



INTERIM REPORT 2005 Q3

CATHEDRAL ENERGY SERVICES REPORTS RESULTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2005

FINANCIAL HIGHLIGHTS

'000's except per Trust Unit amounts

	Three months ended September 30		Nine months ended September 30	
	2005	2004	2005	2004
Revenues	\$ 22,826	\$ 11,766	\$ 53,901	\$ 30,386
EBITDA ⁽¹⁾	\$ 9,026	\$ 3,986	\$ 19,490	\$ 8,358
Operating income ⁽²⁾	\$ 6,685	\$ 2,763	\$ 14,243	\$ 4,888
Income before taxes	\$ 7,272	\$ 2,994	\$ 15,482	\$ 5,545
Net income	\$ 6,179	\$ 2,407	\$ 14,045	\$ 4,907
Per Trust Unit – basic	\$ 0.21	\$ 0.10	\$ 0.50	\$ 0.22
Per Trust Unit – diluted	\$ 0.21	\$ 0.10	\$ 0.49	\$ 0.21
Cash distributions declared per Trust Unit	\$ 0.0925	\$ 0.06	\$ 0.2475	\$ 0.18
Distributable income ⁽³⁾	\$ 8,206	\$ 3,545	\$ 16,496	\$ 7,334
Distributions declared	\$ 2,695	\$ 1,445	\$ 7,046	\$ 4,119
Payout ratio ⁽⁴⁾	33%	41%	43%	56%
Capital asset additions and corporate acquisitions ⁽⁵⁾	\$ 12,386	\$ 2,332	\$ 23,133	\$ 6,320
Non-cash issuance of Trust Units for corporate acquisitions	9,000	-	11,943	-
Total capital asset additions and corporate acquisitions	\$ 21,386	\$ 2,332	\$ 35,076	\$ 6,320
Weighted average Trust Units outstanding:				
Basic ('000)	28,969	23,687	28,323	22,704
Diluted ('000)	29,795	24,282	28,463	23,267

	September 30 2005	December 31 2004
Working capital	\$ 10,077	\$ 10,839
Long-term debt and capital lease obligations including current portion	\$ 12,862	\$ -
Unitholders' equity	\$ 53,713	\$ 33,564

⁽¹⁾ EBITDA is defined as earnings before interest on long-term debt, taxes, non-cash compensation expense and depreciation and amortization and 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 and amortization, 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 cash flow from operations before changes in non-cash working capital less required principal repayments on long-term debt and capital lease obligations 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. Distributable income is a main performance measurement used by management and investors to evaluate the performance of the Trust.

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

⁽⁵⁾ Excludes value of non-cash issuance of Trust Units.

MANAGEMENT'S DISCUSSION & ANALYSIS

This Management's Discussion & Analysis ("MD&A") for the three months and nine months ended September 30, 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 and nine months ended September 30, 2005. This MD&A has been prepared as of October 31, 2005. Certain statements within this report may contain forward-looking statements, including (without limitation) statements regarding the business and anticipated financial performance of the Trust preceded by, followed by or that include the words "believes", "expects", "anticipates", "estimates", "intends", "plans", "forecasts" or similar expressions. These forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Trust to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. A number of factors could cause actual results to differ materially from those in the forward-looking statements, including, but not limited to, fluctuations in world oil and North American natural gas prices, weather, access to capital markets, competition, changes in technology and government policies.

OVERVIEW

For 2005 Q3, the Trust had record Q3 revenues and net income of \$22,826,000 and \$6,179,000 (\$0.21 per diluted Trust Unit), respectively. Comparative figures for 2004 Q3 were \$11,766,000 and \$2,407,000 (\$0.10 per diluted Trust Unit), respectively. On a quarter-over-quarter basis revenues are up \$11,060,000 or 94% and net income was up \$3,772,000 or 157%. For the three months ended September 30, 2005, EBITDA was \$9,026,000 and this compares with \$3,986,000 in 2004 – an increase of \$5,040,000 or 126%.

For the nine months ended September 30, 2005, the Trust had record revenues and net income of \$53,901,000 and \$14,045,000 (\$0.49 per diluted Trust Unit), respectively. Comparable revenues and net income for 2004 were \$30,386,000 and \$4,907,000 (\$0.21 per diluted Trust Unit), respectively. On a year-to-date basis, revenues and net income were up 77% and 186%, respectively. Included in 2005 Q3 year-to-date net income is the benefit of a \$1,536,000 reduction in the future income tax liability related to the 2005 Q2 internal reorganization (\$0.05 per diluted Trust Unit). For the nine months ended September 30, 2005, EBITDA was \$19,490,000 and this compares with \$8,358,000 in 2004 – an increase of \$11,132,000 or 133%.

During 2005 Q3 YTD the Trust completed two acquisitions: i) Tier One Oil Services Ltd. ("Tier One") effective May 6, 2005; and ii) Advance Wireline Services Ltd. ("Advance") effective September 8, 2005. Therefore the year-to-date results include the results of operations from Tier One and Advance commencing the effective date of the respective acquisition.

