



CATHEDRAL ENERGY SERVICES INCOME TRUST

2009 Q1 INTERIM REPORT

FINANCIAL HIGHLIGHTS

Dollars in '000's except per Trust Unit amounts

	Three months ended March 31	
	2009	2008
Revenues	\$31,368	\$46,253
Gross margin % ⁽¹⁾	45%	49%
EBITDAS ⁽¹⁾	\$ 6,237	\$15,395
Per Trust Unit – diluted	\$ 0.19	\$ 0.48
Income before taxes	\$ 1,755	\$11,689
Net income	\$ 1,404	\$ 9,917
Basic per Trust Unit	\$ 0.04	\$ 0.31
Diluted per Trust Unit	\$ 0.04	\$ 0.31
Cash distributions declared per Trust Unit	\$ 0.15	\$ 0.21
Distributable cash ⁽¹⁾ , net of one-time 2009 Q1 current tax provision of \$4,168 (refer to MD&A)	\$ 2,347	\$13,113
Adjusted distributable cash ⁽¹⁾ , excluding one-time 2009 Q1 current tax provision of \$4,168	\$ 6,515	\$13,113
Cash distributions declared ⁽²⁾	\$ 4,887	\$ 6,669
Payout ratio ⁽¹⁾ , net of one-time 2009 Q1 current tax provision of \$4,168	208%	51%
Adjusted payout ratio ⁽¹⁾ , excluding one-time 2009 Q1 current tax provision of \$4,168	75%	51%
Property and equipment additions	\$ 4,137	\$ 3,960
Weighted average Trust Units outstanding:		
Basic ('000)	32,582	31,707
Diluted ('000)	32,582	32,054

	March 31 2009	December 31 2008
Working capital	\$14,031	\$17,435
Long-term debt excluding current portion	\$41,677	\$40,233
Unitholders' equity	\$89,725	\$91,859

(1) Refer to MD&A; see "NON-GAAP MEASUREMENTS"

(2) Excludes foreign taxes paid that have been allocated to Unitholders

MANAGEMENT'S DISCUSSION & ANALYSIS

This Management's Discussion & Analysis ("MD&A") for the three months ended March 31, 2009 should be read in conjunction with the annual audited consolidated financial statements and notes thereto for the year ended December 31, 2008, as well as the MD&A in the Trust's 2008 Annual Report. This MD&A has been prepared as of May 14, 2009. 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 specifically 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/Cathedral's business and operations including the Trust/Cathedral's market share and position in the oilfield service market; and other such matters.

The forward-looking statements contained in this MD&A reflect several material factors, expectations and assumptions including, without limitation: (i) oil and natural gas production levels; (ii) commodity prices and interest rates; (iii) capital expenditure programs and other expenditures by the Trust/Cathedral and its customers; (iv) supply and demand for oil and natural gas; (v) expectations regarding the Trust's/Cathedral's ability to raise capital, generate cash flow and to increase its equipment fleets through acquisitions and manufacture; (vi) schedules and timing of certain projects and the Trust's/Cathedral's strategy for growth; (vii) the Trust's/Cathedral's future operating and financial results; (viii) the Trust's/Cathedral's ability to retain and hire qualified personnel; and (ix) treatment under governmental regulatory regimes and tax, environmental and other laws.

Financial outlook information contained in this MD&A about prospective results of operations, financial position or cash flows is based on assumptions about future events, including economic conditions and proposed courses of action, based on management's assessment of the relevant information currently available. Readers are cautioned that such financial outlook information contained in this MD&A and certain documents incorporated by reference into this MD&A should not be used for purposes other than for which it is disclosed herein.

Such forward-looking statements are subject to important risks and uncertainties, which are difficult to predict and that may affect the Trust/Cathedral's operations, including, but not limited to: the impact of general economic conditions in Canada, the United States and Internationally; 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/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 labour unrest; fluctuation in foreign exchange or interest rates; foreign currency controls; 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/Cathedral 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/Cathedral's current Annual Information Form which has been filed with the applicable Canadian provincial securities commissions and is available on www.sedar.com.

