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Calgary, Alberta
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CATHEDRAL ENERGY SERVICES LTD.

ANNUAL INFORMATION FORM

For the year ended December 31, 2011

Dated March 6, 2012

TABLE OF CONTENTS

GLOSSARY OF TERMS

The following are defined terms used in this Annual Information Form:

"**ABCA**" means the *Business Corporations Act* (Alberta), as amended, including the regulations promulgated thereunder;

"**Arrangement**" means the plan of arrangement pursuant to Section 193 of the ABCA, on the terms and conditions set forth in the Plan of Arrangement whereby the Trust converted into a growth-oriented corporation;

"**Arrangement Agreement**" means the amended and restated arrangement agreement dated November 16, 2009 among the Trust, Cathedral, SemBioSys, New Subco and New SemBioSys;

"**Board of Directors**" or "**Board**" means the board of directors of Cathedral;

"**Cathedral**" or "**Corporation**" means Cathedral Energy Services Ltd.;

"**Cathedral Energy Services Inc.**" means Cathedral Energy Services Inc., a corporation incorporated under the laws of Delaware;

"**Common Shares**" means common shares in the capital of Cathedral;

"**Declaration of Trust**" means the declaration of trust dated as of June 24, 2002 among Rod Maxwell, H.S. Hartley and Jay Zammit, as the Initial Trustees, as amended, who created the Trust;

"**Directional Plus de Venezuela, C.A.**" or "**DPV**" means Directional Plus de Venezuela, C.A., a corporation incorporated under the laws of Venezuela;

"**Directional Plus International Ltd.**" or "**DPI**" means Directional Plus International Ltd., a corporation incorporated under the laws of Barbados;

"**EM**" means Electro Magnetic;

"**EM-MWD**" means Electro Magnetic - Measurement While Drilling;

"**Fiscal Year**" means December 31, the fiscal year end of Cathedral;

"**Fusion Measurement-While-Drilling System**" or "**Fusion MWD System**" means Cathedral's customizable modular platform which is designed with the choice of EM transmission, positive mud pulse transmission or dual telemetry transmission;

"**G1**" means the first generation EM-MWD;

"**G2**" means the second generation EM-MWD;

"**G3**" means the third generation EM-MWD;

"**LWD**" means Logging-While-Drilling;

"**MWD**" means Measurement-While-Drilling;

"**New SemBioSys**" means 1491277 Alberta Ltd., a corporation incorporated under the ABCA;

"**New Subco**" means 1491265 Alberta Ltd., a corporation incorporated under the ABCA;

"**Options**" means the outstanding options to purchase Common Shares pursuant to Cathedral's Stock Option Plan;

"**Optionholders**" means holders of Options;

"**Person**" means any individual, partnership, association, body corporate, trustee, executor, administrator, legal representative, government, regulatory authority or other entity;

"**Plan of Arrangement**" means the plan of arrangement in the form and content set forth in Schedule "A" to the Arrangement Agreement;

"**Preferred Shares**" means the preferred shares in the capital of Cathedral;

"**RDS**" means the Remote Drilling System;

"**SemBioSys**" means SemBioSys Genetics Inc., a corporation incorporated under the laws of Canada;

"**Shareholders**" means the holders from time to time of Common Shares;

"**Stock Option Plan**" means the incentive stock option plan of Cathedral;

"**Tax Act**" means the *Income Tax Act* (Canada), as amended;

"**Trust**" means Cathedral Energy Services Income Trust, the predecessor entity to Cathedral, an open-ended mutual fund trust that was established under the laws of Alberta pursuant to the Declaration of Trust;

"**Trustees**" means the former trustees, from time to time, of the Trust;

"**Trust Unit**" or "**Unit**" means the former units of the Trust, each unit formerly representing an equal undivided beneficial interest therein;

"**Trust Unitholders**" or "**Unitholders**" means the former holders of previously issued and outstanding Trust Units;

"**TSX**" means the Toronto Stock Exchange;

"**TSXV**" means the TSX Venture Exchange; and

"**Vencana**" means Vencana Servicios Petroleros, S.A., a company jointly owned by DPI (40%) and PDVSA Servicios Petroleros, S.A. (60%).

FORWARD LOOKING INFORMATION

This Annual Information Form ("**AIF**") 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, including negatives thereof, suggesting future outcomes. In particular, this AIF contains forward-looking statements relating to: projected capital expenditures and commitments and the financing thereof; equipment delivery and deployment dates; geographic allocation of equipment; customer commitments; benefits associated with in-house mud motor design; ability to establish a working relationship with third party supplier of rotary steerable systems; benefits associated with financial results; activity levels; technology advances; availability of insurance coverage; commencement of Venezuela operations; ability to execute ancillary agreement to allow for commencement of operations in Venezuela; timing of the receipt of proceeds on sale of fund to Vencana; future product lines for Vencana and dividends. Cathedral 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 Cathedral, 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 AIF in connection with the forward-looking statements. You are cautioned that the following list of material factors and assumptions is not exhaustive. Specific material factors and assumptions include, but are not limited to:

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

Forward-looking statements are not a guarantee of future performance and involve a number of risks and uncertainties some of which are described herein. Such forward-looking statements necessarily involve known and unknown risks and uncertainties, which may cause Cathedral'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 by Cathedral's management discussion and analysis for the year ended December 31, 2011 (the "**MD&A**") and contained herein under the heading "Risk Factors". Any forward-looking statements are made as of the date hereof and, except as required by law, Cathedral assumes no obligation to publicly update or revise such statements to reflect new information, subsequent or otherwise.

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

CATHEDRAL ENERGY SERVICES LTD.

Name, Address and Incorporation

Cathedral is a corporation governed by the ABCA and was amalgamated pursuant to a Certificate of Amalgamation filed on December 18, 2009 in connection with the Arrangement. Prior thereto, Cathedral's predecessor entity, the Trust, was an open-ended mutual fund trust governed by the laws of the Province of Alberta and created pursuant to the Declaration of Trust. The principal and head office of Cathedral is located at 6030 – 3rd Street S.E., Calgary, Alberta, T2H 1K2. The registered office of Cathedral is located at 1600 Dome Tower, 333 - 7th Avenue S.W., Calgary, Alberta, T2P 2Zl.

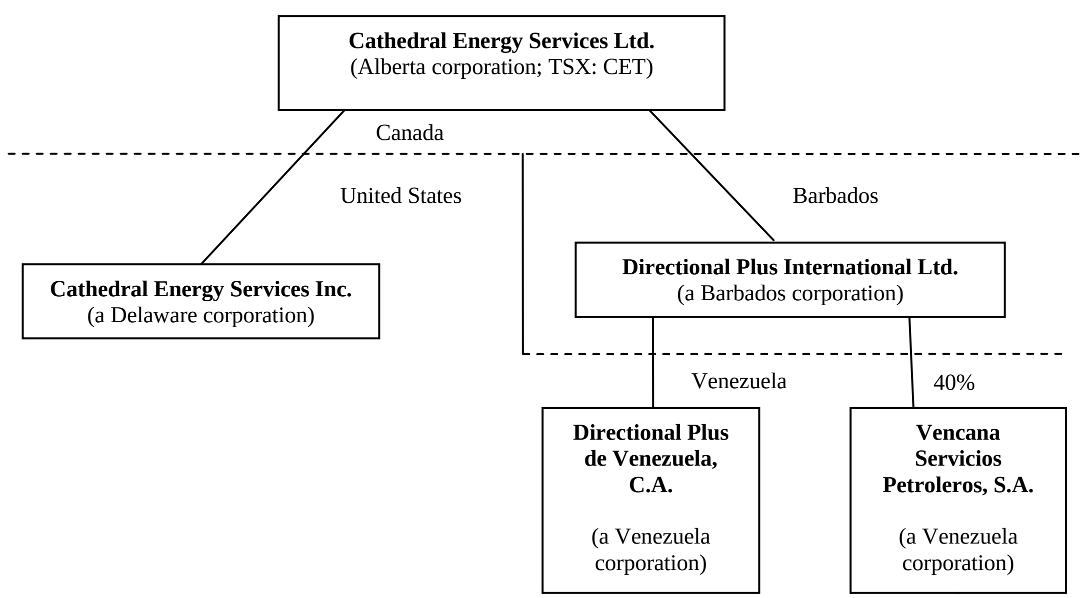
Inter-Corporate Relationships

The following table provides the name, the percentage of voting securities owned by Cathedral and the jurisdiction of incorporation, continuance or formation of Cathedral's subsidiaries, either direct or indirect, as at the date hereof.

	Percentage of securities held (directly or indirectly)	**Jurisdiction of Incorporation/ Formation**
Cathedral Energy Services Inc.	100%	Delaware
Directional Plus International Ltd.	100%	Barbados
Directional Plus de Venezuela, C.A.	100%	Venezuela
Vencana Servicios Petroleros, S.A.	40%	Venezuela

Organizational Structure of Cathedral

The following diagram describes the inter-corporate relationships among Cathedral and its material subsidiaries.



