



CATHEDRAL

CATHEDRAL ENERGY SERVICES LTD.

2010 Q3 INTERIM REPORT

FINANCIAL HIGHLIGHTS

\$ in '000's except per share amounts

	Three months ended September 30		Nine months ended September 30	
	2010	2009	2010	2009
Revenues (excluding discontinued operations 2010 YTD - \$2,359; 2009 YTD - \$10,465)	\$ 38,864	\$ 20,176	\$ 98,519	\$ 57,359
Gross margin % ⁽¹⁾	47%	51%	46%	49%
EBITDAS from continuing operations ⁽¹⁾	\$ 11,775	\$ 5,586	\$ 25,999	\$ 13,408
Per share - diluted	\$ 0.32	\$ 0.15	\$ 0.71	\$ 0.39
EBITDAS ⁽¹⁾	\$ 11,967	\$ 5,724	\$ 24,861	\$ 10,788
Per share - diluted	\$ 0.33	\$ 0.16	\$ 0.68	\$ 0.31
Income before taxes and discontinued operations	\$ 8,459	\$ 3,992	\$ 15,811	\$ 6,361
Net income	\$ 7,056	\$ 3,125	\$ 10,353	\$ 3,045
Basic per share and diluted	\$ 0.19	\$ 0.09	\$ 0.28	\$ 0.09
Dividends declared per share	\$ 0.06	\$ 0.04	\$ 0.18	\$ 0.31
Property and equipment additions	\$ 8,701	\$ 1,333	\$ 24,929	\$ 7,309
Weighted average shares outstanding:				
Basic ('000)	36,423	36,198	36,411	34,370
Diluted ('000)	36,578	36,198	36,741	34,370
		September 30 2010		December 31 2009
Working capital		\$ 15,717		\$ 22,451
Long-term debt excluding current portion		\$ 34,508		\$ 39,526
Shareholders' equity		\$ 103,012		\$ 97,422

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

MANAGEMENT'S DISCUSSION & ANALYSIS

This Management's Discussion & Analysis ("MD&A") for the three and nine months ended September 30, 2010 should be read in conjunction with the annual audited consolidated financial statements and notes thereto for the year ended December 31, 2009, as well as the MD&A in the 2009 Annual Report of Cathedral Energy Services Ltd. (the "Company" / "Cathedral"). This MD&A has been prepared as of November 2, 2010. Dollar amounts are in '000's except for day rates and per share amounts.

FORWARD LOOKING STATEMENTS

This MD&A contains certain forward-looking statements and forward-looking information (collectively referred to herein as "forward-looking statements") within the meaning of applicable Canadian securities laws. All statements other than statements of present or historical fact are forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "anticipate", "achieve", "believe", "plan", "intend", "objective", "continuous", "ongoing", "estimate", "outlook", "expect", "may", "will", "project", "should" or similar words suggesting future outcomes. In particular, this MD&A contains forward-looking statements relating to: access to capital; projected capital expenditures and commitments and the financing thereof; equipment delivery and deployment dates; establishment of new operating bases; customer commitments; financial results; activity levels; technology advances; IFRS adjustments; commencement of Venezuela operations and dividends. The Company believes the expectations reflected in such forward-looking statements are reasonable as of the date hereof but no assurance can be given that these expectations will prove to be correct and such forward-looking statements should not be unduly relied upon.

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

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

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

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

NON-GAAP MEASUREMENTS

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

The specific measures being referred to include the following:

- i) "Gross margin" - calculated as revenues less operating expenses is considered a primary indicator of operating performance (see tabular calculation under Results of Operations);
- ii) "Gross margin %" - calculated as gross margin divided by revenues is considered a primary indicator of operating performance (see tabular calculation under Results of Operations);
- iii) "EBITDAS" - defined as earnings before interest on long-term debt, taxes, depreciation, non-cash compensation expense and unrealized foreign exchange gain/loss; this measure is considered an indicator of the Company's ability to generate funds flow from operations prior to consideration of how activities are financed, how the results are taxed and measured and non-cash expenses. The definition of EBITDAS was changed in 2009 Q2 to adjust for unrealized foreign exchange gain/loss. Comparative amounts presented have been restated to the new calculation (see tabular calculation under EBITDAS);
- iv) "EBITDAS from continuing operations" - defined as earnings before interest on long-term debt, taxes, depreciation, non-cash compensation expense and unrealized foreign exchange gain/loss excluding the portion due from discontinued operations in each component of the calculation;
- v) "EBITDAS from discontinued operations" - defined as earnings before interest on long-term debt, taxes, depreciation, non-cash compensation expense and unrealized foreign exchange gain/loss from discontinued operations of the Company's former wireline division in each component of the calculation;
- vi) "Maintenance capital expenditures" - refers to capital expenditures required to maintain existing levels of service but excludes replacement cost of lost-in-hole equipment to the extent the replacement equipment is financed from the proceeds on disposal of the equipment lost-in-hole; and
- vii) "Funds from continuing operations" - calculated as cash flow from continuing operating activities before changes in non-cash working capital is considered an indicator of the Company's ability to generate funds flow from operations but excluding changes in non-cash working capital which is financed using the Company's bank indebtedness/line of credit facility.

OVERVIEW

The Company is incorporated under the Business Corporations Act (Alberta) (the "Act"). The Company was created as a result of the conversion of Cathedral Energy Services Income Trust (the "Trust") to a corporation pursuant to a Plan of Arrangement under the Act, entered into by various entities including the Trust, Cathedral Energy Services Ltd. and SemBioSys Genetics Inc. (the "Reorganization"). The Reorganization was completed on December 18, 2009 (see 2009 Annual Report for further details). As a result of the application of the continuity of interests method of accounting, certain terms such as shareholders'/unitholders', dividends/distributions and share-based/unit-based may be used interchangeably throughout this MD&A.