NON-GAAP 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 (see tabular calculation under Results of Operations);
- ii) "Gross margin %" - calculated as gross margin divided by revenues is considered a primary indicator of operating performance (see tabular calculation under Results of Operations);
- iii) "EBITDAS" - defined as earnings before interest on long-term debt, taxes, depreciation, amortization and Unit-based 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);
- iv) "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 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);
- v) "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;
- vi) "Payout ratio" - calculated as cash distributions 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
- vii) "Funds from operations" - calculated as cash flow from operating activities before changes in non-cash working capital is considered an indicator of the Trust's ability to generate funds flow from operations but excluding changes in non-cash working capital which is financed using the Trust's bank indebtedness/line of credit facility.

OVERVIEW

The Trust completed the first quarter of 2009 with quarterly revenues of \$31,368 compared to 2008 Q1 at \$46,253. The 2009 Q1 revenues were lead by the Trust's directional drilling division which represented 65% (2008 Q1- 75%) of 2009 Q1 revenues. The decline in drilling in the oil and gas sector due to low commodity prices and the overall decline in the economy have resulted in a significant decline in revenues as compared to 2008 Q1, when the Trust achieved record quarterly revenues. The Trust's production testing and wireline divisions continue to be negatively affected by the decline in natural gas drilling in western Canada.

2009 Q1 EBITDAS was \$6,237 (\$0.19 per diluted Trust Unit) which represents a \$9,158 or 59% decrease from \$15,395 (\$0.48 per diluted Trust Unit) in 2008. The Trust's net income for 2009 Q1 was \$1,404 (2008 - \$9,917) or \$0.04 (2008 - \$0.31) per diluted Trust Unit.

RESULTS OF OPERATIONS

Revenues and operating expenses

	2009 Q1	2008 Q1	Change	%
Revenues	\$ 31,368	\$ 46,253	\$ (14,885)	(32)
Operating expenses	(17,332)	(23,587)	(6,255)	(27)
Gross margin - \$	\$ 14,036	\$ 22,666	\$ (8,630)	(38)
Gross margin - %	45%	49%	(4)%	

	Three months ended March 31, 2009				Three months ended March 31, 2008			
	Directional drilling ⁽¹⁾	Wireline	Production testing	Total	Directional drilling ⁽¹⁾	Wireline	Production testing	Total
Canada	\$ 10,793	\$ 3,969	\$ 3,725	\$ 18,487	\$ 22,511	\$ 6,217	\$ 4,150	\$ 32,878
United States	9,556	870	2,455	12,881	12,012	1,363	-	13,375
	\$ 20,349	\$ 4,839	\$ 6,180	\$ 31,368	\$ 34,523	\$ 7,580	\$ 4,150	\$ 46,253

⁽¹⁾ Including rental of related equipment

2009 Q1 revenues were \$31,368 which represented a decrease of \$14,885 or 32% from 2008 Q1 revenues of \$46,253. The decline is primarily attributed to the decline in oil and natural gas activity in 2009 which has been caused by low commodity prices and the global recession.

The directional drilling division revenues have decreased from \$34,523 in 2008 to \$20,349 in 2009. This decrease is the net result of: i) the 52% decrease in activity days from 4,005 in 2008 to 1,929 in 2009; and ii) the increase in the average day rate from \$8,419 in 2008 to \$10,253 in 2009, which was due in large part to the increase in U.S. rates due to the decline in the Canadian dollar compared with 2008 Q1. On a year-to-date basis Canadian activity days decreased from 2,500 to 1,129 and the U.S. activity days decreased from 1,505 to 800.

Expansion to the U.S. resulted in increased revenues for the Trust's production testing division. The Trust's production testing division contributed \$6,180 in revenues during 2009 Q1 which is a 49% increase over 2008 revenues of \$4,150. The wireline division has been affected the most by the decline in oil and natural gas activity. The wireline division generated revenues of \$4,839 for 2009 Q1 which compares to \$7,580 for 2008 which represents a 36% decrease.

