INTERIM REPORT 2004 Q2

CATHEDRAL ENERGY SERVICES REPORTS RESULTS FOR THE SIX MONTHS ENDED JUNE 30, 2004

FINANCIAL HIGHLIGHTS

'000's except per Trust Unit amounts	**Three months ended June 30**		**Six months ended June 30**	
	2004	**2003**	**2004**	**2003**
Revenues	**$ 8,016**	$ 5,043	**$ 18,620**	$ 11,948
EBITDA*	**$ 1,383**	$ 1,073	**$ 4,372**	$ 2,634
Operating income**	**$ 181**	$ 180	**$ 2,125**	$ 938
Income before taxes	**$ 444**	$ 185	**$ 2,551**	$ 955
Net income	**$ 791**	$ 305	**$ 2,500**	$ 1,223
Per Trust Unit – basic	**$ 0.04**	$ 0.01	**$ 0.11**	$ 0.06
Per Trust Unit – diluted	**$ 0.03**	$ 0.01	**$ 0.11**	$ 0.06
Cash distributions declared per Trust Unit	**$ 0.06**	$ 0.055	**$ 0.12**	$ 0.11
Capital asset additions and corporate acquisitions	**$ 1,328**	$ 346	**$ 3,988**	$ 5,207
Weighted average Trust Units outstanding:				
Basic ('000)	**22,383**	21,725	**22,207**	21,662
Diluted ('000)	**23,014**	21,941	**22,807**	21,838

	June 30 2004	**December 31 2003**
Working capital	**$ 1,357**	$ 1,956
Long-term debt including current portion	**$ 6,000**	$ 5,700
Unitholders' equity	**$ 17,263**	$ 16,589

* EBITDA, earnings before interest, taxes, non-cash compensation expense, depreciation and amortization, is provided to assist investors in determining the ability of the Trust to generate cash from operations. EBITDA does not have any standardized meaning within Canadian Generally Accepted Accounting Principles and therefore may not be comparable to similar measures presented by other companies and/or trusts.

** Operating income, as disclosed on the consolidated statement of operations, is defined as revenues less expenses related to operating, general and administration, depreciation and interest on long-term debt. Operating income does not have any standardized meaning within Canadian Generally Accepted Accounting Policies and therefore may not be comparable to similar measures presented by other companies and/or trusts.

MANAGEMENT'S DISCUSSION & ANALYSIS

This Management's Discussion & Analysis ("MD&A") for the three months and six months ended June 30, 2004 should be read in conjunction with the annual audited consolidated financial statements for the year ended December 31, 2003, as well as the MD&A in the Trust's 2003 Annual Report, and with the unaudited interim consolidated financial statements for the three months and six months ended June 30, 2004. This MD&A has been prepared as of July 29, 2004.

Certain statements within this report may contain forward-looking statements, including (without limitation) statements concerning possible or assumed future results of operations of the Trust preceded by, followed by or that include the words "believes", "expects", "anticipates", "estimates", "intends", "plans", "forecasts" or similar expressions. Forward-looking statements are based on the estimates and opinions of management at the date the statements are made. These involve risks and uncertainties and the Trust's results may differ materially from those anticipated in the forward-looking statements.

OVERVIEW

For 2004 Q2, the Trust had record Q2 revenues and net income of $8,016,000 and $791,000 ($0.03 per diluted Trust Unit), respectively. Comparative figures for 2003 Q2 were $5,043,000 and $305,000 ($0.01 per diluted Trust Unit), respectively. On a quarter-over-quarter basis revenues are up $2,973,000 or 59% and net income was up $486,000 or 159%. For the three months ended June 30, 2004, EBITDA was $1,383,000 and this compares with $1,073,000 in 2003 – an increase of $310,000 or 29%.

