



2008 Q3 INTERIM REPORT

FINANCIAL HIGHLIGHTS

\$ in 000's except per Trust Unit amounts

	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
Revenues	\$ 52,686	\$ 38,355	\$ 128,422	\$ 106,052
EBITDAS ⁽¹⁾	\$ 16,914	\$ 13,775	\$ 36,941	\$ 33,024
Per Trust Unit – diluted	\$ 0.52	\$ 0.43	\$ 1.14	\$ 1.04
EBITDAS ⁽¹⁾ as a % of revenue	32%	36%	29%	31%
Income before taxes	\$ 13,022	\$ 10,073	\$ 25,508	\$ 22,218
Net income	\$ 10,296	\$ 7,126	\$ 20,402	\$ 14,498
Per Trust Unit – basic	\$ 0.32	\$ 0.23	\$ 0.64	\$ 0.46
Per Trust Unit – diluted	\$ 0.32	\$ 0.22	\$ 0.63	\$ 0.46
Cash distributions declared per Trust Unit	\$ 0.21	\$ 0.21	\$ 0.63	\$ 0.63
Distributable cash ⁽¹⁾	\$ 13,844	\$ 10,747	\$ 28,996	\$ 26,950
Cash distributions declared	\$ 6,813	\$ 6,626	\$ 20,252	\$ 19,756
Payout ratio ⁽¹⁾	49%	62%	70%	73%
Property and equipment additions	\$ 15,129	\$ 4,364	\$ 26,564	\$ 14,652
Weighted average Trust Units outstanding:				
Basic ('000)	32,384	31,515	32,091	31,318
Diluted ('000)	32,522	31,734	32,318	31,735

	September 30 2008	December 31 2007
Working capital	\$ 17,444	\$ 16,947
Long-term debt and capital lease obligations excluding current portion	\$ 27,308	\$ 17,441
Unitholders' equity	\$ 85,145	\$ 79,250

⁽¹⁾ 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 nine months ended September 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 and nine months ended September 30, 2008. This MD&A has been prepared as of November 5, 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.

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 and 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

As result of steady improvement in the Canadian operating environment combined with further expansion in the U.S., the Trust generated Q3 2008 revenues of \$52,686 and year-to-date revenues of \$128,422, representing the highest level of Q3 revenues in the Trust's history. 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 Q3 revenues were led by the Trust's directional drilling division which represented 77.6% (2007 Q3 - 75.8%) of 2008 Q3 total revenues. The Trust's U.S. drilling division grew significantly over the 2007 Q3 period, generating period revenues 79.8% higher than in 2007 and on a year-to-date basis increasing revenues by 46.5% over 2007. Both the Trust's production testing and wireline divisions improved period and year-to-date revenues as result the commencement and expansion of U.S.

operations. This increase was also supported by the increasing momentum within the natural gas drilling activity in Western Canada. 2008 Q3 EBITDAS was \$16,914 (\$0.52 per diluted Trust Unit) which represents a \$3,139 or 22.8% increase from \$13,775 (\$0.43 per diluted Trust Unit) in 2007, year-to-date 2008 EBITDAS reached new levels totaling \$36,941 compared to 33,024 in 2007. For the three and nine month period ended September 30, 2008 net income was \$10,296 (\$0.32 per diluted Trust Unit) and \$20,402 (\$0.63 per diluted trust unit) respectively, which compares to \$7,126 (\$0.22 per diluted Trust Unit) and \$14,498 (\$0.46 per diluted Trust Unit) respectively in 2007.

RESULTS OF OPERATIONS - THREE MONTHS ENDED SEPTEMBER 30, 2008

Revenues	Three months ended September 30, 2008				Three months ended September 30, 2007			
	Directional drilling ⁽¹⁾	Wireline	Production testing	Total	Directional drilling ⁽¹⁾	Wireline	Production testing	Total
Canada	\$ 22,992	\$ 5,069	\$ 3,814	\$ 31,875	\$ 19,112	\$ 6,009	\$ 2,875	\$ 27,996
United States	17,917	2,068	826	20,811	9,964	395	-	10,359
	\$ 40,909	\$ 7,137	\$ 4,640	\$ 52,686	\$ 29,076	\$ 6,404	\$ 2,875	\$ 38,355

