



INTERIM REPORT 2004 Q3

CATHEDRAL ENERGY SERVICES REPORTS RESULTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2004

FINANCIAL HIGHLIGHTS

'000's except per Trust Unit amounts

	Three months ended September 30		Nine months ended September 30	
	2004	2003	2004	2003
Revenues	\$ 11,766	\$ 9,854	\$ 30,386	\$ 21,802
EBITDA*	\$ 3,986	\$ 2,771	\$ 8,358	\$ 5,405
Operating income**	\$ 2,763	\$ 1,894	\$ 4,888	\$ 2,832
Income before taxes	\$ 2,994	\$ 1,890	\$ 5,545	\$ 2,845
Net income	\$ 2,407	\$ 1,710	\$ 4,907	\$ 2,933
Per Trust Unit – basic	\$ 0.10	\$ 0.08	\$ 0.22	\$ 0.14
Per Trust Unit – diluted	\$ 0.10	\$ 0.08	\$ 0.21	\$ 0.13
Cash distributions declared per Trust Unit	\$ 0.06	\$ 0.055	\$ 0.18	\$ 0.165
Capital asset additions and corporate acquisitions	\$ 2,332	\$ 575	\$ 6,320	\$ 5,782
Weighted average Trust Units outstanding:				
Basic ('000)	23,687	21,726	22,704	21,684
Diluted ('000)	24,282	21,975	23,267	21,864

	September 30 2004	December 31 2003
Working capital	\$ 4,826	\$ 1,956
Long-term debt including current portion	\$ 6,000	\$ 5,700
Unitholders' equity	\$ 21,545	\$ 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 nine months ended September 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 nine months ended September 30, 2004. This MD&A has been prepared as of October 28, 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 Q3, the Trust had record Q3 revenues and net income of \$11,766,000 and \$2,407,000 (\$0.10 per diluted Trust Unit), respectively. Comparative figures for 2003 Q3 were \$9,854,000 and \$1,710,000 (\$0.08 per diluted Trust Unit), respectively. On a quarter-over-quarter basis revenues are up \$1,912,000 or 19% and net income was up \$697,000 or 41%. For the three months ended September 30, 2004, EBITDA was \$3,986,000 and this compares with \$2,771,000 in 2003 – an increase of \$1,215,000 or 44%.

For the nine months ended September 30, 2004, the Trust had record revenues and net income of \$30,386,000 and \$4,907,000 (\$0.21 per diluted Trust Unit), respectively. Comparable revenues and net income for 2003 were \$21,802,000 and \$2,933,000 (\$0.13 per diluted Trust Unit), respectively. On a year-to-date basis, revenues and net income were up 39% and 67%, respectively. Effective February 12, 2003, the Trust acquired The Directional Company, Inc. ("TDC") and therefore, the year-to-date results for 2004 Q3 includes the results of operations from TDC for the full period versus approximately seven and a half months for the nine months ended September 30, 2003. For the nine months ended September 30, 2004, EBITDA was \$8,358,000 and this compares with \$5,405,000 in 2003 – an increase of \$2,953,000 or 55%.

RESULTS OF OPERATIONS - THREE MONTHS ENDED SEPTEMBER 30, 2004

Revenues The Trust completed 2004 Q3 with revenues of \$11,766,000, which represented an increase of \$1,912,000 or 19% over 2003 Q3 revenues of \$9,854,000. The \$11,766,000 2004 Q3 revenue figure is the highest per quarter revenue ever generated by the Trust. The quarter-over-quarter increase in revenues is a result of an increase in the number of activity days (2004 – 1,438; 2003 – 1,297) and an increase in the average day rate obtained for horizontal and directional drilling services (2004 - \$7,604; 2003 - \$6,996). The increase in the average day rate is due to providing additional specialty services and tools as well as ancillary charges in the Canadian market and modest day rate increases in the U.S. market. 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 Q3 was 54% which compares to 49% in 2003 Q3. The increase in gross margin percentage is mainly attributed to less reliance on rented equipment and was partially offset by increased field labour costs as well as increased field training costs associated with the expansion of the EM-MWD fleet.

General and administrative expenses General and administrative expenses increased from \$2,085,000 in 2003 Q3 to \$2,564,000 in 2004 Q3 – an increase of \$479,000. 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 21.8% in 2004 Q3 and 21.2% in 2003 Q3.