The gross margin for 2009 Q1 was 45% compared to 49% in 2008 Q1. The decrease is attributed to a number of factors including quarter-over-quarter increases in directional field labour rates and increased equipment repairs. Labour costs as a percentage revenue increased, in spite of decreases in directional drilling labour rates which went into effect during 2009 Q1, due to the overall change in revenue mix as wireline and production testing revenues as a percentage of total revenues has increased. These divisions have historically had higher labour costs. In the current quarter the U.S. directional drilling division incurred higher repair costs than one year ago. In addition, due to the fall off in the level of activity some annual maintenance was started in Q1. This did not begin until the spring break up in Q2 of 2008.

General and administrative expenses General and administrative expenses were \$7,765 in 2009 Q1; an increase of \$334 compared with \$7,431 in 2008. The increase was primarily related to increased personnel and office/shop rental costs as well as costs associated with establishing international business opportunities. As a percentage of revenues, general and administrative expenses were 25% in 2009 Q1 and 16% in 2008 Q1. Recognizing the expected lower activity levels, the Trust has taken several initiatives to improve operating results and further strengthen its balance sheet. The Trust's operating entities are undertaking a detailed review of all operating costs and general and administrative expenditures and have initiated cost reductions to enhance profitability including layoff of staff and wage rollbacks ranging from 4 – 12%.

Depreciation and amortization Depreciation for 2009 Q1 was \$3,833 which compares to \$2,851 in 2008 Q1. This increase is due to the increase in capital in the drilling and production testing divisions as compared with 2008 Q1, due to the expansion of the equipment fleet in 2008 Q2 to Q4 and in part due to the U.S. expansion. As a percentage of revenues, depreciation amounted to 12% for 2009 and 6% for 2008.

Interest expense Interest expense related to long-term debt increased from \$276 in 2008 Q1 to \$372 in 2009 Q1 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 \$99 in 2008 Q1 to \$115 in 2009 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 \$33 gain in 2008 Q1 to a loss of \$639 in 2009 Q1 due to the fluctuations in the Canadian dollar. Upon consolidation the Trust's foreign operations are considered to be self-sustaining and therefore gains and losses due to fluctuations in the foreign currency exchange rates are recorded in other comprehensive income ("OCI") on the balance sheet as a component of equity. However, gains and losses in the Canadian entity on US denominated intercompany balances continue to be recognized in the statement of income. Included in the 2009 Q1 foreign currency loss are unrealized losses of \$548 related to intercompany balances.

Unit-based compensation expense For 2009 Q1 the Trust had unit-based compensation expense of \$277 which compares to \$579 for 2008 Q1. The value of the options is being amortized against income over the three-year vesting period.

Gain on disposal of property and equipment During 2009 Q1 the Trust had a gain on disposal of property and equipment of \$720, which compares to \$226 in 2008 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 2009 Q1, the Trust had a tax expense of \$351 (effective tax rate of 20%) as compared to \$1,772 (effective tax rate of 15.2%) in 2008 Q1. At the beginning of 2009 Q1 the Trust's U.S. subsidiary sold the majority of its operating assets to the Trust's Canadian operating entity, Cathedral Energy Services Limited Partnership, as part of an internal reorganization related to ownership of operating assets within the Trust. This transaction created a one-time current tax expense in the amount of \$4,168 (current taxable income was created mainly due to U.S. recaptured tax depreciation) and a recovery of future taxes in the amount of \$3,210; for a net tax cost of \$958. Subsequent to this transaction, the Trust's U.S. subsidiary leases the majority of its operating equipment from Cathedral Energy Services Limited Partnership. Excluding the one-time tax effect of this inter-company sale of assets the Trust had a tax recovery of \$607 which relates to a change in effective tax rates.

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, 2009, the Trust had an operating line of credit with a major Canadian bank in the amount of \$20,000 (December 31, 2008 - \$20,000) of which \$8,440 (December 31, 2008 - \$15,406) was drawn. In addition, the Trust has a non-reducing revolving term loan facility in the amount of \$45,000 (December 31, 2008 - \$45,000) of which \$41,500 (December 31, 2008 - \$40,000) was drawn as at March 31, 2009. In addition, at March 31, 2009, the Trust had other long-term debt of \$385 (December 31, 2008 - \$440).

