) as compared to $16,327 ($0.44 per share diluted) in 2010. The increase in revenues and EBITDAS to record levels was a result of a combination of increased activity associated with the use of horizontal, multi-stage fracturing technology to complete conventional and unconventional resource plays in both Canada and the U.S., pricing increases and additional capacity due to equipment purchases.

	Year ended December 31, 2011			Year ended December 31, 2010		
Revenues	Directional drilling	Production testing	Total	Directional drilling	Production testing	Total
Canada	$ 111,684	$ 31,515	$ 143,199	$ 76,588	$ 18,570	$ 95,158
United States	52,442	24,722	77,164	41,939	15,988	57,927
Total	$ 164,126	$ 56,237	$ 220,363	$ 118,527	$ 34,558	$ 153,085

Revenues and gross margin 2011 revenues were $220,363 which represented an increase of $67,278 or 44% from 2010 revenues of $153,085. The increase was primarily attributed to the focus on horizontal, multi-stage fracturing technology to complete conventional and unconventional resource plays in both Canada and the U.S. which allowed for continued strength in activity levels for both of the Company's divisions. Demand for Cathedral's services has also been driven by both oil and liquids-rich natural gas plays.

The directional drilling division revenues have increased from $118,527 in 2010 to $164,126 in 2011. This increase was the result of: i) a 27% increase in activity days from 11,968 in 2010 to 15,208 in 2011; and ii) an 9% increase in the average day rate from $9,900 in 2010 to $10,792 in 2011. Canadian day rates have increased 12% and this increase was attributable to a rate increases related to increases in the Company's operating costs, primarily labour. U.S. day rates have increased 4% when converted to Canadian dollars. The U.S. day rates have increased 8% in U.S. dollars, mainly due to the change in types of drilling work performed in 2011. The day rates disclosed in this MD&A reflect revenue as classified under IFRS – see notes to financial statements for explanation of changes in revenue classifications. Canadian activity days increased from 7,568 to 9,894 and U.S. activity days increased from 4,400 to 5,314.

The Company's production testing division contributed $56,237 in revenues during 2011 which was a 63% increase over 2010 revenues of $34,558. This increase was attributable to the overall increase in testing units from 35 at the start of 2010 to 62 at the end of 2011, plus an increase in oilfield service activities on a year-over-year basis.

The gross margin for 2011 was 26% compared to 27% in 2010. Under IFRS, cost of sales includes the non-cash expenses for a portion of depreciation and share-based compensation and these non-cash expenses total $15,265 for 2011 and $11,565 for 2010. Adjusted gross margin for 2011 was $71,674 (33%) compared to $53,567 (35%) for 2010.

There was a decline in adjusted gross margin of 2%. There was no single significant increase in operating expenses in the year, but there were several items that had slight increases including higher repair costs, increases in health care benefits, costs for accommodation of field staff and field consumables for the U.S. production testing division.

Depreciation allocated to cost of sales increased from $11,215 in 2010 to $14,884 in 2011 due to capital additions in 2011. Depreciation included in cost of sales as a percentage of revenue was 7% for both 2011 and 2010.

For 2011 the Company had share-based compensation included in cost of sales of $381 compared to $350 recognized in 2010. The fair value of the options is being amortized against income over the three-year vesting periods.

Selling, general and administrative expenses SG&A expenses were $21,338 in 2011; an increase of $2,090 compared with $19,248 in 2010. As a percentage of revenue, these costs were 10% in 2011 and 13% in 2010. Under IFRS, SG&A includes the non-cash expenses for a portion of depreciation and share-based compensation. These non-cash expenses totaled $1,614 in 2011 and $2,619 in 2010. SG&A net of these non-cash items were $19,724 for 2011 and $16,629 for 2010, an increase of $3,095. Staffing costs increased $2,907; this increase was primarily related to staff additions for research and development department, staff positions added to accommodate growth, wage increases for existing staff as well as changes in variable compensation. The staffing costs included in SG&A relate to executives, sales, accounting, human resources, payroll, safety, research and development and related support staff. There was an increase in consulting services of $304 primarily related exploring various business opportunities. The remaining decrease of $116 relates to several items, none of which were significant individually.

Depreciation allocated to SG&A decreased from $314 in 2010 to $174 in 2011 due to aging assets and less depreciation under the declining balance method of depreciation.

For 2011 the Company had share-based compensation included in SG&A of $1,440 compared to $2,305 recognized in 2010. The fair value of the options is being amortized against income over the three-year vesting periods.

Gain on disposal of property and equipment During 2011 the Company had a gain on disposal of property and equipment of $4,264 which compares to $2,761 in 2010. The Company's gains are mainly due to recoveries of lost-in-hole equipment costs including previously expensed depreciation on the related assets. The timing of lost-in-hole recoveries is not in the control of the Company and therefore can fluctuate significantly from year-to-year.

Foreign exchange gain (loss) The Company's foreign exchange gain/loss was a gain of $1,725 in 2010 compared with a loss of $356 in 2011 due to the fluctuations in the Canadian dollar compared to U.S. dollars and Venezuelan bolivars. The Company's foreign operations have a functional currency other than the Canadian dollar and therefore gains and losses due to fluctuations in the foreign currency exchange rates are recorded in OCI on the balance sheet as a component of equity. However, gains and losses in the Canadian entity on U.S. denominated intercompany balances continue to be recognized in the statement of income. Included in the 2011 foreign currency gain/loss are unrealized gains of $221 (2010 - $730) related to intercompany balances and $nil (2010 - $510) due to hyper-inflation accounting of the Company's Venezuelan subsidiary. The Canadian dollar weakened from the December 31, 2010 spot rate to the December 31, 2011 spot rate.

Finance costs Finance costs consist of interest expenses on operating loans, loans and borrowings and bank charges of $1,877 for 2011 and $1,754 for 2010. The increase in this expense was primarily due to the increases in the Company's borrowings on a year-to-year basis.

Income tax The Company recorded a 2011 income tax expense of $9,797 as compared to $7,440 in 2010. The 2011 provision consists of current tax expense of $1,362 (2010 - $1,502) and a deferred tax expense of $8,435 (2010 - $5,938). The effective tax rate for 2011 is 26% compared to 29% in 2010. The majority of the Company's tax expense is deferred in nature due to the use of the Company's Canadian tax pools to shelter otherwise taxable income. Most of the Company's current tax expense relates to its U.S. subsidiary.

LIQUIDITY AND CAPITAL RESOURCES

The Company's principal source of liquidity is cash generated from operations. The Company also has the ability to fund liquidity requirements through its credit facility and the issuance of debt and/or equity. At December 31, 2011, the Company had an operating loan with a major Canadian bank in the amount of $20,000 (December 31, 2010 - $20,000) of which $12,797 (December 31, 2010 – $8,765) was drawn. In addition, the Company has a non-reducing revolving term loan facility in the amount of $55,000 (December 31, 2010 - $45,000) of which $50,000 was drawn as at December 31, 2011 (December 31, 2010 - $34,500.) In addition, at December 31, 2011, the Company had finance lease liabilities of $1,492 (December 31, 2010 - $1,580) and other long-term debt of $5 (December 31, 2010 - $29).

Operating activities For the year ended December 31, 2011, cash flows from operating activities were $28,139 as compared to $29,323 for the comparative 2010 period, which was a decrease of $1,184 or 4%. Cash flow from operating activities for the year ended December 31, 2011 net of a $21,857 (2010 - $6,731) use of funds related to increase in non-cash working capital was a result of increased activities levels. The Company had a working capital position at December 31, 2011 of $40,052 compared to $19,516 at December 31, 2010. The significant increase in working capital position is mainly due to increase in trade receivables from increased revenues and increase in inventories related to anticipated increases in activity levels and to compensate for potential delays in receiving inventory from suppliers.

Funds from continuing operations (see Non-IFRS Measurements) for the year ended December 31, 2011 were $50,011 compared to $35,921 for the same period in 2010, which were an increase of $14,090. This increase was a result of the increase in earnings (excluding non-cash items) due to increased activity levels.

Investing activities Cash used in investing activities for the year ended December 31, 2011 amounted to $37,715 compared to $21,483 for the 2010 comparative period. During 2011 the Company invested an additional $44,413 (2010 - $35,234) in property and equipment and intangible assets. The main 2011 additions were 33 MWD systems, $3,978 in maintenance capital for retro-fit, upgrades and replacement of downhole tools, progress payments for the Calgary operations facility which was completed in November 2011, six high pressure production testing units and related auxiliary production testing equipment. The Company received proceeds on disposal of property and equipment and assets held for sale of $10,331 during the year ended December 31, 2011 (2010 - $10,313). For the year ended December 31, 2011 Cathedral had a use of funds by way of non-cash investing working capital in the amount of $3,633 (2010 - source of funds of $3,438); fluctuations in non-cash working capital related to investing activities are a function of when proceeds on disposal of property and equipment are received and when payments for property and equipment are made.

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

	December 31 2011	December 31 2010	January 1 2010
Directional drilling - MWD systems [1]	125	102	96
Production testing units	62	56	35

(1) December 31, 2011 MWD systems are net of 10 systems that are removed from service.

Financing activities Cash provided by financing activities for the year ended December 31, 2011 amounted to $11,310 as compared to a use of cash of $6,078 during the 2010 comparative period. During the year ended December 31, 2011 the Company made interest payments of $2,063 compared to $2,187 in 2010. Advances on operating loans for the same period in 2011 were $4,609 (2010 - $7,069). The Company received advances of long-term debt in the amount of $15,500 (2010 - $nil), the proceeds of which were used to finance property and equipment additions and working capital increases. Cathedral made payments on loans and borrowings of $598 during the year ended December 31, 2011 (2010 - $5,715). The Company made dividend payments of $8,882 for the year ended December 31, 2011 (2010 - $6,556). The increase in dividends paid relates to the timing of the payment of dividends as the Company declared dividends of $0.24 per share in both 2011 and 2010. During the same period the Company received proceeds on the exercise of share options of $2,744 (2010 - $1,311). As at December 31, 2011, the Company was in compliance with all covenants under its credit facility.

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, 2011. As at December 31, 2011, the Company had a commitment to purchase approximately $3,808 of property and equipment. Cathedral anticipates expending these funds in 2012 Q1 and Q2. The following is a summary of the Company's contractual obligations:

	Total	2012	2013	2014	2015	2016	Thereafter
Purchase obligations	$ 3,808	$ 3,808	$ -	$ -	$ -	$ -	$ -
Secured revoling term loan [1]	50,000	-	-	-	-	-	50,000
Finance lease obligations	1,492	798	271	279	113	31	-
Other debt	5	5	-	-	-	-	-
Total	55,305	4,611	271	279	113	31	50,000

(1) Minimum principal amounts to be paid under secured revolving term loan based the loan being renewed on the same terms and not converted to a non-revolving term loan.

2012 CAPITAL PROGRAM

Cathedral's 2012 capital budget is $28,000. In summary, the major items within the 2012 capital budget are: i) 14 MWD and related mud motors and collars to complement the increased job capability; ii) LWD (resistivity) equipment; iii) 7 frac-flowback production testing units and auxiliary production testing equipment to complement the overall fleet; and iv) $5,000 of maintenance capital. The maintenance capital includes the retro-fit, upgrades and replacement of downhole tools. These capital expenditures are expected to be financed by way of cash flow from operations and the Company's credit facility.

RELATED PARTY TRANSACTIONS

A director of the Company is a partner in a law firm and, through that law firm, is involved in providing and managing the legal services provided to the Company at market rates. The total amount paid for these legal services in 2011 was $242 (2010 - $185).

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 2012 Q1 dividend in the amount of $0.075 per share which will have a date of record March 31, 2012 and a payment date of April 16, 2012. This is an increase of 25% from the previous dividend level.

FOURTH QUARTER RESULTS

Revenues and operating expenses

	2011 Q4	2010 Q4	$ Change	% Change
Revenues	70,359	46,365	23,994	52%
Cost of sales	(49,547)	(32,393)	(17,154)	53%
Gross margin - $	20,812	13,972	6,840	49%
Gross margin - %	30%	30%	0%	
Adjusted gross margin - $	24,660	17,400	7,260	42%
Adjusted gross margin - %	35%	38%	-3%	

Revenues	Three months ended December 31, 2011 Directional drilling	Production testing	Total	Three months ended December 31, 2010 Directional drilling	Production testing	Total
Canada	$ 35,890	$ 10,223	$ 46,113	$ 23,667	$ 6,758	$ 30,425
United States	16,808	7,438	24,246	11,387	4,553	15,940
Total	$ 52,698	$ 17,661	$ 70,359	$ 35,054	$ 11,311	$ 46,365

Revenues in Q4 have increased to $70,359 in 2011 from $46,365 in 2010, an increase of $23,994 or 52%. The increase was primarily attributed to the focus on horizontal, multi-stage fracturing technology to complete conventional and unconventional resource plays in both Canada and the U.S. which has allowed for continued strength in activity levels for the oilfield services sector. Demand for Cathedral's services has also been driven by both oil and liquids-rich natural gas plays.

The directional drilling division revenues have increased from $35,054 in 2010 Q4 to $52,698 in 2011 Q4; a 50% increase. This increase was the result of: i) a 36% increase in activity days from 3,413 in 2010 Q4 to 4,656 in 2011 Q4; and ii) an increase in the average day rate from $10,270 in 2010 Q4 to $11,319 in 2011 Q4, which was attributable to a rate increases related to increases in the Company's operating costs, primarily labour. Canadian activity days increased from 2,209 to 3,014 and U.S. activity days increased from 1,204 to 1,642.

The Company's production testing division contributed $17,661 in revenues during 2011 Q4 which was a 56% increase over 2010 revenues of $11,311. The division ended 2010 Q4 with 34 units in Canada and 22 units in the U.S. and ended 2011 Q4 with 38 units in Canada and 24 in the U.S. The increase in revenues was in part attributable to this increase in units plus the overall increase in oilfield service activities on a year-over-year basis.

The gross margin for 2010 Q4 was 30% unchanged from 2011 Q4 at 30%. There was a decline in adjusted gross margin of 3%. There was no single significant increase in operating expenses in the year, but there were several items that had slight increases including higher repair costs, costs for accommodation of field staff and field consumables for the U.S. production testing division.

General and administrative expenses were $5,176 in 2011 Q4; an increase of $170 compared with $5,006 in 2010 Q4. The increase was primarily related to increases in payroll related expenses, net of declines in travel expenses, office rent and certain professional and other fees incurred in 2010 Q4 related to the conversion to IFRS. As a percentage of revenues, general and administrative expenses were 7% in 2011 Q4 and 11% in 2010 Q4.