Depreciation Depreciation for 2004 Q3 was \$916,000 compared to \$797,000 in 2003 Q3. 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 7.8% for 2004 and 8.1% 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 \$84,000 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 Q3 the Trust had a gain on disposal of capital assets of \$231,000 which compares to a \$4,000 loss in 2003 Q3. These gains (losses) are due to recoveries of lost-in-hole equipment costs, including previously expensed depreciation on the related assets.

Taxes For 2004 Q3 the Trust had a tax expense of \$587,000 which compares to \$180,000 in 2003 Q3. Trust's tax provision is calculated net of income of the Trust allocated to Unitholders which is subject to tax in their hands. The effective tax rate for 2004 was 19.6% versus 9.5% in 2003. The increased effective rate is due to higher portion of the Trust's pre-tax income not being allocated to Unitholders.

RESULTS OF OPERATIONS - NINE MONTHS ENDED SEPTEMBER 30, 2004

Revenues Record Q1, Q2 and Q3 revenues in 2004 combined for record Q3 year-to-date revenues of \$30,386,000, which represented an increase of \$8,584,000 or 39% over 2003 Q3 year-to-date revenues of \$21,802,000. This increase was mainly a result of a significant increase in the number of activity days (2004 – 3,842; 2003 – 2,733) and an increase in the average day rate obtained for horizontal and directional drilling services (2004 - \$7,306; 2003 - \$7,145). 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 nine months in 2004 versus seven and one-half months in 2003. The increase in the average day rate is due to providing additional specialty services and tools as well as ancillary charges in the Canadian market and modest day rate increases in the U.S. market.

Gross margin The gross margin (revenues less operating expenses) for 2004 was 50% which compares to 51% in 2003. The decrease in gross margin percentage is attributed to a combination of: 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; iii) increased field training costs associated with the deployment of the new EM-MWD systems; and iv) partially offset by a reduction in equipment rental costs.

General and administrative expenses General and administrative expenses increased from \$5,751,000 in 2003 to \$7,351,000 in 2004 – an increase of \$1,600,000. 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 seven and one-half months in 2003. As a percentage of revenues, general and administrative expenses were 24.2% in 2004 and 26.3% in 2003.

Depreciation Depreciation for 2004 was \$2,584,000 compared to \$2,313,000 in 2003. This increase is related to the inclusion of depreciation on TDC related assets for the full nine months period in 2004 (7 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 8.5% for 2004 and 10.6% 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 \$247,000 in 2003 to \$219,000 in 2004. This decrease is the result of a decrease in both the average level of long-term debt outstanding and the effective interest rate.

Gain on disposal of capital assets During 2004 the Trust had a gain on disposal of capital assets of \$657,000 which compares to \$13,000 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 \$638,000 which compares to a tax recovery of \$88,000 in 2003. Trust's tax provision is calculated net of income of the Trust allocated to Unitholders which is subject to tax in their hands. The effective tax rate for 2004 was 11.5% versus (3.1)% in 2003. The increased effective rate is due to higher portion of the Trust's pre-tax income not being allocated to Unitholders.



LIQUIDITY AND CAPITAL RESOURCES

The Trust has an operating line of credit with a major Canadian bank in the amount of \$4,500,000 of which \$nil was drawn upon at September 30, 2004. In addition, the Trust has a revolving non-reducing term facility in the amount of \$7,000,000 of which \$1,000,000 in undrawn at September 30, 2004. On October 27, 2004 the Trust repaid \$500,000 of its revolving non-reducing term facility. The ratio of long-term debt to unitholders' equity at September 30, 2004 was a conservative 0.28 to 1 while the comparative ratio at June 30, 2004 and December 31, 2003 was 0.35 to 1 and 0.34 to 1, respectively. Working capital at September 30, 2004 was \$4,826,000 which compares to \$1,357,000 and \$1,956,000 at June 30, 2004 and December 31, 2003, respectively.

Operating activities Cash from operating activities (including changes in non-cash operating working capital) for the three and nine months ended September 30, 2004 was \$2,895,000 (2003 - \$111,000) and \$7,386,000 (2003 - \$3,017,000), respectively. Both the Q3 quarter-over-quarter and Q3 year-to-date increase is due to an increase in net income and fluctuations in changes in non-cash working capital related to operations.