RESULTS OF OPERATIONS - THREE MONTHS ENDED SEPTEMBER 30, 2005

Revenues The Trust completed 2005 Q3 with revenues of \$22,826,000, which represented an increase of \$11,060,000 or 94% over 2004 Q3 revenues of \$11,766,000. The 2005 Q3 revenue figure is the highest per quarter revenue ever generated by the Trust. This increase was mainly a result of: i) a 52% increase in directional/horizontal drilling activity days; ii) a 7.1% increase in the average day rate for directional/horizontal drilling services; and iii) the inclusion of revenues from the Tier One and Advance acquisitions effective May 6, 2005 (2005 Q3 for full quarter) and September 8, 2005, respectively. The Tier One and Advance acquisitions account for 34% of the Q3 quarter-over-quarter increase in revenues. The increase in directional/horizontal drilling activity days is a reflection of the continuing strength in the oil and natural gas sector of the economy. The increase in the average day rate for directional/horizontal drilling services is due to providing additional specialty services and tools as well as ancillary charges and modest day rate increases.

Gross margin The gross margin (revenues less operating expenses) for 2005 Q3 was 53% which compares to 54% in 2004 Q3. Despite an increase in the average day rate for directional/horizontal drilling services the margin related to this revenue source only increased marginally due to increased field labour costs including training costs and general price increases for supplies purchased. In addition, the gross margin obtained from production testing and wireline services is marginally lower than that obtained from providing of directional/horizontal drilling services.

General and administrative expenses General and administrative expenses increased from \$2,465,000 in 2004 Q3 to \$3,617,000 in 2005 Q3 – an increase of \$1,152,000. The increase is related to personnel costs, an overall increase in activity levels both in Western Canada and the Rocky Mountain region of the U.S. as well as the inclusion of general and administrative expenses related to the acquisitions of Tier One effective May 6, 2005 and Advance effective September 8, 2005. As a percentage of revenues, general and administrative expenses were 15.8% in 2005 Q3 and 21.0% in 2004 Q3.

Depreciation and amortization Depreciation and amortization for 2005 Q3 was \$1,437,000 compared to \$916,000 in 2004 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 well as the inclusion of depreciation on capital assets acquired as a result of the acquisitions of Tier One effective May 6, 2005 and Advance effective September 8, 2005. As a percentage of revenues, depreciation and amortization amounted to 6.3% for 2005 and 7.8% for 2004 - this decrease is mainly the result of the increase in revenues on a quarter-over-quarter basis.

Interest expense Interest on long-term debt has decreased from \$72,000 in 2004 to \$57,000 in 2005. This decrease is the net result of an increase in the bank's prime interest rate and a decrease in the average level of long-term debt outstanding. For 2005, the Trust did not have any long-term debt until the September 8, 2005 acquisition of Advance when it incurred long-term debt of \$12 million and assumed \$1.3 million of Advance's long-term debt and capital lease obligations of which \$439,000 was repaid immediately after closing. During 2004 Q3 the Trust had \$6 million of long-term debt outstanding. Other interest expense has increased due to increased reliance on the Trust's operating loan facility.

Foreign exchange loss The Trust's foreign exchange loss decreased marginally from \$78,000 in 2004 Q3 to \$61,000 in 2005 Q3. During Q3 of 2004 and 2005, there were no significant fluctuations in the USD/CAD exchange rate and therefore, the resulting gain/loss is minimal.

Non-cash compensation expense The \$256,000 increase in non-cash compensation expense is due to the expense related to Trust Unit options issued during 2005. Until the 2005 options were issued non-cash compensation expense was minimal. The overall increase in the value of non-cash compensation expense is due to: i) the significant appreciation in the market price for the underlying Trust Units which has increased substantially the value attributed to the Trust Unit options granted during the period using the Black-Scholes option pricing model; and ii) the overall increase in the number of options issued. The value of the options is being amortized against income over the three-year vesting period.

Gain on disposal of capital assets During 2005 Q3 the Trust had a gain on disposal of capital assets of \$587,000 which compares to \$231,000 in 2004 Q3. These 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 Trust and therefore can fluctuate significantly from quarter-to-quarter.

Taxes For 2005 Q3 the Trust had a tax expense of \$1,093,000 which compares to \$587,000 in 2004 Q3. The effective tax rate for 2005 was 15.0% versus 19.6% in 2004. As a result of the internal reorganization a portion of the post June 16, 2005 income from the Trust's operating entities is not subject to corporate income taxes within the corporate structure as this income flows through to unitholders and is taxed in their hands. Accordingly, there is no tax provision within the Trust's financial statements for that portion of the income which is allocated to the unitholders. The decreased effective tax rate is due to higher portion of the Trust's pre-tax income being allocated to unitholders.



