Cathedral

Energy Services Income Trust

2008 Annual Report

TRUST PROFILE

Cathedral Energy Services Income Trust (the "Trust") is a limited purpose trust which directly and indirectly owns the securities of Cathedral Energy Services Ltd., Cathedral Energy Services Inc. and Cathedral Energy Services Limited Partnership (collectively "Cathedral") representing the right to receive cash flow available for distribution from Cathedral. Cathedral is engaged in the business of providing selected oilfield services to oil and natural gas exploration and development entities in western Canada and the Rocky Mountain and Williston Basin regions of the United States and currently provides directional drilling services and related equipment rentals, production testing services and wireline services. Cathedral is in the process of initiating operations in Venezuela for providing directional drilling services through its wholly owned subsidiaries Directional Plus International Ltd. and Directional Plus de Venezuela, C.A. Cathedral markets its services under five brand names: ***Directional Plus*** *which provides horizontal and directional drilling services;* ***CAT Downhole Tools*** *which provides downhole equipment including drilling jars, shock subs and high performance drilling motors on a rental basis;* ***Tier One Oil Services*** *which provides oil and natural gas production testing services;* ***Advance Wireline*** *which provides cased hole logging and perforating, casing integrity inspection logging and complete slickline services; and* ***Xtreme Wireline*** *which provides slickline services. Cathedral strives to provide its clients with value added technologies and solutions to meet their drilling, production testing and wireline requirements. Its mandate is to supply* ***"Best in Class, Best in Service"*** *equipment and personnel to its clients. The Trust's units trade on the TSX under the symbol:* ***CET.UN***.

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Annual and Special Meeting:

Unitholders are invited to attend the Annual and Special Meeting which will be held at 3:00pm on May 13, 2009 in the Royal Meeting Room of the Metropolitan Centre, 333 – 4th Avenue S.W., Calgary, Alberta.

FINANCIAL HIGHLIGHTS

In '000's of dollars except Trust Unit amounts	2008	2007	2006	2005	2004
Revenues	**178,928**	145,106	138,254	86,002	46,478
Gross margin % (1)	**45%**	49%	53%	51%	52%
EBITDAS (1)	**50,873**	46,731	52,793	31,580	15,108
Per Trust Unit – diluted	**1.57**	1.47	1.68	1.10	0.64
Income before taxes	**34,594**	31,990	39,679	24,817	11,231
Net income	**30,139**	24,863	35,348	21,807	9,128
Basic per Trust Unit	**0.94**	0.79	1.16	0.76	0.39
Diluted per Trust Unit	**0.93**	0.78	1.12	0.76	0.38
Cash distributions declared per Trust Unit	**0.84**	0.84	0.805	0.385	0.245
Distributable cash (1)	**39,791**	38,993	45,972	27,551	12,924
Cash distributions (2)	**27,094**	26,405	24,681	11,162	5,768
Payout ratio (1)	**68%**	68%	54%(4)	41%	45%
Property and equipment additions and corporate acquisitions:					
Paid or payable	**47,618**	19,857	26,436	31,244	8,472
Paid or payable in Trust Units	**-**	-	1,820	13,712	-
	47,618	19,857	28,256	44,956	8,472
Weighted outstanding Trust Units					
Basic ('000)	**32,215**	31,402	30,578	28,711	23,233
Diluted ('000)	**32,463**	31,781	31,423	28,712	23,783
Working capital	**17,435**	16,947	15,051	10,571	10,839
Total assets	**183,872**	131,032	125,221	102,908	46,822
Long-term debt and capital lease obligations excluding current portion	**40,233**	17,441	15,552	12,797	-
Unitholders' equity	**91,859**	79,250	76,223	59,615	33,564

(1) Refer to MD&A; see "NON-GAAP MEASUREMENTS"
(2) Excludes foreign taxes paid that have been allocated to Unitholders

REPORT TO UNITHOLDERS

Technology will drive the market – that is the adage that Cathedral believes will direct our future revenues and earnings. The focus on tight gas resource plays in both Canada and the U.S., combined with enhanced completion techniques, has dramatically changed the way wells are drilled. Five years ago the number of horizontal and directional wells drilling in western Canada was 23% and for the year ended December 31, 2008 that figure was 44%. With this in mind, and the desire to be a leader in the space, we have dedicated more time and resources to advancing our directional technologies.

During 2008 our focus on technology has allowed the company to achieve several significant advancements that will enhance operations and drive costs down for both Cathedral and its customers. The highlight of our technology advancements was the upgrade to our Electro-Magnetic Measurement-While-Drilling system ("EM-MWD"). Late in the year we commercialized our third generation ("G3") EM-MWD system. The G3 system, with its enhanced depth capabilities, has allowed Cathedral to operate in environments where previously the downhole formations limited the success of EM data transmission. The G3 EM-MWD system is now being successfully deployed in both the Bakken (southeast Saskatchewan) and Montney (northeast B.C.) resources plays. This is a tremendous step forward as material savings can be realized for both Cathedral and the operator. The first wells tested in the southeast Saskatchewan Bakken resource play resulted in a reduction in drilling time by approximately 20% (as compared to operating with a mud pulse MWD system).

As well, Cathedral has also made enhancements to its mud pulse telemetry which will improve downhole performance and reliability. Cathedral commercialized its focal gamma add on for its MWD systems and saw significant cost savings for customers utilizing Cathedral's Remote Drilling System ("RDS"). The RDS allows the secure transmission of drilling data from the rig site to Cathedral's Calgary operations centre. This system allows us to reduce the number of field personnel required on a job, thereby reducing the costs to both Cathedral and its customers.

In 2008 Cathedral's revenues continued to grow as we recorded record revenues for the seventh consecutive year. The continued expansion of all of Cathedral's divisions in both Canada and the United States aided in this achievement. In 2008 we moved several additional wireline units into the U.S. market and today we have 6 electric line units split between North Dakota and Wyoming. As well Cathedral began offering production testing services in the U.S. with operations primarily in Wyoming and Colorado. Operations commenced in the third quarter of 2008 after delivery of the first unit, and by year-end 8 units were operating in the U.S. Another 5 production testing units are currently being fabricated and will be added to the U.S. fleet during 2009 Q1 and Q2. U.S. production testing services will be a significant growth area for the Trust in 2009.

As 2008 drew to a close the market continued to tighten. The world economic crisis began to take a toll on the demand for both oil and natural gas, which combined with high storage levels, reduced oil and natural gas commodity prices. The decline in commodity prices has significantly reduced customer cash flows. In addition, borrowing capabilities of oil and natural gas producers are being restricted due to the lack of credit being offered by the banking community. Consequently, drilling activity across North America has declined drastically in the recent months.

Cathedral has moved forward proactively in adjusting the Trust's operating cost structure to reflect current activity levels. In addition, both capital expenditures and distributions have been reduced to maintain the balance sheet in a healthy position. The Trust will continue to operate within its cash flows in order to preserve our financial flexibility.

Although a challenging environment is expected in the near term, the Trust's management considers the long-term fundamentals for the supply and demand for energy to be positive for the oilfield service sector. While we wait for level of activity to escalate the Trust will continue to focus on expanding and improving its technology base to provide a competitive advantage and position the Trust to take advantage of the next upswing in activity.

Sincerely,

Signed: *"Mark L. Bentsen"*
Mark L. Bentsen
President and Chief Executive Officer
Cathedral Energy Services Ltd.
March 5, 2009

GOVERNANCE

Pursuant to an administration agreement, the management and administration of Cathedral Energy Services Income Trust is delegated to Cathedral Energy Services Ltd. ("Company"), as Administrator of the Trust. The Board of Directors of the Company are also Trustees of the Trust. The committees of the Company's Board of Directors extend their respective mandates to governance of the Trust. The Trust strives to comply with National Instrument 58-101 ("NI 58-101") on Corporate Governance and currently is in compliance with NI 58-101.

Mandate of the Board The Board of Directors of the Administrator has approved a mandate which includes among other duties and responsibilities: the approval and monitoring of the strategic, business and financial plans of the Company and Cathedral Energy Services Limited Partnership (collectively, "Cathedral"); supervise performance and succession planning of senior officers; assessment of principal risk factors relating to the business of Cathedral; and to monitor and oversee the integrity of the financial reporting and disclosure. Every Director and Trustee is required to act honestly and in good faith and in the best interests of the Administrator and the Trust and to exercise the care, diligence and skill of a reasonably prudent person. Responsibilities not delegated to senior management or to a committee of the Board remain those of the full Board.

Composition of the Boards The Board of Directors of the Administrator is currently composed of seven members of which five are independent to the Administrator. All of the Board of Directors of the Administrator are also Trustees of the Trust. In addition, the Board of Directors has elected Mr. Rod Maxwell as lead director and Mr. Maxwell is an independent director. The independent board members meet during the year without the presence of non-independent directors and management.

Board Committees The Board of Directors has established three committees – Audit, Compensation and Governance.

Audit Committee The Board of Directors has approved a mandate for the Audit Committee which includes among other duties and responsibilities: monitoring the financial reporting process and systems of internal controls; monitoring the independence and performance of the external auditors; and reviewing interim and year end financial statements and other regulatory filings and furthermore recommending such financial statements and filings for approval of the Board of Directors. The Audit Committee is comprised of Messrs. Rod Maxwell, Scott Sarjeant and Dan O'Neil all of which are independent directors and are considered to be financially literate under Multilateral Instrument 52-110 - Audit Committees ("MI 52-110").

Compensation Committee The Board of Directors has approved a mandate for the Compensation Committee which includes among other duties and responsibilities: monitoring the performance and compensation of senior management; and reviewing and providing recommendations to the Board of Directors with respect to implementation and variation of option, compensation and incentive plans. The Compensation Committee is comprised of Messrs. Bob Chaisson, Rod Maxwell and Scott Sarjeant all of which are independent directors.

Governance Committee The Board of Directors have approved a mandate for the Governance Committee which includes among other duties and responsibilities: monitoring the effectiveness of the system of governance within the Trust; assessing the effectiveness of the Board of Directors as a whole, committees of the Board and the contributions of individual members; and identifying, recommending, orienting and educating new directors. The Governance Committee is comprised of Messrs. Scott Sarjeant and Jay Zammit both of which are independent directors.

Trustees/Directors

Rod Maxwell (1) (2) (4)
Managing Director
StoneBridge Merchant Capital Corp.
Calgary, Alberta

Jay Zammit (3)
Partner
Burstall Winger LLP
Calgary, Alberta

Scott Sarjeant (1) (2) (3)
President and Chief Executive Officer
Premiax Financial Corp.
Calgary, Alberta

Bob Chaisson (2)
Vice President
Gibraltar Exploration Ltd.
Calgary, Alberta

P. Daniel O'Neil (1)
President and Chief Executive Officer
Breaker Energy Ltd.
Calgary, Alberta

Mark L. Bentsen
President and Chief Executive Officer
Cathedral Energy Services Ltd.
Calgary, Alberta

Randal H. Pustanyk
Vice President, Operations
Cathedral Energy Services Ltd.
Chestermere, Alberta

(1) Member, Audit Committee
(2) Member, Compensation Committee
(3) Member, Governance Committee
(4) Lead Director

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") for the year ended December 31, 2008 provides an analysis of the consolidated results of operations, financial position and cash flows of Cathedral Energy Services Income Trust (the "Trust") and should be read in conjunction with the accompanying audited financial statements and notes thereto for the year ended December 31, 2008, as well as the Trust's 2008 interim MD&A's. This MD&A is intended to assist the reader in the understanding and assessment of significant changes and trends, as well as the risks and uncertainties, related to the results of the operations and financial position of the Trust. Dollars are in '000's except for day rates and per Trust Unit amounts. This MD&A is dated March 5, 2009.

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 specifically 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/Cathedral's business and operations including the Trust/Cathedral's market share and position in the oilfield service market; and other such matters.

The forward-looking statements contained in this MD&A reflect several material factors, expectations and assumptions including, without limitation: (i) oil and natural gas production levels; (ii) commodity prices and interest rates; (iii) capital expenditure programs and other expenditures by the Trust/Cathedral and its customers; (iv) supply and demand for oil and natural gas; (v) expectations regarding the Trust's/Cathedral's ability to raise capital, generate cash flow and to increase its equipment fleets through acquisitions and manufacture; (vi) schedules and timing of certain projects and the Trust's/Cathedral's strategy for growth; (vii) the Trust's/Cathedral's future operating and financial results; (viii) the Trust's/Cathedral's ability to retain and hire qualified personnel; and (ix) treatment under governmental regulatory regimes and tax, environmental and other laws.

Financial outlook information contained in this MD&A about prospective results of operations, financial position or cash flows is based on assumptions about future events, including economic conditions and proposed courses of action, based on management's assessment of the relevant information currently available. Readers are cautioned that such financial outlook information contained in this MD&A and certain documents incorporated by reference into this MD&A should not be used for purposes other than for which it is disclosed herein.