For 2011 Q4, the Company recorded a tax expense of $4,105 ($1,211 current and $2,894 deferred) compared to the 2010 Q4 of $2,755 ($525 current and $2,230 deferred). In 2011 Q4, the effective tax rate on continuing operations was 25% as compared to 29% in 2010 Q4. The majority of the Company's tax expense is deferred in nature due to the use of the Company's Canadian tax pools to shelter otherwise taxable income. Most of the Company's current tax expense relates to its U.S. subsidiary.

Net income for 2011 Q4 was $12,551 ($0.33 per share - diluted) compared to $6,771 ($0.18 per share - diluted) in 2010 Q4.

SUMMARY OF QUARTERLY RESULTS

Three month periods ended	**Dec 2011**	**Sep 2011**	**Jun 2011**	**Mar 2011**	Dec 2010	Sep 2010	Jun 2010	Mar 2010
Revenues	**$ 70,359**	**$ 63,409**	**$ 31,746**	**$ 54,849**	$ 46,365	$ 42,022	$ 25,417	$ 39,281
EBITDAS [1]	**20,969**	**17,666**	**2,643**	**14,808**	13,392	12,216	1,824	10,966
Net earnings (loss)	**12,551**	**8,575**	**(1,609)**	**8,117**	6,771	6,084	(1,894)	5,366
Net earnings (loss) per share - basic	**$ 0.34**	**$ 0.23**	**$ (0.04)**	**$ 0.22**	$ 0.19	$ 0.17	$ (0.05)	$ 0.15
Net earnings (loss) per share - diluted	**$ 0.33**	**$ 0.23**	**$ (0.04)**	**$ 0.21**	$ 0.18	$ 0.16	$ (0.05)	$ 0.15
Dividends declared per share	**$ 0.06**	**$ 0.06**	**$ 0.06**	**$ 0.06**	$ 0.06	$ 0.06	$ 0.06	$ 0.06

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

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company's consolidated financial statements have been prepared in accordance with IFRS and significant accounting policies utilized by the Company are described in note 3 to the Company's audited consolidated financial statements. Management believes the accounting principles selected are appropriate under the circumstances and the Audit Committee of the Company has approved the policies selected.

Under IFRS, the Company is required to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The estimates and assumptions utilized are based on past experience and other information available to management at the time the estimate or assumption is made. The estimates and assumptions used by management are constantly evaluated for relevance under the circumstances and if circumstances on which the estimates or assumptions were based change, the impact is included in the results of operations for the period in which the change occurs. Management believes the estimates, judgments and assumptions involved in its financial reporting are reasonable.

The following accounting policies require management's more significant judgments and estimates in the preparation of the Company's consolidated financial statements, and as such, are considered to be critical.

Property and equipment Property and equipment are recorded at cost less accumulated depreciation. Depreciation is computed based upon the Company's depreciation policies (see note 3 to the consolidated financial statements). The depreciation policies selected are intended to depreciate the related property and equipment over their useful life. The use of different assumptions with regard to the useful life could result in different carrying amount for these assets as well as for depreciation expense.

Impairment of long-lived assets Property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value of assets may not be recoverable. In the assessment process management is required to make certain judgments, assumptions and estimates in identifying such events and changes in circumstances, and in assessing their impact on the valuations and economic lives of the affected assets. Impairments are recognized when the book values exceed management's estimate of the undiscounted future cash flows, or net recoverable amounts, associated with the affected assets.

Goodwill and intangibles The carrying value of goodwill and intangibles on acquisitions is compared to its fair value at least annually to determine if a permanent impairment exists, at which time the impairment would be recorded as a charge to earnings. Valuations are inherently subjective and necessarily involve judgments and estimates regarding future cash flows and other operational variables.

Income taxes The Company uses the asset and liability method of accounting for future income taxes whereby deferred income tax assets and liabilities are determined based on temporary differences between the accounting basis and the tax basis of the assets and liabilities, and are measured using substantively enacted tax rates and laws expected to apply when these differences reverse. As a result, a projection of taxable income is required for those years, as well as an assumption of the ultimate recovery/settlement period for the temporary differences. The projection of deferred taxable income is based on management's best estimate and may vary from actual taxable income.

The business and operations of the Company are complex and the Company has executed a number of significant financings, reorganizations, acquisitions and other material transactions over the course of its history. The computation of income taxes payable as a result of these transactions involves many complex factors as well as the Company's interpretation of relevant tax legislation and regulations. The Company's management believes that the provision for income tax is adequate and in accordance with IFRS and applicable legislation and regulations. However, tax filing positions are subject to review by taxation authorities who may successfully challenge the Company's interpretation of the applicable tax legislation and regulations.

Share-based compensation Share-based compensation is calculated using the fair value method based upon the Black-Scholes model. In order to establish fair value, estimates and assumptions are used to determine risk-free interest rate, expected term, anticipated volatility, anticipated forfeiture rate and anticipated dividend yield. The use of different assumptions could result in different book values for share-based compensation.

NEW ACCOUNTING POLICIES

These are Cathedral's first consolidated financial statements prepared in accordance with IFRS.

The accounting policies set out in note 3 of the financial statements were applied in preparing the financial statements for the year ended December 31, 2011, the comparative information presented in these financial statements for the year ended December 31, 2010 and in the preparation of an opening IFRS statement of financial position at January 1, 2010 (Cathedral's date of transition).

In preparing its opening IFRS statement of financial position, Cathedral has adjusted amounts reported previously in financial statements prepared in accordance with previous CGAAP. An explanation of how the transition from previous CGAAP to IFRS has affected Cathedral's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables. Please see note 29 ("Explanation of transition to IFRS") in the notes to the consolidated financial statements.

Internal controls over financial reporting Management is responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The CEO and CFO have designed or have caused such internal controls over financial reporting (as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual Financial and Interim Filings) to be designed under their supervision to provide reasonable assurance regarding the reliability of financial reporting and preparation of the Company's financial statements for external purposes in accordance with GAAP. In addition, the CEO and CFO directed the assessment of the design and operating effectiveness of the Company's internal controls over financial reporting as at December 31, 2011 and based upon that assessment determined that the Company's internal controls over financial reporting were, in all material respects, appropriately designed and operating effectively.

Management of the Company believe that "cost effective" disclosure controls and procedures and internal controls over financial reporting, no matter how well conceived or implemented, can only provide reasonable assurance, and not absolute assurance, that the objective of controls and procedures are met. Because of inherent limitations, disclosure controls and procedures and internal control over financial reporting may not prevent errors or fraud.

There has been no change in the Company's internal controls over financial reporting during the year ended December 31, 2011 that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting.

RISK FACTORS

Crude oil and natural gas prices Demand for the services provided by Cathedral is directly impacted by the prices that Cathedral's customers receive for the crude oil and natural gas they produce and the prices received has a direct correlation to the cash flow available to invest in drilling activity and other oilfield services. The markets for oil and natural gas are separate and distinct. Oil is a global commodity with a vast distribution network. As natural gas is most economically transported in its gaseous state via pipeline, its market is dependent on pipeline infrastructure and is subject to regional supply and demand factors. However, recent developments in the transportation of liquefied natural gas ("LNG") in ocean going tanker ships have introduced an element of globalization to the natural gas market. Crude oil and natural gas prices are quite volatile, which accounts for much of the cyclical nature of the oilfield services business. World crude oil prices and North American natural gas prices, including LNG, are not subject to control by Cathedral. With that in mind, Cathedral attempts to partially manage this risk by way of maintaining a low cost structure and a variable cost structure that can be adjusted to reflect activity levels. A significant portion of Cathedral's fieldwork is performed by sub-contractors and staff paid on a day rate basis which allows us to operate with lower fixed overhead costs in seasonally low activity periods as well as extended downturns in the oilfield services sector.

Alternatives to and changing demand for hydrocarbon products Fuel conservation measures, alternatively fuel requirements, increasing consumer demand for alternatives to oil and natural gas, and technological advances in fuel economy and energy generation devices could reduce the demand for crude oil and other liquid hydrocarbons. The Company cannot predict the impact of changing demand for oil and natural gas products, and any major changes may have a material adverse effect on the Cathedral's business, financial condition, results of operations and cash flows and therefore on the dividends declared on its common shares.

Cash dividends to shareholders are dependent on the performance of Cathedral Cathedral's ability to make dividend payments to shareholders is dependent upon the operations and business of Cathedral. There is no assurance regarding the amounts of cash that may be available from Cathedral's operations and business that could be available to fund future dividends or if dividends will be declared at all. The actual amount of any dividends will depend on a variety of factors, including without limitation, the 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, future growth capital expenditures, effect of acquisitions or dispositions on Cathedral's business, and other factors that may be beyond the control of Cathedral or not anticipated by management of Cathedral. In the event significant cash requirements are necessary for non-dividend purposes or the profitability of Cathedral declines, there would be a decrease in the amount of cash available for dividends to shareholders and such decrease could be material.

Cathedral's dividend policy is subject to change at the discretion of its Board of Directors. In addition, Cathedral's credit facility covenants include restrictions on the payment of cash dividends if Cathedral is not in compliance with debt covenants.

Performance of obligations The Company's success depends in large part on whether it fulfills its obligations with clients and maintains client satisfaction. If Cathedral fails to satisfactorily perform its obligations, or makes professional errors in the services that it provides, its clients could terminate contracts, including master service agreements, exposing Cathedral to loss of its professional reputation and risk of loss or reduced profits, or in some cases, the loss of a project. Typically, Cathedral's master service agreements do not contain any guaranteed payments and are cancellable on 30 days notice.

Access to capital The credit facilities of Cathedral contain covenants that require it to meet certain financial tests and that restrict, among other things, the ability of Cathedral to incur additional debt, make significant acquisition, dispose of assets or pay dividends in certain circumstances. To the extent the cash flow from operations is not adequate to fund Cathedral's cash requirements and therefore external financing may be required. Lack of timely access to such additional financing, or which may not be on favorable terms, could limit the future growth of the business of Cathedral and, potentially have a material adverse effect on the amount of cash available for dividends. To the extent that external sources of capital, including public and private markets, become limited or unavailable, Cathedral's ability to make the necessary capital investments to maintain or expand its current business and to make necessary principal payments under it credit facility may be impaired.

Forward-looking information may prove inaccurate Numerous statements containing forward-looking information are found in this MD&A, documents incorporated by reference herein and other documents forming part of Cathedral's public disclosure record. Such statements and information are subject to risks and uncertainties and involve certain assumptions, some, but not all, of which are discussed elsewhere in this document. The occurrence or non-occurrence, as the case may be, of any of the events described in such risks could cause actual results to differ materially from those expressed in the forward-looking information.

Third party credit risk relating to completion of the conversion The Company was created as a result of the conversion of Cathedral Energy Services Income Trust (the "Trust") to a corporation pursuant to a plan of arrangement ("Plan of Arrangement") under the Act, entered into by various entities including the Trust, Cathedral Energy Services Ltd. ("CES") and SemBioSys Genetics Inc. ("SBS") (the "Reorganization").

Upon closing of the Reorganization on December 18, 2009, the Company became the operator of the business of the Trust and its subsidiaries and the existing management and board of directors of CES, plus one director of SBS, became the management and board of directors of the Company. The Reorganization resulted in the unitholders of the Trust becoming shareholders of the Company with no changes to the underlying business operations. The Company did not acquire any additional business carried on by SBS. The former business of SBS is being carried on by a new entity named SemBioSys Genetics Inc. ("New SBS") which is owned by the former shareholders of SBS.

Cathedral is or may be exposed to third party credit risk relating to any obligations of SBS that are not transferred, or if transferred, from which obligations Cathedral has not been released. Cathedral has, through the contractual provisions in the arrangement agreement ("Arrangement Agreement"), the indemnity agreement ("Indemnity Agreement") and the divestiture agreement ("Divestiture Agreement") contemplated thereby, attempted to ensure that the liabilities and obligations relating to the business of SBS were transferred to and assumed by New SBS, that Cathedral is released from any such obligations and, even where such transfer or release is not effective or is not obtained, Cathedral is indemnified by New SBS for all such obligations. However, in the event New SBS fails or is unable to meet such contractual obligations to Cathedral and to the extent any applicable insurance coverage is not available, Cathedral may be liable for such obligations which could have a material adverse effect on the business, financial condition and results of operations of Cathedral.

Due diligence Although Cathedral has conducted investigations of, and engaged legal counsel to review, the corporate, legal, financial and business records of SBS and attempted to ensure, through the contractual provisions in the Arrangement Agreement, Indemnity Agreement and Divestiture Agreement, that the liabilities and obligations relating to the business of SBS were transferred to and assumed by New SBS, there may be liabilities or risks that Cathedral, after reasonable inquiry, may not have uncovered in its due diligence investigations, or that may have an unanticipated material adverse effect on Cathedral. These liabilities and risks could have, individually or in the aggregate, a material adverse effect on the business, financial condition and results of operations of Cathedral.

SBS operational risks Cathedral has, through the contractual provisions in the Arrangement Agreement, the Indemnity Agreement and the Divestiture Agreement contemplated thereby, attempted to ensure that the liabilities and obligations relating to the business of SBS were transferred to and assumed by New SBS, that Cathedral is released from any such obligations and, even where such transfer or release is not effective or is not obtained, Cathedral is indemnified by New SBS for all such obligations. However, in the event New SBS fails or is unable to meet such contractual obligations to Cathedral, Cathedral could be exposed to liabilities and risks associated with the operations of SBS, which include, without limitations, risks relating to claims with respect to intellectual property matters, product liability or environmental damages.

Tax related risks associated with the conversion The steps under the Plan of Arrangement pursuant to which the conversion was completed, were structured to be tax-deferred to the entities within the Trust's structure and unitholders based on certain rules under the Income Tax Act (Canada). There is a risk that the tax consequences contemplated by the Trust's entities or the tax consequences of the Plan of Arrangement to the Trust's entities and the Trust's unitholders may be materially different from the tax consequences anticipated by the Trust in the undertaking the conversion. While Cathedral is confident in its current position, there is a risk that the Canada Revenue Agency could successfully challenge the tax consequences of the Plan of Arrangement or prior transactions of SBS. Such a challenge could potentially affect the availability or amount of the tax basis or other tax accounts of Cathedral and/or create taxes payable.

Interest rates Cathedral's operating loan and its revolving term credit facility bear interest at a floating interest rate and, therefore, to the extent Cathedral borrows under this facility, is at risk of rising interest rates. Management continually monitors interest rates and would consider locking in the rate of its term debt.

Debt service Cathedral has a secured credit facility with a major Canadian bank in the amount of $75 million ($20 million demand operating loan and a $55 million revolving term loan). Although it is believed that the credit facility is sufficient, there can be no assurance that the amount will be adequate for the financial obligations of Cathedral. As well, if Cathedral requires additional financing such financing may not be available or, if available, may not be available on favorable terms. Cathedral's lender has been provided with security over substantially all of the assets of Cathedral. The credit facility is subject to an annual renewal and there is no assurance the current lender will renew the existing credit facility. Even if the credit facility is renewed it may only be renewable upon unfavorable terms including, but not limited to, an increase interest rate margin, more stringent debt covenants, reduction in the credit amount available and additional loan fees.

