



2005 Q1 INTERIM REPORT

CATHEDRAL ENERGY SERVICES REPORTS RESULTS FOR THE THREE MONTHS ENDED MARCH 31, 2005

FINANCIAL HIGHLIGHTS

\$ in 000's except per Trust Unit amounts

	Three months ended March 31	
	2005	2004
Revenues	\$ 16,458	\$ 10,604
EBITDA ⁽¹⁾	\$ 6,263	\$ 2,989
Operating income ⁽²⁾	\$ 4,822	\$ 1,944
Income before taxes	\$ 5,321	\$ 2,107
Net income	\$ 3,858	\$ 1,709
Per Trust Unit – basic	\$ 0.14	\$ 0.08
Per Trust Unit – diluted	\$ 0.14	\$ 0.07
Cash distributions declared per Trust Unit	\$ 0.075	\$ 0.06
Distributable income ⁽³⁾	\$ 4,572	\$ 2,751
Distributions declared	\$ 2,079	\$ 1,326
Payout ratio ⁽⁴⁾	45%	48%
Capital asset additions	\$ 2,545	\$ 2,660
Weighted average Trust Units outstanding:		
Basic ('000)	27,677	22,032
Diluted ('000)	27,677	22,867
	March 31 2005	December 31 2004
Working capital	\$ 12,032	\$ 10,839
Long-term debt including current portion	\$ -	\$ -
Unitholders' equity	\$ 35,625	\$ 33,564

(1) EBITDA, earnings before interest on long-term debt, 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.

(2) Operating income, as disclosed on the consolidated statement of operations and accumulated income, is defined as revenues less expenses related to operating, general and administration, depreciation, interest, foreign exchange loss (gains) and non-cash compensation. 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.

(3) Distributable income is defined as funds from operations less required principal repayments on long-term debt and maintenance capital expenditures. Distributable 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 trusts.

(4) Distributions declared as a percentage of distributable income.

MANAGEMENT'S DISCUSSION & ANALYSIS

This Management's Discussion & Analysis ("MD&A") for the three months ended March 31, 2005 should be read in conjunction with the annual audited consolidated financial statements for the year ended December 31, 2004, as well as the MD&A in the Trust's 2004 Annual Report, and with the unaudited interim consolidated financial statements for the three months ended March 31, 2005. This MD&A has been prepared as of April 28, 2005.

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

2005 Q1 revenues of \$16,458,000 represent a record for the Trust and an increase of 55% over the comparative revenues from 2004 which were \$10,604,000. Net income for 2005 Q1 was \$3,858,000 (\$0.14 per diluted Trust Unit) which represents a \$2,149,000 or 126% increase over 2004 Q1 net income of \$1,709,000 (\$0.07 per diluted Trust Unit). For the three months ended March 31, 2005, EBITDA was \$6,263,000 and this compares with \$2,989,000 in 2004 – an increase of \$3,274,000 or 110%.

RESULTS OF OPERATIONS

Revenues In 2005 Q1, the Trust set a record for quarterly revenues at \$16,458,000 which represented an increase of \$5,854,000 or 55% over 2004 Q1 revenues of \$10,604,000. The increase in revenues were a result of a 45% increase in the number of activity days for the Trust (2005 – 2,056; 2004 – 1,416) and an increase in the average day rate obtained for horizontal and directional drilling services from \$6,841 in 2004 to \$7,422 in 2005. The increase in activity days is a direct result of an increase in the number of horizontal and directional wells drilling in Western Canada on a quarter-over-quarter basis (despite an overall decrease in the total number of wells drilling in Western Canada on a quarter-over-quarter basis) as well as obtaining increased market share in both regions in which the Trust operates. The increase in average day rate is due to modest day rate increases and increases in ancillary charges.

Gross margin The gross margin (revenues less operating expenses) for 2005 Q1 was 52% which compares to 49% in 2004 Q1. The increase in gross margin percentage is mainly attributed to the increase in the average day rate obtained for horizontal and directional drilling services and was partially offset by general price increases for operating costs.

General and administrative expenses General and administrative expenses increased from \$2,377,000 in 2004 Q1 to \$2,822,000 in 2005 Q1 – an increase of \$445,000. This increase is related to the increased level of business activity both in Canada and the U.S. As a percentage of revenues, general and administrative expenses were 17.1% in 2005 Q1 and 22.4% in 2004 Q1.

Depreciation Depreciation for 2005 Q1 was \$909,000 compared to \$803,000 in 2004 Q1. This increase is related to the Trust's investment in capital assets over the past 12 months. As a percentage of revenues, depreciation amounted to 5.5% for 2005 and 7.6% for 2004 - this decrease is mainly the result of the increase in revenues on a quarter-over-quarter basis.

