CATHEDRAL

2010 ANNUAL REPORT

FIVE YEAR FINANCIAL HISTORY

In '000's of dollars except per share amounts	2010	2009	2008	2007	2006
Revenues (excluding discontinued operations)	141,396	82,100	153,120	123,424	112,066
Revenues (including discontinued operations)	143,799	94,520	178,928	145,106	138,254
Gross margin % (excluding discontinued operations) (1)	47%	49%	47%	53%	56%
Gross margin % (including discontinued operations) (1)	47%	45%	45%	49%	53%
EBITDAS from continuing operations (1)	38,899	19,831	48,907	46,046	45,985
Per share – diluted	1.06	0.57	1.51	1.45	1.46
EBITDAS (1)	37,964	16,652	50,468	46,731	52,793
Per share – diluted	1.03	0.48	1.55	1.47	1.68
Income from continuing operations	20,529	10,272	32,108	28,634	31,929
Per share – basic	0.56	0.29	1.00	0.91	1.04
Per share – diluted	0.56	0.29	0.99	0.90	1.02
Net income	18,015	5,281	30,139	24,863	35,348
Per share – basic	0.49	0.15	0.94	0.79	1.16
Per share – diluted	0.49	0.15	0.93	0.78	1.12
Cash dividends declared per share	0.24	0.31	0.84	0.84	0.805
Property and equipment additions and corporate acquisitions:					
Paid or payable	35,233	8,923	47,618	19,857	26,436
Paid or payable in equity	-	-	-	-	1,820
	35,233	8,923	47,618	19,857	28,256
Weighted average shares outstanding - basic ('000)	36,453	34,841	32,215	31,402	30,578
Weighted average shares outstanding – diluted ('000)	36,791	34,857	32,463	31,781	31,423
Working capital	18,536	22,451	17,435	16,947	15,051
Total assets	194,060	173,537	183,872	131,032	125,221
Long-term debt excluding current portion	34,502	39,526	40,233	17,441	15,552
Shareholders' equity	109,115	97,422	91,859	79,250	76,223

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

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Annual Meeting:

Shareholders are invited to attend the Annual Meeting which will be held at 3:00pm on April 14, 2011 in the Royal Meeting Room of the Metropolitan Centre, 333 – 4th Avenue S.W., Calgary, Alberta.

REPORT TO SHAREHOLDERS

After facing difficult times in 2009, we saw 2010 as a bounce back year. This recovery was largely based on strong pricing for crude oil and related products. Oil and liquids rich natural gas plays have been tremendous drivers for increasing drilling and completion activity. Despite weather supported demand, natural gas pricing continues to be weak and will likely remain weak until the U.S. economy improves, thereby creating incremental demand.

The first quarter of 2011 has been very robust, with the oilfield service sector running beyond capacity. There is a shortage of both people and equipment and Cathedral has taken a proactive approach to remedy such shortages. In early 2010, the Company began in-house training programs for the development of both directional drillers and Measurement-While-Drilling ("MWD") hands and this has resulted in Cathedral adding a significant amount of field personnel. It is expected that this ongoing training program will enable Cathedral to continue to grow our job count through 2011. On the equipment side Cathedral is in reasonably good shape; although we have had some stress points during 2011 Q1, we have been able to support more than our planned activity levels. To assist in the ability to service our equipment, we have been proactive in expanding our repair parts inventories and adding components where needed. Looking forward, we are expanding our fleet of equipment to meet the expected increase in demand for our services.

Based upon customer input we are expecting to see activity levels remain at high levels throughout the rest of 2011.

As mentioned last year, the Company recognized that research and development was going to be the cornerstone of its future; the development of new innovative products was going to expand the Company's markets and differentiate Cathedral from its competitors. The focus of our efforts will be a complete new MWD platform that we expect to launch in the second quarter of 2011. The new MWD platform will allow Cathedral to have a single platform, whether electro-magnetic or pulse based transmission, and will include many features we have been working on for the last year including resistivity/Logging-While-Drilling capabilities and a rotary steerable system interface.

Cathedral continues to focus on growth of the production testing division. In 2010, we added 21 units which amounted to 60% growth in the overall fleet and to complement the fleet we also added the required auxiliary equipment. The majority of the production testing units (16 units) added were high pressure units. Our updated capital budget includes the addition of 6 additional 1440 psi high pressure vessels plus additional auxiliary equipment. The high quality of equipment, as well as the overall size of the production testing fleet, has made the division a very integral part of our organization. As well, Cathedral continues to review opportunities to expand the production testing division into other U.S. markets.

As we look forward, we are excited about the future prospects for growth.

Sincerely,

Signed: *"Mark L. Bentsen"*
Mark L. Bentsen
President and Chief Executive Officer
Cathedral Energy Services Ltd.
March 2, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") for the year ended December 31, 2010 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 accompanying audited consolidated financial statements and notes thereto for the year ended December 31, 2010, as well as the Company's 2010 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 2, 2011.

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; equipment delivery and deployment dates; establishment of new operating bases; customer commitments; financial results; activity levels; technology advances; International Financial Reporting Standards ("IFRS") adjustments; tax rates; availability of insurance coverage; commencement of Venezuela operations and dividends. The Company believes the expectations reflected in such forward-looking statements are reasonable as of the date hereof but no assurance can be given that these expectations will prove to be correct and such forward-looking statements should not be unduly relied upon.

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

- the performance of 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 the formation of Cathedral's joint venture company in Venezuela which is required prior to commencement of Venezuela operations, some of which are out of the control of Cathedral;
- risks associated with Venezuela joint venture company being awarded work by the Venezuela state run oil and natural gas corporation;
- changes under governmental regulatory regimes and tax, environmental and other laws in Canada, United States ("U.S.") and Venezuela; and
- a stable competitive environment.

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

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

NON-GAAP MEASUREMENTS

This MD&A refers to certain financial measurements that do not have any standardized meaning within Canadian Generally Accepted Accounting Principles ("GAAP") and therefore may not be comparable to similar measures provided by other companies.

The specific measures being referred to include the following:

i) "Gross margin" - calculated as revenues less operating expenses is considered a primary indicator of operating performance (see tabular calculation under Results of Operations);

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

iii) "EBITDAS" - defined as earnings before interest on long-term debt, taxes, depreciation, non-cash compensation expense and unrealized foreign exchange gain/loss; this measure 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. The definition of EBITDAS was changed in 2009 Q2 to adjust for unrealized foreign exchange gain/loss. Comparative amounts presented have been restated to the new calculation (see tabular calculation under EBITDAS);

iv) "EBITDAS from continuing operations" - defined as earnings before interest on long-term debt, taxes, depreciation, non-cash compensation expense and unrealized foreign exchange gain/loss excluding the portion due from discontinued operations in each component of the calculation;

v) "EBITDAS from discontinued operations" - defined as earnings before interest on long-term debt, taxes, depreciation, non-cash compensation expense and unrealized foreign exchange gain/loss 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 and cash flow from discontinued operations is considered an indicator of the Company's ability to generate funds flow from operations but excluding changes in non-cash working capital which is financed using the Company's bank indebtedness/line of credit facility.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW

Cathedral Energy Services Ltd. (the "Company" or "Cathedral") is incorporated under the Business Corporations Act (Alberta) (the "Act"). 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.

Prior to the closing of the Reorganization, the consolidated financial statements included the accounts of the Trust, its subsidiaries and partnerships, all of which were wholly owned. Subsequent to the Reorganization, the consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned. The Company is considered a continuation of the Trust and these consolidated financial statements follow the continuity of interests method of accounting. Under the continuity of interests method of accounting the transfer of assets, liabilities and equity from the Trust to the Company are recorded at their net book values as at December 18, 2009.

As a result of the application of the continuity of interests method of accounting, certain terms such as shareholders'/unitholders', shares/units, dividends/distributions and share-based/unit-based may be used interchangeably throughout this MD&A.

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

	2010	Increase (decrease)	2009	Increase (decrease)	2008
Revenues (excluding discontinued operations – 2010 - $2,403; 2009 - $12,420; 2008 - $25,808)	**$ 141,396**	$ 59,296	$ 82,100	$ (71,020)	$ 153,120
Gross margin % [(1)]	**47%**	-%	49%	(2%)	47%
EBITDAS from continuing operations [(1)]	**38,899**	19,068	19,831	(29,076)	48,907
Per share - diluted	**1.06**	0.49	0.57	(0.94)	1.51
EBITDAS [(1)]	**37,964**	21,312	16,652	(33,816)	50,468
Per share - diluted	**1.03**	0.55	0.48	(1.07)	1.55
EBITDAS from continuing operations [(1)] as % of revenues excluding discontinued operations	**28%**	4%	24%	(8%)	32%
Income from continuing operations	**20,529**	10,259	10,272	(21,836)	32,108
Per share - basic	**0.56**	0.27	0.29	(0.71)	1.00
Per share - diluted	**0.56**	0.27	0.29	(0.70)	0.99
Net income	**18,015**	12,736	5,281	(24,858)	30,139
Per share - basic	**0.49**	0.34	0.15	(0.79)	0.94
Per share - diluted	**0.49**	0.34	0.15	(0.78)	0.93
Cash dividends declared per share	**0.24**	(0.07)	0.31	(0.53)	0.84
Weighted average shares outstanding – basic ('000)	**36,453**		34,841		32,215
Weighted average shares outstanding – diluted ('000)	**36,791**		34,857		32,463
Funds from continuing operations [(1)]	**33,381**	19,823	13,558	(27,266)	40,824
Working capital	**18,536**	(4,313)	22,451	5,016	17,435
Total assets	**194,060**	20,523	173,537	(10,335)	183,872
Long-term debt excluding current portion	**34,502**	(5,024)	39,526	(707)	40,233
Shareholders' equity	**109,115**	11,693	97,422	5,563	91,859

(1) See "NON-GAAP MEASUREMENTS"

RESULTS OF OPERATIONS

2010 COMPARED TO 2009

Overview

In 2010 Q1, the Company made the decision to discontinue the operations of its wireline division. On March 31, 2010, the Company closed its Canadian slickline operations and on April 20, 2010 completed the sale of its U.S. wireline operations. As such, the revenues and expenses for the wireline business are included in the statements of operations and retained earnings and statements of cash flows as discontinued operations and the related assets are classified as held for sale in the balance sheet. The comparative figures have been reclassified to be consistent with this presentation.

MANAGEMENT'S DISCUSSION AND ANALYSIS

On April 20, 2010, the Company closed the sale of its U.S. based electric wireline business to Pure Energy Services Ltd. ("Pure") in exchange for the operating assets of Pure's Motorworks division and $2,112 cash. The assets of the Motorworks division included 58 drilling motors, 23 drilling jars, spare mud motor power sections and shop equipment valued at $4,980. The assets of the Motorworks operations are being utilized in Cathedral's directional drilling business, and the net sale proceeds were used to reduce bank indebtedness.