In 2010 Q1, the Company made the decision to discontinue its operations of the wireline division. On March 31, 2010, it closed its Canadian slickline operations and on April 20, 2010 completed the sale of its U.S. wireline operations. As such, for the three and nine months ended September 30, 2010 the revenues and expenses for the wireline business have been included in the statements of operations and retained earnings and statements of cash flows as discontinued operations and the related assets are classified as held for sale in the balance sheet. The 2009 figures have been reclassified to be consistent with this presentation.

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

The Company completed 2010 Q3 with quarterly revenues of \$38,864 and year-to-date revenues of \$98,519 compared to 2009 Q3 revenues of \$20,176 and 2009 year-to-date revenues of \$57,359. Year-to-date revenues have increased 72% from 2009. The 2010 Q3 revenues were comprised of 78% (2009 Q3 - 83%) from the directional drilling division and 22% (2009 Q3 - 17%) from the production testing division.

2010 Q3 EBITDAS was \$11,967 (\$0.33 per share diluted) which represents a \$6,243 or 109% increase from 2009 Q3 EBITDAS of \$5,724 (\$0.16 per share diluted). For the three months ended September 30, 2010, the Company's net income was \$7,056 (\$0.19 per share diluted) as compared to a \$3,125 (\$0.09 per share diluted) in 2009.

2010 year-to-date EBITDAS was \$24,861 (\$0.68 per share diluted) which represents a \$14,073 or 130% increase from \$10,788 (\$0.31 per share diluted) in 2009. On a 2010 year-to-date basis, the Company's net income was \$10,353 (\$0.28 per share diluted) as compared to a \$3,045 (\$0.09 per share diluted) in 2009.

RESULTS OF OPERATIONS - THREE MONTHS ENDED SEPTEMBER 30, 2010

Revenues and operating expenses

	2010 Q3	2009 Q3	Change	%
Revenues	\$ 38,864	\$ 20,176	\$ 18,688	93
Operating expenses	20,605	9,864	10,741	109
Gross margin - \$	\$ 18,259	\$ 10,312	\$ 7,947	77
Gross margin - %	47%	51%	(4%)	

	Three months ended September 30, 2010			Three months ended September 30, 2009		
	Directional drilling	Production testing	Total	Directional drilling	Production testing	Total
Revenues						
Canada	\$ 19,314	\$ 4,075	\$ 23,389	\$ 11,836	\$ 1,495	\$ 13,331
United States	10,835	4,640	15,475	4,863	1,982	6,845
	\$ 30,149	\$ 8,715	\$ 38,864	\$ 16,699	\$ 3,477	\$ 20,176

2010 Q3 revenues were \$38,864 which represented an increase of \$18,688 or 93% from 2009 Q3 revenues of \$20,176. The increase is primarily attributed to the focus on horizontal, multi-stage fracturing technology to complete conventional and unconventional resource plays in both Canada and the U.S. which has allowed for continued strength in activity levels for the oilfield services sector.

The directional drilling division revenues have increased from \$16,699 in 2009 to \$30,149 in 2010. This increase is mainly the result of: i) a 78% increase in activity days from 1,874 in 2009 to 3,339 in 2010; and ii) a slight increase in the average day rate from \$8,754 in 2009 to \$8,897 in 2010. Canadian activity days increase from 1,372 to 2,179 and U.S. activity days increased from 502 to 1,160.

The Company's production testing division contributed \$8,715 in revenues during 2010 Q3 which is a 151% increase over 2009 revenues of \$3,477. This increase is attributable in part to the year-over-year increase in production testing units from 35 in 2009 Q3 to 51 in 2010 Q3 and to the overall increase in oilfield service activities on a year-over-year basis.

The gross margin for 2010 Q3 was 47% compared to 51% in 2009 Q3. The decrease is attributed to a number of factors including increases in labour rates net of reductions in repair expenses.

General and administrative General and administrative expenses were \$7,935 in 2010 Q3, an increase of \$3,395 compared with \$4,540 in 2009. The increase was primarily related to increases in payroll related expenses and facility rental costs as well as other general increases due to increased activity levels. As a percentage of revenues, general and administrative expenses were 20% in 2010 Q3 and 23% in 2009 Q3.



Depreciation Depreciation for 2010 Q3 was \$2,894 as compared to \$2,622 in 2009 Q3. This increase is due to additions to property and equipment. In addition, the Company reviewed its estimate of useful lives of assets as at January 1, 2010 and adjusted its declining balance depreciation rates accordingly (refer to note 1 to the interim financial statements for the three and nine months ended September 30, 2010). As a percentage of revenues, depreciation amounted to 7% for 2010 and 13% for 2009.

Interest Interest expense related to long-term debt increased from \$297 in 2009 Q3 to \$350 in 2010 Q3 due to a slight increase in effective interest rates. Other interest expense increased from \$51 in 2009 Q3 to \$122 in 2010 Q3; this relates mainly to interest charges on use by the Company of its bank indebtedness/line of credit facility.

Foreign exchange gain/loss The Company's foreign exchange gain was \$1,404 in 2009 Q3 compared to \$778 in 2010 Q3 due to the fluctuations in the Canadian dollar in comparison to the U.S. dollar. Upon consolidation, the Company's foreign operations are considered to be self-sustaining and therefore gains and losses due to fluctuations in the foreign currency exchange rates are recorded in other comprehensive income ("OCI") on the balance sheet as a component of equity. However, gains and losses in the Canadian entity on U.S. denominated intercompany balances continue to be recognized in the statement of operations. Included in the 2010 Q3 foreign currency gains are unrealized losses of \$603 related to intercompany balances as compared to unrealized losses of \$1,525 in the same period in 2009.

Share-based compensation For 2010 Q3 the Company had share-based compensation expense of \$675 as compared to \$200 for 2009 Q3. The increase is mainly due to options issued during 2010, which are amortized against income over three-year vesting periods.

Gain on disposal of property and equipment During 2010 Q3 the Company had a gain on disposal of property and equipment of \$1,398, compared to a loss of \$14 in 2009 Q3. The Company's gains are mainly due to recoveries of lost-in-hole equipment costs including previously expensed depreciation on the related assets. The timing of lost-in-hole recoveries is not in the control of the Company and therefore can fluctuate significantly from quarter-to-quarter.

