



## 2008 Q2 INTERIM REPORT

### FINANCIAL HIGHLIGHTS

\$ in 000's except per Trust Unit amounts

|  | Three months ended<br>June 30 |            | Six months ended<br>June 30 |           |
|--|-------------------------------|------------|-----------------------------|-----------|
|  | 2008                          | 2007       | 2008                        | 2007      |
| Revenues                                   | \$ 29,483                     | \$ 24,985  | \$ 75,736                   | \$ 67,697 |
| EBITDAS <sup>(1)</sup>                     | \$ 4,632                      | \$ 4,837   | \$ 20,027                   | \$ 19,249 |
| Per Trust Unit – diluted                   | \$ 0.14                       | \$ 0.15    | \$ 0.62                     | \$ 0.61   |
| EBITDAS <sup>(1)</sup> as a % of revenue   | 16%                           | 19%        | 26%                         | 28%       |
| Income before taxes                        | \$ 797                        | \$ 1,112   | \$ 12,486                   | \$ 12,145 |
| Net Income (loss)                          | \$ 189                        | \$ (2,415) | \$ 10,106                   | \$ 7,372  |
| Per Trust Unit – basic                     | \$ 0.01                       | \$ (0.08)  | \$ 0.32                     | \$ 0.24   |
| Per Trust Unit – diluted                   | \$ 0.01                       | \$ (0.08)  | \$ 0.31                     | \$ 0.23   |
| Cash distributions declared per Trust Unit | \$ 0.21                       | \$ 0.21    | \$ 0.42                     | \$ 0.42   |
| Distributable cash <sup>(1)</sup>          | \$ 2,038                      | \$ 3,132   | \$ 15,152                   | \$ 16,203 |
| Cash distributions declared                | \$ 6,770                      | \$ 6,660   | \$ 13,439                   | \$ 13,130 |
| Payout ratio <sup>(1)</sup>                | 332%                          | 211%       | 89%                         | 81%       |
| Property and equipment additions           | \$ 7,475                      | \$ 4,483   | \$ 11,435                   | \$ 10,288 |
| Weighted average Trust Units outstanding:  |                               |            |                             |           |
| Basic ('000)                               | 32,178                        | 31,405     | 31,943                      | 31,219    |
| Diluted ('000)                             | 32,849                        | 31,893     | 32,464                      | 31,744    |

|  | June 30<br>2008 | December 31<br>2007 |
|--|-----------------|---------------------|
| Working capital  | \$ 13,071       | \$ 16,947           |
| Long-term debt and capital lease obligations excluding current portion | \$ 17,365       | \$ 17,441           |
| Unitholders' equity  | \$ 79,712       | \$ 79,250           |

<sup>(1)</sup> Non-GAAP measure; see "NON-GAAP FINANCIAL MEASUREMENTS" within Management's Discussion & Analysis.

## MANAGEMENT'S DISCUSSION & ANALYSIS

This Management's Discussion & Analysis ("MD&A") for the three and six months ended June 30, 2008 should be read in conjunction with the annual audited consolidated financial statements and notes thereto for the year ended December 31, 2007, as well as the MD&A in the Trust's 2007 Annual Report, and with the unaudited interim consolidated financial statements for the three months and six months ended June 30, 2008. This MD&A has been prepared as of August 6, 2008. Dollar amounts are in '000's except for day rates and per Trust Unit amounts.

### FORWARD-LOOKING INFORMATION

Certain statements in this MD&A including (i) statements that may contain words such as "anticipate", "could", "expect", "seek", "may" "intend", "will", "believe", "should", "project", "forecast", "plan" and similar expressions, including the negatives thereof, (ii) statements that are based on current expectations and estimates about the markets in which the Trust/Cathedral operates and (iii) statements of belief, intentions and expectations about developments, results and events that will or may occur in the future, constitute "forward-looking statements" and are based on certain assumptions and analysis made by the Trust/Cathedral. Forward-looking statements in this MD&A include, but are not limited to, statements with respect to future capital expenditures, including the amount, nature and timing thereof; oil and natural gas prices and demand; other development trends within the oil and natural gas industry; business strategy; expansion and growth of the Trust's/Cathedral's business and operations including the Trust/Cathedral's market share and position in the oilfield service market; and other such matters. Such forward-looking statements are subject to important risks and uncertainties, which are difficult to predict and that may affect the Trust's/Cathedral's operations, including, but not limited to: the impact of general economic conditions in Canada and the United States; industry conditions, including the adoption of new environmental, safety and other laws and regulations and changes in how they are interpreted and enforced; volatility of oil and natural gas prices; oil and natural gas product supply and demand; risks inherent in the Trust's/Cathedral's ability to generate sufficient cash flow from operations to meet its current and future obligations; increased competition; the lack of availability of qualified personnel or labor unrest; fluctuation in foreign exchange or interest rates; stock market volatility; opportunities available to or pursued by the Trust/Cathedral and other factors, many of which are beyond the control of the Trust/Cathedral. The Trust's/Cathedral's actual results, performance or achievements could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do transpire or occur, what benefits the Trust/Cathedral will derive therefrom. Subject to applicable law, the Trust disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

All forward-looking statements contained in this document are expressly qualified by this cautionary statement. Further information about the factors affecting forward-looking statements is available in the Trust's current Annual Information Form and 2007 Annual Report which has been filed with Canadian provincial securities commissions and are available on [www.sedar.com](http://www.sedar.com).

### NON-GAAP FINANCIAL MEASUREMENTS

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

The specific measures being referred to include the following:

- i) "Gross margin" - calculated as revenues less operating expenses is considered a primary indicator of operating performance;
- ii) "EBITDAS" - defined as earnings before interest on long-term debt and capital lease obligations, taxes, depreciation, amortization and unit-based compensation expense; this measure is considered an indicator of the Trust's ability to generate funds flow from operations prior to consideration of how activities are financed, how the results are taxed and measured and non-cash expenses (see tabular calculation under EBITDAS);
- iii) "Distributable cash" - defined as cash flow from operating activities before changes in non-cash operating working capital less required principal repayments on long-term debt and capital lease obligations and maintenance capital expenditures; distributable cash is a key performance measurement used by management, analysts and investors to evaluate the financial performance of the Trust (see tabular calculation under Distributions);
- iv) "Maintenance capital expenditures" - refers to capital expenditures required to maintain existing levels of service but excludes replacement cost of lost-in-hole equipment to the extent the replacement equipment is financed from the proceeds on disposal of the equipment lost-in-hole;
- v) "Payout ratio" - calculated as cash distributions declared divided by distributable cash, is an indicator of the Trust's ability to fund its distributions from the Trust's ongoing operations excluding changes in non-cash working capital (see tabular calculation under Distributions) (see distributable cash definition above); and
- vi) "Funds from operations" - calculated as cash flow from operating activities before changes in non-cash operating working capital is considered an indicator of the Trust's ability to generate funds flow from operations but excluding changes in non-cash operating working capital which is financed using the Trust's bank indebtedness/line of credit facility.