The Company completed 2010 with revenues of $141,396 compared to 2009 at $82,100. The 2010 revenues were lead by the Company's directional drilling division which represented 76% (2009 - 79%) of total revenues with the remainder composed of production testing division at 24% (2009 - 21%). In 2009, there was a significant decline in drilling in the oil and gas sector due to low commodity prices and the overall decline in the economy. Since those low activity levels, the Company experienced a significant increase in activities in all areas.

2010 EBITDAS was $37,964 ($1.03 per share - diluted) which represents a $21,312 or 128% increase from $16,652 ($0.48 per share - diluted) in 2009. 2009 EBITDAS is net of one-time charges in the amount of $1,130 of which $453 related to its restructuring of electric line ("E-Line") division and $677 related to the conversion to a corporation. 2010 EBITDAS from continuing operations was $38,899 ($1.06 per share – diluted) an increase of $19,068 or 96% from $19,831 ($0.57 per share – diluted) in 2009.

Revenues and operating expenses

	2010	2009	$ Change	%
Revenues	**$ 141,396**	$ 82,100	$ 59,296	72
Operating expenses	**74,585**	41,835	32,750	78
Gross margin - $	**$ 66,811**	$ 40,265	$ 26,546	66
Gross margin - %	**47%**	49%	(2)%	

	Year ended December 31, 2010			Year ended December 31, 2009		
Revenues	**Directional drilling**	**Production testing**	**Total**	Directional drilling	Production testing	Total
Canada	**$ 65,827**	**$ 18,569**	**$ 84,396**	$ 40,597	$ 8,806	$ 49,403
United States	**41,013**	**15,987**	**57,000**	24,161	8,536	32,697
	$ 106,840	**$ 34,556**	**$ 141,396**	$ 64,758	$ 17,342	$ 82,100

2010 revenues were $141,396 which represented an increase of $59,296 or 72% from 2009 revenues of $82,100. 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 increased 65% from $64,758 in 2009 to $106,840 in 2010. This change was the net result of: i) a 75% increase in activity days from 6,836 in 2009 to 11,969 in 2010; and ii) a decrease in the average day rate from $9,275 in 2009 to $8,761 in 2010, which was caused in large part by a decrease in the Canadian dollar equivalent of U.S. day rates due to a strengthening of the Canadian dollar relative to the U.S. dollar. While the average day rates have declined on a year-over-year basis due to market pressures, in Canada rates for 2010 Q4 have increased compared to rates at 2009 Q4 and in the U.S., the total average rate have increased from 2009 Q4 to 2010 Q4 in U.S. dollars. The increases in the Canadian rates were primarily to offset increased field labour costs. Canadian activity days increased from 4,595 to 7,568 and U.S. activity days increased from 2,241 to 4,401.

The directional drilling division began the year with 62 Measurement-While-Drilling ("MWD") systems in Canada, 30 in the U.S. and 4 for international operations. It ended 2010 with 65 MWD systems in Canada, 33 in the U.S. and 4 for international operations. The Company continuously reviews the demand for its services and shifts equipment among its markets accordingly.

The Company's production testing division contributed $34,556 in revenues during 2010 which was a 99% increase over 2009 revenues of $17,342. The division began the year with 21 units in Canada and 14 units in the U.S. and ended with 34 units in Canada and 22 in the U.S. The increase in revenues was in part attributable to the increase in units plus the overall increase in oilfield service activities on a year-over-year basis. The increased use of multi-fracturing technologies to complete wells has resulted in an increase in the amount of work associated with flowbacks after well stimulation.

The gross margin for 2010 was 47% down 2% from 49% in 2009. The decrease is attributed to a number of factors including increases in labour and rental expense for auxiliary and specialty equipment.

General and administrative expenses

General and administrative expenses were $30,471 in 2010, an increase of $9,854 compared to $20,617 in 2009. The increase was primarily related to increases in payroll related expenses and facility rental costs as well as other general increases due to increased activity levels, net of declines in certain professional and other fees in the amount of $677 incurred in 2009 Q4 related to the Plan of Arrangement. In late 2008 and in 2009 due to the significant declines in activity levels several measures were taken to reduce staffing costs; these included lay-offs, a hiring freeze, elimination of incentive based compensation and wage roll-backs for all remaining staff. The first level of wage roll-backs were re-instated in late 2009 and the remainder in 2010; as well the hiring freeze was removed and an incentive compensation plan was re-introduced in 2010. Facility rental costs increased due to expansions into Pennsylvania and Texas. As a percentage of revenues, general and administrative expenses were 22% in 2010 and 25% in 2009.

Depreciation

Depreciation for 2010 was $10,626 which compared to $11,602 in 2009. The decrease was due to in part the declining balance depreciation method used by the Company and is expected as its assets get older. In addition, the Company reviewed its estimate of useful lives of assets as at January 1, 2010 and adjusted its declining balance depreciation rates accordingly (refer to note 2(d) to the audited consolidated financial statements for the year ended December 31, 2010). This change resulted in a decrease in depreciation of $2,733 in 2010. Despite additional capital expenditures in the year the previous factors resulted in a decrease in depreciation. During 2010, approximately $7,482 (2009 - $10,163) of property and equipment was temporarily removed from service and therefore no depreciation was recorded on these assets. As a percentage of revenues, depreciation amounted to 8% for 2010 and 14% for 2009.

Interest expense

Interest expense related to long-term debt increased from $1,238 in 2009 to $1,256 in 2010 due to the net effect of a decrease in the average level of debt outstanding and an increase in the effective interest rate on the related debt. Other interest expense increased from $290 in 2009 to $523 in 2010 and relates mainly to interest charges on use by the Company of its bank indebtedness/line of credit facility. The increase in other interest expense was due to a combination of increased utilization of the related credit facility and increased bank interest rates.

Foreign exchange gain

The Company's foreign exchange gain decreased from $3,340 in 2009 to $1,309 in 2010 due to smaller fluctuations in the Canadian dollar in comparison to the U.S. dollar on a year-over-year basis. The Company's U.S. operations are considered to be self-sustaining and therefore gains and losses due to fluctuations in the foreign currency exchange rates are recorded in other comprehensive income ("OCI") on the balance sheet as a component of equity. However, gains and losses in the Canadian entity on U.S. denominated intercompany balances continue to be recognized in the statement of operations. Included in the 2010 foreign currency gain are unrealized gains of $987 (2009 - $3,682) related to intercompany balances.

Share-based compensation expense

For 2010, the Company had share-based compensation expense of $2,589 compared to $1,732 for 2009. The value of the options is being amortized against income over the related vesting periods. Share-based compensation has increased mainly due to 579,066 options issued in 2009 Q4 and 1,887,400 options issued in 2010. As at December 31, 2010 there were 3,024,526 options outstanding as compared to 1,741,736 as at December 31, 2009.

In October 2009, insiders of the Company forfeited all of their outstanding 1,303,334 options, resulting in share based compensation expense of $794. On October 13, 2009, non-insider optionees with vested or unvested out-of-the-money options were invited to reduce the exercise price of their share options to $3.81, which equaled the trust unit price on the last trading day immediately before the date of the modification. In exchange for this reduction in the exercise price, longer vesting terms were established with due consideration of the original expiry date which did not change. A total of 1,034,003 options were re-priced. The unrecognized compensation costs from the original grant are recognized over the remainder of the original requisite service period and the incremental compensation costs for the modified share options are recognized over the new requisite service period.

Gain on disposal of property and equipment

During 2010 the Company had a gain on disposal of property and equipment of $2,760 compared to $815 in 2009. The Company's gains were mainly due to recoveries of lost-in-hole equipment costs including previously expensed depreciation on the related assets. The timing of lost-in-hole recoveries is not in the control of the Company and therefore can fluctuate significantly from quarter-to-quarter and year-to-year.

Taxes

For 2010, the Company had a tax expense of $4,886 compared to tax recovery of $1,331 in 2009.

In 2010, the effective tax rate on continuing operations was 19%. The 2010 future tax provision was net of $2,429 utilization of deferred credit. Excluding this utilization of deferred credit, the effective tax rate was 29% which is approximately the expected tax rate for the Company. The Company's current income taxes for 2010 primarily related to U.S. operations.

Included in the 2009 net tax recovery was $958 net tax expense related to tax on an internal reorganization related to ownership of assets. At the beginning of 2009 Q1 the Company's U.S. subsidiary sold the majority of its operating assets to the Company's Canadian operating entity, as part of an internal reorganization related to ownership of operating assets within the Company. This transaction created a one-time current tax expense in the amount of $4,168 (current taxable income was created mainly due to U.S. recaptured tax depreciation) and a recovery of future taxes in the amount of $3,210; for a net tax cost of $958. Subsequent to this transaction, the Company's U.S. subsidiary leases the majority of its operating equipment from its Canadian parent company. The future tax recovery for 2009 related to reversal of timing differences on U.S. taxes (see comments above) and the remaining future tax recovery was attributable to adjustments related to the future taxation of specified investment flow-through ("SIFT") income in Canada (prior to conversion to a corporation) and a tax benefit recognized on the conversion from a trust to a corporation.

Loss from discontinued operations

On March 31, 2010, the Company closed its Canadian slickline operations and on April 20, 2010 completed the sale of its U.S. wireline operations. Cathedral management had determined that the wireline operations were not part of the core business going forward. As such, operating results for the years ended December 31, 2009 and 2010 for the wireline business have been included in the statements of operations and retained earnings and statements of cash flows as discontinued operations. For 2010, the loss from discontinued operations was $2,514 compared to $4,991 for 2009. This amount is net of gain on disposal of property and equipment of $256 compared to $160 in 2009.

Other comprehensive loss

The Company incurred a loss of $1,463 compared to $5,293 in 2009. Other comprehensive loss is comprised entirely of the foreign currency translation of the Company's U.S. self-sustaining subsidiary and reflects the changing value of the Canadian dollar compared to the U.S. dollar. During 2010, the U.S. dollar weakened against the Canadian dollar to a lesser extent than in 2009.

2009 COMPARED TO 2008

Overview

The Company completed 2009 with revenues of $82,100 compared to 2008 at $153,120. The 2009 revenues were lead by the Company's directional drilling division which represented 79% (2008 - 89%) of total revenues with the remainder composed of production testing division at 21% (2008 - 11%) of total revenues. The decline in drilling in the oil and gas sector due to low commodity prices and the overall decline in the economy have resulted in a significant decline in revenues as compared to 2008.

2009 EBITDAS was $16,652 ($0.48 per share - diluted) which represents a $33,816 or 67% decrease from $50,468 ($1.55 per share - diluted) in 2008. 2009 EBITDAS is net of one-time charges in the amount of $1,130 of which $453 related to its restructuring of electric line ("E-Line") division and $677 related to the conversion to a corporation.