Such forward-looking statements are subject to important risks and uncertainties, which are difficult to predict and that may affect the Trust/Cathedral's operations, including, but not limited to: the impact of general economic conditions in Canada, the United States and Internationally; 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 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 labour unrest; fluctuation in foreign exchange or interest rates; foreign currency controls; 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/Cathedral 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 which has been filed with the applicable Canadian provincial securities commissions and is available on www.sedar.com.

NON-GAAP 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 (see tabular calculation under Results of Operations);

ii) "Gross margin %" - calculated as gross margin divided by revenues is considered a primary indicator of operating performance (see tabular calculation under Results of Operations);

iii) "EBITDAS" - defined as earnings before interest on long-term debt and capital lease obligations, taxes, depreciation, amortization and non-cash 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);

iv) "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);

v) "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;

vi) "Payout ratio" - calculated as cash distributions 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

vii) "Funds from operations" - calculated as cash flow from operating activities before changes in non-cash working capital is considered an indicator of the Trust's ability to generate funds flow from operations but excluding changes in non-cash working capital which is financed using the Trust's bank indebtedness/line of credit facility.

OVERVIEW

Cathedral Energy Services Income Trust is an unincorporated, open-ended mutual fund trust established under the laws of the Province of Alberta pursuant to a Declaration of Trust dated June 24, 2002. The Trust is publicly traded on the Toronto Stock Exchange under the symbol CET.UN. The Trust, through its wholly-owned subsidiaries, Cathedral Energy Services Ltd., Cathedral Energy Services Inc. and indirectly wholly-owned entity, Cathedral Energy Services Limited Partnership (collectively "Cathedral"), are engaged in the business of providing selected oilfield services to oil and natural gas exploration and development entities in western Canada and the Rocky Mountain and Williston Basin regions of the United States and currently provides directional drilling services and related equipment rentals, production testing services and wireline services. Cathedral is in the process of initiating operations in Venezuela for providing directional drilling services through its wholly owned subsidiaries Directional Plus International Ltd. and Directional Plus de Venezuela, C.A. Cathedral markets its services under five brand names: *Directional Plus* which provides horizontal and directional drilling services; *CAT Downhole Tools* which provides downhole equipment including drilling jars, shock subs and high performance drilling motors on a rental basis; *Tier One Oil Services* which provides oil and natural gas production testing services; *Advance Wireline* which provides cased hole logging and perforating, casing integrity inspection logging and complete slickline services; and *Xtreme Wireline* which provides slickline services. Cathedral strives to provide its clients with value added technologies and solutions to meet their drilling, production testing and wireline requirements. Its mandate is to supply *"Best in Class, Best in Service"* equipment and personnel to its clients.

SELECTED ANNUAL INFORMATION

	2008	Increase (decrease)	2007	Increase (decrease)	2006
Revenues	**$ 178,928**	$ 33,822	$ 145,106	$ 6,852	$ 138,254
% change		23%		5%	
Gross margin % (1)	**45%**	(4%)	49%	(4%)	53%
% change		(8%)		(8%)	
EBITDAS (1)	**50,873**	4,142	46,731	(6,062)	52,793
% change		9%		(12%)	
EBITDAS (1) as a % of revenue	**28%**	(4%)	32%	(6%)	38%
Income before taxes	**34,594**	2,604	31,990	(7,689)	39,679
% change		8%		(19%)	
Net income	**30,139**	5,276	24,863	(10,485)	35,348
% change		21%		(30%)	
Net income per Trust Unit -					
Basic	**0.94**	0.15	0.79	(0.37)	1.16
Diluted	**0.93**	0.15	0.78	(0.34)	1.12
% change - diluted		19%		(30%)	
Cash flow from operating activities before changes in non-cash operating working capital	**40,824**	1,131	39,693	(7,138)	46,831
% change		3%		(15%)	
Cash distributions declared per Trust Unit	**0.84**	-	0.84	0.035	0.805
Distributable cash (1)	**39,791**	798	38,993	(6,979)	45,972
Cash distributions (2)	**27,094**	689	26,405	1,724	24,681
Payout ratio (1)	**68%**	-	68%	14%	54%
Working capital	**17,435**	488	16,947	1,896	15,051
Total assets	**183,872**	52,840	131,032	5,811	125,221
Long-term debt and capital lease obligations (1)	**40,233**	22,792	17,441	1,889	15,552
Unitholders' equity	**91,859**	12,609	79,250	3,027	76,223

(1) See "NON-GAAP MEASUREMENTS"

(2) Excludes foreign taxes paid that have been allocated to Unitholders

MANAGEMENT'S DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS

2008 COMPARED TO 2007

Overview

Despite a significant decrease in oilfield services activity during the fourth quarter of 2008, the Trust was able to achieve record annual revenues in 2008. On a year-over-year basis, revenues increased $33,822 or 23.3% to $178,928 from $145,106 in 2007. Much of this increase was due to the directional drilling business in the U.S. EBITDAS for the year ended December 31, 2008 was $50,873 while the comparative figure for 2007 was $46,731, a combined increase of $4,142 or 8.9%. The disproportionate increase in EBITDAS (8.9%) versus the increase in revenues (23.3%) was due mainly to the increase in operating expenses which has also caused the decline in gross margin percentage. For the year ended December 31, 2008, net income was $30,139 ($0.93 per diluted Trust Unit) compared to $24,863 ($0.78 per diluted Trust Unit) for 2007. Considering the decline in market activity in the second half of 2008, management is pleased with the operating results for the year.

Revenues and operating expenses

	2008	2007	Change	%
Revenues	**$ 178,928**	$ 145,106	$ 33,822	23
Operating expenses	**(98,614)**	(73,482)	25,132	34
Gross margin - $	**$ 80,314**	$ 71,624	$ 8,690	12
Gross margin - %	**44.9%**	49.4%	(4.5%)	

	Year ended December 31, 2008				**Year ended December 31, 2007**			
Revenues	Directional drilling [(1)]	Wireline	Production testing	Total	Directional drilling [(1)]	Wireline	Production testing	Total
Canada	**$ 71,886**	**$ 18,356**	**$ 13,348**	**$ 103,590**	$ 69,854	$ 20,892	$ 12,051	$ 102,797
United States	**64,113**	**7,452**	**3,773**	**75,338**	41,519	790	-	42,309
	$ 135,999	**$ 25,808**	**$ 17,121**	**$ 178,928**	$ 111,373	$ 21,682	$ 12,051	$ 145,106

(1) Including rental of related equipment

For 2008 the Trust generated record annual revenues of $178,928 representing an increase of 23.3% over 2007 revenues. The increase was mainly a result of: i) a 1.9% increase in the average day rate for directional drilling services to $9,022 per day (2007 - $8,857) and ii) a 20.3% increase in directional drilling activity days to 14,766 activity days (2007 – 12,274 days).

Canadian directional drilling revenues increased 2.9% to $71,886 in 2008 from $69,854 in 2007. The Trust's 2008 drilling activity days increased to 7,843 days from 7,270 days in 2007, an increase of 7.9%. At the end of 2008 Q3, the drilling days for the Canadian division had increased by 14.7% but due to a slowdown in oil and gas activities in 2008 Q4 the annual increase for 2008 was reduced to 7.9%. The average Canadian day rate has decreased by 4.2%. The Canadian directional drilling division started the year with 55 Measurement-While-Drilling ("MWD") systems and ended the year with 59 MWD systems.

In the U.S., the Rocky Mountain region is the Trust's main area of operations and it experienced significant activity growth in 2008. U.S. directional drilling revenues increased by 54.4% to $64,113 from $41,519. The Trust's activity days in the U.S. increased from 5,004 days in 2007 to 6,923 days in 2008, an increase of 38.3%. The average U.S. day rate increased 11.9% in part due to the strengthening of the U.S. dollar in comparison to Canadian dollar. Due to increased demand in the U.S. market, the number of MWD systems was increased from 23 at the end of 2007 to 35 at the end of 2008.

Advance Wireline and Xtreme Wireline combined to generate revenues of $25,808 for 2008 compared to $21,682 for 2007, a 19.0% increase. The Canadian division began the year with 25 wireline units, had 1 unit return to service after major repairs and transferred an additional 3 units to the U.S. to end the year at 23 wireline units. In Canada, the revenues declined by 12.1% to $18,356 in 2008 from $20,892 in 2007 due to the transfer of units to the U.S. combined with a decline in activity levels.

Late in 2007 Q2, one wireline unit was transferred from the Canadian operations to form the U.S. division of Advance Wireline but revenue generating operations did not commence until 2007 Q3. The U.S. division ended 2007 with 2 wireline units and ended 2008 with 5 wireline units. As a result of the 2008 expansion and operations for an entire year, the U.S. wireline division generated $7,452 in revenues for 2008; an increase of $6,662 from 2007 of $790. In Q1 of 2009 another wireline unit was transferred to the U.S. operations from the Canadian fleet.

The Trust's production testing division, Tier One, contributed $17,121 in revenues during 2008 representing a 42.1% increase from 2007 revenues of $12,051. The division added 2 units in Canada to end the year at 21 units, which contributed to the 10.7% increase in Canadian revenues to $13,348 in 2008 from 2007 of $12,051. One additional production testing unit will be added to the Canadian fleet in 2009 Q1. The production testing division in Canada was adversely affected by the decline in natural gas drilling in 2008. The Trust began production testing operations in the U.S. during 2008 Q3 with 1 production testing unit expanding to 8 units at December 31, 2008; 5 additional units will be added to the U.S. fleet in the first half of 2009. The U.S. division had revenues of $3,773 in 2008.

The gross margin for 2008 was 44.9%, which compares to 49.4% in 2007. The decrease is attributed to a number of factors, but mainly is the result of an increase in the labour costs in all divisions. There was a significant increase in labour costs that began in Q3 of 2007 and continued into 2008 due to the high demand for labour in both Canada and the U.S. for oil and gas field workers. This has caused a 2.9% decline in the gross margin. Another factor contributing to the decline is an increase in the cost of motor and other equipment repairs in the drilling division.

General and administrative expenses

	2008	2007	Change	%
General and administrative expenses	**$ 31,063**	$ 25,774	$ 5,289	21

General and administrative expenses increased from $25,774 in 2007 to $31,063 in 2008, an increase of $5,289. The increase was mainly related to the expansion of operations. As a percentage of revenues, general and administrative expenses were 17.4% in 2008 and 17.8% in 2007. Approximately 45% of the overall increase in general and administrative expenses relates to the start-up of the U.S. production testing division, operating the U.S. Wireline division for a full year, and the establishment of operations in Venezuela. The remaining increases are due to the expansion of operations in the year as evidenced by the increase in revenues.

Depreciation and amortization

	2008	**2007**	**Change**	**%**
Depreciation and amortization	**$** 13,416	$ 12,054	$ 1,362	11

This increase is related to the Trust's investment in property and equipment over the past 12 months including 20 MWD systems, mud motors and drill collars to complement the increase in MWD systems and the purchase of 7 production testing units. As a percentage of revenues, depreciation and amortization amounted to 7.5% for 2008 and 8.3% for 2007. Despite the increase in the Trust's depreciable asset base over the past 12 months, depreciation on a year-to-year basis did not increase as much as otherwise anticipated due to the change in the accounting method for foreign currency translation of the Trust's U.S. operations (refer to Change in Foreign Currency Translation section).

Interest

	2008	**2007**	**Change**	**%**
Interest - long-term debt and capital lease obligations	**$ 1,158**	$ 1,084	$ 74	7
Interest - other	**$ 422**	$ 404	$ 18	4

The main contributing factor to the increase in interest related to long-term debt and capital lease obligations is an increase in the average level of debt outstanding on a year-over-year basis, net of declines in the prime interest rate during the year.

Foreign exchange loss

	2008	**2007**	**Change**	**%**
Foreign exchange loss	**$ 94**	$ 492	$ (398)	(81)

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 Change in Foreign Currency Translation section).

Unit-based compensation expense

	2008	**2007**	**Change**	**%**
Unit-based compensation expense	**$ 1,705**	$ 1,603	$ 102	6

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

	2008	**2007**	**Change**	**%**
Gain on disposal of property and equipment	**$ 2,138**	$ 1,777	$ 361	20

The gain on disposal of property and equipment can vary significantly from year-to-year as almost all of the disposals relate to downhole equipment lost-in-hole. Cathedral recovers lost-in-hole equipment costs including previously expensed depreciation on the related assets.