For the six months ended June 30, 2004, the Trust had record revenues and net income of $18,620,000 and $2,500,000 ($0.11 per diluted Trust Unit), respectively. Comparable revenues and net income for 2003 Q2 were $11,948,000 and $1,223,000 ($0.06 per diluted Trust Unit), respectively. On a year-to-date basis, revenues and net income were up 56% and 104%, respectively. Effective February 12, 2003, the Trust acquired The Directional Company, Inc. ("TDC") and therefore, the year-to-date results for 2004 Q2 includes the results of operations from TDC for the full period quarter versus approximately four and a half months in the six months ended June 30, 2003. For the six months ended June 30, 2004, EBITDA was $4,372,000 and this compares with $2,634,000 in 2003 – an increase of $1,738,000 or 66%.

RESULTS OF OPERATIONS - THREE MONTHS ENDED JUNE 30, 2004

Revenues Record Q2 revenues in 2004 of $8,016,000, which represented an increase of $2,973,000 or 59% over 2003 Q2 revenues of $5,043,000, were mainly a result of a significant increase in the number of activity days (2004 – 989; 2003 – 602) and an increase in the average day rate obtained for horizontal and directional drilling services (2004 - $7,538; 2003 - $7,140). The increase in the average day rate is due to a shift to providing more horizontal drilling services as opposed to directional drilling services. The increase in activity days is a reflection of the continuing strength in the oil and natural gas sector of the economy as well as market share gains from the deployment of the new Electro-Magnetic Measurement-While-Drilling ("EM - MWD") systems .

Gross margin The gross margin (revenues less operating expenses) for 2004 Q2 was 44% which compares to 54% in 2003 Q2. The decrease in gross margin percentage is attributed to: i) shift to providing more horizontal drilling services as opposed to directional drilling services in that there is a lower gross margin on providing horizontal drilling services; ii) increased field labour costs; and iii) increased field training costs associated with the deployment of the new EM-MWD systems.

General and administrative expenses General and administrative expenses increased from $1,679,000 in 2003 Q2 to $2,416,000 in 2004 Q2 – an increase of $737,000. The increase is related to personnel costs and an overall increase in activity levels both in Western Canada and the Rocky Mountain region of the U.S. As a percentage of revenues, general and administrative expenses were 30.1% in 2004 Q2 and 33.3% in 2003 Q2.

Depreciation Depreciation for 2004 Q2 was $865,000 compared to $795,000 in 2003 Q2. This increase is related to a larger capital asset base due to the Trust's investment in capital assets over the past 12 months. As a percentage of revenues, depreciation amounted to 10.8% for 2004 and 15.8% for 2003 - this decrease is mainly the result of the increase in revenues on a quarter-over-quarter basis.

Interest on long-term debt Interest on long-term debt has decreased from $93,000 in 2003 to $72,000 in 2004. This decrease is the result of a decrease in both the effective interest rate and the average level of long-term debt outstanding.

Gain on disposal of capital assets During 2004 Q2 the Trust had a gain on disposal of capital assets of $263,000 which compares to $5,000 in 2003 Q2. These gains are mainly due to recoveries of lost-in-hole equipment costs, including previously expensed depreciation on the related assets.

Taxes For 2004 Q2 the Trust had a tax recovery of $347,000 which compares to a tax recovery of $120,000 in 2003 Q2. The Trust's tax provision is calculated net of income of the Trust allocated to Unitholders which is subject to tax in their hands.

RESULTS OF OPERATIONS - SIX MONTHS ENDED JUNE 30, 2004

Revenues Record Q1 and Q2 revenues in 2004 combined for record Q2 year-to-date revenues of $18,620,000, which represented an increase of $6,672,000 or 56% over 2003 Q2 year-to-date revenues of $11,948,000. This increase was mainly a result of a significant increase in the number of activity days (2004 – 2,404; 2003 – 1,436) and was partially offset by a decrease in the average day rate obtained for horizontal and directional drilling services (2004 - $7,128; 2003 - $7,280). The increase in activity days is a reflection of the continuing strength in the oil and natural gas sector of the economy as well as the inclusion of revenues from The Directional Company ("TDC") for a full six months in 2004 versus four and one-half months in 2003.