RESULTS OF OPERATIONS - NINE MONTHS ENDED SEPTEMBER 30, 2005

Revenues Record Q1, Q2 and Q3 revenues in 2005 combined for record Q3 year-to-date revenues of \$53,901,000, which represented an increase of \$23,515,000 or 77% over 2004 Q3 year-to-date revenues of \$30,386,000. This increase was mainly a result of: i) a 51% increase in directional/horizontal drilling activity days; ii) a 8.4% increase in the average day rate for directional/horizontal drilling services; and iii) the inclusion of revenues from the Tier One and Advance acquisitions effective May 6, 2005 and September 8, 2005, respectively. The Tier One and Advance acquisitions account for 17% of the Q3 year-to-date increase in revenues. The increase in directional/horizontal drilling activity days is a reflection of the continuing strength in the oil and natural gas sector of the economy. The increase in the average day rate for directional/horizontal drilling services is due to providing additional specialty services and tools as well as ancillary charges and modest day rate increases.

Gross margin The gross margin (revenues less operating expenses) for 2005 was 52% which compares to 50% in 2004. On a year-to-date basis in 2005 (versus 2004) the Trust's directional/horizontal drilling division has relied less on rented equipment due to the expansion of its fleet and this has contributed to a higher gross margin. The average day rate for directional/horizontal drilling services has increased but the overall effect on the gross margin was minimal due to increased field labour costs including training costs and general price increases for supplies purchased. In addition, the gross margin obtained from production testing and wireline services are marginally lower than that obtained from providing of directional/horizontal drilling services.

General and administrative expenses General and administrative expenses increased from \$7,249,000 in 2004 to \$9,595,000 in 2005 – an increase of \$2,346,000. The increase is related to personnel costs, an overall increase in activity levels both in Western Canada and the Rocky Mountain region of the U.S. as well as the inclusion of general and administrative expenses related to the acquisitions of Tier One effective May 6, 2005 and Advance effective September 8, 2005. As a percentage of revenues, general and administrative expenses were 17.8% in 2005 and 23.9% in 2004.

Depreciation and amortization Depreciation and amortization for 2005 was \$3,478,000 compared to \$2,584,000 in 2004. 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 well as the inclusion of depreciation on capital assets acquired as a result of the acquisitions of Tier One effective May 6, 2005 and Advance effective September 8, 2005. As a percentage of revenues, depreciation and amortization amounted to 6.5% for 2005 and 8.5% for 2004 - this decrease is mainly the result of the increase in revenues on a year-over-year basis.

Interest expense Interest on long-term debt has decreased from \$219,000 in 2004 to \$57,000 in 2005. This decrease is the net result of an increase in the bank's prime lending rate and a decrease in the average level of long-term debt outstanding. For 2005, the Trust did not have any long-term debt until the September 8, 2005 acquisition of Advance when it incurred long-term debt of \$12 million and assumed \$1.3 million of Advance's long-term debt and capital lease obligations of which \$439,000 was repaid immediately after closing. During 2004 Q3 year-to-date, the Trust had an average of \$5.9 million of long-term debt outstanding. Other interest expense has decreased due to less reliance on the Trust's operating loan facility on a year-to-date basis.

Foreign exchange gain The Trust's foreign exchange loss decreased marginally from \$38,000 in 2004 Q3 to \$13,000 in 2005 Q3. During 2004 and 2005, there were no significant fluctuations in the USD/CAD exchange rate and therefore, the resulting gain/loss is minimal.

Non-cash compensation expense The \$463,000 increase in non-cash compensation expense is due to the expense related to Trust Unit options issued during 2005. Until the 2005 options were issued non-cash compensation expense was minimal. The overall increase in the value of non-cash compensation expense is due to: i) the significant appreciation in the market price for the underlying Trust Units which has increased substantially the value attributed to the Trust Unit options granted during the period using the Black-Scholes option pricing model; and ii) the overall increase in the number of options issued. The value of the options is being amortized against income over the three-year vesting period.

Gain on disposal of capital assets During 2005 the Trust had a gain on disposal of capital assets of \$1,239,000 which compares to \$657,000 in 2004. These 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 Trust and therefore can fluctuate significantly from quarter-to-quarter.

Taxes For 2005 Q3 year-to-date the Trust had a tax expense of \$1,437,000 which compares to \$638,000 in 2004. The effective tax rate for 2005 was 9.3% versus 11.5% in 2004. Included in the 2005 Q3 year-to-date tax provision is a reduction in future income taxes in the amount of \$1,536,000 that is a result of the June 16, 2005 internal reorganization. Excluding this \$1,536,000 future income tax reduction from the tax expense for 2005 Q3 YTD results in an adjusted effective tax rate of 19.2% - this adjusted effective tax rate is higher than the 2004 Q3 year-to-date effective tax rate of 11.5% due to a lower percentage of 2005 Q3 YTD income being allocated to the unitholders. As a result of the internal reorganization a portion of the post June 16, 2005 income from the Trust's operating entities is not subject to corporate income taxes within the corporate structure as this income flows through to unitholders and is taxed in their hands. Accordingly, there is no tax provision within the Trust's financial statements for that portion of the income which is allocated to the unitholders.