⁽¹⁾ including rental of related equipment

The strengthening Canadian operating environment combined with the Trust's continued growth in the U.S. markets, resulted in record revenues of \$52,686 for the quarter. Directional drilling activity days increased 34.1% from 3,287 in 2007 Q3 to 4,409 in 2008 Q3. The average day rate received for providing directional drilling services increased 5.0% on a quarter-over-quarter basis to \$9,098 (2007 – \$8,667). The increase in the directional drilling average day rate is the net result of Canadian day rate decreases due to continued market pressures offset by significantly increased days and corresponding day rates in the U.S. market, where U.S. industry activity levels hit a multi-year high in late August. While directional drilling activity days in Canada increased 20.5%, the U.S. activity increased 57.5% due to additional equipment, increased activity levels within the existing client base and was further supplemented by the expansion of the U.S. client base. For 2008 Q3 U.S. activity days represented 43.4% of total activity compared to 36.9% of total activity during the same period in 2007. On a quarter-over-quarter basis revenues from the production testing division increased 61.4% due to the addition of 6 new testing units and as natural gas drilling regained momentum over the summer months. As previously announced the Trust expanded its production testing business to the U.S. Rocky Mountain region, establishing a base office in Grand Junction, Colorado, while operating primarily in Wyoming. In early 2008 Q2 one production testing unit was transferred to the U.S. operations and it commenced generating revenues in late July 2008. Six additional testing units came on line in late September 2008. The Trust's wireline division had a quarter-over-quarter increase in revenues of 11.4% with the increase being due to the continued expansion of the U.S. wireline division in 2008 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. During 2008 Q3 a second wireline unit was transferred from the Canadian fleet to the Dickinson operations base.

Gross margin The gross margin for 2008 Q3 was 46.5% which compares to 51.5% in 2007 Q3. The decrease is primarily attributed increased directional field labour rates and increased equipment rental charges in the U.S. due to the increase in the quarter-over-quarter activity levels.

General and administrative expenses General and administrative expenses increased from \$6,533 in 2007 Q3 to \$7,943 in 2008 Q3 – an increase of \$1,410. The increase was the net result of i) increased personnel; ii) office/shop rental costs; iii) increase in activity levels for the U.S. directional drilling division; iv) increased costs associated with the establishment of additional U.S. operating bases and v) decreased professional fees, during Q3 2007 approximately \$300 in professional fees related to an aborted corporate acquisition was incurred. As a percentage of revenues, general and administrative expenses were 15.1% in 2008 Q3 and 17.0% in 2007 Q3.

Depreciation and amortization Depreciation and amortization for 2008 Q3 was \$3,411 which compares to \$3,110 in 2007 Q3. 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 September 30, 2008). As a percentage of revenues, depreciation amounted to 6.5% for 2008 and 8.1% for 2007.

Interest expense Interest expense related to long-term debt and capital leases decreased from \$269 in 2007 Q3 to \$266 in 2008 Q3 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 marginally on a quarter-over-quarter basis from \$120 in 2007 Q3 to \$115 in 2008 Q3, 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 \$302 loss in 2007 Q3 to a \$21 loss in 2008 Q3. 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 Q3 the Trust had unit-based compensation expense of \$215 which compares to \$323 for 2007 Q3. 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 Q3 the Trust had a gain on disposal of property and equipment of \$519, which compares to a gain of \$973 in 2007 Q3. 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 For 2008 Q3, the Trust had a tax expense of \$2,726 (effective tax rate of 20.9%) which compares to \$2,947 (effective tax rate of 29.3%) for 2007 Q3. The decline in the effective tax rate is due to a higher portion of the Trust's pre-tax income being allocated to unitholders combined with a reduction in Canadian statutory tax rates.

RESULTS OF OPERATIONS – NINE MONTHS ENDED SEPTEMBER 30, 2008

Revenues	Nine months ended September 30, 2008				Nine months ended September 30, 2007			
	Directional drilling ⁽¹⁾	Wireline	Production testing	Total	Directional drilling ⁽¹⁾	Wireline	Production testing	Total
Canada	\$ 55,335	\$ 14,089	\$ 9,001	\$ 78,425	\$ 50,495	\$ 16,154	\$ 8,681	\$ 75,330
United States	44,444	4,727	826	49,997	30,327	395	-	30,722
	\$ 99,779	\$ 18,816	\$ 9,827	\$ 128,422	\$ 80,822	\$ 16,549	\$ 8,681	\$ 106,052

⁽¹⁾ including rental of related equipment

2008 Q3 year-to-date revenues were \$128,422 which represented an increase of \$22,370 or 21.1% over 2007 Q3 year-to-date revenues of \$106,052. A modest year-to-date improvement in Canadian activity levels was supported by significant growth and expansion in the U.S. operations.