Gross margin The gross margin (revenues less operating expenses) for 2004 was 47% which compares to 53% in 2003. The decrease in gross margin percentage is attributed to: i) shift to providing more horizontal drilling services as opposed to directional drilling services in that there is a lower gross margin on providing horizontal drilling services; ii) increased field labour costs; and iii) increased field training costs associated with the deployment of the new EM-MWD systems.

General and administrative expenses General and administrative expenses increased from $3,666,000 in 2003 to $4,787,000 in 2004 – an increase of $1,121,000. The increase is related to: i) personnel costs; ii) overall increase in activity levels both in western Canada and the Rocky Mountain region of the U.S.; and iii) the inclusion of TDC general and administrative expenses for the full period in 2004 versus four and one-half months in 2003. As a percentage of revenues, general and administrative expenses were 25.7% in 2004 and 30.7% in 2003.

Depreciation Depreciation for 2004 was $1,668,000 compared to $1,516,000 in 2003. This increase is related to the inclusion of depreciation on TDC related assets for the full six months period in 2004 (4 ½ months in 2003) and a larger capital asset base due to the Trust's investment in capital assets over the past 12 months. As a percentage of revenues, depreciation amounted to 9.0% for 2004 and 12.7% for 2003 - this decrease is mainly the result of the increase in revenues on a year-over-year basis.

Interest on long-term debt Interest on long-term debt has decreased marginally from $163,000 in 2003 to $147,000 in 2004. This decrease is the net result of an increase in the average level of long-term debt outstanding and a decline in the effective interest rate.

Gain on disposal of capital assets During 2004 the Trust had a gain on disposal of capital assets of $426,000 which compares to $17,000 in 2003. These gains are mainly due to recoveries of lost-in-hole equipment costs, including previously expensed depreciation on the related assets.

Taxes For 2004 the Trust had a tax expense of $51,000 which compares to a tax recovery of $268,000 in 2003. The Trust's tax provision is calculated net of income of the Trust allocated to Unitholders which is subject to tax in their hands.

LIQUIDITY AND CAPITAL RESOURCES

During 2004 Q2 the Trust arranged to increase its operating line of credit with a major Canadian bank by $1,000,000 to have a total operating line facility of $4,500,000. At June 30, 2004, the undrawn portion of the operating line of credit was $1,485,000. In addition, the Trust's revolving non-reducing term facility was increased by $1,000,000 to $7,000,000. At June 30, 2004, the undrawn portion of the revolving non-reducing term facility was $1,000,000. During 2004 Q2, the Trust drew upon the revolving facility in the amount of $300,000 and therefore increased its long-term debt from $5,700,000 to $6,000,000. The ratio of long-term debt to unitholders' equity at June 30, 2004 was a conservative 0.35 to 1 while the comparative ratio at March 31, 2004 and December 31, 2003 was 0.33 to 1 and 0.34 to 1, respectively. Working capital at June 30, 2004 was $1,357,000 which compares to $1,527,000 and $1,956,000 at March 31, 2004 and December 31, 2003, respectively.

Operating activities Cash from operating activities (including changes in non-cash operating working capital) for the three and six months ended June 30, 2004 was $1,757,000 (2003 - $1,000) and $4,491,000 (2003 - $2,906,000), respectively. The Q2 quarter-over-quarter increase is mainly due to fluctuations in changes in non-cash working capital related to operations while the Q2 year-to-date increase is mainly due to an increase in net income.

Investing activities Cash used in investing activities for the three and six months ended June 30, 2004 amounted to $1,805,000 (2003 - $678,000) and $4,923,000 (2003 - $3,737,000), respectively. In 2004 Q2 the Trust's operating entities acquired $1,328,000 (2003 - $346,000) of capital assets including 4 EM-MWD systems and additions to the mud motor and drill collar fleet to complement the increased job capacity. These additional 4 EM-MWD systems brought the total number of such systems to 13 as at June 30, 2004 - two additional EM-MWD systems were received in early July 2004. Cathedral currently has 15 EM-MWD systems and 19 pulse MWD systems in its fleet. Total capital asset additions for the six months ended June 30, 2004 were $3,988,000 (2003 – $2,787,000). During 2004 Q2 the Trust received proceeds on disposal of capital assets of $720,000 (2003 - $30,000) which brought the 2004 Q2 year-to-date total to $1,122,000 (2003 - $54,000). In 2004 Q2 the Trust used an additional $1,197,000 (2003 - $362,000) of funds to reduce non-cash working capital related to investing activities. On a 2004 Q2 year-to-date basis, the Trust has used $2,057,000 (2003 –$(1,146,000)) of funds to reduce non-cash working capital related to investing activities. Fluctuations in non-cash working capital are a function of when proceeds on disposal of capital assets are received and when payments for capital asset purchases are made.

