



Cathedral

Energy Services Income Trust

2007 Q1 INTERIM REPORT

CATHEDRAL ENERGY SERVICES REPORTS RESULTS FOR THE THREE MONTHS ENDED MARCH 31, 2007

FINANCIAL HIGHLIGHTS

\$ in 000's except per Trust Unit amounts

	Three months ended March 31	
	2007	2006
Revenues	\$42,712	\$38,682
EBITDA ⁽¹⁾	\$14,412	\$15,367
Per Trust Unit – diluted	\$ 0.46	\$ 0.49
Income before taxes	\$11,033	\$12,402
Net income	\$ 9,787	\$10,862
Per Trust Unit – basic	\$ 0.32	\$ 0.36
Per Trust Unit – diluted	\$ 0.31	\$ 0.35
Cash distributions declared per Trust Unit	\$ 0.21	\$ 0.16
Distributable income ⁽²⁾	\$13,071	\$14,221
Cash distributions declared	\$ 6,530	\$ 4,838
Payout ratio ⁽³⁾	50%	34%
Property and equipment additions and corporate acquisitions:		
Paid or payable in cash	\$ 5,805	\$ 8,783
Paid or payable in Trust Units	-	1,500
	<u>\$ 5,805</u>	<u>\$10,283</u>
Weighted average Trust Units outstanding:		
Basic ('000)	31,030	30,147
Diluted ('000)	31,591	31,193

	March 31	December 31
	2007	2006
Working capital	\$17,327	\$15,051
Long-term debt and capital lease obligations excluding current portion	\$15,616	\$15,552
Unitholders' equity	\$81,174	\$76,223

⁽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 operating 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 ended March 31, 2007 should be read in conjunction with the annual audited consolidated financial statements and notes thereto for the year ended December 31, 2006, as well as the MD&A in the Trust's 2006 Annual Report. This MD&A has been prepared as of May 3, 2007. Dollar amounts are in '000's except for day rates and per Trust Unit amounts.

FORWARD-LOOKING INFORMATION

Certain statements in this MD&A including (i) statements that may contain words such as "anticipate", "could", "expect", "seek", "may", "intend", "will", "believe", "should", "project", "forecast", "plan" and similar expressions, including the negatives thereof, (ii) statements that are based on current expectations and estimates about the markets in which the Trust/Cathedral operates and (iii) statements of belief, intentions and expectations about developments, results and events that will or may occur in the future, constitute "forward-looking statements" and are based on certain assumptions and analysis made by the Trust/Cathedral. Forward-looking statements in this MD&A include, but are not limited to, statements with respect to future capital expenditures, including the amount, nature and timing thereof; oil and natural gas prices and demand; other development trends within the oil and natural gas industry; business strategy; expansion and growth of the Trust's/Cathedral's business and operations including the Trust/Cathedral's market share and position in the oilfield service market; and other such matters. Such forward-looking statements are subject to important risks and uncertainties, which are difficult to predict and that may affect the Trust's/Cathedral's operations, including, but not limited to: the impact of general economic conditions in Canada and the United States; industry conditions, including the adoption of new environmental, safety and other laws and regulations and changes in how they are interpreted and enforced; volatility of oil and natural gas prices; oil and natural gas product supply and demand; risks inherent in the Trust's/Cathedral's ability to generate sufficient cash flow from operations to meet its current and future obligations; increased competition; the lack of availability of qualified personnel or labor unrest; fluctuation in foreign exchange or interest rates; stock market volatility; opportunities available to or pursued by the Trust/Cathedral and other factors, many of which are beyond the control of the Trust/Cathedral. The Trust's/Cathedral's actual results, performance or achievements could differ materially from those expressed in, or implied by, these forward-looking statements and, accordingly, no assurance can be given that any of the events anticipated by the forward-looking statements will transpire or occur, or if any of them do transpire or occur, what benefits the Trust/Cathedral will derive therefrom. Subject to applicable law, the Trust disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

All forward-looking statements contained in this document are expressly qualified by this cautionary statement. Further information about the factors affecting forward-looking statements is available in the Trust's current Annual Information Form and 2006 Annual Report which has been filed with Canadian provincial securities commissions and are available on www.sedar.com.