The directional drilling division revenues (including rentals and inspection revenues) have increased from \$80,822 in 2007 to \$99,779 in 2008. This increase is the net result of: i) an increase in activity days from 8,804 in 2007 to 11,191 in 2008; and ii) a decrease in the average day rate from \$8,959 in 2007 to \$8,729 in 2008. On a year-to-date basis Canadian activity days increased from 5,267 to 6,042 while the U.S. activity days increased from 3,537 to 5,149 a 45.6% improvement. The U.S. Q3 year-to-date directional revenues increased 46.5% on a year-over-year basis.

Expansion to the U.S. combined with the modest increase in natural gas drilling expenditures in the western Canada market resulted in increased revenues for the Trust's production testing division while the wireline division's Canadian revenues were reduced due to the transfer of units to the U.S. The Trust's production testing division contributed \$9,827 in revenues during 2008 Q3 year-to-date which is a 13.2% increase over 2007 revenues of \$8,681. The wireline division generated revenues of \$18,816 for 2008 Q3 year-to-date which compares to \$16,549 for 2007 which represents a 13.7% 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 for 2008 was 46.1%, which compares to 49.3% 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 rental and 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 \$19,547 in 2007 to \$22,965 in 2008 – an increase of \$3,418. The increase was the net result of i) increased personnel; ii) increases in office/shop rental costs; iii) increase in activity levels for the U.S. directional drilling division; iv) increased costs associated with the establishment of additional U.S. operating bases and v) decreased professional fees, during Q3 2007 approximately \$300 in professional fees related to an aborted corporate acquisition was incurred. As a percentage of revenues, general and administrative expenses were 17.9% in 2008 and 18.4% in 2007.

Depreciation and amortization Depreciation and amortization for 2008 was \$9,281 compared to \$8,809 in 2007. The \$472 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 7.2% for 2008 and 8.3 % for 2007.

Interest expense Interest on long-term debt and capital lease obligations has decreased from \$792 in 2007 to \$785 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 increased on a year-over-year basis from \$282 in 2007 Q3 to \$290 in 2008 Q3, relates mainly to interest charges incurred on use by the Trust of its bank indebtedness/line of credit facility.

Foreign exchange gain/loss The Trust's foreign exchange loss has decreased from \$586 in 2007 to a loss of \$20 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 \$1,367 which compares to \$1,205 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 Q3 YTD the Trust had a gain on disposal of property and equipment of \$1,059 which compares to \$1,157 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 \$5,106 (effective tax rate of 20.0%) which compares to \$7,720 (effective tax rate of 34.8%) 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 18.7%. 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 and nine month period ended September 30, 2008 amounted to \$959 and \$1,393, respectively. The year-to-date gain is entirely comprised of an unrealized foreign currency translation gain, and reflects the changing value of the Canadian dollar compared to the U.S. dollar and the impact on the translation of the U.S. subsidiary.

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 September 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 \$7,123 (December 31, 2007 - \$6,030) was drawn. During the quarter, the Trust increased the authorized amount on its bank revolving term loan to \$30,000 from the previously approved \$25,000; drawings on this facility as at September 30, 2008 totaled \$27,000 (2007 - \$17,000). In addition, at September 30, 2008 the Trust had obligations under capital leases in the amount of \$301 (December 31, 2007 - \$451) and other long-term debt of \$248 (December 31, 2007 - \$283).

On October 31, 2008 the Trust renegotiated its credit facility. The revised credit facility provides for a \$20,000 (previously \$12,500) operating loan facility plus a revolving-term loan facility with an authorized amount of \$45,000 (previously \$30,000). The operating loan bears interest at the bank's prime plus 0.25% per annum and the revolving term facility bears interest at the bank's prime plus 0.75% per annum. The credit facility matures June 30, 2009. Prior to maturity the borrower may convert the revolving term loan to a non-revolving term loan repayable monthly over 36 months with interest only for the first 12 months. The credit facility is secured by a general security agreement over all present and future personal property with a first charge over certain real estate assets and is subject to certain covenants regarding the payment of dividends, cash distributions and the maintenance of certain financial ratios.

