



PHOENIX
TECHNOLOGY INCOME FUND



Q1

FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2005

FINANCIAL HIGHLIGHTS

Phoenix Technology Income Fund ("Phoenix" or the "Fund") is the successor organization to Phoenix Technology Services Inc. ("PTSI" or the "Company"). PTSI was reorganized into an income fund effective July 1, 2004, and as a result of a Plan of Arrangement, PTSI is a wholly owned subsidiary of the Fund.

Despite an early spring break-up in western Canada that occurred in March 2005, Phoenix has continued to grow and expand its operations to report record quarterly financial results. The Fund increased its operating capacity in 2004 from capital expenditures made on an acquisition and Current Loop Telemetry ("CLT") guidance equipment and this has allowed Phoenix to meet the increasing customer demand in both Canada and the United States. Operating income for the three-month period ended March 31, 2005, increased by 44 percent to \$3.8 million from \$2.7 million for the comparable 2004 period. In the current quarter, the Fund paid out cash distributions of \$2.5 million that equated to a cash payout ratio of 51 percent.

(Stated in thousands of dollars except per unit amounts and units outstanding)

Three months ended March 31,	2005 <i>(unaudited)</i>	2004 <i>(unaudited)</i>	% Chg.
Operating Results			
Revenue	16,092	12,400	30
Operating income ⁽¹⁾	3,815	2,658	44
Net earnings	3,512	3,031	16
Earnings per unit – diluted	0.17	0.17	–
EBITDA ⁽¹⁾⁽²⁾	4,895	4,535	8
EBITDA per unit – diluted ⁽¹⁾	0.23	0.25	(8)
Cash Flow			
Cash flow ⁽¹⁾⁽³⁾	4,812	4,022	20
Cash flow per unit – diluted ⁽¹⁾	0.23	0.23	–
Capital expenditures	1,402	1,023	37
Cash distributions made	2,472	–	–
Cash distributions per unit ⁽¹⁾	0.12	–	–
Financial Position, as at March 31			
Working capital	13,037	11,755	11
Long-term debt ⁽⁴⁾	2,900	4,502	(36)
Unitholders' equity	40,570	34,655	17
Fund units outstanding	20,608,189	18,151,841	14

(1) The Fund uses operating income, earnings before interest, taxes, and depreciation ("EBITDA"), EBITDA per unit, cash flow, cash flow per unit and cash distributions per unit as financial performance measures that are not recognized under GAAP. Management believes that these measures provide supplemental financial information that is useful in the evaluation of the Fund's operations. Investors should be cautioned, however, that these measures should not be construed as alternatives to net income determined in accordance with GAAP as an indicator of Phoenix's performance. Phoenix's method of calculating these measures may differ from other organizations, and accordingly, these may not be comparable.

(2) EBITDA for the three month period ended March 31, 2004 includes investment tax credit income of \$1.2 million.

(3) Cash flow is defined as cash provided from operations before net changes in non-cash working capital items.

(4) Excludes current portion of long-term debt.

RELIABLE DATA. PRECISE DRILLING. MAXIMUM RETURNS.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis ("MD&A") has been prepared taking into consideration information available up to April 28, 2005. The MD&A focuses on key information contained in the consolidated financial statements with reference to known risks and uncertainties related to the oilfield services industry in western Canada and the United States. It should be recognized that this discussion excludes changes that may occur in economic, political and environmental conditions and consequently, this discussion should not be considered all-inclusive. The discussion and analysis of the financial condition, results of operations and cash flows should be read in conjunction with material contained in the Fund's 2004 annual report, including the audited consolidated financial statements and accompanying notes, and the Fund's 2005 first quarter report, including the unaudited consolidated financial statements and accompanying notes.

FORWARD-LOOKING STATEMENTS

Some matters discussed in this report may be considered forward-looking statements. Such statements include declarations regarding management's intent, belief or current expectations. Prospective investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve a number of risks and uncertainties. Actual results could differ materially from those indicated by such forward-looking statements. Such risks and uncertainties include: the possible unavailability of financing, risks related to the uncertainty inherent in the oil and gas horizontal and directional services industry, the impact of energy price fluctuations, the seasonal nature of business, the dependence on third party suppliers and contractors, changes in government regulation, the impact of competition, the successful commercialization of certain technologies, the dependence upon competent employees including senior management, and fluctuations in currency exchange rates and interest rates.