Operating activities Cash flow from operating activities for the three months ended March 31, 2009 increased from \$6,882 in 2008 to \$12,304, an increase of \$5,422 or 79%. Funds from operations (see Non-GAAP Measurements) for 2009 were \$2,543 which compares to \$13,299 for 2008 a decrease of \$10,756. This decrease was caused mainly by a reduction on earnings due to reduced activity levels as well as a one-time current tax expense on the transfer of assets discussed above. The Trust has a working capital position at March 31, 2009 at \$14,031 which compares to \$17,435 at December 31, 2008.

Investing activities Cash used in investing activities for the three months ended March 31, 2009 amounted to \$5,335 which compares to \$3,510 for the same period in 2008. During 2009 Q1 the Trust invested an additional \$4,137 (2008 - \$3,960) in property and equipment with the main additions being for the acquisition of 4 production testing units. The Trust's initial 2009 capital budget (including \$3.6 million deferred from 2008) was for a total of \$20.6 million. In light of the expected lower activity levels for 2009, management has significantly reduced its capital budget. The revised 2009 capital expenditure program is \$8,800 including approximately \$500 of maintenance capital. At March 31, 2009, the Trust's operating entities had 98 MWD systems, 33 production testing units and 28 wireline units.

Financing activities Cash used by financing activities for the quarter ended March 31, 2009 amounted to \$11,386 which compares to \$2,205 in 2008 Q1. During 2009 Q1, the Trust received advances of long-term debt in the amount of \$1,500 (2008 - \$47). Repayments of other long-term debt in 2009 Q1 amounted to \$55 (2008 - \$75). Repayments of bank indebtedness for 2009 Q1 were \$6,966 (2008 - advance of \$3,340). As at March 31, 2009, the Trust was in compliance with all covenants under its credit facility. During 2009 Q1 the Trust received cash inflows of \$Nil (2008 - \$1,133) on the exercise of Trust Unit options. At May 14, 2009, the Trust had 32,582,022 Trust Units and 2,940,763 Trust Unit options outstanding.

Distributions paid to Unitholders for 2009 Q1 totaled to \$5,865 (2008 - \$6,650). The quarter-over-quarter decrease is mainly the result of reducing the Trust's "regular" monthly distribution from \$0.07 per Trust Unit where it had been since September 2006 to \$0.04 per Trust Unit commencing in February 2009. Cash distributions paid have been financed from cash flow from operations and bank indebtedness. Management currently expects cash distributions for 2009 (on an annualized basis) will also be financed from cash flow from operations.

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, 2008. As at March 31, 2009, the Trust has a commitment to purchase approximately \$1,128 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 2009.

NEW ACCOUNTING POLICIES

Effective January 1, 2009, the Trust adopted the Canadian Institute of Chartered Accountants ("CICA") section 3064, Goodwill and Intangible Assets and amendments to Section 1000, Financial Statement Concepts. These standards have been adopted prospectively. For the three months ended March 31, 2009, the adoption of these standards did not have an effect on the Trust's results, financial position or cash flows.

BUSINESS RISKS

The MD&A for the year ended December 31, 2008, which is included in the Trust's 2008 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, 2009.

EBITDAS

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

	Three months ended	
	2009	March 31 2008
EBITDAS as reported	\$ 6,237	\$ 15,395
Deduct: - depreciation and amortization	(3,833)	(2,851)
- interest – long-term debt	(372)	(276)
- unit-based compensation expense	(277)	(579)
- provision for taxes	(351)	(1,772)
Net income	\$ 1,404	\$ 9,917

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 ongoing 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 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. 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 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:

	2009 Q1	Fiscal year	
		2008	2007
Cash flow from operating activities	\$ 12,304	\$ 36,143	\$ 39,729
Net income for the period	\$ 1,404	\$ 30,139	\$ 24,863
Distributable cash	\$ 2,347	\$ 39,791	\$ 38,993
Cash distributions declared ⁽¹⁾	\$ 4,887	\$ 27,094	\$ 26,405
Excess of cash flow from operating activities over cash distributions declared	\$ 7,417	\$ 9,049	\$ 13,324
Excess (short-fall) of net income over cash distributions declared	\$ (3,483)	\$ 3,045	\$ (1,542)
Excess (short-fall) of distributable cash over cash distributions declared	\$ (2,540)	\$ 12,697	\$ 12,588

(1) Excludes foreign taxes paid that have been allocated to Unitholders

Net income includes significant non-cash charges which for the three months ended March 31, 2009 were \$1,859 and for the years ended December 31, 2008 and 2007 were \$12,823 and \$16,607, 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 or the three months ended March 31, 2009 to be an economic return of capital. Instead the excess is considered a function of the timing of cash flows versus accounting income.