Interest expense In 2004 Q4 the Trust repaid its long-term debt in full and during 2005 Q1 had no long-term debt outstanding. Therefore, interest on long-term debt for 2005 Q1 was \$nil which compares to \$75,000 in 2004. Other interest expense decreased from \$13,000 to \$nil due to the Trust not utilizing its operating loan facility during 2005 Q1.

Foreign exchange gain The Trust's foreign exchange gain decreased from \$23,000 in 2004 Q1 to \$16,000 in 2005 Q1. During Q1 of 2005, the U.S. dollar strengthened marginally in comparison to the Canadian dollar and provided the Trust with a small foreign exchange gain.

Non-cash compensation expense The \$29,000 increase in non-cash compensation expense is due to the expense related to 1,620,000 Trust Unit options issued on March 14, 2005. Using the Black-Scholes option pricing model each option issued was deemed to have a value of \$1.08 and the overall related cost is being amortized against income over the three-year vesting period.

Gain on disposal of capital assets During 2005 Q1 the Trust had a gain on disposal of capital assets of \$499,000 which compares to \$163,000 in 2004 Q1. These gains are related 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 Trust and therefore can fluctuate significantly from quarter-to-quarter.

Taxes The effective tax rate for 2005 Q1 was 27.5% while the comparative figure for 2004 was 18.9%. The Trust, as a mutual fund trust and pursuant to the Declaration of Trust, allocates all of its taxable income to the unitholders of the Trust. The Trust's operating subsidiaries are subject to statutory corporate income taxes and certain provincial capital taxes and recognizes future income taxes on "temporary differences" in the operating subsidiaries. Currently the interest on the subordinated note between the Cathedral Energy Services Ltd. and the Trust was not able to fully shelter the subsidiaries from current taxes and this resulted in a higher effective tax rate.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2005, the Trust had available credit facilities with a major Canadian bank comprising of a \$4,500,000 operating line of credit and a \$7,000,000 non-reducing revolving term loan facility. Both facilities are undrawn at March 31, 2005. Working capital at March 31, 2005 was \$12,032,000 which compares to \$10,839,000 at December 31, 2004.

Operating activities Cash from operating activities (including changes in non-cash operating working capital) was \$4,392,000 which is an increase of \$1,658,000 over the comparative figure in 2004. The \$1,658,000 increase is the net result of: i) an increase in funds from operations (which excludes changes in non-cash operating working capital) of \$1,836,000 or 67% from \$2,751,000 in 2004 Q1 to \$4,587,000 in 2005 Q1; and ii) use of funds as a further investment in operating working capital. The principal reason for the increase in funds from operations is increased earnings.



LIQUIDITY AND CAPITAL RESOURCES (continued)

Investing activities Cash used in investing activities for the three months ended March 31, 2005 amounted to \$1,730,000 compared to \$3,118,000 in 2004. Excluding the changes in non-cash working capital related to investing activities, cash used in investing activities decreased from \$2,258,000 in 2004 Q1 to \$1,564,000 in 2005 Q1 – a decrease of \$694,000. In 2005 Q1 the Trust's operating entities acquired \$2,545,000 of capital assets for use in operations which included 3 Electro-Magnetic Measurement-While-Drilling ("EM-MWD") systems, additions to the mud motor and drill collar fleet to complement the increased job capacity over the past few quarters, costs associated with the development of a positive pulse MWD system and components for EM and positive pulse MWD systems that will be assembled in 2005 Q2. In Q2 of 2005, the Trust anticipates adding an additional 3 EM-MWD systems to its fleet and commercializing its positive pulse MWD system and adding 6 such systems. By the end of 2005 Q2 the Trust is expected to have a total of 52 MWD systems – 25 mud pulse and 27 EM systems.

Financing activities Cash used in financing activities for the three months ended March 31, 2005 amounted to \$1,756,000. This compares to cash provided by financing activities in 2004 Q1 of \$227,000. The quarter-to-quarter fluctuation in the amount of \$1,983,000 is mainly related to the Trust drawing upon its operating loan facility in 2004 Q1 in the amount of \$1,900,000. Distributions paid to Unitholders for 2005 Q1 amounted to \$2,006,000 which is a decrease of \$71,000 from 2004 Q1's level of \$2,077,000. Despite an increase in both the per Trust Unit level of distributions and the number of outstanding Trust Units the total dollar amount of distributions paid have decreased due to the 2004 Q1 amount covering a 5 month period (2005 Q1 - 3 months) of distributions as a result of the Trust converting to a monthly distribution policy effective January 2004. 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, 2004 the Trust has a commitment as at March 31, 2005 to purchase approximately \$2,340,000 of capital assets.