Taxes

	2008	**2007**	**Change**	**%**
Taxes	**$ 4,455**	$ 7,127	$ (2,672)	(37)

For 2008, the Trust has a tax expense of $4,455 (effective tax rate of 12.9%) which compares to $7,127 (effective tax rate of 22.3%) in 2007. The 2007 tax provision included a cumulative non-cash adjustment of $2,754 (expense) 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 13.7%. In comparing the adjusted 2007 effective tax rate (13.7%) to the 2008 effective tax rate (12.9%), the decrease is mainly attributable to the net result of the continuing growth in the U.S. operations which are taxed at a higher rate and a reduction to future income tax liability for changes in effected tax rates.

Other Comprehensive Income

	2008	2007	Change	%
Unrealized foreign exchange gain on translation of self-sustaining foreign operations	**$ 3,326**	$ -	$ 3,326	n/a

Other comprehensive income ("OCI") is comprised entirely of the unrealized foreign currency translation gain of the Trust's U.S. self-sustaining subsidiary and reflects the changing value of the Canadian dollar compared to the U.S. dollar.

2007 COMPARED TO 2006

Overview

On a year-over-year basis, revenues increased $6,852 or 5.0% to $145,106 from $138,254 in 2006. This increase was led by the directional drilling business in both Canada and the U.S. EBITDAS for the year ended December 31, 2007 was $46,731 while the comparative figure for 2006 was $52,793 – a decrease of $6,062 or 11.5%. The decline in EBITDAS was mainly due to compression in the gross margins of all divisions and increased general and administrative expenses. For the year ended December 31, 2007, net income was $24,863 ($0.78 per diluted Trust Unit) which compares to $35,348 ($1.12 per diluted Trust Unit) for 2006.

Revenues and operating expenses

	2007	2006	Change	%
Revenues	$ 145,106	$ 138,254	$ 6,852	5
Operating expenses	(73,482)	(64,886)	8,596	13
Gross margin - $	$ 71,624	$ 73,368	$ (1,744)	(2)
Gross margin - %	49.4%	53.1%	3.7%	

	Year ended December 31, 2007				Year ended December 31, 2006			
Revenues	Directional drilling (1)	Wireline	Production testing	Total	Directional drilling (1)	Wireline	Production testing	Total
Canada	$ 69,854	$ 20,892	$ 12,051	$ 102,797	$ 65,972	$ 26,188	$ 15,847	$ 108,007
United States	41,519	790	-	42,309	30,247	-	-	30,247
	$ 111,373	$ 21,682	$ 12,051	$ 145,106	$ 96,219	$ 26,188	$ 15,847	$ 138,254

(1) Including rental of related equipment

For 2007 the Trust generated annual revenues of $145,106 which represented an increase of 5.0% over 2006 revenues. The increase was mainly a result of: i) a 4.6% increase in the average day rate for directional drilling services to $8,857 per day (2006 - $8,470) and ii) a 11.1% increase in directional drilling activity days to 12,274 activity days (2006 – 11,046 days). The largest portion of the increase in the average day rate is related to a shift towards providing premium and specialized services as opposed to an increase in the overall base day rate. In Canada the Trust's 2007 activity levels decreased by 2.5% which was significantly less than the overall decline in drilling activity in the Canadian market. Despite the decline in natural gas drilling in western Canada, the Trust was able to minimize the market decline from prior year activity levels due to the continuing strength of the Trust's client base, involvement in multi-well programs and an increase in the percentage of wells drilled in western Canada that are horizontal or directional versus vertical in nature. During 2007, the Trust's U.S. operations were expanded to provide directional drilling services in North Dakota and Michigan. The Trust's directional revenues from the U.S. were $41,519 in 2007, a $11,272 (37.3%) increase from 2006 revenues of $30,247. Due to demand in the U.S. market, MWD systems were transferred to the U.S. in 2007. At December 31, 2007 the Trust had 23 MWD systems in the U.S. market.

In 2007, a competitor of the Trust purchased the ranging tool technology used by the Trust in drilling SAGD wells. During 2007 Cathedral was allowed to use this technology to complete projects it had in place but effective 2008 this technology was not available to Cathedral. In 2007 SAGD related revenues were $1,863 (2006 – $nil).

The decline 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, Tier One, contributed $12,051 in revenues during 2007 which is a 24.0% decline from 2006 revenues of $15,847. Advance Wireline and Xtreme Wireline combined to generate total Canadian and U.S. revenues of $21,682 for 2007 compared to $26,188 for 2006, a 17.2% decrease. Late in 2007 Q2, one wireline unit was transferred from the Canadian operations to the newly formed U.S. division of Advance Wireline but revenue generating operations did not commence until 2007 Q3. A second wireline unit was transferred to the U.S. in 2007 Q3. As result of this expansion the U.S. wireline division generated $790 in revenues for 2007.

The gross margin for 2007 was 49.4%, which compares to 53.1% in 2006. The decrease is attributed to a number of factors including: i) shift to providing more horizontal drilling services (versus directional) which provide a lower gross margin than from directional drilling; ii) increases in directional field labour rates; iii) increase in wireline field labour costs as a percentage of revenues due to a portion of these labour charges being fixed in nature; and iv) offsetting the previous items was an increase in the average day rate for directional drilling services.

MANAGEMENT'S DISCUSSION AND ANALYSIS

General and administrative expenses

	2007	2006	Change	%
General and administrative expenses	$ 25,774	$ 22,066	$ 3,708	17

General and administrative expenses increased from $22,066 in 2006 to $25,774 in 2007 – an increase of $3,708. The increase was mainly related to the Trust's directional/horizontal drilling business and the contributing factors to that increase were the result of increased personnel and facility rental costs as well as an overall increase in directional drilling activity level of the U.S. directional drilling operations. Other items contributing to the overall increase were: i) a $630 increase in costs related to bad debt write-offs; ii) costs related to the set-up of the U.S. wireline division in 2007; iii) approximately $300 of professional fees incurred in 2007 Q3 related to an aborted corporate acquisition, and iv) costs associated with pursuing international business opportunities. As a percentage of revenues, general and administrative expenses were 17.8% in 2007 and 16.0% in 2006.

Depreciation and amortization

	2007	2006	Change	%
Depreciation and amortization	$ 12,054	$ 10,692	$ 1,362	13

This increase is related to the Trust's investment in property and equipment over the past 12 months including 10 MWD systems along with the expansion of the mud motor and drilling collar fleet to complement the increase in directional drilling job capacity, upgrade of low pressure production testing units to higher pressure units and the purchase of 7 wireline units (one older wireline unit was sold in 2007) and auxiliary wireline equipment. As a percentage of revenues, depreciation and amortization amounted to 8.3% for 2007 and 7.7% for 2006.

Interest

	2007	2006	Change	%
Interest - long-term debt and capital lease obligations	$ 1,084	$ 936	$ 148	16
Interest - other	$ 404	$ 482	$ (78)	(16)

The main contributing factor to the increase in interest related to long-term debt and capital lease obligations is an increase in the average level of debt outstanding on a year-over-year basis. The $78 decrease in other interest expense is related to the Trust's decreased utilization of its operating line of credit.

Foreign exchange loss (gain)

	2007	2006	Change	%
Foreign exchange loss (gain)	$ 492	$ (27)	$ 519	n/a

The Trust derives revenues from the U.S. which are denominated in the local currency and a significant portion of the U.S. operations costs are also denominated in the same local currency. In addition, the Trust's Canadian operations are subject to foreign currency exchange rate risk in that some purchases for parts, supplies and components in the manufacture of equipment are denominated in U.S. dollars. On a consolidated basis, the Trust has an exposure to foreign currency fluctuations related to its net monetary investment in its U.S. subsidiary. The 2007 foreign exchange loss is due mainly to the U.S. dollar weakening significantly against the Canadian dollar in 2007 versus 2006 and the Trust's net monetary investment in its U.S. subsidiary.

Unit-based compensation expense

	2007	2006	Change	%
Unit-based compensation expense	$ 1,603	$ 1,486	$ 117	8

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

	2007	2006	Change	%
Gain on disposal of property and equipment	$ 1,777	$ 1,946	$ (169)	(9)

The gain on disposal of property and equipment can vary significantly from year-to-year as almost all of the disposals relate to downhole equipment lost-in-hole. Cathedral recovers lost-in-hole equipment costs including previously expensed depreciation on the related assets.

Taxes

	2007	2006	Change	%
Taxes	$ 7,127	$ 4,331	$ 2,796	65

For 2007, the Trust had a tax expense of $7,127 (effective tax rate of 22.3%) which compares to $4,331 (effective tax rate of 10.9%) in 2006. The 2007 tax provision includes a cumulative non-cash adjustment of $2,754 ($0.09 per diluted Trust Unit) 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 13.7%. The adjusted effective tax rate has increased 10.9% in 2006 to 13.7% in 2007 due mainly 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

LIQUIDITY AND CAPITAL RESOURCES

The Trust's principal source of liquidity is cash generated from operations and its credit facility. The Trust also has the ability to fund liquidity requirements through the issuance of debt and/or equity. At December 31, 2008, the Trust had an operating line of credit with a major Canadian bank in the amount of $20,000 (2007 - $12,500) of which $15,406 (2007 - $6,030) was drawn. The Trust has a revolving term loan facility in the amount of $45,000 (2007 - $25,000) of which $40,000 (2007 - $17,000) was drawn as at December 31, 2008. In addition, at December 31, 2008, the Trust had obligations under capital leases in the amount of $222 (2007 - $451) and other long-term debt of $218 (2007 - $283).

Operating activities Cash flow from operating activities decreased from $39,729 in 2007 to $36,143, a decrease of $3,586 or 9.0%. Funds from operations (see Non-GAAP Measurements) for 2008 were $40,824 which compares to $39,693 for 2007; a marginal increase of $1,131. The Trust has a strong working capital position at December 31, 2008 at $17,435 which compares to $16,947 at the end of 2007.

Investing activities Cash used in investing activities for the year ended December 31, 2008 amounted to $40,134 compared to $16,607 in 2007. During 2008 the Trust invested an additional $47,618 (2007 – $19,857) in property and equipment. For 2008 the significant property and equipment additions included purchase of land and building for a new Calgary facility, 20 MWD systems, purchase of 10 production testing units and an expansion of the overall mud motor and drill collar fleet to complement the increased directional drilling job capability as well as to reduce equipment rentals. The capital asset additions were funded by a combination of the Trust's cash flow from operations, advances under long-term debt, proceeds from disposal of property and equipment and proceeds on exercise of Trust Unit options. Fluctuations in non-cash working capital related to investing activities are a function of when proceeds on disposal of property and equipment are received and when payments for property and equipment purchases are made.

Proceeds on disposal of property and equipment amounted to $3,761 (2007 - $3,575) and is mainly related to recovery of downhole equipment costs that were lost-in-hole in 2008 as well as previously expensed depreciation.

During 2008, the Trust enhanced its Electro-Magnetic/MWD system ("EM/MWD") by improving formation impedance matching and concurrently increasing the data signal encoding, detection and filtration. The result has allowed the EM/MWD system to operate effectively in the southeast Saskatchewan market where competitors have not been able to deploy their EM/MWD systems. In conventional markets these improvements have allowed the EM/MWD system to operate at depths greater than the Generation 2 ("G2") modifications made during 2007.

The following is a summary of major equipment owned by Cathedral:

	As at December 31	
	2008	**2007**
Directional drilling equipment -		
MWD systems	**98**	78
Drilling mud motors	**496**	349
Production testing units	**29**	19
Wireline units	**28**	27

For 2009, the Board of Directors of the Administrator of the Trust has approved a capital budget of $11,100 (reduced from $17,000 budget announced in November 2008) including approximately $500 for maintenance capital. The 2009 capital budget includes $3,600 of capital deferred from Q4 2008 which relates primarily to expansion of the mud motor and drill collar fleet plus progress payments on additional production testing units to be delivered in 2009. The balance of the capital budget is for the remaining cost on 6 production testing units, upgrades to the Trust's EM/MWD systems to third generation units ("G3") and for renovations to the building located in Calgary that was acquired in Q4 2008. These capital expenditures are expected to be financed by way of cash flow from operations and the Trust's credit facility.

Financing activities Cash provided by financing activities for the year ended December 31, 2008 amounted to $9,618 which compares to cash used by financing activities $23,370 in 2007, a change of $32,988. During 2008, the Trust received advances of long-term debt in the amount of $23,047 (2007 - $2,228) of which $23,000 (2007 - $2,000) related to an advance on the Trust's revolving term loan facility. The additional long-term debt incurred was used to finance 2008 capital additions. Repayments of long-term debt and capital lease obligations in 2008 amounted to $341 (2007 - $330). As at December 31, 2008, the Trust was in compliance with all covenants under its credit facility. During 2008 the Trust received cash inflows of $4,904 (2007 - $3,065) on the exercise of Trust Unit options.

