



2008 Q1 INTERIM REPORT

CATHEDRAL ENERGY SERVICES REPORTS RESULTS FOR THE THREE MONTHS ENDED MARCH 31, 2008

FINANCIAL HIGHLIGHTS

Dollars in 000's except per Trust Unit amounts

	Three months ended March 31	
	2008	2007
Revenues	\$46,253	\$42,712
EBITDAS ⁽¹⁾	\$15,395	\$14,412
Per Trust Unit – diluted	\$ 0.48	\$ 0.46
Income before taxes	\$11,689	\$11,033
Net income	\$ 9,917	\$ 9,787
Per Trust Unit – basic	\$ 0.31	\$ 0.32
Per Trust Unit – diluted	\$ 0.31	\$ 0.31
Cash distributions declared per Trust Unit	\$ 0.21	\$ 0.21
Distributable cash ⁽¹⁾	\$13,113	\$13,071
Cash distributions declared	\$ 6,669	\$ 6,530
Payout ratio ⁽¹⁾	51%	50%
Property and equipment additions	\$ 3,960	\$ 5,805
Weighted average Trust Units outstanding:		
Basic ('000)	31,707	31,030
Diluted ('000)	32,054	31,591

	March 31 2008	December 31 2007
Working capital	\$21,455	\$16,947
Long-term debt and capital lease obligations excluding current portion	\$17,421	\$17,441
Unitholders' equity	\$82,882	\$79,250

⁽¹⁾ Non-GAAP measure; see "NON-GAAP FINANCIAL MEASUREMENTS" within Management's Discussion & Analysis.

MANAGEMENT'S DISCUSSION & ANALYSIS

This Management's Discussion & Analysis ("MD&A") for the three months ended March 31, 2008 should be read in conjunction with the annual audited consolidated financial statements and notes thereto for the year ended December 31, 2007, as well as the MD&A in the Trust's 2007 Annual Report. This MD&A has been prepared as of May 7, 2008. 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 2007 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.

The specific measures being referred to include the following:

- i) "Gross margin" - calculated as revenues less operating expenses is considered a primary indicator of operating performance;
- ii) "EBITDAS" - defined as earnings before interest on long-term debt and capital lease obligations, taxes, depreciation, amortization and non-cash compensation expense; this measure is considered an indicator of the Trust's ability to generate funds flow from operations prior to consideration of how activities are financed, how the results are taxed and measured and non-cash expenses (see tabular calculation under EBITDAS);
- iii) "Distributable cash" - defined as cash flow from operating activities before changes in non-cash operating working capital less required principal repayments on long-term debt and capital lease obligations and maintenance capital expenditures; distributable cash is a key performance measurement used by management, analysts and investors to evaluate the financial performance of the Trust (see tabular calculation under Distributions);
- 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;
- v) "Payout ratio" - calculated as cash distributions declared divided by distributable cash, is an indicator of the Trust's ability to fund its distributions from the Trust's ongoing operations excluding changes in non-cash working capital (see tabular calculation under Distributions) (see distributable cash definition above); and
- vi) "Funds from operations" - calculated as cash flow from operating activities before changes in non-cash operating working capital is considered an indicator of the Trust's ability to generate funds flow from operations but excluding changes in non-cash operating working capital which is financed using the Trust's bank indebtedness/line of credit facility.

OVERVIEW

The Trust completed the first quarter of 2008 with record quarterly revenues of \$46,253. Prior to 2008 Q1 the quarter with the highest revenues was 2007 Q1 at \$42,712. The 2008 Q1 record revenues were lead by the Trust's directional drilling division which represented 75% (2007 Q1- 73%) of 2008 Q1 revenues. Within the oilfield service sector, the directional drilling sub-sector has been very active area with a growing number of wells being drilled directionally/horizontally. In resource plays such as the Bakken (southeast Saskatchewan) and Montney (northeast B.C.), operators are using the combination of horizontally drilled wells and multi-stage fracturing to increase reservoir recoveries and it is expected that such completion techniques will continue to expand the number of horizontal wells drilled. The Trust's production testing and wireline divisions continue to be negatively affected by the decline in natural gas drilling in western Canada.

2008 Q1 EBITDAS was \$15,395 (\$0.48 per diluted Trust Unit) which represents a \$983 or 6.8% increase from \$14,412 (\$0.46 per diluted Trust Unit) in 2007. The Trust's net income for 2008 Q1 was \$9,917 (2007 - \$9,787) or \$0.31 (2007 - \$0.31) per diluted Trust Unit.