OVERVIEW OF BUSINESS

The Fund's primary business is the provision of horizontal and directional technology and drilling services in western Canada and the United States. Phoenix also manufactures CLT guidance systems for use in its internal operations, and for lease to other horizontal and directional service providers within the industry. A tool rental division, JAG Rentals ("JAG"), provides the western Canadian oil and natural gas service industry with downhole high performance drilling motors, drilling jars, shock tools, and stabilizers. Phoenix maintains sales, service and operational centers in Calgary, Alberta, Houston, Texas, and Casper, Wyoming. The Fund's Head Office and Research and Development centers are located in Calgary.

As at March 31, 2005, Phoenix had the capacity to run fifty-two concurrent jobs with twenty-nine guidance systems deployed in Canada and twenty-three in the United States. The Fund currently has a fleet of twenty CLT guidance systems and thirty-two positive and negative pulse measurement while drilling ("MWD") systems. During the three month period ended March 31, 2005, the Fund commenced to manufacture five additional CLT systems of which two were field ready by the end of the first quarter. The remaining three CLT systems are expected to be completed and in the field early in the second quarter of this year. In addition, the Fund plans to build a further ten CLT systems throughout the remainder of 2005. The expansion of the CLT fleet will meet the expected high level of demand for services from Phoenix's growing customer base. Once these additional CLT systems are in service, the Fund will possess a fleet of sixty-five guidance systems of which thirty-three will be CLT units.

RESULTS OF OPERATIONS

Revenue

For the three-month period ended March 31, 2005, the Fund generated record quarterly revenue of \$16.1 million, which was 30 percent higher than revenue of \$12.4 million for the corresponding 2004 period. Demand for the Fund's services in both Canada and United States increased to record levels as a result of robust drilling environments in both countries, and the Fund being successful not only in solidifying its relationships with current customers, but also in acquiring new strategic customers. The high level of demand for services that resulted in the quarter was met by the increased operating capacity that was created in 2004 through CLT equipment fleet additions and the Radius Directional Services Inc. business acquisition.

The Fund continues to report its operating segments on a geographical basis through the regions of Canada and the United States. Within the Canadian segment, the Fund had two operating divisions, MWD/CLT drilling services and JAG.

Consolidated MWD/CLT guidance equipment utilization increased to 48 percent for the three-month period ended March 31, 2005, from 46 percent for the comparable 2004 period. Phoenix considers that the maximum achievable utilization rate to be 67 percent due to the fact that time is required to mobilize and service the equipment.

Canadian segment

Revenue within the Canadian segment increased by 14 percent to a record \$11.7 million for the three-month period ended March 31, 2005, as compared \$10.3 million for the 2004 period. Although record revenue for the segment was achieved, the activity was adversely affected by an early break-up that was caused by warm weather in March. Included in the segment's revenue in the 2004 period is \$0.5 million representing revenue derived from one CLT system sale. MWD/CLT drilling services revenue increased by 17 percent to \$11.0 million, compared to \$9.4 million in 2004. In comparison, the number of horizontal and directional wells drilled within Canada in the first quarter of 2005 increased by 8 percent to 1,709 wells drilled, versus 1,577 in 2004.

JAG also reported a strong result in the 2005 period with revenue of \$0.7 million, as compared to \$0.5 million in the 2004 period, a 40 percent increase. JAG continues to expand its activity through increased marketing efforts on high performance drilling motors and jars.

United States segment

The Fund conducts its United States ("US") operations through its wholly owned subsidiary, Nevis Energy Services Inc. ("Nevis"). Nevis achieved record revenue of \$4.4 million for the three-month period ended March 31, 2005, that represented an increase of 110 percent from \$2.1 million in the 2004 period. Demand within the industry and from Nevis's customers has been solid in the 2005 period. Nevis has gained additional market share and customers as a direct result of the opening of a facility in Casper, Wyoming late in 2004. This sales and operations facility will allow Nevis further penetration into the rocky mountain region market in 2005. Due to the current level of strong demand in the US, the Fund has deployed a total of six MWD/CLT systems from the Canadian fleet to Nevis during the current break up period in Canada. Nevis continued to have numerous MWD/CLT systems under monthly leases with other horizontal and directional service providers.