Distributions for 2008 amounted to $27,432 (2007 - $26,405). Distributions in 2008 include $338 of foreign taxes paid that has been allocated to Unitholders. For 2007 and 2008, the Trust's monthly distributions were $0.07 per Trust Unit (annualized to $0.84 per Trust Unit) and were paid in the form of cash. Effective February 2009, the Trust reduced its monthly cash distributions to $0.04 per Trust Unit.

Distributions paid to Unitholders for 2008 amounted to $27,368 (2007 - $27,903). The decrease in distributions paid is due to an increase in units of outstanding for 2008, net of a reduction in 2008 of $1.549 paid on January 15, 2007 relating to a "special" $0.05 per Trust Unit distribution declared in December 2006. Cash distributions paid have been financed from funds from operations and management currently expects future cash distributions will also be financed by way of funds from operations.

Contractual obligations In the normal course of business, the Trust's operating entities incur contractual obligations. The following is a summary of the Trust's contractual obligations as at December 31, 2008 for the following items:

	Total	2009	2010	2011	2012	2013	There-after
Property and equipment additions	$ 4,793	$ 4,793	$ -	$ -	$ -	$ -	$ -
Operating lease obligations	11,031	3,027	2,200	1,462	1,189	1,045	2,108
Long-term debt and capital lease obligations (1)	40,440	207	10,202	20,031	10,000	-	-
	$56,264	$ 8,027	$12,402	$21,493	$11,189	$ 1,045	$ 2,108

(1) Minimum principal amounts to be paid under long-term debt assumes the Trust elects prior to the maturity date of the revolving term loan to repay the loan over 36 months with interest only payable for the first 12 months

The 2009 contractual obligations are expected to be financed by way of cash flow from operations and the Trust's credit facility.

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 (subject to adjustments to distribution levels). 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 2nd quarter 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 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 Measurements). The Trust intends to pay cash distributions to Unitholders but the payment of cash distributions cannot be guaranteed.

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

		Years ended December 31		
	2008 Q4	2008	2007	2006
Cash flow from operating activities	$12,092	$36,143	$39,729	$39,929
Net income for the period	$ 9,737	$30,139	$24,863	$35,348
Distributable cash	$10,795	$39,791	$38,993	$45,972
Cash distributions (1)	$ 6,842	$27,094	$26,405	$24,681
Excess of cash flow from operating activities over cash distributions	$ 5,250	$ 9,049	$13,324	$15,248
Excess (short-fall) of net income over cash distributions	$ 2,895	$ 3,045	$ (1,542)	$10,667
Excess of distributable cash over cash distributions	$ 3,953	$12,697	$12,588	$21,291

(1) Excludes foreign taxes paid that have been allocated to Unitholders

Net income exceeded cash distributions by $2,895 for the three months ended December 31, 2008 and by $3,045 for the year ended December 31, 2008. Net income includes significant non-cash charges which for the year ended December 31, 2008 were $12,823 (2007-$16,607) 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 may exceed net income. Management did not consider the excess of cash distributions over net income for the year ended December 31, 2007 to be an economic return of capital. Instead the excess was considered a function of the timing of cash flows versus accounting income.

Currently cash distributions are less than distributable cash as the Trustees, on the recommendation of management of the Administrator, have decided to retain a portion of distributable cash to finance capital expenditures and debt repayment. It is not management's intent to distribute 100% of distributable cash.

Effective February 2009, the Trust reduced its monthly cash distributions by $0.03 per Trust Unit to $0.04 per Trust Unit. In light of the current and forecast market conditions, the Administrator of the Trust's operating entities determined that a reduction was a prudent measure to manage liquidity, further strengthen the Trust's strong balance sheet and better position itself to take advantage of opportunistic transactions which may present themselves.

Distributable cash (refer to Non-GAAP Measurements) is calculated as follows:

		2008 Q4	Years ended December 31 2008	2007
Cash flow from operating activities		**$ 12,092**	**$ 36,143**	$ 39,729
Add (deduct):	- changes in non-cash operating working capital (1)	**(1,168)**	**4,681**	(36)
Less:	- required principal repayments on long-term debt and capital lease obligations	**(109)**	**(341)**	(313)
	- maintenance capital expenditures	**(20)**	**(692)**	(387)
Distributable cash		**$ 10,795**	**$ 39,791**	$ 38,993
Cash distributions (2)		**$ 6,842**	**$ 27,094**	$ 26,405
Payout ratio		**63%**	**68%**	68%

(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

(2) Excludes foreign taxes paid that have been allocated to Unitholders

EBITDAS

EBITDAS (refer to Non-GAAP Measurements) is calculated as follows:

		2008 Q4	Years ended December 31 2008	2007
EBITDAS as reported		**$ 13,932**	**$ 50,873**	$ 46,731
Add (deduct):	- depreciation and amortization	**(4,135)**	**(13,416)**	(12,054)
	- interest – long-term debt and capital lease obligations	**(373)**	**(1,158)**	(1,084)
	- unit-based compensation expense	**(338)**	**(1,705)**	(1,603)
	- recovery of (provision for) for taxes	**651**	**(4,455)**	(7,127)
Net income		**$ 9,737**	**$ 30,139**	$ 24,863

RELATED PARTY TRANSACTION

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 in 2008 was $136 (2007 - $204).

FOURTH QUARTER RESULTS

	2008 Q4				2007 Q4			
Revenues	Directional drilling (1)	Wireline	Production testing	Total	Directional drilling (1)	Wireline	Production testing	Total
Canada	**$ 16,551**	**$ 4,267**	**$ 4,347**	**$ 25,165**	$ 19,359	$ 4,738	$ 3,370	$ 27,467
United States	**19,668**	**2,725**	**2,948**	**25,341**	11,192	395	-	11,587
	$ 36,219	**$ 6,992**	**$ 7,295**	**$ 50,506**	$ 30,551	$ 5,133	$ 3,370	$ 39,054

(1) Including rental of related equipment

Revenues in Q4 have increased to $50,506 in 2008 from $39,054 in 2007, an increase of $11,452 or 29.3%.

Directional drilling related revenues increased $5,668 from $30,551 in 2007 Q4 to $36,219 in 2008 Q4 due to a 3.0% increase in activity days (2008 Q4 - 3,575 vs. 2007 Q4 - 3,470) and a 15.6% increase in the average day rate (2008 Q4 - $9,939 vs. 2007 Q4 - $8,596). Canadian revenues were down 14.5% from $19,359 in 2007 Q4 to $16,551 in 2008 Q4. This was the result of a 10.0% decline in drilling days falling to 1,801 in 2008 Q4 from 2,003 in 2007 Q4 and a 4.4% decline in the Canadian average day rate. In the U.S., revenues have increased 75.7% to $19,668 in 2008 Q4 from $11,192 in 2007 Q4. U.S. drilling days increased to 1,774 in 2008 Q4 from 1,467 in 2007 Q4, an increase of 20.9%. The average day rate for the U.S. increased 45.7%. A significant portion of the increase in the U.S. average day rate is due to the strengthening of the U.S. dollar in comparison to the Canadian dollar.

The wireline division's combined revenues increased from $5,133 in 2007 Q4 to $6,992 in 2008 Q4. The Canadian wireline division's revenues fell 9.9% to $4,267 in 2008 Q4 from $4,738 in 2007 Q4; this is a result of transferring 3 units from Canada to the U.S. as well as a decrease in activity levels. The U.S. wireline revenues are up to $2,725 in 2008 Q4 from $395 in 2007 Q4 as the U.S. Wireline division commenced operations during 2007 Q4 and only had 2 wireline units in 2007 Q4 compared to its 5 units in 2008 Q4.

With the start of the U.S. production testing division in 2008 Q3, revenues for the quarter increased to $7,295 from $3,370 for just the Canadian division in 2007 Q4; an increase of 116.5%. The Canadian division's revenues have increased 29.0% to $4,347 in 2008 Q4 from $3,370 in 2007 Q4. In 2008 Q4, there were 2 more production testing units in the Canadian fleet than in 2007 Q4.

The consolidated gross margin declined 7.6% to 41.9% for 2008 Q4 from 49.5% in 2007 Q4. The decrease in quarter-over-quarter gross margin was primarily due to increased labour charges in all divisions due to market pressures and an increase in the repair costs for the drilling division.

General and administrative charges increased 30.0% from $6,227 in 2007 Q4 to $8,098 in 2008 Q4. As a percentage of revenues, general and administrative expenses were 16.0% in 2008 Q4 compared to 15.9% in 2007 Q4. The increases were primarily due to the increases in the U.S. production testing and wireline divisions, the costs related to international expansion and increases due to the higher level of activity in 2008 Q4.

For 2008 Q4, the Trust recorded a tax recovery of $651 compared to the 2007 Q4 recovery of $593.

Net income for 2008 Q4 was $9,737 ($0.30 per diluted Trust Unit) which compares to $10,365 ($0.33 per diluted Trust Unit) 2007 Q4.

SUMMARY OF QUARTERLY RESULTS

	2008				2007			
	Q1	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**
Revenues	**$46,253**	**$29,483**	**$52,686**	**$50,506**	$42,712	$24,985	$38,355	$39,054
EBITDAS	**15,395**	**4,632**	**16,914**	**13,932**	14,412	4,837	13,775	13,707
Net income (loss)	**9,917**	**189**	**10,296**	**9,737**	9,787	(2,415)	7,126	10,365
Net income (loss) per Trust Unit								
Basic	**0.31**	**0.01**	**0.32**	**0.30**	0.32	(0.08)	0.23	0.33
Diluted	**0.31**	**0.01**	**0.32**	**0.30**	0.31	(0.08)	0.22	0.33

A significant portion 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 regions of the U.S. are not subject to the seasonality to the extent that it occurs in the western Canada region.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Trust's consolidated financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") and significant accounting policies utilized by the Trust are described in note 2 to the Trust's consolidated financial statements. Management believes the accounting principles selected are appropriate under the circumstances and the Audit Committee of Cathedral has approved the policies selected.

Under Canadian GAAP, the Trust is required to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The estimates and assumptions utilized are based on past experience and other information available to management at the time the estimate or assumption is made. The estimates and assumptions used by management are constantly evaluated for relevance under the circumstances and if circumstances on which the estimates or assumptions were based change, the impact is included in the results of operations for the period in which the change occurs. Management believes the estimates, judgments and assumptions involved in its financial reporting are reasonable.

The following accounting policies require management's more significant judgments and estimates in the preparation of the Trust's consolidated financial statements, and as such, are considered to be critical.

Property and equipment Property and equipment are recorded at cost less accumulated depreciation. Depreciation is computed based upon the Trust's depreciation policies (see note 2 to consolidated financial statements). The depreciation policies selected are intended to depreciate the related property and equipment over their useful life. The use of different assumptions with regard to the useful life could result in different carrying amount for these assets as well as for depreciation expense.

Impairment of long-lived assets Property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value of assets may not be recoverable. In the assessment process management is required to make certain judgments, assumptions and estimates in identifying such events and changes in circumstances, and in assessing their impact on the valuations and economic lives of the affected assets. Impairments are recognized when the book values exceed management's estimate of the undiscounted future cash flows, or net recoverable amounts, associated with the affected assets.

Goodwill and intangibles The carrying value of goodwill and intangibles on acquisitions is compared to its fair value at least annually to determine if a permanent impairment exists, at which time the impairment would be recorded as a charge to earnings. Valuations are inherently subjective and necessarily involve judgments and estimates regarding future cash flows and other operational variables.

Deferred development costs Costs associated with the development of downhole equipment are capitalized during the development process. These costs are identified as deferred development costs and are recorded within property and equipment. Once the equipment becomes commercial in nature, the related deferred development costs are amortized over 5 years. Cathedral undertakes periodic reviews of each project on which deferred development costs have been recorded to determine if the carrying value of the project can be recovered for the undiscounted expected net future cash flow generated from the related equipment. If there is no reasonable expectation that the costs can be recovered, the carrying value of the project is reduced and the excess is charged to earnings. This process of estimation is subject to significant judgment with respect to revenues and direct costs associated with the equipment as well as market acceptance.

Income taxes The Trust uses the asset and liability method of accounting for future income taxes whereby future income tax assets and liabilities are determined based on temporary differences between the accounting basis and the tax basis of the assets and liabilities, and are measured using substantively enacted tax rates and laws expected to apply when these differences reverse. As a result, a projection of taxable income is required for those years, as well as an assumption of the ultimate recovery/settlement period for the temporary differences. The projection of future taxable income is based on management's best estimate and may vary from actual taxable income. On an annual basis, the Trust assesses its need to establish a valuation allowance for its deferred income tax assets and if it is deemed more likely than not that its deferred income tax assets will not be realized on its taxable income projections a valuation allowance is recorded.

In addition, Canadian, U.S., Barbados and Venezuela tax rules and regulations are subject to interpretation and require judgment by management that may be challenged by the taxation authorities. Management believes that its provisions for taxes are adequate pertaining to any assessments from the taxation authorities.