RESULTS OF OPERATIONS

Revenues 2008 Q1 record revenues of \$46,253 were the result of increased growth in the directional drilling portion of the Trust's operations. Directional drilling activity days increased 20.5% from 3,323 in 2007 Q1 to 4,005 in 2008 Q1. The average day rate received for providing directional drilling services decreased 7.6% on a quarter-over-quarter basis to \$8,419 (2007 - \$9,116). The decrease in the average day rate is mainly the result of industry-wide Canadian day rate decreases due to market pressures. Directional drilling activity days in the Canadian and U.S. markets were up 18.4% and 24.3%, respectively. On a quarter-over-quarter basis revenues from the production testing division are down 7.1% (2008 - \$4,150; 2007 - \$4,466) due mainly to pricing pressures but also a result of a decrease in demand. As previously announced the Trust is in the process of expanding its production testing business to the U.S. Rocky Mountain region with the build out of 5 production testing units. In early 2008 Q2 one production testing unit was transferred to the U.S. operations and it is expected to start generating revenues in 2008 Q2. The Trust's wireline division had a quarter-over-quarter increase in revenues of 7.3% (2008 - \$7,580; 2007 - \$7,066) with the increase being due to the start-up of a U.S. wireline division in 2007 Q3. In early 2008 the Trust established a second U.S. operations base for its wireline division in Dickinson, North Dakota with one wireline unit that was transferred from the Canadian operations.

Gross margin The gross margin for 2008 Q1 was 49.0% which compares to 50.3% in 2007 Q1. The decrease is attributed to a number of factors including: i) increases in directional field labour rates; ii) increased equipment rental charges due to demand and need for specialty equipment; and iii) a decrease in the average day rate in providing directional drilling services.

General and administrative expenses General and administrative expenses increased from \$6,932 in 2007 Q1 to \$7,431 in 2008 Q1 – an increase of \$499. The increase was primarily related to increased personnel and office/shop rental costs as well as an overall increase in activity levels for the directional drilling division and costs associated with pursuing international business opportunities. As a percentage of revenues, general and administrative expenses were 16.1% in 2008 Q1 and 16.2% in 2007 Q1.

Depreciation and amortization Depreciation for 2008 Q1 was \$2,851 which compares to \$2,756 in 2007 Q1. Despite the amount of capital expenditures on the Trust's depreciable asset base over the past 12 months depreciation on a quarter-over-quarter did not increase significantly due to the change in accounting method for foreign currency translation of the Trust's U.S. operations (refer to note 2 to the consolidated financial statements for the three months ended March 31, 2008). As a percentage of revenues, depreciation amounted to 6.2% for 2008 and 6.5% for 2007.

Interest expense Interest expense related to long-term debt and capital leases increased from \$263 in 2007 Q1 to \$276 in Q1 2008 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. Other interest expense, which increased marginally on a quarter-over-quarter basis from \$96 in 2007 Q1 to \$99 in 2008 Q1, relates mainly to interest charges on use by the Trust of its bank indebtedness/line of credit facility.

Foreign exchange gain/loss The Trust's foreign exchange gain/loss has changed from a \$47 loss in 2007 Q1 to a \$33 gain in 2008 Q1. Effective January 1, 2008, the Trust changed the classification of its U.S. operations to self-sustaining (as opposed to fully integrated) resulting in the financial statements being translated using the current rate method as opposed to the temporal method (refer to note 2 to the consolidated financial statements for the three months ended March 31, 2008).

Non-cash compensation expense For 2008 Q1 the Trust had non-cash compensation expense of \$579 which compares to \$360 for 2007 Q1. The value of the options is being amortized against income over the three-year vesting period. The increased non-cash compensation expense reflects the increase in the value attributed to the options.

Gain on disposal of property and equipment During 2008 Q1 the Trust had a gain on disposal of property and equipment of \$226, which compares to a loss of \$3 in 2007 Q1. The Trust's 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 2008 Q1, the Trust had a tax expense of \$1,772 (effective tax rate of 15.2%) which compares to \$1,246 (effective tax rate of 11.3%) in 2007 Q1. The increase in the effective tax rate is due to a lower portion of the Trust's pre-tax income is being allocated to unitholders and therefore the corporate entities within the Trust structure are incurring the related tax.