Revenues and operating expenses

	2009	2008	$ Change	%
Revenues	**$ 82,100**	$ 153,120	$ (71,020)	(46)
Operating expenses	**41,835**	80,924	(39,089)	(48)
Gross margin - $	**$ 40,265**	$ 72,196	$ (31,931)	(44)
Gross margin - %	**49%**	47%	2%	

	Year ended December 31, 2009			Year ended December 31, 2008		
Revenues	Directional drilling	Production testing	Total	Directional drilling	Production testing	Total
Canada	**$ 40,597**	**$ 8,806**	**$ 49,403**	$ 71,886	$ 13,348	$ 85,234
United States	**24,161**	**8,536**	**32,697**	64,113	3,773	67,886
	$ 64,758	**$ 17,342**	**$ 82,100**	$ 135,999	$ 17,121	$ 153,120

2009 revenues were $82,100 which represented a decrease of $71,020 or 46% from 2008 revenues of $153,120. The decline was primarily attributed to the decline in oil and natural gas activity in 2009 which was been caused by low commodity prices and the global recession. However, during 2009 commodity prices for both oil and natural gas rose, which resulted in higher activity levels as the year progressed.

The directional drilling division revenues decreased from $135,999 in 2008 to $64,758 in 2009; a 52% decrease. This decrease was the net result of: i) a 54% decrease in activity days from 14,766 in 2008 to 6,836 in 2009; and ii) an increase in the average day rate from $9,022 in 2008 to $9,275 in 2009, which were caused in large part to the increase in U.S. day rates due to the change in foreign exchange rate for the Canadian dollar relative to the U.S. dollar. Canadian activity days decreased from 7,843 to 4,595 and U.S. activity days decreased from 6,923 to 2,241.

The directional drilling division began the year with 59 Measurement-While-Drilling ("MWD") systems in Canada, 35 in the U.S. and 4 for international operations. It ended 2009 with 62 MWD systems in Canada, 30 in the U.S. and 4 for international operations. The Company continuously reviews the demand for its services and shifts equipment among its markets accordingly.

Expansion to the U.S. resulted in increased revenues for the Company's production testing division. The Company's production testing division contributed $17,342 in revenues during 2009 which was a 1% increase over 2008 revenues of $17,121. The division began the year with 21 units in Canada and 8 units in the U.S. and ended with 21 units in Canada and 14 in the U.S.

The gross margin for 2009 was 49% which increased from 47% in 2008. There were no significant changes in direct costs as a percentage of revenue basis from 2008 to 2009. The Company undertook a detailed review of all operating costs and general and administrative expenditures and reduced costs to enhance profitability including layoff of staff and wage rollbacks.

General and administrative expenses

General and administrative expenses were $20,617 in 2009; a decrease of $3,931 compared with $24,548 in 2008. As a percentage of revenues, general and administrative expenses were 25% in 2009 and 16% in 2008. Recognizing the expected lower activity levels, the Company initiated several measures to improve operating results and further strengthen its balance sheet; these included lay-offs, a hiring freeze, elimination of incentive based compensation and wage roll-backs for all remaining staff. In addition, $677 of fees related to the conversion to a corporation were included in general and administrative expenses for 2009.

Depreciation

Depreciation for 2009 was $11,602 which compared to $9,122 in 2008. This increase was due to the expansion of the equipment fleet since 2008 Q2. During 2009, approximately $10,163 (2008 - $nil) of property and equipment was temporarily removed from service and therefore no depreciation was recorded on these assets. As a percentage of revenues, depreciation amounted to 14% for 2009 and 6% for 2008.

Interest expense

Interest expense related to long-term debt increased from $1,120 in 2008 to $1,238 in 2009 due to the combined net effect of an increase in the average level of debt outstanding and a decrease in the effective interest rate on the related debt. Other interest expense decreased from $414 in 2008 to $290 in 2009 and related mainly to interest charges on use by the Company of its bank indebtedness/line of credit facility.

Foreign exchange gain/loss

The Company's foreign exchange gain/loss has changed from a $60 loss in 2008 to a gain of $3,340 in 2009 due to the fluctuations in the Canadian dollar in comparison to the U.S. dollar. The Company's U.S. operations are considered to be self-sustaining 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 operations. Included in the 2009 foreign currency gain are unrealized gains of $3,682 (2008 - $405) related to intercompany balances.

Share-based compensation expense

For 2009, the Company had share-based compensation expense of $1,732 compared to $1,705 for 2008. The value of the options is being amortized against income over the related vesting periods. In October 2009, insiders of the Company forfeited all of the outstanding 1,303,334 options, resulting in share based compensation expense of $794 (2008 - $nil). On October 13, 2009, non-insider optionees with vested or unvested out-of-the-money options were invited to reduce the exercise price of their share options to $3.81, which equaled the trust unit price on the last trading day immediately before the date of the modification. In exchange for this reduction in the exercise price, longer vesting terms were established with due consideration of the original expiry date which did not change. A total of 1,034,003 options were re-priced. The unrecognized compensation costs from the original grant are recognized over the remainder of the original requisite service period and the incremental compensation costs for the modified share options are recognized over the new requisite service period.

Gain on disposal of property and equipment

During 2009 the Company had a gain on disposal of property and equipment of $815 compared to $2,138 in 2008. For 2008, the Company's gains were mainly due to recoveries of lost-in-hole equipment costs including previously expensed depreciation on the related assets. The timing of lost-in-hole recoveries is not in the control of the Company and therefore can fluctuate significantly from quarter-to-quarter.

Taxes

For 2009, the Company had a tax recovery of $1,331 compared to tax expense of $5,257 in 2008. A significant portion of the current income taxes for 2008 related to U.S. operations. As profitability of these operations has fallen dramatically, so has the current income tax expense. Included in the 2009 net tax recovery was a $958 net tax expense related to tax on an internal reorganization related to ownership of assets. At the beginning of 2009 Q1 the Company's U.S. subsidiary sold the majority of its operating assets to the Company's Canadian operating entity, as part of an internal reorganization related to ownership of operating assets within the Company. This transaction created a one-time current tax expense in the amount of $4,168 (current taxable income was created mainly due to U.S. recaptured tax depreciation) and a recovery of future taxes in the amount of $3,210; for a net tax cost of $958. Subsequent to this transaction, the Company's U.S. subsidiary leases the majority of its operating equipment from its Canadian parent company. The future tax recovery for 2009 related to reversal of timing differences on U.S. taxes (see comments above) and the remaining future tax recovery was attributable to adjustments related to the future taxation of SIFT income in Canada (prior to conversion to a corporation) and a tax benefit recognized on the conversion from a trust to a corporation.

Other comprehensive income/loss

The Company incurred a loss of $5,293 compared to a gain of $3,326 in 2008. Other comprehensive income (loss) is comprised entirely of the foreign currency translation of the Company's U.S. self-sustaining subsidiary and reflects the changing value of the Canadian dollar compared to the U.S. dollar. During 2009, the U.S. dollar weakened against the Canadian dollar.

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary 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, 2010, the Company had a demand operating line of credit with a major Canadian bank in the amount of $20,000 (December 31, 2009 – $20,000) of which $8,765 (December 31, 2009 – $2,181) was drawn. The Company has a non-reducing revolving term loan facility in the amount of $45,000 (December 31, 2009 – $45,000) of which $34,500 (December 31, 2009 – $39,500) was drawn as at December 31, 2010. In addition, at December 31, 2010, the Company had other long-term debt of $29 (December 31, 2009 – $234). Effective June 30, 2010 the Company renewed its credit facility with a major Canadian bank and the new maturity date is June 29, 2011.

Operating activities

Cash provided by operating activities for 2010 was $26,465 compared to $18,564 in 2009. Funds from continuing operations (see Non-GAAP Measurements) for 2010 were $33,381 compared to $13,558 in 2009. This increase was mainly caused by an increase in earnings due to increased activity levels. The Company has a working capital position at December 31, 2010 at $18,536 compared to $22,451 at December 31, 2009.

Investing activities

Cash used in investing activities for 2010 amounted to $21,336 compared to $12,020 in 2009. During 2010 the Company invested $35,062 (2009 - $8,470) in property and equipment for continuing operations. The main additions were 6 MWD systems, resitivity logging while drilling ("LWD") equipment, 21 production testing units (including 9 production testing units acquired from a private company), production testing auxiliary equipment and $6,676 of maintenance capital, which was mainly related to the retrofit and upgrades to downhole tools. These additions do not include the $4,980 of directional drilling assets acquired in the asset swap with Pure during 2010 Q2. The actual property and equipment additions were lower than the 2010 budget amount as the budget anticipated the addition of 13 MWD systems as opposed to the 6 actually added. The additional 7 MWD systems have been included in the 2011 budget discussed below.

In 2009, the Company made cash expenditures related to the Plan of Arrangement in the amount of $3,597. For the year ended December 31, 2010, Cathedral had a source of funds by way of non-cash investing working capital in the amount of $3,438; the comparative figure for fiscal 2009 is a use of funds in the amount of $3,719. 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 purchases are made.

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

	2010	2009
Directional drilling equipment -		
MWD systems	**102**	96
Drilling mud motors	**538**	468
Production testing units	**56**	35

Proceeds on disposal of property and equipment amounted to $10,459 (2009 - $4,219), excluding $4,980 of wireline equipment disposed of in the asset swap with Pure during 2010 Q2. The 2010 year-over-year increase was the combined effect of a $2,652 increase in lost in hole equipment proceeds and a $3,588 in wireline equipment proceeds.

For 2011, the Board of Directors has approved an updated capital budget of $35,500; this is an increase of $10,647 from the previously announced 2011 capital budget. The increase is mainly attributed to the addition of 6 high pressure production testing units and LWD (resistivity) equipment. In summary, the major items within the updated 2011 capital budget are: i) 27 MWD systems (including 7 carried forward from the 2010 capital budget) and related mud motors and collars to complement the increased job capability; ii) LWD (resistivity) equipment; iii) 6 high pressure production testing units and auxiliary production testing equipment to complement the overall fleet; iv) $4,654 allocated to the new head office and operations facility in Calgary; and v) $4,165 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.