Taxes For 2010 Q3, the Company had a tax expense of \$1,319 as compared to \$275 in 2009 Q3. All of the Company's current taxes are due to taxable income of its U.S. operations. All of the Company's Canadian taxable income was reduced to \$nil due to the utilization of tax pools and tax loss carry-forwards. The Company's future tax provision for the utilization of these pools was offset by a \$1,062 decrease in the Company's deferred credit.

RESULTS OF OPERATIONS – NINE MONTHS ENDED SEPTEMBER 30, 2010

Revenues and operating expenses

	2010 YTD	2009 YTD	Change	%
Revenues	\$ 98,519	\$ 57,359	\$ 41,160	72
Operating expenses	52,820	29,043	23,777	82
Gross margin - \$	\$ 45,699	\$ 28,316	\$ 17,383	61
Gross margin - %	46%	49%	(3%)	

	Nine months ended September 30, 2010			Nine months ended September 30, 2009		
	Directional drilling	Production testing	Total	Directional drilling	Production testing	Total
Canada	\$ 45,416	\$ 11,812	\$ 57,228	\$ 26,001	\$ 5,530	\$ 31,531
United States	29,812	11,434	41,246	19,713	6,115	25,828
International	45	-	45	-	-	-
	\$ 75,273	\$ 23,246	\$ 98,519	\$ 45,714	\$ 11,645	\$ 57,359

2010 revenues were \$98,519 which represented an increase of \$41,160 or 72% from 2009 revenues of \$57,359. The increase is primarily attributed to the focus on horizontal, multi-stage fracturing technology to complete conventional and unconventional resource plays in both Canada and the U.S. which has allowed for continued strength in activity levels for the oilfield services sector.

The directional drilling division revenues have increased from \$45,714 in 2009 to \$75,273 in 2010 or 65%. This increase is mainly the net result of: i) an 85% increase in activity days from 4,636 in 2009 to 8,555 in 2010; and ii) a decrease in the average day rate from \$9,634 in 2009 to \$8,635 in 2010, which was due in large part to the strength of the Canadian dollar in 2010 compared with 2009. Overall day rates have declined on a year-over-year basis due to market pressures. Canadian activity days increased from 2,855 to 5,359 and U.S. activity days increased from 1,781 to 3,196.

The Company's production testing division contributed \$23,246 in revenues during 2010 which is a 100% increase over 2009 revenues of \$11,645. This increase is attributable in part to the year-over-year increase in production testing units from 35 in 2009 Q3 to 51 in 2010 Q3 and to the overall increase in oilfield service activities on a year-over-year basis.

The gross margin for 2010 was 46% compared to 49% in 2009. The decrease is attributed to a number of factors including increases in labour and rental expense for auxiliary and specialty equipment.

General and administrative General and administrative expenses were \$22,062 in 2010, an increase of \$6,945 compared with \$15,117 in 2009. The increase was primarily related to increases in payroll related expenses and facility rental costs as well as other general increases due to increased activity levels. As a percentage of revenues, general and administrative expenses were 22% in 2010 and 26% in 2009.

Depreciation Depreciation for 2010 was \$7,488 as compared to \$8,523 in 2009. This decrease is due in part the declining balance depreciation method used by the Company and is expected as its assets get older. In addition, the Company reviewed its estimate of useful lives of assets as at January 1, 2010 and adjusted its declining balance depreciation rates accordingly (refer to note 1 to the interim financial statements for the three and nine months ended September 30, 2010). Despite additional capital expenditures in the year the previous factors resulted in a decrease in depreciation. As a percentage of revenues, depreciation amounted to 8% for 2010 and 15% for 2009.

Interest Interest expense related to long-term debt increased from \$962 in 2009 to \$964 in 2010 due to a slight increase in interest rates. Other interest expense increased from \$214 in 2009 to \$306 in 2010; this relates mainly to interest charges on use by the Company of its bank indebtedness/line of credit facility.

Foreign exchange gain/loss The Company's foreign exchange gain was \$2,838 in 2009 compared to \$346 in 2010 due to the fluctuations in the Canadian dollar in comparison to the U.S. dollar. Upon consolidation, the Company's foreign operations are considered to be self-sustaining and therefore gains and losses due to fluctuations in the foreign currency exchange rates are recorded in OCI on the balance sheet as a component of equity. However, gains and losses in the Canadian entity on U.S. denominated intercompany balances continue to be recognized in the statement of operations. Included in the 2010 foreign currency gain are unrealized losses of \$284 related to intercompany balances as compared to unrealized gains of \$3,178 in the same period in 2009.

Share-based compensation expense For 2010, the Company had share-based compensation expense of \$2,020 as compared to \$740 for 2009. The increase is mainly due to options issued during 2010, which are amortized against income over three-year vesting periods.

Gain on disposal of property and equipment During 2010 the Company had a gain on disposal of property and equipment of \$2,606, as compared to \$763 in 2009. The Company's gains are mainly due to recoveries of lost-in-hole equipment costs including previously expensed depreciation on the related assets. The timing of lost-in-hole recoveries is not in the control of the Company and therefore can fluctuate significantly from quarter-to-quarter.

Taxes For 2010, the Company had a tax expense of \$2,790 as compared to tax recovery of \$502 in 2009. All of the 2010 year-to-date current income tax provision of \$978 (2009 - \$5,195) relates to the Company's U.S. operations. All of the Company's Canadian taxable income was reduced to \$nil due to the utilization of tax pools and tax loss carry-forwards. The Company's future tax provision for the utilization of these pools was offset by a \$1,617 decrease in the Company's deferred credit.

LIQUIDITY AND CAPITAL RESOURCES

The Company's principal source of liquidity is cash generated from operations. The Company also has the ability to fund liquidity requirements through its credit facility and the issuance of debt and/or equity. At September 30, 2010, the Company had an operating line of credit with a major Canadian bank in the amount of \$20,000 (December 31, 2009 - \$20,000) of which \$14,273 (December 31, 2009 - \$2,181) was drawn. In addition, the Company has a non-reducing revolving term loan facility in the amount of \$45,000 (December 31, 2009 - \$45,000) of which \$34,500 was drawn as at September 30, 2010 (December 31, 2009 - \$39,500). In addition, at September 30, 2010, the Company had other long-term debt of \$50 (December 31, 2009 - \$234).