Unit-based compensation Unit-based compensation is calculated using the fair value method based upon the Black-Scholes model. In order to establish fair value, estimates and assumptions are used to determine risk-free interest rate, expected term, anticipated volatility and anticipated distribution yield. The use of different assumptions could result in different book values for unit-based compensation.

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

The Accounting Standards Board ("AcSB") of the Canadian Institute of Chartered Accountants ("CICA") continually amends and improves certain standards or guidelines contained in the CICA Handbook. The Trust monitors these changes as they are proposed and will make changes to the accounting policies and disclosures as necessary. The following summarizes accounting changes that were relevant to the Trust's consolidated financial statements for the year ended December 31, 2008.

Inventories The Canadian Institute of Chartered Accountants ("CICA") issued section 3031, Inventories, which 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. The Trust adopted this standard effective January 1, 2008 and it had no material impact on the Trust's consolidated financial statements.

Financial Instruments - Disclosures and Presentation The CICA issued 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.

Capital Disclosures The CICA issued 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.

Phantom Stock Options During 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FUTURE ACCOUNTING CHANGES

The following summarizes accounting changes that will be relevant to the Trust's consolidated financial statements subsequent to December 31, 2008.

Goodwill and Intangible Assets The CICA issued 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.

Business Combinations In January 2009, the CICA issued Section 1582, Business Combinations, which replaces former guidance on business combinations. Section 1582 establishes principles and requirements of the acquisition method for business combinations and related disclosures. This statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 2011 with earlier application permitted. The Trust is currently evaluating the effects of adopting these changes.

Consolidated Financial Statements and Non-controlling Interests In January 2009, the CICA issued Sections 1601, Consolidated Financial Statements, and Section 1602, Non-controlling Interests, which replaces existing guidance. Section 1601 establishes standards for the preparation of consolidated financial statements. Section1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are effective on or after the beginning of the first annual reporting period beginning on or after January 2011 with earlier application permitted. The Trust is currently evaluating the effects of adopting these changes.

International Financial Reporting Standards ("IFRS") In February, 2008, the CICA confirmed that the use of 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. In light of these requirements, the Trust has begun to develop an IFRS transition project plan.

The Trust project plan has four phases: education, analysis, design and implementation and testing. The Trust has begun process of education for all levels of the organization and has commenced the analysis phase. The Trust is in the process of identifying specific significant differences between Canadian GAAP and IFRS. In 2009, the Trust will complete the detailed analysis phase and will commence the design phase in which it will establish specific project plans for those areas affected by IFRS with the goal of being able to prepare the opening IFRS balance sheet as at January 1, 2010 which will be presented in 2011.

As the Trust continues to evaluate the impact of adoption of its processes and accounting policies it will provide updated disclosures.

CONTROLS AND PROCEDURES

In order to ensure that information with regard to reports filed or submitted under securities legislation present fairly in all material respect the financial information of the Trust, management including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") are responsible for establishing and maintaining disclosure controls and procedures, as well as internal controls over financial reporting.

Disclosure controls and procedures Disclosure controls and procedures have been designed to ensure that relevant and accurate information needed to comply with the Trust's continuous disclosure obligations is accumulated and summarized to allow timely decisions regarding disclosure and to ensure that the risk of a material error or fraud is minimal. The CEO and CFO have concluded that the Trust's disclosure controls and procedures, as of the end of the period covered by the annual filings are effective in ensuring that material information is accumulated and disclosed accurately. Management of the Trust's Administrator believe that "cost effective" disclosure controls, disclosure procedures and internal control systems can only provide reasonable assurance, and not absolute assurance, that the objective of controls and procedures are met.

Internal controls over financial reporting Management is responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with Canadian GAAP. The CEO and CFO have designed or have caused such internal controls over financial reporting to be designed under their supervision to provide reasonable assurance regarding the reliability of financial reporting and preparation of the Trust's financial statements for external purposes in accordance with Canadian GAAP. In addition, the CEO and CFO have evaluated the effectiveness of internal controls over financial reporting and, based upon that evaluation, have concluded that the design and effectiveness of the internal controls over financial reporting were operating effectively as at December 31, 2008 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. There has been no change in the Trust's internal controls over financial reporting during the year ended December 31, 2008 that has materially affected, or is reasonably likely to materially affect, the Trust's internal controls over financial reporting.

BUSINESS RISKS

Dependence of Cathedral Energy Services Ltd., Cathedral Energy Services Inc. and Cathedral Energy Services Limited Partnership The Trust is an open-ended, limited purpose mutual fund trust which is entirely dependent upon the operations and assets of Cathedral Energy Services Ltd., Cathedral Energy Services Inc. and Cathedral Energy Services Limited Partnership (collectively "Cathedral") through the ownership of the Cathedral Energy Services Ltd. shares and subordinated notes and an indirect wholly-owned partnership interest in Cathedral Energy Services Limited Partnership. Accordingly, the cash distributions to the Unitholders is dependent upon the ability of Cathedral Energy Services Ltd. to pay its interest obligations under the subordinated notes and to declare and pay dividends on its shares and the ability of Cathedral Energy Services Limited Partnership to provide cash distributions from partnership profits.

Distributions are not guaranteed and will fluctuate with Cathedral's performance There can be no assurance regarding the amounts of income which will be generated by Cathedral and paid to the Trust. The actual cash amount distributed in respect of the Trust Units will depend upon numerous factors, including, but not limited to, profitability, determination of taxable income and taxes payable, fluctuations in working capital, the sustainability of margins and capital expenditures as well as the actual cash amount distributed from Cathedral. In addition, the Trust's credit facility includes restrictions on the payment of cash distributions if the Trust is in default, or would be in default, if a cash distribution was made.

Income tax matters There can be no assurance that the treatment of mutual fund trusts will not be changed in a manner which adversely affects Unitholders. If the Trust ceases to qualify as a "mutual fund trust" under the Tax Act (Canada), the Trust Units will cease to be qualified investments for registered retirement savings plans, deferred profit sharing plans and registered retirement income funds.

On October 31, 2006, the Minister of Finance (Canada) announced new tax proposals concerning the taxation of income trusts and other flow-through entities. This proposal was followed by the release of draft legislation by the Department of Finance on December 21, 2006. These proposed amendments were substantially enacted in June 2007 and therefore the Trust will be subject to taxation as of January 1, 2011. In addition, the taxable distributions received by Unitholders from the Trust would be treated as taxable dividends. This legislation effectively transfers the liability for tax on income earned by the Trust that is currently paid by Unitholders to the Trust. At this point, the Trust expects to convert to a corporation, subject to Unitholder approval, on or before December 31, 2010. Effective January 1, 2011 (and earlier if the Trust converts to a corporation prior to January 1, 2011), the Trust will be subject to taxes and this may require the Trust to adjust its level of cash distributions.

There is no assurance that the Trust will be able to retain the benefit of the deferred application of the new tax regime until 2011. If the Trust is deemed to have undergone "undue expansion" during the period November 1, 2006 to December 31, 2010, as described in the Normal Growth Guidelines issued by the Department of Finance on December 15, 2006, the proposed tax amendments would become effective on a date earlier than January 1, 2011.

Normal Growth Guidelines indicate that the Trust will not lose the benefit of the deferred application of the new tax regime to 2011 if the equity capital of the Trust does not grow as a result of the issuance of new equity (includes trust units, debt that is convertible into trust units, and potentially other substitutes of such equity) before 2011 by an amount that exceeds the greater of $50 million and an objective "safe harbour" amount based on a percentage of the Trust's October 31, 2006 market capitalization. The Normal Growth Guidelines provide for a "safe harbour" amount equal to 40% of the October 31, 2006 market capitalization for the period from November 1, 2006 to December 31, 2007, and 20% for each of the 2008 to 2010 calendar years. These amounts of "safe harbour" are cumulative during the transition period. The Trust's market capitalization at October 31, 2006 was approximately $289 million. It is therefore assumed, for the purposes of this summary that the Trust will not be subject to this proposed tax regime until January 1, 2011. However, in the event that the Trust issues additional Trust Units or convertible debentures or other equity substitutes on or before 2011, the Trust may become subject to this proposed tax regime prior to 2011. No assurance can be given that the proposed tax regime will not apply to the Trust prior to 2011. Loss of the deferred application of the proposed tax regime until 2011 could have a material and adverse effect on the value of the Trust Units of the Trust.

Taxation of the Trust and Cathedral Energy Services Income fund structures such as the Trust's involve significant amounts of inter-entity debt, which may generate substantial interest expense, which serves to reduce earnings and therefore income tax payable. There can be no assurance that the taxation authorities will not seek to challenge the amount of interest expense deducted. If such a challenge were to succeed against Cathedral, it could have a materially adverse affect of the amount of distributable cash available.

Deductibility of expenses Although management of the Trust and Cathedral are of the view that substantially all of the expense claimed by the Trust and Cathedral, respectively will be reasonable and deductible, there can be no assurance that the tax authorities will agree. If taxation authorities successfully challenge the deductibility of any such expenses, the return to Unitholders may be adversely affected.

Non-resident ownership of Trust Units In order for the Trust to maintain its status as a mutual fund trust under the Tax Act (Canada), the Trust must not be established or maintained primarily for the benefit of non-residents of Canada ("non-residents") within the meaning of the Tax Act (Canada). The Declaration of Trust authorizes the Trust to take certain actions to maintain the non-resident ownership to less than 50% (refer to Declaration of Trust – Limitation on Non-resident Ownership filed on SEDAR). The current estimate of non-resident ownership is approximately 33%.

Unitholder liability The Declaration of Trust provides that no Trust Unitholder will be subject to any liability in connection with the Trust or its assets or obligations and, in the event that a court determines that Unitholders are subject to any such liabilities, the liabilities will be enforceable only against, and will be satisfied only out of, the Unitholder's share of the Trust's assets. On July 1, 2004, the Province of Alberta proclaimed the Income Trust Liability Act (Alberta) in force. This legislation provides that beneficiaries of Alberta based public income trusts are not liable, as beneficiaries, for any act, default, obligation or liability of the income trust. Unitholders of the Trust will have the benefit of this legislation with respect to liabilities arising on or after July 1, 2004. This legislation has not been subject to interpretation by courts in the Province of Alberta or elsewhere.

Issuance of Additional Units Diluting Existing Unitholders' Interest The Declaration of Trust authorizes the Trust to issue an unlimited number of Units for the consideration and on those terms and conditions as are established by the Trustees without the approval of Unitholders. Additional Units issued by the Trust may be dilutive to existing Unitholders.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Specific business risks relating to Cathedral Energy Services Ltd and Cathedral Energy Services Limited Partnership are as follows:

Crude oil and natural gas prices Demand for the services provided by Cathedral is directly impacted by the prices the Trust's customers receive for crude oil and natural gas they produce in that it has a direct relation to the cash flow available to invest in drilling activity and other oilfield services. World crude oil prices and natural gas prices are not subject to control by Cathedral. With that in mind, Cathedral attempts to partially manage this risk by way of maintaining a low cost structure and a variable cost structure that can be adjusted to reflect activity levels. A significant portion of Cathedral fieldwork is performed by sub-contractors which allows us to operate with lower fixed overhead costs in seasonally low activity periods.

Key personnel and employee/sub-contractor relationships Unitholders must rely upon the ability, expertise, judgment, discretion, integrity and good faith of the management of Cathedral. The success of Cathedral is dependent upon its personnel and key sub-contractors. The unexpected loss or departure of any of Cathedral's key officers, employees or sub-contractors could be detrimental to the future operations of Cathedral. Cathedral does not maintain key man insurance on its officers. The success of Cathedral's business will depend, in part, upon Cathedral's ability to attract and retain qualified personnel as they are needed. Historically, Cathedral has not had any significant issues with respect to attracting and maintaining quality office, shop and field staff (including sub-contractors). During high levels of activity, attracting quality staff can be challenging due to competition for such services. Cathedral provides its staff with a quality working environment, effective training, tools with current technology and competitive remuneration packages that allows it to attract and maintain the quality of its workforce, whether in the field, shop or office. There can be no assurance that Cathedral will be able to engage the services of such personnel or retain its current personnel.

Environmental Risks There can be no assurance that the provincial, state and local governments or the Federal Governments of Canada and United States and other jurisdictions in which Cathedral enters into to provide its services will not adopt a new environmental regulations, rules or legislation or make modifications to existing regulations, rules or legislation which could increase costs paid by the Trust's customers. An increase in environmental related costs could reduce the Trust's customers' earnings and/or it could make capital expenditures by the Trust's customers uneconomic.