With respect to the short-fall of distributable cash over cash distributions declared for 2009 Q1, if the calculation of distributable cash is adjusted for the one-time current tax provision (\$4,168 as discussed under the Results of Operations – Taxes section of this MD&A and as follows with respect to comments on Distributable Cash) there would be an excess of distributable cash over cash distributions declared for 2009 in the amount of \$1,628. Management considers the exclusion of this one-time current tax provision to be reasonable in comparing distributable cash to cash distributions declared as this current tax provision is being incurred for the long-term benefit of Trust as opposed to being limited to 2009 Q1. On an annualized basis, it is not management's intent to distribute 100% of distributable cash.

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

	Three months ended	
	2009	March 31 2008
Cash flow from operating activities	\$12,304	\$ 6,882
Add (deduct): - changes in non-cash operating working capital ⁽¹⁾	(9,761)	6,417
Less: - required principal repayments on long-term debt	(55)	(76)
- maintenance capital expenditures	(141)	(110)
Distributable cash	\$ 2,347	\$ 13,113
Add: one-time 2009 Q1 current tax provision (see comments below)	4,168	-
Adjusted distributable cash	\$ 6,515	\$ 13,113
Cash distributions declared	\$ 4,887	\$ 6,669
Payout ratio, net of one-time 2009 Q1 current tax provision of \$4,168	208%	51%
Adjusted payout ratio, excluding one-time 2009 Q1 current tax provision of \$4,168	75%	51%

(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.

At the beginning of 2009 Q1 the Trust's U.S. subsidiary sold the majority of its operating assets to the Trust's Canadian operating entity, Cathedral Energy Services Limited Partnership, as part of an internal reorganization related to ownership of operating assets within the Trust. This transaction created a one-time current tax expense in the amount of \$4,168 (this taxable income was created mainly due to recaptured U.S. tax depreciation). If this one-time current tax expense is excluded from the calculation of distributable cash then the adjusted payout ratio for 2009 Q1 was 75%.

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	Dec	Sep	Jun	Mar	Dec	Sep	Jun
	2009	2008	2008	2008	2008	2007	2007	2007
Revenues	\$31,368	\$50,506	\$52,686	\$29,483	\$46,253	\$39,054	\$38,355	\$24,985
EBITDAS	6,237	13,932	16,914	4,632	15,395	13,707	13,775	4,837
Net income (loss)	1,404	9,737	10,296	189	9,917	10,365	7,126	(2,415)
Net income (loss) per Trust Unit – basic	0.04	0.30	0.32	0.01	0.31	0.33	0.23	(0.08)
Net Income (loss) per Trust Unit – diluted	0.04	0.30	0.32	0.01	0.31	0.33	0.22	(0.08)
Cash distributions declared per Trust Unit	0.15	0.21	0.21	0.21	0.21	0.21	0.21	0.21

OUTLOOK

Low commodity prices combined with the difficulty for producers to raise capital by way of debt or equity, and an overall global recession which has decreased overall demand for oil and natural gas, continues to result in producers significantly reducing their development and exploration programs. This has negatively affected oilfield services activities including that of the Trust. Drilling activity, which is the most significant driver for the Trusts revenues, is down significantly in Canada and the United States.

Oil prices have strengthened somewhat recently and management expects drilling activity in southeast Saskatchewan to increase if oil remains in the \$50 USD per barrel range. The Trust has traditionally been very active in southeast Saskatchewan and its G3 EM/MWD system has been operating effectively in this market which is considered not to be an "EM" friendly environment. The use of the Trust's G3 EM/MWD system has demonstrated significant cost savings to operators in comparison to the use of the traditional mud pulse MWD systems. The Trust is actively marketing its G3 EM/MWD system to current and prospective customers to highlight this competitive advantage.