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, 2008, the Trust had an operating line of credit with a major Canadian bank in the amount of \$12,500 (December 31, 2007 - \$12,500) of which \$9,370 (December 31, 2007 - \$6,030) was drawn. In addition, the Trust has a non-reducing revolving term loan facility in the amount of \$25,000 (December 31, 2007 - \$25,000) of which \$17,000 (December 31, 2007 - \$17,000) was drawn as at March 31, 2008. In addition, at March 31, 2008, the Trust had obligations under capital leases in the amount of \$402 (December 31, 2007 - \$451) and other long-term debt of \$304 (December 31, 2007 - \$283).

Operating activities Cash flow from operating activities for the three months ended March 31, 2008 was \$6,882 (2007 - \$9,775) a decrease of \$2,893. Funds from operations (before changes in non-cash operating working capital) increased from \$13,164 in 2007 Q1 to \$13,299 in 2008 Q1. On a quarter-over-quarter basis the Trust's investment in non-cash operating working capital increased \$3,028 and this is the main contributing factor to the decrease on cash flow from operations. The Trust has a strong working capital position at March 31, 2008 at \$21,455 which compares to \$16,947 at December 31, 2007.

Investing activities Cash used in investing activities for the three months ended March 31, 2008 amounted to \$3,510 which compares to \$3,026 for the same period in 2007. During 2008 Q1 the Trust invested an additional \$3,960 (2007 - \$5,805) in property and equipment with the main additions being expansion of the overall mud motor and drill collar fleet, MWD components which will be used in the 2008 build out of 10 EM-MWD systems, and progress payments on the construction of a mud motor facility in Nisku, Alberta. At March 31, 2008, the Trust's operating entities had 78 MWD systems, 19 production testing units and 27 wireline units.

Financing activities Cash used in financing activities for the three months ended March 31, 2008 amounted to \$2,205 which compares to \$6,829 in 2007 Q1. Distributions paid to Unitholders for 2008 Q1 totaled to \$6,650 (2007 - \$8,056). The quarter-over-quarter decrease is the net result of: i) the payment of a "special" \$0.05 per Trust Unit cash distribution declared in December 2006 (\$1,549) and paid in 2007 Q1 - there was no such "special" cash distribution paid in 2008 Q1; and ii) an increase in the number of Trust Units outstanding due to the exercise of Trust Unit options. The Trust's "regular" monthly distribution has been at \$0.07 per Trust Unit since September 2006. 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, 2008 financing cash inflows resulted from: i) \$1,133 (2007 - \$1,359) cash received on the exercise of Trust Unit options, ii) a \$47 (2007 - \$173) increase in new long-term debt; and iii) a \$3,340 (2007 - \$195 repayment) draw on the Trust bank indebtedness/line of credit facility. Offsetting these inflows was a cash outflow of \$75 (2007 - \$110) repayment of long-term debt and capital lease obligations. At May 7, 2008, the Trust had 32,162,190 Trust Units and 2,208,196 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, 2007. As at March 31, 2008, the Trust has a commitment to purchase approximately \$5,681 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 2008.

CHANGE IN FOREIGN CURRENCY TRANSLATION

Previously, the Trust's U.S. operations were classified as integrated operations and were translated using the temporal method with all translation gains (losses) included in the determination of net income for the current period. Effective January 1, 2008, the Trust changed the classification of its U.S. operations to self-sustaining resulting in the financial statements being translated using the current rate method as opposed to the temporal method. Under the current rate method of translation, revenues and expenses of the subsidiary are translated at the rates in effect at the time of the transactions while assets and liabilities are translated at the current exchange rate in effect at the balance sheet date. Upon consolidation of the U.S. operations, gains and losses due to fluctuations in the foreign currency exchange rates are deferred on the balance sheet as a separate component of Other Comprehensive Income ("OCI"). Accumulated other comprehensive income (loss) forms part of Unitholders' equity. This change in foreign currency translation has been applied prospectively and resulted in a foreign exchange loss of \$1,894 being deferred and recorded as OCI as at January 1, 2008.

NEW ACCOUNTING POLICIES

Effective January 1, 2008, The Trust adopted the Canadian Institute of Chartered Accountants ("CICA") section 3031, "Inventories", section 1535, "Capital Disclosures", and section 3861, "Financial Instruments - Disclosure and Presentation". These standards have been adopted prospectively. For the three months ended March 31, 2008, the adoption of these standards did not have an effect on the Trust's results, financial position or cash flows but additional disclosures have been provided in the notes to the interim financial statements.