Financing activities Cash provided by (used in) financing activities for the three and six months ended June 30, 2004 amounted to $217,000 (2003 – $(975,000)) and $444,000 (2003 - $1,118,000), respectively. During 2004 Q2 the Trust drew upon its revolving long-term debt facility in the amount of $300,000. In Q1 of 2003, Cathedral accessed $4,677,000 of new long-term debt with the majority of the proceeds used to finance the acquisition of TDC and the balance to finance capital asset additions. During the six months ended June 30, 2004, the Trust did not repay any of its long-term debt facility as there are no current repayments required under the loan facility established in December 2003. Long-term debt repayments in 2003 relate to scheduled repayment prior to the establishment of the non-reducing facility in late December 2003 as well as the repayment of long-term debt assumed on the acquisition of TDC. During 2004 Q2 the Trust accessed an additional $820,000 (2003 - $670,000) in bank indebtedness through its operating loan facility to bring the total drawn for the six months ended June 30, 2004 to $2,720,000 (2003 - $425,000). The capital asset additions for the six months ended June 30, 2004 were financed via a combination of the $300,000 draw on the revolving long-term debt facility, bank indebtedness, proceeds from disposal of capital assets, proceeds on exercise of Trust Unit options and cash flow from operations.

Distributions paid to Unitholders for 2004 Q2 and 2004 Q2 YTD amounted to $1,341,000 (2003 - $1,195,000) and $3,418,000 (2003 - $2,391,000), respectively. The Q2 increase is mainly due to the approximate 9% increase in distribution level effective January 2004. On a Q2 YTD basis, the increase is due to: i) Trust paying during 2004 Q1 the 2003 Q4 distribution of $0.055 per Trust Unit (effective monthly distribution rate per Trust Unit is $0.01833) plus distributions for the months of January to May 2004 at a rate of $0.02 per Trust Unit per month; and ii) the approximate 9% increase in the level of cash distributions to $0.02 per month. On a go forward basis, it is the intention of the Trust to have equal monthly distributions to Unitholders, subject to the operating results of Cathedral Energy Services Ltd.

Contractual obligations In the normal course of business, the Trust incurs contractual obligations and aside from those disclosed in the Trust's MD&A for the year ended December 31, 2003. The Trust has a further commitment as at June 30, 2004 to purchase approximately $1,073,000 of capital assets.

BUSINESS RISKS

The MD&A for the year ended December 31, 2003, which is included in the Trust's 2003 Annual Report, includes an overview on business risks associated with the Trust. Those business risks remain in effect as at June 30, 2004, except in relation to unitholder liability. On July 1, 2004, the Alberta Income Trust Liability Act came into force and provides limited liability protection to the Trust's unitholders.

GOVERNANCE

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

OUTLOOK

Industry analysts continue to forecast strong oil and natural gas for the balance of 2004 and into 2005. Those same industry analysts are also projecting record or near record levels of drilling activity in Western Canada for 2004. Activity levels in the Rocky Mountain region of the U.S. continue to be strong. With the current complement of equipment and that which will be acquired in the last half of 2004 Cathedral is in a position to capitalize on the expected level of drilling activity.