Additional shares If the Board of Directors of Cathedral decides to issue additional common shares, preferred shares or securities convertible into common shares, existing shareholders may suffer significant dilution.

Unpredictability and volatility of share price The prices at which the common shares trade cannot be predicted. The market price of the common shares could be subject to significant fluctuations in response to variations in quarterly operating results and other factors. The annual yield on the common shares as compared to the annual yield on other financial instruments may also influence the price of common shares in the public trading markets. An increase in prevailing interest rates will result in higher yield on other financial instruments, which could adversely affect the market price of the common shares.

In addition, the securities markets have experienced significant market wide and sectoral price and volume fluctuations from time to time that often have been unrelated or disproportionate to the operating performance of particular issuers. Such fluctuations may adversely affect the market price of the common shares.

Income tax matters The business and operations of Cathedral are complex and Cathedral and its predecessors have executed a number of significant financings, reorganizations, acquisitions and other material transactions over the course of its history. The computation of income taxes payable as a result of these transactions involves many complex factors as well as Cathedral's interpretation of relevant tax legislation and regulations. Cathedral's management believes that the provision for income tax is adequate and in accordance with generally accepted accounting principles and applicable legislation and regulations. However, tax filing positions are subject to review by taxation authorities who may successfully challenge Cathedral's interpretation of the applicable tax legislation and regulations.

Key personnel and employee/sub-contractor relationships Shareholders must rely upon the ability, expertise, judgment, discretion, integrity and good faith of the management of Cathedral. The success of Cathedral is dependent upon its personnel and key sub-contractors. The unexpected loss or departure of any of Cathedral's key officers, employees or sub-contractors could be detrimental to the future operations of Cathedral. Cathedral does not maintain key man insurance on any of its officers. The success of Cathedral's business will depend, in part, upon Cathedral's ability to attract and retain qualified personnel as they are needed. Additionally, the ability of Cathedral to expand its services is dependent upon its ability to attract additional qualified employees. Historically, Cathedral has not had any significant issues with respect to attracting and the retention of quality office, shop and field staff. During high levels of activity, attracting quality staff can be challenging due to competition for such services. Cathedral provides its staff with a quality working environment, effective training, tools with current technology and competitive remuneration packages that allows it to attract and retain the quality of its workforce, whether in the field, shop or office. There can be no assurance that Cathedral will be able to engage the services of such personnel or retain its current personnel.

Competition The oil and natural gas service industry in which Cathedral and its operating entities conduct business is highly competitive. Cathedral competes with other more established companies which have greater financial, marketing and other resources and certain of which are large international oil and natural gas service companies which offer a wider array of oil and natural gas services to their clients than does Cathedral.

Access to parts, consumables and technology and relationships with key suppliers The ability of Cathedral to compete and expand will be dependent on Cathedral having access, at a reasonable cost, to equipment, parts and components, which are at least technologically equivalent to those utilized by competitors and to the development and acquisition of new competitive technologies. Failure by Cathedral to do so could have a material adverse affect on Cathedral's business, financial condition, results of operations and cash flow and therefore on Cathedral's ability to pay dividends. Cathedral's equipment may become obsolete or experience a decrease in demand due to competing products that are lower in cost, have enhanced performance capabilities or are determined by the market to be more preferable for environmental or other reasons. Although Cathedral has very good relationships with its key suppliers, there can be no assurances that those sources of equipment, parts, components or relationships with key suppliers will be maintained. If these are not maintained, Cathedral's ability to compete may be impaired. If the relationships with key suppliers come to an end, the availability and cost of securing certain parts, components and equipment may be adversely affected. In addition, Cathedral competes with other more established companies which have greater financial resources to develop new technologies.

Technology The success and ability of Cathedral to compete depends in part on the technologies that it brings to the market, and the ability of Cathedral to prevent others from copying such technologies. Cathedral currently relies on industry confidentiality practices ("trade secrets"), in some cases by a letter agreement, brand recognition by operators and in some cases patents (or patents pending) to protect its proprietary technology. Cathedral may have to engage in litigation in order to protect its intellectual property rights, including patents or patents pending, or to determine the validity or scope of the proprietary rights of itself or others. This kind of litigation can be time-consuming and expensive, regardless of whether or not Cathedral is successful.

Despite efforts of Cathedral, the intellectual property rights of Cathedral may be invalidated, circumvented, challenged, infringed or required to be licensed to others. It cannot be assured that any steps Cathedral may take to protect its intellectual property rights and other rights to such proprietary technologies that are central to Cathedral's operations will prevent misappropriation or infringement.

Competitors may also develop similar tools, equipment and technology to ours thereby adversely affecting our competitive advantage in one or more of our businesses. Additionally, there can be no assurance that certain tools, equipment or technology developed by us may not be the subject of future patent infringement claims or other similar matters which could result in litigation, the requirement to pay licensing fees or other results that could have a material adverse effect on our business, results of operations and financial condition.

Potential replacement or reduced use of products and services Certain of our equipment or systems may become obsolete or experience a decrease in demand through the introduction of competing products that are lower in cost, exhibit enhanced performance characteristics or are determined by the market to be more preferable for environmental or other reasons. We will need to keep current with the changing market for oil and natural gas services and technological and regulatory changes. If we fail to do so, this could have a material adverse affect on our business, financial condition, results of operations and cash flows.

Operating risks and insurance Cathedral has an insurance and risk management plan in place to protect its assets, operations and employees. Cathedral also has programs in place to address compliance with current safety and regulatory standards. Cathedral has a safety coordinator responsible for maintaining and developing policies and monitoring operations vis-a-vis those policies. However, Cathedral's oilfield services are subject to risks inherent in the oil and gas industry, such as equipment defects, malfunctions, failure and natural disasters. These risks could expose Cathedral to substantial liability for personal injury, loss of life, business interruption, property damage or destruction, pollution and other environmental damages. In addition, Cathedral's operating activities includes a significant amount of transportation and therefore is subject to the inherent risks including potential liability which could result from, among other things, personal injury, loss of life or property damage derived from motor vehicle accidents. Cathedral carries insurance to provide protection in the event of destruction or damage to its property and equipment, subject to appropriate deductibles and the availability of coverage. Liability insurance is also maintained at prudent levels to limit exposure to unforeseen incidents. An annual review of insurance coverage is completed to assess the risk of loss and risk mitigation alternatives. It is anticipated that insurance coverage will be maintained in the future, but there can be no assurance that such insurance coverage will be available in the future on commercially reasonable terms or be available on terms as favorable as Cathedral's current arrangements. The occurrence of a significant event outside of the coverage of Cathedral's insurance policies could have a material adverse affect on the results of the organization.

Business continuity, disaster recovery and crisis management Inability to restore or replace critical capacity in a timely manner may impact business and operations. A serious event could have a material adverse effect on Cathedral's business, results of operations and financial condition. This risk is mitigated by the development of business continuity arrangements, including disaster recovery plans and back-up delivery systems, to minimize any business disruption in the event of a major disaster. Insurance coverage may minimize any losses in certain circumstances.

Risks of foreign operations Cathedral is in the process of initiating operations in Venezuela for providing directional drilling services through a joint venture with a wholly-owned subsidiary of PDVSA, the state owned oil and natural gas corporation of the Bolivarian Republic of Venezuela. The joint venture company, Vencana Servicios Petroleros, S.A. ("Vencana"), is owned 60% by the PDVSA wholly-owned subsidiary and 40% by Cathedral's wholly-owned subsidiary, DPI. Working outside of Canada gives rise to the risk of dealing with business and political systems that are different than Cathedral is accustomed to in Canada. To date, there have been delays in the formation of the joint venture company as well as the execution of various operational agreements which have prevented the commencement of operations in Venezuela. These delays have been out of the control of Cathedral. The joint venture company expects to hire employees and consultants (which includes Cathedral's designates for certain key positions) who have experience working in the international arena and it is committed to recruiting qualified resident nationals on the staff of its operations. The allocation of oilfield service work in Venezuela is effectively controlled by PDVSA and there are risks associated with joint venture company being awarded work by PDVSA. In recent history, PDVSA has been late in paying its bills as they come due but with the formation of a joint venture company with PDVSA, Cathedral is expecting to mitigate the risk associated with PDVSA paying the joint venture on a timely basis. There are risks inherent in the basic "joint venture" structure in that business decisions require both parties to the joint venture, Cathedral and PDVSA, to agree on key business decisions. There may be times when Cathedral and PDVSA do not agree on key business decisions and this may result in consequences that are detrimental to Cathedral. To assist in mitigating risks associated with foreign expansion, Cathedral is committed to continuing expansion of its North American market. Potential risks associated with foreign operations, in addition to those noted above, include: trade and economic sanctions or other restrictions imposed by the Canadian government or other governments or organizations, expropriation or nationalization; terrorist threats; civil insurrection; labour unrest; strikes and other political risks; fluctuation in foreign currency and exchange control; increases in duties and taxes; and changes in laws and policies governing operations of foreign based companies. At December 31, 2011, Cathedral's investment in Venezuela is approximately $4,022. Subsequent to December 31, 2011, the Company executed an Asset Transfer and Credit Capitalization Agreement - refer to note 28 to the consolidated financial statements for the year ended December 31, 2011.

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

Foreign currency exchange rates Cathedral derives revenues from the U.S. which are denominated in the local currency. This causes a degree of foreign currency exchange rate risk which Cathedral attempts to mitigate by matching local purchases in the same currency. Furthermore, Cathedral's Canadian operations are subject to foreign currency exchange rate risk in that some purchases for parts, supplies and components in the manufacture of equipment are denominated in U.S. dollars. In addition to foreign currency risk associated with U.S. dollar, Cathedral is also exposed to foreign currency fluctuations in relation to Venezuelan Bolivar and such exposure will increase once operations commence in Venezuela. In the recent past, the Venezuelan government has devalued the Venezuelan Bolivar relative to its benchmark currency the U.S. dollar. Cathedral's foreign currency policy is to monitor foreign current risk exposure in its areas of operations and mitigate that risk where possible by matching foreign currency denominated expense with revenues denominated in foreign currencies. Cathedral strives to maintain limited amounts of cash and cash equivalents denominated in foreign currency on hand and attempts to further limit its exposure to foreign currency through collecting and paying foreign currency denominated balance in a timely fashion. Specifically with respect to the foreign exchange risk, including currency controls associated with the Venezuelan Bolivar, Cathedral's has to the extent possible denominated Venezuelan contracts in U.S. dollars.

In addition, we are exposed to currency exchange risk on those of our assets denominated in U.S. dollars and Venezuelan Bolivar. Since we present our financial statements in Canadian dollars, any change in the value of the Canadian dollar relative to the U.S. dollar, and to a lesser extent, Venezuelan Bolivar, during a given financial reporting period would result in a foreign currency loss or gain on the translation of our assets measured in other currencies into Canadian dollars. Consequently, our reported earnings could fluctuate materially as a result of foreign exchange translation gains or losses. Other than natural hedges arising from the normal course of business in foreign jurisdictions, Cathedal does not currently have any hedging positions.

Acquisitions and development risks Cathedral expects to continue to selectively seek strategic acquisitions. Cathedral's ability to consummate and to integrate effectively any future acquisitions on terms that are favourable to it may be limited by the number of attractive acquisition targets, internal demands on Cathedral's resources, and to the extent necessary, Cathedral's ability to obtain financing on satisfactory terms for larger acquisitions, if at all. Acquisitions may expose Cathedral to additional risks, including: difficulties in integrating administrative, financial reporting, operational and information systems and managing newly-acquired operations and improving their operating efficiency; difficulties in maintaining uniform standards, controls, procedures and policies through all of Cathedral's operations; entry into markets in which Cathedral has little or no direct prior experience; difficulties in retaining key employees of the acquired operations; disruptions to Cathedral's ongoing business; and diversion of management time and resources.

Implementing strategy In implementing its strategy Cathedral may pursue new business opportunities or growth opportunities in new geographic markets and may not be successful in implementing those opportunities. Cathedral may have difficulty executing the strategy because of, among other things, increased global competition, difficulty entering new markets, ability to attract qualified personnel, barriers to entry into geographic markets, and changes in regulatory requirements.

Credit risk All of Cathedral's accounts receivables are with customers involved in the oil and natural gas industry, whose revenue may be impacted by fluctuations in commodity prices. Although collection of these receivables could be influenced by economic factors affecting this industry and thereby have a materially adverse effect on operations, management considers risk of significant loss to be minimal at this time. To mitigate this risk, Cathedral's customers are subject to an internal credit review along with ongoing monitoring of the amount and age of receivables balances outstanding.

Reliance on major customers Management of Cathedral believes it currently has a good mix of customers with only one customer accounting for revenues in excess of 10% (at 15%) of Cathedral's consolidated revenues for 2011 (2010 – one customer at 22%). While Cathedral believes that its relationship with existing customers is good, the loss of any one or more of these customers, or a significant reduction in business done with Cathedral by one or more of these customers, if not offset by sales to new or existing customers, could have a material adverse affect on Cathedral's business, results of operations and prospects and therefore on the ability to pay dividends to shareholders. Mergers and acquisitions activity in the oil and natural gas exploration and production sector can impact demand for our services as customers focus on internal reorganization prior to committing funds to significant oilfield services. In addition, demand for Cathedral's services could be negatively affected in that upon completion, the merger and acquisitions customers may re-direct their work to Cathedral's competitors.

Environmental risks Cathedral is subject to various environmental laws and regulations enacted in the jurisdictions in which it operates which govern the manufacture, processing, importation, transportation, handling and disposal of certain materials used in Cathedral's operations. Cathedral has established procedures to address compliance with current environmental laws and regulations and monitors its practices concerning the handling of environmentally hazardous materials. However, there can be no assurance that Cathedral's procedures will prevent environmental damage occurring from spills of materials handled by Cathedral or that such damage has not already occurred. On occasion, substantial liabilities to third parties may be incurred. Cathedral may have the benefit of insurance maintained by it or the operator; however Cathedral may become liable for damages against which it cannot adequately insure or against which it may elect not to insure because of high costs or other reasons.