Operating activities Cash flow used in operating activities for the three months ended September 30, 2008 totaled \$427 compared to \$3,156 cash flow provided by operating activities during the same period in 2007. Cash flow from operating activities for the nine months ended September 30, 2008 was \$24,051 (2007- \$27,228). The Trust has a strong working capital position at September 30, 2008 at \$17,444 which compares to \$16,947 at December 31, 2007.

Investing activities Cash used in investing activities for the three and nine months ended September 30, 2008 amounted to \$5,161 and \$16,425, respectively, which compares to \$6,908 and \$15,254 for the same period in 2007. During 2008 Q3 the Trust invested an additional \$15,129 (2007 - \$4,364) in property and equipment for a total Q3 year-to-date investment of \$26,564 (2007 - \$14,652). 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, of which 8 were operational to September 30, 2008, 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 September 30, 2008, the Trust's operating entities had 86 MWD systems, 25 production testing units and 28 wireline units. The Trust's 2008 capital budget has been increased by \$6,600 to \$39,900; this increase is related to the purchase of land and building in Calgary. In due course, we will be consolidating our Calgary operating facilities. The 2008 capital budget includes maintenance capital in the amount of \$746. 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 For the three months ended September 30, 2008 financing activities provided \$5,994 of cash flow which compares to \$3,616 for the three months ended September 30, 2007. Cash used in financing activities for the nine months ended September 30, 2008 amounted to \$4,376 (2007 - \$12,883) in 2007. Distributions paid to Unitholders for 2008 Q3 amounted to \$6,797 (2007 - \$6,616) bringing year-to-date distributions paid for the nine months ended September 30, 2008 to \$20,188 (2007 - \$21,258). The increase in distributions paid on a quarter-over-quarter basis is the result of an increase in the number of Trust Units outstanding while the year-to-date decrease is the net effect of the increases number of shares outstanding offset by 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 nine months ended September 30, 2008 financing cash inflows resulted from: i) \$4,904 (2007 - \$2,916) cash received on the exercise of Trust Unit options, ii) an \$10,047 increase in new long-term debt (2007 - \$2,173) and iii) a \$1,093 increase in bank indebtedness (2007 - \$3,545). Offsetting these inflows were cash outflows of \$232 (2007 - \$259) for the repayment of long-term debt and capital lease obligations. At November 5, 2008, the Trust had 32,582,022 Trust Units and 3,134,764 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 September 30, 2008 the Trust's commitment to purchase property and equipment and operating supplies is approximately \$23,405. 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 third 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 nine months ended September 30, 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.

During the three months ended September 30, 2008 the Trust issued Phantom Options and therefore adopted a new accounting policy with respect to these options. Awards under the Phantom Option plan are granted in the form of stock appreciation rights ("SARs"). Such awards are payable in cash, and compensation expense is recognized as the SARs change in market value based on the fair market value of the Trust's units at the end of each reporting period.

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 September 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 September 30, 2008. At September 30, 2008, the Trust has a net investment in its Venezuela subsidiary of \$1,700.

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 Q3	2008 Q3 YTD	Fiscal year 2007	Fiscal year 2006
Cash flow from operating activities	\$ (427)	\$ 24,051	\$ 39,729	\$ 39,929
Net income for the period	\$ 10,296	\$ 20,402	\$ 24,863	\$ 35,348
Distributable cash	\$ 13,844	\$ 28,996	\$ 38,993	\$ 45,972
Cash distributions declared	\$ 6,813	\$ 20,252	\$ 26,405	\$ 24,681
Excess (shortfall) of cash flow from operating activities over cash distributions declared	\$ (7,240)	\$ 3,799	\$ 13,324	\$ 15,248
Excess (short-fall) of net income over cash distributions declared	\$ 3,483	\$ 150	\$ (1,542)	\$ 10,667
Excess of distributable cash over cash distributions declared	\$ 7,031	\$ 8,744	\$ 12,588	\$ 21,291