LIQUIDITY AND CAPITAL RESOURCES

In conjunction with the acquisition of Advance in 2005 Q3 the Trust increased its operating line of credit with a major Canadian bank by \$2,000,000 to a maximum facility of \$7,500,000. In addition, the Trust increased its revolving non-reducing term facility from \$7,000,000 to \$12,000,000. At September 30, 2005 the Trust had drawn upon the operating line in the amount of \$2,665,000 and had fully drawn the \$12,000,000 revolving non-reducing term facility. Working capital at September 30, 2005 was \$10,077,000 which compares to \$10,839,000 at December 31, 2004.

Operating activities Cash from operating activities (including changes in non-cash operating working capital) for the three and nine months ended September 30, 2005 was \$4,212,000 (2004 - \$2,895,000) and \$14,704,000 (2004 - \$7,386,000), respectively. Both the Q3 quarter-over-quarter and Q3 year-to-date increases were a result of a combination of an increase in operating results 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, 2005 amounted to \$12,919,000 (2004 - \$993,000) and \$20,309,000 (2004 - \$5,916,000), respectively. In 2005 Q3 the Trust's operating entities acquired \$4,306,000 (2004 - \$2,082,000) of capital assets (excluding corporate acquisitions) including 3 EM-MWD systems, additions to the mud motor and drill collar fleet to complement the increased job capacity and reduce third-party rental costs for mud motors and collars as well as 2 production testing units. As the end of 2005 Q3 the Trust's operating entities had 48 MWD systems, 15 production testing units and 10 wireline units. Total capital asset additions for the nine months ended September 30, 2005 were \$11,860,000 (2004 - \$6,070,000). During 2005 Q3 the Trust received proceeds on disposal of capital assets of \$1,167,000 (2004 - \$352,000) which brought the 2005 Q3 year-to-date total to \$2,507,000 (2004 - \$1,474,000). The May 6, 2005 acquisition of Tier One was financed by \$3,193,000 of cash on hand/operating loan facility and \$2,943,000 through the non-cash issuance of Trust Units. The cash component of the September 8, 2005 acquisition of Advance was financed by \$8,080,000 of long-term debt and the balance of the purchase price was financed by non-cash issuance of \$9,000,000 of Trust Units. Fluctuations in non-cash working capital related to investing activities 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 financing activities for the three and nine months ended September 30, 2005 amounted to \$9,286,000 (2004 – cash used in the amount of \$1,113,000) and \$4,820,000 (2004 – cash used in the amount of \$669,000), respectively. As part of the 2005 Q2 Tier One acquisition, the Trust assumed \$673,000 of bank indebtedness and upon closing of the acquisition repaid this amount in full. In 2005 Q3, as part of the Advance acquisition, the Trust assumed \$2,617,000 of bank indebtedness, \$860,000 of long-term debt and \$484,969 of capital lease obligations. Upon closing of the Advance acquisition the Trust repaid Advance's bank indebtedness in full and \$439,000 of long-term debt.

Distributions paid to Unitholders for 2005 Q3 and 2005 Q3 YTD amounted to \$2,369,000 (2004 - \$1,414,000) and \$6,551,000 (2004 - \$4,832,000), respectively. Both the Q3 quarter-over-quarter and Q3 year-to-date increases in distributions paid are related to a combination of increases in the per Trust Unit distribution level and an increase in the number of Trust Units outstanding. Since the end of 2004 Q2, monthly per Trust Unit distributions were increased in November 2004 by 12.5% to \$0.0225, 11% in January 2005 to \$0.025, 10% increase in May 2005 to \$0.0275 and a further 36% increase to \$0.0375 in September 2005. 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. and Cathedral Energy Services Limited Partnership.

Contractual obligations In the normal course of business, the Trust incurs contractual obligations and those obligations are disclosed in the Trust's MD&A for the year ended December 31, 2004. As at September 30, 2005, the Trust's commitment to purchase capital assets is approximately \$5,400,000.

REVISION OF 2005 Q2 REPORTED FUTURE INCOME TAX PROVISION, NET INCOME AND ACCUMULATED INCOME

The previously reported 2005 Q2 future income tax provision has been reduced by \$1,536,000 and accordingly net income for the three months ended June 30, 2005 and accumulated income as at June 30, 2005 has increased by the same amount for the benefit of a reduction in the future income tax liability as a result of the June 16, 2005 internal reorganization. This issue was identified during the preparation of the 2005 Q3 interim report.