Operating Costs and Expenses

Direct costs

Direct costs include the Fund's field, shop and current research & development expenditures. For the three-month period ended March 31, 2005, direct costs increased by 31 percent to \$9.6 million from \$7.3 million for the comparable 2004 period. This increase in direct costs is in line with the Fund's reported increase in revenue in the period. Gross margin, as a percentage of revenue, was 41 percent for both three-month periods ended March 31, 2005, and 2004. Included in gross

profit for the 2004 period is profit of \$0.3 million realized from the sale of one CLT kit to a service provider in the US. If this profit were excluded from the 2004 result, the 2004 period gross margin, as a percentage of revenue, would have been 38 percent. Current research and development expenses for the three-month period ended March 31, 2005, decreased slightly to \$138,000 from \$145,000 in the 2004 period.

Selling, general and administration (“SG&A”)

SG&A costs for the three-month period ended March 31, 2005, were \$1.7 million or 11 percent of revenue, as compared to \$1.7 million or 14 percent of revenue for the corresponding 2004 period. Despite the activity increase in the 2005 period over 2004, SG&A costs did not increase significantly due to selective reductions in staff levels in 2004.

Depreciation and amortization

Depreciation and amortization for the three-month period ended March 31, 2005 increased by 22 percent to \$1.1 million from \$0.9 million in 2004 due to the capital expenditures that occurred throughout 2004.

Foreign exchange gains/losses

A net foreign exchange loss of \$6,000 was reported for the period ended March 31, 2005 compared to a net gain of \$60,000 in the 2004 period. The majority of the gain in the 2004 period related to the revaluation of US denominated notes receivable amounts and fluctuating Canadian dollar and US dollar exchange rates.

Interest on long-term debt

Interest on long-term debt remained at \$44,000 for both three-month periods ended March 31, 2005, and 2004. Although average debt levels were higher in the 2004 period due in part to a business acquisition, interest rates realized by the Fund on its debt were lower in 2005.

Interest income

Interest income is generated from short-term money market investments from excess cash balances held. Interest income decreased from \$68,000 for the three-month period ended March 31, 2004, to \$29,000 in 2005, or 57 percent. This was a result of lower cash balances held throughout the 2005 period due to the Fund’s financing requirements for capital expenditures.

Gain on disposal of drilling equipment

The Fund realized a net gain on disposal of drilling equipment of \$128,000 for the three-month period ending March 31, 2005, compared to \$83,000 in the 2004 period. The disposals relate to insured equipment lost in well bores and are uncontrollable in nature.

Investment tax credits

During the three-month period ended March 31, 2004, the Fund recognized a \$1,170,000 income benefit associated with investment tax credits that related to past years’ scientific research expenditures made by the Fund. The portion of the investment tax credit associated with past Well Director® expenditures was \$1,039,000 and these amounts have been disclosed under the classification of investment tax credits on the statement of earnings.

Income taxes

For the three-month period ended March 31, 2005, the Fund reported a provision for income taxes of \$0.3 million, compared to \$0.7 million in the 2004 period. The effective tax rate for the 2005 period was 8 percent, compared to a statutory rate of 34 percent. The lower rate results primarily from Phoenix operating as an income fund. Cash distributions are deductible in calculating taxable income of the Fund. The Fund is subject to income taxes under the Income Tax Act only on income not distributed to its unitholders.

EBITDA and net earnings

EBITDA for the three-month period ended March 31, 2005, increased by 8 percent to a record \$4.9 million, \$0.23 per unit diluted, compared to \$4.5 million, \$0.25 per unit diluted in 2004. Net earnings for the three-month period ended March 31, 2005 was also a record for the Fund and increased by 16 percent to \$3.5 million, \$0.17 per unit diluted as compared to \$3.0 million, \$0.17 per unit diluted in the 2004 period. Included in net earnings and EBITDA for the 2004 period is a pre-tax benefit associated with investment tax credit income of \$1.2 million that is non-recurring.