### OVERVIEW

The Trust completed the second quarter of 2008 with solid quarterly revenues of \$29,483 and year-to-date revenues of \$75,736. The second quarter is traditionally the weakest period of the year and while industry activity levels showed moderate recovery, weather continued to affect activity levels. Within the oilfield service sector, the directional drilling sub-sector has been a very active area with a growing number of wells being drilled directionally/horizontally. In resource plays such as the Bakken (southeast Saskatchewan) and Montney (northeast B.C.), operators are using the combination of horizontally drilled wells and multi-stage fracturing to increase reservoir recoveries and it is expected that such completion techniques will continue to expand the number of horizontal wells drilled. The 2008 Q2 revenues were lead by the Trust's directional drilling division which represented 82% (2007 Q2 - 82%) of 2008 Q2 total revenues. The Trust's U.S. drilling division grew significantly over the 2007 Q2 period, generating period revenues 51% higher than in 2007 and on a year-to-date basis increasing revenues by 31% over 2007. The Trust's production testing and wireline divisions continue to be negatively affected by the decline in natural gas drilling in western Canada. 2008

Q2 EBITDAS was \$4,632 (\$0.14 per diluted Trust Unit) which represents a \$205 or 4% decrease from \$4,837 (\$0.15 per diluted Trust Unit) in 2007. On a 2007 Q2 year-to-date basis, the Trust's net income was \$10,106 (\$0.31 per diluted Trust Unit) which compares to \$7,372 (\$0.23 per diluted Trust Unit) in 2007.

### RESULTS OF OPERATIONS - THREE MONTHS ENDED JUNE 30, 2008

| Revenues      | Three months ended June 30, 2008    |          |                    |           | Three months ended June 30, 2007    |          |                    |           |
|---------------|-------------------------------------|----------|--------------------|-----------|-------------------------------------|----------|--------------------|-----------|
|               | Directional drilling <sup>(1)</sup> | Wireline | Production testing | Total     | Directional drilling <sup>(1)</sup> | Wireline | Production testing | Total     |
| Canada        | \$ 9,832                            | \$ 2,803 | \$ 1,037           | \$ 13,672 | \$ 10,926                           | \$ 3,079 | \$ 1,340           | \$ 15,345 |
| United States | 14,515                              | 1,296    | -                  | 15,811    | 9,640                               | -        | -                  | 9,640     |
|               | \$ 24,347                           | \$ 4,099 | \$ 1,037           | \$ 29,483 | \$ 20,566                           | \$ 3,079 | \$ 1,340           | \$ 24,985 |

<sup>(1)</sup> (including rental of related equipment)

2008 Q2 revenues of \$29,483 were the result of increased growth in the directional drilling portion of the Trust's operations offset by the traditional seasonal fluctuations related to spring break-up. Directional drilling activity days increased 26.6% from 2,194 in 2007 Q2 to 2,777 in 2008 Q2. The average day rate received for providing directional drilling services decreased 6.2% on a quarter-over-quarter basis to \$8,591 (2007 - \$9,160). The decrease in the average day rate is mainly the result of industry-wide Canadian day rate decreases due to market pressures. While directional drilling activity days in Canada decreased 3.6%, the U.S. activity increased 55.8% due to additional equipment, increased activity levels within the existing client base supplemented by the expansion of the current client base. For 2008 Q2 U.S. activity days represented 62.4% of total activity compared to 50.7% of total activity during the same period in 2007. On a quarter-over-quarter basis revenues from the production testing division are down 22.6% due mainly to pricing pressures but also a result of a decrease in activity levels. As previously announced the Trust is in the process of expanding its production testing business to the U.S. Rocky Mountain region with the build out of 6 production testing units. In early 2008 Q2 one production testing unit was transferred to the U.S. operations and it started to generate revenues in late July 2008. The Trust's wireline division had a quarter-over-quarter increase in revenues of 33.1% with the increase being due to the start-up of a U.S. wireline division in 2007 Q3. In early 2008 the Trust established a second U.S. operations base for its wireline division in Dickinson, North Dakota with one wireline unit.

**Gross margin** The gross margin for 2008 Q2 was 40.8% which compares to 44.2% in 2007 Q2. The decrease is attributed to number of factors including: i) a decrease in the average day rate in providing directional drilling services; ii) increased directional field labour rates and iii) equipment repair charges due to the increase in the quarter-over-quarter activity levels in the U.S.

**General and administrative expenses** General and administrative expenses increased from \$6,082 in 2007 Q2 to \$7,591 in 2008 Q2 – an increase of \$1,509. The increase was primarily related to i) increased personnel; ii) office/shop rental costs; iii) increase in activity levels for the U.S. directional drilling division; and iv) costs associated with pursuing international business opportunities. As a percentage of revenues, general and administrative expenses were 25.7% in 2008 Q2 and 24.3% in 2007 Q2.

**Depreciation and amortization** Depreciation for 2008 Q2 was \$3,019 which compares to \$2,943 in 2007 Q2. Despite a significant amount of capital expenditures on the Trust's depreciable asset base over the past 12 months depreciation on a quarter-over-quarter did not increase significantly due to the change in accounting method for foreign currency translation of the Trust's U.S. operations (refer to note 2 to the consolidated financial statements for the period ended June 30, 2008). As a percentage of revenues, depreciation amounted to 10.2% for 2008 and 11.8% for 2007.

**Interest expense** Interest expense related to long-term debt and capital leases decreased from \$260 in 2007 Q2 to \$243 in 2008 Q2 due to the combined net effect of: i) an increase in the average level of debt outstanding; and ii) a decrease in the effective interest rate on the related debt. Other interest expense, which increased marginally on a quarter-over-quarter basis from \$66 in 2007 Q2 to \$76 in 2008 Q2, relates mainly to interest charges on use by the Trust of its bank indebtedness/line of credit facility.

**Foreign exchange gain/loss** The Trust's foreign exchange gain/loss has changed from a \$237 loss in 2007 Q2 to a \$32 loss in 2008 Q2. Effective January 1, 2008, the Trust changed the classification of its U.S. operations to self-sustaining (as opposed to integrated) resulting in the financial statements being translated using the current rate method as opposed to the temporal method (refer to changes in accounting policies section).

**Unit-based compensation expense** For 2008 Q2 the Trust had unit-based compensation expense of \$573 which compares to \$522 for 2007 Q2. The value of the options is being amortized against income over the three-year vesting period.

**Gain on disposal of property and equipment** During 2008 Q2 the Trust had a gain on disposal of property and equipment of \$314, which compares to a gain of \$187 in 2007 Q2. The Trust's gains are mainly due to recoveries of lost-in-hole equipment costs including previously expensed depreciation on the related assets. The timing of lost-in-hole recoveries is not in the control of the Trust and therefore can fluctuate significantly from quarter-to-quarter.

**Taxes** In 2007 Q2, tax legislation included in Bill C-52, the Budget Implementation Act, 2007 (the "Bill"), was substantively enacted and resulted in the taxation of exiting income and royalty trusts at effective rates similar to Canadian corporations. The substantive enactment of the Bill resulted in the recognition of future income tax amounts based on estimated net taxable temporary differences leading the initial recognition of a non-cash future income tax expense and net future income tax liability of \$3,318. For 2008 Q2, the Trust had a tax expense of \$608 which compares to \$209 (after removing the adjustment noted above).

## RESULTS OF OPERATIONS – SIX MONTHS ENDED JUNE 30, 2008

| Revenues      | Six months ended June 30, 2008      |           |                    |           | Six months ended June 30, 2007      |           |                    |           |
|---------------|-------------------------------------|-----------|--------------------|-----------|-------------------------------------|-----------|--------------------|-----------|
|               | Directional drilling <sup>(1)</sup> | Wireline  | Production testing | Total     | Directional drilling <sup>(1)</sup> | Wireline  | Production testing | Total     |
| Canada        | \$ 32,343                           | \$ 9,020  | \$ 5,187           | \$ 46,550 | \$ 31,383                           | \$ 10,145 | \$ 5,806           | \$ 47,334 |
| United States | 26,527                              | 2,659     | -                  | 29,186    | 20,363                              | -         | -                  | 20,363    |
|               | \$ 58,870                           | \$ 11,679 | \$ 5,187           | \$ 75,736 | \$ 51,746                           | \$ 10,145 | \$ 5,806           | \$ 67,697 |

<sup>(1)</sup> (including rental of related equipment)

2008 Q2 year-to-date revenues were \$75,736 which represented an increase of \$8,039 or 11.9% over 2007 Q2 year-to-date revenues of \$67,697. Ongoing activity reductions in the Canadian markets for production testing and wireline services were offset by continued growth and expansion in the U.S. operations.

