Cathedral
Energy Services Income Trust

INTERIM REPORT 2006 Q2

CATHEDRAL ENERGY SERVICES REPORTS RECORD RESULTS FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2006

FINANCIAL HIGHLIGHTS

$ in 000's except per Trust Unit amounts	**Three months ended June 30**		**Six months ended June 30**	
	2006	**2005**	**2006**	**2005**
Revenues	**$26,204**	$14,617	**$64,886**	$31,075
EBITDA [1]	**$ 8,370**	$ 4,201	**$23,737**	$10,464
Per Trust Unit – diluted	**$ 0.27**	$ 0.15	**$ 0.76**	$ 0.37
Income before taxes	**$ 5,033**	$ 2,889	**$17,435**	$ 8,210
Net income	**$ 4,963**	$ 4,008	**$15,825**	$ 7,866
Per Trust Unit – basic	**$ 0.16**	$ 0.14	**$ 0.52**	$ 0.28
Per Trust Unit – diluted	**$ 0.16**	$ 0.14	**$ 0.50**	$ 0.28
Cash distributions declared per Trust Unit	**$ 0.185**	$ 0.08	**$ 0.345**	$ 0.155
Distributable income [2]	**$ 6,251**	$ 3,718	**$20,472**	$ 8,290
Cash distributions declared	**$ 5,667**	$ 2,270	**$10,505**	$ 4,350
Payout ratio [3]	**91%**	61%	**51%**	52%
Property and equipment additions and corporate acquisitions:				
Paid or payable in cash	**$ 6,255**	$ 8,202	**$15,038**	$10,747
Paid or payable in Trust Units	**-**	2,943	**1,500**	2,943
	$ 6,255	$11,145	**$16,538**	$13,690
Weighted average Trust Units outstanding:				
Basic ('000)	**30,595**	28,309	**30,372**	27,995
Diluted ('000)	**31,438**	28,489	**31,339**	27,995

	June 30 2006	**December 31 2005**
Working capital	**$ 9,425**	$10,571
Long-term debt and capital lease obligations excluding current portion	**$12,613**	$12,797
Unitholders' equity	**$68,239**	$59,615

(1) EBITDA is defined as earnings before interest on long-term debt and capital lease obligations, taxes, non-cash compensation expense and depreciation and amortization and is provided to assist investors in determining the ability of the Trust to generate cash from operations. EBITDA does not have any standardized meaning within Canadian Generally Accepted Accounting Principles and therefore may not be comparable to similar measures presented by other companies and/or trusts.

(2) Distributable income is defined as cash flow from operations before changes in non-cash working capital less required principal repayments on long-term debt and capital lease obligations and maintenance capital expenditures. Distributable income does not have any standardized meaning within Canadian Generally Accepted Accounting Policies and therefore may not be comparable to similar measures presented by other trusts. Distributable income is a main performance measurement used by management and investors to evaluate the performance of the Trust.

(3) Cash distributions declared as a percentage of distributable income.

MANAGEMENT'S DISCUSSION & ANALYSIS

This Management's Discussion & Analysis ("MD&A") for the three months and six months ended June 30, 2006 should be read in conjunction with the annual audited consolidated financial statements for the year ended December 31, 2005, as well as the MD&A in the Trust's 2005 Annual Report, and with the unaudited interim consolidated financial statements for the three months and six months ended June 30, 2006. This MD&A has been prepared as of August 3, 2006. Dollar amounts are in '000's except for day rates.

FORWARD-LOOKING INFORMATION

Certain statements in this MD&A including (i) statements that may contain words such as "anticipate", "could", "expect", "seek", "may" "intend", "will", "believe", "should", "project", "forecast", "plan" and similar expressions, including the negatives thereof, (ii) statements that are based on current expectations and estimates about the markets in which the Trust/Cathedral operates and (iii) statements of belief, intentions and expectations about developments, results and events that will or may occur in the future, constitute "forward-looking statements" and are based on certain assumptions and analysis made by the Trust/Cathedral. Forward-looking statements in this MD&A include, but are not limited to, statements with respect to future capital expenditures, including the amount, nature and timing thereof; oil and natural gas prices and demand; other development trends within the oil and natural gas industry; business strategy; expansion and growth of the Trust's/Cathedral's business and operations and other such matters. Such forward-looking statements are subject to important risks and uncertainties, which are difficult to predict and that may affect the Trust's/Cathedral's operations, including, but are not limited to: the impact of general economic conditions; industry conditions; government and regulatory developments; oil and natural gas product supply and demand; competition; and the Trust's/Cathedral's ability to attract and retain qualified personnel. The Trust's/Cathedral's actual results, performance or achievements could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do transpire or occur, what benefits the Trust/Cathedral will derive therefrom. Subject to applicable law, the Trust disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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