Operating activities Cash flow from (used in) operating activities for the three and nine months ended September 30, 2010 was \$2,463 and \$14,118 as compared to (\$5,085) and \$16,389 in the same periods in 2009. Funds from continuing operations (see Non-GAAP Measurements) for 2010 were \$9,783 and \$21,451 as compared to \$4,979 and \$6,488 in 2009. This increase was caused mainly by an increase in earnings due to increased activity levels. The Company has a working capital position at September 30, 2010 of \$15,717 as compared to \$22,451 at December 31, 2009. During 2010 Q2, the Company used excess cash/working capital to reduce its term loan by \$5,000.

Investing activities Cash used in investing activities for the three and nine months ended September 30, 2010 amounted to \$7,555 and \$15,923 as compared to \$1,382 and \$9,620 for the same periods in 2009. During the three and nine months ended 2010, the Company invested a total of \$8,701 and \$24,929 (2009 - \$1,333 and \$7,309) in property and equipment with the main additions for the nine months ended September 30, 2010 being 3 pulse Measurement-While-Drilling ("MWD") systems, resistivity logging while drilling ("LWD") equipment, 16 production testing units (including 9 production testing units acquired from a private company), production testing auxiliary equipment and \$4,473 of maintenance capital, which was mainly related to the retrofit and upgrades to downhole tools. These additions do not include the \$4,980 of directional drilling assets acquired in the asset swap with Pure during 2010 Q2. The Company received a total of \$2,798 and \$9,233 from the sale of property and equipment for the three and nine months ended September 30, 2010 (2009 - \$800 and \$2,426); excluding \$4,980 of wireline equipment disposed of in the asset swap with Pure during 2010 Q2. At September 30, 2010, the Company's operating entities had 100 MWD systems and 51 production testing units.

Financing activities Cash provided by (used in) financing activities for the three and nine months ended September 30, 2010 amounted to \$4,679 and \$2,754 as compared to \$2,754 and (\$12,741) for the same periods in 2009. The Company repaid long-term debt of \$24 and \$5,184 during the three and nine months ended September 30, 2010 (2009 - \$48 and \$5,154). Advances on (repayments of) bank indebtedness during the three and nine months ended September 30, 2010 were \$6,718 and \$12,091 (2009 - \$5,705 and (\$9,701)). During the three and nine months ended September 30, 2010 the Company paid dividends of \$2,185 and \$4,369 (2009 - \$2,903 and \$13,206). During the three and nine months ended September 30, 2010 the Company received proceeds for the exercise of stock options of \$170 and 216 (2009 - \$nil).

As at September 30, 2010, the Company was in compliance with all covenants under its credit facility. At November 2, 2010, the Company had 36,557,991 shares and 3,218,605 options outstanding.

Contractual obligations In the normal course of business, the Company incurs contractual obligations and those obligations are disclosed in the Company's MD&A for the year ended December 31, 2009. As at September 30, 2010, the Company has a commitment to purchase approximately \$4,543 of property and equipment and this amount is expected to be paid or payable by December 31, 2010.

UPDATED 2010 CAPITAL PROGRAM

For 2010, the Board of Directors of the Company has approved an updated capital budget of \$36,504. Included in the 2010 capital budget is approximately \$7,303 for maintenance capital and \$1,200 allocated to the new head office and operations centre located in Calgary, which was purchased in 2008. The maintenance capital expenditures include retro-fits and upgrades to downhole tools. The balance of the 2010 capital program relates mainly to the purchase and integration of resistivity LWD equipment, 9 pulse MWD systems (6 of which are retrievable and "hot-hole" rated), 4 Electro-Magnetic MWD systems, and 21 high pressure production testing units (including 9 units acquired from a private company). These capital expenditures are expected to be financed by way of cash flow from operations, proceeds on the disposal of wireline and other property and equipment and the Company's credit facility. At December 31, 2010, the Company expects to have 110 MWD systems and 56 production testing units.

2011 CAPITAL PROGRAM

For 2011, the Board of Directors of the Company has approved a capital budget of \$24,853 including approximately \$2,000 for maintenance capital and \$3,300 allocated to the Calgary head office and operations centre. The 2011 capital budget also includes the purchase of 20 MWD systems, an expansion to the overall mud motor, drill collar and gap sub fleet to complement the increased directional drilling job capability and \$2,000 in auxiliary production testing equipment. These capital expenditures are expected to be financed by way of cash flow from operations, proceeds on the disposal of wireline and other property and equipment and the Company's credit facility.

DIVIDENDS

It is the intent of the Company to pay quarterly dividends to shareholders. The Board of Directors will review the amount of dividends on a quarterly basis with due consideration to current performance, historical and future trends in the business, the expected sustainability of those trends and enacted tax legislation which will affect future taxes payable as well as required long-term debt repayments, maintenance capital expenditures required to sustain performance and future growth capital expenditures. The Directors have approved a 2010 Q4 dividend in the amount of \$0.06 per share which will have a date of record of December 31, 2010 and a payment date of January 17, 2011.

CONTROLS AND PROCEDURES

Management is responsible for establishing and maintaining adequate disclosure controls and internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external reporting purposes in accordance with GAAP. Internal control over financial reporting may not prevent or detect fraud or misstatements because of limitations inherent in any system of internal control. There were no significant changes in the design or effectiveness of the Company's disclosure controls or internal controls over financial reporting in the third quarter of 2010.

NEW ACCOUNTING POLICIES

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

The Company's IFRS project plan has four phases: education, analysis, design and implementation and testing. The Company is continuing the process of education for all levels of the organization and has completed the analysis phase during which it identified specific significant differences between Canadian GAAP ("CGAAP") and IFRS. The Company is in the design phase in which it is determining its policies and procedures for IFRS. This phase will be completed and the Company will move into the implementation and testing phase in 2010 Q4.

