



Cathedral

Energy Services Income Trust

2006 Q3 INTERIM REPORT

FINANCIAL HIGHLIGHTS

\$ in 000's except per Trust Unit amounts

	Three months ended		Nine months ended	
	September 30		September 30	
	2006	2005	2006	2005
Revenues	\$38,041	\$22,826	\$102,927	\$ 53,901
EBITDA ⁽¹⁾	\$16,010	\$ 9,026	\$ 39,747	\$ 19,490
Per Trust Unit – diluted	\$ 0.51	\$ 0.30	\$ 1.26	\$ 0.68
Income before taxes	\$12,671	\$ 7,272	\$ 30,106	\$ 15,482
Net income	\$11,396	\$ 6,179	\$ 27,221	\$ 14,045
Per Trust Unit – basic	\$ 0.37	\$ 0.21	\$ 0.89	\$ 0.50
Per Trust Unit – diluted	\$ 0.36	\$ 0.21	\$ 0.86	\$ 0.49
Cash distributions declared per Trust Unit	\$ 0.20	\$0.0925	\$ 0.545	\$ 0.2475
Distributable income ⁽²⁾	\$14,211	\$ 8,206	\$ 34,683	\$ 16,496
Cash distributions declared	\$ 6,150	\$ 2,696	\$ 16,655	\$ 7,046
Payout ratio ⁽³⁾	43%	33%	48%	43%
Property and equipment additions and corporate acquisitions:				
Paid or payable in cash	\$ 6,950	\$12,836	\$ 21,988	\$ 23,133
Paid or payable in Trust Units	-	9,000	1,500	11,943
	\$ 6,950	\$21,386	\$ 23,488	\$ 35,076
Weighted average Trust Units outstanding:				
Basic ('000)	30,730	28,969	30,493	28,323
Diluted ('000)	31,478	29,795	31,580	28,463

	September 30	December 31
	2006	2005
Working capital	\$15,056	\$10,571
Long-term debt and capital lease obligations excluding current portion	\$15,549	\$12,797
Unitholders' equity	\$74,036	\$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 funds 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 nine months ended September 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 nine months ended September 30, 2006. This MD&A has been prepared as of November 2, 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 Generally Accepted Accounting Principles ("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 divided by distributable income.

OVERVIEW

As with Q1 and Q2 2006, the Trust completed the third quarter with record Q3 results. 2006 Q3 revenues increased \$15,215 or 67% from \$22,826 in 2005 to \$38,041 in 2006 and this brings year-to-date revenues to \$102,927 (2005 - \$53,901) - a 91% increase. EBITDA for the nine months ended September 30, 2006 was \$39,747 compared to \$19,490 in 2005 - a 104% increase. The Trust's net income for 2006 Q3 was \$11,396 (\$0.36 per diluted Trust Unit) while the comparative figure for 2005 Q3 was \$6,179 (\$0.21 per diluted Trust Unit) - an 84% increase in net income. On a year-to-date basis, 2006 net income was \$27,221 (\$0.86 per diluted Trust Unit) which compares to \$14,045 (\$0.49 per diluted Trust Unit) in 2005 - a 94% increase in net income. Included in the 2005 Q3 net income 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 Q3 year-to-date net income is a reduction in the Trust's tax provision of \$517 related to the benefit of the Canadian tax rate reductions that came in to effect in 2006 Q2.

RESULTS OF OPERATIONS - THREE MONTHS ENDED SEPTEMBER 30, 2006

Revenues 2006 Q3 revenues of \$38,041 were the result of increased growth in the directional/horizontal drilling portion of the Trust's operations as well as contributions for a full quarter from the Advance Wireline and Xtreme Wireline acquisitions that closed during 2005. Directional/horizontal drilling activity days increased 38% or 834 days to 3,024 days. The average day rate received for providing directional/horizontal drilling services increased marginally on a quarter-over-quarter basis to \$8,492 (2005 - \$8,146). Day rate increases that were put in place in the later portion of 2005 and early 2006 were partially 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 Trust's fleet of MWD ("Measurement-While-Drilling") systems has increased from 45 systems at the end of 2005 Q2 to 66 in 2006 Q1 (at the end of 2006 Q3 the Trust has 66 systems). The Rocky Mountain region of the United States remains very active area and the Trust's revenues from this region were \$6,769 in 2006 Q3, which represents an increase of \$1,511 or 29% on a quarter-over-quarter basis.