Net income includes significant non-cash charges, which for the three months ended September 30, 2008 were \$4,203, for the nine months ended September 30, 2008 were \$10,557 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). Therefore, in certain periods cash distributions declared may exceed net income. 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 nine months ended September 30, 2008 and 2007 is calculated as follows:

	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
Cash flow from operating activities	\$ (427)	\$ 3,156	\$ 24,051	\$ 27,228
Add: - changes in non-cash operating working capital ⁽¹⁾	14,407	7,858	5,849	175
Less: - required principal repayments on long-term debt and capital lease obligations	(78)	(67)	(232)	(242)
- maintenance capital expenditures	(58)	(200)	(672)	(211)
Distributable cash	\$ 13,844	\$ 10,747	\$ 28,996	\$ 26,950
Cash distributions declared	\$ 6,813	\$ 6,626	\$ 20,252	\$ 19,756
Payout ratio	49%	62%	70%	73%

(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 September 30		Nine months ended September 30	
	2008	2007	2008	2007
EBITDAS as reported	\$ 16,914	\$ 13,775	\$ 36,941	\$ 33,024
Deduct: - depreciation and amortization	3,411	3,110	9,281	8,809
- interest – long-term debt and capital lease obligations	266	269	785	792
- unit-based compensation expense	215	323	1,367	1,205
- provision for taxes	2,726	2,947	5,106	7,720
Net income for the period	\$ 10,296	\$ 7,126	\$ 20,402	\$ 14,498

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 nine months ended September 30, 2008 was \$21 (2007 - \$31), respectively.

SUMMARY OF QUARTERLY RESULTS

Three month period ended	Sep 2008	Jun 2008	Mar 2008	Dec 2007	Sep 2007	Jun 2007	Mar 2007	Dec 2006
Revenues	\$52,686	\$29,483	\$46,253	\$39,054	\$38,355	\$24,985	\$42,712	\$35,327
EBITDAS	16,914	4,632	15,395	13,707	13,775	4,837	14,412	13,046
Net income (loss)	10,296	189	9,917	10,365	7,126	(2,415)	9,787	8,127
Net income (loss) per Trust Unit – basic	0.32	0.01	0.31	0.33	0.23	(0.08)	0.32	0.26
Net Income (loss) per Trust Unit – diluted	0.32	0.01	0.31	0.33	0.22	(0.08)	0.31	0.26
Cash distributions declared per Trust Unit	0.21	0.21	0.21	0.21	0.21	0.21	0.21	0.26

OUTLOOK

In the near term there will be a degree of uncertainty and volatility in the overall market place due to the current global capital and debt issues as well as the overall state of the world's economies. The price of oil has recently dropped significantly and the effect on producers has been somewhat buffered by the strengthening of the U.S. dollar. As a result, in the near term the Trust's activity levels may be affected negatively. That said, the Trust's management considers the long-term fundamentals for the supply and demand for energy to be positive for the oilfield services sector.

The Trust continues its 2008 build out of 20 EM-MWD systems of which 8 were completed by the end of 2008 Q3; the remaining 12 will be operational by the end of 2008. To date in 2008, we have added 9 EM-MWD systems to the U.S. operations and due to demand we expect to add 4 more to the U.S. market before the end of 2008. At the end of 2008 we expect to have 37 EM-MWD systems operating in the U.S. We continue to see significant advances in the capabilities of our EM-MWD, in particular in the area of signal detection which allows us to drill deeper and into areas where EM has not been successful before.

In October 2008 another electric line wireline unit was transferred to the U.S. fleet. The Trust now has 3 wireline units based in Dickinson, North Dakota and 2 wireline units based in Casper, Wyoming. We will continue to monitor customer demand as to the need for additional wireline units in the U.S.

A seventh production testing unit was delivered to the U.S. operations in October 2008 and due to customer demand 4 additional production testing units have been ordered for the U.S. market and delivery is scheduled for late 2009 Q1. In the Canadian market, we had originally expected to receive 5 production testing units by the end of October 2008 and now deliveries are expected in November and December 2008.

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.