NON-GAAP FINANCIAL MEASUREMENTS

This MD&A refers to certain financial measurements that do not have any standardized meaning within Canadian GAAP and therefore may not be comparable to similar measures provided by other companies and/or trusts. These measures are provided to assist investors in determining the Trust's ability to generate cash from operations and to provide additional information regarding the use of its cash resources. The specific measures being referred to include the following i) "EBITDA" - defined as earnings before interest on long-term debt and capital lease obligations, taxes, non-cash compensation expense and depreciation and amortization; ii) "distributable income" - defined as cash flow from operations before changes in non-cash working capital less required principal repayments on long-term debt and capital lease obligations and maintenance capital expenditures; iii) "gross margin" - calculated as revenues less operating expenses; iv) "maintenance capital expenditures" - refers to capital expenditures required to maintain existing levels of service but excludes replacement cost of lost-in-hole equipment to the extent the replacement equipment is financed from the proceeds on disposal of the equipment lost-in-hole; and v) "payout ratio" - calculated as cash distributions declared during the period divided by distributable income.

OVERVIEW

As with Q1 2006, the Trust completed the second quarter with record results. 2006 Q2 revenues increased $11,587 or 79% from $14,617 in 2005 to $ 26,204 in 2006 and this brings year-to-date revenues to $64,886 (2005 –31,075) - a 109% increase. EBITDA for the six months ended June 30, 2006 was $23,737 compared to $10,464 in 2005 - a 127% increase. The Trust's net income for 2006 Q2 was $4,963 ($0.16 per diluted Trust Unit) while the comparative figure for 2005 Q2 was $4,008 ($0.14 per diluted Trust Unit) - a 24% increase in net income. On a year-to-date basis, 2006 net income was $15,825 ($0.50 per diluted Trust Unit) which compares to $7,866 ($0.28 per diluted Trust Unit) in 2005 – a 101% increase in net income. Included in the 2005 Q2 and Q2 year-to-date figures is a $1,500 reduction in future income taxes which was the benefit of the internal reorganization that occurred on June 15, 2005. Within the 2006 Q2 and Q2 year-to-date figures is a reduction in the Trust's tax provision of $433 related to the benefit of the Canadian tax rate reductions that came in to effect in 2006 Q2.

RESULTS OF OPERATIONS - THREE MONTHS ENDED JUNE 30, 2006

Revenues The 2006 Q2 revenues of $26,204 were the result of increased growth in the directional/horizontal drilling portion of the Trust's operations as well as contributions from acquisitions that closed during 2005. Directional/horizontal drilling activity days increased 49% or 766 days to 2,328 days. The average day rate received for providing directional/horizontal drilling services increased marginally on a quarter-over-quarter basis to $8,322 (2005 - $8,268). Day rate increases that were put in place in the later portion of 2005 and early 2006 were to a large degree offset by a shift to providing more directional (versus horizontal) drilling services. Day rates for directional drilling are lower than that for horizontal drilling. The increased activity days are the result of increased demand from customers in both operating regions. The Rocky Mountain region of the United States remains very active area and the Trust's revenues from this region were $8,501 in 2006 Q2, which represents an increase of $4,253 or 100% on a quarter-over-quarter basis.

During 2006 Q2 the Trust's 2005 acquisitions, Tier One Oil Services Ltd. ("Tier One" - effective May 6, 2005), Advance Wireline Inc. ("Advance Wireline" - effective September 8, 2005) and Xtreme Wireline (effective December 22, 2005) contributed $6,457 or 56% of the $11,587 quarter-over-quarter increase in revenues. Of the three 2005 acquisitions only Tier One had closed by the end of 2005 Q2 and Tier One's contribution to the 2005 Q2 revenues were $1,092.

Gross margin The gross margin (revenues less operating expenses) for 2006 Q2 was 50%, which compares to 49% in 2005 Q2. The marginal increase in gross margin percentage is the net result of: i) a higher gross margin from providing directional/horizontal drilling services as on a percentage basis more directional drilling services were provided (directional, as opposed to horizontal, drilling generates higher gross margins) as well lower repair costs to directional/horizontal drilling equipment; and ii) increased contribution by the wireline and production testing divisions which have gross margins that are lower than that obtained from providing directional/horizontal drilling services.