NON-GAAP FINANCIAL MEASUREMENTS

This MD&A refers to certain financial measurements that do not have any standardized meaning within Canadian Generally Accepted Accounting Principles ("GAAP") and therefore may not be comparable to similar measures provided by other companies and/or trusts. 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 operating 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

The first quarter of 2007 reflected the continued growth of the Trust. In contrast to the general decline in oilfield activity experienced throughout the industry as result of reduced oil and gas prices and unfavourable weather conditions in Western Canada; the Trust completed 2007 Q1 with record revenues. Revenues in the first quarter increased \$4,030 from \$38,682 in 2006 to \$42,712 in 2007. 2007 Q1 EBITDA was \$14,412 which represents a \$955 or 6.2% decrease from \$15,367 in 2006. The Trust's net income for 2007 Q1 was \$9,787 (2006 - \$10,862) or \$0.31 (2006 - \$0.35) per diluted Trust Unit.



RESULTS OF OPERATIONS

Revenues 2007 Q1 record revenues of \$42,712 were the result of increased growth in the directional drilling portion of the Trust's operations. Directional drilling activity days increased 11.4% or 340 to 3,323. In addition, the average day rate received for providing directional drilling services increased 10.6% on a quarter-over-quarter basis to \$9,116 (2006 - \$8,239). The increase in the average day rate is the result of day rate increases as well as a shift towards providing premium services such as underbalanced and Steam-Assisted Gravity Drainage ("SAGD") drilling services. In the Canadian market the Trust's 2007 Q1 activity levels approximated that of the comparable period in 2006. Despite the decline in natural gas drilling in Western Canada, the Trust was able to maintain prior year activity levels due to the continuing strength of the Trust's client base and involvement in multi-well programs. The Rocky Mountain region of the United States remains a very active area and the Trust's U.S. operations have now been expanded into North Dakota. The Trust's revenues from the U.S. were \$10,725 in 2007 Q1, which represents an increase of \$3,865 or 56% on a quarter-over-quarter basis. Due to demand in the U.S. market, 5 Measurement-While-Drilling ("MWD") systems were transferred to the U.S. at the end of Q1 and the Trust now has 23 MWD systems in the U.S. market. The Trust's geographic diversification, by way of providing directional drilling services in southeast Saskatchewan and U.S., has been a significant factor in its ability to organically grow its revenues.

The effect of reduced natural gas drilling expenditures in the Western Canada market resulted in lower revenues for both of the Trust's production testing and wireline divisions. The Trust's production testing division, Tier One, contributed \$4,466 in revenues during 2007 Q1 which is a 13.3% decline from 2006 Q1 revenues. Advance Wireline and Xtreme Wireline combined to generate revenues of \$7,066 for 2007 Q1 compared to \$8,191 for 2006 Q1, a 13.7% quarter-over-quarter decline.

Gross margin The gross margin for 2007 Q1 was 50.3% which compares to 53.5% in 2006 Q1. The decrease is attributed to number of factors including: i) shift to providing more horizontal drilling services (versus directional) which provide a lower gross margin than from directional drilling; ii) increases in directional field labour rates; iii) increase in wireline field labour costs as a percentage of revenues due to the continuation of the Trust's build out of its wireline fleet and related field staff that will enable the Trust to take advantage of increased activity levels; iv) increased MWD rental costs in the U.S.; v) increased motor repair costs related to an upgrade to a component to meet specific drilling requirements in the U.S.; vi) commencement of general equipment repairs earlier in the year due to the early spring breakup; and vii) offsetting the previous items was an increase in the average day rate for directional drilling services.

General and administrative expenses General and administrative expenses increased from \$5,262 in 2006 Q1 to \$6,932 in 2007 Q1 – an increase of \$1,670. The increase was primarily related to increased personnel and office/shop rental costs as well as an overall increase in activity levels. As a percentage of revenues, general and administrative expenses were 16.2% in 2007 Q1 and 13.6% in 2006 Q1.

Depreciation and amortization Depreciation for 2007 Q1 was \$2,756 which compares to \$2,329 in 2006 Q1. This increase is related to expansion of the Trust's depreciable asset base over the past 12 months. As a percentage of revenues, depreciation amounted to 6.5% for 2007 and 6.0% for 2006.

Interest expense Interest expense related to long-term debt and capital leases increased from \$210 in 2006 Q1 to \$263 in Q1 2007 due to the combined net effect of: i) an increase in the average level of debt outstanding; and ii) a decrease in the effective interest rate on the related debt.