Cathedral's current Steam Assisted Gravity Drainage ("SAGD") long-term project is continuing with very good drilling results. We continue to purse additional SAGD work from other operators. Cathedral has been involved in drilling Coal Bed Methane ("CBM") wells since Q3 of 2003 and in 2004 Q2 completed the drilling a horizontal CBM well that from a drilling point of view was very successful. There is potential for a significant amount of drilling in the CBM market and Cathedral will continue to pursue opportunities in that area.

On July 26, 2004, the Trust closed a non-brokered private placement of 1,123,000 Trust Units at a price of $2.35 per Trust Unit for gross proceeds of $2,639,050. All of the Trust Units were issued to non-insiders and are subject to a four-month hold period. This is the first traunche of a non-brokered private placement of up to 1,335,000 Trust Units. Proceeds of the private placement will be used to finance capital asset additions and for general working capital purposes. The capital additions are needed to meet increased demand from customers operating in Western Canada and the Rocky Mountain region of the U.S. We will be building out an additional 3 EM-MWD systems to bring the number of EM-MWD systems to 18 and adding 3 new positive pulse systems. As well, there will be additions to the mud motor and drill collar fleet to complement the increased job capacity. These additions will assist in providing Cathedral will full flexibility in meeting customer needs.

The Trust will continue to pursue opportunities offering an expanded range of services to its customers, increased market share, entry into new geographic territories, and strategic acquisitions.

Cathedral
Energy Services Income Trust

REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim consolidated financial statements of the Trust have been prepared by and are the responsibility of the Trust 's Administrator, Cathedral Energy Services Ltd. and its management.

The Trust's independent auditor has not performed a review of the accompanying unaudited interim consolidated financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

CONSOLIDATED BALANCE SHEETS

'000's of dollars

	June 30 2004 (unaudited)	**December 31 2003**
ASSETS		
Current assets:		
Cash and cash equivalents	$ 400	$ 388
Accounts receivable	9,553	10,185
Taxes receivable	-	16
Inventory	1,182	1,428
Prepaid expenses and deposits	405	265
	11,540	12,282
Capital assets	21,297	19,673
Goodwill	1,125	1,125
	$ 33,962	$ 33,080
LIABILITIES AND UNITHOLDERS' EQUITY		
Current liabilities:		
Bank indebtedness	$ 3,015	$ 295
Accounts payable and accrued liabilities	6,710	8,824
Distributions payable to Unitholders	453	1,207
Taxes payable	5	-
	10,183	10,326
Future income taxes	516	465
Long-term debt	6,000	5,700
	16,699	16,491
Unitholders' equity:		
Unitholders' capital (note 3)	6,018	5,176
Contributed surplus (note 3)	12	6
Accumulated income	20,714	18,214
Accumulated distributions	(9,481)	(6,807)
	17,263	16,589
	$ 33,962	$ 33,080

CONSOLIDATED STATEMENTS OF OPERATIONS AND ACCUMULATED INCOME

'000's of dollars except per Trust Unit amounts
(unaudited)

	Three months ended June 30		Six months ended June 30	
	2004	**2003**	**2004**	**2003**
Revenues (note 4)	$ 8,016	$ 5,043	$ 18,620	$ 11,948
Expenses:				
Operating	4,482	2,296	9,893	5,665
General and administrative	2,416	1,679	4,787	3,666
Depreciation	865	795	1,668	1,516
Interest on long-term debt	72	93	147	163
	7,835	4,863	16,495	11,010
Operating income	181	180	2,125	938
Gain on disposal of capital assets	263	5	426	17
Income before taxes	444	185	2,551	955
Taxes:				
Current	-	18	-	39
Future income taxes (reduction)	(347)	(138)	51	(307)
	(347)	(120)	51	(268)
Net income for the period	791	305	2,500	1,223
Accumulated income, beginning of period	19,923	14,692	18,214	13,774
Accumulated income, end of period	$ 20,714	$ 14,997	$ 20,714	$ 14,997
Net income per Trust Unit:				
Basic	$ 0.04	$ 0.01	$ 0.11	$ 0.06
Diluted	$ 0.03	$ 0.01	$ 0.11	$ 0.06
Cash distributions declared per Trust Unit	$ 0.06	$ 0.055	$ 0.12	$ 0.11