GENERAL DEVELOPMENT OF THE BUSINESS

General

On December 18, 2009, Unitholders approved the reorganization of the Trust, by way of a Plan of Arrangement under the ABCA, into a growth-oriented corporation pursuant to the Arrangement Agreement. Under the Arrangement, Unitholders received one Common Share of Cathedral in exchange for every Trust Unit held. After the completion of the Arrangement, Cathedral continued to operate the former businesses of the Trust and its subsidiaries and the former Trustees, plus one director from SemBioSys, and management of the Trust continued to act as the Board of Directors and management of Cathedral. This change in corporate structure followed the federal government's plan at that time to change the tax treatment of specified investment flow-through trusts. The Trust was an open-ended mutual fund trust governed by the laws of the Province of Alberta and created pursuant to the Declaration of Trust. The Trust was administered by the Trustees.

Three Year History

2009

- In early 2009, downhole equipment to accommodate a 3-4 directional drilling job capability was shipped from Canada to Venezuela.

- On February 17, 2009, the Trust announced it had decreased its monthly distribution to $0.04 per Trust Unit from $0.07 per Trust Unit. The monthly distribution had been at the $0.07 per Trust Unit since September 2006. In addition, in light of the decline in operating levels, the Trust's operating entities undertook a detailed review of all operating costs and general and administrative expenditures and initiated cost reductions to enhance profitability.

- On May 19, 2009, the Trust completed a $15 million "bought deal" financing with a syndicate of underwriters. Pursuant to the financing, the Trust issued 3,615,600 Trust Units (including 471,600 of Trust Units issued pursuant to the exercising in full of the over-allotment option) at $4.15 per Trust Unit. Net proceeds of this offering to the Trust were $13.8 million.

- On June 19, 2009, the Trust announced it had realigned the operations of its Wireline division. Based upon a review of supply and demand for electric-line services, the Trust's management believed the U.S. market offered increased utilization and operating margins superior to that being realized in Canada and accordingly commenced the transfer of existing Canadian electric-line units to the U.S. The Trust's Canadian Wireline division continued to provide slickline services but discontinued providing electric-line services to the Canadian energy market. District offices directly supporting Canadian electric-line operations were closed or reassigned to the Trust's other Canadian divisions. The Trust believed that this action, combined with previous undertakings, would further support its efforts to be strategically positioned for the return of a more favorable operating environment. In addition, the Trust announced that it had commenced providing directional drilling services, using its G3 system in the Marcellus basin in eastern U.S.

- On August 19, 2009, the Trust announced its intention to convert from an open-ended mutual fund trust to a growth-oriented corporation pursuant to a statutory Plan of Arrangement (the "**Conversion**"). The Trust expected to complete the Conversion prior to December 31, 2009. On October 31, 2006, the Minister of Finance (Canada) announced the Specified Investment Flow-Through Trust income and distribution tax (the "**SIFT Tax**") which effectively eliminated the public income trust structure effective January 1, 2011. These new tax laws provided for a tax-free conversion if such a conversion occurred before 2013. The Trust had investigated various restructuring alternatives available and the Trust's strategic objectives which included ensuring the Trust had the most appropriate structure for its long-term viability and sustainability. With regard to the SIFT Tax becoming effective in 2011, the Trust's strategic objectives and the prevailing industry environment, the Trust believed that it was in its best interests to proceed with the Conversion.

- On October 30, 2009, the Trust provided an update on the Conversion, specifically, that the Trust and SemBioSys had entered into the Arrangement Agreement under which the Trust would convert from an open-ended mutual fund trust to a growth-oriented corporation.

- On December 18, 2009, Cathedral announced the completion of the Conversion pursuant to the Arrangement, involving among others, the Trust and SemBioSys. Effective upon the closing of the Conversion, Cathedral Energy Services Ltd. continued to operate the previous businesses of the Trust and its subsidiaries and the existing trustees and management of the Trust continued to act as the Board (with one additional director from the board of directors of SemBioSys) and management of Cathedral. Pursuant to the Arrangement, Cathedral did not acquire any of the business carried on by SemBioSys. The former business of SemBioSys was carried on by a new entity, New SemBioSys, which is owned by the former shareholders of SemBioSys.

  The Conversion was approved at a special meeting of the Unitholders (the "**Trust Meeting**") and a special meeting of securityholders of SemBioSys (the "**Securityholders**"), each held on December 18, 2009, with 99.92% of the votes cast by Unitholders and 99.97% of the votes cast by Securityholders being in favour of the Arrangement. On December 18, 2009, the Alberta Court of Queen's Bench granted the final order required in connection with the Arrangement. Pursuant to the Arrangement, Unitholders received one Common Share for each Trust Unit held. In addition, at the Trust Meeting, Unitholders approved the adoption of a new Stock Option Plan for Cathedral.

2010

- In March 2010, Cathedral opened a directional drilling repair/operations facility in Washington, Pennsylvania.

- On April 7, 2010, Cathedral announced it had entered into an agreement to sell its U.S. based electric-line wireline business and expansion of its drilling assets as part of the same transaction. This transaction closed on April 20, 2010. The net proceeds of $2.1 million were used to reduce bank indebtedness. In addition, Cathedral announced the closure of its slickline wireline operation in Canada effective March 31, 2010. Upon closing of the sale of the U.S. wireline business, Cathedral exited the wireline business which Cathedral's management had determined not to be a core business. For Cathedral, exiting the wireline business resulted in a more focused oilfield services entity with significant balance sheet strength to capitalize on present and future oilfield service opportunities in Cathedral's selected service lines.

- On April 20, 2010, Cathedral announced the commitment to add three high pressure production testing units into the Marcellus shale play in northeast U.S. for a major oil and natural gas producer. This equipment was the first production testing equipment Cathedral moved into that area.

- On June 3, 2010, Cathedral announced that it had increased the number of high pressure production testing units it was building to eight from six.

- On September 15, 2010, Cathedral announced that DPI had 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 provided for the formation of a joint stock company, 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. As part of the JVSAA, DPI was to lease directional drilling equipment to Vencana and PDVSA would provide Vencana with work in line with the operating capacity of Vencana.

- On September 16, 2010, Cathedral announced it had acquired the production testing assets of a private company at a cost of $2.3 million. The assets acquired included nine production testing units along with related portable offices, flare stacks, incinerators and field vehicles. One of the acquired units was deployed into the U.S. market and the remaining eight units were added to Cathedral's Canadian fleet. Cathedral incurred approximately $1,036,000 of costs to upgrade the purchased equipment. In January 2011, Cathedral sold some auxiliary equipment that was acquired as part of this transaction for proceeds of $200,000.

- In November 2010, Cathedral opened a directional drilling repair/operations facility in Houston, Texas.

2011

- In May 2011, Cathedral launched its Fusion MWD System. The Fusion MWD system is based on a customizable modular platform which provides operators with enhanced performance, reliability and accuracy in drilling environments that are challenging and of greater depth. The Fusion MWD system is designed to be fully customizable by the operator with the choice of EM transmission, positive mud pulse transmission or dual telemetry transmission. The operator has the option of telemetry type that best suits their drilling requirements and offers the most economic alternative. In the EM transmission mode the Fusion MWD system provides for increased power capabilities and enhanced filtering over previous designs, resulting in a more efficient signal and thereby allowing for successful data transmission at greater drilling depths. The modular design not only allows for standard and focal gamma logging capabilities as well as "resistivity" logging as an add on. Cathedral now offers what is considered as a complete "LWD" (logging-while-drilling) package.

- Cathedral's 2011 capital budget included the addition of 33 MWD systems of which 15 are based on the Fusion MWD platform, related mud motors and collars to complement the increased job capability, LWD (resistivity) equipment and six high pressure production testing units and auxiliary production testing equipment to complement the overall fleet.

- In December 2011, Cathedral's announced its initial 2012 capital budget of $28 million including $5 million of maintenance capital. The Directional Drilling division will add 14 MWD systems along with the expansion of the mud motor and drill collar fleet to accommodate increased capacity. The majority of the MWD systems will be for the continued expansion of the Company's U.S. districts. The Production Testing division will add seven frac-flowback units and ancillary equipment. Several of the units will be designed with automated shutdown equipment required in propane fracing market segment. Of the seven frac-flowback units to be added in 2012, the Company expects to utilize two in Canada and five in the U.S. market.

- In December 2011, Cathedral announced that the next step in its goal of controlling costs and supply chain management by way of internalizing certain components of its directional drilling operations, is building mud motors in-house. Cathedral has carried out extensive testing of the proprietary mud motor design and is moving forward with an initial capital build out. The main benefits associated with an in-house mud motor design are lower operating and capital costs and anticipated improvement in durability.

2012

- In February 2012, Cathedral closed the acquisition of the production testing business of a private company which provided services in Alberta. The operating assets acquired included two production testing units and related auxiliary equipment. As part of this transaction, Cathedral hired field staff to crew four jobs. The additional field staff will assist in the deployment of Cathedral's overall fleet of production testing units.

- In February 2012, Cathedral executed a key agreement towards commencement of operations in Venezuela through Vencana. The Asset Transfer and Credit Capitalization Agreement (the "Asset Transfer Agreement") provides for:

  a) the sale by Cathedral's subsidiaries to Vencana of certain existing assets located in Maturin, Venezuela including land and buildings associated with an operations facility, mud motors, drill collars, office, shop equipment and inventory;

  b) adding additional equipment to increase directional drilling job capability from four concurrent jobs to ten; and

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

  For further details, please see "*Description of the Business and Operations – International Operations*".