SUMMARY OF QUARTERLY RESULTS

(Stated in thousands of dollars except per unit amounts)

	Mar-05	Dec-04	Sept-04	Jun-04	Mar-04	Dec-03	Sep-03	Jun-03
Revenue	16,092	13,063	10,453	7,930	12,400	9,434	7,207	6,625
Net earnings (loss)	3,512	2,050	1,294	(33)	3,031	689	995	1,161
Earnings per unit – basic	0.17	0.11	0.07	0.00	0.18	0.04	0.06	0.07
Earnings per unit – diluted	0.17	0.11	0.07	0.00	0.17	0.04	0.06	0.07
Cash flow	4,812	4,072	2,117	281	4,022	2,261	1,806	1,862
Cash flow per unit – diluted	0.23	0.22	0.11	0.01	0.23	0.13	0.11	0.11

Activity levels in western Canada vary considerably due to seasonal weather patterns. Traditionally the first quarter of the calendar year is historically the most active for service companies due to cold weather. The ability to move heavy equipment in the Canadian oil and natural gas fields is dependent on weather conditions. As warm weather returns in the spring, the winter's frost comes out of the ground rendering many secondary roads incapable of supporting the weight of heavy equipment until they have thoroughly dried out. The duration of this "spring break-up" has a direct impact on the Fund's activity levels. In addition, many exploration areas in northern Canada are accessible only in winter months when the ground is frozen enough to support equipment. The timing of freeze up and spring break-up affects the ability to move equipment in and out of these areas. As a result, late March through May is traditionally the Fund's slowest time, and as such the operating results of the Fund will vary on a quarterly basis.

LIQUIDITY

Cash flow from operations

Cash flow from operations, before net changes in non-cash working capital, for the three-month period ended March 31, 2005, increased by 20 percent to a record \$4.8 million, \$0.23 per unit diluted, compared to \$4.0 million, \$0.23 per unit diluted. Included in cash flow for the 2004 period is the non-recurring pre tax income benefit of \$1.2 million associated with investment tax credits. Cash distributions made to unitholders in the 2005 period was \$2.5 million or \$0.12 per unit. This translated into a cash payout ratio, cash distributions divided by cash flow, of 51 percent. The reorganization into an income fund that took place on July 1, 2004, positively impacted cash flow in the 2005 period due to the fact that cash distributions made or declared to unitholders are allowable deductions in computing income taxes payable by the Fund.

Investment

For the three-month period ended March 31, 2005, the Fund incurred \$1.4 million in capital expenditures, as compared to \$1.0 million in the 2004 period. In the 2005 period, expenditures of \$0.9 million related to either completed CLT systems or CLT systems still in the manufacturing process. The balance represents other downhole drilling and miscellaneous equipment.

The Fund realized proceeds from the involuntary disposal of drilling equipment in well bores of \$0.2 million in both the 2005 and 2004 periods.

There were no acquisitions in the three-month period ended March 31, 2005. In the comparable 2004 period, the Fund invested \$5.5 million cash to assist with the financing of the \$10.8 million Radius acquisition.

Financing

The Fund had a net outflow of cash from financing activities of \$2.8 million for the three-month period ended March 31, 2005, compared to a net cash outflow of \$0.6 million for the comparable 2004 period. As an income fund Phoenix, in the three-month period ended March 31, 2005, made distributions to unitholders for a total of \$2.5 million or \$0.12 per unit. No corresponding amounts were paid out as a corporation in 2004. Cash was generated from the issue of Fund units from the exercise of unit options in the amounts of \$9,000 in the 2005 period and \$76,000 in 2004.

There was no new long-term debt issued in the 2005 period. Long-term debt of \$1.5 million was issued to assist with the financing of the Radius acquisition in the 2004 period.

In the three-month period ended March 31, 2005, the Fund made long-term debt repayments of \$0.4 million compared to \$2.0 million in 2004. In the 2004 period, \$1.8 million of high interest yielding debt assumed from the Radius acquisition was retired.

Working capital

As at March 31, 2005, the Fund had working capital of \$13.0 million, as compared to \$12.2 million as at December 31, 2004. Phoenix anticipates that it will be able to fund its 2005 capital expenditure program through a portion of its cash flow from operations, its working capital, and the utilization of its unused debt capacity if required. It is also anticipated that the Fund can generate sufficient cash flow from operations to allow it to maintain its current cash distribution rate to unitholders.