During 2006 Q3 the Trust's 2005 acquisitions, Tier One (effective May 6, 2005), Advance Wireline (effective September 8, 2005) and Xtreme Wireline (effective December 22, 2005) contributed \$11,524 in revenues which compares to \$4,055 in 2005 Q3. The 2005 acquisitions accounted for 49% of the overall increase in revenues of \$15,215.

Gross margin The gross margin (revenues less operating expenses) for 2006 Q3 was 55%, which compares to 53% in 2005 Q3. The increase in gross margin percentage is the net result of: i) a higher average day rate; ii) 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 iii) offset by an 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 \$3,617 in 2005 Q3 to \$5,607 in 2006 Q3 – an increase of \$1,990. The 2005 acquisitions of Tier One, Advance Wireline and Xtreme Wireline contributed to 47% of the quarter-over-quarter increase in general and administrative expenses. The balance of the increase is related to the directional/horizontal drilling business which experienced an increased level of business activity both in Canada and the United States as well as increased personnel, insurance and office/shop rental costs. 2006 Q3 general and administrative expenses increased \$298 over the comparative figure for 2006 Q2; this quarter-over-quarter increase is the result of added personnel and increased insurance and office/shop rental charges. As a percentage of revenues, general and administrative expenses were 14.7% in 2006 Q3 and 15.8% in 2005 Q3.

Depreciation and amortization Depreciation and amortization for 2006 Q3 was \$2,849 which compares to \$1,437 in 2005 Q3. 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 Advance Wireline and Xtreme Wireline for a full quarter in 2006. 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 7.5% for 2006 and 6.3% for 2005.

Interest expense Interest expense related to long-term debt and capital leases increased from \$57 in 2005 Q3 to \$236 in 2006 Q3. The main contributing factor to this increase is that in 2005 Q3 the related debt was only outstanding from the effective date of acquisition of Advance Wireline which was September 8, 2005, while in 2006 Q3 the related debt was outstanding for a full quarter. Late in 2006 Q3 the Trust accessed an additional \$3,000 of its available revolving non-reducing term loan facility proceeds of which were used to finance the Trust's acquisition of land and buildings. The \$121 increase in other interest expense is related to the Trust's increased utilization of its operating line of credit.

Foreign exchange Foreign exchange rates did not fluctuate significantly during 2006 Q3 and as a result the Trust's foreign exchange gain/loss was minimal. The 2005 Q3 loss of \$61 related to the strengthening of the Canadian dollar relative to the US dollar and the Trust's next exposure of US dollar denominated monetary assets and liabilities.

Non-cash compensation expense Non-cash compensation expense for the 2006 Q3 was \$254 which is comparable to the 2005 Q3 expense of \$260.

Gain on disposal of property and equipment During 2006 Q3 the Trust had a gain on disposal of property and equipment of \$760, which compares to \$587 in 2005 Q3. 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.

Taxes For 2006 Q3 the Trust incurred a tax expense of \$1,275, which compares to a tax expense of \$1,093 in 2005 Q3. The increased overall tax provision is due primarily to increased profits from the U.S. operations.

RESULTS OF OPERATIONS - NINE MONTHS ENDED SEPTEMBER 30, 2006

Revenues The Trust had record 2006 Q3 year-to-date revenues of \$102,927 which represented an increase of \$49,026 or 91% over 2005 Q3 year-to-date revenues of \$53,901. The 2005 acquisitions of Tier One, Advance Wireline and Xtreme Wireline account for 53% of the year-over-year increase in revenues. The 2006 Q3 YTD figure includes revenues from these acquisitions for a full nine months (\$31,324) while the comparative figure for 2005 only included Tier One revenues for approximately a 4.75 month period post the acquisition date of May 6, 2005 and Advance revenues for a 0.75 month period post the acquisition date of September 8, 2006. The balance of the year-over-year increase in revenues is related to a 43% increase in activity days related to providing directional/horizontal drilling services, increasing from 5,808 days in 2005 to 8,334 days in 2006, as well as an increase in the related average day rate from \$7,922 in 2005 to \$8,354 in 2006.

Gross margin The gross margin (revenues less operating expenses) for 2006 was 53%, which compares to 52% 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; iii) 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); and iv) offset by an 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 \$9,595 in 2005 to \$16,180 in 2006 – an increase of \$6,585. The 2005 acquisitions of Tier One, Advance Wireline and Xtreme Wireline contributed to 55% of the year-to-date increase in general and administrative expenses. The remaining increase was related to the Trust's directional/horizontal drilling business and the contributing factors to that increase were the result of increased personnel and office/shop rental costs as well as 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 15.7% in 2006 and 17.8% in 2005.