DESCRIPTION OF THE BUSINESS AND OPERATIONS

Business of Cathedral

General

Cathedral is engaged in the business of providing selected oilfield services to oil and natural gas exploration and development entities in western Canada and selected oil and natural gas basins in the U.S. and is in the process of initiating operations in Venezuela for providing directional drilling services through a joint venture with PDVSA, the state owned oil and natural gas corporation of the Bolivarian Republic of Venezuela. Cathedral carries it activities in Canada and the U.S. under the name "Cathedral Energy Services" with two operating divisions: directional drilling and production testing.

Directional Drilling

Cathedral's Directional Drilling division provides horizontal, directional and underbalanced drilling services. These services are provided in conjunction with the use of drilling rigs provided by drilling contractors who deal independently with Cathedral's customers.

The Directional Drilling division currently has 74 MWD systems in Canada, 49 in U.S. and four in Venezuela.

Horizontal drilling involves drilling a well with a horizontal leg to the vertical well bore. By drilling horizontally into a formation, penetration is significantly increased, allowing for substantially better drainage of the reservoir. In situations where low permeability exists, horizontal drilling allows operators to increase pay zone exposure resulting in increased production and recovery. As a result in advancements in well completion technologies by the way of combining horizontal drilling with multi-stage fracturing, the percentage of horizontal wells drilled in Canada and the U.S. has increased significantly. Directional drilling is the controlled drilling of a wellbore to a prescribed bottom hole location. Both horizontal and directional drilling include the use of downhole mud motors (powered hydraulically by the drilling fluid to allow for the rotation of the drill bit with little or no rotation of the drill string) to alter the course of a wellbore to hit a specified drilling target.

Horizontal and directional drilling operations require three distinct and separate systems to steer the drill bit below the earth's surface to a pre-determined target – a positive displacement mud motor, MWD technology and may include LWD systems such as gamma ray and resistivity systems.

The use of horizontal and directional drilling equipment allows for previously unattainable bottom hole targets to be accessed. In addition, horizontal and directional drilling is used when:

(a) it is necessary to reach a specific subsurface target that is not accessible using conventional vertical drilling practices;

(b) the desired target zone is located directly beneath an extremely complex surface obstacle such as a mountain, lake, river and swamp or, in some instances, towns or environmentally sensitive areas; and/or

(c) it is desired to increase well bore exposure to the reservoir frequently resulting in increased production volumes and recoverable reserves.

The economic performance of horizontal and directional drilling results in a significant advantage over conventional drilling in environments of low permeability or in situations where producers want to accelerate production from a reservoir. Increased production results from the increased exposure of the reserves to the producing wellbore. During the past two to three years, there has been a shift towards the redevelopment of older, mature basins and targeting zones both which were previously not viable until the introduction of new completion technologies that employ the use of horizontal, multi-stage fracturing technology. Hence, an increased net present value of the well is realized due to the more efficient production of available reserves. The number of non-vertical wells drilled in Canada and the U.S. as a percentage of the total number of wells drilled has increased significantly and is expected to increase going forward.

Conventional drilling uses weighted mud, the purpose of which is to provide sufficient pressure to offset wellbore pressure and also to prevent a blowout. Weighted muds are frequently not required for low-pressure reservoirs. Quite the contrary, one of the challenges with many low-pressure reservoirs is to avoid mud-based well bore pressure at the reservoir, which exceeds reservoir pressure. If the hydrostatic pressure of the mud column exceeds the reservoir pressure, mud may penetrate from the well bore into the reservoir causing formation damage which can negatively impact rates of production and recoverable reserves. To avoid this problem, a technique called underbalanced drilling is utilized.

Underbalanced drilling is utilized to minimize formation damage. Formation damage reduces the productivity of oil and gas reservoirs, particularly in open-hole horizontal well applications. To reduce formation damage the drilling mud is made lighter by injecting nitrogen or other inert gases into the wellbore reducing the hydrostatic pressure of the mud. In making the drilling mud lighter; however, the ability of fluid based transmissions to make their way to the surface becomes more difficult. Hence, the use of EM-MWD allows for the formation information to be transmitted almost instantaneously up to the surface. In many underbalanced drilling operations, benefits are seen as the result of a reduction in drilling time, greater rates of penetration, the rapid indication of productive reservoir zones and the potential for dynamic flow testing while drilling.

Horizontal re-entry drilling is a very economical method of increasing the recovery from an existing well. In utilizing the existing wellbore, the costs of drilling down to the "kick-off point" (point where direction deviates) are saved, while the existing surface facilities may be re-utilized. The efficiency of drilling horizontal re-entry wells increases dramatically as the depth of the horizontal target increases.

Drilling jars

Drilling jars are tools typically run in the Bottom Hole Assembly ("**BHA**") to aid in the recovery of the drill-string in the event of it becoming stuck. Although there are several configurations of jars available (mechanical, hydraulic, hydra mechanical) the basic function remains the same. Once stuck the drill string is pulled into tension, storing elastic energy in the pipe (stretch). When the tension exceeds a pre-set limit (known as the latch setting) the jar "fires" by releasing an internal mandrel allowing the drill string to slip by approximately 1/2 meter, delivering a slide-hammer (impact) blow to the stuck section of pipe. The jar may be reset and the process repeated until the pipe is freed.

Shock subs

Shock subs are used to cushion heavy axial loading and bit vibrations that are encountered in rough drilling operations. These tools assist in extending the drill string life by reducing vibration and shock that can cause failures in the drill string. Additional benefits include extending the life of bits by reducing "bit bounce" and increased rate of penetration as a result of consistently keeping the bit in contact with the drilling surface.

Positive Displacement Mud Motors

Positive displacement drilling mud motors are designed to drill without drill string rotation - converting hydraulic energy (volume and pressure) into mechanical energy (torque and speed). The drilling motor turns or powers the drill bit. Increasing hydraulic and mechanical power to the bit is one of the major ways to improve drilling efficiency. A bend in the mud motor is used to steer the wellbore trajectory in directional and horizontal drilling applications. In addition, drilling motors are utilized in vertical drilling applications to increase the rate of penetration.

Production Testing

The Production Testing division provides oil and natural gas production testing services in western Canada and in the Rocky Mountain, Williston Basin and Marcellus regions of the U.S. Production testing generally allows natural gas well-flow characteristics to be tested, and is also increasingly important in recovering and containing well and fracturing fluids. The increase in multi-stage fracturing of wells has resulted in a significant increase in the amount of work associated with frac flowbacks after well stimulations. Production tests are utilized by oil and natural gas producing entities to determine the deliverability of individual wells and reservoirs shortly after a well has been drilled and to monitor its productivity at various points in its life cycle.

The Production Testing division currently has 38 production testing units in Canada and 26 production testing units in the U.S.

Services provided by Production Testing division include:

Flow Tests to Determine the Size and Potential of Reservoirs - Draw down and build up are examples of tests designed to obtain reservoir information. Draw down tests are designed to establish the outer limits of the reservoir. Draw down tests are usually multi-rate tests that involve a shut in or build up periods between rates.

Flow Tests to Determine the Deliverability of Gas Wells - Backpressure and isochronal type tests are examples of well deliverability tests. These types of tests involve flowing the well through a series of flow lines, chokes, line heaters, separators and meters to obtain a stabilized flow rate. These tests usually involve a single flow rate but may also have multiple rates. By adjusting the backpressure on the well, one is able to simulate the effects that pipeline pressure will have on the well. The information gathered during these tests is used to determine what will be needed for permanent well site facilities and pipelines.

Flowbacks after Well Stimulations (to flare or inline) - After a well is stimulated, it must then be flowed in order to clean up the wellbore. Usually when the well is being stimulated, as in the case of new wells, a pipeline has not been installed to the location. In this case, the well is cleaned up to a pressure tank (separator) that is designed to trap the stimulation medium (sand, acid, water, etc.) and flare the gas to a flare stack. In recent years, Cathedral has developed a fleet of high-pressure four phase separators that are designed to separate the stimulation medium (sand, acid) and flow the gas into an existing pipeline (if available). This minimizes the occurrence of erosion from solids and eliminates the need for flaring.

Vapor Recovery - During well workover and abandonment operations there is typically a need to safely contain the hazardous gases from the well. Whether it is the toxicity of sour gas or the flammability of sweet gas, there is always a risk to personnel on the location if gas is allowed to vent to the atmosphere. Cathedral's pressurized tanks and portable flare stacks provide a solution to this problem. Cathedral's equipment is utilized in these cases where open-top rig tanks were used in the past.

Market for Services

Cathedral's revenues are directly impacted by the level of capital expenditures of oil and natural gas exploration and production entities in western Canada and the selected oil and natural gas basins in which it operates in the U.S. In turn, these levels of capital expenditures are affected by factors including, but not limited to, oil and natural gas prices, access to capital markets, government policies and weather.

Activity levels in the Canadian oilfield industry are subject to a degree of seasonality. Cathedral's operating activities are generally lower in April and May due to spring break-up, and activity levels increase in the fall, peaking during the winter months of December through to late March, inclusive. Activity levels in the U.S. are not subject to the degree of seasonality as in western Canada.