CONTRACTUAL OBLIGATIONS

The Company has various contractual obligations outstanding that have been incurred in the normal course of operations:

	Total	1 Year	2-3 Years	4-5 Years
Long-term debt	4,400,000	1,500,000	2,600,000	300,000
Operating Leases	1,245,399	808,852	434,309	2,238
Purchase Obligations	410,207	410,207	–	–
Total	6,055,606	2,719,059	3,034,309	302,238

The purchase obligations are commitments that were outstanding as at March 31, 2005, for capital equipment.

CAPITAL RESOURCES

The Fund has access to a demand revolving loan facility of up to \$5.0 million. This facility would bear interest at the bank prime rate plus 0.375 percent. No amounts on the facility were drawn as at March 31, 2005. The Fund also has access to a revolving loan facility of up to \$1,870,000 to be used to assist in the acquisition of capital assets. The loan would bear interest at the Fund's option at the bank prime rate plus 0.50 percent, or at the banks banker's acceptance rate plus a stamping fee of 1.25 percent. As at March 31, 2005, the Fund was in compliance with all of its bank debt covenants.

OFF BALANCE SHEET ARRANGEMENTS

The Fund had no off balance sheet arrangements as at March 31, 2005.

TRANSACTIONS WITH RELATED PARTIES

During the year the Fund was charged \$92,602 for the provision of various legal services from a director's firm of which he is a partner. These transactions were completed in the normal course of operations on normal market terms and are measured at the exchange amounts.

PROPOSED TRANSACTIONS

The Fund currently has no plans to make any material business acquisitions or capital asset divestitures. The Fund expects to acquire \$8.7 million in capital assets in 2005.

CRITICAL ACCOUNTING ESTIMATES

The consolidated financial statements of the Fund are prepared in accordance with GAAP. The Fund's significant accounting policies are described in the Fund's annual audited consolidated financial statements for the year ended December 31, 2004, under note 1. Management, in preparing these financial statements, are required to make estimates and judgements that affect the reported amounts of assets, liabilities, revenue and expenses. These estimates and judgements are based upon assumptions that are considered reasonable under the circumstances. Actual results could differ from such estimates and judgements by a material amount. The estimates and judgements used that are most critical to the reporting of the Fund's results of operations, cash flow and financial position continue to be; the valuation of accounts receivable, note receivable, goodwill and intangibles, determination of the useful lives and residual values of the Fund's capital equipment, determination of valuation allowances against future income tax assets and expected realization of those assets, estimation of effective income tax rates used, and the classification and method of translation for the Fund's foreign subsidiary.

Refer to the "Critical Accounting Estimates" section of the MD&A contained in the Fund's 2004 annual report.

CHANGES IN ACCOUNTING POLICIES

There have been no new accounting policies adopted during the three-month period ended March 31, 2005, and no changes have been made subsequent to March 31, 2005, nor are any anticipated.

FINANCIAL INSTRUMENTS

The Fund's financial instruments have not materially changed since December 31, 2004. Refer to the "Financial Instrument" section of the MD&A contained in the Fund's 2004 annual report.

BUSINESS RISK FACTORS

The business risk factors applicable to the Fund have not materially changed since December 31, 2004. Refer to the "Business Risk Factors" section of the MD&A contained in the Fund's 2004 annual report.

OUTSTANDING FUND UNIT DATA

(in thousands of units)

As at April 28, 2005

Fund units – basic	20,608
Dilutive securities:	
Options	681
Fund units – diluted	21,289

OUTLOOK

Although Phoenix experienced an earlier than expected break-up in 2005 which adversely affected drilling activity levels in western Canada in the first quarter, the Fund continues to expect that horizontal and directional drilling activity in this market will be very active in 2005 after the spring break-up period has concluded. The United States market has shown continual strength in the first quarter of 2005 and it is anticipated that this will continue for the balance of the year. Despite some short-term fluctuations in commodity prices during the last few months, industry analysts continue to forecast very active drilling markets in 2005 and 2006.

Phoenix is pleased with its record financial results for the first quarter, and is optimistic about the prospects for the remainder of 2005. In order to meet the increased demand from new and existing customers, it is expected that operating capacity will continue to grow in 2005 through the completion of the manufacture of fifteen CLT systems. The Fund expects to enter new markets with the commercialization of technology currently under development. The demand for services originating from our new full service and sales facility in Casper has exceeded our initial expectations, and with the planned additions of further sales and operating staff we are expecting continual growth from that region for the balance of 2005.