DISTRIBUTABLE INCOME

Distributable income is calculated as follows:

\$ in '000's	Three months ended March 31	
	2005	2004
Funds from operations	\$ 4,587	\$ 2,751
Less: - required principal repayments on long-term debt	-	-
- maintenance capital expenditures	(15)	-
Distributable income	\$ 4,572	\$ 2,751
Distributions declared	\$ 2,079	\$ 1,326
Payout ratio	45%	48%

As a result of the Trust's equipment being relatively new and the extensive maintenance program for its equipment (such repairs and maintenance cost are expensed in operating expenses), expenditures for maintenance capital are currently minimal.

The Trustees review the level and nature of distributions on an on-going basis giving consideration to current performance, historical and future trends in the business and the expected sustainability of those trends as well as required long-term debt repayments and maintenance capital expenditures required to sustain performance. Distributable income is not a standardized measure under Canadian Generally Accepted Accounting Principles and distributable income cannot be assured. The Trust's calculation of distributable income may differ from similarly titled measures used by other trusts. Distributable income is a main performance measurement used by management and investors to evaluate the performance of the Trust.

BUSINESS RISKS

The MD&A for the year ended December 31, 2004, which is included in the Trust's 2004 Annual Report, includes an overview on business risks associated with the Trust and its operating entities. Those business risks remain in effect as at March 31, 2005.

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 fundamentals continue to be strong. Drilling activity in Western Canada is expected to be at record levels and the Rocky Mountain region of the U.S. also remains very active. Oil and natural gas pricing remains high and industry analysts are predicting continued strength in pricing for the balance of 2005 and into 2006.

Field-testing of our positive pulse system continues and management is very pleased with the results to date. We continue to expect that this system will be deemed commercial in Q2 of 2005. The addition of this tool to our fleet will expand our ability to meet our customer's needs and arrive at solutions to their drilling requirements. By the end of 2005 Q2 we expect to have our MWD fleet at 52 systems – up from 43 systems at March 31, 2005.

The Trust's operating entities are active in the Steam Assisted Gravity Drainage ("SAGD") and Coal Bed Methane ("CBM") markets and both of these markets are considered to be growth areas for the industry. The expected increase in drilling activity in Western Canada for 2005 is mainly attributable to a substantial increase in the number of CBM wells expected to be drilled.

The Trust will continue to actively pursue opportunities to offer an expanded range of services to its customers, increase its market share, enter new geographic territories, and make strategic acquisitions.



SUMMARY OF QUARTERLY RESULTS

Three month period ended (\$ in '000's except per Trust Unit amounts)	Mar 2005	Dec 2004	Sep 2004	Jun 2004	Mar 2004	Dec 2003	Sep 2003	Jun 2003
Revenues	\$ 16,458	\$ 16,092	\$ 11,766	\$ 8,016	\$ 10,604	\$ 10,913	\$ 9,854	\$ 5,043
EBITDA	6,263	6,750	3,986	1,383	2,989	2,864	2,771	1,073
Net income	3,858	4,221	2,407	791	1,710	1,507	1,710	305
Net income per Trust Unit – basic	0.14	0.17	0.10	0.04	0.08	0.07	0.08	0.01
Net Income per Trust Unit - diluted	0.14	0.17	0.10	0.03	0.07	0.07	0.08	0.01
Distributions declared per Trust Unit	0.075	0.0725	0.06	0.06	0.06	0.055	0.055	0.055

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

\$ in '000's

	March 31 2005 (unaudited)	December 31 2004
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 4,057	\$ 3,151
Accounts receivable	17,700	17,607
Inventory	1,273	1,268
Prepaid expenses and deposits	211	256
	23,241	22,282
Capital assets	24,069	22,915
Goodwill	1,624	1,624
	\$ 48,934	\$ 46,821
LIABILITIES AND UNITHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 9,415	\$ 10,044
Distribution payable to Unitholders	696	621
Taxes payable	1,098	778
	11,209	11,443
Future income taxes	2,100	1,814
	13,309	13,257
Unitholders' equity:		
Unitholders' capital (note 3)	19,025	18,775
Contributed surplus (note 3)	55	22
Accumulated income	31,200	27,342
Accumulated distributions	(14,655)	(12,575)
	35,625	33,564
	\$ 48,934	\$ 46,821



CONSOLIDATED STATEMENTS OF OPERATIONS AND ACCUMULATED INCOME

\$ in '000's except per Trust Unit amounts
(unaudited)

	Three months ended March 31	
	2005	2004
Revenues (note 4)	\$ 16,458	\$ 10,604
Expenses:		
Operating	7,888	5,411
General and administrative	2,822	2,377
Depreciation	909	803
Interest – long-term debt	-	75
Interest – other	-	13
Foreign exchange gain	(16)	(23)
Non-cash compensation expense (note 3)	33	4
	11,636	8,660
Operating income	4,822	1,944
Gain on disposal of capital assets	499	163
Income before taxes	5,321	2,107
Taxes:		
Current	1,180	-
Future income taxes	283	398
	1,463	398
Net income for the period	3,858	1,709
Accumulated income, beginning of period	27,342	18,214
Accumulated income, end of period	\$ 31,200	\$ 19,923
Net income per Trust Unit:		
Basic	\$ 0.14	\$ 0.08
Diluted	\$ 0.14	\$ 0.07
Cash distributions declared per Trust Unit	\$ 0.075	\$ 0.06