Natural gas prices are expected to continue to be depressed in the near term as a result of an overall decrease in demand for natural gas, natural gas storage levels being at the upper range of the five-year average and significantly higher than storage volume at this time last year as well as the prospect of an increase in liquefied natural gas ("LNG") imports. That said, the combination of the recent significant decline in natural gas drilling that is being experienced in both Canada and the United States and significant production decline rates on wells drilled, will, in due course, support higher natural gas prices and natural gas drilling activity throughout North America – the question is "when" will the supply/demand balance be restored.

In light of the uncertain economic times, the Trust has been proactive and has taken several initiatives to strengthen its balance sheet and "right-size" its operations to the expected activity levels: i) announced in February 2009 a \$0.03 reduction in its monthly distribution; ii) reduced the 2009 capital budget from an initial level of \$20,600 (including \$3,600 million deferred from 2008) to \$8,800; iii) layoffs of and wage rollbacks for field and office staff; and iv) a reduction in discretionary operating costs and general and administrative expenditures.

The Trust's Venezuela directional drilling business is now ready to commence operations with a 3-4 job capability. The Trust's operations base in Maturin, Venezuela is fully operational and we expect to commence our first directional drilling job in 2009.

Although a challenging environment is expected in the near term, the Trust's management considers the long-term fundamentals for the supply and demand for energy to be positive for the oilfield services sector.

CONSOLIDATED BALANCE SHEETS

Dollars in '000's (unaudited)	March 31 2009	December 31 2008
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,318	\$ 7,551
Accounts receivable	26,591	43,629
Taxes receivable	-	688
Inventory	7,868	8,963
Prepaid expenses and deposits	1,340	1,538
	39,117	62,369
Property and equipment	101,297	101,287
Intangibles	404	441
Goodwill	19,775	19,775
	\$ 160,593	\$ 183,872
LIABILITIES AND UNITHOLDERS' EQUITY		
Current liabilities:		
Bank indebtedness (note 5)	\$ 8,440	\$ 15,406
Accounts payable and accrued liabilities	13,674	27,040
Distribution payable to Unitholders	1,303	2,281
Taxes payable	1,461	-
Current portion of long-term debt (note 6)	208	207
	25,086	44,934
Long-term debt (note 6)	41,677	40,233
Future income taxes	4,105	6,846
Unitholders' equity (note 7):		
Unitholders' capital	54,311	54,311
Contributed surplus	2,940	2,663
Retained earnings	28,076	31,559
Accumulated other comprehensive income	4,398	3,326
	89,725	91,859
	\$ 160,593	\$ 183,872

Commitments (note 9)
Subsequent event (note 10)

CONSOLIDATED STATEMENTS OF OPERATIONS AND RETAINED EARNINGS

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

	Three months ended March 31	
	2009	2008
Revenues	\$ 31,368	\$ 46,253
Expenses:		
Operating	17,332	23,587
General and administrative	7,765	7,431
Depreciation and amortization	3,833	2,851
Interest – long-term debt	372	276
Interest – other	115	99
Foreign exchange loss (gain)	639	(33)
Unit-based compensation expense	277	579
	30,333	34,790
	1,035	11,463
Gain on disposal of property and equipment	720	226
Income before taxes	1,755	11,689
Taxes:		
Current	3,150	1,542
Future income taxes	(2,799)	230
	351	1,772
Net income	1,404	9,917
Retained earnings, beginning of period	31,559	28,852
Less: Distributions declared	(4,887)	(6,669)
Retained earnings, end of period	\$ 28,076	\$ 32,100
Net income per Trust Unit:		
Basic	\$ 0.04	\$ 0.31
Diluted	\$ 0.04	\$ 0.31

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME AND ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Dollars in '000's
(unaudited)

	Three months ended March 31	
	2009	2008
Net income	\$ 1,404	\$ 9,917
Other comprehensive income:		
Unrealized foreign exchange gain on translation of self-sustaining foreign operations	1,072	591
Comprehensive income	\$ 2,476	\$ 10,508
Accumulated other comprehensive income, beginning of period	\$ 3,326	\$ -
Adjustment for change in foreign currency translation method	-	(1,894)
Other comprehensive income	1,072	591
Accumulated other comprehensive income (loss), end of period	\$ 4,398	\$ (1,303)