Foreign exchange gain/loss The Trust's foreign exchange gain/loss decreased from an \$8 gain in 2006 Q1 to a loss of \$47 in 2007 Q1. Despite the fact the Canadian/United States exchange rate at the start of 2007 Q1 and the end of 2007 Q1 remained approximately equal there were fluctuations during the quarter that contributed to the \$47 loss experienced in 2007 Q1.

Non-cash compensation expense For 2007 Q1 the Trust had non-cash compensation expense of \$360 which compares to \$426 for the comparable quarter in 2006. The value of the options is being amortized against income over the three-year vesting period.

Gain on disposal of property and equipment There were no disposals of property and equipment in 2006 Q1 while in 2007 Q1 the Trust had a \$3 loss on disposal of miscellaneous equipment.

Taxes For Q1 2007, the Trust had a tax expense of \$1,246 (effective tax rate of 11.3%) which compares to \$1,540 (effective tax rate of 12.4%) in Q1 2006. The decline in the effective tax rate is due to a higher portion of the Trust's pre-tax income being allocated to unitholders.

LIQUIDITY AND CAPITAL RESOURCES

The Trust's principal source of liquidity is cash generated from operations. The Trust also has the ability to fund liquidity requirements through its credit facility and the issuance of debt and/or equity. At March 31, 2007, the Trust had an operating line of credit with a major Canadian bank in the amount of \$12,500 (December 31, 2006 - \$12,500) of which \$6,265 (December 31, 2006 - \$6,460) was drawn. In addition, the Trust has a non-reducing revolving term loan facility in the amount of \$25,000 (December 31, 2006 - \$25,000) of which \$15,000 (December 31, 2006 - \$15,000) was drawn as at March 31, 2007. In addition, at March 31, 2007, the Trust had obligations under capital leases in the amount of \$600 (December 31, 2006 - \$664) and other long-term debt of \$298 (December 31, 2006 - \$171).



Operating activities Cash flow from operating activities for the three months ended March 31, 2007 was \$9,775 (2006 - \$8,137) a increase of \$1,638 or 20.1%. The Trust has a strong working capital position at March 31, 2007 at \$17,327 which compares to \$15,051 at December 31, 2006.

Investing activities Cash used in investing activities for the three months ended March 31, 2007 amounted to \$3,026 compared to \$7,650 for the same period in 2006. During 2007 Q1 the Trust invested an additional \$5,805 (2006 - \$8,783) in property and equipment with the main additions being 4 wireline units, 2 explosive loading magazines, auxiliary wireline equipment, expansion of mud motor and drill collar fleet in the U.S., auxiliary production testing equipment for critical sour gas work and MWD components which will be used to build systems for the Canadian market and thereby replacing those transferred to the U.S. At March 31, 2007, the Trust's operating entities had 68 MWD systems, 19 production testing units and 25 wireline units. 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 months ended March 31, 2007 amounted to \$6,829 which compares to \$1,971 in Q1 2006. Distributions paid to Unitholders for 2007 Q1 totaled to \$8,056 (2006 - \$4,512). The quarter-over-quarter increase in distributions paid are related to a combination of: i) increases in the per Trust Unit "regular" distribution level; ii) the payment of a "special" \$0.05 per Trust Unit cash distribution declared in December 2006 (\$1,549); and iii) an increase in the number of Trust Units outstanding. Since January 2006 the Trust has increased its per Trust Unit distribution level from \$0.06 per Trust Unit to \$0.07 per Trust Unit for March 2007 - a 16.7% 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 three months ended March 31, 2007 financing cash inflows resulted from: i) \$1,359 (2006 - \$1,526) cash received on the exercise of Trust Unit options, and ii) an \$173 increase in new long-term debt. Offsetting these inflows were cash outflows of: i) a \$195 reduction in bank indebtedness (2006 - cash provided by bank indebtedness was \$1,195); and ii) a \$110 (2006 - \$180) repayment of long-term debt and capital lease obligations. At May 3, 2007, the Trust had 31,375,022 Trust Units and 2,540,001 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, 2006. As at March 31, 2007, the Trust has a commitment to purchase approximately \$3,689 of property and equipment.

CONTROLS AND PROCEDURES

Management is responsible for establishing and maintaining adequate disclosure controls and internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external reporting purposes in accordance with GAAP. Internal control over financial reporting may not prevent or detect fraud or misstatements because of limitations inherent in any system of internal control. There were no significant changes in the design or effectiveness of the Trust's disclosure controls or internal controls over financial reporting in the first quarter of 2007.

CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2007, The Trust adopted the Canadian Institute of Chartered Accountants ("CICA") section 3855, "Financial Instruments - Recognition and Measurement", section 3865, "Hedges", and section 1530, "Comprehensive Income". These standards have been adopted prospectively. For the 3 months ended March 31, 2007, the adoption of these standards did not have an effect on the Trust's consolidated financial statements. A general summary of these accounting standards were included in the Trust's 2006 annual MD&A.

BUSINESS RISKS

The MD&A for the year ended December 31, 2006, which is included in the Trust's 2006 Annual Report, includes an overview on business risks associated with the Trust and its operating entities. Those business risks remain in effect as at March 31, 2007.

TAXATION OF TRUSTS IN CANADA

On October 31, 2006, the Federal Government of Canada announced proposed tax changes that, if enacted, will result in the taxation of existing income and royalty trusts, other than real estate investment trusts, at effective rates similar to Canadian corporations commencing in 2011. If the legislation and tax rates are enacted in their current draft form, we expect to begin recording future tax assets and liabilities related to temporary differences that are expected to reverse after 2010. Our preliminary estimate of the unrecognized temporary differences outstanding as of March 31, 2007 is approximately \$12,000, the tax-effected value of which would be approximately \$3,800 assuming an effective tax rate of about 32%. Recording the tax liabilities related to these temporary differences based on this estimate would result in the Trust recording a charge to future income tax expense and an increase in long-term future tax liabilities of approximately \$3,800.

DISTRIBUTABLE INCOME

Distributable income is calculated as follows:

	Three months ended	
	March 31	
	2007	2006
Cash flows from operating activities	\$ 9,775	\$ 8,137
Add: - changes in non-cash operating working capital ⁽¹⁾	3,389	6,379
Less: - required principal repayments on long-term debt and capital lease obligations	(93)	(180)
- maintenance capital expenditures	-	(115)
Distributable income	\$13,071	\$14,221
Cash distributions declared	\$ 6,530	\$ 4,838
Payout ratio	50%	34%

⁽¹⁾ Changes in non-cash operating working capital have been added back as such changes are financed using the Trust's bank indebtedness/line of credit facility. In addition, if changes in non-cash operating capital were excluded it would introduce cash flow variability and affect underlying cash flow from operating activities.

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

As a result of the Trust's equipment being relatively new and the extensive maintenance program for its equipment (such repairs and maintenance cost 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.

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:

	Three months ended	
	March 31	
	2007	2006
EBITDA	\$14,412	\$15,367
Deduct: - depreciation and amortization	2,756	2,329
- interest - long term debt and capital lease obligations	263	210
- non-cash compensation expense	360	426
- provision for taxes	1,246	1,540
Net income for the period	\$ 9,787	\$10,862

GOVERNANCE

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



SUMMARY OF QUARTERLY RESULTS

Three month period ended	Mar 2007	Dec 2006	Sep 2006	Jun 2006	Mar 2006	Dec 2005	Sep 2005	Jun 2005
Revenues	\$42,712	\$35,327	\$38,041	\$26,204	\$38,682	\$32,101	\$22,826	\$14,617
EBITDA	14,412	13,046	16,010	8,370	15,367	12,090	9,026	4,201
Net income	9,787	8,127	11,396	4,963	10,862	7,762	6,179	4,008
Net income per Trust Unit – basic	0.32	0.26	0.37	0.16	0.36	0.26	0.21	0.14
Net Income per Trust Unit – diluted	0.31	0.26	0.36	0.16	0.35	0.25	0.21	0.14
Cash distributions declared per Trust Unit	0.21	0.26	0.20	0.185	0.16	0.1375	0.0925	0.08

OUTLOOK

Recently spot natural gas prices have strengthened and this is encouraging for activity levels going forward. Oil prices still remain strong by historical standards. Industry experts continue to forecast strong oil and natural gas prices for the balance of 2007 and into 2008 but not at the record prices that were attained for oil in 2006 and natural gas in 2005.