Cathedral's marketing group identifies customers by way of monitoring potential and/or historical drilling and completion activities in western Canada and selected oil and natural gas basins of the U.S. A sales representative of Cathedral then contacts potential customers that are identified. In some instances, contacts are made with engineering firms that provide drilling and completions advice to the oil and natural gas producers. At present, Cathedral's customers include large, intermediate and junior oil and natural gas exploration and development entities. For the year ended December 31, 2011, Cathedral had one customer (2010 - one customer) that exceeded 10% of its consolidated revenue and that customer accounted for 15% (2010 - 22%) of consolidated revenue.

Competition

The Directional Drilling division's competition ranges from large multinational companies to companies that are smaller than Cathedral's directional drilling operations. In addition to directly competing with Cathedral in providing horizontal, directional and underbalanced drilling services, many of its larger competitors carry out extensive research and development and manufacture their own drilling equipment or components thereof.

The Production Testing division's competition ranges from large multinational companies to companies that are of a similar and smaller size to Cathedral's Production Testing division. Within the western Canada marketplace, the production testing market is very fragmented with up to 50 different firms performing varies types of production testing services. The Rocky Mountain, Williston Basin and Marcellus regions of the U.S. are not as fragmented as the Canadian market with approximately 10-15 firms providing production testing services in these regions.

Cathedral believes it will remain competitive in its markets by capitalizing on:

(a) the reputation of management to secure important relationships and to ensure the highest possible quality for the services provided;

(b) the ability of the personnel at Cathedral to provide, in a timely manner, a complete range of horizontal/directional drilling and production testing services;

(c) the ability to provide safe, consistent, reliable and effective service and personnel performing the service;

(d) the high quality of the state-of-art equipment and the ability of the personnel to effectively supervise all aspects of the services provided; and

(e) continued investment in research and development to provide a competitive advantage over that of our competitors.

Access to Equipment and Technology

Within the directional drilling segment, technological developments have been advancing at an increasing rate. For Cathedral, and for that matter any company, to increase profitability in the horizontal and directional drilling industry, it not only must possess the capital resources but must also have access, whether internally or externally, to a supply of state-of-the-art horizontal and directional equipment. Prior to the third quarter of 2002, Cathedral did not develop its own equipment, instead it relied on external suppliers to design and supply, at a reasonable price, the equipment it required to be competitive in the marketplace. The following is a chronological summary of advances in Cathedral's MWD technology:

- In the third quarter of 2002, Cathedral commenced, with the assistance of third parties, to develop its own MWD platform;

- In November 2003, the Trust announced that its G1 system had reached commercial status;

- In November 2005, the Trust announced its positive pulse MWD system (which is based upon the same MWD platform as the EM-MWD system) had reached commercial status;

- In December 2007, the Trust announced that its G2 system had achieved commercial status. The G2 system included bi-directional (talk down) communication which allowed for surface control of the tool to change data rates, power levels and data formats. This resulted in increased efficiency and power management which allowed for greater depth capability;

- In late 2008, the G3 system was launched. The G3 system improved formation impedance matching and concurrently increased the data signal encoding, detection and filtration. The result has allowed the EM-MWD system to operate effectively in the southeast Saskatchewan market where competitors had not been able to deploy their own EM-MWD systems. In conventional markets these improvements allowed the EM-MWD system to operate at depths greater than the G2 modifications made during 2007;

- In March 2010, Cathedral announced its intention to gradually convert its EM-MWD fleet to its next generation system (ultimately called Fusion MWD system) that provides for improved packaging of components within the EM-MWD tool, which will improve the durability in high shock and vibration environments;

- During 2010 Q1, Cathedral committed to purchase LWD (resistivity) systems and three positive pulse systems upon which platform the LWD tools are based. Most of this equipment is designated for international operations. This equipment was received in 2010 and is currently operating in the Canadian market;

- During 2010 Q4, Cathedral ordered a total of six retrievable positive pulse systems. Three of these systems were received in late 2010 Q4 and the remaining were received in 2011 Q1. These systems are operated in the Houston, Texas and North Dakota areas. At the end of 2011 Cathedral had purchased an additional two retrievable positive pulse systems which brought the total retrievable positive pulse systems to eight.

- In May 2011, Cathedral launched its Fusion Measurement-While-Drilling ("MWD") System. The Fusion MWD system is based on a customizable modular platform which provides operators with enhanced performance, reliability and accuracy in drilling environments that are challenging and of greater depth. The Fusion MWD system is designed to be fully customizable by the operator with the choice of EM transmission, positive mud pulse transmission or dual telemetry transmission. The operator has the option of telemetry type that best suits their drilling requirements and offers the most economic alternative. In the EM transmission mode the Fusion MWD system provides for increased power capabilities and enhanced filtering over previous designs, resulting in a more efficient signal and thereby allowing for successful data transmission at greater drilling depths. The modular design not only allows for standard and focal gamma logging capabilities as well as "resistivity" logging as an add on. Cathedral now offers what is considered as a complete "LWD" (logging-while-drilling) package.

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

Cathedral has been involved with field testing of a third party rotary steerable system. The benefit of a rotary steerable system is that it controls the angle and direction of a well bore utilizing continuous rotation which provides for straighter, longer and smoother well profiles. Cathedral has developed an interface that will allow Cathedral's MWD system to operate with the third party rotary steerable system. The third party rotary steerable system has not reached commercial status.

In January 2008, Cathedral announced the commercial success of its RDS which has been in testing since October 2007. This innovative system has been well received by Cathedral's customers. RDS allows the secure transmission of drilling data from the rig site to Cathedral's Calgary operations centre, which permits the full experience of MWD supervisors and directional coordinators to manage directional drilling activities in real time from a central location. This system allows Cathedral to reduce the number of field personnel required on a job, thereby reducing the costs to both Cathedral and its clients.

Cathedral's Production Testing division has, in the past, not been subject to significant changes in technology and this is expected to continue in the near future. Currently, the technology required by the Production Testing division is readily available at reasonable prices.

Geographical Location and Facilities

Cathedral's main office is located in Calgary, Alberta. In November 2011, Cathedral consolidated most of its Calgary operations to its new "6030 Campus". This new facility has allowed Cathedral to increase capacity and efficiencies in its manufacturing of equipment and repair capability as well as improve overall communications. As the center for oil and natural gas activity in Canada, Calgary provides advantages for Cathedral in terms of availability of key employees and management and closeness to important customers.

Canadian Operations

Directional Drilling

Cathedral has operations/repair shops located in strategic locations including Calgary, Alberta, Nisku, Alberta and Estevan, Saskatchewan. The operations facility location in Nisku provides a strategic advantage in terms of increasing and maintaining service to the regions of northern Alberta and northeastern British Columbia and the Estevan facility provides the same strategic advantage in the southeast Saskatchewan market. Planning, engineering and coordination of Canadian field directional/horizontal drilling operations is carried out from Cathedral's "6030 Campus" in Calgary, Alberta. Cathedral mobilizes its equipment and personnel to the well locations of its customers from these operations/repair shops. Sales activities are coordinated from Cathedral's office in downtown Calgary, Alberta

Production Testing

The Production Testing division has operations facilities in Alberta located in Red Deer and Grande Prairie. Sales activities are coordinated from Cathedral's office in downtown Calgary, Alberta.

United States Operations

Directional Drilling

Cathedral has operations/repair shop strategically located in Casper, Wyoming, Washington, Pennsylvania and Houston, Texas. From the Casper, Wyoming facility, Cathedral services customer locations in Colorado, Wyoming, Utah, North Dakota and Montana. From the Washington, Pennsylvania facility, Cathedral services customer locations in the northeast U.S. From the Houston, Texas facility, Cathedral services customer locations in Texas, Oklahoma and Louisiana. In addition, Cathedral maintains a sales and well planning office in Denver, Colorado.

Production Testing

In 2008, Cathedral commenced production testing operations in the Rocky Mountain region of the U.S. and established its operating base in Grand Junction, Colorado and a sales office in Denver, Colorado. During 2010, Cathedral expanded its production testing services into the Pennsylvania area of the Marcellus region.

International Operations

In 2007, Cathedral began pursuing directional drilling business opportunities in South America. In late 2008, DPV acquired land and buildings in Maturin, Venezuela which was to be used for its Venezuela operations base. In addition, in early 2009 downhole equipment to accommodate a 3-4 directional drilling job capability was shipped from Canada to Venezuela.

In response to a change in the preferred method for foreign oilfield services companies to provide services in Venezuela, in early 2010, Cathedral commenced negotiations with PDVSA Servicios Petroleros, a wholly-owned subsidiary of PDVSA, to establish a joint venture company in Venezuela to provide oilfield services. In September 2010, a wholly-owned subsidiary of PDVSA Servicios Petroleros and Cathedral's wholly-owned subsidiary, DPI, executed a JVSAA. The JVSAA provided for the formation of a joint stock company, Vencana, in which PDVSA Servicios Petroleros will own 60% of the capital stock and DPI will own the remaining 40%. Vencana's mandate is to supply oilfield services in Venezuela to the oil and natural gas industry and will initially commence with the provision of directional drilling services; it is the intent for the services provided by Vencana to expand as mutually agreed between PDVSA Servicios Petroleros and DPI. As part of the JVSAA, DPI will lease directional drilling equipment to Vencana and PDVSA will provide Vencana with work in line with the operating capacity of Vencana. On March 1, 2011, Vencana was incorporated under the laws of the Bolivarian Republic of Venezuela.