On behalf of the Board of Directors

("Signed")

John Hooks

President and Chief Executive Officer

April 28, 2005

CONSOLIDATED BALANCE SHEETS

	March 31,	December 31,
	2005	2004
	<i>(unaudited)</i>	<i>(audited)</i>
ASSETS		
Current assets		
Cash and cash equivalents	\$ 3,167,388	\$ 5,933,924
Accounts receivable	16,831,681	12,307,097
Inventory	690,736	871,316
Prepaid expenses	471,956	448,722
Income taxes recoverable	180,000	265,200
	21,341,761	19,826,259
Drilling and other equipment	22,478,527	22,163,871
Intangibles	234,375	300,000
Goodwill	8,876,351	8,876,351
Investment tax credit receivable	1,387,471	1,387,471
	\$ 54,318,485	\$ 52,553,952
LIABILITIES AND UNITHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	\$ 5,980,776	\$ 5,289,273
Distributions payable (note 2)	824,328	823,994
Current portion of long-term debt	1,500,000	1,500,000
	8,305,104	7,613,267
Long-term debt	2,900,000	3,275,000
Future income taxes	2,543,000	2,239,200
	13,748,104	13,127,467
Unitholders' equity		
Unitholders' capital (note 4)	32,396,820	32,386,415
Contributed surplus	714,048	654,900
Foreign currency adjustment	(1,590,244)	(1,624,827)
Accumulated earnings	16,809,832	13,297,556
Accumulated cash distributions	(7,760,075)	(5,287,559)
	40,570,381	39,426,485
	\$ 54,318,485	\$ 52,553,952

See accompanying notes to the consolidated financial statements.

Approved on behalf of Phoenix Technology Income Fund by Phoenix Technology Services Inc. as administrator:

("Signed")

John Hooks
Chairman of the Board

("Signed")

Cameron Bailey
Director

CONSOLIDATED STATEMENTS OF EARNINGS

Three months ended March 31,	2005 <i>(unaudited)</i>	2004 <i>(unaudited)</i>
Revenue	\$ 16,091,596	\$ 12,400,409
Direct costs	9,571,315	7,331,012
Gross profit	6,520,281	5,069,397
Expenses		
Selling, general and administrative	1,747,036	1,716,245
Depreciation and amortization	1,064,506	862,444
Foreign exchange loss (gain)	6,135	(59,861)
Interest on long-term debt	44,420	43,946
Interest income	(29,208)	(68,127)
Gain on disposition of drilling equipment	(127,884)	(82,777)
	2,705,005	2,411,870
Operating income	3,815,276	2,657,527
Investment tax credit income	–	(1,039,000)
Earnings before income taxes	3,815,276	3,696,527
Provision for income taxes (note 3)		
Current	–	445,000
Future	303,000	221,000
	303,000	666,000
Net earnings	\$ 3,512,276	\$ 3,030,527
Earnings per unit – basic	\$ 0.17	\$ 0.18
Earnings per unit – diluted	\$ 0.17	\$ 0.17

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF ACCUMULATED EARNINGS

Three months ended March 31,	2005 <i>(unaudited)</i>	2004 <i>(unaudited)</i>
Accumulated earnings, beginning of period	13,297,556	8,024,293
Net earnings	3,512,276	3,030,527
Accumulated earnings, end of period	\$ 16,809,832	\$ 11,054,820

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Three months ended March 31,	2005	2004
	<i>(unaudited)</i>	<i>(unaudited)</i>
Cash flows from operating activities		
Net earnings	\$ 3,512,276	\$ 3,030,527
Add (deduct) items not affecting cash		
Depreciation and amortization	1,064,506	862,444
Future income taxes	303,000	221,000
Unrealized foreign exchange (gain) loss	611	(59,861)
Gain on disposition of drilling equipment	(127,884)	(82,777)
Stock-based compensation	59,148	50,439
	4,811,657	4,021,772
Change in non-cash working capital	(3,575,486)	(2,369,099)
	1,236,171	1,652,673
Cash flows from investing activities		
Proceeds on disposition of drilling equipment	236,697	204,192
Acquisition of drilling and other equipment	(1,401,604)	(1,022,795)
Business acquisition	-	(5,503,803)
	(1,164,907)	(6,322,406)
Cash flows from financing activities		
Issuance of units	9,383	75,967
Repayment of long-term debt	(375,000)	(1,968,841)
Distributions to unitholders' (note 2)	(2,472,183)	-
Dissenting shareholder disbursements	-	(159,403)
Issue of long-term debt	-	1,500,000
	(2,837,800)	(552,277)
Decrease in cash and cash equivalents	(2,766,536)	(5,222,010)
Cash and cash equivalents, beginning of period	5,933,924	7,547,533
Cash and cash equivalents, end of period	\$ 3,167,388	\$ 2,325,523
Supplemental information		
Income taxes paid (received)	\$ (125,597)	\$ 473,590
Interest paid	\$ 66,394	\$ 40,918