The Company is in the process of revising and finalizing accounting policy choices and financial statement formats which will be vetted by the Company's external auditors and Audit Committee. During 2010 Q4, the Company anticipates completion of this process and to quantify the impact of any changes.

Based upon work completed to date, the Company has determined that IFRS may have a significant impact on share-based compensation, the deferred credit and the valuation of goodwill.

Under IFRS, IFRS 1 allows for certain optional adjustments upon first time adoption of IFRS. The Company intends on re-valuing its wireline assets as at January 1, 2010 to fair value; the Company has not finalized the impact of this change. In addition, the Company intends to adjust its accumulated other comprehensive loss to \$nil as at January 1, 2010. The net result of these adjustments will be offset to retained earnings as at January 1, 2010.

Under CGAAP, the Company has one reporting unit for testing the value of goodwill. Under IFRS, goodwill has to be allocated to cash generating units ("CGU"), which is the lowest level of asset grouping which generates independent cash inflows. Goodwill is tested for impairment at the CGU level. The Company is in the process of finalizing what its CGUs will be under IFRS and once this has been approved, it will perform a test of impairment as at January 1, 2010. As at January 1, 2010, the Company had a goodwill balance of \$19,775 of which \$13,927 originated from the purchase of its discontinued wireline operations, \$4,224 originated from the purchase of its production testing operations and the remaining \$1,624 relates to its directional drilling operations. As at January 1, 2010, the Company expects that the value of the goodwill on the discontinued wireline division will be \$nil under IFRS with the offset to opening retained earnings.

Under CGAAP, the Company recognized a deferred credit as a result of the conversion of Cathedral Energy Services Income Trust to a corporation pursuant to a Plan of Arrangement under the Act, entered into by various entities including the Trust, Cathedral Energy Services Ltd. and SemBioSys Genetics Inc. As at January 1, 2010, the Company expects that the value of the deferred credit which was \$20,514 under CGAAP to be \$nil under IFRS, with the offset to opening retained earnings.

The Company is also in process of finalizing treatment of its automotive leases, which are currently classified as operating leases. In addition, the Company anticipates that its policies with respect to financial statement presentation and various other items will change as a result of adopting IFRS. The areas impacted by IFRS discussed above should not be regarded as a comprehensive list of changes that will result from the transition to IFRS. The impact of IFRS on the consolidated financial statements is not quantifiable at this time.

BUSINESS RISKS

The MD&A for the year ended December 31, 2009, which is included in the Company's 2009 Annual Report, includes an overview on business risks associated with the Company and its operating entities. Those business risks remain in effect as at September 30, 2010 as well as the following additional risks related to the Company's process to establish operations in Venezuela: 1) risk associated with the formation of Cathedral's joint venture company which is required prior to commencement of Venezuela operations, some of which is out of the control of Cathedral; and 2) risk associated with the joint venture company being awarded work from the Venezuela state run oil and natural gas corporation.

EBITDAS

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

	Three months ended September 30		Nine months ended September 30	
	2010	2009	2010	2009
Income from continuing operations	\$ 7,140	\$ 3,717	\$ 13,021	\$ 6,863
Add (deduct):				
Depreciation	2,894	2,622	7,488	8,523
Interest – long-term debt	350	297	964	962
Share-based compensation	675	200	2,020	740
Unrealized exchange gain	(603)	(1,525)	(284)	(3,178)
Taxes (recovery)	1,319	275	2,790	(502)
EBITDAS from continuing operations	11,775	5,586	25,999	13,408
EBITDAS from discontinued operations	192	138	(1,138)	(2,620)
EBITDAS	\$ 11,967	\$ 5,724	\$ 24,861	\$ 10,788

SUMMARY OF QUARTERLY RESULTS

Three month period ended	Sep 2010	Jun 2010	Mar 2010	Dec 2009	Sep 2009	Jun 2009	Mar 2008	Dec 2008
Revenues ⁽¹⁾	\$ 38,864	\$ 23,979	\$ 35,676	\$ 24,740	\$ 20,176	\$ 10,654	\$ 26,529	\$ 43,514
EBITDAS	11,967	2,415	10,479	5,864	5,724	(1,721)	6,785	13,554
Net income (loss)	7,056	(3,440)	6,737	2,236	3,125	(1,484)	1,404	9,737
Net income (loss) per share – basic	0.19	(0.09)	0.19	0.06	0.09	(0.04)	0.04	0.30
Net income (loss) per share –diluted	0.19	(0.09)	0.18	0.06	0.09	(0.04)	0.04	0.30
Dividends declared per share	0.06	0.06	0.06	-	0.04	0.12	0.15	0.21

(1) Revenue for has been restated to exclude discontinued operations, consistent with 2010 Q1 presentation.

OUTLOOK

With the tremendous amount of activity focusing on horizontal, multi-stage fracturing to complete conventional and unconventional resource plays across North America, Cathedral continues to expand its service lines by way of geographic diversification. The Company has opened an operations/repair facility in Houston, Texas and is currently transferring directional drilling equipment to this location and it is expected to be servicing equipment in this facility in late 2010 Q4. Key staffing positions are currently being filled and work has been initiated in the Haynesville and Eagleford plays.

In the Canadian directional drilling market, we expect to have a strong fourth quarter and bookings for 2011 Q1 has been very robust. Demand is expected to be driven by both oil and liquids-rich natural gas plays. To accommodate the increased activity levels Cathedral continues its program to add new equipment and to train field personnel.

Cathedral is in the process of retro-fitting the production testing units acquired in the recently announced acquisition of assets. We expect to have these units operational during 2010 Q4 and integrating these units into our fleet with 6 added in Canada and 3 in the U.S. Four high pressure production testing units are currently working in the Marcellus region in northeast U.S. for a major oil and natural gas producer and two additional high pressure units are being completed and will be operational in 2010 Q4.