On February 9, 2012, Cathedral executed a key agreement towards commencement of operations in Venezuela through Vencana. The Asset Transfer and Credit Capitalization Agreement which provides for:

a) the sale by Cathedral's subsidiaries to Vencana of certain existing assets located in Maturin, Venezuela including land and buildings associated with an operations facility, mud motors, drill collars, office, shop equipment and inventory;

b) adding additional equipment to increase directional drilling job capability from four concurrent jobs to ten; and

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

The operating model within the Asset Transfer Agreement is structured such that Vencana will own the operating assets excluding MWD equipment which will be leased to Vencana by a Cathedral subsidiary.

As part of the sale of assets to Vencana, Cathedral is to receive 60% of the proceeds in cash from its joint venture partner, a wholly-owned subsidiary of PDVSA and the remaining 40% will be Cathedral's contribution to the joint venture.

The process of increasing directional drilling job capability from four concurrent jobs to ten is expected to occur over a year from the commencement of performing directional drilling operations by Vencana. This process will include Vencana purchasing additional mud motors and drill collars from Cathedral and Cathedral providing additional MWD equipment.

The Asset Transfer Agreement includes various payment milestones for PDVSA's subsidiary. Delays in payment by PDVSA's subsidiary will result in a deferral of the underlying intentions of the Agreement.

Prior to Vencana commencing operations additional auxiliary agreements between Vencana and Cathedral's subsidiaries need to be negotiated and executed. Auxiliary agreements include the lease of MWD equipment and supply of personnel, repair parts and repair services. Significant progress has been made on the negotiation of these agreements but history has shown there have been significant delays in the execution of such agreements and accordingly Cathedral is uncertain when operations in Venezuela will commence.

Employees

As at December 31, 2011, Cathedral had a total of 637 full-time employees (Canada –374, U.S. – 248 and Venezuela – 15). In addition, as at December 31, 2011, Cathedral employed the services of 305 field and office consultants (Canada – 218, U.S. – 82 and Venezuela – 5).

DIVIDEND POLICY

In 2012, Cathedral expects to pay a quarterly dividend to Shareholders of record on the last day of the quarter. Cathedral's ability to make dividend payments to Shareholders is dependent upon the operations and business of Cathedral. There is no assurance regarding the amounts of cash that may be available from Cathedral's operations and business that could be available to fund future dividends or if dividends will be declared at all. The actual amount of any dividends will depend on a variety of factors, including without limitation, the current performance, historical and future trends in the business, the expected sustainability of those trends and enacted tax legislation which will affect future taxes payable as well as required long-term debt repayments, maintenance capital expenditures required to sustain performance, future growth capital expenditures, effect of acquisitions or dispositions on Cathedral's business, and other factors that may be beyond the control of Cathedral or not anticipated by management of Cathedral. In the event significant cash requirements are necessary for non-dividend purposes or the profitability of Cathedral declines, there would be a decrease in the amount of cash available for dividends to Shareholders and such decrease could be material.

Cathedral paid or declared payable the following dividends and cash disbursements to the Shareholders and the Trust Unitholders over the three most recently completed financial years:

Distribution Record Date	Distribution Payment Date	Distribution per Trust Unit/Common Share
January 31, 2009	February 16, 2009	$0.07
February 28, 2009	March 16, 2009	$0.04
March 31, 2009	April 15, 2009	$0.04
April 30, 2009	May 15, 2009	$0.04
May 31, 2009	June 15, 2009	$0.04
June 30, 2009	July 15, 2009	$0.04
July 31, 2009	August 17, 2009	$0.04
March 31, 2010	April 15, 2010	$0.06
June 30, 2010	July 15, 2010	$0.06
September 30, 2010	October 15, 2010	$0.06
December 31, 2010	January 17, 2011	$0.06

Distribution Record Date	Distribution Payment Date	Distribution per Trust Unit/Common Share
March 31, 2011	April 15, 2011	$0.06
June 30, 2011	July 15, 2011	$0.06
September 30, 2011	October 17, 2011	$0.06
December 31, 2011	January 16, 2012	$0.06

Effective February 2009, the Trust reduced its monthly cash distributions by $0.03 per Trust Unit to $0.04 per Trust Unit. The prevailing and forecasted market conditions at the time prompted the administrator of the Trust's operating entities to determine that a reduction was a prudent measure to manage liquidity, further strengthen the Trust's strong balance sheet and better position itself to take advantage of opportunistic transactions which may have presented themselves. Prior to the Arrangement, the Trustees, upon the recommendation of management, suspended the previously proposed dividend for the 4th quarter of 2009 and the Board agreed to review the proposed dividends for 2010 as part of its annual operating and capital budget process. Cathedral commenced paying a quarterly dividend of $0.06 per Common Share in 2010. Dividends paid by Cathedral are considered to qualify as an eligible dividend for Canadian income tax purposes as defined in subsection 89(1) of the Tax Act.

GENERAL DESCRIPTION OF CAPITAL STRUCTURE

The authorized share capital of the Corporation consists of an unlimited number of Common Shares and an unlimited number of Preferred Shares, issuable in series. The following is a summary of the rights, privileges, restrictions and conditions attaching to each class of shares of Cathedral.

Common Shares

The holders of Common Shares are entitled to: (i) receive notice of and to vote at every meeting of shareholders of Cathedral and shall have one vote thereat for each such Common Share so held; (ii) receive any dividend declared on the Common Shares by Cathedral subject to the rights of the holders of Preferred Shares; and (iii) subject to the rights, privileges, restrictions and conditions attached to the Preferred Shares, receive the remaining property of Cathedral on dissolution, liquidation or winding up.

Preferred Shares

Preferred Shares may, from time to time, be issued in one or more series, each series to consist of such number of shares as may, before the issue thereof, be fixed by the directors of Cathedral. The directors may additionally determine the designation, rights, privileges, restrictions and conditions attaching to the Preferred Shares, including, without limiting the generality of the foregoing, the rate or amount of preferential dividends and the date of payment thereof, the redemption, purchase and/or conversion price and conditions of redemption, purchase and/or conversion, if any, and any sinking fund or other provisions. The Preferred Shares rank in priority to the Common Shares as to payment of dividends and the distribution of assets in the event of dissolution, liquidation or winding-up.

As of the date hereof, there are 37,358,983 Common Shares and nil Preferred Shares issued and outstanding.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Reference is made to the section entitled "Management's Discussion and Analysis" prepared in connection with the consolidated financial statements for the year ended December 31, 2011. The

"Management's Discussion and Analysis" is incorporated herein by reference and is available on SEDAR (www.sedar.com).

MARKET FOR SECURITIES

The Common Shares are listed and posted for trading on the TSX under the trading symbol "CET". The following table sets forth certain trading information in respect of the Common Shares for the most recently completed financial year.

	Trading Price ($)	Price Range ($)		Trading
	Close	High	Low	Volume (000's)
2011				
January	9.90	10.19	8.33	2,377
February	10.20	10.80	9.25	1,818
March	9.50	10.80	8.55	1,534
April	9.30	9.67	8.75	1,693
May	7.40	9.49	7.31	1,574
June	7.15	7.53	6.67	1,357
July	8.53	9.03	7.11	1,180
August	7.62	8.55	6.55	1,243
September	6.60	7.54	6.18	1,036
October	6.70	6.85	5.50	1,253
November	6.65	7.00	5.99	775
December	7.23	7.41	5.92	771

DIRECTORS AND EXECUTIVE OFFICERS

The names, municipalities of residence, positions with Cathedral, the principal occupations of the directors and executive officers of Cathedral and the number of voting securities of Cathedral and its subsidiaries beneficially owned, or controlled, directly or indirectly, are set out below. The Board presently consists of eight (8) directors, all of whom are elected annually to hold office until the next annual meeting of Shareholders or until his successor is duly elected or appointed unless his office is earlier vacated in accordance with the provisions of the ABCA or Cathedral's by-laws.

Name and Municipality of Residence	Director/ Executive Officer Since	Principal Occupation for Last Five Years	Common Shares Beneficially owned or Controlled, Directly or Indirectly
Mark L. Bentsen Calgary, Alberta Director, President and Chief Executive Officer	June 15, 2000	President and Chief Executive Officer of the Corporation since June 2000.	887,150

Name and Municipality of Residence	Director/ Executive Officer Since	Principal Occupation for Last Five Years	Common Shares Beneficially owned or Controlled, Directly or Indirectly
Randal H. Pustanyk Chestermere, Alberta Director and Vice President, Operations and Corporate Secretary	October 30, 2000	Vice President, Operations of the Corporation since June 2000.	478,271
Robert L. Chaisson[(2)] Calgary, Alberta Director	May 18, 2006	President and Chief Executive Officer of Cutpick Energy Inc. since July 2009. Vice President, Gibraltar Exploration Ltd. from October 2007 to July 2009. Independent businessman from February 2006 to September 2007. Vice President, Operations of Atlas Energy Ltd. from October 2003 to February 2006.	10,000
Rod Maxwell[(1)(2)(4)] Calgary, Alberta Director	October 30, 2000	Managing Director of StoneBridge Merchant Capital Corp.	75,000
Jay Zammit [(3)] Calgary, Alberta Director	November 6, 2003	Partner at the law firm of Burstall Winger LLP in Calgary, Alberta.	40,700
Scott Sarjeant[(1)(2)] Calgary, Alberta Director	April 7, 2003	President and CEO of Premiax Financial Corp. since April 2003.	240,420
P. Daniel O'Neil [(3)] Calgary, Alberta Director	December 15, 2006	President, Chief Executive Officer and Director of Surge Energy Inc. (TSX) from March 2010 to present. Independent Businessman from December 2009 to March 2010. President, Chief Executive Officer and Director of Breaker Energy Ltd. (former TSX) from 2005 to 2009.	10,000
Ian S. Brown [(1)(3)] Calgary, Alberta, Director	December 18, 2009	Since January 2006 Mr. Brown has been an independent consultant. Prior thereto, Mr. Brown was the Senior Managing Director, Raymond James Ltd. from May 1995 until December 2005.	15,000
David Diachok Okotoks, Alberta Vice President, Sales	May 9, 2005	Vice President, Sales of the Corporation since May 2005. From September 2002 to May 2005 Sales Manager of the Corporation. Prior thereto, Sales Representative at Halliburton Services.	74,599
P. Scott MacFarlane Calgary, Alberta Chief Financial Officer	April 1, 2001	Chief Financial Officer of the Corporation since April 2001.	283,566
John Ruzicki Calgary, Alberta Vice President	September 15, 2008	Vice President of the Corporation since September 2008. From January 2006 to July 2008 Vice President, Sales & Marketing for Peak Energy Services.	86,666

Notes:

(1) Member of the Audit Committee.