CONSOLIDATED STATEMENTS OF CASH FLOWS

Dollars in '000's
(unaudited)

Three months ended March 31
2009 2008

Cash provided by (used in):

Operating activities:

Net income	\$ 1,404	\$ 9,917
Items not involving cash:		
Depreciation and amortization	3,833	2,851
Future income taxes	(2,799)	230
Unrealized foreign exchange (gain) loss	548	(52)
Unit-based compensation expense	277	579
Gain on disposal of property and equipment	(720)	(226)
	2,543	13,299
Changes in non-cash operating working capital	9,761	(6,417)
	12,304	6,882

Investing activities:

Property and equipment additions	(4,137)	(3,960)
Proceeds on disposal of property and equipment	1,078	461
Changes in non-cash investing working capital	(2,276)	(11)
	(5,335)	(3,510)

Financing activities:

Advances under long-term debt	1,500	47
Repayment of long-term debt	(55)	(75)
Distributions paid to Unitholders	(5,865)	(6,650)
Proceeds on exercise of Trust Unit options	-	1,133
Change in bank indebtedness	(6,966)	3,340
	(11,386)	(2,205)
Effect of exchange rate on changes in cash and cash equivalents	184	-
Change in cash and cash equivalents	(4,233)	1,167
Cash and cash equivalents, beginning of period	7,551	1,306
Cash and cash equivalents, end of period	\$ 3,318	\$ 2,473

SELECTED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Three months ended March 31, 2009 and 2008

(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, 2009 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, 2008 included in the Trust's 2008 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, 2008, except for the new accounting policies described in note 2.

2. New accounting policies:

Effective January 1, 2009, 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, 2009, the adoption of these sections did not have an effect on the Trust's results, financial position or cash flows.

The CICA issued 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 CICA also issued amendments to Section 1000, Financial Statement Concepts.

3. Future accounting policies:

In January 2009, the CICA issued Section 1582, Business Combinations, which replaces former guidance on business combinations. Section 1582 establishes principles and requirements for the acquisition method for business combinations and related disclosures. This statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 2011 with earlier application permitted. The Trust is currently evaluating the effects of adopting these changes.

In January 2009, the CICA issued Sections 1601, Consolidated Financial Statements, and Section 1602, Non-controlling Interests, which replaces existing guidance. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are effective on or after the beginning of the first annual reporting period beginning on or after January 2011 with earlier application permitted. The Trust is currently evaluating the effects of adopting these changes.

In February, 2008, the CICA confirmed that the use of International Financial Reporting Standards ("IFRS") will be required in Canada for publicly 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. In light of these requirements, the Trust has begun to develop an IFRS transition project plan.

The Trust's IFRS project plan has four phases: education, analysis, design and implementation and testing. The Trust has begun process of education for all levels of the organization and has commenced the analysis phase. The Trust is in the process of identifying specific significant differences between Canadian GAAP and IFRS. In 2009, the Trust will complete the detailed analysis phase and will commence the design phase in which it will establish specific project plans for those areas affected by IFRS with the goal of being able to prepare the opening IFRS balance sheet as at January 1, 2010 which will be presented in 2011.

As the Trust continues to evaluate the impact of adoption of its processes and accounting policies it will provide updated disclosures.

4. Seasonality of operations:

A significant portion of the Trust'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.

5. Bank indebtedness:

The Trust has a \$20,000 demand operating line of credit with a major Canadian bank that bears interest at the bank's prime rate plus 0.25% with interest payable monthly and is secured as described in note 6.