Depreciation and amortization Depreciation and amortization for 2006 was \$7,755 compared to \$3,478 in 2005. The \$4,277 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 7.5% for 2006 and 6.5% for 2005.

Interest expense Interest on long-term debt has increased from \$57 in 2005 to \$672 in 2006. Substantially all of the increase is due to the Trust drawing upon its non-reducing revolving term loan facility on September 8, 2005 to finance the cash component of the Advance Wireline acquisition, as well as acquired debt obligations as part of the 2005 acquisitions. Late in 2006 Q3 the Trust accessed an additional \$3,000 of its available revolving non-reducing term loan facility; proceeds of which were used to finance the Trust's acquisition of land and buildings. Other interest expense has increased mainly due to the increased utilization of the Trust's operating line of credit.

Foreign exchange The Trust's foreign exchange gain/loss has changed from a \$13 loss in 2005 to a loss of \$57 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 foreign exchange loss in 2006 Q3 YTD.

Non-cash compensation expense Non-cash compensation expense for 2006 was \$1,214 which compares to \$473 in 2005. Until the March 14, 2005 tranche 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 Q3 YTD the Trust had a gain on disposal of property and equipment of \$1,470 which compares to \$1,239 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 \$2,885 (effective tax rate of 9.6%) which compares to \$1,437 (effective tax rate of 9.3%) in 2005. Included in the 2005 Q3 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 Q3 YTD provision is net of a \$517 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. The increased operating line of credit was required due to the increased size of the operations of the Trust. In early August 2006 the Trust arranged to increase the maximum amount available under its revolving non-reducing term loan facility by \$13,000 to \$25,000. In addition, the interest rate applicable to its revolving non-reducing term loan facility was reduced by 0.5% to the bank's prime rate plus 0.5%. At September 30, 2006 the undrawn portion of the operating line of credit was \$2,730 and the undrawn portion of the revolving non-reducing term loan facility was \$10,000. The Trust has a strong working capital at September 30, 2006 of \$15,056, which compares to \$10,571 at December 31, 2005.

Operating activities Funds from operations in 2006 for the three and nine months ended September 30, 2006 was \$14,321 (2005 – \$8,278) and \$35,289 (2005 - \$16,629), respectively. This increase is a direct reflection of the strong operating results of the Trust for 2006 including the contribution of the three acquisitions that closed in 2005.

Investing activities Cash used in investing activities for the three and nine months ended September 30, 2006 amounted to \$6,062 and \$20,903, respectively and this compares to \$12,919 and \$20,309 for the same periods in 2005. During 2006 Q3 the Trust invested in an additional \$6,950 (2005 Q3 - \$4,306) of property and equipment to bring the year-to-date figure to \$21,988 (2005 Q3 YTD - \$11,860). 2006 Q3 property and equipment additions included: i) expansion of the directional/horizontal drilling fleet of mud motors and collars; ii) leasehold improvements related to office space; iii) ancillary MWD equipment; iv) deposit on 2 additional MWD systems; v) 2 production testing units; vi) deposits on 5 wireline units which are expected to be received in late 2006 Q4 and early 2007 Q1; vii) ancillary wireline equipment including pickers; and viii) 1 wireline unit. At September 30, 2006, the Trust's operating entities have 66 MWD systems, 19 production testing units and 21 wireline units. The Trust's current approved capital expenditure program for fiscal 2006 is \$24,000. For the nine months ended September 30, 2006 the Trust received \$2,372 (2005 - \$2,507) 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 For the three months ended September 30, 2006 financing activities provided \$548 of cash flow which compares to \$9,286 for the three months ended September 30, 2005. Cash used in financing activities for the nine months ended September 30, 2006 amounted to \$6,299 (2005 – cash provided by financing in the amount of \$4,820). Late in 2006 Q3 the Trust accessed an additional \$3,000 of its available revolving non-reducing term facility; proceeds of which were used to finance the Trust's acquisition of land and buildings. Distributions paid to Unitholders for 2006 Q3 and 2006 Q3 YTD amounted to \$5,990 (2005 – 2,369) and \$16,004 (2005 - \$6,551), respectively. Both the Q3 quarter-over-quarter and Q3 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 \$0.07 per Trust Unit for September 2006 – a 180% increase. Cash distributions paid have been financed from cash flow from operations and management currently expects future cash distributions will also be financed from cash flow from operations. For the nine months ended September 30, 2006 financing cash inflows resulted from i) increased bank indebtedness of \$4,460 (2005 – a decrease of \$625) and ii) \$2,715 (2005 - \$493) cash received on the exercise of Trust Unit options. At November 2, 2006, the Trust had 30,780,947 Trust Units and 2,823,544 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 September 30, 2006, the Trust's commitment to purchase property and equipment is approximately \$5,703.