DISTRIBUTABLE INCOME

Distributable income is calculated as follows:

\$ in 000's	Three months ended September 30		Nine months ended September 30	
	2005	2004	2005	2004
Cash flow from operations before changes in non-cash working capital	\$ 8,278	\$ 3,578	\$ 16,629	\$ 7,377
Less: - required principal repayments on long-term debt and capital lease obligations	(43)	-	(43)	-
- maintenance capital expenditures	(29)	(33)	(90)	(43)
Distributable income	\$ 8,206	\$ 3,545	\$ 16,496	\$ 7,334
Distributions declared	\$ 2,695	\$ 1,445	\$ 7,046	\$ 4,119
Payout ratio	33%	41%	43%	56%

Due to the seasonality of Cathedral's operations in Western Canada, where activity levels in the oilfield services industry are generally lower during "spring breakup" which normally commences in late March and continues through to May. It is the Trust's policy to pay consistent distributions throughout the year despite the seasonality of a portion of Cathedral's business.

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. Current maintenance capital expenditure levels may not be indicative of future maintenance capital expenditure levels.

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. Those business risks remain in effect as at September 30, 2005. In addition, on September 8, 2005 the federal Department of Finance released a consultation paper soliciting views on a number of tax related issues arising from income trusts and other flow-through entities. The consultation paper suggests three possible policy responses: limiting the deduction of interest expense by subsidiary operating entities; taxing income trusts in a manner similar to corporations; or better integrating the personal and corporate income tax system. The consultation period ends on December 31, 2005. Whether the federal government makes future changes to the tax rules applicable to income trusts and their investor is uncertain and, the nature of such changes, if any are implemented, is equally uncertain.

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 prices for the balance of 2005 and into 2006 and that strength in commodity prices will continue to drive demand for oilfield services in Canada and the U.S. into 2006. On October 26, 2005, the Petroleum Services Association of Canada ("PSAC") released its 2005 and 2006 forecasts for wells drilled in Western Canada and they were 23,890 and 25,290, respectively – the conclusion being that activity levels in Western Canada for the oilfield services market will remain very high. Drilling activity in the Rocky Mountain region of the U.S. continues to grow. Overall, industry fundamentals continue to remain extremely positive.

The Trust recently announced the commercialization of its new positive pulse Measurement-While-Drilling ("MWD") system. The commercialization of this MWD system is expected to positively impact the operations of the Trust in that it will expand our ability to meet our customer's needs and arrive at solutions to their drilling requirements. The positive pulse system utilizes a rotary drive valve mechanism which has an anti-jam feature for debris management. The design does not utilize hydraulic assist for pulse generation and therefore is well suited for high viscosity drilling fluids. It is also well suited for silicate mud systems where seal wear is a concern. The positive pulse MWD tool is based upon the same platform as the Trust's Electro-Magnetic MWD ("EM-MWD") tool and therefore provides an increased level of flexibility in providing alternative methods of transmitting directional drilling information to surface. Six positive pulse MWD systems have been delivered to date with another six to be delivered by the end of 2005 Q4.

The Trust's operating entities remain 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. A large portion of the expected number of wells drilled in Western Canada for 2005 over 2004 is related to the CBM market and additional growth is expected in the number of CBM wells drilled in 2006.

With the September 8, 2005 acquisition of Advance Wireline Inc., the Trust has further diversified its suite of oilfield services. The Trust now provides services in four areas: i) providing directional/horizontal drilling services; ii) rental of downhole mud motors, collars and drilling jars; iii) production testing; and iv) complete casedhole wireline services. At the date of acquisition Advance had 10 wireline units and the Trust expects to add 2 wireline units in early 2006 Q1 and an additional 2 wireline units in late 2006 Q1. As with the May 6, 2005 Tier One acquisition, the Advance acquisition is considered to be an entry point into a specific area within the energy services industry and it is management's intent to build upon those bases.

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 ('000 of \$ except per Trust unit amounts)	Sep 2005	Jun 2005 (restated)	Mar 2005	Dec 2004	Sep 2004	Jun 2004	Mar 2004	Dec 2003
Revenues	\$ 22,826	\$ 14,617	\$ 16,458	\$ 16,092	\$ 11,766	\$ 8,016	\$ 10,604	\$ 10,913
EBITDA	9,026	4,201	6,263	6,750	3,986	1,383	2,989	2,864
Net income	6,179	4,008	3,858	4,221	2,407	791	1,709	1,507
Net income per Trust Unit – basic	0.21	0.14	0.14	0.17	0.10	0.04	0.08	0.07
Net Income per Trust Unit - diluted	0.21	0.14	0.14	0.17	0.10	0.03	0.07	0.07
Distributions declared per Trust Unit	0.0925	0.08	0.075	0.0725	0.06	0.06	0.06	0.055

NON-GAAP MEASURES

EBITDA is defined as earnings before interest on long-term debt, taxes, non-cash compensation expense and depreciation and amortization. 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. EBITDA is provided to assist investors in determining the ability of the Trust to generate cash from operations.