There is growing concern about the apparent connection between the burning of fossil fuels and climate change. The issue of energy and the environment has created intense public debate in Canada, the U.S. and around the world in recent years that is likely to continue for the foreseeable future and could potentially have a significant impact on all aspects of the economy including the demand for hydrocarbons and resulting in lower demand for Cathedral's services. There can be no assurance that the provincial, state and local governments or the Federal Governments of Canada and U.S. and other jurisdictions in which Cathedral enters into to provide its services will not adopt new environmental regulations, rules or legislation or make modifications to existing regulations, rules or legislation which could increase costs paid by Cathedral's customers. An increase in environmental related costs could reduce Cathedral's customers' earnings and/or it could make capital expenditures by Cathedral's customers uneconomic. The Canadian Federal Government has announced its intention to regulate greenhouse gases ("GHG") and other air pollutants. The Government is currently developing a framework that outlines its clean air and climate change action plan. As this federal program is under development, Cathedral is unable to predict the total impact of the potential regulations upon its business. It is possible that Cathedral's customers could face increases in operating costs in order to comply with GHG emissions legislation which could have the effect of curtailing exploration and development by oil and natural gas producers and that in turn, could adversely affect Cathedral's operations by reducing demand for its services.

Government regulation The oil and natural gas industry in Canada and the U.S. is subject to federal, provincial, state and municipal legislation and regulation governing such matters as land tenure, commodity prices, production royalties, production rates, environmental protection controls, the exportation of crude oil, natural gas and other products, as well as other matters. The industry is also subject to regulation by governments in such matters, including laws and regulations relating to health and safety, the conduct of operations, the protection of the environment and the manufacture, management, transportation, storage and disposal of certain materials used in Cathedral's operations.

Government regulations may change from time to time in response to economic or political conditions. The exercise of discretion by governmental authorities under existing regulations, the implementation of new regulations or the modification of existing regulations affecting the crude oil and natural gas industry could reduce demand for Cathedral's services or increase its costs, either of which could have a material adverse impact on Cathedral.

There can be no assurance that the provincial, state and local governments or the Federal Governments of Canada and U.S. and other jurisdictions in which Cathedral enters into to provide its services will not adopt a new royalty regime or modify the methodology of royalty calculation which could increase the royalties paid by Cathedral's customers. An increase in royalties could reduce Cathedral's customers' earnings and/or it could make capital expenditures by Cathedral's customers uneconomic. Although Cathedral is not a direct investor in the oil and natural gas market it does affect Cathedral's customers' cash flow available to invest in drilling activity and other oilfield services.

Conflict of interest Certain directors and officers of Cathedral are also directors and/or officers of other oil and natural gas exploration and/or production entities and conflicts of interest may arise between their duties as officers and directors of Cathedral and as officers and directors of such other companies. Such conflicts must be disclosed in accordance with, and are subject to such other procedures and remedies as apply under the Act.

Legal proceedings Cathedral is involved in litigation from time to time in the ordinary course of business. Although Cathedral is not currently a party to any material legal proceedings, legal proceedings could be filed against Cathedral in the future. No assurance can be given as to the final outcome of any legal proceedings or that the ultimate resolution of any legal proceedings will not have a materially adverse effect on Cathedral.

OFF-BALANCE SHEET ARRANGEMENTS

As at December 31, 2011, the Company has entered into $3,808 of commitments under operating leases for premises and vehicles (refer to note 23 to the consolidated financial statements). The Company has indemnified obligations to its directors and officers. Pursuant to such obligations, the Company indemnifies these individuals, to the extent permitted by law, against any and all claims or losses (including amounts paid in settlement of claims) incurred as a result of their service to the Company. The maximum amount payable under these indemnities cannot be reasonably estimated. The Company expects that it would be covered by insurance for most tort liabilities.

GOVERNANCE

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

SUPPLEMENTARY INFORMATION

At March 6, 2012, the Company had 37,358,983 shares and 2,872,310 options outstanding. Additional information regarding the Company, including the Annual Information Form ("AIF"), is available on SEDAR at www.sedar.com.

OUTLOOK

The near term, demand for Cathedral's services in North America will continue to be driven by the development of oil and liquids-rich natural gas plays. Until natural gas prices recover, dry natural gas development is not expected to be a meaningful driver in demand for oilfield services. The focus on horizontal, multi-stage fracturing to complete conventional and unconventional resource plays across North America has been a tremendous boost for the services provided by Cathedral. Cathedral's services, directional drilling and production testing frac flowback operations, are considered key services in applying this completion technology.

In December 2011, Cathedral announced that extensive testing of its proprietary mud motor design had been completed and initial capital build out had commenced. The first mud motors from the initial build out are expected to be received in 2012 Q1. This represents another step by Cathedral in its vertical integration model and desire to control the majority of its required directional drilling equipment. Vertical integration will assist movement towards Cathedral's goal of controlling costs and supply chain management. In 2012, Cathedral expects to replace 40-50% of its mud motor fleet with its proprietary mud motor.

Cathedral will continue its focus on MWD research and development and bringing new products to the market. Several new enhancements are expected in the second quarter including a new rotary pulser and several upgrades to the EM transmission mode. Both are significant enhancements to the Fusion MWD system. As well Cathedral expects to introduce in 2012 new technologies including, at-bit-inclination ("ABI") and a high temperature MWD system suitable for higher temperature regions such as the Bakken, Haynesville and Eagleford where down hole temperatures can be extreme.

Expansion of both product lines in the U.S. market remains a goal for Cathedral. Recently Cathedral moved an additional 2 frac flowback units into the North Dakota region and 2 more units scheduled to move into the region in the first quarter. The Company's Houston operations base is starting to gain traction in the directional drilling market and will expand its effort with the addition of additional sales staff.

Cathedral continues to make progress toward commencing operations in Venezuela. Auxiliary agreements related to the lease of MWD equipment and supply of personal, repair parts and repair services need to be negotiated and executed prior to commencing operations. Significant progress has been made on the negotiation of these agreements but history has shown there have been significant delays in the execution of such agreements and accordingly Cathedral is uncertain when operations in Venezuela will commence.

MANAGEMENT'S REPORT

The consolidated financial statements have been prepared by the management in accordance with International Financial Reporting Standards which now are the basis for Canadian generally accepted accounting principles and, where appropriate, reflect estimates based upon management's judgment. Financial information contained elsewhere in the annual report has been prepared on a consistent basis with that in the consolidated financial statements.

Management is also responsible for a system of internal controls which is designed to provide reasonable assurance that the Company's assets are safeguarded and accounting systems provide timely, accurate financial reports.

The Audit Committee of the Board of Directors has reviewed in detail the consolidated financial statements with management and the external auditor. The Board of Directors has approved the consolidated financial statements on the recommendation of the Audit Committee.

KPMG LLP, an independent firm of chartered accountants, have examined the Company's consolidated financial statements in accordance with Canadian generally accepted auditing standards and provided an independent professional opinion. The auditors have full and unrestricted access to the Audit Committee to discuss their audit and their related findings as to the integrity of the financial reporting process.

Signed: *"Mark L. Bentsen"*

Mark L. Bentsen

President and Chief Executive Officer

Signed: *"P. Scott MacFarlane"*

P. Scott MacFarlane

Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Cathedral Energy Services Ltd.:

We have audited the accompanying consolidated financial statements of Cathedral Energy Services Ltd., which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010 the consolidated statements of comprehensive income, cash flows and changes in shareholders' equity for the years ended December 31, 2011 and December 31, 2010, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Cathedral Energy Services Ltd. as at December 31, 2011, December 31, 2010 and January 1, 2010, the results of its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

Signed: "KPMG LLP"

Calgary, Canada

March 6, 2012

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31, 2011 and 2010

Dollars in '000s

	December 31 2011	December 31 2010	January 1 2010
Assets			
Current assets:			
Cash and cash equivalents (note 5)	$ 2,902	$ 1,740	$ 491
Trade receivables (note 6)	65,568	37,794	27,727
Current tax assets	-	-	2,550
Prepaid expenses	2,217	1,980	1,651
Inventories (note 7)	13,278	7,663	5,315
Assets held for sale (note 8)	-	3,344	15,860
Total current assets	83,965	52,521	53,594
Property and equipment (note 9)	129,929	102,546	76,964
Intangible assets (note 10)	230	387	884
Deferred tax assets (note 11)	11,951	19,499	24,295
Goodw ill (note 10)	5,848	5,848	5,848
Total non-current assets	147,958	128,280	107,991
Total assets	$ 231,923	$ 180,801	$ 161,585
Liabilities and Shareholders' Equity			
Current liabilities:			
Operating loans (note 12)	$ 12,797	$ 8,765	$ 2,181
Trade and other payables (note 13)	28,046	21,309	13,686
Dividends payable	2,238	2,204	-
Current taxes payable	29	53	-
Loans and borrow ings (note 14)	803	674	701
Total current liabilities	43,913	33,005	16,568
Loans and borrow ings (note 14)	50,694	35,435	40,948
Deferred tax liabilities (note 11)	1,209	170	631
Total non-current liabilities	51,903	35,605	41,579
Shareholders' equity:			
Share capital (note 15)	74,208	70,753	68,995
Contributed surplus	7,845	6,775	4,532
Accumulated other comprehensive loss	(2,141)	(2,814)	-
Retained earnings	56,195	37,477	29,911
Total shareholders' equity	136,107	112,191	103,438
Total liabilities and shareholders' equity	$ 231,923	$ 180,801	$ 161,585

See accompanying notes to consolidated financial statements.

Approved by the Directors:

Signed: "Mark L. Bentsen"

Mark L. Bentsen

Director

Signed: "Rod Maxwell"

Rod Maxwell

Director

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Years ended December 31, 2011 and 2010

Dollars in '000s except per share amounts

	December 31 2011	December 31 2010
Revenues	$ 220,363	$ 153,085
Cost of sales (note 17):		
Direct costs	(148,689)	(99,518)
Depreciation	(14,884)	(11,215)
Share-based compensation	(381)	(350)
Total cost of sales	(163,954)	(111,083)
Gross margin	56,409	42,002
Selling, general and administrative expenses (note 17):		
Direct costs	(19,724)	(16,629)
Depreciation	(174)	(314)
Share-based compensation	(1,440)	(2,305)
Total selling, general and administrative expenses	(21,338)	(19,248)
	35,071	22,754
Gain on disposal of property and equipment	4,264	2,761
Earnings from operating activities	39,335	25,515
Foreign exchange gain (loss) (note 18)	(356)	1,725
Finance costs (note 18)	(1,877)	(1,754)
Earnings from continuing operations before income taxes	37,102	25,486
Income tax expense (note 19):		
Current	(1,362)	(1,502)
Deferred	(8,435)	(5,938)
Total income tax expense	(9,797)	(7,440)
Net earnings from continuing operations	27,305	18,046
Net earnings (loss) from discontinued operations (note 8)	329	(1,719)
Net earnings	27,634	16,327
Other comprehensive income (loss):		
Foreign currency translation differences for foreign operations	673	(2,814)
Total comprehensive income	$ 28,307	$ 13,513
Net earnings from continuing operations per share		
Basic	$ 0.74	$ 0.50
Diluted	$ 0.72	$ 0.49
Net earnings (loss) from discontinued operations per share		
Basic and diluted (note 8)	$ 0.01	$ (0.05)
Net earnings		
Basic	$ 0.75	$ 0.45
Diluted	$ 0.73	$ 0.44

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Years ended December 31, 2011 and 2010

Dollars in '000s except per share amounts

	Share capital	Contributed surplus	Accumulated other comprehensive income (loss)	Retained earnings	Total shareholders' equity
Balance at January 1, 2010	**$ 68,995**	**$ 4,532**	**$ -**	**$ 29,911**	**$ 103,438**
Total comprehensive income for the year ended December 31, 2010	-	-	(2,814)	16,327	13,513
Transactions with shareholders, recorded directly in equity contributions by and distributions to shareholders for the year ended December 31, 2010:					
Dividends to equity holders	-	-	-	(8,761)	(8,761)
Share-based compensation	-	2,689	-	-	2,689
Share options exercised (note 15)	1,758	(446)	-	-	1,312
Total contributions by and distributions to shareholders	1,758	2,243	-	(8,761)	(4,760)
Balance at December 31, 2010	**$ 70,753**	**$ 6,775**	**$ (2,814)**	**$ 37,477**	**$ 112,191**
Total comprehensive income for the year ended December 31, 2011	-	-	673	27,634	28,307
Transactions with shareholders, recorded directly in equity contributions by and distributions to shareholders for the year ended December 31, 2011:					
Dividends to equity holders	-	-	-	(8,916)	(8,916)
Share-based compensation	-	1,781	-	-	1,781
Share options exercised (note 15)	3,455	(711)	-	-	2,744
Total contributions by and distributions to shareholders	3,455	1,070	-	(8,916)	(4,391)
Balance at December 31, 2011	**$ 74,208**	**$ 7,845**	**$ (2,141)**	**$ 56,195**	**$ 136,107**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Years ended December 31, 2011 and 2010

Dollars in '000s except per share amounts

	2011	2010
Cash provided by (used in):		
Operating activities:		
Net earnings from continuing operations	$ 27,305	$ 18,046
Items not involving cash		
Depreciation	15,058	11,529
Income tax expense	9,797	7,440
Unrealized foreign exchange gain on intercompany balances	(221)	(730)
Unrealized foreign exchange gain due to hyper-inflation accounting	-	(510)
Finance costs	1,877	1,754
Share-based compensation	1,821	2,655
Gain on disposal of property and equipment	(4,264)	(2,761)
Cash flow from continuing operations	51,373	37,423
Cash flow from discontinuing operations (note 8)	-	(1,733)
Changes in non-cash operating working capital (note 20)	(21,857)	(6,731)
Income taxes paid	(1,377)	364
Cash flow from operating activities	28,139	29,323
Investing activities:		
Property and equipment additions on continuing operations	(44,413)	(34,984)
Property and equipment additions on discontinued operations	-	(171)
Intangible asset additions	-	(79)
Proceeds on disposal of property and equipment from continuing operations	6,538	4,005
Proceeds on disposal of property and equipment from discontinued operations	3,793	6,308
Changes in non-cash investing working capital (note 20)	(3,633)	3,438
Cash flow from investing activities	(37,715)	(21,483)
Financing activities:		
Change in operating loan	4,609	7,069
Interest paid	(2,063)	(2,187)
Advances of loans and borrowings	15,500	-
Repayments on loans and borrowings	(598)	(5,715)
Proceeds on exercise of share options	2,744	1,311
Dividends paid	(8,882)	(6,556)
Cash flow from financing activities	11,310	(6,078)
Effect of exchange rate on changes in cash and cash equivalents	(572)	(513)
Change in cash and cash equivalents	1,162	1,249
Cash and cash equivalents, beginning of year	1,740	491
Cash and cash equivalents, end of year	$ 2,902	$ 1,740

See accompanying notes to consolidated financial statements.

1. Reporting entity

Cathedral Energy Services Ltd. ("the Company") is a company domiciled in Canada. The Company is a publicly-traded company listed on the Toronto Stock Exchange under symbol "CET". The consolidated financial statements of the Company as at and for the year ended December 31, 2011 comprise the Company and its subsidiaries (together referred to as "Cathedral"). Cathedral is primarily involved and engaged in the business of providing selected oilfield services to oil and natural gas companies in western Canada and selected oil and natural gas basins in the United States (U.S."). The Company is in the process of establishing operations in Venezuela for providing directional drilling services through its wholly owned subsidiaries Directional Plus International Ltd. ("DPI") and Directional Plus de Venezuela, C.A. ("DPV") through a joint venture with Petroleos de Venezuela, S.A. ("PDVSA"), the state owned oil and gas corporation of the Bolivarian Republic of Venezuela.