Cathedral will continue to invest in resources – personnel and technology – to expand its offering of technologies to penetrate new markets as well as expand markets in which it operates. The Company continues to focus research and development spending on its MWD platform system to allow the MWD systems to drill deeper with the most efficient technologies and expects to introduce additional enhancements in the near term.

Cathedral along with its Venezuela joint venture partner, PDVSA Servicios Petroleros, S.A., 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, continues with the process of incorporating the joint venture company, Vencana Servicios Petroleros, S.A. ("Vencana"), and setting up directional drilling operations in Venezuela. Cathedral expects Vencana to be operating during 2011 Q1.

CONSOLIDATED BALANCE SHEETS

Dollars in '000's
(unaudited)

September 30
2010

December 31
2009

Assets

Current assets:

Cash and cash equivalents	\$ 1,435	\$ 491
Accounts receivable	37,370	27,727
Income taxes receivable	2,603	2,550
Inventory	7,451	5,389
Prepaid expenses and deposits	1,780	1,629
Assets held for sale (note 4)	-	740

50,639 38,526

Property and equipment	97,812	77,425
Assets held for sale (note 4)	3,776	14,027
Future income taxes	20,664	23,491
Intangibles	-	293
Goodwill	18,448	19,775

\$ 191,339 \$ 173,537

Liabilities and Shareholders' Equity

Current liabilities:

Bank indebtedness (note 5)	\$ 14,273	\$ 2,181
Accounts payable and accrued liabilities	18,420	13,686
Dividends payable	2,187	-
Current portion of long-term debt (note 6)	42	208

34,922 16,075

Long-term debt (note 6)	34,508	39,526
Deferred credit (note 8)	18,897	20,514

88,327 76,115

Shareholders' equity (note 7):

Share capital	69,272	68,995
Contributed surplus	6,349	4,390
Retained earnings	29,801	26,004
Accumulated other comprehensive loss	(2,410)	(1,967)

103,012 97,422

\$ 191,339 \$ 173,537

Commitments (note 10)

CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

Dollars in 000's except per share amounts

(unaudited)	Three months ended September 30		Nine months ended September 30	
	2010	2009	2010	2009
Revenues	\$ 38,864	\$ 20,176	\$ 98,519	\$ 57,359
Expenses:				
Operating	20,605	9,864	52,820	29,043
General and administrative	7,935	4,540	22,062	15,117
Depreciation	2,894	2,622	7,488	8,523
Interest – long-term debt	350	297	964	962
Interest – other	122	51	306	214
Foreign exchange gain	(778)	(1,404)	(346)	(2,838)
Share-based compensation	675	200	2,020	740
	31,803	16,170	85,314	51,761
	7,061	4,006	13,205	5,598
Gain (loss) on disposal of property and equipment	1,398	(14)	2,606	763
Income before taxes and discontinued operations	8,459	3,992	15,811	6,361
Taxes (note 8):				
Current	244	324	978	5,195
Future (recovery)	1,075	(49)	1,812	(5,697)
	1,319	275	2,790	(502)
Income from continuing operations	7,140	3,717	13,021	6,863
Loss from discontinued operations, net of tax (note 4)	(84)	(592)	(2,668)	(3,818)
Net income	7,056	3,125	10,353	3,045
Retained earnings, beginning of period	24,932	22,010	26,004	31,559
Dividends	(2,187)	(1,456)	(6,556)	(10,925)
Retained earnings, end of period	\$ 29,801	\$ 23,679	\$ 29,801	\$ 23,679
Income from continuing operations per share:				
Basic and diluted	\$ 0.20	\$ 0.10	\$ 0.36	\$ 0.20
Loss from discontinued operations per share:				
Basic and diluted	\$ (0.01)	\$ (0.01)	\$ (0.07)	\$ (0.11)
Net income per share:				
Basic and diluted	\$ 0.19	\$ 0.09	\$ 0.28	\$ 0.09

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

Dollars in 000's

(unaudited)	Three months ended September 30		Nine months ended September 30	
	2010	2009	2010	2009
Net income	\$ 7,056	\$ 3,125	\$ 10,353	\$ 3,045
Other comprehensive loss:				
Unrealized foreign exchange loss on translation of self-sustaining foreign operations	(876)	(2,485)	(443)	(4,601)
Comprehensive income (loss) for the period	\$ 6,180	\$ 640	\$ 9,910	\$ (1,556)
Accumulated other comprehensive income (loss), beginning of period	\$ (1,534)	\$ 1,210	\$ (1,967)	\$ 3,326
Other comprehensive loss	(876)	(2,485)	(443)	(4,601)
Accumulated other comprehensive loss, end of period	\$ (2,410)	\$ (1,275)	\$ (2,410)	\$ (1,275)

CONSOLIDATED STATEMENTS OF CASH FLOWS

Dollars in 000's

(unaudited)

	Three months ended September 30		Nine months ended September 30	
	2010	2009	2010	2009
Cash provided by (used in):				
Operating activities:				
Income from continuing operations	\$ 7,140	\$ 3,717	\$ 13,021	\$ 6,863
Items not involving cash:				
Depreciation	2,894	2,622	7,488	8,523
Future taxes (recovery)	1,075	(49)	1,812	(5,697)
Unrealized foreign exchange gain	(603)	(1,525)	(284)	(3,178)
Share-based compensation	675	200	2,020	740
(Gain) loss on disposal of property and equipment	(1,398)	14	(2,606)	(763)
Cash flow from continuing operations	9,783	4,979	21,451	6,488
Cash flow from discontinued operations (note 4)	(186)	225	(1,765)	(1,099)
Changes in non-cash operating working capital	(7,134)	(10,289)	(5,568)	11,000
	2,463	(5,085)	14,118	16,389
Investing activities:				
Property and equipment additions from continuing operations	(8,625)	(1,161)	(24,758)	(6,921)
Property and equipment additions from discontinued operations	(76)	(172)	(171)	(388)
Proceeds on disposal of property and equipment from continuing operations	1,986	4	3,732	1,426
Proceeds on disposal of property and equipment held for sale from discontinued operations	812	796	5,501	1,000
Changes in non-cash investing working capital	(1,652)	(849)	(227)	(4,737)
	(7,555)	(1,382)	(15,923)	(9,620)
Financing activities:				
Proceeds on shares issued for cash, net of issuance costs	-	-	-	13,820
Dividends paid	(2,185)	(2,903)	(4,369)	(13,206)
Repayment of long-term debt	(24)	(48)	(5,184)	(5,154)
Advances under long-term debt	-	-	-	1,500
Proceeds on exercise of options(note 7)	170	-	216	-
Change in bank indebtedness	6,718	5,705	12,091	(9,701)
	4,679	2,754	2,754	(12,741)
Effect of exchange rate on changes in cash and cash equivalents	(9)	(384)	(5)	(383)
Change in cash and cash equivalents	(422)	(4,097)	944	(6,355)
Cash and cash equivalents, beginning of period	1,857	5,293	491	7,551
Cash and cash equivalents, end of period	\$ 1,435	\$ 1,196	\$ 1,435	\$ 1,196



SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Three and nine months ended September 30, 2010 and 2009

Dollars in 000's
(unaudited)

1. Significant accounting policies

These unaudited interim consolidated financial statements for the period ended September 30, 2010 do not include all disclosures required in the annual financial statements and should be read in conjunction with the annual consolidated financial statements and notes thereto for the year ended December 31, 2009 included in the Company's 2009 Annual Report and other public disclosure documents of the Company. These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and using the same accounting policies as outlined in note 2 of the annual consolidated financial statements for the year ended December 31, 2009, except for the change in depreciation rates described below.

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

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

As a result of these changes, depreciation recorded in these consolidated financial statements was reduced by \$660 for the three months ended September 30, 2010 and \$1,893 for the nine months ended September 30, 2010.

2. Future accounting policies

For years beginning on or after January 1, 2011, all Canadian publicly accountable enterprises will be required to report under International Financial Reporting Standards ("IFRS") with restatement of amounts presented for 2010 to comply with IFRS.

3. Seasonality of operations

A significant portion of the Company's operations are carried on in western Canada where activity levels in the oilfield services industry are subject to a degree of seasonality. Operating activities in western Canada are generally lower during "spring breakup" which normally commences in 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 United States are not subject to the seasonality to the same extent that it occurs in the western Canada region.

4. Assets held for sale and discontinued operations

Effective March 31, 2010, the Company ceased operating its Canadian slickline business. The related operating assets are expected to be sold in 2010. On April 20, 2010, the Company also completed the sale of the assets of its U.S. based electric wireline business including inventory and property and equipment. As such, all remaining Canadian wireline property and equipment has been reclassified as assets held for sale on the consolidated balance sheet. The assets and liabilities of the wireline business held for sale comprise of the following:

	September 30 2010	December 31 2009
Current assets held for sale:		
Inventory	\$ -	\$ 740
Long-term assets held for sale:		
Property and equipment	\$ 3,776	\$ 14,027

Operating results related to this division have been included in loss from discontinued operations on the consolidated statements of operations and retained earnings. Comparative periods have been reclassified to include this division as discontinued operations.

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

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

	Three months ended September 30		Nine months ended September 30	
	2010	2009	2010	2009
Revenues	\$ -	\$ 3,367	\$ 2,359	\$ 10,465
Expenses:				
Operating	60	2,240	2,304	8,694
General and administrative	(81)	1,089	1,828	4,491
Depreciation	-	917	557	2,819
Impairment of goodwill	-	-	699	-
Impairment of intangibles	-	-	257	-
Interest – long-term debt	-	5	17	17
Interest – other	6	-	6	-
	(15)	4,251	5,668	16,021
Gain on disposal of property and equipment	15	(884)	(3,309)	(5,556)
Income (loss) before taxes	177	100	14	100
Taxes:				
Current (recovery)	201	(192)	(31)	(1,638)
Future (recovery)	75	-	(596)	-
	276	(192)	(627)	(1,638)
Loss from discontinued operations	\$ (84)	\$ (592)	\$ (2,668)	\$ (3,818)

The gain on disposal of property and equipment for the three and nine months ended September 30, 2010 is comprised of gain on disposal of property and equipment of \$177 and \$641, net of an additional impairment of goodwill of \$nil and \$627.

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

	Three months ended September 30		Nine months ended September 30	
	2010	2009	2010	2009
Operating activities:				
Loss from discontinued operations	\$ (84)	\$ (592)	\$ (2,668)	\$ (3,818)
Items not involving cash:				
Depreciation	-	917	557	2,819
Impairment of goodwill	-	-	699	-
Impairment of intangibles	-	-	257	-
Future taxes (recovery)	75	-	(596)	-
Gain on disposal of property and equipment	(177)	(100)	(14)	(100)
Cash flow from discontinued operations	\$ (186)	\$ 225	\$ (1,765)	\$ (1,099)

5. Bank indebtedness

The Company has a \$20,000 demand operating line of credit with a major Canadian bank that bears interest, at the Company's option, at the bank's prime rate plus 0.50% to 2.00% or bankers' acceptance rate plus 2.00% to 3.50% with interest payable monthly and is secured as described in note 6. Interest rates spreads for the credit facility will depend on the level of funded debt to EBITDA (earnings before interest on long-term debt, taxes, depreciation and non-cash compensation expense – as defined in the credit agreement).