(2) Member of the Compensation Committee.

(3) Member of the Governance Committee.

(4) Lead Director.

Ownership of Common Shares

As the date hereof, the directors and executive officers of Cathedral, as a group, owned or controlled, directly or indirectly, in aggregate 2,201,372 Common Shares or approximately 5.9% of the issued and outstanding Common Shares.

Cease Trade Orders

To the knowledge of Cathedral and other than as disclosed below, no director or executive officer is, as of the date of this AIF, or was within ten (10) years prior to the date of this AIF, a director, chief executive officer or chief financial officer of any company (including Cathedral) that: (i) was subject to a cease trade order, an order similar to a cease trade order or an order that denied Cathedral access to any exemption under securities legislation and which order was in effect for a period of more than thirty (30) consecutive days while he was acting in the capacity as director, chief executive officer or chief financial officer of such company; or (ii) was subject to any of the foregoing orders for a period of more than thirty (30) consecutive days after he ceased to be a director, chief executive officer or chief financial officer of such company and which resulted from an event that occurred while he was acting in such capacity.

On August 30, 2005 Jay Zammit became a director of Marine Bioproducts International Corp. ("**Marine**"), a corporation listed on the NEX Board of the TSXV that was the subject of a cease trade order in British Columbia and Alberta prior to Mr. Zammit's appointment. Mr. Zammit was appointed to the board to assist in the reinstatement of Marine to good standing. The cease trade orders against Marine were subsequently lifted and Marine completed a plan of arrangement (the "**Plan**") with Phoenix Oilfield Hauling Ltd. on May 9, 2006. Mr. Zammit is no longer a director of Phoenix Oilfield Hauling Inc., the resulting corporation under the Plan.

Bankruptcies

To the knowledge of Cathedral and other than as disclosed below, no director, executive officer or Shareholder holding a sufficient number of securities to affect materially the control of Cathedral is, as of the date of this AIF, or was within ten (10) years prior to the date of this AIF, a director or executive officer of any company (including Cathedral) that, while such person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver-manager or trustee appointed to hold its assets.

Mr. Jay Zammit was corporate secretary of Alternative Fuel Systems Inc. when it made an application under the *Companies Creditors Arrangement Act* (Canada) ("**CCAA**"). Alternative Fuel Systems Inc. completed a statutory plan of arrangement under the CCAA and the ABCA on June 30, 2004 whereby Alternative Fuel Systems Inc. was reorganized into two companies: Alternative Fuel Systems (2004) Inc. and AFS Energy Inc. AFS Energy Inc. remains listed on the TSXV, completed a transaction to convert to an oil and gas company and changed its name to Flagship Energy Inc. effective May 2005. Alternative Fuel Systems (2004) Inc. completed a private placement financing in the summer of 2005 and was listed on the TSXV. Mr. Jay Zammit was a director of Alternative Fuel Systems (2004) Inc. but is not associated with AFS Energy Inc. or successor companies to AFS Energy Inc. Alternative Fuel Systems (2004) Inc. was indirectly acquired by a wholly-owned subsidiary of Fuel Systems

Solutions Inc. in May 2011, IMPCO Technologies. In connection with the transaction, Mr. Zammit resigned as a director.

In 2004 Premiax Financial Corp. ("**Premiax**"), which is wholly owned by Scott Sarjeant, invested $5.1 million in a mezzanine finance transaction with L.O.P. Inc. ("**LOP**"), a private company involved in the fabrication and servicing of oilfield equipment in western Canada. In this transaction Premiax purchased LOP's office and shop facilities under a sale/leaseback arrangement, and also made a subordinated loan and acquired a 20% equity interest in LOP. Mr. Sarjeant was appointed to the LOP board as Premiax's representative on June 29, 2004. In 2006 LOP got into financial difficulty. Mr. Sarjeant resigned from the LOP board on November 29, 2006. On January 29, 2007, with Premiax's cooperation, LOP's bank put Premiax into receivership. All bank loans to LOP were fully recovered in May, 2007. Premiax then reappointed the receiver to continue the LOP receivership on Premiax's own behalf to recover its subordinated loan.

On June 12, 2007, Robert Chaisson was elected a director of Piper Resources Ltd. ("**Piper**"), a widely-held, non-listed exploration, development and production company. On February 19, 2008, Piper obtained creditor protection under the CCAA. On August 7, 2008 Mr. Chaisson resigned as a director of Piper. On August 18, 2008 Piper was adjudged bankrupt.

Rod Maxwell acted as a director of Patch International Inc. ("Patch") from January 2007 until April 2009. Mark Bentsen has been a director of Patch since January 2007 and continues to be a director of Patch. Patch's wholly-owned subsidiary, Patch Energy Inc. ("Patch Energy"), of which both Mr. Maxwell and Mr. Bentsen were not a director or officer, filed a proposal (the "Proposal") to its creditors under the *Bankruptcy and Insolvency Act* (Canada) on August 20, 2009 which was accepted by creditors at a meeting held on September 9, 2009. Pursuant to the Proposal, Patch Energy subsequently sold all of its assets to its working interest partner and the working interest partner's joint venture partner. The Alberta Securities Commission issued a cease trade order against Patch on October 2, 2009 for failing to make required annual continuous disclosure filings for its financial year ended May 31, 2009.

To the knowledge of Cathedral, no director or executive officer of Cathedral, or Shareholder holding a sufficient number of securities to affect materially the control of Cathedral has, within the ten (10) years before the date of this AIF, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or Shareholder.

Penalties or Sanctions

To the knowledge of Cathedral, no director or executive officer of Cathedral, or Shareholder holding a sufficient number of securities to affect materially the control of Cathedral has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority, or has been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

Conflicts of Interest

Jay Zammit, a director of Cathedral, is a partner with Burstall Winger LLP, which provides legal services to Cathedral on a fee for services basis. There may be potential conflicts of interest to which the directors and officers of Cathedral will be subject in connection with the operations of Cathedral. Conflicts, if any, will be subject to the procedures and remedies available under the ABCA. The ABCA provides that in the event that a director has an interest in a contract or proposed contract or agreement, the director shall disclose his interest in such contract or agreement and shall refrain from voting on any matter in respect of such contract or agreement unless otherwise provided by the ABCA.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

Management of Cathedral is not aware of any existing or contemplated legal proceedings and/or regulatory actions material to Cathedral, to which Cathedral is a party or to which any of its assets are subject.

INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

No director or executive officer of Cathedral, or any person that beneficially owns, or controls or directs, directly or indirectly, more than 10% of the Common Shares, or any associate or affiliate of any of the foregoing has had any material interest, direct or indirect, in any transaction since the commencement of Cathedral's three most recently completed financial years or during the current financial year, or in any proposed transaction, that has materially affected or is reasonably expected to materially affect Cathedral or any of its subsidiaries.

AUDITORS, REGISTRAR AND TRANSFER AGENT

The auditors of Cathedral are KPMG LLP, Calgary, Alberta. Computershare Trust Company of Canada in Calgary, Alberta is registrar and transfer agent for the Common Shares.

MATERIAL CONTRACTS

The following are contracts material to Cathedral and which can be viewed under Cathedral's profile on the SEDAR website at www.sedar.com:

(i) On November 14, 2011, Cathedral entered into a third amending agreement with its banker;

(ii) On June 29, 2011, Cathedral entered into a second amending agreement with its banker;

(iii) On June 22, 2010, Cathedral entered into a first amending agreement with its banker;

(iv) On December 21, 2009, Cathedral entered into an amended and restated credit agreement with its banker;

(v) On December 18, 2009, Cathedral entered into an indemnity agreement ("**Indemnity Agreement**") with New SemBioSys;

(vi) On December 18, 2009, Cathedral entered into an access to records agreement with New SemBioSys; and

(vii) On November 16, 2009, Cathedral entered into the Arrangement Agreement.