6. Long-term debt:

	March 31 2009	December 31 2008
Bank revolving term loan with a major Canadian bank at an authorized amount of \$45,000, bearing interest at the bank's prime rate plus 0.75% per annum, without repayment terms, maturing June 30, 2009 subject to an annual extension upon agreement between the borrower and the bank for a further one-year period. Prior to maturity the borrower may convert its revolving term loan to a non-revolving term loan repayable monthly over 36 months with interest only for the first 12 months	\$ 41,500	\$ 40,000
Non-interest bearing loans secured by the related automotive equipment with various maturity dates up to 2010	189	218
Capital lease obligations	196	222
	41,885	40,440
Less: current portion of long-term debt	(208)	(207)
	\$ 41,677	\$ 40,233

The credit facility with a major Canadian bank is secured by a general security agreement over all present and future personal property with a first charge over certain real estate assets and is subject to certain covenants regarding the payment of dividends, cash distributions and the maintenance of certain financial ratios.

7. Unitholders' equity:

(a) Issued Unitholders' capital:

	Three months ended March 31			
	2009		2008	
	Number of Trust Units	Amount	Number of Trust Units	Amount
Balance, beginning of period	32,582,022	\$ 54,311	31,662,917	\$ 48,193
Issued on exercise of options			266,673	1,133
Contributed surplus on options exercised	-	-	-	252
Balance, end of period	32,582,022	\$ 54,311	31,929,590	\$ 49,578

(b) Contributed surplus:

	Three months ended March 31	
	2009	2008
Balance, beginning of period	\$ 2,663	\$ 2,205
Unit-based compensation expense related to Trust Unit option plan	277	554
Less: contributed surplus on options exercised	-	(252)
Balance, end of period	\$ 2,940	\$ 2,507

(c) Trust Unit options:

	Three months ended March 31	
	2009	2008
Outstanding, beginning of period	3,053,430	2,812,937
Forfeited	(112,667)	(43,334)
Exercised	-	(266,673)
Outstanding, end of period	2,940,763	2,502,930

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, the Rocky Mountain and Williston Basin regions of the United States and Venezuela 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 currently provided in both Canada and the United States and are expected to occur in Venezuela in 2009. The amounts related to each segment are as follows:

Revenues	Three months ended March 31	
	2009	2008
Canada	\$ 18,487	\$ 32,878
United States	12,881	13,375
	\$ 31,368	\$ 46,253

Revenues by operating division	Three months ended March 31	
	2009	2008
Directional drilling (including rental of related equipment)	\$ 20,349	\$ 34,523
Wireline	4,839	7,580
Production testing	6,180	4,150
	\$ 31,368	\$ 46,253

Property and equipment, goodwill and intangibles	March 31	December 31
	2009	2008
Canada	\$100,284	\$100,508
United States	14,422	14,282
International	6,770	6,713
	\$121,476	\$121,503

During the three months ended March 31, 2009, one customer accounted for 27% (2008 – 20%) 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, 2008. As at March 31, 2009, the Trust's commitment to purchase property and equipment is approximately \$1,128.

10. Subsequent event:

On April 28, 2009, the Trust entered into a bought deal arrangement to issue 3,144,000 Trust Units at a price of \$4.15 for gross proceeds of \$13,048 and net proceeds of \$11,965 (net of commissions and other offer costs estimated to be \$1,083). In addition, the Trust has granted the underwriters an option for 30 days after closing to purchase an additional 471,600 Trust Units at a price of \$4.15 for additional gross proceeds of \$1,957 and net proceeds of \$1,840 (net of commissions estimated to be \$117). The offering is expected to close May 19, 2009.

11. Reclassification:

Certain comparative financial statement items have been reclassified to conform to the presentation adopted in 2009.

Cathedral Energy Services Income Trust (the "Trust"/"Cathedral") is a limited purpose trust that is engaged, through its operating entities, in providing selected oilfield drilling and completion services to oil and natural gas industry mainly in western Canada and the Rocky Mountain and Williston Basin regions of the United States. Cathedral is in the process of initiating operations in Venezuela for providing directional drilling services through its wholly owned subsidiaries Directional Plus International Ltd. and Directional Plus de Venezuela, C.A. The Trust's operating activities are divided into three business units: directional drilling, production testing and wireline. Cathedral strives to provide its clients with value added technologies and solutions to meet their drilling and completion requirements. Its mandate is to supply "Best in Class, Best in Service" equipment and personnel to its clients. The Trust's units trade on the TSX under the symbol: CET.UN. For more information, visit www.cathedralenergyservices.com.