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 September 30, 2006.

On October 31, 2006, the Canadian Federal Government announced tax proposals regarding the taxation of distributions paid by publicly traded income trusts. If enacted, the proposed plan would apply to the Trust effective January 1, 2011. The Trust is currently assessing the proposed plan and the implications to the Trust.

DISTRIBUTABLE INCOME

Distributable income is calculated as follows:

\$ in 000's	Three months ended		Nine months ended	
	September 30		September 30	
	2006	2005	2006	2005
Funds from operations ⁽¹⁾	\$14,321	\$ 8,278	\$35,289	\$16,629
Less: - required principal repayments on long-term debt and capital lease obligations	(62)	(43)	(399)	(43)
- maintenance capital expenditures	(48)	(29)	(207)	(90)
Distributable income	\$14,211	\$ 8,206	\$34,683	\$16,496
Cash distributions declared	\$ 6,150	\$ 2,696	\$16,655	\$ 7,046
Payout ratio	43%	33%	48%	43%

⁽¹⁾ Changes in non-cash operating working capital have been excluded as such changes are financed using the Trust's bank indebtedness/line of credit facility.

As a result of the Trust's equipment being relatively new and an 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, maintenance capital expenditures required to sustain performance and future growth capital expenditures. Currently cash distributions declared are less than distributable income as the Trustees, on the recommendation of management of the Administrator, have decided to retain a portion of distributable income to finance capital expenditures and debt repayment. It is not management's intent to distribute 100% of distributable income. Distributable income is not a standardized measure under Canadian GAAP 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.



EBITDA:

EBITDA is calculated as follows:

\$ in 000's	Three months ended September 30		Nine months ended September 30	
	2006	2005	2006	2005
EBITDA as reported	\$16,010	\$ 9,026	\$39,747	\$19,490
Deduct: - depreciation and amortization	2,849	1,437	7,755	3,478
- interest – long term debt and capital lease obligations	236	57	672	57
- non-cash compensation expense	254	260	1,214	473
- provision for taxes	1,275	1,093	2,885	1,437
Net income for the period	\$11,396	\$ 6,179	\$27,221	\$14,045

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

Record natural gas storage levels have resulted in the current softening in natural gas pricing and this has created an element of uncertainty around commodity prices. This uncertainty is expected to continue for the short term and remain until winter sets in. Winter weather will be the key factor in the determination of natural gas prices producers will receive in 2007. On the oil side, prices have come down from their highs but remain strong by historical standards. Despite the uncertainty around commodity prices, industry analysts continue to forecast strong oil and natural gas prices for 2007. Should commodity prices meet analyst's forecasts then activity in the energy services markets in western Canada and the Rocky Mountain region of the U.S. should be very active and Cathedral is in a position to capitalize on that activity.

In Q4 of 2006 the Trust expects to receive delivery of 2 MWD systems, 3 wireline units and ancillary production testing equipment. Delivery of an additional 2 wireline units is expected in early 2007 Q1.

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)	Sep 2006	Jun 2006	Mar 2006	Dec 2005	Sep 2005	Jun 2005	Mar 2005	Dec 2004
Revenues	\$ 38,041	\$26,204	\$38,682	\$32,101	\$22,826	\$14,617	\$16,458	\$16,092
EBITDA	16,010	8,370	15,367	12,090	9,026	4,201	6,263	6,750
Net income	11,396	4,963	10,862	7,762	6,179	4,008	3,858	4,221
Net income per Trust Unit – basic	0.37	0.16	0.36	0.26	0.21	0.14	0.14	0.17
Net Income per Trust Unit - diluted	0.36	0.16	0.35	0.25	0.21	0.14	0.14	0.17
Cash distributions declared per Trust Unit	0.20	0.185	0.16	0.1375	0.0925	0.08	0.075	0.0725