2. Basis of preparation

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS" or "GAAP"). These are Cathedral's first consolidated financial statements prepared in accordance with IFRS and IFRS 1 "First-time Adoption of International Financial Reporting Standards" has been applied.

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of Cathedral is provided in note 29.

The consolidated financial statements were authorized for issue by the Board of Directors on March 6, 2012.

(b) Basis of measurement

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

(c) Functional and presentation currency

These consolidated 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 per share amounts.

(d) Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

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

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing the opening IFRS statement of financial position at January 1, 2010 for the purposes of the transition to IFRS, unless otherwise indicated.

The accounting policies have been applied consistently by the Company.

(a) Basis of consolidation

(i) Business combinations

Acquisitions on or after January 1, 2010

For acquisitions on or after January 1, 2010, Cathedral measures goodwill as the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss. Transaction costs, other than those associated with the issue of debt or equity securities, that Cathedral incurs in connection with a business combination are expensed as incurred.

Acquisitions prior to January 1, 2010

As part of its transition to IFRS, Cathedral elected to restate only those business combinations that occurred on or after January 1, 2010. In respect of acquisitions prior to January 1, 2010, goodwill represents the amount recognized under the previous Canadian generally accepted accounting principles ("previous CGAAP").

(ii) Subsidiaries

Subsidiaries are entities controlled by Cathedral. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by Cathedral.

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income, expenses, gains or losses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

3. Significant accounting policies (continued)

(b) Foreign currency

(i) Foreign currency transactions

All transactions that are not denominated in an entity's functional currency are foreign currency transactions. These transactions are initially recorded in the functional currency by applying the appropriate daily rate which best approximates the actual rate of transaction.

The Canadian dollar is the functional and presentation currency of the Company. The functional currency of Cathedral's Canadian operations and U.S. operations is the Canadian dollar and U.S. dollar, respectively.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. All differences are recognized in the consolidated statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(ii) Foreign operations

The assets and liabilities of foreign operations are translated to CAD at exchange rates at the reporting date. The income and expenses of foreign operations are translated to CAD at exchange rates at the dates of the transactions.

Foreign currency differences are recognized in other comprehensive income. Since January 1, 2010, Cathedral's date of transition to IFRS, such differences have been recognized in accumulated other comprehensive income ('AOCI') in the cumulative translation account (see note 29 – "Explanation of transition to IFRS"). When a foreign operation is disposed of, the relevant amount in AOCI (in the cumulative translation account) is transferred to profit or loss as part of the profit or loss on disposal. On the partial disposal of a subsidiary that includes a foreign operation, the relevant proportion of such cumulative amount is reattributed to non-controlling interest. In any other partial disposal of a foreign operation, the relevant proportion is reclassified to profit or loss.

As Venezuela is considered a hyper-inflationary economy, DPV is accounted for using hyper-inflationary accounting. The income and expenses for foreign operations in hyper-inflationary economies are translated to CAD at the exchange rate at the reporting date. Prior to translating, the financial statements for the current period are restated to account for changes in the general purchasing power of the local currency. The restatement is based on relevant price indices at the reporting date.

(c) Financial instruments

At December 31, 2011 and 2010, Cathedral has the following financial instruments: cash and cash equivalents and loans and receivables.

(i) Non-derivative financial assets

Cathedral initially recognizes trade and other receivables on the date that they originate. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date at which Cathedral becomes a party to the contractual provisions of the instrument.

Cathedral derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by Cathedral is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, Cathedral has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

(ii) Non-derivative financial liabilities

Cathedral initially recognizes debt securities issued on the date that they are originated. Cathedral derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, Cathedral has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Cathedral has the following non-derivative financial liabilities: loans and borrowings, operating loan and trade and other payables.

Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

(d) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and borrowing costs on qualifying assets.

Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

3. Significant accounting policies (continued)

(i) Recognition and measurement (continued)

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and are recognized net within other income in profit or loss.

(ii) Subsequent costs

The cost of replacing a part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to Cathedral, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment (repair and maintenance) are recognized in profit or loss as incurred.

(iii) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognized in profit or loss either on a straight-line or diminishing balance basis over the estimated useful lives of each part of an item of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that Cathedral will obtain ownership by the end of the lease term. Land is not depreciated.

Items of property and equipment are depreciated from the date that they are installed and are available for use, or in respect of internally constructed assets, from the date that the asset is completed and available for use.

The estimated useful lives, depreciation rates and depreciation methods for the current and comparative periods are as follows:

	Estimated life in years	Depreciation rates	Depreciation method
Directional drilling equipment	15.5 to 24	10 to 15%	Declining balance
Production testing equipment	11.5 to 15.5	15 to 20%	Declining balance
Office and computer equipment	7.5 to 11.5	20 to 30%	Declining balance
Automotive equipment	9 to 11.5	20 to 25%	Declining balance
Buildings	55	4%	Declining balance
Automotive equipment under capital lease	3 to 4	20% or 33%	Straight-line
Leasehold improvements	5	20%	Straight-line

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

(e) Intangible assets

(i) Goodwill

Goodwill that arises upon the acquisition of subsidiaries is included in the financial statements. For measurement of goodwill at initial recognition, see note 3(a)(i).

In respect of acquisitions prior to January 1, 2010, goodwill is included on the basis of its deemed cost, which represents the amount recorded under previous CGAAP.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses.

(ii) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and Cathedral intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalized includes the cost of materials, direct labour, overhead costs that are directly attributable to preparing the asset for its intended use, and borrowing costs on qualifying assets for which the commencement date for capitalization is on or after January 1, 2010. Other development expenditure is recognized in profit or loss as incurred.

Capitalized development expenditure is measured at cost less accumulated amortization and accumulated impairment losses.

(iii) Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

(iv) Amortization

Amortization is calculated on the cost of the asset less its residual value.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life for capitalized development costs is 5 years.

Amortization methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

3. Significant accounting policies (continued)

(f) Leased assets

Leases in terms of which Cathedral assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognized in Cathedral's statement of financial position.

(g) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the average cost principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(h) Impairment

(i) Financial assets (including receivables)

A financial asset other than those carried at fair value through profit or loss are assessed for indicators of impairment at each reporting date. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to Cathedral on terms that Cathedral would not consider otherwise or indications that a debtor or issuer will enter bankruptcy.

Cathedral considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment Cathedral uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

(ii) Non-financial assets

The carrying amounts of Cathedral's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit", or "CGU"). For the purposes of goodwill impairment testing, goodwill acquired in a business combination is allocated to CGUs that are expected to benefit from the synergies of the combination. This allocation is subject to an operating segment ceiling test and reflects the lowest level at which that goodwill is monitored for internal reporting purposes.

Cathedral's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(i) Employee benefits

(i) Termination benefits

Termination benefits are recognized as an expense when Cathedral is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if Cathedral has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

(ii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if Cathedral has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

3. Significant accounting policies (continued)

(i) Employee benefits (continued)

(iii) Share-based payment transactions – equity settled

The grant date fair value of share-based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards (vesting period). The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date.

Share-based payment arrangements in which Cathedral receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions.

(j) Revenue

Cathedral's services are generally sold based upon service orders or contracts with customers that include fixed or determinable prices based upon daily, hourly or job rates. Revenue is recognized when there is persuasive evidence that an arrangement exists (usually when executed), the risks and rewards have been transferred to the buyer, the service has been provided, the rate is fixed, the associated costs can be estimated reliably, the collection of the amounts billed to the customer is considered probable and revenue can be measured reliably. Cathedral considers persuasive evidence to exist when a formal contract is signed or customer acceptance is obtained. Contract terms do not include a provision for significant post-service delivery obligations.

(k) Lease payments

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Determining whether an arrangement contains a lease

At inception of an arrangement, Cathedral determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfillment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to Cathedral the right to control the use of the underlying asset.

At inception or upon reassessment of the arrangement, Cathedral separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If Cathedral concludes for a finance lease that it is impracticable to separate the payments reliably, an asset and a liability are recognized at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognized using Cathedral's incremental borrowing rate.

(l) Finance income and costs

Finance costs comprise interest expense on borrowings, bank charges and other interest and foreign exchange gains or losses. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

(m) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(n) Earnings per share

Cathedral presents basic and diluted earnings per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for own shares held, for the effects of all dilutive potential common shares, which comprise share options granted to employees, directors and consultants.

3. Significant accounting policies (continued)

(o) Segment reporting

An operating segment is a component of Cathedral that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of Cathedral's other components. The Company and its wholly-owned subsidiaries are engaged in the business of providing selected oilfield services to oil and natural gas companies in western Canada, selected basins in the U.S. and Venezuela, and is viewed as a single operating segment by the chief operating decision maker of the Company for the purpose of resource allocation and assessing performance.

(p) New standards and interpretations not yet adopted

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory for accounting periods beginning after January 1, 2011. The Company has reviewed these and determined that the following may have an impact on the Company:

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

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

4. Determination of fair values

A number of Cathedral's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Property and equipment

The fair value of property and equipment recognized as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly. The fair value of items of property and equipment is based on the market approach and cost approaches using quoted market prices for similar items when available and replacement cost when appropriate.

(b) Intangible assets

The fair value of development costs is based on the discounted cash flows expected to be derived from the use of the assets.

(c) Inventories

Inventories consist of operating supplies and parts to be used in repairing equipment. The fair value of inventories is determined based on the net realizable value of these items.

(d) Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

(e) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

(f) Share-based payment transactions

The fair value of the employee share options is measured using the Black-Scholes option pricing model. Measurement inputs include the share price on measurement date, the exercise price of the instrument, the expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), the weighted average expected life of the instruments (based on historical experience and general option holder behavior), the expected dividends, forfeiture rate per annum and the risk-free interest rate (based on government bonds). Service and non-market performance conditions are not taken into account in determining fair value.

5. Cash and cash equivalents

All of the Company's amounts consist of bank balances. This balance does not include any term deposits and temporary investments or bank overdrafts. The Company's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities is disclosed in note 26.

6. Trade receivables

All of the Company's amounts are trade receivables. This balance does not include any related party amounts or other loans and receivables. All amounts are current assets. The Company's exposure to credit and currency risks, and impairment losses related to trade and other receivables is disclosed in note 26.

7. Inventories

All of the Company's inventories are composed of raw materials and consumables. There is no work in progress or finished goods inventories. For the year ended December 31, 2011 raw materials and consumables recognized as cost of sales amounted to $18,927 (2010 - $13,083).

8. Discontinued operations and assets held for sale

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

	December 31 2011	December 31 2010	January 1 2010
Inventory	$ -	$ -	$ 740
Property and equipment	-	3,344	15,239
Total	$ -	$ 3,344	$ 15,979

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

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

	Years ended December 31 2011	2010
Revenues	$ -	$ 2,403
Cost of sales	-	(3,070)
Gross margin	-	(667)
Selling, general and administrative expenses	-	(1,787)
Gain on disposal of property and equipment	448	(53)
Earnings from operating activities	448	(2,507)
Finance costs	-	(39)
Earnings before income tax	448	(2,546)
Income tax recovery (expense)	(119)	827
Net earnings (loss) from discontinued operations	$ 329	$ (1,719)
Net earnings (loss) from discontinued operations per share		
Basic and diluted	$ 0.01	$ (0.05)

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

	Years ended December 31 2011	2010
Net earnings (loss) from discontinued operations	$ 329	$ (1,719)
Items not involving cash:		
Depreciation	-	687
Gain on disposal of property and equipment	(448)	53
Share-based compensation	-	34
Income tax (recovery) expense	119	(827)
Finance costs		39
Cash flow from discontinued operations	$ -	$ (1,733)

9. Property and equipment

Cost	Balance January 1 2010	Additions	Disposals	Effects of movements in exchange rates	Balance December 31 2010
Directional drilling equipment	$ 84,421	$ 23,862	$ (4,030)	$ (416)	$ 103,837
Production testing equipment	21,865	13,911	-	(14)	35,762
Automotive equipment	1,279	264	(69)	(28)	1,446
Office and computer equipment	3,225	454	-	(75)	3,604
Buildings	8,674	1,372	-	(463)	9,583
Land	3,707	-	-	(192)	3,515
Automotive equipment under capital lease	2,379	773	(640)	(90)	2,422
Leasehold improvements	714	285	-	(12)	987
Total	$ 126,264	$ 40,921	$ (4,739)	$ (1,290)	$ 161,156

9. Property and equipment (continued)

Accumulated depreciation	Balance January 1 2010	Additions	Disposals	Effects of movements in exchange rates	Balance December 31 2010
Directional drilling equipment	$ 36,707	$ 6,713	$ (1,430)	$ (58)	$ 41,932
Production testing equipment	8,885	2,725	-	(2)	11,608
Automotive equipment	504	175	(36)	(17)	626
Office and computer equipment	1,790	480	-	(27)	2,243
Buildings	450	274	-	(28)	696
Land	-	-	-	-	-
Automotive equipment under capital lease	496	521	(110)	(23)	884
Leasehold improvements	468	154	-	(1)	621
Total	$ 49,300	$ 11,042	$ (1,576)	$ (156)	$ 58,610

Cost	Balance January 1 2011	Additions	Disposals	Effects of movements in exchange rates	Balance December 31 2011
Directional drilling equipment	$ 103,837	$ 24,922	$ (3,922)	$ 32	$ 124,869
Production testing equipment	35,762	11,501	(454)	40	46,849
Automotive equipment	1,446	325	-	26	1,797
Office and computer equipment	3,604	1,210	-	31	4,845
Buildings	9,583	6,246	-	18	15,847
Land	3,515	-	-	(2)	3,513
Automotive equipment under capital lease	2,422	550	(231)	58	2,799
Leasehold improvements	987	210	(386)	8	819
Total	$ 161,156	$ 44,964	$ (4,993)	$ 211	$ 201,338

Accumulated depreciation	Balance January 1 2011	Additions	Disposals	Effects of movements in exchange rates	Balance December 31 2011
Directional drilling equipment	$ 41,932	$ 8,648	$ (1,632)	$ 2	$ 48,950
Production testing equipment	11,608	4,573	(28)	4	16,157
Automotive equipment	626	243	-	14	883
Office and computer equipment	2,243	498	-	18	2,759
Buildings	696	162	-	12	870
Land	-	-	-	-	-
Automotive equipment under capital lease	884	493	(137)	89	1,329
Leasehold improvements	621	207	(386)	19	461
Total	$ 58,610	$ 14,824	$ (2,183)	$ 158	$ 71,409

Net book values	December 31 2011	December 31 2010	January 1 2010
Directional drilling equipment	$ 75,919	$ 61,905	$ 47,714
Production testing equipment	30,692	24,154	12,980
Automotive equipment	914	820	775
Office and computer equipment	2,086	1,361	1,435
Buildings	14,977	8,887	8,224
Land	3,513	3,515	3,707
Automotive equipment under capital lease	1,470	1,538	1,883
Leasehold improvements	358	366	246
Total	$ 129,929	$ 102,546	$ 76,964

Leased automotive equipment

The Company leases production equipment under a number of finance lease agreements. The leased equipment secures lease obligations (see note 14). During 2011, there were non-cash fixed asset additions of $550 (2010 - $773) related to finance lease arrangements. In addition, in 2010 there was a non-cash addition of $4,980 on a fixed asset swap with another company.