General and administrative expenses General and administrative expenses increased from $3,156 in 2005 Q2 to $5,311 in 2006 Q2 – an increase of $2,155. The 2005 acquisitions of Tier One, Advance Wireline and Xtreme Wireline contributed to 53% of the quarter-over-quarter increase in general and administrative expenses. The balance of the increase is related to the increased level of business activity both in Canada and the United States as well as increased personnel costs and rental costs. 2006 Q2 general and administrative expenses were within $49 of the comparative figure for 2006 Q1. As a percentage of revenues, general and administrative expenses were 20.3% in 2006 Q2 and 21.6% in 2005 Q2.

Depreciation and amortization Depreciation and amortization for 2006 Q2 was $2,577 which compares to $1,132 in 2005 Q2. This increase is related to the combination of: i) the Trust's investment in property and equipment over the past 12 months; and ii) the inclusion of depreciation and amortization on property and equipment and intangibles acquired as a result of the 2005 acquisitions of Tier One, Advance Wireline and Xtreme Wireline. Included in depreciation and amortization for 2006 is $37 (2005 - $nil) related to the amortization of intangibles acquired through the Advance Wireline acquisition. As a percentage of revenues, depreciation and amortization amounted to 9.8% for 2006 and 7.7% for 2005.

Interest expense During 2005 Q2 the Trust had minimal interest expense as the Trust had no long-term debt and did not draw upon its operating line of credit facility during that quarter. As a result of the 2005 acquisitions, the Trust drew upon its non-reducing revolving term loan facility as well as acquired debt obligations as part of these same acquisitions – this contributed to the Trust incurring $226 of interest charges related to long-term debt and capital lease obligations in 2006 Q2. Interest expense – other relates mainly to the use by the Trust's operating entities of their operating line of credit. During 2006 Q2 the Trust drew upon its operating line of credit to finance a portion of its property and equipment additions.

Foreign exchange The Trust's foreign exchange gain/loss has changed from a $32 gain in 2005 Q2 to a loss of $66 in 2006 Q2. The value of the U.S. dollar relative to the Canadian dollar has decreased and that combined with the net U.S. dollar exposure related to its U.S. operations contributed to the $66 foreign exchange loss in 2006 Q2.

Non-cash compensation expense Until the March 14, 2005 traunche of options were issued, non-cash compensation expense was minimal. The overall increase in the value of non-cash compensation expense is due to: i) the significant appreciation in the market price for the underlying Trust Units which in turn has increased substantially the value attributed to the Trust Unit options granted during the period using the Black-Scholes option pricing model; and ii) the overall increase in the number of options issued. The value of the options is being amortized against income over the three-year vesting period.

Gain on disposal of property and equipment During 2006 Q2 the Trust had a gain on disposal of property and equipment of $710, which compares to $153 in 2005 Q2. Cathedral recovers lost-in-hole equipment costs including previously expensed depreciation on the related assets. The timing of lost-in-hole recoveries is not in the control of the Trust and therefore can fluctuate significantly from quarter-to-quarter.

Taxes For 2006 Q2 the Trust incurred a tax expense of $70, which compares to a tax recovery of $1,119 in 2005 Q2. The 2006 Q2 provision is net of a $433 benefit related to the reduction in Canadian tax rates that became effective in 2006 Q2. The 2005 Q2 tax recovery includes a $1,500 benefit from the June 16, 2005 internal reorganization.

RESULTS OF OPERATIONS - SIX MONTHS ENDED JUNE 30, 2006

Revenues Record 2006 Q1 and Q2 revenues combined for record Q2 year-to-date revenues of $64,886, which represented an increase of $33,811 or 109% over 2005 Q2 year-to-date revenues of $31,075. The 2005 acquisitions of Tier One, Advance Wireline and Xtreme Wireline account for 55% of the year-over-year increase in revenues. The 2006 Q2 YTD figure includes revenues from these acquisitions for a full six months ($19,800) while the comparative figure for 2005 only included Tier One revenues for approximately a 1.75 month period post the acquisition date of May 6, 2005 ($1,092). The balance of the year-over-year increase in revenues is related to a 47% increase in activity days related to providing directional/horizontal drilling services from 3,618 to 5,310 as well as an increase in the related average day rate from $7,787 in 2005 to $8,275 in 2006.