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 2005 (unaudited)	December 31 2004
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,366	\$ 3,151
Accounts receivable	24,044	17,607
Other receivables (note 4)	668	-
Inventory	2,287	1,268
Prepaid expenses and deposits	641	256
	30,006	22,282
Capital assets	41,269	22,915
Intangibles	494	-
Goodwill	16,159	1,624
Other asset	157	-
	\$ 88,085	\$ 46,821
LIABILITIES AND UNITHOLDERS' EQUITY		
Current liabilities:		
Bank indebtedness	\$ 2,665	\$ -
Accounts payable and accrued liabilities	14,129	10,044
Distributions payable to Unitholders	1,117	621
Taxes payable	1,534	778
Current portion of capital lease obligations	230	-
Current portion of long-term debt	254	-
	19,929	11,443
Future income taxes	2,065	1,814
Capital lease obligations	233	-
Long-term debt	12,145	-
	34,372	13,257
Unitholders' equity:		
Unitholders' capital (note 5)	31,493	18,775
Contributed surplus	454	22
Accumulated income	41,387	27,342
Accumulated distributions	(19,621)	(12,575)
	53,713	33,564
	\$ 88,085	\$ 46,821



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	
	2005	2004	2005	2004
Revenues (note 6)	\$ 22,826	\$ 11,766	\$ 53,901	\$30,386
Expenses:				
Operating	10,680	5,451	26,011	15,344
General and administrative	3,617	2,465	9,595	7,249
Depreciation and amortization	1,437	916	3,478	2,584
Interest – long-term debt	57	72	57	219
Interest – other	29	17	31	54
Foreign exchange loss	61	78	13	38
Non-cash compensation expense (note 5)	260	4	473	10
	16,141	9,003	39,658	25,498
Operating income	6,685	2,763	14,243	4,888
Gain on disposal of capital assets	587	231	1,239	657
Income before taxes	7,272	2,994	15,482	5,545
Taxes:				
Current	81	105	1,551	105
Future income taxes (reduction) (note 2)	1,012	482	(114)	533
	1,093	587	1,437	638
Net income for the period	6,179	2,407	14,045	4,907
Accumulated income, beginning of period – as previously reported	33,672	20,714	27,342	18,214
Reduction of future income tax liability on internal reorganization (note 2)	1,536	-	-	-
Accumulated income, beginning of period – as restated	35,208	20,714	27,342	18,214
Accumulated income, end of period	\$ 41,387	\$ 23,121	\$ 41,387	\$ 23,121
Net income per Trust Unit:				
Basic	\$ 0.21	\$ 0.10	\$ 0.50	\$ 0.22
Diluted	\$ 0.21	\$ 0.10	\$ 0.49	\$ 0.21
Cash distributions declared per Trust Unit	\$ 0.0925	\$ 0.06	\$ 0.2475	\$ 0.18



CONSOLIDATED STATEMENTS OF CASH FLOWS

'000's of dollars
(unaudited)

	Three months ended		Nine months ended	
	September 30		September 30	
	2005	2004	2005	2004
Cash provided by (used in):				
Operating activities:				
Net income for the period	\$ 6,179	\$ 2,407	\$14,045	\$ 4,907
Items not involving cash:				
Depreciation and amortization	1,437	916	3,478	2,584
Future income taxes (reduction)	1,012	482	(114)	533
Unrealized foreign exchange loss	(23)	-	(14)	-
Non-cash compensation expense	260	4	473	10
Gain on disposal of capital assets	(587)	(231)	(1,239)	(657)
Cash flow from operations before changes in non-cash working capital	8,278	3,578	16,629	7,377
Changes in non-cash operating working capital	(4,066)	(683)	(1,925)	9
	4,212	2,895	14,704	7,386
Investing activities:				
Capital asset additions	(4,306)	(2,082)	(11,860)	(6,070)
Proceeds on disposal of capital assets	1,167	352	2,507	1,474
Acquisition of The Directional Company Inc. – additional contingent consideration	-	(250)	-	(250)
Acquisition of Tier One Oil Services Ltd., net of purchased cash of \$498 (note 4)	-	-	(3,193)	-
Acquisition of Advance Wireline Inc., (note 4)	(8,080)	-	(8,080)	-
Changes in non-cash investing working capital	(1,700)	987	317	(1,070)
	(12,919)	(993)	(20,309)	(5,916)
Financing activities:				
Advances under long-term debt	12,000	-	12,000	300
Repayment of long-term debt	(460)	-	(460)	-
Repayment of capital lease obligations	(22)	-	(22)	-
Distributions paid to Unitholders	(2,369)	(1,414)	(6,551)	(4,832)
Issuance of Trust Units via private placement	-	3,137	-	3,137
Trust Unit issuance costs	(15)	(22)	(15)	(22)
Trust Unit options exercised	104	201	493	1,043
Increase (decrease) in bank indebtedness	48	(3,015)	(625)	(295)
	9,286	(1,113)	4,820	(669)
Change in cash and cash equivalents	579	789	(785)	801
Cash and cash equivalents, beginning of period	1,787	400	3,151	388
Cash and cash equivalents, end of period	\$ 2,366	\$ 1,189	\$ 2,366	\$ 1,189

SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Nine months ended September 30, 2005 and 2004

('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, 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, except as noted below.