BUSINESS RISKS

The MD&A for the year ended December 31, 2007, which is included in the Trust's 2007 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, 2008.

DISTRIBUTIONS

The Administrator of the Trust reviews the level and nature of distributions (cash, in-kind or a combination of cash and in-kind) on an on-going basis giving consideration to current performance, historical and future trends in the business, the expected sustainability of those trends and enacted tax legislation which will affect future taxes payable as well as required long-term debt repayments, maintenance capital expenditures required to sustain performance and future growth capital expenditures. Despite the seasonality of the Trust's business, it is the Trust's policy to pay consistent distributions throughout the year. The Trust's operations in western Canada are subject to seasonality as activity levels in the oilfield services industry are generally lower during "spring breakup" which normally commences in late March and continues through to May (mainly in the Q2 of the fiscal year). The net result of the Trust's policy to pay consistent distributions throughout the year despite the seasonality of its operations is that in Q2 cash distributions declared may exceed net income, cash flow from operating activities and/or distributable cash for the quarter.

Distributable cash is a supplemental non-GAAP financial measurement that management considers a key measure in demonstrating the Trust's ability to generate the cash necessary to pay distributions, fund future capital investments and the repayment of long-term debt and capital lease obligations. Distributable cash as presented is not intended to represent operating profit for the period nor should it be viewed as an alternative to operating profit, net income or other measures of financial performance calculated in accordance with Canadian GAAP. Distributable cash does not have any standardized meaning within Canadian GAAP and therefore may not be comparable to similar measures presented by other trusts (refer to Non-GAAP Financial Measurements).

The Trust intends to pay cash distributions to Unitholders but the payment of cash distributions cannot be guaranteed.

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

	2008 Q1	Fiscal year	
		2007	2006
Cash flow from operating activities	\$ 6,882	\$ 39,729	\$ 39,929
Net income for the period	\$ 9,917	\$ 24,863	\$ 35,348
Distributable cash	\$ 13,113	\$ 38,993	\$ 45,972
Cash distributions declared	\$ 6,669	\$ 26,405	\$ 24,681
Excess of cash flow from operating activities over cash distributions declared	\$ 213	\$ 13,324	\$ 15,248
Excess (short-fall) of net income over cash distributions declared	\$ 3,248	\$ (1,542)	\$ 10,667
Excess of distributable cash over cash distributions declared	\$ 6,444	\$ 12,588	\$ 21,291

Net income includes significant non-cash charges which for the three months ended March 31, 2008 were \$3,608 and for the years ended December 31, 2007 and 2006 were \$16,607 and \$13,429, respectively, which do not impact cash flow. Included in these non-cash charges is a provision for depreciation that is not a reasonable proxy for the cost of maintaining existing levels of service (i.e. maintenance capital expenditures). Therefore, in certain periods cash distributions declared may exceed net income. Management does not consider the excess of cash distributions declared over net income for the year ended December 31, 2007 to be an economic return of capital. Instead the excess is considered a function of the timing of cash flows versus accounting income.

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

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

	Three months ended	
	2008	March 31 2007
Cash flow from operating activities	\$ 6,882	\$ 9,775
Add (deduct): - changes in non-cash operating working capital ⁽¹⁾	6,417	3,389
Less: - required principal repayments on long-term debt and capital lease obligations	(76)	(93)
- maintenance capital expenditures	(110)	-
Distributable cash	\$13,113	\$ 13,071
Cash distributions declared	\$ 6,669	\$ 6,530
Payout ratio	51%	50%

(1) Changes in non-cash operating working capital have been added back (deducted) as such changes are financed using the Trust's bank indebtedness/line of credit facility. In addition, if changes in non-cash operating working capital were not excluded from the calculation of distributable cash it would introduce cash flow variability and affect underlying cash flow from operating activities.

EBITDAS

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

	Three months ended	
	2008	March 31 2007
EBITDAS as reported	\$15,395	\$ 14,412
Deduct: - depreciation and amortization	(2,851)	(2,756)
- interest - long-term debt and capital lease obligations	(276)	(263)
- non-cash compensation expense	(579)	(360)
- provision for taxes	(1,772)	(1,246)
Net income	\$ 9,917	\$ 9,787