See accompanying notes to the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Three months ended March 31, 2005 and 2004 *(unaudited)*

Phoenix Technology Income Fund (the "Fund") is an unincorporated open-ended investment trust governed by the laws of the province of Alberta pursuant to a Trust Indenture dated May 19, 2004, between Phoenix Technology Services Inc. ("PTSI") and Computershare Trust Company of Canada. Pursuant to section 193 of the Alberta Business Corporations Act, a Plan of Arrangement was entered into by the Fund, PTSI, Phoenix Commercial Trust ("PCT"), and Phoenix Acquisition Corp. ("PAC"), effective July 1, 2004, whereby PTSI amalgamated with PAC and the successor Company changed its name to Phoenix Technology Services Inc. (the "Company"). The Company is a wholly owned subsidiary of PCT, and PCT is in turn a wholly owned trust of the Fund.

The Fund through its subsidiaries and partnership provides horizontal and directional drilling services to the oil and natural gas industry in western Canada and the United States. The Fund also rents various drilling equipment to oil and natural gas companies in western Canada and manufactures technology for lease and internal use.

These consolidated interim financial statements have been prepared utilizing the same accounting policies and methods as the consolidated financial statements of the Fund for the year ended December 31, 2004. In the opinion of management, these interim financial statements include all adjustments necessary to present fairly the results for the interim periods. 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, liabilities, revenue and expenses. Actual results could differ from such estimates by material amounts.

The interim financial statements and associated notes should be read in conjunction with the consolidated financial statements and associated notes in the Fund's annual report for the year ended December 31, 2004.

1. SEASONALITY OF OPERATIONS:

A significant portion of the Fund's operations is carried on in western Canada. The ability to move heavy equipment in the Canadian oil and natural gas fields is dependent on weather conditions. As warm weather returns in the spring, the winter's frost comes out of the ground rendering many secondary roads incapable of supporting the weight of heavy equipment until they have thoroughly dried out. The duration of this "spring breakup" has a direct impact on the Fund's activity levels. In addition, many exploration and production areas in northern Canada are accessible only in winter months when the ground is frozen enough to support equipment. The timing of freeze up and spring breakup affects the ability to move equipment in and out of these areas. As a result, late March through May is traditionally the Fund's slowest time, and as such the operating results of the Fund will vary on a quarterly basis.

2. DISTRIBUTION PAYABLE:

During the three-month period ending March 31, 2005, the Fund paid monthly distributions of \$0.04 per unit totaling \$2,472,183. The Fund declared a distribution of \$0.04 per unit or \$824,328, payable on April 15, 2005.

3. INCOME TAXES:

The provision for income taxes differs from the amounts that would be obtained by applying the expected combined federal and provincial statutory income tax rate of 34 percent as follows:

	2005
Expected income tax expense	\$ 1,297,200
Add (deduct):	
Unitholders' distributions	(841,000)
Impact of unrecognized temporary differences	(183,000)
Other	29,800
	\$ 303,000

4. UNITHOLDERS' CAPITAL:

(a) Authorized and issued units

Pursuant to the terms of the Plan of Arrangement, on July 1, 2004, each PTSI common shareholder received one (1) trust unit of the Fund for each common share held.

Prior to the Plan of Arrangement, the Company was authorized to issue an unlimited number of common voting shares without nominal or par value.