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CONSOLIDATED STATEMENTS OF CASH FLOWS

'000's of dollars
(unaudited)

	Three months ended June 30		Six months ended June 30	
	2004	**2003**	**2004**	**2003**
Cash provided by (used in):				
Operating activities:				
Net income for the period	$ 791	$ 305	$ 2,500	$ 1,223
Items not involving cash:				
Depreciation	865	795	1,668	1,516
Future income taxes (reduction)	(347)	(138)	51	(307)
Non-cash compensation expense	2	-	6	-
Gain on disposal of capital assets	(263)	(5)	(426)	(17)
Funds from operations	1,048	957	3,799	2,415
Changes in non-cash operating working capital	709	(956)	692	491
	1,757	1	4,491	2,906
Investing activities:				
Capital asset additions	(1,328)	(346)	(3,988)	(2,787)
Proceeds on disposal of capital assets	720	30	1,122	54
Acquisition of The Directional Company, Inc., net of purchased cash of $89	-	-	-	(2,420)
Changes in non-cash investing working capital	(1,197)	(362)	(2,057)	1,416
	(1,805)	(678)	(4,923)	(3,737)
Financing activities:				
Repayment of long-term debt	-	(450)	-	(1,615)
Advances under long-term debt	300	-	300	4,677
Distributions paid to Unitholders	(1,341)	(1,195)	(3,418)	(2,391)
Trust Unit options exercised	438	-	842	22
Increase in bank indebtedness	820	670	2,720	425
	217	(975)	444	1,118
Change in cash and cash equivalents	169	(1,652)	12	287
Cash and cash equivalents, beginning of period	231	1,939	388	-
Cash and cash equivalents, end of period	$ 400	$ 287	$ 400	$ 287

SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Six months ended June 30, 2004 and 2003
('000's of dollars except per Trust Unit amounts)
(unaudited)

1. Significant accounting policies:

These unaudited interim consolidated financial statements for the period ended June 30, 2004 do not include all disclosures required in the annual financial statements and should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2003 included in the Trust's 2003 Annual Report. 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, 2003.

Unit-based compensation plan:

Effective the fourth quarter of 2003, the Trust elected early adoption of the revised recommendations of the Canadian Institute of Chartered Accountants Handbook Section 3870, *Stock-based compensation and other stock-based payments* which requires that a fair value method of accounting be applied to all stock-based compensation payments to both employees and non-employees. In accordance with the transitional provisions of the revised recommendations, the Trust has prospectively applied the fair value method of accounting for option awards granted on or after January 1, 2003, and, accordingly, has recorded the related compensation expense during 2003. Prior to January 1, 2003, the Trust accounted for its employee options using the settlement method and no compensation expense was recognized. For awards granted in 2002, the revised recommendations require the disclosure of pro forma net income and net income per Trust Unit information as if the Trust had accounted for employee options under the fair value method and this information is disclosed in note 3 to these interim consolidated financial statements. The pro forma effect of awards granted prior to January 1, 2002 has not been included in the pro forma net income and net income per Trust Unit information.

2. Seasonality of Operations:

The majority 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 till late March.

3. Unitholders' capital:

(a) Trust Units:

	Three months ended June 30, 2004		Six months ended June 30, 2004	
	Number of Trust Units	**Amount**	**Number of Trust Units**	**Amount**
Balance, beginning of period	22,289,733	$ 5,580	21,948,333	$ 5,176
Trust Unit options exercised	362,100	438	703,500	842
Balance, end of period	22,651,833	$ 6,018	22,651,833	$ 6,018

At July 29, 2004, the Trust had 23,901,033 Trust Units outstanding.

(b) Trust Unit options:

	Three months ended June 30		Six months ended June 30	
	2004	**2003**	**2004**	**2003**
	Number of options	**Number of options**	**Number of options**	**Number of options**
Outstanding, beginning of period	1,264,500	1,903,000	1,605,900	1,798,000
Issued	-	-	-	125,000
Forfeited	(32,800)	-	(32,800)	-
Exercised	(362,100)	-	(703,500)	(20,000)
Outstanding, end of period	869,600	1,903,000	869,600	1,903,000

At July 29, 2004, the Trust had 743,400 Trust Unit options outstanding.