9. Property and equipment (continued)

Capitalized interest

The additions for building include $304 (2010 - $174) of capitalized interest.

Security

At December 31, 2011, land and buildings with a carrying amount of $18,490 (December 31, 2010 - $12,783; January 1, 2010 - $13,583) are subject to a registered debenture to secure bank loans (see note 14). The carrying amounts as at January 1 and December 31, 2010 include amounts classified as assets held for sale in addition to amounts classified as property and equipment.

10. Intangible assets and goodwill

The Company's intangible assets consist of development costs related to its drilling division. To date the Company has recorded no impairment losses on these assets.

	December 31 2011	December 31 2010	January 1 2010
Cost			
Balance at January 1	$ 2,557	$ 1,747	$ 1,747
Internally developed additions	-	810	-
Write-off fully amortized amounts	(22)		
Balance at end of period	$ 2,535	$ 2,557	$ 1,747
Accumulated amortization			
Balance at January 1	$ 2,170	$ 863	$ 863
Amortization for year	157	1,307	-
Write-off fully amortized amounts	(22)		
Balance at end of period	$ 2,305	$ 2,170	$ 863
Net carrying value at end of period	$ 230	$ 387	$ 884

Impairment testing for cash-generating units containing goodwill

For the purpose of impairment testing, goodwill is allocated to the Company's business units which represent the lowest level within the Company at which the goodwill is monitored for internal management purposes, which is not higher than the Company's operating segments.

The aggregate carrying amounts of goodwill allocated to each unit are as follows:

	December 31 2011	December 31 2010	January 1 2010
Drilling	$ 1,624	$ 1,624	$ 1,624
Production Testing	4,224	4,224	4,224
Total	$ 5,848	$ 5,848	$ 5,848

The recoverable amount of each cash-generating unit was based on its value in use. The carrying amount of the unit was determined to be lower than its recoverable amount and no impairment loss has been recognized.

Value in use was determined by discounting the future cash flows generated from the continuing use of the unit. Unless indicated otherwise, value in use in 2011 was determined similarly as in 2010. The calculation of the value in use was based on the following key assumptions.

- Cash flows were projected based on past experience, actual operating results and the current year business plan in both 2010 and 2011. Cash flows for a further 12.5 year (December 31, 2010 - 12.5 year; January 1, 2010 - 13.5 year) period were extrapolated using a constant growth rate of 2% (December 31, 2010 - 2%; January 1, 2010 - 2%), which does not exceed the long-term average growth rate for the industry.
- A pre-tax discount rate of 15.0% (December 31, 2010 - 15.7%; January 1, 2010 - 17.0%) was applied in determining the recoverable amount of the unit. The discount rate was estimated based on past experience, and industry average weighted average cost of capital, which was based on a possible range of debt leveraging of 20% at a market interest rate of 3.2%.

The values assigned to the key assumptions represent management's assessment of future trends in the service industry and are based on both external sources and internal sources (historical data).

11. Deferred tax assets and liabilities

Unrecognized deferred tax assets

At December 31, 2011 a deferred tax asset of $890 (December 31, 2010 - $726; January 1, 2010 - $1,109) for capital losses of $7,060 (December 31, 2010 - $5,784; January 1, 2010 - $8,786) has not been recognized in these financial statements. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilize the related benefits. These losses do not expire.

11. Deferred tax assets and liabilities (continued)

Recognized deferred tax assets and liabilities

Deferred tax assets are attributable to the following:

	December 31 2011	December 31 2010	January 1 2010
Property and equipment	$ (6,753)	$ (5,055)	$ (3,020)
Intangible assets	242	226	200
Investment tax credits	5,007	4,892	5,043
Non-capital loss carryforwards	3,891	9,706	11,120
Scientific research and development expenditures	9,466	9,432	10,368
Other	98	298	584
Total	$ 11,951	$ 19,499	$ 24,295

Deferred tax liabilities are attributable to the following:

	December 31 2011	December 31 2010	January 1 2010
Property and equipment	$ (1,209)	$ (170)	$ (631)

Movement in temporary differences during the year

	Balance January 1 2010	Recognized in profit	Balance December 31 2010	Recognized in profit	Balance December 31 2011
Property and equipment	$ (3,651)	$ (1,574)	$ (5,225)	$ (2,737)	$ (7,962)
Intangible assets	200	26	226	16	242
Investment tax credits	5,043	(151)	4,892	115	5,007
Non-capital loss carryforwards	11,120	(1,414)	9,706	(5,815)	3,891
Scientific research and development expenditures	10,368	(936)	9,432	34	9,466
Other	584	(286)	298	(200)	98
Total	$ 23,664	$ (4,335)	$ 19,329	$ (8,587)	$ 10,742

12. Operating loans

	December 31 2011	December 31 2010	January 1 2010
Canadian dollar operating loan	$ 5,605	$ 2,515	$ 1,300
U.S. dollar operating loan	7,192	6,250	881
Total	$ 12,797	$ 8,765	$ 2,181

The Company has a $20,000 demand operating line of credit with a major Canadian bank that bears interest, at the Company's option, at the bank's prime rate plus 0.50 % to 2.00% or bankers' acceptance rate plus 1.75% to 3.25% with interest payable monthly and is secured as described in note 14. 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). As the loans are due on demand and bear interest based on the prime or bankers' acceptance rate, the carrying value of the loans equals their face value. The Company's exposure to currency and liquidity risk related to operating loans is disclosed in note 26.

13. Trade and other payables

	December 31 2011	December 31 2010	January 1 2010
Trade payables	$ 15,696	$ 11,782	$ 8,294
Accrued payables	12,350	9,527	5,392
Total	$ 28,046	$ 21,309	$ 13,686

The Company's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 26.

14. Loans and borrowings

	December 31 2011	December 31 2010	January 1 2010
Current liabilities:			
Current portion of finance lease liabilities	$ 798	$ 647	$ 493
Current portion of conditional sales contracts	5	27	208
Total	$ 803	$ 674	$ 701
Non-current liabilities:			
Finance lease liabilities	$ 694	$ 933	$ 1,422
Secured conditional sales contracts	-	2	26
Secured revolving term loan	50,000	34,500	39,500
Total	$ 50,694	$ 35,435	$ 40,948

In the period, an additional $15,500 was advanced on the Company's secured revolving term loan to finance property and equipment additions.

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 (January 1, 2010 and December 31, 2010 - $45,000), 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 28, 2012 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; and
- Non-interest bearing conditional sales contracts are secured by the related automotive equipment with various maturity dates up to 2012.

Due to the short-term nature of all the liabilities, the carrying value equals the face value for all amounts.

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.

Finance lease liabilities

Finance lease liabilities bear interest at rates between 4.4% and 8.5% with maturities from 2012 to 2015 and are payable as follows:

	December 31, 2011			December 31, 2010		
	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payments	Interest	Present value of minimum lease payments
Less than one year	$ 576	$ (15)	$ 561	$ 731	$ (84)	$ 647
Between one and four years	1,025	(94)	931	988	(55)	933
Total	$ 1,601	$ (109)	$ 1,492	$ 1,719	$ (139)	$ 1,580

15. Share capital

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

Common shares issued:

	Year ended December 31, 2011		Year ended December 31, 2010	
	Number	Amount	Number	Amount
Issued, beginning of year	36,739,070	$ 70,753	36,400,061	$ 68,995
Issued on exercise of options	565,914	2,744	339,009	1,312
Contributed surplus on options exercised		711		446
Issued, end of year	37,304,984	$ 74,208	36,739,070	$ 70,753

Issuance of common shares

565,914 common shares were issued as a result of the exercise of vested options arising from the 2009 to 2011 grants to employees and consultants. Options were exercised at an average strike price of $4.85 per option. All issued shares are fully paid.

Dividends

Cathedral declared a total of $8,916 in 2011 (2010 - $8,761) or $0.24 per share (2010 - $0.24 per share.) After the reporting date the directors approved a dividend of $0.075 per share with a record date of March 31, 2012 and payable April 16, 2012.

15. Share capital (continued)

Issuance of share options

The Company's share based compensation plan is a "rolling number" type option plan which provides that the number of authorized but unissued common shares that may be subject to options granted under the share option plan at anytime can be up to 10% of the number of common shares outstanding from time to time.

Under the plan, the exercise price of each option at the date of issuance equals the fair market value of the Company's common shares on the day immediately prior to the grant, and has a maximum term till expiry of ten years. Options vest over a period of three years from the date of grant as employees, directors or consultants render continuous service to the Company.

A summary of the status of the Company's equity based compensation plan as at December 31, 2011 and 2010, and changes during the years then ended is presented below:

	2011		2010	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding, beginning of year	3,024,526	$ 5.03	1,741,736	$ 3.67
Granted	575,700	9.68	1,887,400	5.80
Exercised	(565,914)	4.85	(339,009)	3.87
Expired	(4,202)	3.81	-	-
Forfeited	(85,466)	6.44	(265,601)	4.21
Outstanding, end of year	2,944,644	$ 5.93	3,024,526	$ 5.03
Exercisable, end of year	787,434	$ 4.62	256,146	$ 3.76

The range of exercise prices for the options outstanding at December 31, 2011 is as follows:

	Total outstanding options			Exerciseable	
Exercise price range	Number	Weighted average exercise price	Weighted average remaining life (in years)	Number	Weighted average exercise price
$3.35 to $3.68	37,000	$ 3.60	3.61	17,000	$ 3.62
$3.81	842,274	3.81	1.83	450,635	3.81
$4.96 to $6.01	1,514,069	5.82	2.11	315,799	5.80
$6.02 to $10.51	551,300	9.63	3.31	4,000	6.74
$3.35 to $10.51 total	2,944,643	$ 5.93	2.28	787,434	$ 4.62

During the year ended December 31, 2011, the Company has recorded share-based compensation expense of $1,781 (2010 - $2,655) related to the share option plan and $40 (2010 - $nil) of other share-based compensation.

During the year ended December 31, 2011, the Company granted 575,700 share options. The following table sets out the assumptions used in applying the Black-Scholes model for the options issued as well as the resulting fair value:

	2011 Q4	2011 Q3	2011 Q2	2011 Q1
Number of options issued	81,700	36,000	60,000	398,000
Exercise price	$ 6.98	$ 8.34	$ 8.66	$ 10.51
Fair value per option (weighted average)	$ 1.61	$ 2.15	$ 2.35	$ 3.06
Expected annual dividend per share	$ 0.24	$ 0.24	$ 0.24	$ 0.24
Risk-free interest rate (weighted average)	1.2%	1.7%	1.9%	1.9%
Expected share price volatility (weighted average)	43.6%	46.1%	48.3%	50.7%
Forfeiture rate per annum	10.0%	10.0%	10.0%	10.0%

16. Earnings per share

Basic earnings per share

The calculation of basic earnings per share at December 31, 2011 was based on the profit attributable to common shareholders of $27,634 (2010 - $16,327) and a weighted average number of common shares outstanding of 37,062,352 (2010 – 36,453,458), calculated as follows:

Weighted average number of ordinary shares

	December 31 2011	December 31 2010
Issued January 1	36,739,070	36,400,061
Effect of share options exercised	323,282	53,397
Weighted average number of common shares at end of year	37,062,352	36,453,458

Diluted earnings per share

The calculation of diluted earnings per share at December 31, 2011 was based on profit attributable to common shareholders of $27,634 (2010 - $16,327) and a weighted average number of common shares outstanding after adjustment for the effects of all dilutive potential common shares of 38,047,278 (2010 - 37,170,376), calculated as follows:

Weighted average number of common shares (diluted)

	December 31 2011	December 31 2010
Weighted average number of common shares (basic)	37,062,352	36,453,458
Effect of share options on issue (note 16)	984,926	716,918
Weighted average number of common shares (diluted) at end of year	38,047,278	37,170,376

At December 31, 2011, 539,300 options (2010 - nil) 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.

17. Nature of expenses

The nature of expenses can be specified as follows:

	Cost of sales	Selling, general and administrative	Total
Year ended December 31, 2011			
Depreciation	$ (14,884)	$ (174)	$ (15,058)
Share-based compensation	(381)	(1,440)	(1,821)
Staffing costs, excluding share-based compensation	(88,596)	(14,125)	(102,721)
Other expenses	(60,093)	(5,599)	(65,692)
Total	$ (163,954)	$ (21,338)	$ (185,292)
Year ended December 31, 2010			
Depreciation	$ (11,215)	$ (314)	$ (11,529)
Share-based compensation	(350)	(2,305)	(2,655)
Staffing costs, excluding share-based compensation	(60,565)	(11,255)	(71,820)
Other expenses	(38,953)	(5,374)	(44,327)
Total	$ (111,083)	$ (19,248)	$ (130,331)

18. Foreign exchange gain (loss) and finance costs

	Year ended December 31 2011	2010
Foreign exchange gain (loss):		
Realized foreign exchange gain (loss)	$ (577)	$ 485
Unrealized foreign exchange gain due to hyper-inflation accounting	-	510
Unrealized foreign exchange gain on intercompany balances	221	730
Foreign exchange gain (loss)	$ (356)	$ 1,725
Finance costs		
Interest on revolving term loan	$ (1,082)	$ (1,082)
Interest on bank indebtedness	(608)	(523)
Interest on finance lease liabilities	(96)	(98)
Other interest	(91)	(51)
Finance costs	$ (1,877)	$ (1,754)

19. Income tax expense

The income taxes are based upon the estimated annual effective rates of 27% (2010 – 28%) for Canadian entities and 38% (2010 – 36%) for U.S. entities. The income tax expense for the period is comprised as follows:

	Year ended December 31	
	2011	2010
Current tax (expense) recovery:		
Current period	$ (1,817)	$ (1,452)
Adjustment to prior period provisions	455	(50)
Total current tax expense	(1,362)	(1,502)
Deferred tax expense:		
Origination and reversal of temporary differences	(8,001)	(5,938)
Adjustment to prior period provisions	(434)	-
Total deferred tax expense	(8,435)	(5,938)
Income tax expense	$ (9,797)	$ (7,440)

Income tax expense for 2011 and 2010 differs from the amount that would be expected by applying the expected statutory income tax rates for the following reasons:

	Year ended December 31	
	2011	2010
Effective tax rate	26.7%	28.1%
Earnings from continuing operations before income tax	$ 37,102	$ 25,486
Effective tax rate applied to earnings from continuing operations before income tax	$ (9,906)	$ (7,162)
Adjustment to deferred taxes for change in effective tax rates	(111)	131
Income taxed in jurisdictions w ith different tax rates	(1,062)	(668)
Non-deductible expenses	(557)	(646)
Recognition of previously unrecognized tax losses	388	422
Non-taxable portion of gain on disposal of property and equipment	426	328
Change in unrecognized temporary differences	987	146
Other	38	9
Total tax expense	(9,797)	(7,440)

20. Changes in non-cash working capital

The components of changes in non-cash working capital are as follows:

	Year ended December 31	
	2011	2010
Trade receivables	$ (27,774)	$ (10,067)
Inventories	(5,081)	(263)
Prepaid expenses	(52)	66
Trade and other payables	6,737	7,622
Impact of foreign exchange rate differences and other	680	(651)
Total changes in non-cash w orking capital	(25,490)	(3,293)
Changes in investing non-cash w orking capital	(3,633)	3,438
Changes in operating non-cash w orking captial	$ (21,857)	$ (6,731)

21. Operating segments

The Company and its wholly-owned subsidiaries are engaged in the business of providing selected oilfield services to oil and natural gas companies in western Canada, selected basins in the U.S. and Venezuela, and is viewed as a single operating segment by the chief operating decision maker of the Company for the purpose of resource allocation and assessing performance.