Changes to Royalty Regimes There can be no assurance that the provincial, state and local governments or the Federal Governments of Canada and United States and other jurisdictions in which Cathedral enters into to provide its services will not adopt a new royalty regime or modify the methodology of royalty calculation which could increase the royalties paid by the Trust's customers. An increase in royalties could reduce the Trust's customers' earnings and/or it could make capital expenditures by the Trust's customers uneconomic.

The Alberta Government's new policy with respect to the royalties on oil and gas production in the Province of Alberta became effective January 1, 2009. The new policy increases the royalties charged on oil and gas production using a sliding scale based on the price of the related commodity. Although Cathedral is not a direct investor in the oil and gas market it does affect Cathedral's customers' cash flow available to invest in drilling activity and other oilfield services. The new Alberta royalty program has caused producers to re-direct some of their investments to other jurisdictions such as British Columbia and Saskatchewan.

Interest rates The Trust's operating loan and revolving term credit facility bear interest at a floating interest rate and, therefore, to the extent the Trust borrows under this facility, is at risk of rising interest rates. Management continually monitors interest rates and would consider locking in the rate of its term debt.

Debt service The Trust has a credit facility with a major Canadian bank in the amount of $65 million ($20 million demand operating loan and a $45 million revolving term loan). Although it is believed that the credit facility is sufficient, there can be no assurance that the amount will be adequate for the financial obligations of the Trust. As well, if the Trust requires additional financing, such financing may not be available or, if available, may not be available on favorable terms. The Trust's lender has been provided with security over substantially all of the assets of the Trust. The credit facility is subject to an annual renewal and there is no assurance the current lender will renew the existing credit facility. Even if the credit facility is renewed it may only be renewable upon unfavorable terms including, but not limited to, an increase interest rate margin, more stringent debt covenants, reduction in the credit amount available and additional loan fees.

Competition The oil and natural gas service industry in which Cathedral operates is highly competitive. Cathedral competes with other more established entities which have greater financial, marketing and other resources and certain of which are large international oil and natural gas service companies which offer a wider array of oil and natural gas services to their clients than does Cathedral.

Access to parts, consumables and technology and relationships with key suppliers The ability of the Trust to compete and expand will be dependent on the Trust having access, at a reasonable cost, to equipment, parts and components, which are at least technologically equivalent to those utilized by competitors and to the development and acquisition of new competitive technologies. Although the Trust has very good relationships with its key suppliers, there can be no assurances that those sources of equipment, parts, components or relationships with key suppliers will be maintained. If these are not maintained, the Trust's ability to compete may be impaired. If the relationships with key suppliers come to an end, the availability and cost of securing certain parts, components and equipment may be adversely affected. It should be noted that Cathedral competes with other more established companies which have greater financial resources to develop new technologies.

Weather and seasonality A significant portion 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 regions of the U.S. are not subject to the seasonality to the extent that it occurs in the western Canada region.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Operating risks and insurance The Trust has an insurance and risk management plan in place to protect its assets, operations and employees. The Trust also has programs in place to address compliance with current safety and regulatory standards. The Trust has a safety coordinator responsible for maintaining and developing policies and monitoring operations vis-a-vis those policies. However, the Trust's oilfield services are subject to risks inherent in the oil and gas industry, such as equipment defects, malfunctions, failure and natural disasters. These risks could expose the Trust to substantial liability for personal injury, loss of life, business interruption, property damage or destruction, pollution and other environmental damages. In addition the Trust's operating activities includes a significant amount of transportation and therefore is subject to the inherent risks including potential liability which could result from, among other things, personal injury, loss of life or property damage from motor vehicle accidents.

The Trust carries insurance to provide protection in the event of destruction or damage to its property and equipment, subject to appropriate deductibles and the availability of coverage. Liability insurance is also maintained at prudent levels to limit exposure to unforeseen incidents. An annual review of insurance coverage is completed to assess the risk of loss and risk mitigation alternatives. Extreme weather conditions, natural occurrences and terrorist activity have strained insurance markets leading to substantial increases in insurance costs and limitations on coverage.

It is anticipated that insurance coverage will be maintained in the future, but there can be no assurance that such insurance coverage will be available in the future on commercially reasonable terms or be available on terms as favorable as the Trust's current arrangements. The occurrence of a significant event outside of the coverage of the Trust's insurance policies could have a material adverse affect on the results of the organization.

Risks of foreign operations The Trust is in the process of setting up operations in Venezuela for providing directional drilling services. 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. At December 31, 2008, the Trust's investment in its Venezuela subsidiary is approximately $1,284. Subsequent to year end, an additional $3,791 of downhole tools, attributed to the international business segment, were transferred to Venezuela.

Foreign currency exchange rates Cathedral derives revenues from the U.S. which are denominated in the local currency. This causes a degree of foreign currency exchange rate risk which Cathedral attempts to mitigate by matching local purchases in the same currency. Furthermore, Cathedral's Canadian operations are subject to foreign currency exchange rate risk in that some purchases for parts, supplies and components in the manufacture of equipment are denominated in U.S. dollars. 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.

Acquisitions The Trust makes acquisitions of businesses and assets in the ordinarily course of business. Achieving the benefits of acquisitions depends in part on successfully consolidating functions and integrating operations and procedures in a timely and efficient manner. Such integration may require substantial management effort, time and resources and may divert management's focus from other strategic opportunities and operational matters. Management continually assesses the value and contribution of services provided and assets required to provide such services.

Implementing strategy In implementing its strategy the Trust may pursue new business opportunities or growth opportunities in new geographic markets and may not be successful in implementing those opportunities. The Trust may have difficulty executing the strategy because of, among other things, increased global competition, difficulty entering new markets, barriers to entry into geographic markets, and changes in regulatory requirements.

Credit risk The Trust's accounts receivable are with customers involved in the oil and natural gas industry, whose revenue may be impacted by fluctuations in commodity prices. The Trust may experience a significant financial loss if customers fail to pay for the Trust's services and products.

Customer mix Overall Cathedral has a good mix of customers with only one customer accounting for revenues in excess of 10% (at 27%) of the Trust's consolidated revenues for 2008 (2007 – one customer at 22%). Mergers and acquisitions activity in the oil and natural gas exploration and production sector can impact demand for the Trust's services as customers focus on internal reorganization prior to committing funds to significant oilfield services including those provided by Cathedral. In addition, demand for Cathedral's services could be negatively affected in that customers involved in mergers and acquisitions may re-direct their work to Cathedral's competitors.

In addition to the comments noted above, Cathedral manages its business risks by providing the highest level of service and results available to the customer, maintaining a comprehensive insurance program, strict adherence to Cathedral's safety standards and complying with current environmental requirements.

MANAGEMENT'S DISCUSSION AND ANALYSIS

OFF-BALANCE SHEET ARRANGEMENTS

As at December 31, 2008, the Trust's operating entities have entered into $11,031 of commitments under operating leases for premises and vehicles (refer to note 15 to the consolidated financial statements).

Cathedral has indemnified obligations to its directors and officers. Pursuant to such obligation, Cathedral indemnifies these individuals, to the extent permitted by law, against any and all claims or losses (including amounts paid in settlement of claims) incurred as a result of their service to Cathedral. The maximum amount payable under these indemnities cannot be reasonably estimated. Cathedral expects that it would be covered by insurance for most tort liabilities.

GOVERNANCE

The Audit Committee of the Board of Trustees has reviewed this MD&A and the related audited consolidated financial statements and recommended they be approved by the Board of Trustees. Following a review by the full Board, the MD&A and audited consolidated financial statements were approved.

SUPPLEMENTARY INFORMATION

As at March 5, 2009, the Trust had 32,582,022 Trust Units and 3,041,430 options to purchase Trust Units outstanding. Additional information regarding the Trust, including the Annual Information Form ("AIF"), is available on SEDAR at www.sedar.com.

OUTLOOK

The contraction in the North American oilfield services activity that commenced in 2008 Q4 has continued into 2009. For oilfield services, the first quarter of each calendar year is typically the busiest quarter in western Canada and, although a pull back in activity levels was expected, the activity levels currently being experienced are significantly lower than what was originally projected. As we come out of spring break-up in western Canada there is a degree of uncertainty as to expected activity levels during the second half of 2009. Low commodity prices combined with the inability for producers to raise capital by way of debt or equity, and an overall global recession, has resulted in producers significantly reducing their development and exploration programs. As a result, the Trust's activity levels may be negatively affected.

In light of the uncertain economic times, the Trust has been proactive and in February 2009 announced a $0.03 reduction in its monthly distribution bringing the current distribution level to $0.04 per Trust Unit. In recognizing the expected lower activity levels, the Trust has taken several initiatives to improve operating results and further strengthen its balance sheet. The initial 2009 capital budget of $17.0 million together with the $3.6 million deferred from 2008 for a total of $20.6 million has been reduced by $9.5 million to $11.1 million. As well, the Trust's operating entities have undertaken a detailed review of all operating costs and general and administrative expenditures starting in December 2008, and have initiated cost reductions to enhance profitability.

Despite a pull back in U.S. activity, 5 production testing units are to be delivered in 2009 Q1/Q2 and are expected to be put in service upon delivery. As well, another wireline unit was transferred from the Canadian fleet to the U.S. market. In early 2009, the Trust's U.S. directional drilling business has expanded its services to the Texas region and is again drilling directional wells in Michigan. During 2009 the U.S. directional drilling division expects to expand into additional U.S. markets.

We continue to roll out our 3rd generation ("G3") EM/MWD system which has been very successful in the southeast Saskatchewan market, which is not an "EM" friendly environment. The deployment of our G3 EM/MWD system in this market has allowed drilling time to be significantly reduced and thereby benefiting our customers by reducing drilling costs.

The Trust continues to pursue providing directional drilling services in Venezuela. An operations base is being set up and the equipment to provide a 3-4 job capability is presently in Venezuela.

Although a challenging environment is expected in the near term, the Trust's management considers the long-term fundamentals for the supply and demand for energy to be positive for the oilfield series sector.

ADMINISTRATOR’S REPORT

The consolidated financial statements have been prepared by the Administrator in accordance with Canadian generally accepted accounting principles and, where appropriate, reflect estimates based upon the Administrator’s judgment. Financial information contained elsewhere in the annual report has been prepared on a consistent basis with that in the consolidated financial statements.

The Administrator is also responsible for a system of internal controls which is designed to provide reasonable assurance that the Trust’s assets are safeguarded and accounting systems provide timely, accurate financial reports.

The Audit Committee of the Board of Trustees has reviewed in detail the consolidated financial statements with the Administrator and the external auditor. The Board of Trustees has approved the consolidated financial statements on the recommendation of the Audit Committee.

KPMG LLP, an independent firm of chartered accountants, have examined the Trust’s consolidated financial statements in accordance with Canadian generally accepted auditing standards and provided an independent professional opinion. The auditors have full and unrestricted access to the Audit Committee to discuss their audit and their related findings as to the integrity of the financial reporting process.

Signed: *“Mark L. Bentsen”*
Mark L. Bentsen
President and Chief Executive Officer
March 5, 2009

Signed: *“P. Scott MacFarlane”*
P. Scott MacFarlane
Chief Financial Officer

AUDITORS' REPORT TO THE UNITHOLDERS

We have audited the consolidated balance sheets of Cathedral Energy Services Income Trust as at December 31, 2008 and 2007 and the consolidated statements of operations and retained earnings, comprehensive income and accumulated other comprehensive income, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Trust’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Trust as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Signed: *“KPMG LLP”*

Chartered Accountants
Calgary, Canada
March 5, 2009

CONSOLIDATED BALANCE SHEETS

December 31, 2008 and 2007
Dollars in '000's

	2008	2007
Assets		
Current assets:		
Cash and cash equivalents	**$ 7,551**	$ 1,306
Accounts receivable	**43,629**	37,359
Taxes recoverable	**688**	-
Inventory	**8,963**	3,584
Prepaid expenses and deposits	**1,538**	781
	62,369	43,030
Property and equipment (note 3)	**101,287**	67,639
Intangibles, net of accumulated amortization of $489 (2007 - $342)	**441**	588
Goodwill	**19,775**	19,775
	$ 183,872	$ 131,032
Liabilities and Unitholders' Equity		
Current liabilities:		
Bank indebtedness (note 4)	**$ 15,406**	$ 6,030
Accounts payable and accrued liabilities	**27,040**	17,203
Distributions payable to Unitholders	**2,281**	2,216
Taxes payable	**-**	341
Current portion of capital lease obligations	**110**	194
Current portion of long-term debt (note 5)	**97**	99
	44,934	26,083
Capital lease obligations	**112**	257
Long-term debt (note 5)	**40,121**	17,184
Future income taxes (note 6)	**6,846**	8,258
Unitholders' equity:		
Unitholders' capital (note 7)	**54,311**	48,193
Contributed surplus (note 8)	**2,663**	2,205
Retained earnings	**31,559**	28,852
Accumulated other comprehensive income	**3,326**	-
	91,859	79,250
Commitments and contingencies (note 15)		
	$ 183,872	$ 131,032

See accompanying notes to consolidated financial statements.