3. Unitholders' capital (continued):

(b) Trust Unit options (continued):

During the three months and six months ended June 30, 2004, the Trust has recorded compensation expense and contributed surplus of $2 and $4, respectively for the 125,000 options granted on or after January 1, 2003. During the three and six months ended June 30, 2004, no Trust Unit options were granted. For options granted in 2002, the Trust has elected to disclose pro forma results as if the revised accounting recommendations had been applied retroactively. Had compensation expense been determined based upon the fair value method for awards granted in 2002, the Trust's net income and net income per Trust Unit for the three months ended March 31, 2004 and 2003 would have been adjusted to the pro forma amounts noted below:

	Three months ended June 30		Six months ended June 30	
	2004	2003	2004	2003
Net income for the period - as reported	$ 791	$ 305	$ 2,500	$ 1,223
Pro forma compensation expense	(25)	(28)	(50)	(53)
Net income for the period – pro forma	$ 766	$ 277	$ 2,450	$ 1,170
Net income per Trust Unit/Share– as reported	$ 0.04	$ 0.01	$ 0.11	$ 0.06
Net income per Trust Unit/Share – pro forma	$ 0.03	$ 0.01	$ 0.11	$ 0.05
Diluted net income per Trust Unit/Share – as reported	$ 0.03	$ 0.01	$ 0.11	$ 0.06
Diluted net income per Trust Unit/Share – pro forma	$ 0.03	$ 0.01	$ 0.11	$ 0.05

The pro forma amounts exclude the effect of stock options granted prior to January 1, 2002.

4. Segmented information:

The Trust, through its wholly owned subsidiary, Cathedral Energy Services Ltd., operates in two geographic segments within one industry. Drilling services are provided in both Canada and the United States. The amounts related to each segment are as follows:

	Three months ended June 30		Six months ended June 30	
Revenues	2004	2003	2004	2003
Canada	$ 5,473	$ 3,730	$ 13,645	$ 9,737
United States	2,543	1,313	4,975	2,211
	$ 8,016	$ 5,043	$ 18,620	$ 11,948

Capital assets and goodwill	June 30 2004	December 31 2003
Canada	$ 19,504	$ 17,956
United States	2,918	2,842
	$ 22,422	$ 20,798

During the three months ended June 30, 2004 one customer accounted for 28% (2003 – 28%) of consolidated revenues. During the six months ended June 30, 2004, one customer accounted for 23% (2003 – 25%) of consolidated revenues.

5. Subsequent event:

On July 26, 2004, the Trust closed a non-brokered private placement of 1,123,000 Trust Units at a price of $2.35 per Trust Unit for gross proceeds of $2,639,050. All of the Trust Units were issued to non-insiders and are subject to a four-month hold period. This is the first traunche of a non-brokered private placement of up to 1,335,000 Trust Units. Proceeds of the private placement will be used to finance capital asset additions and for general working capital purposes.

Cathedral Energy Services Income Trust is a limited purpose trust which owns the securities of Cathedral Energy Services Ltd. ("Cathedral") representing the right to receive cash flow available for distribution from Cathedral. Cathedral is engaged in the business of providing drilling services and related equipment rentals to oil and natural gas companies in Western Canada and the Rocky Mountain region of the United States. Cathedral markets its services under three brand names: ***Directional Plus*** *and* ***The Directional Company*** *which provide horizontal and directional drilling services; and* ***CAT Downhole Tools*** *which provides downhole equipment including drilling jars, shock subs and high performance drilling motors on a rental basis. Cathedral strives to provide its clients with value added technologies and solutions to meet their drilling requirements. Its mandate is to supply "Best in Class, Best in Service" equipment and personnel to its clients. The trust units trade on the TSX under the symbol:* ***CET.UN****. For more information, visit www.cathedralenergyservices.com.*