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 2008	Dec 2007	Sep 2007	Jun 2007	Mar 2007	Dec 2006	Sep 2006	Jun 2006
Revenues	\$46,253	\$39,054	\$38,355	\$24,985	\$42,712	\$35,327	\$38,041	\$26,204
EBITDAS	15,395	13,707	13,775	4,837	14,412	13,046	16,010	8,370
Net income (loss)	9,917	10,365	7,126	(2,415)	9,787	8,127	11,396	4,963
Net income (loss) per Trust Unit – basic	0.31	0.33	0.23	(0.08)	0.32	0.26	0.37	0.16
Net Income (loss) per Trust Unit – diluted	0.31	0.33	0.22	(0.08)	0.31	0.26	0.36	0.16
Cash distributions declared per Trust Unit	0.21	0.21	0.21	0.21	0.21	0.26	0.20	0.185

OUTLOOK

The strengthening of natural gas prices in late 2007/early 2008 has created an element of optimism in the oil and gas sector and this is expected to translate, in due course, into increased capital expenditure budgets by oil and natural gas producers for their Canadian operations. This in turn is expected to increase demand for oilfield services, including those provided by Cathedral's operating divisions. Management continues to expect that going forward Cathedral's business lines will provide strong financial results. As a result, the Board of Directors of the Trust's Administrator, Cathedral Energy Services Ltd., have approved a further \$20,000 increase in the 2008 capital budget to bring the current 2008 capital budget to \$32,300. The major components within the \$32,300 capital budget include: i) 20 EM-MWD systems along with the expansion of the mud motor and drill collar fleet to complete the expanded directional drilling job capacity; ii) 10 production testing units; iii) specialty wireline tools; and iv) facility costs associated with the completion of the Nisku mud motor repair facility.

Ten of the new EM-MWD systems and related mud motors and drill collars will be allocated to the U.S. operations of which 5 EM-MWD systems were transferred to the U.S. operations in 2008 Q2. The remaining 10 EM-MWD systems and related mud motors and drill collars will be added to the Canadian fleet. Of the ten production testing units being added, 5 will be deployed in the Rocky Mountain region of the U.S. and the balance in the Canadian market. The 2008 capital budget will be financed by way of funds from operations and credit facilities. The Trust is in discussions with its existing bank to increase the limits to its current credit facility.

To facilitate earlier commencement of providing production testing services in the U.S. Rocky Mountain region, one production testing unit from the Canadian fleet was re-located to the U.S. in 2008 Q2. This is the Trust's first deployment towards having 5 production testing units in the U.S. market with potential to add to these 5 units, subject to market demand. In early 2008 our U.S. wireline division expanded into the Williston Basin region with the establishment of an operating facility in Dickinson, North Dakota with one wireline unit. Management is currently addressing the need for additional wireline units in the U.S. market.

As part of the Trust's continuing drive to provide state-of-art technology to its customers we continue to rollout our second generation EM-MWD system. As well, several new advancements will be incorporated into a third generation EM-MWD system which will create additional efficiency in the operations of the system. A focus on the rollout of the Remote Drilling System ("RDS") will continue in both the Canadian and U.S. markets as this technology will allow the Trust to reduce the number of field personnel required on a job, thereby reducing the costs to both the Trust and its clients.

Cathedral continues to pursue directional drilling business opportunities in South America. A bid has been submitted and we expect to be advised as to the results of the bidding process in the near term.

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

Dollars in '000's
(unaudited)

March 31
2008

December 31
2007

ASSETS

Current assets:

Cash and cash equivalents	\$ 2,473	\$ 1,306
Accounts receivable	46,091	37,359
Inventory	3,756	3,584
Prepaid expenses and deposits	723	781

53,043 43,030

Property and equipment

67,065 67,639

Intangibles

551 588

Goodwill

19,775 19,775

\$ 140,434 \$ 131,032

LIABILITIES AND UNITHOLDERS' EQUITY

Current liabilities:

Bank Indebtedness	\$ 9,370	\$ 6,030
Accounts payable and accrued liabilities	18,571	17,203
Distribution payable to Unitholders	2,235	2,216
Taxes payable	1,127	341
Current portion of capital lease obligations	177	194
Current portion of long-term debt	108	99

31,588 26,083

Capital lease obligations

225 257

Long-term debt

17,196 17,184

Future income taxes

8,543 8,258

Unitholders' equity (note 5):

Unitholders' capital	49,578	48,193
Contributed surplus	2,507	2,205
Retained earnings	32,100	28,852
Accumulated other comprehensive income (loss)	(1,303)	-