Approved by the Trustees:

Signed: *"Mark L. Bentsen"*
Mark L. Bentsen
Trustee

Signed: *"Rod Maxwell"*
Rod Maxwell
Trustee

CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

Years ended December 31, 2008 and 2007
Dollars in '000's except per Trust Unit amounts

	2008	2007
Revenues	**$ 178,928**	$ 145,106
Expenses:		
Operating	**98,614**	73,482
General and administrative	**31,063**	25,774
Depreciation and amortization	**13,416**	12,054
Interest - long-term debt and capital lease obligations	**1,158**	1,084
Interest - other	**422**	404
Foreign exchange loss	**94**	492
Unit-based compensation expense	**1,705**	1,603
	146,472	114,893
	32,456	30,213
Gain on disposal of property and equipment	**2,138**	1,777
Income before taxes	**34,594**	31,990
Taxes (note 6):		
Current	**6,348**	3,982
Future (reduction)	**(1,893)**	3,145
	4,455	7,127
Net income	**30,139**	24,863
Retained earnings, beginning of year	**28,852**	30,394
Less: Distributions	**(27,432)**	(26,405)
Retained earnings, end of year	**$ 31,559**	$ 28,852
Net income per Trust Unit (note 9):		
Basic	**$ 0.94**	$ 0.79
Diluted	**$ 0.93**	$ 0.78

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME AND ACCUMULATED OTHER COMPREHENSIVE INCOME

Years ended December 31, 2008 and 2007
Dollars in '000's

	2008	2007
Net income for the year	**$ 30,139**	$ 24,863
Other comprehensive income:		
Unrealized foreign exchange gain on translation of self-sustaining foreign operations	**3,326**	-
Comprehensive income for the year	**$ 33,465**	$ 24,863
Accumulated other comprehensive income, beginning of year	-	-
Adjustment for change in foreign currency translation method (note 2)	**(1,894)**	-
Other comprehensive income	**5,220**	-
Accumulated other comprehensive income for the year	**$ 3,326**	$ -

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2008 and 2007
Dollars in '000's

	2008	2007
Cash provided by (used in):		
Operating activities:		
Net income	**$ 30,139**	$ 24,863
Items not involving cash:		
Depreciation and amortization	**13,416**	12,054
Future income taxes	**(1,893)**	3,145
Unrealized foreign exchange (gain) loss	**(405)**	(195)
Unit-based compensation expense	**1,705**	1,603
Gain on disposal of property and equipment	**(2,138)**	(1,777)
	40,824	39,693
Changes in non-cash operating working capital (note 12)	**(4,681)**	36
	36,143	39,729
Investing activities:		
Property and equipment additions	**(47,618)**	(19,857)
Proceeds on disposal of property and equipment	**3,761**	3,575
Changes in non-cash investing working capital (note 12)	**3,723**	(325)
	(40,134)	(16,607)
Financing activities:		
Advances under long-term debt	**23,047**	2,228
Repayment of long-term debt	**(113)**	(116)
Repayment of capital lease obligations	**(228)**	(214)
Distributions paid to Unitholders	**(27,368)**	(27,903)
Proceeds on exercise of Trust Unit options (note 7)	**4,904**	3,065
Change in bank indebtedness	**9,376**	(430)
	9,618	(23,370)
Effect of exchange rate on changes in cash and cash equivalents	**618**	-
Change in cash and cash equivalents	**6,245**	(248)
Cash and cash equivalents, beginning of year	**1,306**	1,554
Cash and cash equivalents, end of year	**$ 7,551**	$ 1,306

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2008 and 2007
Dollars in '000's except per Trust Unit amounts

1. General:

Cathedral Energy Services Income Trust (the "Trust") is an unincorporated, open-ended limited purpose mutual fund trust established under the laws of the Province of Alberta on June 24, 2002.

The Trust's operating entities; Cathedral Energy Services Ltd., Cathedral Energy Services Limited Partnership and Cathedral Energy Services Inc. (collectively the "Company") are 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. The Company is in the process of setting up operations in Venezuela for providing directional drilling services. The Company markets its services under five brand names: *Directional Plus* which provides horizontal and directional drilling services; *CAT Downhole Tools* which provides downhole equipment including drilling jars, shock tools 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.

The Trust owns, directly and indirectly, 100% of the common shares and subordinated notes of Cathedral Energy Services Ltd., 100% of the common shares of Cathedral Energy Services Inc., Directional Plus International Ltd. and Directional Plus de Venezuela, C.A. and 100% of the partnership units of Cathedral Energy Services Limited Partnership. Pursuant to a note indenture, the Trust is entitled to an interest payment from Cathedral Energy Services Ltd. in relation to the subordinated notes.

2. Significant accounting policies:

These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and include the following significant accounting policies:

(a) Principles of consolidation:

These consolidated financial statements include the accounts of the Trust and its wholly-owned entities, Cathedral Energy Services Commercial Trust, Cathedral Energy Services Ltd., Cathedral Energy Services Limited Partnership, Advance Wireline Inc., Cathedral Energy Services Inc., Directional Plus International Ltd. and Directional Plus de Venezuela, C.A.

(b) 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 translation 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.

(c) Inventory:

Inventory is comprised of parts to be used in repairing equipment and operating supplies. Inventory is valued at the lower of cost and net realizable value.

(d) Property and equipment:

Property and equipment are stated at cost less accumulated depreciation. Depreciation is provided using the declining balance method at the following annual rates:

Asset	Rate
Directional drilling equipment	10 - 25%
Production testing equipment	20 - 25%
Wireline equipment	20%
Automotive equipment	20 - 25%
Buildings	4%
Office and computer equipment	20%

Leasehold improvements are depreciated on a straight-line basis over the term of the lease.

Deferred development costs are expenses incurred with respect to the pre-commercialization of downhole equipment. These costs are amortized on a straight-line basis over 5 years upon commercialization of the equipment.

2. Significant accounting policies (continued):

(e) Future income taxes:

The Trust uses the asset and liability method of accounting for future income taxes whereby future income tax assets and liabilities are determined based on temporary differences between the accounting basis and the tax basis of the assets and liabilities, and are measured using substantively enacted tax rates and laws expected to apply when these differences reverse. Tax expense is the sum of the Trust's provision for current taxes and the difference between the opening and ending balances of the future income tax assets and liabilities.

(f) Revenue recognition:

Revenue is recognized as services are rendered based upon daily, hourly or job rates. Revenue related to the rental of downhole tools is recognized in the period during which the rental hours/days occur.

(g) Per Trust Unit amounts:

Basic net income per Trust Unit is computed by dividing net income by the weighted average number of Trust Units outstanding for the year. Diluted per Trust Unit amounts reflect the potential dilution that could occur if securities or other contracts to issue Trust Units were exercised or converted to Trust Units. The treasury stock method is used to determine the dilutive effect of Trust Unit options and other dilutive instruments.

(h) Unit-based compensation plan:

i) Trust Unit Option plan - The Trust has a Trust Unit option plan as described in note 8. The related Trust Unit based compensation expense is recorded for Trust Unit options issued to employees and non-employees using the fair value method. The fair value of employee Trust Unit options is valued on the date of grant and the resulting fair value is recorded as an expense over the vesting period of the option. The fair value of non-employee Trust Unit options are revalued each reporting date with the change in fair value on the vested options recorded in the income statement, and the change in fair value on unvested options expensed over the remaining vesting period. In determining the fair value of the Trust Unit options granted, the Black-Scholes model is used and assumptions regarding interest rates, underlying volatility of the Trust's Trust Units, distribution yield and expected life of the options are made.

ii) Phantom Option plan - The Trust has a Phantom Option plan that provides for the granting of stock appreciation rights ("SARs") to key employees. The SARs provide 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.

(i) Cash and cash equivalents:

Cash and cash equivalents consist of cash and highly liquid investments which have maturities of less than three months at the date of acquisition.

(j) Distributions to Unitholders:

Distributions to Unitholders are declared on the last business day of each month and paid on or about the 15th of the following month. The amount of the distributions to Unitholders is as declared and approved by the Trustees of the Trust. On an annual basis the net income of the Trust, being equal to the total interest earned by the Trust on the subordinated notes, dividends, if any, from its wholly-owned subsidiaries and income allocated from Cathedral Energy Services Commercial Trust through its investment in Cathedral Energy Services Limited Partnership, less administrative expenses incurred by the Trust and amounts paid in connection with any cash redemption of Trust Units is allocated to Unitholders.

(k) Goodwill:

Goodwill represents the excess of the purchase price over the value attributed to the net tangible and intangible assets acquired. Goodwill is not subject to amortization but is subject to an annual review for impairment (or more frequently if events or changes in circumstances indicate that goodwill is impaired) which consists of a comparison of the Trust's fair value of the net assets to their carrying value. The net carrying value of goodwill would be written down if the value is determined to be impaired.

(l) Intangible assets:

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

(m) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. Significant accounting policies (continued):

contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

The most significant estimates relate to the depreciation of property and equipment, the cost recovery of property and equipment, goodwill and intangible assets and the determination of unit-based compensation. Actual results could differ from those estimates.

(n) Accounting policy developments in 2008:

The following summarizes accounting changes that were applied to the Trust's consolidated financial statements for the year ended December 31, 2008:

i) The Canadian Institute of Chartered Accountants ("CICA") issued section 3031, Inventories, which 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. The Trust adopted this standard effective January 1, 2008 and it had no material impact on the Trust's consolidated financial statements.

ii) The CICA issued 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 13.

iii) The CICA issued 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 14.

iv) During 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.

(o) Future accounting policy developments:

The following summarizes accounting changes that will be relevant to the Trust's consolidated financial statements subsequent to December 31, 2008.

i) The CICA issued 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.

ii) In January 2009, the CICA issued Section 1582, Business Combinations, which replaces former guidance on business combinations. Section 1582 establishes principles and requirements of the acquisition method for business combinations and related disclosures. This statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 2011 with earlier application permitted. The Trust is currently evaluating the effects of adopting these changes.

iii) In January 2009, the CICA issued Sections 1601, Consolidated Financial Statements, and 1602, Non-controlling Interests, which replaces existing guidance. Section 1601 establishes standards for the preparation of consolidated financial statements. Section1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are effective on or after the beginning of the first annual reporting period beginning on or after January 2011 with earlier application permitted. The Trust is currently evaluating the effects of adopting these changes.

(p) International Financial Reporting Standards:

In February, 2008, the CICA 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Property and Equipment:

2008		Cost		Accumulated depreciation		Net book value
Directional drilling equipment	$	80,410	$	29,611	$	50,799
Production testing equipment		19,108		5,403		13,705
Wireline equipment		29,369		11,356		18,013
Automotive equipment		686		206		480
Office and computer equipment		3,532		1,592		1,940
Leasehold improvements		758		344		414
Deferred development costs		2,338		1,456		882
Buildings		11,028		296		10,732
Land		4,322		-		4,322
	$	151,551	$	50,264	$	101,287

Included in 2008 property and equipment are assets under capital leases with a cost of $425 and a net book value of $207.

2007		Cost		Accumulated depreciation		Net book value
Directional drilling equipment	$	57,893	$	24,489	$	33,404
Production testing equipment		9,829		3,323		6,506
Wireline equipment		26,373		7,232		19,141
Automotive equipment		442		113		329
Office and computer equipment		2,633		1,240		1,393
Leasehold improvements		631		176		455
Deferred development costs		1,986		1,060		926
Buildings		4,538		109		4,429
Land		1,056		-		1,056
	$	105,381	$	37,742	$	67,639

Included in 2007 property and equipment are assets under capital leases with a cost of $1,429 and a net book value of $901.

4. Bank indebtedness:

The Trust has a $20,000 (2007 - $12,500) demand operating line of credit that bears interest at the bank's prime rate plus 0.25% (2007 – 0.00%) per annum December 31, 2008 – 3.75%; (December 31, 2007 – 6.0%) with interest payable monthly and is secured as described in note 5.