6. Long-term debt

	September 30 2010	December 31 2009
Bank revolving term loan with a major Canadian bank at an authorized amount of \$45,000, bearing interest at the bank's prime rate plus 1.00 % to 2.50% or bankers' acceptance rate plus 2.00% to 3.50%, without repayment terms, maturing June 29, 2011 subject to an annual extension upon agreement between the borrower and the bank for a further one-year period. Interest rates spreads for the credit facility will depend on the level of funded debt to EBITDA (earnings before interest on long-term debt, taxes, depreciation and non-cash compensation expense – as defined in the credit agreement). Prior to maturity the borrower may convert its revolving term loan to a non-revolving term loan repayable monthly over 36 months with interest only for the first 12 months	\$ 34,500	\$ 39,500
Non-interest bearing loans secured by the related automotive equipment with various maturity dates up to 2010	50	122
Capital lease obligations	-	112
	34,550	39,734
Less: current portion of long-term debt	(42)	(208)
	\$ 34,508	\$ 39,526

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

7. Shareholders' equity

(a) Share capital

	Three months ended September 30, 2010		Nine months ended September 30, 2010	
	Number of Shares	Amount	Number of Shares	Amount
Balance, beginning of period	36,414,061	\$ 69,049	36,400,061	\$ 68,995
Issued on exercise of options	38,000	170	52,000	216
Contributed surplus on options exercised	-	53	-	61
Balance, end of period	36,452,061	\$ 69,272	36,452,061	\$ 69,272

(b) Contributed surplus

	Three months ended September 30, 2010	Nine months ended September 30, 2010
Balance, beginning of period	\$ 5,727	\$ 4,390
Share-based compensation related to the Company's option plan	675	2,020
Less: Contributed surplus on options exercised	(53)	(61)
Balance, end of period	\$ 6,349	\$ 6,349

(c) Options

	Three months ended September 30, 2010	Nine months ended September 30, 2010
Outstanding, beginning of period	3,390,469	1,741,736
Issued	27,000	1,887,400
Exercised	(38,000)	(52,000)
Forfeited	(50,934)	(248,601)
Outstanding, end of period	3,328,535	3,328,535

7. Shareholders' equity

(c) Options (continued)

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

Date of issue	September 24 2010	September 7 2010	May 7 2010	January 20 2010	January 4 2010
Number of options issued	12,000	15,000	317,200	1,441,200	102,000
Exercise price	\$ 6.74	\$ 6.01	\$ 5.05	\$ 6.01	\$ 5.00
Fair value per option	\$ 1.91	\$ 1.73	\$ 1.52	\$ 1.77	\$ 1.62
Expected dividend / distribution yield	3.56%	3.99%	4.75%	3.99%	4.80%
Risk-free interest rate	1.40%	1.40%	2.19%	1.77%	1.77%
Expected volatility	53.9%	56.4%	60.49%	62.4%	61.8%
Expected life (in years)	3.50	3.50	3.50	3.50	3.50

(d) Per share information

Basic and diluted shares outstanding for the three months ended September 30, 2010 were 36,423,376 and 36,578,188, respectively (2009 – 36,197,622 and 36,197,622). For the nine months ended September 30, 2010, basic and diluted shares outstanding were 36,410,729 and 36,740,528 (2009 – 34,369,956 and 34,369,956).

8. Taxes

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

	Three months ended September 30, 2010	Nine months ended September 30, 2010
Income (loss) before income taxes and discontinued operations	\$ 8,459	\$ 15,811
Effective tax rate	28.3%	28.3%
Expected income tax expense from continuing operations	2,394	4,475
Utilization of deferred credit	(1,062)	(1,617)
Adjustments to future income taxes for changes in effective tax rates	(36)	(458)
Non-deductible expenses	79	267
Income taxed in jurisdictions with different tax rates	116	423
Other	(172)	(300)
	\$ 1,319	\$ 2,790

This reconciliation has not been presented for the comparable period in 2009 as such reconciliation is not meaningful due to changes in the corporate structure from an income trust to a corporate structure and the related tax treatment.

9. Segmented information

The Company, through its directly and indirectly wholly-owned entities, Cathedral Energy Services Ltd. and Cathedral Energy Services Inc., is engaged in the business of providing oilfield services to oil and natural gas exploration entities in western Canada, selected basins in the United States and Venezuela and is viewed as a single operating segment by the chief operating decision maker of Cathedral Energy Services Ltd. for the purpose of resource allocation and assessing performance.

Oilfield services are currently provided in both Canada and the United States and in the process of establishing operations in Venezuela. The amounts related to each segment are as follows:

Revenues	Three months ended September 30		Nine months ended September 30	
	2010	2009	2010	2009
Canada	\$ 23,389	\$ 13,331	\$ 57,228	\$ 31,531
United States	15,475	6,845	41,246	25,828
International	-	-	45	-
	\$ 38,864	\$ 20,176	\$ 98,519	\$ 57,359

Revenues by operating division	Three months ended September 30		Nine months ended September 30	
	2010	2009	2010	2009
Directional drilling	\$ 30,149	\$ 16,699	\$ 75,273	\$ 45,714
Production testing	8,715	3,477	23,246	11,645
	\$ 38,864	\$ 20,176	\$ 98,519	\$ 57,359

9. **Segmented information** (continued)

Property and equipment, goodwill and intangibles	September 30 2010	December 31 2009
Canada	\$ 86,147	\$ 72,983
United States	22,142	17,156
International	7,971	7,354
	\$ 116,260	\$ 97,493

During the three months and nine months ended September 30, 2010, one customer accounted for 20% (2009 – 21%) and 24% (2009 – 31%) of consolidated revenues, respectively.

10. **Commitments**

In the normal course of business, the Company incurs contractual obligations and those obligations are disclosed in the Company's annual financial statements for the year ended December 31, 2009. As at September 30, 2010, the Company's commitment to purchase property and equipment was approximately \$4,543 and this amount is expected to be paid or payable by December 31, 2010.

11. **Reclassification**

Certain comparative financial statement items have been reclassified to conform to the presentation adopted in 2010.

Cathedral Energy Services Ltd. (the "Company"/"Cathedral") and its wholly owned subsidiary, Cathedral Energy Services Inc., are engaged in the business of providing selected oilfield services to oil and natural gas companies in western Canada and selected oil and natural gas basins in the United States. The Company is in the process of establishing operations in Venezuela for providing directional drilling services through its wholly owned subsidiaries Directional Plus International Ltd. and Directional Plus de Venezuela, C.A. The Company's operating activities are divided into directional drilling and production testing business units. The Company's shares trade on the TSX under the symbol: CET. For more information, visit www.cathedralenergyservices.com.



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