The directional drilling division revenues have increased from \$51,746 in 2007 to \$58,870 in 2008. This increase is the net result of: i) an increase in activity days from 5,517 in 2007 to 6,782 in 2008; and ii) a decrease in the average day rate from \$9,134 in 2007 to \$8,489 in 2008. On a year-to-date basis Canadian activity days increased from 3,194 to 3,544 as did the U.S. activity days which increased 2,323 to 3,237. The U.S. Q2 year-to-date revenues increased 43.3% on a year-over-year basis.

The continued slowdown in natural gas drilling expenditures in the western Canada market resulted in lower revenues for both of the Trust's production testing and wireline divisions. The Trust's production testing division contributed \$5,187 in revenues during 2008 Q2 year-to-date which is a 10.7% decline from 2007 revenues of \$5,806. The wireline division generated revenues of \$11,679 for 2008 Q2 year-to-date which compares to \$10,145 for 2007 which represents a 15.1% increase; this increase was the result of the expansion of wireline operations to the U.S. commencing in 2007 Q3.

**Gross margin** The gross margin (revenues less operating expenses) for 2008 was 45.8%, which compares to 48.0% in 2007. The decrease is attributed to number of factors including: i) a decrease in the average day rate in providing directional drilling services; ii) increased directional field labour rates and iii) equipment repair charges due to the increase in the year over year activity levels in the U.S.

**General and administrative expenses** General and administrative expenses increased from \$13,014 in 2007 to \$15,022 in 2008 – an increase of \$2,008. The increase was primarily related to i) increased personnel; ii) office/shop rental costs; iii) increase in activity levels for the U.S. directional drilling division; and iv) costs associated with pursuing international business opportunities. Offsetting these increases was a \$214 decline in bad debt expense provision. As a percentage of revenues, general and administrative expenses were 19.8% in 2008 and 19.2% in 2007.

**Depreciation and amortization** Depreciation and amortization for 2008 was \$5,870 compared to \$5,699 in 2007. The \$171 increase is related to the Trust's investment in property and equipment over the past 12 months. Despite a significant amount of capital expenditures on the Trust's depreciable asset base over the past 12 months depreciation on a quarter-over-quarter did not increase significantly due to the change in accounting method for foreign currency translation of the Trust's U.S. operations (refer to note 2 to the consolidated financial statements for the period ended June 30, 2008). As a percentage of revenues, depreciation and amortization amounted to 7.8% for 2008 and 8.4 % for 2007.

**Interest expense** Interest on long-term debt has decreased from \$523 in 2007 to \$519 in 2008 due to the combined net effect of: i) an increase in the average level of debt outstanding; and ii) a decrease in the effective interest rate on the related debt. Other interest expense, which decreased on a year-over-year basis from \$162 in 2007 Q2 to \$175 in 2008 Q2, relates mainly to interest charges on use by the Trust of its bank indebtedness/line of credit facility.

**Foreign exchange** The Trust's foreign exchange loss has decreased from \$284 in 2007 to a gain of \$1 in 2008. Effective January 1, 2008, the Trust changed the classification of its U.S. operations to self-sustaining (as opposed to integrated) resulting in the financial statements being translated using the current rate method as opposed to the temporal method (refer to changes in accounting policies section).

**Unit-based compensation expense** Unit-based compensation expense for 2008 was \$1,152 which compares to \$882 in 2007. The Trust Unit options granted are valued using the Black-Scholes option pricing model and such value is being amortized against income over their three-year vesting period.

**Gain on disposal of property and equipment** During 2008 Q2 YTD the Trust had a gain on disposal of property and equipment of \$540 which compares to \$184 in 2007. 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 and year-to-year basis.

**Taxes** For 2008, the Trust had a tax expense of \$2,380 (effective tax rate of 19.1%) which compares to \$4,773 (effective tax rate of 39.3%) in 2007. The 2007 tax provision includes a cumulative non-cash adjustment of \$3,318 related to the substantive enactment of the previously announced changes to the taxation of income and royalty trusts, other than real estate investment trusts. Removing the 2007 adjustment noted above the effective tax rate for 2007 was 12.0%. The adjusted effective tax rate has increased mainly due to the continuing growth in the U.S. operations which are taxed at a higher rate as well as some expenses not being deductible for tax purposes.

### OTHER COMPREHENSIVE INCOME

Other comprehensive income ("OCI") for the three month period ended June 30, 2008 amounted to a loss of \$157 but for the six month period June 30, 2008 a gain of \$434. The year-to-date gain, entirely comprised of an unrealized foreign currency translation gain (loss), reflects the weakening/strengthening of the Canadian dollar compared to the U.S. dollar.

## LIQUIDITY AND CAPITAL RESOURCES

The Trust's principal source of liquidity is cash generated from operations. The Trust also has the ability to fund liquidity requirements through its credit facility and the issuance of debt and/or equity. At June 30, 2008, the Trust had an operating line of credit with a major Canadian bank in the amount of \$12,500 (December 31, 2007 - \$12,500) of which \$5,030 (December 31, 2007 - \$6,030) was drawn. In addition, the Trust has a non-reducing revolving term loan facility in the amount of \$25,000 (December 31, 2007 - \$25,000) of which \$17,000 (December 31, 2007 - \$17,000) was drawn as at June 30, 2008. In addition, at June 30, 2008 the Trust had obligations under capital leases in the amount of \$348 (December 31, 2007 - \$451) and other long-term debt of \$280 (December 31, 2007 - \$283).

**Operating activities** Cash flow from operating activities for the three and six months ended June 30, 2008 was \$17,596 (2007 - \$14,297) and \$24,478 (2007 - \$24,073) respectively. The Trust has a strong working capital position at June 30, 2008 at \$13,071 which compares to \$16,947 at December 31, 2007.

**Investing activities** Cash used in investing activities for the three and six months ended June 30, 2008 amounted to \$7,754 and \$11,264, respectively which compares to \$5,320 and \$8,346 for the same period in 2007. During 2008 Q2 the Trust invested an additional \$7,475 (2007 - \$4,483) in property and equipment for a total Q2 year-to-date investment of \$11,435 (2007 - \$10,288). The significant additions included expansion of the overall mud motor and drill collar fleet, MWD components which will be used in the 2008 build out of 20 EM-MWD systems, final progress payments on the construction of a mud motor facility in Nisku, Alberta and progress payments on the construction of new production testing units. At June 30, 2008, the Trust's operating entities had 78 MWD systems, 19 production testing units and 27 wireline units. The Trust's 2008 capital budget is set at \$33,300 and includes maintenance capital in the amount of \$1,244. The Trust expects its 2008 capital budget to be financed by way of a combination of cash flow from operations and bank debt.

