

Attention Business/Financial Editors:
 CCS Income Trust first quarter results and highlights

Q1 Interim Report
 Three months ended March 31, 2007

CALGARY, May 7 /CNW/ -

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- Funds from operations increased by 25 percent in the first quarter of 2007, despite a difficult operating environment in the oil and gas sector.
- The South Wapiti, Alberta TRD commenced operations in February, 2007.
- On March 7, 2007 the Trust acquired the operating assets of Mobley Oilfield Services, LP ("Mobley") for \$44.1 million. Mobley transports, manages and disposes of a variety of liquids used or produced in upstream oilfield operations. Based in Kilgore, Texas, Mobley's service area includes the states of Oklahoma, Arkansas, Louisiana, and Texas.
- On April 5, 2007, the Trust acquired the operating assets of Pride Oilfield Services, LLC ("Pride") for approximately \$5.5 million. Pride collects and hauls produced water for customers within the east Texas and northern Louisiana regions.

| (UNAUDITED) | Three months ended Mar. 31 | | |
|--|----------------------------|------------|----------|
| (000s) except per unit amounts | 2007 | 2006(1) | % change |
| Revenue | \$ 517,377 | \$ 369,892 | 40% |
| EBITDA(2) | 91,650 | 76,280 | 20% |
| Income before non-controlling interest | 52,666 | 47,229 | 12% |
| Net income | 40,763 | 35,186 | 16% |
| per unit - diluted | 0.78 | 0.82 | (5%) |
| Funds from operations(2) | 80,790 | 64,635 | 25% |
| per unit - diluted | 1.20 | 1.12 | 7% |
| Capital expenditures(3) | 48,690 | 27,368 | 78% |
| Weighted average trust units | 52,232 | 42,879 | |
| Exchangeable shares(4) | 15,204 | 14,583 | |
| Weighted average trust units - diluted | 67,436 | 57,462 | |

- (1) Certain comparative figures have been reclassified to conform to the presentation adopted in 2007.
- (2) Non-GAAP financial measures are identified and defined in the attached Management's Discussion and Analysis.
- (3) Does not include business acquisitions.
- (4) Assuming all exchangeable shares at March 31, 2007 converted at the period-end exchange ratio of 2.71245:1 (2006 - 2.57287:1).

May 7, 2007

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the attached unaudited, interim consolidated financial statements of CCS Income Trust (the "Trust" or "CCS"), and readers should also refer to the audited consolidated financial statements and the MD&A included in the CCS Income Trust 2006 Annual Report.

CCS INCOME TRUST - QUARTERLY DATA
(UNAUDITED)

| (000s except per unit amounts) | 2007 | | 2006 | | |
|--|----------------|----------------|----------------|----------------|----------------|
| | Q1 | Q4 | Q3 | Q2 (1) | Q1 (1) |
| REVENUE | \$517,377 | \$471,530 | \$476,400 | \$355,997 | \$369,892 |
| EXPENSES | | | | | |
| Operating | 418,402 | 395,188 | 389,805 | 302,808 | 288,806 |
| General and administrative | 7,325 | 6,160 | 6,156 | 5,996 | 4,806 |
| Depreciation and amortization | 19,622 | 25,027 | 16,640 | 13,804 | 11,745 |
| Financing charges | 4,819 | 4,404 | 3,559 | 2,577 | 2,520 |
| Income before non-controlling interest | 52,666 | 33,443 | 53,664 | 26,121 | 47,229 |
| Net income per unit - diluted | 40,763 0.78 | 25,664 0.48 | 41,624 0.81 | 21,880 0.39 | 35,186 0.82 |
| Funds from operations (2) per unit - diluted | 80,790 1.20 | 69,100 1.02 | 70,392 1.07 | 41,169 0.62 | 64,635 1.12 |
| Capital expenditures (3) | 48,690 | 63,528 | 58,059 | 45,154 | 27,368 |
| Long-term debt | 374,336 | 359,001 | 265,575 | 211,626 | 202,533 |
| Non-controlling interest | 113,952 | 101,745 | 93,514 | 81,332 | 81,619 |
| Unitholders' equity | 636,002 | 621,854 | 619,453 | 586,781 | 280,429 |
| Distributions per unit | 0.53 | 0.53 | 0.46 | 0.45 | 0.38 |