Financing activities

Cash used in financing activities for 2010 amounted to $3,865 compared to $13,194 in 2009. In 2010 the Company repaid other long-term debt in the amount of $5,205 (2009 - $5,206). Advances on (repayments of) bank indebtedness during 2010 were $6,584 compared to ($13,225) in 2009; fluctuations in bank indebtedness relates to the timing of cash receipts and cash disbursements. During the year ended December 31, 2010 the Company paid dividends of $6,556 compared to $13,117 in 2009. The trust distribution was $0.07 per trust unit in January 2009 and was reduced to $0.04 per trust unit per month from February to July 2009; the distribution was suspended upon the announcement of the intention to convert from a trust to a corporation in August 2009. A quarterly dividend of $0.06 per share was paid in 2010. During 2010 the Company received proceeds for the exercise of stock options of $1,312 versus $34 in 2009. In 2009 Q2 the Company issued 3,615,600 trust units at $4.15 for proceeds net of issuance costs of $13,820. As at December 31, 2010, 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. The following is a summary of the Company's contractual obligations:

	Total	2011	2012	2013	2014	2015	Thereafter
Property and equipment additions	$ 8,983	$ 8,983	$ -	$ -	$ -	$ -	$ -
Operating lease obligations	7,929	1,710	1,452	1,334	1,243	1,091	1,099
Long-term debt repayments (1)	34,529	27	5,752	11,500	11,500	5,750	-
	$ 51,441	$ 10,720	$ 7,204	$ 12,834	$ 12,743	$ 6,841	$ 1,099

(1) Minimum principal amounts to be paid under long-term debt assumes the Company elects prior to the maturity date of the revolving term loan to repay the loan over 36 months with interest only payable for the first 12 months.

The 2011 contractual obligations are expected to be financed by way of cash flow from operations and the Company's credit facility.

EBITDAS

EBITDAS (refer to Non-GAAP Measurements) is calculated as follows:

	2010	2009
Income from continuing operations	**$ 20,529**	$ 10,272
Add (deduct):		
Depreciation	**10,626**	11,602
Interest - long-term debt	**1,256**	1,238
Share-based compensation	**2,589**	1,732
Unrealized foreign exchange gain	**(987)**	(3,682)
Taxes	**4,886**	(1,331)
EBITDAS from continuing operations	**38,899**	19,831
EBITDAS from discontinued operations	**(935)**	(3,179)
EBITDAS	$ **37,964**	**$** 16,652

FUNDS FROM CONTINUING OPERATIONS

Funds from operations (refer to Non-GAAP Measurements) is calculated as follows:

	2010	2009
Cash provided by operating activities	**$ 26,465**	$ 18,564
Add (deduct):		
Cash flow from discontinued operations	**1,807**	1,290
Changes in non-cash operating working capital	**5,109**	(6,296)
Funds from continuing operations	$ **33,381**	**$** 13,558

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 2010 was $185 (2009 - $635).

In 2009, StoneBridge Merchant Capital Corp. ("StoneBridge") acted as a special advisor to the Company in respect to the Plan of Arrangement and was paid a fee of $572. A director of the Company is an officer of StoneBridge.

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 2011 Q1 dividend in the amount of $0.06 per share which will have a date of record of March 31, 2011 and a payment date of April 15, 2011.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOURTH QUARTER RESULTS

Revenues and operating expenses

	2010 Q4	2009 Q4	$ Change	%
Revenues	**$ 42,877**	$ 24,741	$ 18,136	73
Operating expenses	**21,765**	12,792	8,973	70
Gross margin - $	**$ 21,112**	$ 11,949	$ 9,163	77
Gross margin - %	**49%**	48%	1%	

	Three months ended December 31, 2010			Three months ended December 31, 2009		
Revenues	Directional drilling	Production testing	Total	Directional drilling	Production testing	Total
Canada	**$ 20,411**	**$ 6,757**	**$ 27,168**	$ 14,596	$ 3,276	$ 17,872
United States	**11,156**	**4,553**	**15,709**	4,448	2,421	6,869
	$ 31,567	**$ 11,310**	**$ 42,877**	$ 19,044	$ 5,697	$ 24,741

Revenues in Q4 have increased to $42,877 in 2010 from $24,741 in 2009, an increase of $18,136 or 73%. 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 $19,044 in 2009 Q4 to $31,567 in 2010 Q4; a 66% increase. This increase was the result of: i) a 55% increase in activity days from 2,200 in 2009 Q4 to 3,414 in 2010 Q4; and ii) an increase in the average day rate from $8,517 in 2009 Q4 to $9,079 in 2010 Q4, which was primarily to offset increased field labour costs. Canadian activity days increased from 1,740 to 2,209 and U.S. activity days increased from 460 to 1,205.

The Company's production testing division contributed $11,310 in revenues during 2010 Q4 which was a 99% increase over 2009 revenues of $5,697. The division ended 2009 Q4 with 21 units in Canada and 14 units in the U.S. and ended 2010 Q4 with 34 units in Canada and 22 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 was 49% which increased 1% from 48% in 2009. The increase was attributed to a number of factors including increases in labour offset by decreases in expenses for certain consumables and a reduction in repair costs.

General and administrative expenses were $8,409 in 2010 Q4; an increase of $2,909 compared with $5,500 in 2009. The increase was primarily related to increases in payroll related expenses and facility rental costs as well as other general increases due to increased activity levels, net of declines in certain professional and other fees incurred in 2009 Q4 in the amount of $677 related to the Plan of Arrangement. In late 2008 and in 2009 due to the significant declines in activity levels several measures were taken to reduce staffing costs. These included lay-offs, a hiring freeze, elimination of incentive based compensation and wage roll-backs for all remaining staff. The first level of wage roll-backs were re-instated in late 2009 and the remainder in 2010. In addition, the hiring freeze was removed and an incentive compensation plan was re-introduced in 2010. Facility rental costs increased due to expansions into Pennsylvania and Texas. As a percentage of revenues, general and administrative expenses were 20% in 2010 and 22% in 2009.

For 2010 Q4, the Company recorded a tax expense of $2,096 compared to the 2009 Q4 recovery of $829. In 2010 Q4, the effective tax rate on continuing operations was 22%. The 2010 Q4 future tax provision is net of $812 utilization of deferred credit. Excluding this utilization of deferred credit, the effective tax rate was 30% which is approximately the expected tax rate for the Company. The Company's current income taxes for 2010 Q4 primarily related to U.S. operations.

Net income for 2010 Q4 was $7,662 ($0.21 per share - diluted) compared to $2,236 ($0.06 per share - diluted) in 2009 Q4.

SUMMARY OF QUARTERLY RESULTS

Three month period ended	**Dec 2010**	**Sep 2010**	**Jun 2010**	**Mar 2010**	**Dec 2009**	**Sep 2009**	**Jun 2009**	**Mar 2009**
Revenues [(1)]	$ 42,877	$ 38,864	$ 23,979	$35,676	$24,741	$20,176	$ 10,654	$ 26,529
EBITDAS	13,103	11,967	2,415	10,479	5,864	5,724	(1,721)	6,785
Income (loss) from continuing operations	7,508	7,140	(2,881)	8,762	3,409	3,717	699	2,447
Per share – basic and diluted	0.20	0.20	(0.08)	0.24	0.10	0.10	0.02	0.07
Net income (loss)	7,662	7,056	(3,440)	6,737	2,236	3,125	(1,484)	1,404
Per share – basic	0.21	0.19	(0.09)	0.19	0.06	0.09	(0.04)	0.04
Per share –diluted	0.21	0.19	(0.09)	0.18	0.06	0.09	(0.04)	0.04
Cash dividends declared per share	0.06	0.06	0.06	0.06	-	0.04	0.12	0.15

(1) Revenues have been rested to exclude discontinued operations.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company's consolidated financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") and significant accounting policies utilized by the Company are described in notes 1 and 2 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 Canadian GAAP, 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 2 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.

Development costs Costs associated with the development of downhole equipment are capitalized during the development process. These costs are identified as development costs and are recorded within property and equipment. Once the equipment becomes commercial in nature, the related development costs are amortized over 5 years. The Company undertakes periodic reviews of each project on which development costs have been recorded to determine if the carrying value of the project can be recovered for the undiscounted expected net future cash flow generated from the related equipment. If there is no reasonable expectation that the costs can be recovered, the carrying value of the project is reduced and the excess is charged to earnings. This process of estimation is subject to significant judgment with respect to revenues and direct costs associated with the equipment as well as market acceptance.

Income taxes The Company uses the asset and liability method of accounting for future income taxes whereby future 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 future taxable income is based on management's best estimate and may vary from actual taxable income. On an annual basis, the Company assesses its need to establish a valuation allowance for its future income tax assets and if it is deemed more likely than not that its future income tax assets will not be realized on its taxable income projections a valuation allowance is recorded.

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 Canadian GAAP 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 and anticipated dividend yield. The use of different assumptions could result in different book values for share-based compensation.

FUTURE ACCOUNTING POLICIES

In February, 2008, the Canadian Institute of Chartered Accountants confirmed that the use of International Financial Reporting Standards ("IFRS") will be required in Canada for publicly accountable profit oriented enterprises for fiscal years beginning on or after January 1, 2011. The Company will report under IFRS beginning January 1, 2011.

The Company has completed its initial assessment of the impact upon the opening balance sheet at January 1, 2010 and is in the process of having these amounts reviewed by the Company's external auditors. After this review has been completed, the amounts will be presented to the audit committee for approval. The impact of adoption of IFRS compared to the existing Canadian GAAP ("CGAAP") at January 1, 2010 is as follows:

Upon adoption of IFRS, the deferred credit which arose for CGAAP purposes on the 2009 reorganization, will be derecognized and will increase retained earnings by $20,514. As a result of this change, the effective tax rate will be closer to the expected statutory rate as there will be no reduction to current tax expense on the draw-down of the deferred credit.

For IFRS, goodwill and intangibles have to be allocated to and evaluated for impairment on a "cash-generating unit" basis. For CGAAP, they were assessed on an enterprise basis. Upon adoption of IFRS and as a result of the test for impairment, all goodwill and intangible assets related to the discontinued wireline operation are considered impaired and will be written off. These adjustments will reduce retained earnings. Goodwill will be reduced by approximately $13,900 and intangibles will be reduced by $293.

The Company has leases for vehicles. For CGAAP, these are classified as operating leases. Under IFRS, these will be classified as finance leases. As a result of this reclassification property and equipment and long-term debt will increase by approximately $1,900. As at January 1, 2010 it is anticipated that this change will not have a material impact on retained earnings. In 2010, expenses will be reduced by the amount of lease payments, offset by increases in depreciation, interest expense and future tax expense.

In 2009, certain assets were temporarily removed from service and therefore no depreciation has been recorded for these assets under CGAAP. Upon adoption of IFRS these assets will be depreciated in 2009 and as a result property and equipment and retained earnings will decrease by approximately $650.

Under CGAAP, development costs were classified as a component of property and equipment. Under IFRS, these amounts will be classified as intangible assets. As a result of this reclassification property and equipment will be reduced by $884 and intangible assets will be increased by $884.

The Company has elected to apply the IFRS 1 exemption to deem the fair value for certain wireline property and equipment to be the carrying value for IFRS. As a result of this change property and equipment and retained earnings will increase by approximately $1,200.

Upon adoption of IFRS, the Company has elected to utilize the transitional exemption to reset the cumulative translation differences of its foreign subsidiaries to $nil. As a result, retained earnings will decrease by $1,967 as at January 1, 2010. In addition, the method of accounting for foreign currency conversion for Directional Plus International Ltd. and Directional Plus de Venezuela, C.A. will change and as a result of this change, the capital assets and retained earnings of these companies will be reduced by approximately $725.