**Financing activities** Cash used in financing activities for the three and six months ended June 30, 2008 amounted to \$8,165 and \$10,370, respectively, which compares to \$9,670 and \$16,500 for the same periods in 2007. Distributions paid to Unitholders for 2008 Q2 amounted to \$6,741 (2007 - \$6,585) bringing year-to-date distributions for the six months ended June 30, 2008 to \$13,391 (2007 - \$14,642). The increase in distributions paid are related to a combination of: i) an increase in the number of Trust Units outstanding; offset by ii) the payment of a "special" \$0.05 per Trust Unit cash distribution declared in December 2006 (\$1,549) and payable January 15, 2007 - there was no such "special" cash distribution paid in 2008. The Trust's "regular" monthly distribution has been at \$0.07 per Trust Unit since September 2006. Cash distributions paid have been financed from cash flow from operations and management currently expects future cash distributions will also be financed from cash flow from operations. For the six months ended June 30, 2008 financing cash inflows resulted from: i) \$4,128 (2007 - \$2,392) cash received on the exercise of Trust Unit options, and ii) an \$47 increase in new long-term debt (2007 - \$173). Offsetting these inflows were cash outflows of: i) a \$1,000 reduction in bank indebtedness (2007 - \$4,230); and ii) a \$154 (2007 - \$193) repayment of long-term debt and capital lease obligations. At August 6, 2008, the Trust had 32,376,021 Trust Units and 2,543,365 Trust Unit options outstanding.

**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, 2007. As at June 30, 2008 the Trust's commitment to purchase property and equipment is approximately \$21,529. The commitments are expected to be financed from a combination of cash flow from operations and bank debt.

## CONTROLS AND PROCEDURES

Management is responsible for establishing and maintaining adequate disclosure controls and internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external reporting purposes in accordance with GAAP. Internal control over financial reporting may not prevent or detect fraud or misstatements because of limitations inherent in any system of internal control. There were no significant changes in the design or effectiveness of the Trust's disclosure controls or internal controls over financial reporting in the second quarter of 2008.

## CHANGE IN FOREIGN CURRENCY TRANSLATION

Prior to January 1, 2008, the Trust's U.S. operations were classified as integrated operations and were translated using the temporal method with all translation gains (losses) included in the determination of net income for the current period. Effective January 1, 2008, the Trust changed the classification of its U.S. operations to self-sustaining resulting in the financial statements being translated using the current rate method as opposed to the temporal method. Under the current rate method of translation, revenues and expenses of the subsidiary are translated at the rates in effect at the time of the transactions while assets and liabilities are translated at the current exchange rate in effect at the balance sheet date. Upon consolidation of the U.S. operations, gains and losses due to fluctuations in the foreign currency exchange rates are deferred on the balance sheet as a separate component of Other Comprehensive Income ("OCI"). Accumulated other comprehensive income (loss) forms part of Unitholders' equity. This change in foreign currency translation has been applied prospectively and resulted in a foreign exchange loss of \$1,894 being deferred and recorded as OCI as at January 1, 2008.

## NEW ACCOUNTING POLICIES

Effective January 1, 2008, The Trust adopted the Canadian Institute of Chartered Accountants ("CICA") section 3031, "Inventories", section 1535, "Capital Disclosures", and section 3861, "Financial Instruments - Disclosure and Presentation". These standards have been adopted prospectively. For the three months ended March 31, 2008, the adoption of these standards did not have an effect on the Trust's results, financial position or cash flows but additional disclosures have been provided in the notes to the interim financial statements.

In February 2008, The Canadian Accounting Standards Board confirmed that the use of International Financial Reporting Standards ("IFRS") will be required in Canada for publicly accountable profit oriented enterprises for fiscal years beginning on or after January 1, 2011. The Trust will be required to report using IFRS beginning January 1, 2011. The Trust has begun the process of evaluating the impact of the change to IFRS.

## BUSINESS RISKS

The MD&A for the year ended December 31, 2007, which is included in the Trust's 2007 Annual Report, includes an overview on business risks associated with the Trust and its operating entities. Those business risks remain in effect as at June 30, 2008 as well as the following additional risks:

### Risks of foreign operations

The Trust is currently pursuing providing oilfield services in Venezuela. Working outside of Canada gives rise to the risk of dealing with business and political systems that are different than the Trust is accustomed to in Canada. The Trust expects to hire employees and consultants who have experience working in the international arena and it is committed to recruiting qualified resident nationals on the staff of its international operations. In addition, the Trust is committed to continuing expansion of its North American market to mitigate this risk. These potential risks include: expropriation or nationalization; civil insurrection; labour unrest; strikes and other political risks; fluctuation in foreign currency and exchange control; increases in duties and taxes; and changes in laws and policies governing operations of foreign based companies. Those business risks remain in effect as at June 30, 2008.

### Foreign currency risk

In addition to foreign currency risk associated with U.S. dollar, the Trust is now exposed to foreign currency fluctuations in relation to Venezuelan Bolivar. The Trust's foreign currency policy is to monitor foreign current risk exposure in its areas of operations and mitigate that risk where possible by matching foreign currency denominated expense with revenues denominated in foreign currencies. The Trust strives to maintain limited amounts of cash and cash equivalents denominated in foreign currency on hand and attempts to further limit its exposure to foreign currency through collecting and paying foreign currency denominated balance in a timely fashion.

## DISTRIBUTIONS

The Administrator of the Trust reviews the level and nature of distributions (cash, in-kind or a combination of cash and in-kind) on an on-going basis giving consideration to current performance, historical and future trends in the business, the expected sustainability of those trends and enacted tax legislation which will affect future taxes payable as well as required long-term debt repayments, maintenance capital expenditures required to sustain performance and future growth capital expenditures. Despite the seasonality of the Trust's business, it is the Trust's policy to pay consistent distributions throughout the year. The Trust's operations in western Canada are subject to seasonality as activity levels in the oilfield services industry are generally lower during "spring breakup" which normally commences in late March and continues through to May (mainly in the Q2 of the fiscal year). The net result of the Trust's policy to pay consistent distributions throughout the year despite the seasonality of its operations is that in Q2 cash distributions declared may exceed net income, cash flow from operating activities and/or distributable cash for the quarter.

Distributable cash is a supplemental non-GAAP financial measurement that management considers a key measure in demonstrating the Trust's ability to generate the cash necessary to pay distributions, fund future capital investments and the repayment of long-term debt and capital lease obligations. Distributable cash as presented is not intended to represent operating profit for the period nor should it be viewed as an alternative to operating profit, net income or other measures of financial performance calculated in accordance with Canadian GAAP. Distributable cash does not have any standardized meaning within Canadian GAAP and therefore may not be comparable to similar measures presented by other trusts (refer to Non-GAAP Financial Measurements).

The following is a comparison of cash distributions declared and certain defined amounts:

|  | 2008 Q2    | 2008 Q2 YTD | 2007       | Fiscal year 2006 |
|--|------------|-------------|------------|------------------|
| Cash flow from operating activities  | \$ 17,596  | \$ 24,478   | \$ 39,729  | \$ 39,929        |
| Net income for the period  | \$ 189     | \$ 10,106   | \$ 24,863  | \$ 35,348        |
| Distributable cash   | \$ 2,038   | \$ 15,152   | \$ 38,993  | \$ 45,972        |
| Cash distributions declared  | \$ 6,770   | \$ 13,439   | \$ 26,405  | \$ 24,681        |
| Excess of cash flow from operating activities over cash distributions declared | \$ 10,826  | \$ 11,039   | \$ 13,324  | \$ 15,248        |
| Excess (short-fall) of net income over cash distributions declared             | \$ (6,581) | \$ (3,333)  | \$ (1,542) | \$ 10,667        |
| Excess (short-fall) of distributable cash over cash distributions declared     | \$ (4,732) | \$ 1,713    | \$ 12,588  | \$ 21,921        |

Net income includes significant non-cash charges, which for the three months ended June 30, 2008 were \$2,746, for the six months ended June 30, 2008 were \$6,354 and for the years ended December 31, 2007 and 2006 were \$16,607 and \$13,429, respectively, that do not impact cash flow. Included in these non-cash charges is a provision for depreciation that is not a reasonable proxy for the cost of maintaining existing levels of service (i.e. maintenance capital expenditures). In addition, operating results for the three and six months ended June 30, 2008 (mainly 2008 Q2) are negatively affected by "spring breakup" (see comments above). Therefore, in certain periods cash distributions declared may exceed net income.