CONSOLIDATED BALANCE SHEETS

\$ in 000's

	September 30 2006 (unaudited)	December 31 2005
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 815	\$ 2,091
Accounts receivable	39,351	31,070
Other receivables	-	612
Inventory	2,781	2,712
Prepaid expenses and deposits	1,054	525
	<hr/> 44,001	<hr/> 37,010
Property and equipment	60,369	46,927
Intangibles	773	884
Goodwill	19,455	17,955
Other asset	58	132
	<hr/> \$ 124,656	<hr/> \$ 102,908
LIABILITIES AND UNITHOLDERS' EQUITY		
Current liabilities:		
Bank indebtedness	\$ 9,770	\$ 5,310
Accounts payable and accrued liabilities	16,294	17,788
Distribution payable to Unitholders	2,154	1,503
Taxes payable	394	1,283
Current portion of capital lease obligations	238	304
Current portion of long-term debt	95	251
	<hr/> 28,945	<hr/> 26,439
Capital lease obligations	498	665
Long-term debt	15,051	12,132
Contingent consideration liability (note 4)	1,500	-
Future income taxes	4,626	4,057
	<hr/> 50,620	<hr/> 43,293
Unitholders' equity (note 5):		
Unitholders' capital	40,790	37,094
Contributed surplus	915	756
Retained earnings	32,331	21,765
	<hr/> 74,036	<hr/> 59,615
	<hr/> \$ 124,656	<hr/> \$ 102,908

CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

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

	Three months ended		Nine months ended	
	September 30		September 30	
	2006	2005	2006	2005
Revenues	\$ 38,041	\$ 22,826	\$102,927	\$ 53,901
Expenses :				
Operating	17,035	10,680	48,055	26,011
General and administrative	5,607	3,617	16,180	9,595
Depreciation and amortization	2,849	1,437	7,755	3,478
Interest – long-term debt and capital lease obligations	236	57	672	57
Interest – other	150	29	358	31
Foreign exchange loss(gain)	(1)	61	57	13
Non-cash compensation	254	260	1,214	473
	26,130	16,141	74,291	39,658
	11,911	6,685	28,636	14,243
Gain on disposal of property and equipment	760	587	1,470	1,239
Income before taxes	12,671	7,272	30,106	15,482
Taxes:				
Current	702	81	2,283	1,551
Future (reduction)	573	1,012	602	(114)
	1,275	1,093	2,885	1,437
Net income for the period	11,396	6,179	27,221	14,045
Retained earnings, beginning of period	27,085	18,283	21,765	14,767
Distributions declared	(6,150)	(2,696)	(16,655)	(7,046)
Retained earnings, end of period	\$ 32,331	\$ 21,766	\$ 32,331	\$ 21,766
Net income per Trust Unit:				
Basic	\$ 0.37	\$ 0.21	\$ 0.89	\$ 0.50
Diluted	\$ 0.36	\$ 0.21	\$ 0.86	\$ 0.49

CONSOLIDATED STATEMENTS OF CASH FLOWS

\$ in 000's
(unaudited)

	Three months ended		Nine months ended	
	September 30		September 30	
	2006	2005	2006	2005
Cash provided by (used in):				
Operating activities:				
Net income for the period	\$11,396	\$ 6,179	\$ 27,221	\$ 14,045
Items not involving cash:				
Depreciation and amortization	2,849	1,437	7,755	3,478
Future income taxes (reduction)	573	1,012	602	(114)
Unrealized foreign exchange loss (gain)	9	(23)	(33)	(14)
Non-cash compensation	254	260	1,214	473
Gain on disposal of property and equipment	(760)	(587)	(1,470)	(1,239)
Funds from operations	14,321	8,278	35,289	16,629
Changes in non-cash operating working capital	(10,177)	(4,066)	(9,363)	(1,925)
	4,144	4,212	25,926	14,704
Investing activities:				
Property and equipment additions	(6,950)	(4,306)	(21,988)	(11,860)
Proceeds on disposal of property and equipment	1,153	1,167	2,372	2,507
Acquisition of Tier One Oil Services Ltd.	-	-	-	(3,193)
Acquisition of Advance Wireline Inc.	-	(8,080)	-	(8,080)
Changes in non-cash investing working capital	(265)	(1,700)	(1,287)	317
	(6,062)	(12,919)	(20,903)	(20,309)
Financing activities:				
Advances under long-term debt	3,000	12,000	3,000	12,000
Repayment of long-term debt	(55)	(460)	(237)	(460)
Repayment of capital lease obligations	(78)	(22)	(233)	(22)
Distributions paid to Unitholders	(5,990)	(2,369)	(16,004)	(6,551)
Trust Unit issuance costs	-	(15)	-	(15)
Proceeds on exercise of Trust Unit options	321	104	2,715	493
Increase (decrease) in bank indebtedness	3,350	48	4,460	(625)
	548	9,286	(6,299)	4,820
Change in cash and cash equivalents	(1,370)	579	(1,276)	(785)
Cash and cash equivalents, beginning of period	2,185	1,787	2,091	3,151
Cash and cash equivalents, end of period	\$ 815	\$ 2,366	\$ 815	\$ 2,366

SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Three and nine months ended September 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 September 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 to 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 September 30, 2006		Nine months ended September 30, 2006	
	Number of Trust Units	Amount	Number of Trust Units	Amount
Balance, beginning of period	30,682,783	\$ 40,469	30,050,692	\$ 37,094
Issued on exercise of options	93,864	321	725,955	2,715
Contributed surplus on options exercised		-		981
Balance, end of period	30,776,647	\$ 40,790	30,776,647	\$ 40,790

(b) Contributed surplus:

	Three months ended September 30, 2006	Nine months ended September 30, 2006
Balance, beginning of period	\$ 685	\$ 756
Non-cash compensation expense related to Trust Unit option plan	230	1,140
Less: contributed surplus on options exercised	-	(981)
Balance, end of period	\$ 915	\$ 915



5. Unitholders' equity (continued):

(c) Trust Unit options:

	Three months ended September 30		Nine months ended September 30	
	2006	2005	2006	2005
	Number of options	Number of options	Number of options	Number of options
Outstanding, beginning of period	2,659,843	2,411,033	2,946,601	786,833
Issued	342,000	470,000	740,000	2,450,000
Forfeited	(60,801)	(44,500)	(113,468)	(71,167)
Exercised	(93,864)	(46,333)	(725,955)	(375,466)
Outstanding, end of period	2,847,178	2,790,200	2,847,178	2,790,200

Trust Unit options granted during the three and nine months ended September 30, 2006 were 342,000 and 740,000, respectively. These options have been valued using the Black-Scholes option pricing method. The following table sets out options issued during the nine months ended September 30, 2006, the fair value of those options and the assumptions used in applying the Black-Scholes model:

	Date of Issue				
	Sept 29, 2006	Aug 29, 2006	July 17, 2006	May 23, 2006	March 28, 2006
Number of options issued	21,000	311,000	10,000	98,000	300,000
Exercise price	\$9.24	\$10.60	\$11.30	\$11.75	\$10.87
Fair value per option using Black-Scholes option price method	\$1.42	\$1.92	\$2.17	\$ 2.27	\$ 2.00
Expected distribution yield	9.1%	7.36%	6.9%	6.13%	6.62%
Risk-free interest rate	4.01%	4.25%	4.53%	4.15%	4.0%
Expected volatility	36%	37%	37%	36%	36%
Expected life (in years)	3.5	3.5	3.5	3.5	3.5

(d) Retained earnings:

Retained earnings is comprised of the following items:

	September 30 2006	December 31 2005
Accumulated income	\$ 76,370	\$ 49,149
Less: accumulated distributions	(44,039)	(27,384)
	\$ 32,331	\$ 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 geographic segment are as follows:

Revenues	Three months ended September 30		Nine months ended September 30	
	2006	2005	2006	2005
Canada	\$ 31,272	\$ 17,568	\$ 80,796	\$ 40,067
United States	6,769	5,258	22,131	13,834
	\$ 38,041	\$ 22,826	\$ 102,927	\$ 53,901

Property and equipment, intangibles and goodwill	September 30 2006	December 31 2005
Canada	\$ 70,385	\$ 57,952
United States	10,212	7,814
	\$ 80,597	\$ 65,766



6. Segmented information (continued):

During the three months ended September 30, 2006 no customer accounted for revenue in excess of 10% of consolidated revenues (2005 – one customer at 13%). During the nine months ended September 30, 2006, one customer accounted for 13% (2005 – 16%) 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 September 30, 2006, the Trust's commitment to purchase property and equipment is approximately \$5,703.

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.*