82,882 79,250

\$ 140,434 \$ 131,032

CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

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

	Three months ended March 31	
	2008	2007
Revenues	\$ 46,253	\$ 42,712
Expenses:		
Operating	23,587	21,222
General and administrative	7,431	6,932
Depreciation and amortization	2,851	2,756
Interest – long-term debt and capital lease obligations	276	263
Interest – other	99	96
Foreign exchange loss (gain)	(33)	47
Non-cash compensation expense	579	360
	34,790	31,676
	11,463	11,036
Gain (loss) on disposal of property and equipment	226	(3)
Income before taxes	11,689	11,033
Taxes:		
Current	1,542	988
Future income taxes	230	258
	1,772	1,246
Net income for the period	9,917	9,787
Retained earnings, beginning of period	28,852	30,394
Less: Distributions declared	(6,669)	(6,530)
Retained earnings, end of period	\$ 32,100	\$ 33,651
Net income per Trust Unit:		
Basic	\$ 0.31	\$ 0.32
Diluted	\$ 0.31	\$ 0.31

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME AND ACCUMULATED OTHER COMPREHENSIVE LOSS

Dollars in '000's
(unaudited)

	Three months ended March 31	
	2008	2007
Net Income for the period	\$ 9,917	\$ 9,787
Other comprehensive income:		
Unrealized foreign exchange gain on translation of self-sustaining foreign operations	591	-
Comprehensive income for the period	\$ 10,508	\$ 9,787
Accumulated other comprehensive income, beginning of period	\$ -	\$ -
Adjustment for change in foreign currency translation method (note 2)	(1,894)	-
Other comprehensive income	591	-
Accumulated other comprehensive loss, end of period	\$ (1,303)	\$ -

CONSOLIDATED STATEMENTS OF CASH FLOWS

Dollars in '000's
(unaudited)

Three months ended March 31
2008 2007

Cash provided by (used in):

Operating activities:

Net income for the period	\$ 9,917	\$ 9,787
Items not involving cash:		
Depreciation and amortization	2,851	2,756
Future income taxes	230	258
Unrealized foreign exchange gain	(52)	-
Non-cash compensation expense	579	360
Loss (gain) on disposal of property and equipment	(226)	3
	13,299	13,164
Changes in non-cash operating working capital	(6,417)	(3,389)
	6,882	9,775

Investing activities:

Property and equipment additions	(3,960)	(5,805)
Proceeds on disposal of property and equipment	461	24
Changes in non-cash investing working capital	(11)	2,755
	(3,510)	(3,026)

Financing activities:

Advances under long-term debt	47	173
Repayment of long-term debt	(26)	(46)
Repayment of capital lease obligations	(49)	(64)
Distributions paid to Unitholders	(6,650)	(8,056)
Proceeds on exercise of Trust Unit options	1,133	1,359
Increase (decrease) in bank indebtedness	3,340	(195)
	(2,205)	(6,829)
Change in cash and cash equivalents	1,167	(80)
Cash and cash equivalents, beginning of period	1,306	1,554
Cash and cash equivalents, end of period	\$ 2,473	\$ 1,474

SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Three months ended March 31, 2008 and 2007

(Dollars 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, 2008 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, 2007 included in the Trust's 2007 Annual Report and other public disclosure documents of the Trust. 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, 2007, except for the new accounting policies described in note 3.

2. Change in foreign currency translation:

Previously, the Trust's U.S. operations were classified as integrated operations and were translated using the temporal method with all translation gains (losses) included in the determination of net income for the current period. Effective January 1, 2008, the Trust changed the classification of its U.S. operations to self-sustaining resulting in the financial statements being translated using the current rate method as opposed to the temporal method. Under the current rate method of translation, revenues and expenses of the subsidiary are translated at the rate in effect at the time of the transactions while assets and liabilities are translated at the current exchange rate in effect at the balance sheet date. Upon consolidation the US operations gains and losses due to fluctuations in the foreign currency exchange rates are deferred on the balance sheet as a separate component of Accumulated Other Comprehensive Income ("AOCI"). Accumulated other comprehensive income (loss) forms part of Unitholders' equity. This change in translation method has been applied prospectively and resulted in a foreign exchange loss of \$1,894 being deferred and recorded as AOCI as at January 1, 2008.

2. New accounting policies:

Effective January 1, 2008, The Trust adopted the following sections of the Canadian Institute of Chartered Accountants ("CICA") Handbook and they have been adopted prospectively. For the three months ended March 31, 2008, the adoption of these sections affected disclosures only, they did not have an effect on the Trust's results, financial position or cash flows.