On a year-to-date basis, cash distributions declared are less than distributable cash; due to the seasonality of the Trust's operations wide variances and shortfalls may occur in specific quarters, as in 2008 Q2. In light of this seasonality, the Trustees review distributable cash over a cumulative annualized period rather than a specific quarter. On an annualized basis it is not management's intent to distribute 100% of distributable cash.

Distributable cash for the three and six months ended June 30, 2008 and 2007 is calculated as follows:

|   | Three months ended<br>June 30 |                 | Six months ended<br>June 30 |                  |
|---|-------------------------------|-----------------|-----------------------------|------------------|
|   | 2008                          | 2007            | 2008                        | 2007             |
| Cash flow from operating activities   | \$ 17,596                     | \$ 14,297       | \$ 24,478                   | \$ 24,073        |
| Add: - changes in non-cash operating working capital <sup>(1)</sup>                   | (14,975)                      | (11,071)        | (8,558)                     | (7,683)          |
| Less: - required principal repayments on long-term debt and capital lease obligations | (79)                          | (83)            | (154)                       | (176)            |
| - maintenance capital expenditures  | (504)                         | (11)            | (614)                       | (11)             |
| <b>Distributable Cash</b>   | <b>\$ 2,038</b>               | <b>\$ 3,132</b> | <b>\$ 15,152</b>            | <b>\$ 16,203</b> |
| Cash distributions declared   | \$ 6,770                      | \$ 6,600        | \$ 13,439                   | \$ 13,130        |
| Payout ratio  | 332%                          | 211%            | 89%                         | 81%              |

(1) Changes in non-cash operating working capital have been added back (deducted) as such changes are financed using the Trust's bank indebtedness/line of credit facility. In addition, if changes in non-cash operating working capital were not excluded from the calculation of distributable cash it would introduce cash flow variability and affect underlying cash flow from operating activities.

#### EBITDAS:

EBITDAS is calculated as follows:

|   | Three months ended<br>June 30 |                   | Six months ended<br>June 30 |                 |
|---|-------------------------------|-------------------|-----------------------------|-----------------|
|   | 2008                          | 2007              | 2008                        | 2007            |
| EBITDAS as reported                                       | \$ 4,632                      | \$ 4,837          | \$ 20,027                   | \$ 19,249       |
| Deduct: - depreciation and amortization                   | 3,019                         | 2,943             | 5,870                       | 5,699           |
| - interest – long-term debt and capital lease obligations | 243                           | 260               | 519                         | 523             |
| - unit-based compensation expense                         | 573                           | 522               | 1,152                       | 882             |
| - provision for taxes                                     | 608                           | 3,527             | 2,380                       | 4,773           |
| <b>Net income for the period</b>                          | <b>\$ 189</b>                 | <b>\$ (2,415)</b> | <b>\$ 10,106</b>            | <b>\$ 7,372</b> |

#### RELATED PARTY TRANSACTIONS

A Trustee of the Trust and Director of Cathedral Energy Services Ltd., is a partner in a law firm and, through that law firm, is involved in providing and managing the legal services provided to the Trust at market rates. The total amount paid for these legal services for the three and six months ended June 30, 2008 was \$19 and \$21 (2007 - \$30 and \$31), respectively.

#### SUMMARY OF QUARTERLY RESULTS

| Three month period ended                   | Jun<br>2008 | Mar<br>2008 | Dec<br>2007 | Sep<br>2007 | Jun<br>2007 | Mar<br>2007 | Dec<br>2006 | Sep<br>2006 |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Revenues                                   | \$29,483    | \$46,253    | \$39,054    | \$38,355    | \$24,985    | \$42,712    | \$35,327    | \$38,041    |
| EBITDAS                                    | 4,632       | 15,395      | 13,707      | 13,775      | 4,837       | 14,412      | 13,046      | 16,010      |
| Net income (loss)                          | 189         | 9,917       | 10,365      | 7,126       | (2,415)     | 9,787       | 8,127       | 11,396      |
| Net income (loss) per Trust Unit – basic   | 0.01        | 0.31        | 0.33        | 0.23        | (0.08)      | 0.32        | 0.26        | 0.37        |
| Net Income (loss) per Trust Unit – diluted | 0.01        | 0.31        | 0.33        | 0.22        | (0.08)      | 0.31        | 0.26        | 0.36        |
| Cash distributions declared per Trust Unit | 0.21        | 0.21        | 0.21        | 0.21        | 0.21        | 0.21        | 0.26        | 0.20        |

## **OUTLOOK**

Industry analysts continue to forecast strong oil and natural gas prices for the balance of 2008 and into 2009. Overall the Trust's management considers the long-term fundamentals for the supply and demand for energy to be positive for the oilfield services sector. As a result of current strength in commodity prices many producers have announced increases in their capital expenditure budgets and it is expected that others will follow suit. This in turn is expected to increase demand for oilfield services, including those provided by Cathedral's operating divisions.

Within the directional drilling division, the Trust expects to add 20 EM-MWD systems in 2008 along with the related mud motors and drill collars to complement the increased directional drilling job capacity and it is expected that 10 EM-MWD systems and related equipment will be deployed in the U.S. market. Use of Cathedral's Remote Drilling System ("RDS"), which allows for secure transmission of drilling data from the rig site to Cathedral's Calgary operations centre and therefore permits the full experience of measurement-while-drilling ("MWD") supervisors and directional coordinators to manage directional drilling activities in real time from a central location, continues to expand in the Canadian market. The Trust continues to pursue offering our RDS capabilities in the U.S. market.

The production testing division will be adding 11 production testing units during 2008 with 6 targeted for the U.S. market and 5 for expansion of the Canadian fleet. Deliveries of these units are expected over the period from early August 2008 to late October 2008. In July 2008 Cathedral's U.S. based production testing operations commenced to revenue generating activity and this division is expected to continually build up its revenue base as new equipment is added as part of the 2008 capital expenditure program.

Based upon customer demand, a fourth electric line wireline unit was relocated during 2008 Q2 to Cathedral's U.S. wireline operations based in Dickinson, North Dakota. A fifth electric line unit is expected to be relocated during 2008 Q3 to the Dickinson operations base.

The Trust continues 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. Cathedral is pursuing directional drilling business opportunities in South America. A bid has been submitted, the bid evaluation process continues and we will in due course be advised as to the outcome of the bidding process.

Since the end of 2008 Q2 and the removal of road bans and drier operating conditions, all of Cathedral's operating divisions have seen a significant increase in demand and activity levels.