Under IFRS the Company's stock-based compensation expense is calculated separately for each tranche of options granted (i.e. graded vesting) and incorporates estimated forfeitures. As a result contributed surplus will increase by and retained earnings will decrease by approximately $100.

The impact of the above adjustments is expected to decrease the deferred tax asset and retained earnings by approximately $300.

In addition, under the provisions of IFRS 1 for first time adopters the Company will utilize the following exemptions which are expected to result in no differences in the Company's opening balance sheet under IFRS from CGAAP:

- the Company has elected to not apply IFRS 3 "Business Combinations" retrospectively;
- the Company has elected to apply IAS 23 "Borrowing Costs" to its borrowing costs related to capital acquisition prospectively; and
- the Company has elected to apply IFRS 2 "Share-based payments" on share-based payments prospectively.

The Company is in the process of finalizing the impact of these changes for 2010 and ensuring there are no further changes to opening 2009 figures. The Company has chosen to present its income statement on a function basis of presentation and this approach has been approved by the audit committee. Under this presentation certain amounts which have been presented as separate line items on the income statement, such as depreciation and stock-based compensation, will be reclassified as either cost of sales or selling and general and administrative expenses. In addition, some expenses which are netted against revenue will be reclassified to cost of sales and some amounts currently presented as general and administrative expenses will be reclassified as cost of sales.

The analysis will be completed prior to the issuance of 2011 Q1 results and will be disclosed in full in 2011 Q1 financial statements.

CONTROLS AND PROCEDURES

In order to ensure that information with regard to reports filed or submitted under securities legislation present fairly in all material respect the financial information of the Company, management including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") are responsible for establishing and maintaining disclosure controls and procedures, as well as internal controls over financial reporting.

Disclosure controls and procedures The Company's disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Company is reported within the time periods specified under securities laws, and include controls and procedures that are designed to ensure that information is communicated to management of the Company, including the CEO and CFO, to allow timely decisions regarding required disclosure. An evaluation of the effectiveness of the Company's disclosure controls and procedures (as defined in Multilateral Instrument 52-109, Certification of Disclosure in Issuers' Annual Financial and Interim Filings) was conducted as at December 31, 2010. Based on this evaluation, the CEO and CFO of Cathedral have concluded that the design and operation of the Company's disclosure controls and procedures were effective as at December 31, 2010.

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 Canadian 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 Canadian 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, 2010 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 three months ended December 31, 2010 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 the Company to operate with lower fixed overhead costs in seasonally low activity periods as well as extended downturns in the oilfield services sector.

Cash dividends to shareholders are dependent on the performance of the Company 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. The Company's dividend policy is subject to change at the discretion of its Board of Directors. In addition, the Company's bank facility covenants include restrictions on the payment of cash dividends if the Company is not in compliance with debt covenants.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 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 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 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. In news releases, New SBS has announced that it is exploring strategic alternatives and, in addition, announced they have engaged the services of a financial advisor to assist in this process. In light of these announcements, the ability of New SBS to provide Cathedral with the indemnity protection as noted above may be impaired.

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 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 corporate 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, are 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 $65,000 ($20,000 demand operating loan and a $45,000 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 Cathedral's Board of Directors decides to issue additional common shares, preferred shares or securities convertible into common shares, existing shareholders may suffer significant dilution.

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 Canadian GAAP 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 the Company to do so could have a material adverse affect on the Company's business, financial condition, results of operations and cash flow and therefore on the Company's ability to pay dividends. The Company'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.

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.

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"), will be owned 60% by the PDVSA wholly-owned subsidiary and 40% by Cathedral's wholly-owned subsidiary, Directional Plus International Ltd. 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 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: 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, 2010, Cathedral's investment in its Venezuela subsidiary is approximately $7,243. During 2011, Cathedral expects an additional $4,000 of down hole and resistivity tools attributed to the international business segment to be transferred into Venezuela as well as providing a loan guarantee to Vencana in the amount of 5,000 Venezuela Bolivars (approximately $1,200).

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 the U.S. dollar, Cathedral is now exposed to foreign currency fluctuations in relation to the Venezuelan Bolivar. 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.

In addition, the Company is exposed to currency exchange risk on assets denominated in U.S. dollars and Venezuelan Bolivars. Since the consolidated financial statements are presented in Canadian dollars, any change in the value of the Canadian dollar relative to the U.S. dollar, and to a lesser extent, the Venezuelan Bolivar, during a given financial reporting period would result in a foreign currency loss or gain on the translation of the Company's assets measured in other currencies into Canadian dollars. Consequently, the Company's reported earnings could fluctuate materially as a result of foreign exchange translation gains or losses.

Acquisitions Cathedral may undertake acquisitions of businesses and assets in the ordinary course of business. Achieving the benefits of acquisitions depends in part on successfully consolidating functions, retaining key employees and customer relationships and integrating operations and procedures in a timely and efficient manner. Such integration may require substantial management effort, time and resources and may divert management's focus from other strategic opportunities and operational matters. Management continually assesses the value and contribution of services provided and assets required to provide such services.

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 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, the Company'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 22%) of Cathedral's consolidated revenues (2009 – one customer at 28%). While the Company 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 Cathedral's 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 the Company'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 the Company's procedures will prevent environmental damage occurring from spills of materials handled by the Company or that such damage has not already occurred. On occasion, substantial liabilities to third parties may be incurred. The Company may have the benefit of insurance maintained by it or the operator; however the Company 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 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 the Company'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 the Company's services or increase its costs, either of which could have a material adverse impact on the Company.

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 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, 2010, the Company has entered into $7,929 of commitments under operating leases for premises and vehicles (refer to note 17 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

SUPPLEMENTARY INFORMATION

At March 2, 2011, the Company had 36,769,069 shares and 2,994,527 options outstanding. Additional information regarding the Company, including the Annual Information Form ("AIF"), is available on SEDAR at www.sedar.com.

OUTLOOK

Demand for Cathedral's services is currently being driven by both oil and liquids-rich natural gas plays. Natural gas prices are expected to remain weak in the near term despite natural gas storage levels being below its five year average. In due course, natural gas prices are expected to improve and thereby become 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. Directional drilling and production testing flow back operations are considered key services in applying this new completion technology. Cathedral has seen strong demand for all of its services in 2011 Q1, which is typically the busiest time for oilfield services in Canada. The outlook post breakup is expected to remain robust as evidenced by customer's commitments to projects that are longer term in nature.

To accommodate the expected increase in activity levels, Cathedral continues its program to add new equipment and to train field personnel. In 2011 Cathedral expects to add 27 MWD systems (including a carryover of 7 from the 2010 capital budget) and related mud motors and drill collars to complement the increased job capability. The Production Testing division is expected to add 6 high pressure units and auxiliary equipment to complement its overall fleet.

Cathedral will continue to invest in resources – personnel and technology – to expand its offering of technologies to penetrate new markets as well as expand markets in which it operates. The Company has focused its research and development spending on its MWD platform system to allow the MWD systems to drill deeper with the most efficient technologies and expects to introduce additional enhancements in the near term. In-house design and manufacturing has allowed Cathedral to react to drilling issues on a timely basis. The Company has made significant inroads towards the vertical integration of the design and manufacture of MWD systems and will look towards expanding this vertical integration to further elements of its operations thereby gaining increased control of the Company's needs.

To assist in the ability to service the U.S. market, Cathedral opened a directional drilling operations/repair facility in Houston, Texas in November 2010. This operations base, which will be used to service activity in the prolific Haynesville and Eagleford plays, is fully operational and commenced repairing equipment in January 2011. Cathedral now services its U.S. directional drilling market from facilities in Colorado, Wyoming, Pennsylvania and Texas.

Cathedral continues to work towards providing directional drilling services in Venezuela with its joint venture partner, PDVSA, the state-owned oil and natural gas corporation of the Bolivarian Republic of Venezuela. PDVSA and Cathedral are currently in the process of incorporating and registering the joint venture company and this process has taken longer than expected. Management's expectation was to commence operations in Venezuela in 2011 Q1 and this has been delayed. Upon completion of the incorporation/registration process, Cathedral and PDVSA will work towards a start-up date for Vencana's operations.

MANAGEMENT'S REPORT

The consolidated financial statements have been prepared by the management in accordance with 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

We have audited the accompanying consolidated financial statements of Cathedral Energy Services Ltd., which comprise the consolidated balance sheets as at December 31, 2010 and 2009**,** the consolidated statements of operations and retained earnings, consolidated statements of comprehensive income and accumulated other comprehensive loss and consolidated cash flows for the years then ended, 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 Canadian generally accepted accounting principles, 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.

Auditors' 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, 2010 and 2009, and the results of its consolidated operations and its consolidated cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Signed: "KPMG LLP"
Chartered Accountants
Calgary, Canada
March 2, 2011

CONSOLIDATED BALANCE SHEETS

December 31, 2010 and 2009
Dollars in '000s

	2010	2009
Assets		
Current assets:		
Cash and cash equivalents	**$ 1,740**	$ 491
Accounts receivable	**37,794**	27,727
Income taxes recoverable	**-**	2,550
Inventory	**7,648**	5,389
Assets held for sale (note 4)	**1,754**	740
Prepaid expenses and deposits	**1,958**	1,629
	50,894	38,526
Property and equipment (note 3)	**104,217**	77,425
Assets held for sale (note 4)	**1,457**	14,027
Future income taxes (note 7)	**19,044**	23,491
Intangibles	**-**	293
Goodwill	**18,448**	19,775
	$ 194,060	$ 173,537
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness (note 5)	**$ 8,765**	$ 2,181
Accounts payable and accrued liabilities	**21,309**	13,686
Dividends payable	**2,204**	-
Income taxes payable	**53**	-
Current portion of long-term debt (note 6)	**27**	208
	32,358	16,075
Long-term debt (note 6)	**34,502**	39,526
Deferred credit (note 7)	**18,085**	20,514
	84,945	76,115
Shareholders' equity:		
Share capital (note 8)	**70,753**	68,995
Contributed surplus (note 9)	**6,533**	4,390
Retained earnings	**35,259**	26,004
Accumulated other comprehensive loss	**(3,430)**	(1,967)
	109,115	97,422
Commitments and contingencies (note 17)		
Subsequent event (note 18)		
	$ 194,060	$ 173,537

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 STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