After spring breakup, we are expecting directional drilling demand to remain strong and in particular in the southeast Saskatchewan and U.S. regions. In the Canadian market we continue to expand our customer base. At the end of 2007 Q1, five MWD systems were transferred to the U.S. to meet demand and this will reduce U.S. MWD rental costs going forward. Expansion in the U.S. market continues and we are now breaking into the horizontal market within North Dakota's Bakken resource play. During Q2 the Trust expects to add 5 MWD systems to its Canadian fleet to replace the systems transferred to the U.S. On the technology forefront we continue to push forward the development of our 2nd generation Electro-Magnetic ("EM") MWD system and initial field testing is expected in 2007 Q2. The 2nd generation EM-MWD system will increase the tools capabilities by allowing it to operate at deeper levels and at lower operating costs.

The Trust's wireline divisions have continued their equipment build out plans and by the end of 2007 the divisions will have 30 units. With the build out of equipment and related staffing, we are in a position to take advantage of an upward movement in wireline activity levels. In 2007 Q2, the Trust expects to commence providing electric line wireline services in the U.S. Two wireline units will be transferred to the U.S. operations in 2007 Q2 and they will be based out of an operations facility in Casper, Wyoming. To date, senior operational and sales staff has been hired for the U.S. wireline operations. On the production testing side of the Trust's business, we continue to expand into the high-end testing market including critical sour service work.

The Board of Trustees has approved an \$8,400 increase in the 2007 capital expenditure budget to \$20,000. The \$8,400 increase will provide for the acquisition of: i) a new mud motor repair facility in Nisku, Alberta; ii) replacement of low pressure production testing units with higher pressure units; and iii) the addition of 10 MWD systems as well as additions to the mud motor and drill collar fleet to complement the increase in directional drilling job capacity. In response to gas flaring issues, government regulations are requiring more gas wells to be in-line tested. The Trust is being proactive by upgrading its fleet of low pressure units with higher pressure units that are required to perform in-line testing and with the upgrade all of our production testing units will meet this standard. With the increased capital budget the Trust expects to close fiscal 2007 with 78 MWD systems, 30 wireline units and 19 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.



CONSOLIDATED BALANCE SHEETS

\$ in '000's
(unaudited)

March 31
2007

December 31
2006

ASSETS

Current assets:

Cash and cash equivalents	\$ 1,474	\$ 1,554
Accounts receivable	40,359	37,693
Inventory	3,326	3,050
Prepaid expenses and deposits	775	892

45,934 43,189

Property and equipment

64,547 61,488

Intangibles

699 736

Goodwill

19,775 19,775

Other asset

8 33

\$ 130,963 \$ 125,221

LIABILITIES AND UNITHOLDERS' EQUITY

Current liabilities:

Bank Indebtedness	\$ 6,265	\$ 6,460
Accounts payable and accrued liabilities	19,032	16,446
Distribution payable to Unitholders	2,190	3,717
Taxes payable	838	1,232
Current portion of capital lease obligations	195	212
Current portion of long-term debt	87	71

28,607 28,138

Capital lease obligations

405 452

Long-term debt

15,211 15,100

Future income taxes

5,566 5,308

49,789 48,998

Unitholders' equity (note 4):

Unitholders' capital	46,026	44,667
Contributed surplus	1,497	1,162
Retained earnings	33,651	30,394

81,174 76,223

\$ 130,963 \$ 125,221



CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

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

Three months ended March 31
2007 2006

Revenues	\$ 42,712	\$ 38,682
Expenses:		
Operating	21,222	17,978
General and administrative	6,932	5,262
Depreciation and amortization	2,756	2,329
Interest – long-term debt and capital lease obligations	263	210
Interest – other	96	83
Foreign exchange loss (gain)	47	(8)
Non-cash compensation expense	360	426
	31,676	26,280
Operating income	11,036	12,402
Loss on disposal of property and equipment	(3)	-
Income before taxes	11,033	12,402
Taxes:		
Current	988	635
Future	258	905
	1,246	1,540
Net income for the period	9,787	10,862
Retained earnings, beginning of period	30,394	21,765
Less: Distributions declared	(6,530)	(4,838)
Retained earnings, end of period	\$ 33,651	\$ 27,789
Net income per Trust Unit:		
Basic	\$ 0.32	\$ 0.36
Diluted	\$ 0.31	\$ 0.35



CONSOLIDATED STATEMENTS OF CASH FLOWS

\$ in '000's
(unaudited)

Three months ended March 31
2007 2006

Cash provided by (used in):

Operating activities:

Net income for the period	\$ 9,787	\$10,862
Items not involving cash:		
Depreciation and amortization	2,756	2,329
Future taxes	258	905
Unrealized foreign exchange gain	-	(6)
Non-cash compensation expense	360	426
Loss on disposal of property and equipment	3	-
	13,164	14,516
Changes in non-cash operating working capital	(3,389)	(6,379)
	9,775	8,137