Gross margin The gross margin (revenues less operating expenses) for 2006 was 52%, which compares to 51% in 2005. The marginal increase in gross margin percentage is mainly the net result of: i) an increase in the average day rate obtained for directional/horizontal drilling services, ii) decreased repair costs associated with directional/horizontal drilling equipment; and iii) increased contribution from the production testing and wireline divisions which have a lower gross margin than that obtained from providing directional/horizontal drilling services.

General and administrative expenses General and administrative expenses increased from $5,978 in 2005 to $10,573 in 2006 – an increase of $4,595. The 2005 acquisitions of Tier One, Advance Wireline and Xtreme Wireline contributed to 58% of the year-to-date increase in general and administrative expenses. Additional general and administrative expense increases related to increased personnel costs and rental costs and an overall increase in activity levels both in Western Canada and the Rocky Mountain region of the U.S. As a percentage of revenues, general and administrative expenses were 16.3% in 2006 and 19.2% in 2005.

Depreciation and amortization Depreciation and amortization for 2006 was $4,906 compared to $2,041 in 2005. The $2,865 increase is related to the combination of: i) the Trust's investment in property and equipment over the past 12 months; and ii) the inclusion of depreciation and amortization on property and equipment and intangibles acquired as a result of the 2005 acquisitions of Tier One, Advance Wireline and Xtreme Wireline. As a percentage of revenues, depreciation and amortization amounted to 7.6% for 2006 and 6.6% for 2005.

Interest expense Interest on long-term debt has increased from $nil in 2005 to $436 in 2006. This increase is due to the Trust drawing upon its non-reducing revolving term loan facility as well as acquired debt obligations as part of the 2005 acquisitions. Other interest expense has increased mainly due to the use of the Trust's operating line of credit to finance a portion of property and equipment additions.

Foreign exchange The Trust's foreign exchange gain/loss has changed from a $48 gain in 2005 to a loss of $58 in 2006. The value of the U.S. dollar relative to the Canadian dollar has decreased and that combined with the net U.S. dollar exposure related to its U.S. operations contributed to the $58 foreign exchange loss in 2006 Q2 YTD.

Non-cash compensation expense Until the March 14, 2005 traunche of options were issued, non-cash compensation expense was minimal. The overall increase in the value of non-cash compensation expense is due to: i) the significant appreciation in the market price for the underlying Trust Units which in turn has increased substantially the value attributed to the Trust Unit options granted during the period using the Black-Scholes option pricing model; and ii) the overall increase in the number of options issued. The value of the options is being amortized against income over the three-year vesting period.

Gain on disposal of property and equipment During 2006 the Trust had a gain on disposal of property and equipment of $710 which compares to $652 in 2005. These gains are mainly due to recoveries of lost-in-hole equipment costs, including previously expensed depreciation on the related assets. The timing of lost-in-hole recoveries is not in the control of the Trust and therefore can fluctuate significantly from quarter-to-quarter and year-to-year basis.

Taxes For 2006, the Trust had a tax expense of $1,610 (effective tax rate of 9.2%) which compares to $344 (effective tax rate of 4.2%) in 2005. Included in the 2005 Q2 YTD tax provision is a reduction in future income taxes in the amount of $1,500 that is a result of the June 16, 2005 internal reorganization. As a result of the internal reorganization a portion of the post June 16, 2005 income from the Trust's operating entities is not subject to corporate income taxes within the Trust's corporate structure as this income flows through to unitholders and is taxed in their hands. Accordingly, there is no tax provision within the Trust's financial statements for that portion of the income which is allocated to the unitholders. The 2006 Q2 YTD provision is net of a $433 benefit related to the reduction in Canadian tax rates that became effective in 2006 Q2.

LIQUIDITY AND CAPITAL RESOURCES

In February 2006 the Trust increased its operating line of credit with a major Canadian bank from $9,000 to $12,500. At June 30, 2006 the undrawn portion of the operating line of credit was $6,080. The increased operating line of credit was required due to the increased size of the operations of the Trust. In addition, at June 30, 2006, the Trust had fully drawn upon its non-reducing revolving term loan facility of $12,000. In early August 2006 the Trust arranged to increase its non-reducing revolving term loan facility by $13,000 to $25,000. In addition, the interest rate applicable to the its non-reducing revolving term loan facility was reduced by 0.5% to the bank's prime rate plus 0.5%. The Trust has a strong working capital at June 30, 2006 of $9,425, which compares to $10,571 at December 31, 2005.