Years ended December 31, 2010 and 2009
Dollars in '000s except per share amounts

	2010	2009
Revenues	**$ 141,396**	$ 82,100
Expenses:		
Operating	**74,585**	41,835
General and administrative	**30,471**	20,617
Depreciation	**10,626**	11,602
Share-based compensation	**2,589**	1,732
Interest - long-term debt	**1,256**	1,238
Interest - other	**523**	290
Foreign exchange gain	**(1,309)**	(3,340)
	118,741	73,974
	22,655	8,126
Gain on disposal of property and equipment	**2,760**	815
Income before taxes and discontinued operations	**25,415**	8,941
Taxes (note 7):		
Current	**1,502**	4,220
Future (recovery)	**3,384**	(5,551)
	4,886	(1,331)
Income from continuing operations	**20,529**	10,272
Loss from discontinued operations (note 4)	**(2,514)**	(4,991)
Net income	**18,015**	5,281
Retained earnings, beginning of year	**26,004**	31,559
Dividends declared	**(8,760)**	(10,836)
Retained earnings, end of year	**$ 35,259**	$ 26,004
Income from continuing operations per share (note 10):		
Basic and diluted	**$ 0.56**	$ 0.29
Loss from discontinued operations per share (note 10):		
Basic and diluted	**$ (0.07)**	$ (0.14)
Net income per share (note 10):		
Basic and diluted	**$ 0.49**	$ 0.15

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) AND ACCUMULATED OTHER COMPREHENSIVE LOSS

Years ended December 31, 2010 and 2009
Dollars in '000s except per share amounts

	2010	2009
Net income	**$ 18,015**	$ 5,281
Other comprehensive loss:		
Unrealized foreign exchange loss on translation of self-sustaining foreign operations	**(1,463)**	(5,293)
Comprehensive income (loss)	**$ 16,552**	$ (12)
Accumulated other comprehensive income (loss), beginning of year	**$ (1,967)**	$ 3,326
Other comprehensive loss	**(1,463)**	(5,293)
Accumulated other comprehensive loss, end of year	**$ (3,430)**	$ (1,967)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2010 and 2009
Dollars in '000s except per share amounts

	2010	2009
Cash provided by (used in):		
Operating activities:		
Income from continuing operations	**$ 20,529**	$ 10,272
Items not involving cash:		
Depreciation	**10,626**	11,602
Future income tax (recovery)	**3,384**	(5,551)
Unrealized foreign exchange gain	**(987)**	(3,682)
Share-based compensation	**2,589**	1,732
Gain on disposal of property and equipment	**(2,760)**	(815)
Cash flow from continuing operations	**33,381**	13,558
Cash flow from discontinued operations (note 4)	**(1,807)**	(1,291)
Changes in non-cash operating working capital (note 14)	**(5,109)**	6,297
	26,465	18,564
Investing activities:		
Property and equipment additions from continuing operations	**(35,062)**	(8,470)
Property and equipment additions from discontinued operations	**(171)**	(453)
Transaction with SemBioSys Genetics Inc. (note 7)	**-**	(3,597)
Proceeds on disposal of property and equipment from continuing operations	**4,151**	1,499
Proceeds on disposal of property and equipment from discontinued operations	**6,308**	2,720
Changes in non-cash investing working capital (note 14)	**3,438**	(3,719)
	(21,336)	(12,020)
Financing activities:		
Advances under long-term debt	**-**	4,500
Repayment of long-term debt	**(5,205)**	(5,206)
Dividends paid	**(6,556)**	(13,117)
Shares issued for cash, net of issuance costs (note 8)	**-**	13,820
Proceeds on exercise of options (note 8)	**1,312**	34
Changes in bank indebtedness	**6,584**	(13,225)
	(3,865)	(13,194)
Effect of exchange rate on changes in cash and cash equivalents	**(15)**	(410)
Change in cash and cash equivalents	**1,249**	(7,060)
Cash and cash equivalents, beginning of year	**491**	7,551
Cash and cash equivalents, end of year	**$ 1,740**	$ 491

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2010 and 2009
Dollars in '000s except per share amounts

1. Basis of Presentation

Cathedral Energy Services Ltd. (the "Company") is incorporated under the Business Corporations Act (Alberta) (the "Act"). 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 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. which is owned by the former shareholders of SBS.

Prior to the closing of the Reorganization, the consolidated financial statements included the accounts of the Trust, its subsidiaries and partnerships, all of which were wholly owned. Subsequent to the Reorganization, the consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned. The Company is considered a continuation of the Trust and these consolidated financial statements follow the continuity of interest's method of accounting. Under the continuity of interest's method of accounting the transfer of assets, liabilities and equity from the Trust to the Company are recorded at their net book values as at December 18, 2009.

As a result of the application of the continuity of interest's method of accounting, certain terms such as shareholders'/unitholders' and share-based/unit-based may be used interchangeably throughout these consolidated financial statements.

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 United States ("U.S.").

The Company is in the process of initiating operations in Venezuela for providing directional drilling services through a joint venture. Cathedral's wholly-owned subsidiary, Directional Plus International Ltd. ("DPI"), has entered into a Joint Venture and Strategic Alliance Agreement (the "JVSAA") with PDVSA Servicios Petroleros, S.A. ("PDVSA Servicios Petroleros"), 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. The JVSAA provides for the formation of a joint stock company, Vencana Services Petroleros, S.A, ("Vencana") in which PDVSA Servicios Petroleros would own 60% of the capital stock and DPI would own the remaining 40%. Vencana's mandate is the supply of oilfield services in Venezuela to the oil and natural gas industry and commenced with the provision of directional drilling services; it is the intent for the services provided by Vencana to expand as mutually agreed between PDVSA Servicios Petroleros and DPI.

2. Significant accounting policies

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and include the following significant accounting policies:

(a) Principles of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned entities, Cathedral Energy Services Inc., Directional Plus International Ltd. and Directional Plus de Venezuela, C.A.

(b) Foreign currency translation

The Company's U.S. operations are classified as self-sustaining. As such the consolidated financial statements are being translated using the current rate method. Under the current rate method of translation, revenues and expenses of the subsidiary are translated at the rate in effect at the time of the transactions while assets and liabilities are translated at the current exchange rate in effect at the balance sheet date. Upon consolidation the U.S. operations translation gains and losses due to fluctuations in the foreign currency exchange rates are deferred on the balance sheet as a separate component of Accumulated Other Comprehensive Income ("AOCI"). Accumulated other comprehensive income (loss) forms part of shareholders' equity.

The Company's international operations other than in the U.S. are considered integrated and the Company uses the temporal method of foreign currency translation for these operations.

(c) Inventory

Inventory is comprised of parts to be used in repairing equipment and operating supplies. Inventory is valued at the lower of cost and net realizable value.

(d) Property and equipment

Property and equipment are stated at cost less accumulated depreciation.

Effective January 1, 2010, the Company conducted a review of its estimate of useful life of all property and equipment and adjusted its declining balance depreciation rates accordingly. These changes in declining balance rates are considered a change in estimate and as such have been accounted for prospectively, without retroactive restatement of prior periods. The rates on the following items changed:

Directional drilling equipment	10 to 15% (previously 10 to 25%)
Production testing equipment	15 to 20% (previously 20 to 25%)
Wireline equipment	15 to 20% (previously 20%)
Office equipment	20 to 30% (previously 20%)

As a result of these changes, depreciation recorded in these consolidated financial statements was reduced by $2,732 for the year ended December 31, 2010.

The remaining rates remained unchanged and are as follows:

Automotive equipment	20 to 25%
Buildings	4%
Computer equipment	20%

Leasehold improvements are depreciated on a straight-line basis over the term of the lease.

2. Significant accounting policies (continued)

(d) Property and equipment (continued)

Development costs are expenses incurred with respect to the pre-commercialization of downhole equipment. These costs are amortized on a straight-line basis over 5 years upon commercialization of the equipment.

(e) Future income taxes

The Company uses the asset and liability method of accounting for future income taxes whereby future 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. Tax expense is the sum of the Company's provision for current taxes and the difference between the opening and ending balances of the future income tax assets and liabilities.

(f) Revenue recognition

Revenue is recognized as services are rendered based upon daily, hourly or job rates. Revenue related to the rental of downhole tools is recognized in the period during which the rental hours/days occur.

(g) Per share amounts

Basic net income per share is computed by dividing net income by the weighted average number of shares outstanding for the year. Diluted per share amounts reflect the potential dilution that could occur if securities or other contracts to issue shares were exercised or converted to shares. The treasury stock method is used to determine the dilutive effect of options and other dilutive instruments.

(h) Share-based compensation plan

i) Option plan

The Company has an option plan as described in note 8. The related share-based compensation expense is recorded for options issued to employees and non-employees using the fair value method. The fair value of employee options is valued on the date of grant and the resulting fair value is recorded as an expense over the vesting period of the option. The fair value of non-employee options are revalued each reporting date with the change in fair value on the vested options recorded in the income statement, and the change in fair value on unvested options expensed over the remaining vesting period. In determining the fair value of the options granted, the Black-Scholes model is used and assumptions regarding interest rates, underlying volatility of the shares, dividend yield and expected life of the options are made.

ii) Phantom option plan

The Company had a phantom option plan that provided for the granting of stock appreciation rights ("SARs") to key employees. The plan was terminated on October 18, 2009 when the holders forfeited their options (see note 8 (f)). The SARs provided the holder with the opportunity to earn a cash award equal to the fair market value of the share less the price at which the SAR was issued. Compensation expense was measured based on the market price of the Company's shares at the end of the reporting period.

(i) Cash and cash equivalents

Cash and cash equivalents consist of cash and highly liquid investments which have maturities of less than three months at the date of acquisition.

(j) Goodwill

Goodwill represents the excess of the purchase price over the value attributed to the net tangible and intangible assets acquired. Goodwill is not subject to amortization but is subject to an annual review for impairment (or more frequently if events or changes in circumstances indicate that goodwill is impaired) which consists of a comparison of the Company's fair value of the net assets to their carrying value. The net carrying value of goodwill would be written down if the value is determined to be impaired.

(k) Intangible assets

Intangible assets are comprised of values attributed to customer relationships and non-compete agreements and are amortized on a straight-line basis over 8 and 4 years, respectively. Management assesses the carrying value of intangible assets on a periodic basis for indications of impairment. When an indication of impairment is present, a test for impairment is carried out by comparing the carrying value of the asset to its expected future cash flows. If the carrying amount is greater than the expected future cash flow, the asset would be considered impaired and an impairment loss would be realized to reduce the asset's carrying value to its estimated fair value.

(l) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

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

(m) Financial instruments

Financial instruments are measured at fair value and are classified as either "held-for-trading", "available-for-sale", "held-to-maturity", "loans and receivables" or "other financial liabilities". Financial assets and liabilities classified as "held-for-trading" are measured at fair value with gains and losses being recognized in net income during the period in which they occur. Financial assets classified as "available-for-sale" are measured at fair value with unrealized gains and losses, net of tax, recognized in comprehensive income until the asset is sold. If an unrealized loss is considered other than temporary, such a loss is recognized in net income in the period in which it occurs. Financial assets classified as "held-to-maturity" or as "loans and receivables" and financial liabilities classified as "other financial liabilities" are measured at amortized costs using the effective interest rate method. Transaction costs directly attributed to the acquisition or issue of a financial asset or liability are added to the carrying value of the respective financial asset or liability.