CONSOLIDATED STATEMENTS OF CASH FLOWS

\$ in '000's
(unaudited)

Three months ended March 31
2005 2004

Cash provided by (used in):

Operating activities:

Net income for the period	\$ 3,858	\$ 1,709
Items not involving cash:		
Depreciation	909	803
Future income taxes	283	398
Unrealized foreign exchange loss	3	-
Non-cash compensation expense	33	4
Gain on disposal of capital assets	(499)	(163)
Funds from operations	4,587	2,751
Changes in non-cash operating working capital	(195)	(17)
	4,392	2,734

Investing activities:

Capital asset additions	(2,545)	(2,660)
Proceeds on disposal of capital assets	981	402
Changes in non-cash investing working capital	(166)	(860)
	(1,730)	(3,118)

Financing activities:

Distributions paid to Unitholders	(2,006)	(2,077)
Trust Unit options exercised	250	404
Increase in bank indebtedness	-	1,900
	(1,756)	227
Change in cash and cash equivalents	906	(157)
Cash and cash equivalents, beginning of period	3,151	388
Cash and cash equivalents, end of period	\$ 4,057	\$ 231



SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Three months ended March 31, 2005 and 2004

(\$ in '000's except per Trust Unit amounts)

(unaudited)

1. Significant accounting policies:

These unaudited interim consolidated financial statements for the period ended March 31, 2005 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, 2004 included in the Trust's 2004 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, 2004.

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. Activity levels in the Rocky Mountain region of the U.S. are not subject to the seasonality to the extent that it occurs in the Western Canada region.

3. Unitholders' capital :

(a) Issued:

	Three months ended March 31			
	2005		2004	
	Number of Trust Units	Amount	Number of Trust Units	Amount
Balance, beginning of period	27,620,866	\$ 18,775	21,948,333	\$ 5,176
Issued on exercise of options	213,933	250	341,400	404
Balance, end of period	27,834,799	\$ 19,025	22,289,733	\$ 5,580

At April 28, 2004, the Trust had 27,834,799 Trust Units outstanding.

(b) Trust Unit options:

	Three months ended March 31	
	2005	2004
	Number of options	Number of options
Outstanding, beginning of period	786,833	1,605,900
Issued	1,620,000	-
Exercised	(213,933)	(341,400)
Outstanding, end of period	2,192,900	1,264,500

At April 28, 2004, the Trust had 2,192,900 Trust Unit options outstanding.

During the three months ended March 31, 2005, the Trust has recorded non-cash compensation expense and contributed surplus of \$33 (2004 - \$4) related to 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 months ended March 31, 2005 and 2004 would have been adjusted to the pro forma amounts noted below:

	Three months ended March 31	
	2005	2004
Net income for the period - as reported	\$ 3,858	\$ 1,709
Pro forma compensation expense	(7)	(25)
Net income for the period - pro forma	\$ 3,851	\$ 1,684
Net income per Trust Unit- as reported	\$ 0.14	\$ 0.08
Net income per Trust Unit - pro forma	\$ 0.14	\$ 0.08
Diluted net income per Trust Unit - as reported	\$ 0.14	\$ 0.07
Diluted net income per Trust Unit - pro forma	\$ 0.14	\$ 0.07

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



SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Three months ended March 31, 2005 and 2004

(\$ in '000's except per Trust Unit amounts)

(unaudited)

3. Unitholders' capital (continued):

(b) Trust Unit options (continued):

During the three months ended March 31, 2005, 1,620,000 Trust Unit options were granted at an exercise price of \$4.14. The weighted average fair value of options granted during the quarter ended March 31, 2005 was \$1.08 per option using the Black-Scholes option pricing method. The following table sets out the assumptions used in applying the Black-Scholes model:

	Date of Issue March 14, 2005
Expected distribution yield	7.25%
Risk-free interest rate	3.3%
Expected volatility	52.5%
Expected life (in years)	3.5

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 March 31	
	2005	2004
Canada	\$ 12,130	\$ 8,173
United States	4,328	2,431
	\$ 16,458	\$ 10,604

Capital assets and goodwill	March 31	December 31
	2005	2004
Canada	\$ 20,372	\$ 19,913
United States	5,321	4,626
	\$ 25,693	\$ 24,539

During the three months ended March 31, 2005, one customer accounted for 20% (2004 – 19%) of consolidated revenues.

5. Comparative amounts:

Certain comparative amounts have been reclassified to conform to the current year's presentation.

*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.*