Investing activities Cash used in investing activities for the three and nine months ended September 30, 2004 amounted to \$993,000 (2003 - \$275,000) and \$5,916,000 (2003 - \$4,012,000), respectively. In 2004 Q3 the Trust's operating entities acquired \$2,082,000 (2003 - \$145,000) of capital assets including 5 EM-MWD systems and additions to the mud motor and drill collar fleet to complement the increased job capacity. These additional 5 EM-MWD systems brought the total number of such systems to 18 as at September 30, 2004 - three additional EM-MWD systems are to be received in 2004 Q4. In addition to the 18 EM-MWD systems, Cathedral currently has 19 pulse MWD systems in its fleet. Total capital asset additions for the nine months ended September 30, 2004 were \$6,070,000 (2003 - \$2,932,000). During 2004 Q3 the Trust received proceeds on disposal of capital assets of \$352,000 (2003 - \$28,000) which brought the 2004 Q3 year-to-date total to \$1,474,000 (2003 - \$82,000).

Contingent consideration in the amount of \$250,000 has been accrued in the accounts during 2004 Q3 in relation to the February 12, 2003 acquisition of TDC. Subject to the operating results of the TDC division a further \$249,000 may be recorded in the accounts in 2004 Q4.

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 nine months ended September 30, 2004 amounted to \$(1,113,000) (2003 - \$156,000) and \$(669,000) (2003 - \$1,274,000), respectively. 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 nine months ended September 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 Q3 the Trust repaid \$3,015,000 in bank indebtedness to bring its operating line of credit to a \$nil balance.

In 2004 Q3 the Trust completed a non-brokered private placement of 1,335,000 Trust Units at a price of \$2.35 for gross proceeds of \$3,137,000. After related financing costs of \$22,000 the Trust's net proceeds from the private placement was \$3,115,000.

The capital asset additions for the nine months ended September 30, 2004 were financed via a combination of the \$300,000 draw on the revolving long-term debt facility, proceeds from disposal of capital assets, proceeds on exercise of Trust Unit options, net proceeds from private placement of Trust Units and cash flow from operations.

Distributions to Unitholders for 2004 Q3 and 2004 Q3 YTD amounted to \$1,414,000 (2003 - \$1,195,000) and \$4,832,000 (2003 - \$3,585,000), respectively. The Q3 increase is due to the approximate 9% increase in distribution level effective January 2004 and increased number of Trust Units outstanding as a result of options exercised and the 2004 Q3 private placement. On a Q3 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; ii) the approximate 9% increase in the level of cash distributions to \$0.02 per month; and iii) increased number of Trust Units outstanding as a result of options exercised and the 2004 Q3 private placement. 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. As at September 30, 2004, the Trust has a commitment to purchase approximately \$1,331,000 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 September 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

The Trust is coming off record quarterly results in Q1 to Q3 of 2004 and for the 2004 Q4 the Trust is expecting to operate at a high activity level. Industry analysts are expecting oil and natural gas prices to remain strong into 2005 and that in turn should result in significant levels of drilling activity both in Western Canada and the Rocky Mountain region of the U.S. In 2004 the Trust's operating entity, Cathedral Energy Services Ltd. ("Cathedral"), has significantly increased its complement of equipment and is therefore in a position to capitalize on the expected level of drilling activity for the balance of 2004 and 2005.

Cathedral's positive pulse MWD system which is based upon the same platform as its successful EM-MWD system is expected to be commercial in 2005 Q1. The addition of this positive pulse MWD system is considered to be a very significant addition to our overall suite of tools.

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.



SUMMARY OF QUARTERLY RESULTS

Three month period ended ('000 of \$ except per Trust unit amounts)	Sep 2004	Jun 2004	Mar 2004	Dec 2003	Sep 2003	Jun 2003	Mar 2003	Dec 2002
Revenues	\$ 11,766	\$ 8,016	\$ 10,604	\$ 10,913	\$ 9,854	\$ 5,043	\$ 6,905	\$ 5,364
EBITDA	3,986	1,383	2,989	2,864	2,771	1,073	1,561	1,711
Net income	2,407	791	1,709	1,507	1,710	305	918	1,059
Net income per Trust Unit – basic	0.10	0.04	0.08	0.07	0.08	0.01	0.04	0.05
Net Income per Trust Unit - diluted	0.10	0.03	0.07	0.07	0.08	0.01	0.04	0.05
Distributions declared per Trust Unit	0.06	0.06	0.06	0.055	0.055	0.055	0.055	0.0557

REVIEW OF INTERIM FINANCIAL STATEMENTS

National Instrument 51-102 *Continuous Disclosure Requirements* ("NI 51-102") sets out certain requirements for the financial statements of reporting issuers such as the Trust. Under NI 51-102, the Trust's interim financial statements need not be reviewed by an auditor. However, NI 51-102 does require that if the Trust's interim financial statements have not been reviewed by an auditor, the interim financial statements be accompanied by notice to that effect.