Operating activities Funds from operations in 2006 for the three and six months ended June 30, 2006 was $6,452 (2005 – $3,764) and $20,968 (2005 - $8,351), respectively. This increase is a direct reflection of the strong operating results of the Trust for 2006 Q1 and Q2 which includes the contribution of the three acquisitions that closed in 2005 but did not contribute significantly to the 2005 Q2 YTD funds from operations.

Investing activities Cash used in investing activities for the three and six months ended June 30, 2006 amounted to $7,191 and $14,841, respectively and this compares to $5,660 and $7,390 for the same periods in 2005. During 2006 Q2 the Trust invested in an additional $6,255 (2005 Q2 - $5,009) of property and equipment to bring the year-to-date figure to $15,038 (2005 Q2 YTD - $7,554). 2006 Q2 property and equipment additions included: i) expansion of the directional/horizontal drilling fleet of mud motors and collars; ii) replacement of lost-in-hole directional/horizontal drilling equipment; iii) one production testing unit as well as deposits on testing units to be delivered later in 2006; iv) investing in shop facilities; v) specialty wireline logging tools; and vi) 2 wireline units. At June 30, 2006, the Trust's operating entities have 66 MWD systems, 17 production testing units and 20 wireline units. The Trust's current capital expenditure program for fiscal 2006 is $24,000 up from the previously announced capital expenditure program of $19,000 – included in the revised 2006 capital plan is approximately $3,000 of expenditures for shop facilities. Included in the 2005 Q2 YTD use of cash in investing activities was $3,193 which was paid as part of the May 6, 2005 acquisition of Tier One – in 2006 Q2 YTD there is no such comparative amount related to acquisitions. For the six months ended June 30, 2006 the Trust received $1,219 (2005 - $1,340) as proceeds on the disposal of property and equipment. 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.

Financing activities Cash used in financing activities for the three and six months ended June 30, 2006 amounted to $4,876 (2005 – $2,710) and $6,847 (2005 – $4,466), respectively. Distributions paid to Unitholders for 2006 Q2 and 2006 Q2 YTD amounted to $5,502 (2005 - $2,176) and $10,014 (2005 - $4,182), respectively. Both the Q2 quarter-over-quarter and Q2 year-to-date increases in distributions paid are related to a combination of increases in the per Trust Unit distribution level and an increase in the number of Trust Units outstanding. Since January 2005 the Trust has increased its per Trust Unit distribution level from $0.025 per Trust Unit to $0.065 per Trust Unit for June 2006 – a 160% increase. For the six months ended June 30, 2006 financing cash inflows resulted from i) increased bank indebtedness of $1,110 (2005 – a decrease of $673) and ii) $2,394 (2005 - $389) cash received on the exercise of Trust Unit options. At August 3, 2006, the Trust had 30,716,281 Trust Units and 2,607,011 Trust Unit options outstanding.

Contractual obligations In the normal course of business, the Trust incurs contractual obligations and those obligations are disclosed in the Trust's MD&A for the year ended December 31, 2005. As at June 30, 2006, the Trust's commitment to purchase property and equipment is approximately $3,442.

BUSINESS RISKS

The MD&A for the year ended December 31, 2005, which is included in the Trust's 2005 Annual Report, includes an overview on business risks associated with the Trust. Those business risks remain in effect as at June 30, 2006.

DISTRIBUTABLE INCOME

Distributable income is calculated as follows:

	Three months ended June 30		Six months ended June 30	
$ in 000's	2006	2005	2006	2005
Funds from operations	$ 6,452	$ 3,764	$20,968	$ 8,351
Less: - required principal repayments on long-term debt and capital lease obligations	(157)	-	(337)	-
- maintenance capital expenditures	(44)	(46)	(159)	(61)
Distributable income	$ 6,251	$ 3,718	$ 20,472	$ 8,290
Cash distributions declared	$ 5,667	$ 2,270	$ 10,505	$ 4,350
Payout ratio	91%	61%	51%	52%

As a result of the Trust's equipment being relatively new and the extensive maintenance program for its equipment (such repairs and maintenance costs are expensed in operating expenses), expenditures for maintenance capital are currently minimal. Current maintenance capital expenditure levels may not be indicative of future maintenance capital expenditure levels.

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

The Administrator of the Trust (Cathedral Energy Services Ltd.) reviews the level and nature of distributions on an on-going basis giving consideration to current performance, historical and future trends in the business and the expected sustainability of those trends as well as required long-term debt repayments and maintenance capital expenditures required to sustain performance. Distributable income is not a standardized measure under Canadian Generally Accepted Accounting Principles and distributable income cannot be assured. The Trust's calculation of distributable income may differ from similarly titled measures used by other trusts. Distributable income is a main performance measurement used by management and investors to evaluate the performance of the Trust.