## CONSOLIDATED BALANCE SHEETS

Dollars in 000's  
(unaudited)

June 30  
2008

December 31  
2007

### ASSETS

#### Current assets:

|                               |          |          |
|-------------------------------|----------|----------|
| Cash and cash equivalents     | \$ 4,150 | \$ 1,306 |
| Accounts receivable           | 31,270   | 37,359   |
| Inventory                     | 4,501    | 3,584    |
| Prepaid expenses and deposits | 1,301    | 781      |

41,222 43,030

#### Property and equipment

71,382 67,639

#### Intangibles

515 588

#### Goodwill

19,775 19,775

\$ 132,894 \$ 131,032

### LIABILITIES AND UNITHOLDERS' EQUITY

#### Current liabilities:

|  |          |          |
|--|----------|----------|
| Bank Indebtedness                            | \$ 5,030 | \$ 6,030 |
| Accounts payable and accrued liabilities     | 19,603   | 17,203   |
| Distribution payable to Unitholders          | 2,265    | 2,216    |
| Taxes payable                                | 990      | 341      |
| Current portion of capital lease obligations | 155      | 194      |
| Current portion of long-term debt            | 108      | 99       |

28,151 26,083

#### Capital lease obligations

193 257

#### Long-term debt

17,172 17,184

#### Future income taxes

7,666 8,258

#### Unitholders' equity (note 6):

|                                      |         |        |
|--------------------------------------|---------|--------|
| Unitholders' capital                 | 53,352  | 48,193 |
| Contributed surplus                  | 2,301   | 2,205  |
| Retained earnings                    | 25,519  | 28,852 |
| Accumulated other comprehensive loss | (1,460) | -      |

79,712 79,250

\$ 132,894 \$ 131,032

## CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

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

|   | Three months ended |                 | Six months ended |                 |
|---|--------------------|-----------------|------------------|-----------------|
|   | 2008               | June 30<br>2007 | 2008             | June 30<br>2007 |
| Revenues  | \$ 29,483          | \$ 24,985       | \$ 75,736        | \$ 67,697       |
| Expenses :  |                    |                 |                  |                 |
| Operating   | 17,466             | 13,950          | 41,053           | 35,172          |
| General and administrative                              | 7,591              | 6,082           | 15,022           | 13,014          |
| Depreciation and amortization                           | 3,019              | 2,943           | 5,870            | 5,699           |
| Interest – long-term debt and capital lease obligations | 243                | 260             | 519              | 523             |
| Interest – other  | 76                 | 66              | 175              | 162             |
| Foreign exchange loss (gain)                            | 32                 | 237             | (1)              | 284             |
| Unit-based compensation expense                         | 573                | 522             | 1,152            | 882             |
|   | 29,000             | 24,060          | 63,790           | 55,736          |
|   | 483                | 925             | 11,946           | 11,961          |
| Gain on disposal of property and equipment              | 314                | 187             | 540              | 184             |
| Income before taxes                                     | 797                | 1,112           | 12,486           | 12,145          |
| Taxes:  |                    |                 |                  |                 |
| Current   | 1,467              | 1,062           | 3,009            | 2,050           |
| Future (reduction)                                      | (859)              | 2,465           | (629)            | 2,723           |
|   | 608                | 3,527           | 2,380            | 4,773           |
| Net income (loss) for the period                        | 189                | (2,415)         | 10,106           | 7,372           |
| Retained earnings, beginning of period                  | 32,100             | 33,651          | 28,852           | 30,394          |
| Less: Distributions declared                            | (6,770)            | (6,600)         | (13,439)         | (13,130)        |
| Retained earnings, end of period                        | \$ 25,519          | \$ 24,636       | \$ 25,519        | \$ 24,636       |
| Net income (loss) per Trust Unit:                       |                    |                 |                  |                 |
| Basic   | \$ 0.01            | \$ (0.08)       | \$ 0.32          | \$ 0.24         |
| Diluted   | \$ 0.01            | \$ (0.08)       | \$ 0.31          | \$ 0.23         |

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME AND ACCUMULATED OTHER COMPREHENSIVE LOSS

Dollars in 000's  
(unaudited)

|  | Three months ended |                 | Six months ended |                 |
|--|--------------------|-----------------|------------------|-----------------|
|  | 2008               | June 30<br>2007 | 2008             | June 30<br>2007 |
| Net income (loss) for the period   | \$ 189             | \$ (2,415)      | \$ 10,106        | \$ 7,372        |
| Other comprehensive income (loss):   |                    |                 |                  |                 |
| Unrealized foreign exchange gain (loss) on translation of self-sustaining foreign operations | (157)              | -               | 434              | -               |
| Comprehensive income (loss) for the period   | \$ 32              | \$ (2,415)      | \$ 10,540        | \$ 7,372        |
| Accumulated other comprehensive income, beginning of period                                  | \$ (1,303)         | \$ -            | \$ -             | \$ -            |
| Adjustment for change in foreign currency translation method (note 2)                        | -                  | -               | (1,894)          | -               |
| Other comprehensive income (loss)  | (157)              | -               | 434              | -               |
| Accumulated other comprehensive loss, end of period  | \$ (1,460)         | \$ -            | \$ (1,460)       | \$ -            |



## CONSOLIDATED STATEMENTS OF CASH FLOWS

Dollars in 000's  
(unaudited)

|  | Three months ended |                 | Six months ended |                 |
|--|--------------------|-----------------|------------------|-----------------|
|  | 2008               | June 30<br>2007 | 2008             | June 30<br>2007 |
| <b>Cash provided by (used in):</b>             |                    |                 |                  |                 |
| <b>Operating activities:</b>                   |                    |                 |                  |                 |
| Net income (loss) for the period               | \$ 189             | \$ (2,415)      | \$ 10,106        | \$ 7,372        |
| Items not involving cash:                      |                    |                 |                  |                 |
| Depreciation and amortization                  | 3,019              | 2,943           | 5,870            | 5,699           |
| Future taxes (reduction)                       | (859)              | 2,465           | (629)            | 2,723           |
| Unrealized foreign exchange gain (loss)        | 13                 | (102)           | (39)             | (102)           |
| Unit-based compensation expense                | 573                | 522             | 1,152            | 882             |
| Gain on disposal of property and equipment     | (314)              | (187)           | (540)            | (184)           |
|  | 2,621              | 3,226           | 15,920           | 16,390          |
| Changes in non-cash operating working capital  | 14,975             | 11,071          | 8,558            | 7,683           |
|  | 17,596             | 14,297          | 24,478           | 24,073          |
| <b>Investing activities:</b>                   |                    |                 |                  |                 |
| Property and equipment additions               | (7,475)            | (4,483)         | (11,435)         | (10,288)        |
| Proceeds on disposal of property and equipment | 341                | 490             | 802              | 514             |
| Expenditure on other assets                    | -                  | (110)           | -                | (110)           |
| Changes in non-cash investing working capital  | (620)              | (1,217)         | (631)            | 1,538           |
|  | (7,754)            | (5,320)         | (11,264)         | (8,346)         |
| <b>Financing activities:</b>                   |                    |                 |                  |                 |
| Distributions paid to Unitholders              | (6,741)            | (6,585)         | (13,391)         | (14,642)        |
| Advances under long-term debt                  | -                  | -               | 47               | 173             |
| Repayment of long-term debt                    | (25)               | (27)            | (51)             | (73)            |
| Repayment of capital lease obligations         | (54)               | (56)            | (103)            | (120)           |
| Proceeds on exercise of Trust Unit options     | 2,995              | 1,033           | 4,128            | 2,392           |
| Increase (decrease) in bank indebtedness       | (4,340)            | (4,035)         | (1,000)          | (4,230)         |
|  | (8,165)            | (9,670)         | (10,370)         | (16,500)        |
| Change in cash and cash equivalents            | (1,677)            | (693)           | (2,844)          | (773)           |
| Cash and cash equivalents, beginning of period | 2,473              | 1,474           | 1,306            | 1,554           |
| Cash and cash equivalents, end of period       | \$ 4,150           | \$ 781          | \$ 4,150         | \$ 781          |

## SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Three and six months ended June 30, 2008 and 2007

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

### 1. Significant accounting policies:

These unaudited interim consolidated financial statements for the period ended June 30, 2008 do not include all disclosures required in the annual financial statements and should be read in conjunction with the annual consolidated financial statements and notes thereto for the year ended December 31, 2007 included in the Trust's 2007 Annual Report and other public disclosure documents of the Trust. 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, 2007, except for the new accounting policies described in notes 2 and 3.