Intangible assets

Intangible assets are comprised of values attributed to customer relationships and non-compete agreements and are amortized on a straight-line basis over 8 and 4 years, respectively. Management assesses the carrying value of intangible assets on a periodic basis for indications of impairment. When an indication of impairment is present, a test for impairment is carried out by comparing the carrying value of the asset to its expected future cash flows. If the carrying amount is greater than the expected future cash flow, the asset would be considered impaired and an impairment loss would be realized to reduce the asset's carrying value to its estimated fair value.

2. Future income taxes provision and accumulated income:

The future income tax provision for the three months ended June 30, 2005 has been reduced by \$1,536,000 and accordingly net income for the three months ended June 30, 2005 and accumulated income as at June 30, 2005 has increased by the same amount for the benefit of a reduction in the future income tax liability as a result of the June 16, 2005 internal reorganization. This issue was identified during the preparation of the 2005 Q3 interim report.



3. 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.

4. Acquisitions:

(a) Tier One Oil Services Ltd.:

Effective May 6, 2005, the Trust acquired all the issued and outstanding shares of Tier One Oil Services Ltd. ("Tier One"), a private company involved in providing production testing services in Western Canada, for consideration of \$6,136 (net of a working capital adjustment). Consideration was comprised of \$3,193 of cash and \$2,943 of Trust Units (668,864 Trust Units with an assigned value of \$4.40 per Trust Unit – assigned value is based upon 20 day weighted average trading price immediately prior to the effective date of the acquisition). Included in the 668,864 Trust Units issued were 32,500 units issued to senior managers of Tier One pursuant to employment contracts entered into under the terms of the acquisition. In addition, 67,500 Trust Units have been issued and are being held in trust for senior managers of Tier One. These Trust Units vest over a three-year period from the date of the Tier One acquisition.

The acquisition has been accounted for by the purchase method whereby the assets and liabilities were recorded at their fair market values as at the effective date and the operating results are included in the Trust's consolidated financial statements from the effective date.

Estimated details of the acquisition are as follows:

Net assets acquired:	
Net non-cash working capital deficiency	\$ (334)
Capital assets	2,523
Goodwill	4,224
Future income taxes	(277)
	<hr/>
	\$ 6,136
Purchase price:	
668,864 Trust Units at \$4.40 per Trust Unit	\$ 2,943
Cash (including transaction costs totaling approximately \$55 and net of acquired cash of \$498)	3,193
	<hr/>
	\$ 6,136

(b) Advance Wireline Inc.:

Effective September 8, 2005, the Trust acquired all the issued and outstanding shares of Advance Wireline Inc. ("Advance"), a private company involved in providing wireline services in Western Canada, for consideration of \$17,080 (net of an estimated working capital and long-term debt adjustment). Consideration was comprised of \$8,080 of cash and \$9,000 of Trust Units (1,072,706 Trust Units with an assigned value of \$8.39 per Trust Unit – assigned value is based upon 20 day weighted average trading price immediately prior to the effective date of the acquisition). The cash consideration noted above is net of an estimated receivable from the former shareholders of Advance in the amount of \$493. This amount has been included in the balance sheet under other receivables within current assets.

Additional contingent consideration of up to a maximum of \$3.0 million, payable in Trust Units with an assigned value based upon 20 day weighted average trading price immediately prior to the issuance of the related Trust Units, will be paid over a 2-year period based upon the financial results of Advance for the periods ended on the first and second anniversary of the closing date. Additional consideration paid will be recorded as an additional cost of the purchase and allocated to goodwill.

The acquisition has been accounted for by the purchase method whereby the assets and liabilities were recorded at their fair market values as at the effective date and the operating results are included in the Trust's consolidated financial statements from the effective date.

Estimated details of the acquisition are as follows:

Net assets acquired:	
Net non-cash working capital deficiency	\$ (996)
Capital assets	8,711
Intangibles	500
Goodwill	10,310
Future income taxes	(101)
Capital lease obligations	(484)
Long-term debt	(860)
	<hr/>
	\$ 17,080
Purchase price:	
1,072,706 Trust Units at \$8.39 per Trust Unit	\$ 9,000
Cash (including transaction costs totaling approximately \$74)	8,080
	<hr/>
	\$ 17,080



5. Unitholders' capital:

(a) Trust Units:

	Three months ended September 30, 2005		Nine months ended September 30, 2005	
	Number of Trust Units	Amount	Number of Trust Units	Amount
Balance, beginning of period	28,686,363	\$ 22,404	27,620,866	\$ 18,775
Issued on acquisition of Tier One (note 4)	-	-	668,864	2,943
Issued as deferred compensation (note 4)	-	-	67,500	297
Issued on acquisition of Advance (note 4)	1,072,706	9,000	1,072,706	9,000
Trust Unit options exercised	46,333	104	375,466	493
Less: Trust Unit issuance costs	-	(15)	-	(15)
Balance, end of period	29,805,402	\$ 31,493	29,805,402	\$ 31,493

At October 31, 2005, the Trust had 29,815,068 Trust Units outstanding.