GOVERNANCE

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

OUTLOOK

Once spring breakup had concluded operating levels in Q2 rebounded strongly and this resulted in the Trust's divisions operating at or near capacity by the end of Q2. Those high operating levels have continued into Q3. The current softness in natural gas prices has resulted in some operators reviewing their drilling plans - in particular in the shallow gas areas. To date any revisions by Cathedral's customers has not affected our operating levels. Many industry analysts see the current natural gas pricing as a short-term issue with a positive longer term view for the energy service sector. The Rocky Mountain region of the U.S. continues to be very active area and growth area for Cathedral. The Trust's capital expenditure program will continue in the balance of 2006 with the addition of 6 wireline units and 2 production testing units.

The Trust continues to actively pursue opportunities to offer an expanded range of services to its customers, increase its market share, enter new geographic territories, and make strategic acquisitions.

SUMMARY OF QUARTERLY RESULTS

Three month period ended ($ in 000's except per Trust Unit amounts)	**Jun 2006**	**Mar 2006**	**Dec 2005**	**Sep 2005**	**Jun 2005**	**Mar 2005**	**Dec 2004**	**Sep 2004**
Revenues	$26,204	$38,682	$32,101	$22,826	$14,617	$16,458	$16,092	$11,766
EBITDA	8,370	15,367	12,090	9,026	4,201	6,263	6,750	3,986
Net income	4,963	10,862	7,762	6,179	4,008	3,858	4,221	2,407
Net income per Trust Unit – basic	0.16	0.36	0.26	0.21	0.14	0.14	0.17	0.10
Net Income per Trust Unit - diluted	0.16	0.35	0.25	0.21	0.14	0.14	0.17	0.10
Cash distributions declared per Trust Unit	0.185	0.16	0.1375	0.0925	0.08	0.075	0.0725	0.06

CONSOLIDATED BALANCE SHEETS

$ in 000's	**June 30 2006** (unaudited)	**December 31 2005**
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,185	$ 2,091
Accounts receivable	27,379	31,070
Other receivables	-	612
Inventory	3,423	2,712
Prepaid expenses and deposits	1,096	525
	34,083	37,010
Property and equipment	56,624	46,927
Intangibles	810	884
Goodwill	19,455	17,955
Other asset	82	132
	$111,054	$ 102,908
LIABILITIES AND UNITHOLDERS' EQUITY		
Current liabilities:		
Bank indebtedness	$ 6,420	$ 5,310
Accounts payable and accrued liabilities	15,629	17,788
Distribution payable to Unitholders	1,994	1,503
Taxes payable	213	1,283
Current portion of capital lease obligations	269	304
Current portion of long-term debt	133	251
	24,658	26,439
Capital lease obligations	545	665
Long-term debt	12,068	12,132
Contingent consideration liability (note 4)	1,500	-
Future income taxes	4,044	4,057
	42,815	43,293
Unitholders' equity (note 5):		
Unitholders' capital	40,469	37,094
Contributed surplus	685	756
Retained earnings	27,085	21,765
	68,239	59,615
	$111,054	$ 102,908

Cathedral
Energy Services Income Trust

CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

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

	Three months ended June 30		Six months ended June 30	
	2006	**2005**	**2006**	**2005**
Revenues	$26,204	$14,617	$64,886	$31,075
Expenses:				
Operating	13,042	7,443	31,020	15,331
General and administrative	5,311	3,156	10,573	5,978
Depreciation and amortization	2,577	1,132	4,906	2,041
Interest – long-term debt and capital lease obligations	226	-	436	-
Interest – other	125	2	208	2
Foreign exchange loss(gain)	66	(32)	58	(48)
Non-cash compensation	534	180	960	213
	21,881	11,881	48,161	23,517
	4,323	2,736	16,725	7,558
Gain on disposal of property and equipment	710	153	710	652
Income before taxes	5,033	2,889	17,435	8,210
Taxes:				
Current	946	290	1,581	1,470
Future (reduction)	(876)	(1,409)	29	(1,126)
	70	(1,119)	1,610	344
Net income for the period	4,963	4,008	15,825	7,866
Retained earnings, beginning of period	27,789	16,545	21,765	14,767
Distributions declared	(5,667)	(2,270)	(10,505)	(4,350)
Retained earnings, end of period	$27,085	$18,283	$27,085	$18,283
Net income per Trust Unit:				
Basic	$ 0.16	$ 0.14	$ 0.52	$ 0.28
Diluted	$ 0.16	$ 0.14	$ 0.50	$ 0.28