CONSOLIDATED BALANCE SHEETS

Dollars in 000's
(unaudited)

September 30
2008

December 31
2007

ASSETS

Current assets:

Cash and cash equivalents	\$ 4,556	\$ 1,306
Accounts receivable	47,331	37,359
Taxes recoverable	1,260	-
Inventory	6,700	3,584
Prepaid expenses and deposits	1,400	781

61,247 43,030

Property and equipment 83,109 67,639

Intangibles 478 588

Goodwill 19,775 19,775

\$ 164,609 \$ 131,032

LIABILITIES AND UNITHOLDERS' EQUITY

Current liabilities:

Bank indebtedness	\$ 7,123	\$ 6,030
Accounts payable and accrued liabilities	34,158	17,203
Distribution payable to Unitholders	2,281	2,216
Taxes payable	-	341
Current portion of capital lease obligations	141	194
Current portion of long-term debt (note 6)	100	99

43,803 26,083

Capital lease obligations 160 257

Long-term debt (note 6) 27,148 17,184

Future income taxes 8,353 8,258

Unitholders' equity (note 7):

Unitholders' capital	54,311	48,193
Contributed surplus	2,333	2,205
Retained earnings	29,002	28,852
Accumulated other comprehensive loss	(501)	-

85,145 79,250

Commitment (note 12)

Subsequent event (note 13)

\$ 164,609 \$ 131,032

CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

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

	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
Revenues	\$ 52,686	\$ 38,355	\$ 128,422	\$ 106,052
Expenses :				
Operating	28,212	18,598	69,265	53,770
General and administrative	7,943	6,533	22,965	19,547
Depreciation and amortization	3,411	3,110	9,281	8,809
Interest – long-term debt and capital lease obligations	266	269	785	792
Interest – other	115	120	290	282
Foreign exchange loss	21	302	20	586
Unit-based compensation expense	215	323	1,367	1,205
	40,183	29,255	103,973	84,991
	12,503	9,100	24,449	21,061
Gain on disposal of property and equipment	519	973	1,059	1,157
Income before taxes	13,022	10,073	25,508	22,218
Taxes:				
Current	2,122	1,426	5,131	3,476
Future (reduction)	604	1,521	(25)	4,244
	2,726	2,947	5,106	7,720
Net income for the period	10,296	7,126	20,402	14,498
Retained earnings, beginning of period	25,519	24,636	28,852	30,394
Less: distributions declared	(6,813)	(6,626)	(20,252)	(19,756)
Retained earnings, end of period	\$ 29,002	\$ 25,136	\$ 29,002	\$ 25,136
Net income per Trust Unit:				
Basic	\$ 0.32	\$ 0.23	\$ 0.64	\$ 0.46
Diluted	\$ 0.32	\$ 0.22	\$ 0.63	\$ 0.46

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME AND ACCUMULATED OTHER COMPREHENSIVE LOSS

Dollars in 000's
(unaudited)

	Three months ended September 30		Nine months ended September 30	
	2008	2007	2008	2007
Net income for the period	\$ 10,296	\$ -	\$ 20,402	\$ -
Other comprehensive income:				
Unrealized foreign exchange gain on translation of self-sustaining foreign operations	959	-	1,393	-
Comprehensive income for the period	\$ 11,255	\$ -	\$ 21,795	\$ -
Accumulated other comprehensive income (loss), beginning of period	\$ (1,460)	\$ -	\$ -	\$ -
Adjustment for change in foreign currency translation method (note 2)	-	-	(1,894)	-
Other comprehensive income	959	-	1,393	-
Accumulated other comprehensive loss, end of period	\$ (501)	\$ -	\$ (501)	\$ -

CONSOLIDATED STATEMENTS OF CASH FLOWS

Dollars in 000's
(unaudited)