Investing activities:

Property and equipment additions	(5,805)	(8,783)
Proceeds on disposal of property and equipment	24	-
Changes in non-cash investing working capital	2,755	1,133
	(3,026)	(7,650)

Financing activities:

Distributions paid to Unitholders	(8,056)	(4,512)
Advances under long-term debt	173	-
Repayment of long-term debt	(46)	(103)
Repayment of capital lease obligations	(64)	(77)
Proceeds on exercise of Trust Unit options	1,359	1,526
Increase (decrease) in bank indebtedness	(195)	1,195
	(6,829)	(1,971)
Change in cash and cash equivalents	(80)	(1,484)
Cash and cash equivalents, beginning of period	1,554	2,091
Cash and cash equivalents, end of period	\$ 1,474	\$ 607

SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Three months ended March 31, 2007 and 2006

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

(unaudited)

1. Significant accounting policies:

These unaudited interim consolidated financial statements for the period ended March 31, 2007 do not include all disclosures required in the annual financial statements and should be read in conjunction with the annual consolidated financial statements and notes thereto for the year ended December 31, 2006 included in the Trust's 2006 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, 2006, except for the new accounting policies described in note 2.

2. New accounting policies:

Effective January 1, 2007, The Trust adopted the Canadian Institute of Chartered Accountants ("CICA") section 3855, "Financial Instruments – Recognition and Measurement", section 3865, "Hedges", and section 1530, "Comprehensive Income". These standards have been adopted prospectively. For the 3 months ended March 31, 2007, the adoption of these standards did not have an effect on the Trust's consolidated financial statements.

3. 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 United States are not subject the seasonality to the extent that it occurs in the Western Canada region.

4. Unitholders' equity:

(a) Issued Unitholders' capital:

	Three months ended March 31			
	2007		2006	
	Number of Trust Units	Amount	Number of Trust Units	Amount
Balance, beginning of period	30,970,979	\$44,667	30,050,692	\$37,094
Issued on exercise of options	316,062	1,359	423,595	1,526
Contributed surplus on options exercised	-	-	-	377
Balance, end of period	31,287,041	\$46,026	30,474,287	\$38,997

(b) Contributed surplus:

	Three months ended March 31	
	2007	2006
Balance, beginning of period	\$ 1,162	\$ 756
Non-cash compensation expense related to Trust Unit option plan	335	401
Less: Contributed surplus on options exercised	-	(377)
Balance, end of period	\$ 1,497	\$ 780

(c) Trust Unit options:

	Three months ended March 31	
	2007	2006
	Number of options	Number of options
Outstanding, beginning of period	2,869,544	2,946,601
Issued	78,000	300,000
Exercised	(316,062)	(423,595)
Outstanding, end of period	2,631,482	2,823,006



SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Three months ended March 31, 2007 and 2006

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

4. Unitholders' equity (continued):

(d) Trust Unit options:

During the three months ended March 31, 2007, 78,000 Trust Unit options were granted at an exercise price of \$10.44 and the fair value of these options was \$1.77 per option using the Black-Scholes option pricing method. The following table sets out the assumptions used in applying the Black-Scholes model:

	Date of Issue March 9, 2007
Expected distribution yield	8.05%
Risk-free interest rate	3.94%
Expected volatility	37%
Expected life (in years)	3.5

(e) Retained earnings:

Retained earnings is comprised of the following items:

	March 31 2007	December 31 2006
Accumulated income	\$ 94,284	\$ 84,497
Less: accumulated distributions	(60,633)	(54,103)
	\$ 33,651	\$ 30,394

5. Segmented information:

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

Revenues	Three months ended March 31	
	2007	2006
Canada	\$31,987	\$31,822
United States	10,725	6,860
	\$42,712	\$38,682

Property and equipment, goodwill and intangibles	March 31	December 31
	2007	2006
Canada	\$73,965	\$71,100
United States	11,056	10,899
	\$85,021	\$81,999

During the three months ended March 31, 2007, one customer accounted for 22% (2006 – 12%) of consolidated revenues.

SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Three months ended March 31, 2007 and 2006

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

6. 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, 2006. As at March 31, 2007, the Trust's commitment to purchase property and equipment is approximately \$3,689.

*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 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.*