| (000s except per unit amounts) | 2005 (1) | | | |
|--|----------------|----------------|----------------|----------------|
| | Q4 | Q3 | Q2 | Q1 |
| REVENUE | \$325,511 | \$257,193 | \$167,528 | \$188,427 |
| EXPENSES | | | | |
| Operating | 252,475 | 203,300 | 142,377 | 135,264 |
| General and administrative | 6,024 | 3,369 | 3,624 | 2,553 |
| Depreciation and amortization | 11,976 | 10,319 | 7,900 | 9,560 |
| Financing charges | 2,357 | 2,127 | 2,136 | 1,978 |
| Income before non-controlling interest | 38,829 | 27,722 | 8,382 | 31,038 |
| Net income per unit - diluted | 29,207 0.69 | 20,665 0.48 | 6,166 0.15 | 23,123 0.55 |
| Funds from operations (2) per unit - diluted | 54,959 0.97 | 41,888 0.74 | 18,993 0.33 | 43,704 0.77 |

| | | | | |
|--------------------------|---------|---------|---------|---------|
| Capital expenditures (3) | 43,604 | 27,899 | 16,869 | 18,733 |
| Long-term debt | 156,397 | 154,507 | 117,209 | 132,222 |
| Non-controlling interest | 69,582 | 63,552 | 56,622 | 54,406 |
| Unitholders' equity | 259,986 | 241,086 | 230,278 | 238,043 |
| Distributions per unit | 0.35 | 0.32 | 0.31 | 0.29 |

(1) Certain comparative figures have been reclassified to conform to the presentation adopted in the third quarter of 2006.

(2) Non-GAAP financial measures are identified and defined in this MD&A.

(3) Does not include business acquisitions.

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This MD&A contains certain statements that are not historical in nature and are forward-looking statements. These forward-looking statements include statements relating to the Trust's plans, strategies, objectives, expectations, intentions and resources. They are not guarantees as to the Trust's future results since there are inherent difficulties in predicting future results. When used throughout this report, the words "anticipate," "expect," "project," "believe," "estimate," "forecast," "intend" or similar expressions identify forward-looking statements, which include statements relating to pending and proposed projects and business activities. Such statements are subject to certain risks, uncertainties and assumptions pertaining to operating performance, regulatory parameters, weather and economic conditions and, in the case of pending and proposed projects, risks relating to design and construction, regulatory processes, obtaining financing and performance of other parties, including partners, contractors and suppliers. Accordingly, actual results could differ materially from those expressed or implied in forward-looking statements.

This MD&A contains references to certain financial measures that do not have any standardized meaning prescribed by Canadian Generally Accepted Accounting Principles (GAAP) and may not be comparable to similar measures presented by other companies or trusts. These measures are provided to assist investors in determining the Trust's ability to generate cash from operations and to provide additional information regarding the use of its cash resources. These financial measures are identified and defined below:

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- "EBITDA" (earnings before interest, taxes, depreciation and amortization, and for the Trust, before the gas delivery obligation valuation) is determined from the consolidated statements of income and accumulated earnings and is defined as operating margin less general and administrative expenses.

| (000s) | Three months ended Mar. 31 | |
|--|----------------------------|------------------|
| | 2007 | 2006 |
| Operating margin | \$ 98,975 | \$ 81,086 |
| Less: General and administrative expense | 7,325 | 4,806 |
| EBITDA | \$ 91,650 | \$ 76,280 |

- "Funds from operations" is derived from the consolidated statements of cash flows and is calculated as cash provided by operating activities before changes in non-cash working capital and asset retirement obligations fulfilled.

| (000s) | Three months ended Mar. 31 | |
|--------|----------------------------|------|
| | 2007 | 2006 |

| | | |
|--|-----------|-----------|
| Cash provided by operating activities | \$ 54,727 | \$ 22,064 |
| Change in non-cash working capital | 25,778 | 42,376 |
| Asset retirement obligations fulfilled | 285 | 195 |
| Funds from operations | \$ 80,790 | \$ 64,635 |

- "Growth capital expenditures" include amounts incurred to add new facilities, equipment or services and to replace utilized capacity and expand engineered landfills and waste-disposal caverns.
- "Maintenance capital expenditures" refer to capital expenditures required to maintain existing levels of service.
- "Cash available for distribution and growth capital expenditures" is calculated as funds from operations (see above), less required principal repayments of long-term debt, maintenance capital expenditures and amortization of capacity, which is funds designated for the replacement of engineered landfill and cavern capacity. This amount is calculated in the CCS Cash Distributions table disclosed later in this document.
- "Payout ratio" is calculated as cash distributions for the period divided by cash available for distribution and growth capital expenditures, as referenced in the CCS Cash Distributions table disclosed later in this document.
- "Net debt" is comprised of the Trust's current and long-term portion of debt less the value of cash and cash equivalents. Net debt is used as a key indicator of the Trust's leverage and the overall strength of its balance sheet. Net debt is directly related to the Trust's operating cash flows and capital investment activities.