5. Long-term debt:

		2008		2007
Bank revolving term loan at an authorized amount of $45,000 (2007 - $25,000), bearing interest at the bank's prime rate plus 0.75% (2007 – 0.5%) per annum (December 31, 2008 – 4.25%; December 31, 2007 – 6.5%), without repayment terms, maturing June 30, 2009 subject to an annual extension upon agreement between the borrower and the bank for a further one-year period. Prior to maturity the borrower may convert its revolving term loan to a non-revolving term loan repayable monthly over 36 months with interest only for the first 12 months	$	40,000	$	17,000
Non-interest bearing loans secured by the related automotive equipment with various maturity dates up to 2010		218		283
		40,218		17,283
Less: current portion of long-term debt		(97)		(99)
	$	40,121	$	17,184

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Long-term debt (continued):

Minimum principal amounts to be paid under long-term debt (assuming the Trust elects prior to the maturity date of the revolving term loan to repay the loan over 36 months with interest only for the first 12 months) during the next five years are approximately as follows:

2009	$ 97
2010	10,090
2011	20,031
2012	10,000
2013	-

6. Taxes:

The Trust is a mutual fund trust as defined under the Income Tax Act (Canada). All taxable income earned by the Trust has been allocated to Unitholders and such allocations are deducted for income tax purposes. The Trust's wholly-owned subsidiaries are however, subject to income taxation and provide for income tax obligations based upon statutory corporate rates. In June 2007, the Government of Canada's Bill C-52 Budget Implementation Act, 2007 (the "Bill"), was enacted and this will result in the taxation of existing income and royalty trusts, other than real estate investment trusts, at effective rates similar to Canadian corporations. Enactment of the Bill resulted in the recognition of future income tax amounts based on estimated net taxable temporary differences which are expected to reverse after 2010 and for which no tax has previously been recorded in the Trust's financial statements. Accordingly, a net future income tax liability of $219 and a $2,535 current year net expense reduction has been recognized in accounts for the year ended December 31, 2008.

The provision for taxes differs from the result that would have been obtained by applying the combined federal and provincial income tax rate for the following reasons:

	2008	2007
Effective tax rate	29.8%	32.6%
Income before taxes	$ 34,594	$ 31,990
Income of Trust subject to tax in the hands of the Unitholders, not the Trust	(15,905)	(20,045)
Income before taxes of subsidiary companies	$ 18,689	$ 11,945
Effective tax rate applied to income before taxes of subsidiary companies	$ 5,569	$ 3,894
Adjustment to future income tax asset/liability for change in effected tax rates	(2,592)	(470)
Income taxed in jurisdictions with different tax rates	1,228	501
Adjustment to future income tax liability for change in tax legislation	-	2,754
Non-deductible expenses	430	448
Non-taxable portion of gain on disposal of property and equipment	(165)	(20)
Capital taxes	12	47
Other	(27)	(27)
	$ 4,455	$ 7,127

The components of the net future income tax liability at December 31, 2008 and 2007 are as follows:

	2008	2007
Future income tax liability:		
Property and equipment	$ 3,046	$ 4,132
Partnership interests	544	734
Deferred partnership income	3,256	3,392
	$ 6,846	$ 8,258

7. Unitholders' equity:

(a) Authorized: An unlimited number of Trust Units without nominal or par value.

(b) Issued:

	Number of Trust Units	Amount
Balance, December 31, 2006	30,970,979	$ 44,667
Issued on exercise of options	691,938	3,065
Contributed surplus on options exercised (note 9)	-	461
Balance, December 31, 2007	31,662,917	48,193
Issued on exercise of options	919,105	4,904
Contributed surplus on options exercised (note 9)	-	1,214
Balance, December 31, 2008	32,582,022	$ 54,311

(c) Trust Unit options:

The Trust's Trust Unit based compensation plan is a "rolling number" type option plan which provides for the number of authorized but unissued Trust Units that may be subject to options granted under the unit option plan at anytime can be up to 10% of the number of Trust Units outstanding from time to time.

Under the plan, the exercise price of each option at the date of issuance equals the fair market value of the Trust Units on the day immediately prior to the grant, subject to a potential future reduction, and has a maximum term till expiry of ten years. Options vest over a period of three years from the date of grant as employees, trustees or consultants render continuous service to the Trust. At the option of the optionholder, the exercise price may be reduced annually by the amount by which the Trust's net income per diluted Trust Unit for a fiscal year exceeds a prescribed threshold return for the fiscal year. The threshold return is between 10% and 15% (percentage is set annually by the Board of Directors of Cathedral Energy Services Ltd.) of the weighted average Unitholders' Equity for the fiscal year calculated on a diluted per Trust Unit basis. The reduction is calculated annually and is effective March 15 following each fiscal year. The March 15, 2009 reduction available to Unitholders was $0.61 (March 15, 2008 - $0.49) per option.

A summary of the status of the Trust Unit based compensation plan as at December 31, 2008 and 2007, and changes during the years then ended is presented below:

	2008		2007	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of year	2,812,937	$ 8.25	2,869,544	$ 7.33
Granted	1,441,000	11.64	764,600	8.49
Exercised	(919,105)	5.34	(691,938)	4.43
Forfeited	(281,402)	9.54	(129,269)	9.54
Outstanding, end of year	3,053,430	$ 10.27	2,812,937	$ 8.25
Exercisable, end of year	1,086,868	$ 9.64	797,861	$ 9.00

The range of exercise prices for the Trust unit options outstanding at December 31, 2008 is as follows:

	Total options outstanding			Exercisable	
Range	Number	Weighted average exercise price	Weighted average remaining life (years)	Number	Weighted average exercise price
$2.59 to $4.96	54,907	$ 3.97	2.10	54,907	$ 3.97
$8.20 to $9.98	1,846,522	$ 9.22	4.79	588,701	$ 9.26
$10.26 to $10.87	614,000	$ 10.66	3.57	381,660	$ 10.67
$11.30 to $12.18	88,001	$ 11.79	3.34	61,600	$ 11.83
$14.38 to $14.74	450,000	$ 14.48	5.37	-	$ -
$2.59 to $14.74	3,053,430	$ 10.27	4.54	1,086,868	$ 9.64

During the year ended December 31, 2008, the Trust has recorded unit-based compensation expense of $1,672 (2007 - $1,504) related to the Trust Unit option plan.

7. Unitholders' equity (continued):

(c) Trust Unit options (continued):

The following table sets out the assumptions used in applying the Black-Scholes model for options issued in 2008 and 2007 as well as the resulting fair value:

	Date of issue		
	September 24 2008	June 3 2008	May 7 2008
Number of options issued	844,000	136,000	461,000
Exercise price	$9.65	$14.74	$14.38
Fair value per option	$1.41	$2.75	$2.63
Expected distribution yield	8.71%	5.70%	5.84%
Risk-free interest rate	3.34%	3.24%	2.99%
Expected volatility	35%	35%	35%
Expected life (in years)	3.5	3.5	3.5

	Date of issue		
	November 22 2007	September 10 2007	March 9 2007
Number of options issued	150,000	536,000	78,000
Exercise price	$8.50	$8.20	$10.44
Fair value per option	$1.15	$1.07	$1.77
Expected distribution yield	9.88%	10.24%	8.05%
Risk-free interest rate	4.22%	4.28%	3.94%
Expected volatility	34%	34%	37%
Expected life (in years)	3.5	3.5	3.5

The Black-Scholes option valuation model used by the Trust to determine fair value was developed for use in estimating the fair value of freely traded options, which are fully transferable and have no vesting restrictions. The Trust's options are not transferable, cannot be traded and are subject to vesting restrictions and exercise restrictions under the Trust's blackout policy which would tend to reduce the fair value of the Trust's options. In addition, this model requires the input of highly subjective assumptions, including future stock price volatility and expected time until exercise that can cause a significant variation in the estimate of the fair value of the options.

(d) 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 vesting period. During 2008 120,000 SARs were issued and as at December 31, 2008 there were 120,000 SARs outstanding. During the year ended December 31, 2008, nil compensation expense related to the SARs was recorded.

8. Contributed surplus:

Balance, December 31, 2006	$ 1,162
Non-cash compensation expense related to Trust Unit option plan (note 8)	1,504
Less: Contributed surplus on options exercised	(461)
Balance, December 31, 2007	2,205
Non-cash compensation expense related to Trust Unit option plan (note 8)	1,672
Less: Contributed surplus on options exercised	(1,214)
Balance, December 31, 2008	$ 2,663

9. Per Trust Unit amounts:

In calculating per Trust Unit amounts, the Trust utilizes the treasury stock method to determine the dilutive effect of Trust Unit options and other dilutive instruments. Under the treasury stock method, only "in the money" dilutive instruments impact the diluted calculations.

At December 31, 2008, the basic weighted average number of Trust Units outstanding was 32,214,502 (2007 – 31,402,445). At December 31, 2008, the diluted weighted average number of Trust Units outstanding was 32,462,510 (2007 – 31,781,320), which includes the addition of 222,416 (2007 – 378,875) Trust Units to the basic weighted average number of Trust Units outstanding during the year ended December 31, 2008 for the dilutive effect of the Trust Unit options.

10. 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 December 31, 2008 and 2007 this ratio was as follows:

	2008	2007
Long-term debt(1)	$ 40,121	$ 17,184
Capital lease obligations(1)	112	257
Unitholders' equity excluding AOCI	88,533	79,250
Total capitalization	$128,766	$ 96,691
Long-term debt/capital lease obligations to long-term debt\capital lease obligations plus unitholders' equity ratio	0.31	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 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 December 31, 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.

11. 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 December 31, 2008 due to the relatively short period to maturity of the instruments. The fair value of long-term debt at December 31, 2008 approximated its carrying value as it bears interest at floating rates. The fair value of capital lease obligations at December 31, 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 December 31, 2008 the Trust's provision for doubtful accounts is $486 (2007 - $467) and for the year ended had a bad debt expense of $16 (2007 - $602).

(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 10. The Trust's credit facility as outlined in notes 4 and 5.

11. Financial instruments (continued):

(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 December 31, 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 $554 per annum based upon the balance of bank indebtedness and long-term debt with a floating interest rate outstanding as at December 31, 2008.

12. Supplemental cash flow disclosure:

	2008	2007
Components of changes in non-cash working capital are as follows:		
Accounts receivable	$ (3,597)	$ 334
Inventory	(5,379)	(534)
Prepaid expenses and deposits	(789)	45
Accounts payable and accrued liabilities	9,836	757
Taxes payable/(recoverable)	(1,029)	(891)
	(958)	(289)
Less: changes in working capital related to investing activities	3,723	(325)
Changes in working capital related to operating activities	$ (4,681)	$ 36
Interest paid	$ 1,562	$ 1,481
Taxes paid	$ 7,234	$ 4,873

13. Segmented information:

The Trust, through its wholly-owned entities, Cathedral Energy Services Ltd., Cathedral Energy Services Limited Partnership, and Directional Plus de Venezuela, C.A., is engaged in the business of providing selected oilfield services to oil and natural gas companies in western Canada, the Rocky Mountain and Williston Basin regions of the United States and Venezuela, 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 currently being provided in both Canada and the United States and are expected to occur in Venezuela in 2009. The amounts related to each segment are as follows:

Revenues	2008	2007
Canada	$ 103,590	$ 102,797
United States	75,338	42,309
	$ 178,928	$ 145,106

Revenues by operating division	2008	2007
Directional drilling (including rental of related equipment)	$ 135,999	$ 111,373
Wireline	25,808	21,682
Production testing	17,121	12,051
	$ 178,928	$ 145,106

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. Segmented information (continued):

Property and equipment, goodwill and intangibles	2008	2007
Canada	$ 98,691	$ 72,788
United States	14,974	15,214
International	7,838	-
	$ 121,503	$ 88,002

During the year ended December 31, 2008, one customer accounted for 27% (2007 – 22%) of consolidated revenues.

14. Related party transaction:

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 in 2008 was $136 (2007 - $204).

15. Commitments and contingencies:

(a) Leases:

The Trust has commitments under operating leases for office and shop space and automotive equipment. Amounts to be paid under these leases during the next five years are approximately as follows:

2009	$ 3,027
2010	2,200
2011	1,462
2012	1,189
2013	1,045
Thereafter	2,108

(b) Property and equipment additions:

As at December 31, 2008, the Trust has committed to purchase $4,793 (2007 – $2,802) of property, equipment. and operating supplies.

(c) The Trust, in the normal course of operations, will become subject to a variety of legal and other claims against the Trust. Management and the Trust's legal counsel evaluate all claims on their apparent merits, and accrue management's best estimate of the estimated costs to satisfy such claims. Management believes that the outcome of legal and other claims filed against the Trust will not be material to the Trust.

OFFICERS AND SENIOR MANAGEMENT

Mark L. Bentsen
President and Chief Executive Officer

Randal H. Pustanyk
Vice President, Operations

P. Scott MacFarlane
Chief Financial Officer

Jeff Morden
Vice President, Engineering

John Ruzicki
Vice President

David Diachok
Vice President, Sales

Richard DeFreitas
President – Tier One Oil Services

Lance McGuire
Operations Manager – Eline Wireline

Cory Loverin
Operations Manager – Slickline Wireline

AUDITORS
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Calgary, Alberta

LEGAL COUNSEL
Burstall Winger LLP
Calgary, Alberta

REGISTRAR AND TRANSFER AGENT
Computershare Trust Company of Canada
Calgary, Alberta

BANKER
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