### 2. Change in foreign currency translation:

Prior to January 1, 2008, the Trust's U.S. operations were classified as integrated operations and were translated using the temporal method with all translation gains (losses) included in the determination of net income for the current period. Effective January 1, 2008, the Trust changed the classification of its U.S. operations to self-sustaining resulting in the financial statements being translated using the current rate method as opposed to the temporal method. Under the current rate method of translation, revenues and expenses of the subsidiary are translated at the rate in effect at the time of the transactions while assets and liabilities are translated at the current exchange rate in effect at the balance sheet date. Upon consolidation the U.S. operations gains and losses due to fluctuations in the foreign currency exchange rates are deferred on the balance sheet as a separate component of Accumulated Other Comprehensive Income ("AOCI"). Accumulated other comprehensive income (loss) forms part of Unitholders' equity. This change in translation method has been applied prospectively and resulted in a foreign exchange loss of \$1,894 being deferred and recorded as AOCI as at January 1, 2008.



### 3. New accounting policies:

Effective January 1, 2008, The Trust adopted the following sections of the Canadian Institute of Chartered Accountants ("CICA") Handbook and they have been adopted prospectively. For the six months ended June 30, 2008, the adoption of these sections affected disclosures only, they did not have an effect on the Trust's results, financial position or cash flows.

Section 3031 Inventories provides guidance on the determination of the cost of inventory and the subsequent recognition of inventory as an expense, as well as requiring additional associated disclosures. This new standard requires inventory to be measured at lower of cost and net realizable value. The Trust's inventory is comprised of parts used in repairing equipment and operating supplies. The Trust now values its inventory at the lower of cost and net realizable value with cost being determined on a first-in, first-out basis.

Section 1535 Capital Disclosures establishes standards for disclosing information that enables users of financial statements to evaluate and entity's objectives, policies and processes for managing capital, including disclosures of any externally imposed capital requirements and the consequences of non-compliance. The new disclosures are included in note 7.

Sections 3862 and 3863 Financial Instruments – Disclosures and Presentation replaced existing Section 3861, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosure about the nature and extent of risks arising from financial instruments and how the entity manages those risks. The new disclosures are included in note 8.

### 4. Future accounting policies:

In February 2008, the CICA issued Handbook Section 3064, Goodwill and Intangible Assets, replacing Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs. New Section 3064 addresses when an internally developed intangible asset meets the criteria for recognition as an asset. The CICA also issued amendments to Section 1000, Financial Statement Concepts. These changes are effective for fiscal years beginning on or after October 1, 2008, with earlier adoption permitted, and will be adopted by the Trust effective January 1, 2009. The Trust is currently evaluating the effects of adopting these changes.

In February 2008, The Canadian Accounting Standards Board confirmed that the use of International Financial Reporting Standards ("IFRS") will be required in Canada for publicly accountable profit oriented enterprises for fiscal years beginning on or after January 1, 2011. The Trust will be required to report using IFRS beginning January 1, 2011. The Trust has begun the process of evaluating the impact of the change to IFRS.

### 5. 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 and Williston Basin region of the U.S. are not subject to the seasonality to the extent that it occurs in the western Canada region.

### 6. Unitholders' equity:

#### (a) Issued Unitholders capital:

|  | Three months ended<br>June 30, 2008 |           | Six months ended<br>June 30, 2008 |           |
|--|-------------------------------------|-----------|-----------------------------------|-----------|
|  | Number of<br>Trust Units            | Amount    | Number of<br>Trust Units          | Amount    |
| Balance, beginning of period             | 31,929,590                          | \$ 49,578 | 31,662,917                        | \$ 48,193 |
| Issued on exercise of options            | 420,831                             | 2,995     | 687,504                           | 4,128     |
| Contributed surplus on options exercised |                                     | 779       |                                   | 1,031     |
| Balance, end of period                   | 32,350,421                          | \$ 53,352 | 32,350,421                        | \$ 53,352 |

#### (b) Contributed surplus:

|   | Three months ended<br>June 30, 2008 | Six months ended<br>June 30, 2008 |
|---|-------------------------------------|-----------------------------------|
| Balance, beginning of period                                      | \$ 2,507                            | \$ 2,205                          |
| Unit-based compensation expense related to Trust Unit option plan | 573                                 | 1,127                             |
| Less: contributed surplus on options exercised                    | (779)                               | (1,031)                           |
| Balance, end of period  | \$ 2,301                            | \$ 2,301                          |

6. Unitholders' equity (continued):

(c) Retained earnings:

Retained earnings are comprised of the following items:

|                                 | June 30<br>2008  | December 31<br>2007 |
|---------------------------------|------------------|---------------------|
| Accumulated income              | \$ 119,466       | \$ 109,360          |
| Less: accumulated distributions | (93,947)         | (80,508)            |
|                                 | <u>\$ 25,519</u> | <u>\$ 28,852</u>    |

(d) Trust Unit options:

|                                  | Three months ended<br>June 30, 2008 | Six months ended<br>June 30, 2008 |
|----------------------------------|-------------------------------------|-----------------------------------|
| Outstanding, beginning of period | 2,502,930                           | 2,812,937                         |
| Issued                           | 597,000                             | 597,000                           |
| Forfeited                        | (71,134)                            | (114,468)                         |
| Exercised                        | (420,831)                           | (687,504)                         |
| Outstanding, end of period       | <u>2,607,695</u>                    | <u>2,607,965</u>                  |

(e) Trust Unit options:

During the six months ended June 30, 2008, 597,000 Trust Unit options were granted. The following table sets out the assumptions used in applying the Black-Scholes model:

|                             | Date of Issue |              |
|-----------------------------|---------------|--------------|
|                             | May 7, 2008   | June 3, 2008 |
| Number of options issued    | 461,000       | 136,000      |
| Expected distribution yield | 5.84%         | 5.70%        |
| Risk-free interest rate     | 2.99%         | 3.24%        |
| Expected volatility         | 35%           | 35%          |
| Expected life (in years)    | 3.5           | 3.5          |
| Fair value per option       | \$ 2.63       | \$ 2.75      |
| Exercise price              | \$ 14.38      | \$ 14.74     |

7. Management of capital:

The Trust views its capital as the combination of long-term debt/capital lease obligations and unitholders' equity. The Trust's objectives when managing capital are to maintain a balance between the level of long-term debt/capital lease obligations and unitholders' equity that will allow access to capital markets and long-term debt to fund growth and working capital with due consideration to the cyclical nature of the oilfield services sector. Historically the Trust has maintained a conservative ratio of long-term debt/capital lease obligations to long-term debt/capital lease obligations plus unitholders' equity. As at June 30, 2008 and December 31, 2007 this ratio was as follows:

|   | June 30, 2008    | December 31, 2007 |
|---|------------------|-------------------|
| Long-term debt  | \$ 17,172        | \$ 17,184         |
| Capital lease obligations   | 193              | 257               |
| Unitholders' equity excluding AOCI  | 81,172           | 79,250            |
| Total capitalization  | <u>\$ 98,537</u> | <u>\$ 96,691</u>  |
| Long-term debt/capital lease obligations to long-term debt/capital lease obligations plus unitholders' equity ratio | 0.18             | 0.18              |

As a result of the 2007 enactment of Canadian tax legislation with respect to specified investment flow-through ("SIFT") trusts are subject to "normal growth" limitations designed to limit the ability of a trust to issue equity (including convertible debentures or other equity substitutes) that exceeds certain specified percentages of the market capitalization of a trust on October 31, 2006. The normal growth limitation is cumulative in nature to the extent not taken and for the year ended December 31, 2008 the Trust's normal growth limitation will be about \$173. The Trust will be a specified investment flow-through ("SIFT") trust, subject to the SIFT tax rules, on the earlier of January 1, 2011 or the first day after it exceeds the normal growth guidelines. In addition to the "normal growth" restrictions noted above, the Trust is also subject to a leverage test covenant on its credit facility. The management of the Trust monitors its credit facility covenants on an on-going basis and is in compliance with the debt covenants as at and for the period ended June 30, 2008.