(audited)

December 31, 2004	Number	Amount
Common shares of Phoenix Technology Services Inc.		
Balance as at December 31, 2003	16,908,649	\$ 20,624,493
Shares issued pursuant to acquisition	1,150,000	3,507,500
Shares issued pursuant to stock option plan	574,956	643,357
Escrow shares cancelled	(43,750)	(55,563)
Shares cancelled under the Plan of Arrangement	(18,589,855)	(24,719,787)
Balance as at July 1, 2004	-	\$ -

Fund units of Phoenix Technology Income Fund

Units issued pursuant to the Plan of Arrangement, July 1, 2004	18,589,855	24,719,787
Issued units pursuant to unit option plan	10,000	12,628
Units issued pursuant to private placement	2,000,000	7,654,000
Balance outstanding, end of year	20,599,855	\$ 32,386,415

(unaudited)

March 31, 2005	Number	Amount
Fund units of Phoenix Technology Income Fund		
Balance at December 31, 2004	20,599,855	\$ 32,386,415
Issued units pursuant to unit option plan	8,334	10,405
Balance outstanding, end of period	20,608,189	\$ 32,396,820

(b) Unit options

During the three months ended March 31, 2005, 8,334 options were exercised at exercise prices between \$1.00 - \$1.55 per option, and 7,666 options were cancelled during the period. As at March 31, 2005, the Fund had a total of 681,827 options outstanding, which expire over a period of 3 to 5 years.

Effective January 1, 2003, the Fund began prospectively expensing the fair value of unit options granted over the vesting period. In accordance with the prospective method of adoption, the Fund will continue to record no compensation expense for unit options granted prior to January 1, 2003, and will continue to provide pro forma disclosure of the net effect on net earnings and earnings per unit had fair value been expensed.

The fair value of each option granted by the Fund was estimated on the date of grant using the Black-Scholes options pricing model with weighted-average assumptions for grants assuming distributions are paid on units, a risk-free interest rate range of 3.5 percent – 5.0 percent, an average life of 3.0 years, and an expected volatility of 50 percent. The amounts computed according to the Black-Scholes pricing model may not be indicative of the actual values realized upon the exercise of these options by the holders.

If the fair value method had been used for options issued in 2002, an additional compensation expense of \$22,000 (2004 – \$22,000) would have been recognized, and the Fund's net earnings and earnings per unit would approximate the following pro forma amounts:

Three months ended March 31,	2005	2004
Net earnings:		
As reported	\$ 3,512,276	\$ 3,030,527
Pro forma	3,490,276	3,008,527
Earnings per unit:		
Basic		
As reported	0.17	0.18
Pro forma	0.17	0.17
Diluted		
As reported	0.17	0.17
Pro forma	0.17	0.17

During the three-month period ended March 31, 2005, the Fund recognized a total compensation expense of \$59,148 for unit options granted in 2003 and 2004.

(c) Share escrow

As part of the Radius acquisition on March 9, 2004, 242,000 shares are held in escrow. Under the terms of the escrow agreement, the escrowed shares will be released as follows:

Date	Number of escrowed shares releasable
September 9, 2005	242,000

5. Segmented information:

Based on the Fund's internal management reporting structure, the single operating segment has been aligned geographically as follows:

Three months ended March 31, 2005	Canada	United States	Total
Revenue	\$ 11,689,574	\$ 4,402,022	\$ 16,091,596
Drilling and other equipment	19,471,997	3,006,530	22,478,527
Goodwill	8,876,351	–	8,876,351

Three months ended March 31, 2004	Canada	United States	Total
Revenue	\$ 10,330,085	\$ 2,070,324	\$ 12,400,409
Drilling and other equipment	18,224,482	3,537,719	21,762,201
Goodwill	9,728,845	–	9,728,845

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CORPORATE INFORMATION

STOCK EXCHANGE LISTING

Trust Units of Phoenix Technology Income Fund are listed on the TSX under the trading symbol "PHX.UN".

CORPORATE INFORMATION

Board of Directors

John M. Hooks
Elson J. McDougald
Jeff G. Lawson
James K. Gray, O.C.
Randolf ("Randy") M. Charron
J. Cameron Bailey

Officers

John Hooks,
President and CEO

Cameron Ritchie,
Sr. Vice President Finance and CFO

Reid Hansen
Sr. Vice President

Myron Tétreault,
General Counsel and Corporate Secretary

Corporate Office

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Calgary, Alberta

Auditors

KPMG LLP
Calgary, Alberta

Bankers

HSBC Bank Canada
Calgary, Alberta

Transfer Agent

Computershare Trust Company of Canada
Calgary, Alberta

PHX.UN