Section 3031 Inventories provides guidance on the determination of the cost of inventory and the subsequent recognition of inventory as an expense, as well as requiring additional associated disclosures. This new standard requires inventory to be measured at lower of cost and net realizable value. The Trust's inventory is comprised of parts used in repairing equipment and operating supplies. The Trust now values its inventory at the lower of cost and net realizable value with cost being determined on a first-in, first-out basis.

Section 1535 Capital Disclosures establishes standards for disclosing information that enables users of financial statements to evaluate and entity's objectives, policies and processes for managing capital, including disclosures of any externally imposed capital requirements and the consequences of non-compliance. The new disclosures are included in note 6.

Sections 3862 and 3863 Financial Instruments – Disclosures and Presentation replaced existing Section 3861, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosure about the nature and extent of risks arising from financial instruments and how the entity manages those risks. The new disclosures are included in note 7.

3. Future accounting policies:

In February 2008, the CICA issued Handbook Section 3064, Goodwill and Intangible Assets, replacing Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development Costs. New Section 3064 addresses when an internally developed intangible asset meets the criteria for recognition as an asset. The Section also issued amendments to Section 1000, Financial Statement Concepts. These changes are effective for fiscal years beginning on or after October 1, 2008, with earlier adoption permitted, and will be adopted by the Trust effective January 1, 2009. The Trust is currently evaluating the effects of adopting these changes.

In February 2008, The Canadian Accounting Standards Board confirmed that the use of International Financial Reporting Standards ("IFRS") will be required in Canada for publically accountable profit oriented enterprises for fiscal years beginning on or after January 1, 2011. The Trust will be required to report using IFRS beginning January 1, 2011. The Trust has begun the process of evaluating the impact of the change to IFRS.

4. 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 to the seasonality to the extent that it occurs in the Western Canada region.

5. Unitholders' equity:

(a) Issued Unitholders' capital:

	Three months ended March 31			
	2008		2007	
	Number of Trust Units	Amount	Number of Trust Units	Amount
Balance, beginning of period	31,662,917	\$ 48,193	30,970,979	\$ 44,667
Issued on exercise of options	266,673	1,133	316,062	1,359
Contributed surplus on options exercised	-	252	-	-
Balance, end of period	31,929,590	\$ 49,578	31,287,041	\$ 46,026

(b) Contributed surplus:

	Three months ended March 31	
	2008	2007
Balance, beginning of period	\$ 2,205	\$ 1,162
Non-cash compensation expense related to Trust Unit option plan	554	335
Less: contributed surplus on options exercised	(252)	-
Balance, end of period	\$ 2,507	\$ 1,497

(c) Retained earnings:

Retained earnings is comprised of the following items:

	March 31 2008	December 31 2007
Accumulated income	\$ 119,277	\$ 109,360
Less: accumulated distributions	(87,177)	(80,508)
	\$ 32,100	\$ 28,852

5. Unitholders' equity (continued):

(d) Trust Unit options:

	Three months ended March 31	
	2008	2007
Outstanding, beginning of period	2,812,937	2,869,544
Issued	-	78,000
Forfeited	(43,334)	-
Exercised	(266,673)	(316,062)
Outstanding, end of period	2,502,930	2,631,482

6. Management of capital:

The Trust views its capital as the combination of long-term debt/capital lease obligations and unitholders' equity. The Trust's objectives when managing capital are to maintain a balance between the level of long-term debt/capital lease obligations and unitholders' equity that will allow access to capital markets and long-term debt to fund growth and working capital with due consideration to the cyclical nature of the oilfield services sector. Historically the Trust has maintained a conservative ratio of long-term debt/capital lease obligations to long-term debt/capital lease obligations plus unitholders' equity. As at March 31, 2008 and December 31, 2007 this ratio was as follows:

	March 31, 2008	December 31, 2007
Long-term debt	\$ 17,196	\$ 17,184
Capital lease obligations	225	257
Unitholders' equity excluding accumulated AOCI	84,185	79,250
Total capitalization	\$ 101,606	\$ 96,691
Long-term debt/capital lease obligations to long-term debt/capital lease obligations plus unitholders' equity ratio	0.17	0.18

As a result of the 2007 enactment of Canadian tax legislation with respect to specified investment flow-through ("SIFT") trusts are subject to "normal growth" limitations designed to limit the ability of a trust to issue equity (including convertible debentures or other equity substitutes) that exceeds certain specified percentages of the market capitalization of a trust on October 31, 2006. The normal growth limitation is cumulative in nature to the extent not taken and for the year ended December 31, 2008 the Trust's normal growth limitation will be about \$173. The Trust will be a specified investment flow-through ("SIFT") trust, subject to the SIFT tax rules, on the earlier of January 1, 2011 or the first day after it exceeds the normal growth guidelines. In addition to the "normal growth" restrictions noted above, the Trust is also subject to a leverage test covenant on its credit facility. The management of the Trust monitors its credit facility covenants on an on-going basis and is in compliance with the debt covenants as at and for the period ended March 31, 2008.