Oilfield services are currently being provided in both Canada and the U.S. and are expected to occur in Venezuela in 2012. The amounts related to each geographic segment are as follows:

Service information

The Company provides the following services:

Revenues	December 31 2011	December 31 2010
Directional drilling	$ 164,126	$ 118,527
Production testing	56,237	34,558
Total revenues	$ 220,363	$ 153,085

Geographical information

The Company conducts operations in the following geographic areas:

	Revenues		Non-current assets	
	Year ended December 31, 2011	Year ended December 31, 2010	December 31, 2011	December 31, 2010
Canada	$ 143,199	$ 95,158	$ 139,046	$ 120,677
United States	77,164	57,927	4,513	2,855
International	-	-	4,399	4,748
Total	$ 220,363	$ 153,085	$ 147,958	$ 128,280

Major customer

Revenues from one customer of the Company represents approximately 15% (2010 - 22%) of the Company's total revenues.

22. Seasonality of operations

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

23. 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, 2011. As at December 31, 2011, the Company's commitment to purchase property and equipment is approximately $3,808. Cathedral anticipates expending these funds in 2012 Q1 and Q2.

24. Operating leases

Leases as lessee

The Company leases a number of offices, warehouse and factory facilities under operating leases. The leases typically run for a period of six to ten years, with an option to renew the lease after that date. Lease payments are often increased every five years to reflect market rentals. Some leases provide for additional rent payments that are based on changes in a local price index.

Certain vehicle leases have been renewed on a month to month term at the expiration of the finance type lease. These leases have been classified as operating leases.

During the year ended December 31, 2011 an amount of $2,048 was recognized as an expense in profit or loss in respect of operating leases (2010 - $2,159).

25. Related parties

Key management personnel compensation

Cathedral has determined that the key management personnel of the Company consist of its executive officers and directors.

In addition to their salaries and director's fees, the Company also provides non-cash benefits to directors and executive officers including participation in the Company's share option program (see note 15).

Certain executive officers have employment agreements. Upon resignation at the Company's request, they are entitled to termination benefits including: i) 2 times base salary; ii) 2 times average annual bonus over the past 3 years; and iii) health, dental, life insurance and disability coverage for 24 months.

25. Related parties (continued)

Key management personnel (including directors) compensation comprised:

	Year ended December 31	
	2011	2010
Short-term employment benefits	$ 3,204	$ 3,422
Share-based compensation	778	1,495
Total expense recognized as share-based compensation	$ 3,982	$ 4,917

Key management personnel and director transactions

Directors and executive officers of the Company control 5.9% of the common shares of the Company.

A director of the Company is a partner in a law firm and, through that law firm, is involved in providing and managing the legal services provided to the Company at market rates. The total amount paid for these legal services in 2011 was $242 (2010 - $185).

There have been no other transactions over the reporting period with key management personnel (2010 - nil), and no outstanding balances exist as at period end (2010 - nil).

26. Financial risk management and financial instruments

Overview

The Company has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers.

Trade and other receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Company's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk. Approximately 15% (2010 - 22%) of the Company's revenue is attributable to sales transactions with a single customer.

The Company has established a credit policy under which each new customer is analyzed individually for creditworthiness before the Company's standard payment and delivery terms and conditions are offered. The Company's review includes external ratings, when available. Customers that fail to meet the Company's benchmark creditworthiness generally are restricted to services on a prepayment basis only.

In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or legal entity, geographic location, industry, aging profile, maturity and existence of previous financial difficulties. Customers that are considered as "high risk" are closely monitored, and future sales may be made on a prepayment basis.

The Company does not require collateral in respect of trade and other receivables.

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was.

Carrying amount

	December 31 2011	December 31 2010	January 1 2010
Trade receivables	$ 65,568	$ 37,794	$ 27,727

26. Financial risk management and financial instruments (continued)

The maximum exposure to credit risk for trade and other receivables at the reporting date by geographic region was:

Carrying amount

	December 31 2011	December 31 2010	January 1 2010
Canada	$ 44,367	$ 25,442	$ 19,458
United States	21,201	12,352	8,269
Total	$ 65,568	$ 37,794	$ 27,727

The Company's most significant customer accounts for $6,587 of the trade receivables carrying amount at December 31, 2011 (December 31, 2010 - $4,594; January 1, 2010 - $4,576).

Impairment losses

The aging of trade and other receivables at the reporting date was:

	December 31, 2011		December 31, 2010		January 1, 2010	
	Gross	Impairment	Gross	Impairment	Gross	Impairment
Not past due	$ 50,731	$ -	$ 31,560	$ -	$ 22,226	$ -
Past due 61-90 days	10,840	-	3,930	-	2,634	-
Past due over 91 days	4,149	(152)	2,410	(106)	3,393	(526)
Total	$ 65,720	$ (152)	$ 37,900	$ (106)	$ 28,253	$ (526)

The movement in the allowance for impairment in respect of trade and other receivables during the year was as follows:

	December 31 2011	December 31 2010
Balance, beginning of year	$ 106	$ 526
Impairment loss recognized	107	-
Allow ance released	(61)	(420)
Effect of movement in exchange rates	-	-
Balance, end of year	$ 152	$ 106

At December 31, 2011 an impairment loss of $152 was recognized relating to several customers that have indicated that they are not expecting to be able to pay their outstanding balances, mainly due to economic circumstances. The Company believes that the unimpaired amounts that are past due are still collectible, based on historic payment behavior and an analysis of the underlying customers' ability to pay.

Based on historic default rates, the Company believes that, apart from the above, no impairment allowance is necessary in respect of trade receivables not past due.

Impairment losses

The allowance accounts in respect of trade and other receivables are used to record impairment losses unless the Company is satisfied that no recovery of the amount owing is possible; at that point the amounts are considered irrecoverable and are written off against the financial asset directly.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements based upon the secured revolving term loan being renewed on the same terms and not converted to a non-revolving term loan.

December 31, 2011	Carrying amount	Contractual cash flow	Under 6 months	6-12 months	1-2 years	2-5 years
Demand bank loans	$ 12,797	$ 12,797	$ 12,797	$ -	$ -	$ -
Secured revolving term loan	50,000	50,000	-	-	-	50,000
Non-interest bearing loans	5	5	5	-	-	-
Finace lease liabilities	1,492	1,492	463	396	212	530
Trade and other payables	28,046	28,046	28,046			
Dividends payable	2,238	2,238	2,238			
	$ 94,578	$ 94,578	$ 43,549	$ 396	$ 212	$ 50,530

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

26. Financial risk management and financial instruments (continued)

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

Currency risk

The Company is exposed to currency risk on working capital and borrowings that are denominated in a currency other than the respective functional currencies of Company entities, primarily the Canadian dollar ("CAD"), but also U.S. dollars ("USD"). The currencies in which these transactions primarily are denominated are CAD and USD. In addition, the Company is exposed to fluctuations in CAD versus Venezuelan bolivars ("VEB") foreign currency exchange rate fluctuations related to funds on deposit in Venezuela.

Generally, borrowings are denominated in currencies that match the cash flows generated by the underlying operations of the Company, primarily dollar. This provides a partial economic hedge without derivatives being entered into and therefore hedge accounting is not applied in these circumstances.

Cathedral's foreign currency policy is to monitor foreign current risk exposure in its areas of operations and mitigate that risk where possible by matching foreign currency denominated expense with revenues denominated in foreign currencies. Cathedral strives to maintain limited amounts of cash and cash equivalents denominated in foreign currency on hand and attempts to further limit its exposure to foreign currency through collecting and paying foreign currency denominated balance in a timely fashion.

The Company's exposure to foreign currency risk related to USD denominated balances as follows:

USD	December 31 2011	December 31 2010	January 1 2010
Cash	$ 3,247	$ 2,255	$ 306
Trade receivables	20,847	12,419	7,901
Demand bank loan	(7,002)	(6,284)	(842)
Trade payables	(7,641)	(6,002)	(3,735)
Finance lease liabilities	(1,122)	(1,035)	(1,187)
Total	$ 8,329	$ 1,353	$ 2,443

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate		
	2011	2010	December 31, 2011	December 31, 2010	January 1, 2010
USD 1 to CAD	$ 0.99	$ 1.03	$ 1.02	$ 0.99	$ 1.05

The Company's exposure to foreign currency risk related to VEB denominated balances as follows:

VEB	December 31 2011	December 31 2010	January 1 2010
Cash	$ 428	$ 116	$ 492
Trade receivables	1,142	1,112	1,135
Demand loan	(300)	-	-
Total	$ 1,270	$ 1,228	$ 1,627

The following significant exchange rates applied during the year:

	Average rate		Reporting date spot rate		
	2011	2010	December 31, 2011	December 31, 2010	January 1, 2010
VEB 1 to CAD	$ 0.23	$ 0.25	$ 0.24	$ 0.23	$ 0.49

Sensitivity analysis

A 10% strengthening of the CAD against USD at December 31 would decrease equity and other comprehensive income by $770 (2010 - $122). The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2010, albeit that the reasonably possible foreign exchange rate variances were different.

A weakening of the CAD at December 31 would have had the equal but opposite effect on USD amounts, on the basis that all other variables remain constant.

A 10% strengthening of the CAD against VEB at December 31 would decrease equity and other comprehensive income by the $27 (2010 - $26). The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2010, albeit that the reasonably possible foreign exchange rate variances were different.

A weakening of the CAD at December 31 would have had the equal but opposite effect on VEB amounts, on the basis that all other variables remain constant.

26. Financial risk management and financial instruments (continued)

Interest rate risk

At the reporting date the interest rate profile of the Company's interest-bearing financial instruments was:

	December 31, 2011		December 31, 2010	
	Fixed rate carrying value	Variable rate carrying value	Fixed rate carrying value	Variable rate carrying value
Financial liabilities	$ 1,497	$ 62,797	$ 1,609	$ 55,809

Cash flow sensitivity analysis for variable rate instruments

A 1% increase in the Company's bank's lending rate would cause interest expense to increase by approximately $628 (2010 - $558) per annum based upon the balance of bank indebtedness and long-term debt with a floating interest rate outstanding as at December 31.

Fair values

Fair values versus carrying amounts

The fair values of financial assets and liabilities are equal to the carrying values on the statement of financial position.

The basis for determining fair values is disclosed in note 4.

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Management and the Board of Directors monitor capital using loans and borrowings, including current portion to total capitalization and funded debt [(1)] to EBITDAS [(2)].

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

The Company's loans and borrowings to total capitalization and EBITDAS [(2)] ratios at the end of the reporting period were as follows:

	2011	2010
Loans and borrowings, including current portion	$ 51,497	$ 36,109
Shareholders' equity	$ 136,107	$ 112,191
Less Accumulated other comprehensive loss	2,141	2,814
Shareholders's equity excluding AOCL	138,248	115,005
Loans and borrowings, including current portion	51,497	36,109
Total capitalization	$ 189,745	$ 151,114
Loans and borrowings, including current portion to total capitalization	0.27	0.24
Loans and borrowings, including current portion	$ 51,497	$ 36,109
Operating loans	12,797	8,765
Funded debt	$ 64,294	$ 44,874
Earnings from continuing operations before income taxes	$ 37,102	$ 25,486
Add (deduct):		
Depreciation included in cost of sales	14,884	11,215
Depreciation included in selling, general and administrative expenses	174	314
Share-based compensation included in cost of sales	381	350
Share-based compenstaion included in selling, general and administrative expenses	1,440	2,305
Unrealized foreign exchange gain on intercompany balances	(221)	(730)
Unrealized foreign exchange gain due to hyper-inflation accounting	-	(510)
Finance costs	1,877	1,754
EBITDAS from continuing operations	55,637	40,184
EBITDAS from discontinued operations	448	(1,786)
EBITDAS	$ 56,085	$ 38,398
Funded debt to EBITDAS	1.15	1.17

There were no changes in the Company's approach to capital management during the year.

(!) Funded debt is not a defined measure under IFRS. Funded debt is a key term within Cathedral's credit agreement and accordingly management closely monitors funded debt levels. Cathedral's method of calculating funded debt may differ from other entities and accordingly, funded debt may not be comparable to measures used by other entities.

(2) EBITDAS (Earnings before finance costs, taxes, depreciation, amortization, unrealized foreign exchange and share-based compensation) is a measurement in addition to net earnings that management considers in reviewing operating results, EBITDAS is a useful 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. It is regularly provided to and reviewed by management. Cathedral's method of calculation of EBITDAS may differ from other entities and accordingly, EBITDAS may not be comparable to measures used by other entities.

27. Subsidiaries and equity investments

Subsidiaries

	Country of incorporation	Ownership interest
Cathedral Energy Services Inc.	United States	100%
Directional Plus International Ltd.	Barbados	100%
Directional Plus de Venezuela, C.A.	Venezuela	100%

There has been no change in ownership of any subsidiaries in the periods reported on in these financial statements.

Equity accounted investments

	Country of incorporation	Ownership interest
Vencana Servicios Petroleros, S.A.	Venezuela	40%

Vencana Servicios Petroleros, S.A. was incorporated on March 1, 2011.