## 7. Management of capital (continued):

To assist in the management of its capital the Trust prepares annual operating and capital expenditure budgets, which are updated as necessary depending on varying factors including general industry conditions. In order to maintain or adjust the capital structure the Trust may, with the approval of its Board of Trustees, alter the amount of distributions paid to unitholders, issue new units, issue new debt, and/or issue new debt to replace existing debt with different characteristics.

The Trust's overall strategy with respect to capital management remains unchanged from the year ended December 31, 2007.

## 8. Financial instruments:

The Trust has designated its financial instruments into the following categories applying the indicated measurement methods:

| Financial Instrument  | Category              | Measurement Method |
|---|-----------------------|--------------------|
| Cash and cash equivalents   | Held for trading      | Fair value         |
| Accounts receivable   | Loans and receivables | Amortized cost     |
| Bank indebtedness/Accounts payable and accrued liabilities/<br>Distributions payable/Capital Leases/Bank Debt | Other liabilities     | Amortized cost     |

The Trust will assess at each reporting period whether a financial asset, other than those classified as held for trading, is impaired. An impairment loss, if any, is included in net earnings. The Trust does not use derivative instruments or hedges. The carrying values of the Trust's current assets and current liabilities approximated their fair values as at June 30, 2008 due to the relatively short period to maturity of the instruments. The fair value of long-term debt at June 30, 2008 approximated its carrying value as it bears interest at floating rates. The fair value of capital lease obligations at June 30, 2008 approximated its carrying value.

The Trust is exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives for growth and Unitholder returns. The principal financial risks to which the Trust is exposed are described below.

### (a) Credit risk:

Substantially all of the Trust's accounts receivable are due from customers in the oil and gas industry and are subject to normal industry credit risks. The carrying value of accounts receivable reflects management's assessment of the associated credit risks. At June 30, 2008 the Trust's provision for doubtful accounts is \$441 and for the three months ended June 30, 2008 had a bad debt expense of \$24 and for the six month period ending June 30, 2008 had a net recovery of \$25.

### (b) Liquidity risk:

Liquidity risk is the risk that the Trust will encounter difficulty in meeting obligations associated with its financial liabilities. The Trust manages liquidity risk through regular monitoring of forecast and actual cash flows, and also the management of its capital structure and financial leverage as outlined in note 7. Given the Trust's available liquid resources as compared to the timing of the payment of liabilities, management assesses the Trust's liquidity risk to be low.

### (c) Foreign currency exchange risk:

The Trust has an exposure to fluctuations in the Canada/United States foreign currency exchange rate primarily due its operations in the United States. Management attempts to mitigate this exposure by matching local purchases in the same currency. In the second quarter of 2008 the Trust became exposed to fluctuations in Canadian Dollar versus Venezuelan Bolivars foreign currency exchange rate fluctuations related to funds on deposit in Venezuela. Currently, the Trust's net foreign currency exposure risk is not significant enough to warrant an active management program to mitigate the foreign currency exchange exposure.

### (d) Interest rate risk:

At June 30, 2008, the Trust was exposed to changes in interest rates on its bank indebtedness and most of its long-term debt. A 1% increase in the Trust's bank's prime lending rate would cause interest expense to increase by approximately \$220 per annum based upon the balance of bank indebtedness and long-term debt with a floating interest rate outstanding as at June 30, 2008.

## 9. Segmented information:

The Trust, through its directly and indirectly wholly-owned entities, Cathedral Energy Services Ltd. and Cathedral Energy Services Limited Partnership, is engaged in the business of providing oilfield services to oil and natural gas exploration entities in Western Canada and the Rocky Mountain and the Williston Basin region of the United States and is viewed as a single operating segment by the chief operating decision maker of Cathedral Energy Services Ltd. for the purpose of resource allocation and assessing performance. Oilfield services are provided in both Canada and the United States. The amounts related to each segment are as follows:

| Revenues      | Three months ended<br>June 30 |           | Six months ended<br>June 30 |           |
|---------------|-------------------------------|-----------|-----------------------------|-----------|
|               | 2008                          | 2007      | 2008                        | 2007      |
| Canada        | \$ 13,672                     | \$ 15,345 | \$ 46,550                   | \$ 47,334 |
| United States | 15,811                        | 9,640     | 29,186                      | 20,363    |
|               | \$ 29,483                     | \$ 24,985 | \$ 75,736                   | \$ 67,697 |

9. Segmented information (continued):

| Revenues by operating division                               | Three months ended<br>June 30 |           | Six months ended<br>June 30 |                             |
|--|-------------------------------|-----------|-----------------------------|-----------------------------|
|  | 2008                          | 2007      | 2008                        | 2007                        |
| Directional drilling (including rental of related equipment) | \$ 24,347                     | \$ 20,566 | \$ 58,870                   | \$ 51,746                   |
| Wireline   | 4,099                         | 3,079     | 11,679                      | 10,145                      |
| Production testing   | 1,037                         | 1,340     | 5,187                       | 5,806                       |
|  | \$ 29,483                     | \$ 24,985 | \$ 75,736                   | \$ 67,697                   |
| <b>Property and equipment, goodwill and intangibles</b>      |                               |           | <b>June 30<br/>2008</b>     | <b>December 31<br/>2007</b> |
| Canada   |                               |           | \$ 78,643                   | \$ 72,788                   |
| United States  |                               |           | 13,029                      | 15,214                      |
|  |                               |           | \$ 91,672                   | \$ 88,002                   |

During the three months and six months ended June 30, 2008, one customer accounted for 39% (2007 – 33%) and 28% (2007 – 26%) of consolidated revenues, respectively.

10. Related party transactions:

A Trustee of the Trust and Director of Cathedral Energy Services Ltd., is a partner in a law firm and, through that law firm, is involved in providing and managing the legal services provided to the Trust at market rates. The total amount paid for these legal services for the three and six months ended June 30, 2008 was \$19 and \$21 (2007 - \$30 and \$31), respectively.

11. Commitments:

In the normal course of business, the Trust incurs contractual obligations and those obligations are disclosed in the Trust's annual financial statements for the year ended December 31, 2007. As at June 30, 2008, the Trust's commitment to purchase property and equipment is approximately \$21,529.

*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") represents 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 and Williston Basin regions of the United States and currently provides drilling services and related equipment rentals, production testing services and wireline services. Cathedral markets its services under six brand names: **Directional Plus** and **The Directional Company** which provide 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; **Advance Wireline** which provides cased hole logging and perforating, complete slickline services and casing integrity inspection logging; and **Xtreme Wireline** which provides slickline services. 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](http://www.cathedralenergyservices.com).*