To assist in the management of its capital the Trust prepares annual operating and capital expenditure budgets, which are updated as necessary depending on varying factors including general industry conditions. In order to maintain or adjust the capital structure the Trust may, with the approval of its Board of Trustees, alter the amount of distributions paid to unitholders, issue new units, issue new debt, and/or issue new debt to replace existing debt with different characteristics.

The Trust's overall strategy with respect to capital management remains unchanged from the year ended December 31, 2007.

7. Financial instruments:

The Trust has designated its financial instruments into the following categories applying the indicated measurement methods:

Financial Instrument	Category	Measurement Method
Cash and cash equivalents	Held for trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Bank indebtedness/Accounts payable and accrued liabilities/ Distributions payable/Capital Leases/Bank Debt	Other liabilities	Amortized cost

The Trust will assess at each reporting period whether a financial asset, other than those classified as held for trading, is impaired. An impairment loss, if any, is included in net earnings. The Trust does not use derivative instruments or hedges. The carrying values of the Trust's current assets and current liabilities approximated their fair values as at March 31, 2008 due to the relatively short period to maturity of the instruments. The fair value of long-term debt at March 31, 2008 approximated its carrying value as it bears interest at floating rates. The fair value of capital lease obligations at March 31, 2008 approximated its carrying value.

The Trust is exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives for growth and Unitholder returns. The principal financial risks to which the Trust is exposed are described below.

(a) Credit risk:

Substantially all of the Trust's accounts receivable are due from customers in the oil and gas industry and are subject to normal industry credit risks. The carrying value of accounts receivable reflects management's assessment of the associated credit risks. At March 31, 2008 the Trust's provision for doubtful accounts is \$418 and for the three months ended March 31, 2008 had a bad debt recovery of \$49.

7. Financial instruments (continued):

(b) Liquidity risk:

Liquidity risk is the risk that the Trust will encounter difficulty in meeting obligations associated with its financial liabilities. The Trust manages liquidity risk through regular monitoring of forecast and actual cash flows, and also the management of its capital structure and financial leverage as outline in note 6. Given the Trust's available liquid resources as compared to the timing of the payment of liabilities, management assesses the Trust's liquidity risk to be low.

(c) Foreign currency exchange risk:

The Trust has an exposure to fluctuations in the Canada/United States foreign currency exchange rate primarily due its operations in the United States. Management attempts to mitigate this exposure by matching local purchases in the same currency. Currently, the Trust's net foreign currency exposure risk is not significant enough to warrant an active management program to mitigate the foreign currency exchange exposure.

(d) Interest rate risk:

At March 31, 2008, the Trust was exposed to changes in interest rates on its bank indebtedness and most of its long-term debt. A 1% increase in the Trust's bank's prime lending rate would cause interest expense to increase by approximately \$264 per annum based upon the balance of bank indebtedness and long-term debt with a floating interest rate outstanding as at March 31, 2008 of \$26,370.

8. 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	
	2008	2007
Canada	\$ 32,878	\$ 31,987
United States	13,375	10,725
	<u>\$ 46,253</u>	<u>\$ 42,712</u>

Revenues by operating division	Three months ended March 31	
	2008	2007
Directional drilling (including rental of related equipment)	\$ 34,523	\$ 31,180
Wireline	7,580	7,066
Production testing	4,150	4,466
	<u>\$ 46,253</u>	<u>\$ 42,712</u>

Property and equipment, goodwill and intangibles	March 31	December 31
	2008	2007
Canada	\$ 73,890	\$ 72,788
United States	13,501	15,214
	<u>\$ 87,391</u>	<u>\$ 88,002</u>

During the three months ended March 31, 2008, one customer accounted for 20% (2007 – 22%) of consolidated revenues.

9. 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, 2007. As at March 31, 2008, the Trust's commitment to purchase property and equipment is approximately \$5,681.

*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") represents 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 and Williston Basin regions 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.*