The Company will assess at each reporting period whether a financial asset, other than those classified as "held for trading", is impaired. An impairment loss, if any, is included in net earnings. The Company does not use derivative instruments or hedges.

(n) International Financial Reporting Standards

In February, 2008, the Canadian Institute of Chartered Accountants confirmed that the use of International Financial Reporting Standards ("IFRS") will be required in Canada for publicly accountable profit oriented enterprises for fiscal years beginning on or after January 1, 2011. The Company will be required to report using IFRS beginning January 1, 2011.

The Company has substantially completed the quantification of the impact of IFRS on its opening IFRS balance sheet as at January 1, 2010 and is in the process of quantifying the impact on balances to December 31, 2010. It is in the process of having its auditors review managements' calculations and subsequent to this will have the Company's Audit Committee approve the transition adjustments.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Property and equipment

2010	Cost	Accumulated depreciation	Net book value
Directional drilling equipment	$ 104,319	$ 41,028	$ 63,291
Production testing equipment	36,314	11,783	24,531
Automotive equipment	895	450	445
Office and computer equipment	3,676	2,217	1,459
Leasehold improvements	1,037	621	416
Development costs	2,557	2,170	387
Buildings	10,373	622	9,751
Land	3,937	-	3,937
	$ 163,108	$ 58,891	$ 104,217

During 2010, $7,482 of property and equipment was not depreciated as it was temporarily removed from service.

2009	Cost	Accumulated depreciation	Net book value
Directional drilling equipment	$ 85,653	$ 36,820	$ 48,833
Production testing equipment	21,928	8,907	13,021
Automotive equipment	619	287	332
Office and computer equipment	3,267	1,788	1,479
Leasehold improvements	790	479	311
Development costs	2,677	1,792	885
Buildings	9,098	471	8,627
Land	3,937	-	3,937
	$ 127,969	$ 50,544	$ 77,425

Included in the 2009 property and equipment are assets under capital lease with a cost of $425 and a net book value of $165. During 2009, $10,163 of property and equipment was not depreciated as it was temporarily removed from service.

4. Assets held for sale and discontinued operations

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 including inventory and property and equipment. As such, all remaining Canadian wireline property and equipment has been reclassified as assets held for sale on the consolidated balance sheet. The remaining wireline assets are expected to be sold in 2011. The assets and liabilities of the wireline business held for sale comprise of the following:

	2010	**2009**
Current assets held for sale:		
Inventory	$ -	$ 740
Property and equipment	1,754	-
	$ 1,754	$ 740
Long-term assets held for sale:		
Property and equipment	$ 1,457	$ 14,027

Operating results related to this division have been included in loss from discontinued operations on the consolidated statements of operations and retained earnings. Comparative periods have been reclassified to include this division as discontinued operations. The following table provides information with respect to amounts included in the statements of operations related to discontinued operations.

	2010	2009
Revenues	$ 2,403	$ 12,420
Expenses:		
Operating	2,285	10,294
General and administrative	1,933	5,466
Depreciation	557	3,739
Impairment of goodwill	699	-
Impairment of intangibles	257	-
Interest – long-term debt	17	-
Interest – other	3	20
	5,751	19,519
	(3,348)	(7,099)
Gain on disposal of property and equipment	256	160
Loss before taxes	(3,092)	(6,939)
Taxes:		
Current (recovery)	(28)	(2,069)
Future (recovery)	(550)	121
	(578)	(1,948)
Loss from discontinued operations	$ (2,514)	$ (4,991)

4. Assets held for sale and discontinued operations (continued)

The gain on disposal of property and equipment for 2010 is comprised of gain on disposal of property and equipment of $883, net of an additional impairment of goodwill of $627.

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

	2010	2009
Operating activities:		
Loss from discontinued operations	$ (2,514)	$ (4,991)
Items not involving cash:		
Depreciation	557	3,739
Impairment of goodwill	699	-
Impairment of intangibles	257	-
Future taxes (recovery)	(550)	121
Gain on disposal of property and equipment	(256)	(160)
Cash flow from discontinued operations	$ (1,807)	$ (1,291)

5. Bank indebtedness

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 2.00% to 3.50% with interest payable monthly and is secured as described in note 6. 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).

6. Long-term debt

	2010	2009
Bank revolving term loan with a major Canadian bank at an authorized amount of $45,000, bearing interest at the bank's prime rate plus 0.75 % to 2.25% or bankers' acceptance rate plus 2.00% to 3.50%, without repayment terms, maturing June 29, 2011 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	$ 34,500	$ 39,500
Non-interest bearing loans secured by the related automotive equipment with various maturity dates up to 2012	29	122
Capital lease obligations	-	112
	34,529	39,734
Less: current portion of long-term debt	(27)	(208)
	$ 34,502	$ 39,526

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.

Minimum principal amounts to be paid under long-term debt (assuming the Company elects prior to the maturity date of the revolving term loan to repay the loan over 36 months with interest only for the first 12 months) during the next five years are approximately as follows:

2011	$ 27
2012	5,752
2013	11,500
2014	11,500
2015	5,750

7. Income taxes

On December 18, 2009, the Company converted from a trust to a corporation by way of a Plan of Arrangement with various entities including the Trust, CES and SBS as described in note 1. SBS had: a) non-capital losses which are available to reduce the future taxable income of the Company in the amount of approximately $33,213; b) research and development expenditures which are available to reduce the future taxable income of the Company in the amount of approximately $41,045 and have an unlimited carry-forward period; and c) investment tax credits which are available to reduce future federal taxes payable of the Company in the amount of $6,747.

A future income tax asset of $24,936 was recognized with respect to the Plan of Arrangement. As part of the Plan of Arrangement, SBS was paid $3,671 including $2,846 paid in cash and $825 through the issuance of 189,200 common shares of the Company. In addition, advisor and professional fees associated with the transaction in the amount of $751 were capitalized for a total cost of $4,422. The difference between the future income tax asset recognized and the cost of the tax pools was recorded as a deferred tax credit in the amount of $20,514. SBS also had capital losses of $9,058, however, due to their limited use the benefits of these capital losses was not recognized in the initial recording of the transaction.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. Income taxes (continued)

The following table summarizes the temporary differences that give rise to the future income tax asset as at December 31, 2010 and 2009:

	2010	2009
Property and equipment	$ (5,313)	$ (3,327)
Non capital losses and scientific research and development expenditures carried forward	19,220	21,488
Investment tax credits	4,825	5,043
Other	312	287
	$ 19,044	$ 23,491

The business and operations of the Company is 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 Canadian generally accepted accounting principles 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.

As at December 31, 2010, the Company has non-capital losses that if not utilized, will expire as follows:

2027	$ 10,558
2028	22,684
2029	36
2029	3,953
	$ 37,231

As at December 31, 2010, the Company has investment tax credits that if not utilized, will expire as follows:

2020	$ 205
2021	260
2022	202
2023	288
2024	1,037
2025	1,036
2026	128
2027	1,575
2028	1,120
2029	574
	$ 6,425

Income tax expense for 2010 and 2009 differs from the amount that would be expected by applying the expected statutory income tax rates for the following reasons:

	2010	2009
Effective tax rate	28.1%	29.3%
Income before income taxes	$ 25,415	$ 8,941
Income allocated to trust unitholders	-	(6,460)
Income before taxes subject to corporate tax	$ 25,415	$ 2,481
Effective tax rate applied to income subject to corporate tax	$ 7,142	$ 727
Utilization of deferred credit	(2,428)	-
Adjustment to future taxes for change in effective tax rates	(131)	(1,403)
Income taxed in jurisdictions with different tax rates	668	160
Non-deductible expenses	646	443
Recognition of previously unrecognized tax losses	(422)	-
Non-taxable portion of gain on disposal of property and equipment	(328)	(326)
Change in unrecognized temporary differences	(146)	-
Benefit realized on conversion to corporation	-	(1,010)
Other	(115)	78
	$ 4,886	$ (1,331)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Share Capital

Pursuant to the Plan of Arrangement discussed in note 1, the Company acquired and cancelled all of the issued and outstanding trust units on December 18, 2009. Each former trust unit holder received one common share of the Company in exchange for one trust unit. Shareholders of SBS received 189,200 common shares of the Company.

(a) Authorized: An unlimited number of common shares

(b) Trust units issued

	Number of trust units	Amount
Balance, December 31, 2008	32,582,022	$ 54,311
Issued for cash on May 19, 2009	3,615,600	15,005
Less share issuance cost	-	(1,185)
Issued on exercise of options	13,239	34
Contributed surplus on options exercised (note 9)	-	5
Converted into common shares	(36,210,861)	(68,170)
Balance, December 31, 2009	-	$ -

(c) Common shares issued

	Number of shares	Amount
Balance, December 31, 2008	-	$ -
Converted from trust units	36,210,861	68,170
Plan of Arrangement (notes 1 and 7)	189,200	825
Balance, December 31, 2009	36,400,061	68,995
Issued on exercise of options	339,009	1,312
Contributed surplus on options exercised (note 9)	-	446
Balance, December 31, 2010	36,739,070	$ 70,753

(d) 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 (also refer to share-based payment modifications in note 8(e)). Options vest over a period of three years from the date of grant as employees, trustees 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, 2010 and 2009, and changes during the years then ended is presented below:

	2010		2009	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding, beginning of year	1,741,736	$ 3.67	3,053,430	$ 10.27
Granted	1,887,400	5.80	693,066	3.77
Exercised	(339,009)	3.87	(13,239)	2.59
Forfeited	(265,601)	4.21	(1,991,521)	9.95
Outstanding, end of year	3,024,526	$ 5.03	1,741,736	$ 3.67
Exercisable, end of year	256,146	$ 3.76	15,667	$ 8.49

The range of exercise prices for the options outstanding at December 31, 2010 is as follows:

	Total options outstanding			Exercisable	
Range	Number	Weighted average exercise price	Weighted average remaining life (years)	Number	Weighted average exercise price
$3.35 to $3.68	40,000	$ 3.58	4.61	-	$ -
$3.81	1,154,126	3.81	2.52	256,146	3.76
$4.96 to $5.05	362,200	5.04	3.28	-	-
$6.01 to $6.74	1,468,200	6.02	3.07	-	-
$2.59 to $6.74	3,024,526	$ 5.03	2.91	256,146	$ 3.76

During the year ended December 31, 2010, the Company has recorded share-based compensation expense of $2,589 (2009 - $1,732) related to the share option plan.