As a result, the reader is advised that the accompanying interim financial statements of the Trust have not been reviewed by an auditor. These financial statements have been prepared by and are the responsibility of the Trust's administrator, Cathedral Energy Services Ltd. and its management.

CONSOLIDATED BALANCE SHEETS

'000's of dollars

	September 30 2004 (unaudited)	December 31 2003
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,189	\$ 388
Accounts receivable	10,507	10,185
Taxes receivable	-	16
Inventory	1,106	1,428
Prepaid expenses and deposits	366	265
	13,168	12,282
Capital assets	22,342	19,673
Goodwill	1,375	1,125
	\$ 36,885	\$ 33,080
LIABILITIES AND UNITHOLDERS' EQUITY		
Current liabilities:		
Bank indebtedness	\$ -	\$ 295
Accounts payable and accrued liabilities	7,749	8,824
Distributions payable to Unitholders	483	1,207
Taxes payable	110	-
	8,342	10,326
Future income taxes	998	465
Long-term debt	6,000	5,700
	15,340	16,491
Unitholders' equity:		
Unitholders' capital (note 3)	9,334	5,176
Contributed surplus (note 3)	16	6
Accumulated income	23,121	18,214
Accumulated distributions	(10,926)	(6,807)
	21,545	16,589
	\$ 36,885	\$ 33,080



CONSOLIDATED STATEMENTS OF OPERATIONS AND ACCUMULATED INCOME

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

	Three months ended		Nine months ended	
	September 30		September 30	
	2004	2003	2004	2003
Revenues (note 4)	\$ 11,766	\$ 9,854	\$ 30,386	\$ 21,802
Expenses:				
Operating	5,451	4,994	15,344	10,659
General and administrative	2,564	2,085	7,351	5,751
Depreciation	916	797	2,584	2,313
Interest on long-term debt	72	84	219	247
	9,003	7,960	25,498	18,970
Operating income	2,763	1,894	4,888	2,832
Gain (loss) on disposal of capital assets	231	(4)	657	13
Income before taxes	2,994	1,890	5,545	2,845
Taxes:				
Current	105	18	105	57
Future income taxes (reduction)	482	162	533	(145)
	587	180	638	(88)
Net income for the period	2,407	1,710	4,907	2,933
Accumulated income, beginning of period	20,714	14,997	18,214	13,774
Accumulated income, end of period	\$ 23,121	\$ 16,707	\$ 23,121	\$ 16,707
Net income per Trust Unit:				
Basic	\$ 0.10	\$ 0.08	\$ 0.22	\$ 0.14
Diluted	\$ 0.10	\$ 0.08	\$ 0.21	\$ 0.13
Cash distributions declared per Trust Unit	\$ 0.06	\$ 0.055	\$ 0.18	\$ 0.165



CONSOLIDATED STATEMENTS OF CASH FLOWS

'000's of dollars
(unaudited)

	Three months ended		Nine months ended	
	September 30		September 30	
	2004	2003	2004	2003
Cash provided by (used in):				
Operating activities:				
Net income for the period	\$ 2,407	\$ 1,710	\$ 4,907	\$ 2,933
Items not involving cash:				
Depreciation	916	797	2,584	2,313
Future income taxes (reduction)	482	162	533	(145)
Non-cash compensation expense	4	-	10	-
Loss (gain) on disposal of capital assets	(231)	4	(657)	(13)
Funds from operations	3,578	2,673	7,377	5,088
Changes in non-cash operating working capital	(683)	(2,562)	9	(2,071)
	2,895	111	7,386	3,017
Investing activities:				
Capital asset additions	(2,082)	(145)	(6,070)	(2,932)
Proceeds on disposal of capital assets	352	28	1,474	82
Acquisition of The Directional Company, Inc. –				
Fixed consideration, net of purchased cash of \$89	-	-	-	(2,420)
Contingent consideration	(250)	(430)	(250)	(430)
Changes in non-cash investing working capital	987	272	(1,070)	1,688
	(993)	(275)	(5,916)	(4,012)
Financing activities:				
Repayment of long-term debt	-	(450)	-	(2,065)
Advances under long-term debt	-	-	300	4,677
Distributions paid to Unitholders	(1,414)	(1,195)	(4,832)	(3,585)
Issuance of Trust Units via private placement, net of				
financing costs of \$22	3,115	-	3,115	-
Trust Unit options exercised	201	11	1,043	33
Changes in non-cash financing working capital	-	-	-	(1)
Increase in bank indebtedness	(3,015)	1,790	(295)	2,215
	(1,113)	156	(669)	1,274
Change in cash and cash equivalents	789	(8)	801	279
Cash and cash equivalents, beginning of period	400	287	388	-
Cash and cash equivalents, end of period	\$ 1,189	\$ 279	\$ 1,189	\$ 279



SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Nine months ended September 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 September 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 September 30, 2004		Nine months ended September 30, 2004	
	Number of Trust Units	Amount	Number of Trust Units	Amount
Balance, beginning of period	22,651,833	\$ 6,018	21,948,333	\$ 5,176
Issuance of Trust Units via private placement, net of Issuance costs of \$22	1,335,000	3,115	1,335,000	3,115
Trust Unit options exercised	167,733	201	871,233	1,043
Balance, end of period	24,154,566	\$ 9,334	24,154,566	\$ 9,334

At October 29, 2004, the Trust had 24,156,166 Trust Units outstanding.

(b) Trust Unit options:

	Three months ended September 30		Nine months ended September 30	
	2004	2003	2004	2003
	Number of options	Number of options	Number of options	Number of options
Outstanding, beginning of period	869,600	1,903,000	1,605,900	1,798,000
Issued	260,000	-	260,000	125,000
Forfeited	(41,667)	(20,000)	(74,467)	(20,000)
Exercised	(167,733)	(10,000)	(871,233)	(30,000)
Outstanding, end of period	920,200	1,873,000	920,200	1,873,000

At October 29, 2004, the Trust had 918,200 Trust Unit options outstanding.



3. Unitholders' capital (continued):

(b) Trust Unit options (continued):

During the three months and nine months ended September 30, 2004, the Trust has recorded compensation expense and contributed surplus of \$4 and \$10, respectively for options granted on or after January 1, 2003. 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 and nine months ended September 30, 2004 and 2003 would have been adjusted to the pro forma amounts noted below:

	Three months ended September 30		Nine months ended September 30	
	2004	2003	2004	2003
Net income for the period - as reported	\$ 2,407	\$ 1,710	\$ 4,907	\$ 2,933
Pro forma compensation expense	(25)	(27)	(75)	(80)
Net income for the period - pro forma	\$ 2,382	\$ 1,683	\$ 4,832	\$ 2,853
Net income per Trust Unit - as reported	\$ 0.10	\$ 0.08	\$ 0.22	\$ 0.14
Net income per Trust Unit - pro forma	\$ 0.10	\$ 0.08	\$ 0.21	\$ 0.13
Diluted net income per Trust Unit - as reported	\$ 0.10	\$ 0.08	\$ 0.21	\$ 0.13
Diluted net income per Trust Unit - pro forma	\$ 0.10	\$ 0.08	\$ 0.21	\$ 0.13

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

During the three and nine months ended September 30, 2004, 260,000 Trust Unit options were granted at an exercise price of \$2.59. The weighted average fair value of options granted during the quarter ended September 30, 2004 was \$0.34 per option using the Black-Scholes option pricing method. The following table set out the assumptions used in applying the Black-Scholes model:

	Date of Issue August 25, 2004
Expected distribution yield	9.27%
Risk-free interest rate	3.83%
Expected volatility	34%
Expected life (in years)	5.0

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:

Revenues	Three months ended September 30		Nine months ended September 30	
	2004	2003	2004	2003
Canada	\$ 9,274	\$ 8,244	\$ 22,919	\$ 17,981
United States	2,492	1,610	7,467	3,821
	\$ 11,766	\$ 9,854	\$ 30,386	\$ 21,802

Capital assets and goodwill	September 30 2004	December 31 2003
Canada	\$ 20,699	\$ 17,956
United States	3,018	2,842
	\$ 23,717	\$ 20,798

During the three months ended September 30, 2004 one customer accounted for 20% (2003 - 32%) of consolidated revenues. During the nine months ended September 30, 2004, one customer accounted for 22% (2003 - 28%) of consolidated revenues.

*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.*