	Three months ended		Nine months ended	
	September 30		September 30	
	2008	2007	2008	2007
Cash provided by (used in):				
Operating activities:				
Net income for the period	\$10,296	\$ 7,126	\$ 20,402	\$14,498
Items not involving cash:				
Depreciation and amortization	3,411	3,110	9,281	8,809
Future taxes (reduction)	604	1,521	(25)	4,244
Unrealized foreign exchange gain (loss)	(27)	(93)	(66)	(196)
Unit-based compensation expense	215	323	1,367	1,205
Gain on disposal of property and equipment	(519)	(973)	(1,059)	(1,157)
	13,980	11,014	29,900	27,403
Changes in non-cash operating working capital	(14,407)	(7,858)	(5,849)	(175)
	(427)	3,156	24,051	27,228
Investing activities:				
Property and equipment additions	(15,129)	(4,364)	(26,564)	(14,652)
Proceeds on disposal of property and equipment	1,047	1,586	1,849	2,100
Change in other assets	-	110	-	-
Changes in non-cash investing working capital	8,921	(4,240)	8,290	(2,702)
	(5,161)	(6,908)	(16,425)	(15,254)
Financing activities:				
Distributions paid to Unitholders	(6,797)	(6,616)	(20,188)	(21,258)
Advances under long-term debt	10,000	2,000	10,047	2,173
Repayment of long-term debt	(31)	(20)	(82)	(93)
Repayment of capital lease obligations	(47)	(47)	(150)	(166)
Proceeds on exercise of Trust Unit options	776	524	4,904	2,916
Increase in bank indebtedness	2,093	7,775	1,093	3,545
	5,994	3,616	(4,376)	(12,883)
Change in cash and cash equivalents	406	(136)	3,250	(909)
Cash and cash equivalents, beginning of period	4,150	781	1,306	1,554
Cash and cash equivalents, end of period	\$ 4,556	\$ 645	\$ 4,556	\$ 645

SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Three and nine months ended September 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 September 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 nine months ended September 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.

During the three months ended September 30, 2008 the Trust issued Phantom Options and therefore adopted a new accounting policy with respect to these options. Awards under the Phantom Option plan are granted in the form of stock appreciation rights ("SARs"). Such awards are payable in cash, and compensation expense is recognized as the SARs change in market value based on the fair market value of the Trust's units at the end of each reporting period.

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. Long term debt:

During the quarter, the Trust increased the authorized amount on its bank revolving term loan to \$30,000 (previously approved \$25,000). Drawings on this facility as at September 30, 2008 are \$27,000 (2007 – \$17,000). On October 31, 2008, the Trust renegotiated its credit facility; refer to note 13.

7. Unitholders' equity:

(a) Issued Unitholders capital:

	Three months ended September 30, 2008		Nine months ended September 30, 2008	
	Number of Trust Units	Amount	Number of Trust Units	Amount
Balance, beginning of period	32,350,421	\$ 53,352	31,662,917	\$ 48,193
Issued on exercise of options	231,601	776	919,105	4,904
Contributed surplus on options exercised		183		1,214
Balance, end of period	32,582,022	\$ 54,311	32,582,022	\$ 54,311

(b) Contributed surplus:

	Three months ended September 30, 2008	Nine months ended September 30, 2008
Balance, beginning of period	\$ 2,301	\$ 2,205
Unit-based compensation expense related to Trust Unit option plan	215	1,342
Less: contributed surplus on options exercised	(183)	(1,214)
Balance, end of period	\$ 2,333	\$ 2,333

7. **Unitholders' equity (continued):**

(c) **Retained earnings:**

Retained earnings are comprised of the following items:

	September 30 2008	December 31 2007
Accumulated income	\$ 129,762	\$ 109,360
Less: accumulated distributions	(100,760)	(80,508)
	<u>\$ 29,002</u>	<u>\$ 28,852</u>

(d) **Trust Unit options:**

	Three months ended September 30, 2008	Nine months ended September 30, 2008
Outstanding, beginning of period	2,607,965	2,812,937
Issued	844,000	1,441,000
Forfeited	(85,600)	(200,068)
Exercised	(231,601)	(919,105)
Outstanding, end of period	<u>3,134,764</u>	<u>3,134,764</u>

During the nine months ended September 30, 2008, 1,441,000 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	September 24, 2008
Number of options issued	461,000	136,000	844,000
Expected distribution yield	5.84%	5.70%	8.71%
Risk-free interest rate	2.99%	3.24%	3.34%
Expected volatility	35%	35%	35%
Expected life (in years)	3.5	3.5	3.5
Fair value per option	\$ 2.63	\$ 2.75	\$ 1.41
Exercise price	\$ 14.38	\$ 14.74	\$ 9.65

(e) **Phantom Option plan:**

The Trust has a Phantom Option plan that provides for the granting of stock appreciation rights ("SARs") to key employees. The SAR provides the holder with the opportunity to earn a cash award equal to the fair market value of the Trust's units less the price at which the SAR was issued. Compensation expense is measured based on the market price of the Trust units at the end of the reporting period. The SARs outstanding under the plan have been granted at a price of \$10.00 per Phantom Option, vest over a three year period and expire six years after the grant date. The compensation expense is recognized over the applicable period. At September 30, 2008 there were 120,000 Phantom Options outstanding. During the three months ended September 30, 2008, 120,000 Phantom Options were issued and nil compensation expense related to the Phantom Options was recorded.