8. Share Capital (continued)

(d) Options (continued)

The following table sets out the assumptions used in applying the Black-Scholes model for options issued in 2010 and 2009 as well as the resulting fair value:

Date of issue	September 24 2010	September 7 2010	May 7 2010	January 20 2010	January 4 2010	October 13 2009	August 18 2009	July 16 2009
Number of options issued	12,000	15,000	317,200	1,441,200	102,000	579,066	54,000	60,000
Exercise price	$ 6.74	$ 6.01	$ 5.05	$ 6.01	$ 5.00	$ 3.81	$ 3.68	$ 3.35
Fair value per option	$ 1.91	$ 1.73	$ 1.52	$ 1.77	$ 1.62	$ 1.02	$ 0.98	$ 0.54
Expected dividend yield	3.56%	3.99%	4.75%	3.99%	4.80%	6.30%	6.52%	14.33%
Risk-free interest rate	1.40%	1.40%	2.19%	1.77%	1.77%	2.32%	2.49%	2.44%
Expected volatility	53.9%	56.4%	60.5%	62.4%	61.8%	52.0%	52.0%	52.0%
Expected life (in years)	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50

The Black-Scholes option valuation model used by the Company to determine fair value was developed for use in estimating the fair value of freely traded options, which are fully transferable and have no vesting restrictions. The Company's options are not transferable, cannot be traded and are subject to vesting restrictions and exercise restrictions under the Company's blackout policy which would tend to reduce the fair value of the Company's options. In addition, this model requires the input of highly subjective assumptions, including future stock price volatility and expected time until exercise that can cause a significant variation in the estimate of the fair value of the options.

(e) Share-based payment modification

On October 13, 2009, non-insider optionees with vested or unvested out-of-the-money options were invited to reduce the exercise price of their share options to $3.81, which equaled the trust unit price on the last trading day immediately before the date of the modification. In exchange for this reduction in the exercise price, longer vesting terms were established with due consideration of the original expiry date which did not change. A total of 1,034,003 options were re-priced. The unrecognized compensation costs from the original grant are recognized over the remainder of the original requisite service period and the incremental compensation costs for the modified share options are recognized over the new requisite service period.

In October 2009, insiders of the Company forfeited all of the outstanding 1,303,334 options, resulting in share based compensation expense of $794.

The following sets out the assumptions used in applying the Black-Scholes model for the modified options issued on or about October 13, 2009:

Number of options re-priced	1,034,003
Exercise price	$ 3.81
Weighted average increment fair value per option	$ 0.62
Expected dividend yield	6.30%
Risk-free interest rate	1.3% to 2.3%
Expected volatility	48.5% to 71.9%
Expected life (in years)	1.4 to 5.0

(f) Phantom option plan

The Company had a phantom option plan that provided for the granting of stock appreciation rights ("SARs") to key employees. During 2009 120,000 SARs were issued and on October 13, 2009, the holders forfeited all 120,000 SARs outstanding. During the year ended December 31, 2009 $nil compensation expense related to the SARs was recorded.

9. Contributed surplus

Balance, December 31, 2008	$ 2,663
Share-based compensation expense related to option plan (note 8)	1,732
Less: Contributed surplus on options exercised	(5)
Balance, December 31, 2009	4,390
Share-based compensation expense related to option plan (note 8)	2,589
Less: Contributed surplus on options exercised	(446)
Balance, December 31, 2010	$ 6,533

10. Per share amounts

In calculating the per share amounts, the Company utilizes the treasury method to determine the dilutive effect of options. Under the treasury stock method, only "in the money" dilutive instruments impact the diluted calculations.

At December 31, 2010, the basic weighted average number of shares outstanding was 36,453,458 (2009 – 34,840,714). At December 31, 2010, the diluted number of shares outstanding was 36,790,732 (2009 – 34,856,564), which includes the addition of 337,274 shares (2009 – 15,850) to the basic weighted average number of shares outstanding during the year for the dilutive effect of options.

11. Management of capital

The Company views its capital as the combination of long-term debt/capital lease obligations and shareholders' equity excluding AOCI. The Company's objectives when managing capital are to maintain a balance between the level of long-term debt/capital lease obligations and shareholders' equity that will allow access to capital markets and long-term debt to fund growth and working capital with due consideration to the cyclical nature of the oilfield services sector. Historically the Company has maintained a conservative ratio of long-term debt/capital lease obligations to long-term debt/capital lease obligations plus shareholders' equity excluding AOCI. As at December 31, 2010 and 2009 this ratio was as follows:

	2010	2009
Long-term debt, net of current portion	$ 34,502	$ 39,526
Shareholders' equity excluding AOCI	112,545	99,389
Total capitalization	$ 147,047	$ 138,915
Long-term debt, net of current portion to total capitalization	0.23	0.28

The Company is subject to a leverage test covenant on its credit facility. The management of the Company monitors its credit facility covenants on an on-going basis and is in compliance with the debt covenants as at and for the period ended December 31, 2010.

To assist in the management of its capital the Company prepares annual operating and capital expenditure budgets, which are updated as necessary depending on varying factors including general industry conditions. In order to maintain or adjust the capital structure the Company may, with the approval of its Board of Directors, alter the amount of dividends paid to shareholders, issue new shares, issue new debt, and/or issue new debt to replace existing debt with different characteristics.

The Company's overall strategy with respect to capital management remains unchanged from the year ended December 31, 2009.

12. Financial instruments

The Company has designated its financial instruments into the following categories applying the indicated measurement methods:

Financial Instrument	Category	Measurement Method
Cash and cash equivalents	Held for trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Bank indebtedness/Accounts payable and accrued liabilities/Dividends payable/ /Long-term debt	Other liabilities	Amortized cost

The fair value of cash and cash equivalents, accounts receivable, income taxes recoverable/payable, bank indebtedness, dividends payable and accounts payable and accrued liabilities approximate their carrying values due to their short term maturities. The fair value of long-term debt at December 31, 2010 approximated its carrying value as it bears interest at floating rates.

The Company is exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives for growth and shareholder returns. The principal financial risks to which the Company is exposed are described below.

(a) Credit risk:
Substantially all of the Company's accounts receivable are due from customers in the oil and gas industry and are subject to normal industry credit risks. The carrying value of accounts receivable reflects management's assessment of the associated credit risks. At December 31, 2010 the Company's provision for doubtful accounts is $106 (2009 - $526) and for the year ended had a bad debt expense of $189 (2009 - $nil). Included in accounts receivable are amounts of $2,304 (2009 - $2,867) which have been outstanding for greater than 90 days, but which are considered collectable and for which no provision for doubtful accounts has been made.

(b) Liquidity risk:
Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with its financial liabilities. The Company manages liquidity risk through regular monitoring of forecast and actual cash flows, and also the management of its capital structure and financial leverage as outlined in note 11. The Company's credit facility are outlined in notes 5 and 6.

(c) Foreign currency exchange risk:
The Company has an exposure to fluctuations in the Canada/U.S. foreign currency exchange rate primarily due its operations in the U.S.. Management attempts to mitigate this exposure by matching local purchases in the same currency. In addition, the Company became exposed to fluctuations in Canadian Dollar versus Venezuelan Bolivars foreign currency exchange rate fluctuations related to funds on deposit in Venezuela. Currently, the Company's net foreign currency exposure risk is not significant enough to warrant an active management program to mitigate the foreign currency exchange exposure.

(d) Interest rate risk:
At December 31, 2010, the Company was exposed to changes in interest rates on its bank indebtedness and most of its long-term debt. A 1% increase in the Company's bank's lending rate would cause interest expense to increase by approximately $433 (2009 - $417) per annum based upon the balance of bank indebtedness and long-term debt with a floating interest rate outstanding as at December 31, 2010.

13. Reorganization costs

To effect the December 18, 2009 conversion to a corporation, the Company incurred $1,428 of reorganization costs in 2009. These 2009 costs include fees paid to financial, tax and legal advisors plus regulatory fees and other costs. $677 of these costs have been recognized as general and administrative expenses of the year and the remaining $751 have been recognized as additions to the future tax asset recorded upon the Reorganization.

14. Supplemental cash flow disclosures

		2010		2009
Components of non-cash working capital are as follows:				
Accounts receivable	$	(10,478)	$	15,020
Inventory		(454)		2,343
Prepaid expenses and deposits		(356)		(151)
Accounts payable and accrued liabilities		7,816		(12,954)
Income taxes payable (recoverable)		1,801		(1,681)
		(1,671)		2,577
Changes in working capital related to investing activities		(3,438)		3,720
Changes in working capital related to operating activities	$	(5,109)	$	6,297
Interest paid	$	2,020	$	1,701
Income taxes paid (refunded)	$	(1,798)	$	3,445

15. Segmented information

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 2011. The amounts related to each segment are as follows:

Revenues		**2010**		2009
Canada	$	84,396	$	49,403
United States		57,000		32,697
	$	141,396	$	82,100

Revenues by operating division		**2010**		2009
Directional drilling	$	106,840	$	64,758
Production testing		34,556		17,342
	$	141,396	$	82,100

Property and equipment, goodwill and intangibles		**2010**		2009
Canada	$	89,059	$	72,661
United States		25,516		17,478
International		8,090		7,354
	$	122,665	$	97,493

During the year ended December 31, 2010, one customer accounted for 22% (2009 – 28%) of consolidated revenues.

16. 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 2010 was $185 (2009 - $635).

In 2009, StoneBridge Merchant Capital Corp. ("StoneBridge") acted as a special advisor to the Company in respect to the Plan of Arrangement and was paid a fee of $572. A director of the Company is an officer of StoneBridge. This transaction was recorded at the exchange amount.

17. Commitments and contingencies

(a) Leases
The Company has commitments under operating leases for premises and vehicles. Amounts to be paid under these leases during the next five years and thereafter are approximately as follows:

2011	$	1,710
2012		1,452
2013		1,334
2014		1,243
2015		1,091
Thereafter		1,099

(b) Property and equipment additions
At December 31, 2010, the Company has committed to purchase $8,983 (2009 – $5,910) of property, equipment and operating supplies. The Company anticipates expending these funds in 2011 Q1.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

17. Commitments and contingencies (continued)

(c) Legal and other claims
The Company, in the normal course of operations, will become subject to a variety of legal and other claims against the Company. Management and the Company's legal counsel evaluate all claims on their apparent merits, and accrue management's best estimate of the estimated costs to satisfy such claims. Management believes that the outcome of legal and other claims filed against the Company will not be material.

(d) Loan guarantee
In respect of the Company's expansion into Venezuela, pursuant to the JVSAA, the Company has agreed to provide Vencana with a loan guarantee for up to 5,000 Venezuelan Bolivars (approximate equivalent of $1,200),

18. Subsequent event

In February 2011, the Company sold land and building classified as part of assets held for sale. The net proceeds on sale were approximately $2,069 and will result in a gain on sale of approximately $316.

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P. Scott MacFarlane, Chief Financial Officer

John Ruzicki, Vice President

David Diachok, Vice President, Sales

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