(b) Trust Unit options:

	Three months ended September 30		Nine months ended September 30	
	2005	2004	2005	2004
	Number of options	Number of options	Number of options	Number of options
Outstanding, beginning of period	2,411,033	1,903,000	786,833	1,798,000
Issued	470,000	-	2,450,000	125,000
Forfeited	(44,500)	(20,000)	(71,167)	(20,000)
Exercised	(46,333)	(10,000)	(375,466)	(30,000)
Outstanding, end of period	2,790,200	1,873,000	2,790,200	1,873,000

At October 31, 2005, the Trust had 2,780,534 Trust Unit options outstanding.

During the three months and nine months ended September 30, 2005, the Trust has recorded compensation expense and contributed surplus of \$219 (2004 - \$4) and \$432 (2004 - \$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, 2005 and 2004 would have been adjusted to the pro forma amounts noted below:

	Three months ended September 30		Nine months ended September 30	
	2005	2004	2005	2004
Net income for the period - as reported	\$ 6,179	\$ 2,407	\$ 14,045	\$ 4,907
Pro forma compensation expense	(7)	(25)	(22)	(75)
Net income for the period - pro forma	\$ 6,172	\$ 2,382	\$ 14,023	\$ 4,832
Net income per Trust Unit - as reported	\$ 0.21	\$ 0.10	\$ 0.50	\$ 0.22
Net income per Trust Unit - pro forma	\$ 0.21	\$ 0.10	\$ 0.50	\$ 0.21
Diluted net income per Trust Unit - as reported	\$ 0.21	\$ 0.10	\$ 0.49	\$ 0.21
Diluted net income per Trust Unit - pro forma	\$ 0.21	\$ 0.10	\$ 0.49	\$ 0.21

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

During the three months ended September 30, 2005, June 30, 2005 and March 31, 2005, 470,000, 360,000 and 1,620,000, respectively, Trust Unit options were granted. These options have been valued using the Black-Scholes option pricing method. The following table sets out options issued during the nine months ended September 30, 2005, the fair value of those options and the assumptions used in applying the Black-Scholes model:

	Date of Issue		
	September 15, 2005	May 6, 2005	March 14, 2005
Number of options issued	470,000	360,000	1,620,000
Exercise price	\$ 9.45	\$ 4.96	\$ 4.14
Fair value per option using Black-Scholes option price method	\$ 3.34	\$ 1.39	\$ 1.08
Expected distribution yield	4.76%	6.65%	7.25%
Risk-free interest rate	3.33%	3.4%	3.3%
Expected volatility	61%	54%	52.5%
Expected life (in years)	3.5	3.5	3.5



6. **Segmented information:**

The Trust, through its wholly owned entities operates in two geographic segments within one industry. Energy 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	
	2005	2004	2005	2004
Canada	\$ 17,568	\$ 9,274	\$ 40,067	\$ 22,919
United States	5,258	2,492	13,834	7,467
	\$ 22,826	\$ 11,766	\$ 53,901	\$ 30,386

Capital assets, intangibles and goodwill	September 30 2005	December 31 2004
Canada	\$ 49,760	\$ 19,913
United States	8,162	4,626
	\$ 57,922	\$ 24,539

During the three months ended September 30, 2005 one customer accounted for 13% (2004 - 20%) of consolidated revenues. During the nine months ended September 30, 2005, one customer accounted for 16% (2004 - 22%) of consolidated revenues.

7. **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. and Cathedral Energy Services Limited Partnership (collectively "Cathedral") representing the right to receive cash flow available for distribution from Cathedral. Cathedral is engaged in the business of providing selected oilfield services to oil and natural gas companies in Western Canada and the Rocky Mountain region of the United States and currently provides drilling services and related equipment rentals, production testing services and wireline services. Cathedral markets its services under five brand names: **Directional Plus** and **The Directional Company** which provide horizontal and directional drilling services; **CAT Downhole Tools** which provides downhole equipment including drilling jars, shock subs and high performance drilling motors on a rental basis; **Tier One Oil Services** which provides oil and natural gas production testing services; and **Advance Wireline** which provides cased hole logging and perforating, complete slickline services and casing integrity inspection logging. Cathedral strives to provide its clients with value added technologies and solutions to meet their drilling and production testing 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.*