28. Subsequent event

On February 9, 2012, Cathedral and its joint venture partner, 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 executed an Asset Transfer and Credit Capitalization Agreement (the "Agreement") which provides for:

1) the sale by Cathedral's subsidiaries to a joint venture company, Vencana Servicios Petroleros, S.A. (“Vencana”) of which Cathedral owns 40%, certain existing assets located in Maturin, Venezuela including land and building associated with an operations facility, mud motors, drill collars, office and shop equipment and inventory;

2) adding additional equipment to increase directional drilling job capability from 4 concurrent jobs to 10; and

3) the future expansion into other product lines including production testing and wireline services.

As part of the sale of assets to Vencana, Cathedral is to receive 60% of the proceeds in cash from its joint venture partner and the remaining 40% will be Cathedral's contribution to the joint venture. The Agreement includes various payment milestones for PDVSA's subsidiary. Delays in payment by PDVSA's subsidiary will result in a deferral of the underlying intentions of the Agreement.

29. Explanation of transition to IFRS

As stated in note 2(a), these are Cathedral’s first consolidated financial statements prepared in accordance with IFRS.

The accounting policies set out in note 3 will be applied in preparing the financial statements for the year ended December 31, 2011, the comparative information presented in these financial statements for the year ended December 31, 2010 and in the preparation of an opening IFRS statement of financial position at January 1, 2010 (Cathedral’s date of transition).

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

29. Explanation of transition to IFRS (continued)

Reconciliation of statement of financial position

	January 1, 2010			December 31, 2010		
In thousands of dollars	Previous Canadian GAAP	Effect of transition to IFRS	IFRS	Previous Canadian GAAP	Effect of transition to IFRS	IFRS
Assets						
Current assets:						
Cash and cash equivalents	$ 491	$ -	$ 491	$ 1,740	$ -	$ 1,740
Trade receivables	27,727	-	27,727	37,794	-	37,794
Current tax assets	2,550	-	2,550	-	-	-
Prepaid expenses (note c)	1,629	22	1,651	1,958	22	1,980
Inventories (note c)	5,389	(74)	5,315	7,648	15	7,663
Assets held for sale (note c)	740	15,120	15,860	1,754	1,590	3,344
Total current assets	38,526	15,068	53,594	50,894	1,627	52,521
Property and equipment (note c)	77,425	(461)	76,964	104,217	(1,671)	102,546
Assets held for sale (note c)	14,027	(14,027)	-	1,457	(1,457)	-
Intangible assets (notes a & c)	293	591	884	-	387	387
Deferred tax assets (note d)	23,491	804	24,295	19,044	455	19,499
Goodw ill (note a)	19,775	(13,927)	5,848	18,448	(12,600)	5,848
Total non-current assets	135,011	(27,020)	107,991	143,166	(14,886)	128,280
Total assets	$ 173,537	$ (11,952)	$ 161,585	$ 194,060	$ (13,259)	$ 180,801
Liabilities and Shareholders' Equity						
Current liabilities:						
Bank indebtedness	$ 2,181	$ -	$ 2,181	$ 8,765	$ -	$ 8,765
Trade and other payables	13,686	-	13,686	21,309	-	21,309
Dividends payable	-	-	-	2,204	-	2,204
Loans and borrow ings (note c)	208	493	701	27	647	674
Current taxes payable	-	-	-	53	-	53
Total current assets	16,075	493	16,568	32,358	647	33,005
Loans and borrow ings (note c)	39,526	1,422	40,948	34,502	933	35,435
Deferred credit (note b)	20,514	(20,514)	-	18,085	(18,085)	-
Deferred tax liabilities (note d)	-	631	631	-	170	170
Total non-current liabilities	60,040	(18,461)	41,579	52,587	(16,982)	35,605
Shareholders' equity:						
Share capital	68,995	-	68,995	70,753	-	70,753
Contributed surplus (note e)	4,390	142	4,532	6,533	242	6,775
Accumulated other comprehensive loss (note f)	(1,967)	1,967	-	(3,430)	616	(2,814)
Retained earnings (note g)	26,004	3,907	29,911	35,259	2,218	37,477
Total shareholders' equity	97,422	6,016	103,438	109,115	3,076	112,191
Total liabilities and shareholders' equity	$ 173,537	$ (11,952)	$ 161,585	$ 194,060	$ (13,259)	$ 180,801

29. Explanation of transition to IFRS (continued)

Reconciliation of comprehensive income for the year ended December 31, 2010

	Canadian GAAP	IFRS Reclassifications	IFRS adjustments	IFRS
Revenue (note h)	$ 141,396	$ 11,688	$ -	$ 153,084
Cost of sales (note h)	(74,585)	(35,514)	(984)	(111,083)
Gross margin	66,811	(23,826)	(984)	42,001
Selling, general and administrative (note h)	(30,471)	10,661	562	(19,248)
Depreciation (note h)	(10,626)	10,626	-	-
Share-based compensation (note h)	(2,589)	2,589	-	-
	23,125	50	(422)	22,753
Gain on disposal of property and equipment (note c)	2,760	-	1	2,761
Results from operating activities	25,885	50	(421)	25,514
Interest - long-term debt (note h)	(1,256)	1,256	-	-
Interest - other (note h)	(523)	523	-	-
Foreign exchange gain (note h)	1,309	-	418	1,727
Finance costs (notes c & h)	-	(1,829)	74	(1,755)
Earnings from continuing operations before income taxes	25,415	-	71	25,486
Income tax expense (note d)	(4,886)	-	(2,554)	(7,440)
Net earnings from continuing operations	20,529	-	(2,483)	18,046
Net earnings from discontinued operations (note i)	(2,514)	-	795	(1,719)
Net earnings	18,015	-	(1,688)	16,327
Other comprehensive income:				
Foreign currency translation differences for foreign operations (note c0	(1,463)	-	(1,351)	(2,814)
Total comprehensive income for the period	$ 16,552	$ -	$ (3,039)	$ 13,513
Net earnings from continuing operations per share				
Basic	$ 0.56	$ -	$ (0.07)	$ 0.50
Diluted	$ 0.56	$ -	$ (0.07)	$ 0.49
Net earnings from discontinued operations				
Basic and diluted	$ (0.07)	$ -	$ 0.02	$ (0.05)
Net earnings for the period per share				
Basic	$ 0.49	$ -	$ (0.05)	$ 0.45
Diluted	$ 0.49	$ -	$ (0.05)	$ 0.44

Notes to the reconciliation:

(a) Goodwill and intangibles

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

Under IFRS, management determined that the recoverable amount of goodwill and intangibles of the wireline CGU was $nil. As a result, the carrying amount of goodwill was written down $13,927 at January 1, 2010 and $12,600 at December 31, 2010 and intangibles were written down $293 at January 1, 2010 and December 31, 2010. Under previous CGAAP, the intangibles were written down $293 in 2010 Q1.

(b) Deferred Credit

Under previous CGAAP, Cathedral had recorded a deferred credit related to the 2009 reorganization (refer to note 1 of the 2009 previous CGAAP annual financial statements). The deferred credit was the result of future tax assets recorded in excess of consideration paid to obtain future tax assets. However, based on the IASB “Framework for the Preparation and Presentation of Financial Statements”, this deferred credit does not have the characteristics of a liability and as such, has been de-recognized. The result of this is to decrease the deferred credit and increase retained earnings by $20,514 at January 1, 2010 and $18,085 at December 31, 2010.

29. Explanation of transition to IFRS (continued)

(c) Property and equipment

(i) Capitalization of automotive leases

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

The effect of this change in classification on the statement of financial position is as follows:

- increase property and equipment by $1,877 at January 1, 2010 and $1,538 at December 31, 2010;
- increase prepaid expenses by $22 at January 1, 2010 and $22 at December 31, 2010;
- increase in loans and borrowings (current and long-term) by $1,915 at January 1, 2010 and $1,580 at December 31, 2010; and
- a net decrease of $16 in retained earnings at January 1, 2010 related to net effect of increased interest expenses, increased depreciation charges on the finance leases, and to reverse the lease expense booked on the operating leases under previous CGAAP.

Cathedral has elected under IFRS 1 not to reassess whether an arrangement contains a lease under IFRIC 4 for contracts that were assessed under previous CGAAP. Arrangements entered into before the effective date of EIC 150 that have not subsequently been assessed under EIC 150, were assessed under IFRIC 4, and no additional leases were identified.

(ii) Change in method of foreign subsidiary accounting

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

The effect of this change in classification on the statement of financial position is as follows:

- increase (decrease) inventories by $(74) at January 1, 2010 and $15 at December 31, 2010;
- decrease property and equipment by $900 at January 1, 2010 and $1,900 at December 31,2010;
- decreased accumulated other comprehensive income by $nil at January 1, 2010 and $1,309 at December 31,2010; and
- decrease retained earnings by $974 at January 1, 2010 and $558 at December 31, 2010.

(iii) IFRS 1 election fair value as deemed cost

In accordance with IFRS 1, Cathedral has elected to use the fair value of its wireline units as the deemed cost as at January 1, 2010. As such assets held for sale and retained earnings have increased by $1,218 at January 1, 2010 and $153 at December 31, 2010.

(iv) Reclassification of development costs to intangibles

Under previous CGAAP, certain development costs had been classified as property and equipment. Under IFRS, development costs have been reclassified to decrease property and equipment and to increase intangible assets by $884 at January 1, 2010 and $387 at December 31, 2010.

(v) Increased depreciation on assets temporarily removed from service

Under previous CGAAP, certain assets were classified as temporarily removed from service and no depreciation was charged for these assets. This treatment is not allowed under IFRS. As such, property and equipment and retained earnings have been reduced by $679 at January 1, 2010 and $1,116 at December 31, 2010 for the additional depreciation.

(vi) Capitalized borrowing costs

Under IFRS, borrowing costs related to Cathedral's development of its new Calgary office must be capitalized. No amounts were capitalized prior to April 1, 2010 when the development was commenced. As such, $174 of borrowing costs were capitalized and reduced financings costs at December 31, 2010.

(vii) Classification of Assets held for sale

Under IFRS, assets held for sale are classified as current assets. As a result the previous CGAAP balance classified as non-current of $14,027 at January 1, 2010 and $1,457 at December 31, 2010 have been reclassified as current assets.

(d) Deferred taxes

As a result of the preceding changes in the accounting value of capital assets, the Company's net deferred tax asset was increased by $173 at January 1, 2010 and $296 at December 31, 2010.

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

	January 1, 2010	December 31, 2010
Capitalization of automotive leases	$ 11	$ 22
Write-off of goodwill	380	245
IFRS 1 election fair value as deemed cost	(405)	(23)
Write-off of intangibles	73	-
Increased depreciation on assets temporarily removed from service	114	96
Capitalized borrowing costs	-	(44)
Adjustment to quarterly provision	-	-
Total change	$ 173	$ 296

The other adjustments had no tax impact.

29. Explanation of transition to IFRS (continued)

(d) Deferred taxes (continued)

Under IFRS, there are additional restrictions on netting deferred taxes assets against deferred tax liabilities. Cathedral's deferred tax liability, which had been presented on a net basis are now presented separately. The effect is to increase assets and liabilities by $631 at January 1, 2010 and $170 at December 31, 2010.

(e) Share-based payments

Cathedral granted share-based payments to certain employees. Cathedral accounted for these share-based payment arrangements on a straight-line basis for each grant under previous CGAAP. Under IFRS the related expense has been adjusted to reflect the accounting for each tranche separately taking into account estimated forfeiture rates. As a result of this change, contributed surplus has increased and retained earnings has decreased by $142 at January 1, 2010 and $242 at December 31, 2010.

(f) Accumulated other comprehensive income

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

In addition, as discussed in note c) ii) the accounting for the Company's subsidiaries DPI and DPV has changed. As a result of this change the Company's accumulated other comprehensive income was decreased by $1,351 at December 31, 2010.

(g) Retained earnings

The preceding changes increased (decreased) retained earnings and accumulated other comprehensive income as follows:

Retained earnings	January 1, 2010	December 31, 2010
Goodwill impairment (note a)	$ (13,927)	$ (12,600)
Intangible impairment (note a)	(293)	-
Deferred credit derecognition (note b)	20,514	18,085
Reclassification of leases as finance leases (note c)	(16)	(7)
Additional depreciation (note c)	(679)	(1,116)
Wireline IFRS 1 revaluation (note c)	1,218	153
Foreign subsidiary translation adjustment (note c)	(974)	(558)
Borrowing costs (note c)	-	174
Deferred taxes (note d)	173	296
Share-based payments (note e)	(142)	(242)
Accumulated other comprehensive income (note f)	(1,967)	(1,967)
	$ 3,907	$ 2,218

(h) Statement of comprehensive income

Under the previous CGAAP, $11,688 of cost of sales expenses for the year ended December 31, 2010 (2010 - $3,605) had been classified as reduction of revenues. This presentation is not allowed under IFRS and as such both revenues and cost of sales have increased by $11,688.

Under IFRS, Cathedral has elected to present its income statement based on function of expenses. As result $13,124 of selling, general and administrative expenses for the year ended December 31, 2010 have been reclassified as cost of sales.

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

(i) Discontinued operations

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

	Year ended December 31 , 2010
IFRS adjustments - discontinued operations	
Capitalization of automotive leases	$ 25
Reversal of CGAAP write-off of goodwill; recognized at January 1, 2010 under IFRS	1,327
Reversal of CGAAP write-off of intangibles; recognized at January 1, 2010 under IFRS	293
Increase in depreciation due to IFRS 1 election to fair value	(129)
Decrease in gain on disposal of property and equipment due to IFRS 1 election to fair value	(936)
Share-based payments	(34)
Reduction in deferred tax expense	249
Total IFRS adjustments - discontinued operations	795
IFRS reclassifications - discontinued operations	
Reclassification from selling, general and administrative	-
Change in discontinued operations under IFRS	$ 795

29. Explanation of transition to IFRS (continued)

(j) IFRS 1 exemptions

Cathedral has utilized the following exemptions under IFRS 1 in addition to the exemptions already disclosed, which have resulted in no difference in values from Cathedral's balances under the previous CGAAP:

Cathedral has elected to not apply IFRS 3 "Business Combinations" retrospectively.

Cathedral has elected to apply IAS 23 to its borrowing costs related to capital acquisition prospectively.

Cathedral has elected not to apply the exemption on share-based payments that were granted on or before November 7, 2002 or were granted after November 7, 2002 and vested before the transition date.

(k) Statement of cash flows

Consistent with Cathedral's accounting policy choice under IAS 7, Statement of Cash Flows, Interest paid and income taxes paid have moved into the body of the Statement of Cash Flows, whereas they were previously disclosed as supplementary information. Additionally, borrowing costs capitalized in relation to qualifying assets are presented as interest paid in operating activities. There are no other material differences between the statement of cash flows presented under IFRS and the statement of cash flows presented under previous CGAAP.

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