CONSOLIDATED STATEMENTS OF CASH FLOWS

$ in 000's
(unaudited)

	Three months ended June 30		Six months ended June 30	
	2006	2005	2006	2005
Cash provided by (used in):				
Operating activities:				
Net income for the period	$4,963	$ 4,008	$15,825	$7,866
Items not involving cash:				
Depreciation and amortization	2,577	1,132	4,906	2,041
Future income taxes (reduction)	(876)	(1,409)	29	(1,126)
Unrealized foreign exchange loss (gain)	(36)	6	(42)	9
Non-cash compensation	534	180	960	213
Gain on disposal of property and equipment	(710)	(153)	(710)	(652)
Funds from operations	6,452	3,764	20,968	8,351
Changes in non-cash operating working capital	7,193	2,336	814	2,141
	13,645	6,100	21,782	10,492
Investing activities:				
Property and equipment additions	(6,255)	(5,009)	(15,038)	(7,554)
Proceeds on disposal of property and equipment	1,219	359	1,219	1,340
Acquisition of Tier One Oil Services Ltd.	-	(3,193)	-	(3,193)
Changes in non-cash investing working capital	(2,155)	2,183	(1,022)	2,017
	(7,191)	(5,660)	(14,841)	(7,390)
Financing activities:				
Distributions paid to Unitholders	(5,502)	(2,176)	(10,014)	(4,182)
Repayment of capital lease obligations	(78)	-	(182)	-
Repayment of long-term debt	(79)	-	(155)	-
Proceeds on exercise of Trust Unit options	868	139	2,394	389
Increase (decrease) in bank indebtedness	(85)	(673)	1,110	(673)
	(4,876)	(2,710)	(6,847)	(4,466)
Change in cash and cash equivalents	1,578	(2,270)	94	(1,364)
Cash and cash equivalents, beginning of period	607	4,057	2,091	3,151
Cash and cash equivalents, end of period	$2,185	$ 1,787	$2,185	$1,787

SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Three and six months ended June 30, 2006 and 2005
($ in 000's except per Trust Unit amounts)
(unaudited)

1. Significant accounting policies:

These unaudited interim consolidated financial statements for the period ended June 30, 2006 do not include all disclosures required in the annual financial statements and should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2005 included in the Trust's 2005 Annual Report. These unaudited interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and using the same accounting policies as outlined in note 2 of the annual consolidated financial statements for the year ended December 31, 2005.

2. Seasonality of Operations:

The majority of Cathedral's operations are carried on in Western Canada where activity levels in the oilfield services industry are subject to a degree of seasonality. Operating activities in Western Canada are generally lower during "spring breakup" which normally commences in late March and continues through to May. Operating activities generally increase in the fall and peak in the winter months from December till late March. Activity levels in the Rocky Mountain region of the U.S. are not subject the seasonality to the extent that it occurs in the Western Canada region.

3. Credit facility:

In February 2006 the Trust increased its operating line of credit with a major Canadian bank from $9,000 to $12,500. In early August 2006 the Trust's credit facility was renewed with a $13,000 increase in the non-reducing revolving term loan facility to $25,000 and a 0.5% reduction in the interest rate applicable to the non-reducing revolving term loan facility to the bank's prime rate plus 0.5%.

4. Contingent consideration liability:

The purchase price structure related to the September 8, 2005 acquisition of Advance Wireline Inc. included a provision for the payment of additional contingent consideration of up to a maximum of $3,000, payable in Trust Units with an assigned value based upon a weighted average trading price immediately prior to the issuance of the related Trust Units, and is payable over a 2-year period based upon the financial results of Advance Wireline for the periods ended on the first and second anniversary of the closing date. Based upon the operating results of Advance Wireline since the September 8, 2005 closing date, the Trust has made a determination that it expects to pay the full amount of contingent consideration payable for the first anniversary operating period in the amount of $1,500. Accordingly, this $1,500 of contingent consideration has been recorded as additional cost of the purchase and allocated to goodwill. The liability associated with the future issuance of Trust Units has been recorded as a long-term liability on the consolidated balance sheet.