RISK FACTORS

Crude Oil and Natural Gas Prices

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

Alternatives to and Changing Demand for Hydrocarbon Products

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

Cash Dividends to Shareholders are Dependent on the Performance of Cathedral

Cathedral's ability to make dividend payments to Shareholders is dependent upon the operations and business of Cathedral. There is no assurance regarding the amounts of cash that may be available from Cathedral's operations and business that could be available to fund future dividends or if dividends will be declared at all. The actual amount of any dividends will depend on a variety of factors, including without limitation, the current performance, historical and future trends in the business, the expected sustainability of those trends and enacted tax legislation which will affect future taxes payable as well as required long-term debt repayments, maintenance capital expenditures required to sustain performance, future growth capital expenditures, effect of acquisitions or dispositions on Cathedral's business, and other factors that may be beyond the control of Cathedral or not anticipated by management of Cathedral. In the event significant cash requirements are necessary for non-dividend purposes or the profitability of Cathedral declines, there would be a decrease in the amount of cash available for dividends to Shareholders and such decrease could be material.

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

Performance of Obligations

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

Access to Capital

The credit facilities of Cathedral contain covenants that require it to meet certain financial tests and that restrict, among other things, the ability of Cathedral to incur additional debt, make significant acquisitions, 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 AIF, 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 SemBioSys 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, the Indemnity Agreement and the divestiture agreement ("**Divestiture Agreement**") contemplated thereby, attempted to ensure that the liabilities and obligations relating to the business of SemBioSys were transferred to and assumed by New SemBioSys, 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 SemBioSys for all such obligations. However, in the event New SemBioSys fails or is unable to meet such contractual obligations to Cathedral and to the extent any applicable insurance coverage is not available, Cathedral may be liable for such obligations which could have a material adverse effect on the business, financial condition and results of operations of Cathedral.

Due Diligence

Although Cathedral has conducted investigations of, and engaged legal counsel to review, the corporate, legal, financial and business records of SemBioSys 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 SemBioSys were transferred to and assumed by New SemBioSys, 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.

SemBioSys Operational Risks

Cathedral has, through the contractual provisions in the Arrangement Agreement, the Indemnity Agreement and the Divestiture Agreement contemplated thereby, attempted to ensure that the liabilities and obligations relating to the business of SemBioSys were transferred to and assumed by New SemBioSys, 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 SemBioSys for all such obligations. However, in the event New SemBioSys fails or is unable to meet such contractual obligations to Cathedral, Cathedral could be exposed to liabilities and risks associated with the operations of SemBioSys, which include, without limitations, risks relating to claims with respect to intellectual property matters, product liability or environmental damages.

Tax Related Risks Associated with the Conversion

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

Interest Rates

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

Debt Service

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

Additional Shares

If the Board of Cathedral decides to issue additional Common Shares, Preferred Shares or securities convertible into Common Shares, existing shareholders may suffer significant dilution.

Unpredictability and Volatility of Share Price

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

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

Income Tax Matters

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

Key Personnel and Employee/Sub-contractor Relationships

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

Competition

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

Access to Parts, Consumables and Technology and Relationships with Key Suppliers

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

Technology

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

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

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

Potential Replacement or Reduced Use of Products and Services

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

Operating Risks and Insurance

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

Business continuity, disaster recovery and crisis management

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

Risks of Foreign Operations

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

Weather and Seasonality

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

Activity levels in the oil and natural gas basins in the U.S. are not subject to the seasonality to the same extent that it occurs in the western Canada region.

Foreign Currency Exchange Rates

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

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

Acquisitions and Development Risks

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

Implementing Strategy

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

Credit Risk

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

Reliance on Major Customers

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

Environmental Risks

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

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

Government Regulation

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

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

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

Conflict of Interest

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

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.

AUDIT COMMITTEE

General

The Board has developed written terms of reference outlining the Audit Committee's roles and responsibilities and which provide appropriate guidance to Audit Committee members as to their duties. These terms of reference are reviewed annually by the Board. The Audit Committee reviews the annual and interim financial statements of Cathedral and makes recommendations to the Board with respect to such statements. The Audit Committee also reviews the nature and scope of the annual audit as proposed by the auditors and management, and the adequacy of the internal accounting control procedures and systems within Cathedral. The Audit Committee is responsible to ensure that management has implemented an effective system of internal control and has oversight responsibility for management reporting on internal control. The full text of the Audit Committee Charter is attached as Schedule "A" to this AIF.

Composition of the Audit Committee

The Audit Committee is currently comprised of Rod Maxwell (Chair), Scott Sarjeant and Ian Brown. Messrs. Maxwell, Sarjeant and Brown are all independent and financially literate under National Instrument 52-110.

Relevant Education and Experience

In addition to each member's general business experience, the education and experience of each Audit Committee member that is relevant to the performance of his responsibilities as an Audit Committee member are as follows.

Rod Maxwell is a Chartered Accountant and Chartered Business Valuator and is presently the Managing Director of StoneBridge Merchant Capital Corp. Mr. Maxwell serves on the board of directors of Hyperion Exploration Corp. (TSXV), Iona Energy Inc. (TSXV) and Invicta Energy Corp. (TSXV).

Mr. Sarjeant holds a Masters of Business Administration plus a Law Degree, and is presently the President and CEO of Premiax Financial Corp., a non-bank financial corporation that operates financial businesses targeted at the energy industry. From 1994 to 2003, Mr. Sarjeant was co-founder of AltaGas Services Inc., a publicly listed Canadian energy services company, where he served as Executive Vice President. From 1987 to 1994, Mr. Sarjeant was a Vice President in the Corporate Finance Group of Citibank Canada. He has served on the audit committees of other publicly listed entities, including: AltaGas Services Inc. (TSX), Campion Resources Ltd. (TSXV) and Rare Method Interactive Corp. (TSXV).

Mr. Brown is a Chartered Accountant and has been an independent businessman since January 2006. Prior thereto, Mr. Brown was the Senior Managing Director, Raymond James Ltd. from May 1995 until December 2005. Mr. Brown serves on the Board of Directors of Bonavista Energy Corporation (TSX), Consolidated Westview Resources Corp. (TSXV), Karnalyte Resources Inc. (TSX), Petrobank Energy and Resources Ltd. (TSX) and PetroBakken Energy Ltd. (TSX).

Pre-Approval Policies and Procedures

The Audit Committee has adopted a pre-approval policy with respect to permitted non-audit services. Under the policy, the Audit Committee has granted pre-approval services for non-audit services of $100,000 for fiscal 2012.

External Auditor Service Fees (By Category)

The following table provides information about the fees billed to the Corporation for professional services rendered by KPMG LLP during fiscal 2011 and 2010:

	2011(1)	**2010**(1)
Audit Fees(2)	$ 160,000	$ 185,000
Audit-Related Fees(3)	$ 128,268	$ 91,400
Tax Fees(4)	$ 227,458	$ 171,943
All Other Fees	-	-
Total:	$ 515,726	$ 448,343

Notes:

(1) Billed or estimated to be billed for services in the applicable year.

(2) Audit fees for professional services rendered by KPMG LLP for the audit of Cathedral's annual consolidated financial statements as well as services provided in connection with statutory and regulatory filings.

(3) Audit-related fees are for services related to: (a) performance of the review of Cathedral's quarterly consolidated financial statements ($45,000; 2010 - $45,000); and (b) fees related to Cathedral's conversion to International Financial Reporting Standards ($83,268; 2010 - $46,000).

(4) Tax fee for tax compliance, tax advice and tax planning.

INTERESTS OF EXPERTS

Cathedral's auditors are KPMG LLP, who have prepared an independent auditor's report dated March 6, 2012 in respect of Cathedral's consolidated financial statements with accompanying notes as at and for the year ended December 31, 2011. KMPG LLP has advised that they are independent with respect to Cathedral within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Alberta.

ADDITIONAL INFORMATION

Additional information relating to Cathedral and its predecessor entity, the Trust, may be found on SEDAR at www.sedar.com. Additional information regarding directors' and officers' remuneration and indebtedness, principal holders of Cathedral's securities and securities authorized for issuance under equity compensation plans is contained in Cathedral's information circular dated March 6, 2012 in respect of Cathedral's annual meeting of Shareholders to be held on April 19, 2012. Additional financial information is provided in Cathedral's comparative consolidated financial statements and MD&A for the year ended December 31, 2011.

Effective Date

Unless otherwise specifically herein provided, the information contained in this AIF is stated as at March 6, 2012.

CATHEDRAL ENERGY SERVICES LTD.
AUDIT COMMITTEE CHARTER
Dated: March 2012

ROLE AND RESPONSIBILITIES

The Audit Committee ("Committee") is a committee of the Board of Directors (the "Board", each member of the Board a "Director") to which the Board delegates its responsibility for oversight of Cathedral Energy Services Ltd. (the "Corporation") financial reporting process.

The Committee shall assist the Board in fulfilling its responsibilities by:

- overseeing and monitoring the integrity of the Corporation's financial reporting processes, financial statements and system of internal controls regarding accounting and financial reporting and accounting compliance;

- evaluating the independent external auditors' qualifications, performance and independence;

- enhancing the independence of the independent external auditor;

- assessing the processes relating to senior management's determination and mitigation of financial risks and the maintenance of an effective control environment; and

- reviewing the processes to monitor the Corporation's compliance with legal and regulatory requirements.