8. **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 September 30, 2008 and December 31, 2007 this ratio was as follows:

	September 30, 2008	December 31, 2007
Long-term debt ⁽¹⁾	\$ 27,148	\$ 17,184
Capital lease obligations ⁽¹⁾	160	257
Unitholders' equity excluding AOCI	85,646	79,250
Total capitalization	<u>\$ 112,954</u>	<u>\$ 96,691</u>
Long-term debt/capital lease obligations to long-term debt/capital lease obligations plus unitholders' equity ratio	0.24	0.18

⁽¹⁾ (excluding current portion)

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 \$173,000. The Trust will be a specified investment flow-through ("SIFT") trust, subject to the SIFT tax rules, on the earlier of January 1, 2011.

8. Management of capital (continued):

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 September 30, 2008.

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.

9. 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/ 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 September 30, 2008 due to the relatively short period to maturity of the instruments. The fair value of long-term debt at September 30, 2008 approximated its carrying value as it bears interest at floating rates. The fair value of capital lease obligations at September 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 September 30, 2008 the Trust's provision for doubtful accounts is \$444 and for the three months ended September 30, 2008 had a bad debt expense of \$1 and for the nine month period ending September 30, 2008 had a net recovery of \$24.

(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 8. The Trust has recently renewed its credit facility (see note 13).

(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 September 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 \$341 per annum based upon the balance of bank indebtedness and long-term debt with a floating interest rate outstanding as at September 30, 2008.

10. 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 September 30		Nine months ended September 30	
	2008	2007	2008	2007
Canada	\$ 31,875	\$ 27,996	\$ 78,425	\$ 75,330
United States	20,811	10,359	49,997	30,722
	\$ 52,686	\$ 38,355	\$ 128,422	\$ 106,052

10. Segmented information (continued):

Revenues by operating division	Three months ended		Nine months ended	
	September 30		September 30	
	2008	2007	2008	2007
Directional drilling (including rental of related equipment)	\$ 40,909	\$ 29,076	\$ 99,779	\$ 80,822
Wireline	7,137	6,404	18,816	16,549
Production testing	4,640	2,875	9,827	8,681
	\$ 52,686	\$ 38,355	\$128,422\$	\$106,052
			September 30	December 31
Property and equipment, goodwill and intangibles			2008	2007
Canada			\$ 90,086	\$ 72,788
United States			13,276	15,214
			\$103,362	\$ 88,002

During the three months and nine months ended September 30, 2008, one customer accounted for 25% (2007 – 17%) and 27% (2007 – 23%) of consolidated revenues, respectfully.

11. 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. During the three month period ending September 30, 2008 and September 30, 2007 minimal legal services were paid for. The total amount paid for these legal services for the nine months ended September 30, 2008 was \$21 (2007 - \$31), respectively.

12. 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 September 30, 2008, the Trust's commitment to purchase property and equipment and operating supplies is approximately \$23,405.

13. Subsequent events:

On October 31, 2008 the Trust renegotiated its credit facility with a major Canadian bank. The revised credit facility provides for a \$20,000 (previously \$12,500) operating loan facility plus a revolving-term loan facility with an authorized amount of \$45,000 (previously \$30,000). The operating loan bears interest at the bank's prime plus 0.25% per annum and the revolving term facility bears interest at the bank's prime plus 0.75% per annum. The credit facility matures June 30, 2009. Prior to maturity the borrower may convert it revolving term loan to a non-revolving term loan repayable monthly over 36 months with interest only for the first 12 months. The credit facility is secured by a general security agreement over all present and future personal property with a first charge over certain real estate assets and is subject to certain covenants regarding the payment of dividends, cash distributions and the maintenance of certain financial ratios.

*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.*