5. Unitholders' equity:

(a) Issued Unitholders capital:

	Three months ended June 30, 2006		Six months ended June 30, 2006	
	Number of Trust Units	**Amount**	**Number of Trust Units**	**Amount**
Balance, beginning of period	30,474,287	$ 38,997	30,050,692	$ 37,094
Issued on exercise of options	208,496	868	632,091	2,394
Contributed surplus on options exercised		604		981
Balance, end of period	30,682,783	$ 40,469	30,682,783	$ 40,469

(b) Contributed surplus:

	Three months ended June 30 2006	Six months ended June 30 2006
Balance, beginning of period	$ 780	$ 756
Non-cash compensation expense related to Trust Unit option plan	509	910
Less: Contributed surplus on options exercised	(604)	(981)
Balance, end of period	$ 685	$ 685

5. Unitholders' equity (continued):

(c) Trust Unit options:

	Three months ended June 30		Six months ended June 30	
	2006	2005	2006	2005
	Number of options	Number of options	Number of options	Number of options
Outstanding, beginning of period	2,823,006	2,192,900	2,946,601	786,833
Issued	98,000	360,000	398,000	1,980,000
Forfeited	(52,667)	(26,667)	(52,667)	(26,667)
Exercised	(208,496)	(115,200)	(632,091)	(329,133)
Outstanding, end of period	2,659,843	2,411,033	2,659,843	2,411,033

During the three months ended June 30, 2006 and March 31, 2006, 98,000 and 300,000, respectively, Trust Unit options were granted. These options have been valued using the Black-Scholes option pricing method. The following table sets out options issued during the six months ended June 30, 2006, the fair value of those options and the assumptions used in applying the Black-Scholes model:

	Date of Issue	
	May 23, 2006	March 28, 2006
Number of options issued	98,000	300,000
Exercise price	$11.75	$10.87
Fair value per option using Black-Scholes option price method	$ 4.46	$ 3.90
Expected distribution yield	6.13%	6.62%
Risk-free interest rate	4.15%	4.0%
Expected volatility	70%	68%
Expected life (in years)	3.5	3.5

(d) Retained earnings:

Retained earnings is comprised of the following items:

	June 30 2006	December 31 2005
Accumulated income	$ 64,974	$ 49,149
Less: accumulated distributions	(37,889)	(27,384)
	$ 27,085	$ 21,765

6. Segmented information:

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

	Three months ended June 30		Six months ended June 30	
Revenues	2006	2005	2006	2005
Canada	$ 17,703	$ 10,369	$ 49,525	$ 22,499
United States	8,501	4,248	15,361	8,576
	$ 26,204	$ 14,617	$ 64,886	$ 31,075

Property and equipment, intangibles and goodwill	June 30 2006	December 31 2005
Canada	$ 67,036	$ 57,592
United States	9,853	7,814
	$ 76,889	$ 65,766

During the three months ended June 30, 2006 one customer accounted for 19% (2005 – 17%) of consolidated revenues. During the six months ended June 30, 2006, one customer accounted for 15% (2005 – 14%) of consolidated revenues.

7. Commitments:

In the normal course of business, the Trust incurs contractual obligations and those obligations are disclosed in the Trust's annual financial statements for the year ended December 31, 2005. As at June 30, 2006, the Trust's commitment to purchase property and equipment is approximately $3,442.

8. Comparative amounts:

Certain comparative amounts have been reclassified to conform to the current year's presentation.

Cathedral Energy Services Income Trust is a limited purpose trust which owns the securities of Cathedral Energy Services Ltd. and Cathedral Energy Services Limited Partnership (collectively "Cathedral") representing the right to receive cash flow available for distribution from Cathedral. Cathedral is engaged in the business of providing selected oilfield services to oil and natural gas companies in Western Canada and the Rocky Mountain region of the United States and currently provides drilling services and related equipment rentals, production testing services and wireline services. Cathedral markets its services under six brand names: ***Directional Plus*** *and* ***The Directional Company*** *which provide horizontal and directional drilling services;* ***CAT Downhole Tools*** *which provides downhole equipment including drilling jars, shock subs and high performance drilling motors on a rental basis;* ***Tier One Oil Services*** *which provides oil and natural gas production testing services;* ***Advance Wireline*** *which provides cased hole logging and perforating, complete slickline services and casing integrity inspection logging; and* ***Xtreme Wireline*** *which provides slickline services. Cathedral strives to provide its clients with value added technologies and solutions to meet their drilling and production testing requirements. Its mandate is to supply "Best in Class, Best in Service" equipment and personnel to its clients. The trust units trade on the TSX under the symbol: CET.UN. For more information, visit www.cathedralenergyservices.com.*