The Committee has the authority to conduct any review or investigation appropriate to fulfilling its responsibilities. The Committee has the sole authority to approve any non-audit engagement by the Corporation's independent external auditors and to approve all audit engagement fees and terms. The Committee shall have unrestrictive access to personnel and information, and any resources necessary to carry out its responsibility.

MEMBERSHIP AND MEETINGS

The Committee shall be comprised of a minimum of three directors including a Committee Chair, all of whom shall qualify as independent directors pursuant to National Instrument 52-110 *Audit Committees* (as implemented by the Canadian Securities Administrators and as amended from time to time). Each member of the Committee shall be financially literate, as defined in NI 52-110, and the Chair of the Committee shall have accounting or related financial managerial expertise. The members of the Committee and its Chair shall be appointed by the Board. Appointments shall be made in accordance with procedures established by the governance committee of the Board from time to time.

The Committee shall meet at least four times annually (for review of Q1, Q2 and Q3 interim reports as well as pre and post annual audit), or more frequently as circumstances dictate. The Committee shall report to the Board on its activities after each of its meetings. The Committee is expected to establish and maintain free and open communication among the independent external auditor and senior management and shall periodically meet separately with each of them. The President and Chief Executive Officer (collectively "CEO") and the Chief Financial Officer are expected to be available to attend the Committee's meetings or portions thereof. The affirmative vote of a majority of the members of the Committee participating in any meeting of the Committee is necessary for the adoption of any resolution.

The Committee shall be empowered to retain, obtain advice or otherwise receive assistance from outside independent legal counsel, accountants or others to assist in the conduct of any investigation as it deems necessary in the course of fulfilling Committee duties. The Corporation shall provide for appropriate funding, as determined by the Committee, for payment of compensation to the independent external auditor for the purposes of issuing an audit report and to any advisors retained by the Committee.

On an annual basis, the Committee shall report to the Board on the Committee's performance against this Charter and the goals established annually by the Committee for itself. The Committee shall review and update the adequacy of this Charter periodically, and where necessary, recommend changes to the Board for its approval.

SPECIFIC DUTIES AND RESPONSIBILITIES

The duties and responsibilities of a member of the Committee are in addition to those duties set out for a member of the Board.

1) Financial Reporting and Public Disclosure

(a) Review, with management and the independent external auditor:

(i) the independent external auditors annual audit plan;

(ii) the Corporation’s annual audited financial statements. In relation to the annual audited financial statements, review significant issues including accounting principles, practices and significant management estimates and judgments, including any significant changes in the Corporation’s selection or application of accounting principles, any major issues as to the adequacy of the Corporation’s internal controls and any special steps adopted in light of material control deficiencies;

(iii) the Corporation’s annual management's discussion and analysis (“MD&A”);

(iv) the independent external auditors’ audit examination of the annual financial statements and their report thereon; and

(v) all public disclosure documents containing audited or unaudited financial information before release, including, but not limited to, any prospectus, the Corporation’s annual report, the Corporation’s annual information form, the Corporation’s management proxy circular and any press releases.

(b) Review, with management and the independent external auditor:

(i) the Corporation’s interim unaudited financial statements;

(ii) the Corporation’s interim MD&A; and

(iii) any significant changes to the Corporation’s accounting principles.

The Corporation's independent external auditor has been engaged to perform a limited scope review of the interim reports.

(c) Oversee an investigation sufficient to provide reasonable grounds for believing that the financial statements and reports referred to in (a) and (b) above are complete in all material respects and consistent with the information known to Committee members, and assess whether the financial statements reflect appropriate accounting principles.

(d) Review with senior management and the independent external auditor, management's handling of any proposed audit adjustments identified by the independent external auditors.

(e) Meet with the independent external auditor to review the results of the audit examination of the financial statements and their report thereon, their judgments about the quality and appropriateness of the Corporation's accounting principles, and any audit problems or difficulties and management's response.

(f) Review and resolve any significant disagreement among the management and the independent external auditors encountered during the course of their audit or review, including any restrictions in the scope of the independent external auditor’s work or access to required information.

(g) Review the integrity of the Corporation’s internal and external financial reporting process, in consultation with the independent external auditors.

(h) Consider, evaluate and recommend to the Board such changes as are appropriate to the Corporation’s auditing and accounting principles and practices as suggested by the independent external auditors or senior management.

(i) Review with the independent external auditors and senior management the extent to which changes and improvements in financial and accounting practices, as approved by the Committee, have been implemented.

(j) Formally recommend approval to the Board of the Corporation’s annual financial statements, interim financial statements and reports referred to in (a) and (b) above. The annual audited financial statement review shall include a report from the independent external auditors about the quality of the most critical accounting policies upon which the Corporation’s financial status depends, and involve the most complex, subjective or significant judgmental estimates, decisions or assessments.

2) Independent External Auditor

(a) Be directly responsible, in the Committee’s capacity as a committee to the Board and subject to the rights of shareholders and applicable law, for the appointment, compensation, retention and oversight of the work of the independent external auditors for the purposes of preparing or issuing an audit report, or performing other audit, review, or attest services for the Corporation. The independent external auditors shall report directly to the Committee.

(b) At least annually, obtain and review a report by the independent external auditor describing:

(i) the independent external auditors’ internal quality-control procedures; and

(ii) any material issues raised by the most recent internal quality-control review, or peer review, of the independent external auditors, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the independent external auditors, and any steps taken to deal with any such issues.

(c) Confirm the independence of the independent external auditor by discussing and reviewing all significant relationships that the independent external auditors have with the Corporation and obtaining their assertion of independence in accordance with professional standards.

(d) Review and evaluate:

(i) the performance of the independent external auditor, and make a recommendation to the Board regarding the reappointment or discharge of the independent external auditors for presentation to the shareholders;

(ii) the terms of engagement, audit scope and audit plans of the independent external auditors together with their proposed fees; and

(iii) the engagement of the independent external auditors firm or affiliates to perform non-audit services, together with the fees thereof, and the impact thereof, on the independence of the independent external auditors.

(e) Approve all non-audit service with the Corporation's independent external auditors other than services related to limited scope reviews of interim reports and Canadian and US tax services.

(f) When there is to be a change in the independent external auditor, review all issues relating to the change to be included in the required notice to securities regulators of such change.

(g) Review and approve the hiring policies for the Corporation's hiring of employees or former employees of the present and any former independent external auditors.

3) Internal Controls

(a) Evaluate whether senior management is adequately communicating the importance of internal control to all relevant personnel.

(b) Periodically privately consult with the independent external auditor about internal controls and the completeness and accuracy of the Corporation's financial statements. Any significant recommendation made by the independent external auditor for the strengthening of internal controls shall be reviewed and discussed with senior management.

(c) Review whether the internal control recommendations made by internal auditors and the independent external auditor are being implemented by senior management and, if not, why not.

4) Compliance with Relevant laws and regulations

(a) Periodically obtain updates from senior management regarding procedures and processes to ensure compliance with applicable laws and regulations (including but not limited to, securities, tax and environmental matters).

(b) Review and receive reports from the Corporation's Disclosure Committee.

(c) Monitor and approve the Corporation's disclosure policy.

5) Other Responsibilities

(a) Review policies and procedures with respect to officers' and directors' expense accounts and perquisites, including the use of corporate assets. Review the CEO's expenses and perquisites at least once a year.

(b) Review all consulting fees paid by the Corporation to any organization where such fees exceed $20,000 annually.

(c) Institute special investigations, if necessary, and hire special counsel or experts to assist, into any matters which come under its scope of responsibilities.

(d) Review the procedures established for the receipt, retention, and treatment of complaints received by the Corporation of concerns regarding accounting, internal accounting controls, auditing or code of conduct matters and resolution of such concerns, if any.

(e) Review the procedures established allowing the confidential, anonymous submission by the Corporation's employees of concerns regarding questionable accounting or auditing matters and resolution of such concerns, if any.

(f) Review with the Board, any issues that arise with respect to the quality or integrity of the Corporation's financial statements, the Corporation's compliance with legal or regulatory requirements and the performance and independence of the Corporation's independent external auditors.

(g) Review and/or approve other financial matters delegated specifically to it by the Board.

PROCEDURE GOVERNING ERRORS OR MISSTATEMENTS IN THE FINANCIAL STATEMENTS

In the event a Director of the Corporation has reason to believe, after discussion with management, that a material error or misstatement exists in the Corporation's financial statements, that Director shall forthwith notify the Committee and the independent external auditor of the error or misstatement of which the Director becomes aware in a financial statement that the independent external auditor or a former independent external auditor has reported on.

If the independent external auditor or a former independent external auditor of the Corporation is notified or becomes aware of an error or misstatement in a financial statement on which the auditor or former auditor has reported, and if in the auditor's or former auditor's opinion the error or misstatement is material, the auditor or former auditor shall inform the Board and/or Committee accordingly.

When the Committee or the Board is made aware of an error or misstatement in a financial statement the Board shall prepare and issue revised financial statements or otherwise inform the shareholders and file such revised financial statements as required.

LIMITATION ON COMMITTEE MEMBERS' DUTIES

Nothing in this Charter is intended, or may be construed, to impose on any member of the Committee a standard of care or diligence that is in any way more onerous or extensive than the standard required by law. The purposes and responsibilities outlined in this charter are meant to serve as guidelines rather than inflexible rules and the Committee may adopt such additional procedures and standards it deems necessary from time to time to fulfill its responsibilities.