CCS reports results of its operations through four main business segments:

CCS Energy Services Division (Energy Services)

This division owns and operates treatment, recovery and disposal (TRD) and cavern facilities throughout western Canada and in the Gulf Coast region of the United States. Services are provided in the following areas:

- Emulsion treatment;
- Water treatment and disposal;
- Waste processing;
- Naturally occurring radioactive material (NORM) processing;
- Drilling mud disposal;
- Tank/truck washing;
- Crude oil terminalling;
- Cavern disposal;
- Well abandonment and facility decommissioning; and
- Transporting of water and waste for disposal.

CCS Energy Marketing Division (CEM)

Responding to the opportunity to maximize the return on the marketing of recovered crude oil, CEM extracts additional value and operating margin on waste and recovered oil volumes from the Energy Services facilities. The division captures the incremental value created through the marketing chain with the following revenue streams:

- Lease purchases;
- Single shipper/optimization; and
- Bulk purchases.

HAZCO Environmental Services Division (HAZCO)

This division is an industry leader providing a wide range of specialized services including:

- Site remediation;
- Decommissioning;
- Waste services;
- Scrap metal processing;
- Environmental construction;
- Environmental technologies;
- Emergency response;
- Engineered landfill disposal;
- Sulphur services;
- Environmental and geotechnical drilling; and
- Other specialty services.

HAZCO operates a network of industrial and engineered landfills, bioremediation facilities and hazardous waste transfer stations across western Canada. HAZCO provides services primarily throughout Canada, with select services provided in Peru and the United States.

Concord Well Servicing Division (Concord)

This division owns and operates 140 service rigs, forming one of the most modern fleets in the Canadian oil and gas services sector. Established in 1979, Concord provides a variety of contract services from its strategically located offices in western Canada. HiAlta Energy Services ("HiAlta"), an oilfield rental business, is reported within the Concord division.

DISCUSSION OF FINANCIAL RESULTS

| (000s except per unit amounts) | Three months ended Mar. 31 | |
|--|----------------------------|------------|
| | 2007 | 2006 (1) |
| Revenue | \$ 517,377 | \$ 369,892 |
| % change from prior period | 40% | 96% |
| EBITDA(2) | 91,650 | 76,280 |
| % change from prior period | 20% | 51% |
| Income before non-controlling interest | 52,666 | 47,229 |
| % change from prior period | 12% | 52% |
| Net income | 40,763 | 35,186 |
| % change from prior period | 16% | 52% |
| per unit - diluted | 0.78 | 0.82 |
| Funds from operations(2) | 80,790 | 64,635 |
| % change from prior period | 25% | 48% |
| per unit - diluted | 1.20 | 1.12 |

(1) Certain comparative figures have been reclassified to conform to the presentation adopted in 2007.

(2) Non-GAAP financial measures are identified and defined in this MD&A.
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Financial results for the first quarter of 2007 reflect the quarter-over-quarter growth of the Trust which is attributable to acquisitions and capital projects completed throughout 2006. Decreased industry activity levels and unfavourable weather conditions experienced in the fourth quarter of 2006 carried over to the first quarter of 2007, with the Concord division and HAZCO's Landfill Services business unit reporting the most significant impact. Overall the Trust reported a ten percent increase in revenue over the

fourth quarter of 2006, with the Energy Services and Energy Marketing divisions reporting increased activity levels in the first quarter of 2007.

In support of the ongoing growth of the Trust, general and administrative expenses increased by \$2.5 million and financing expenses increased by \$2.3 million over the same period in 2006. Higher depreciation and amortization expenses are largely attributable to the acquired assets of the Grizzly, Hi-West and Poncho Well Servicing Group ("Grizzly") on May 1, 2006. First quarter results are also impacted by a charge of \$1.4 million for the gas purchase obligation due to a 13 percent increase in the price of natural gas.

CASH DISTRIBUTIONS

Monthly distributions declared per trust unit, for the three months ended March 31, 2007, were \$0.175 per unit, with total distributions paid of \$27.3 million (2006 - \$15.6 million). Cash retained in the business for growth and capital expenditures totalled \$35.7 million (2006 - \$38.8 million) and was reinvested in facility expansion, rig refits and the acquisition of mobile equipment.

The following summary outlines the principal utilization of funds from operations for the three month periods ended March 31, 2007 and 2006:

| (000s) | Three months ended Mar. 31 | |
|--|----------------------------|------------|
| | 2007 | 2006 |
| Funds from operations(1) | \$ 80,790 | \$ 64,635 |
| Required principal repayments of long-term debt | (881) | (654) |
| Maintenance capital expenditures(1) | (13,690) | (5,778) |
| Amortization of landfill and cavern capacity(2) | (3,179) | (3,181) |
| Cash available for distribution and growth capital expenditures(1) (b) | 63,040 | 55,022 |
| Cash retained for growth and capital expenditures | (35,699) | (38,796) |
| Cash distributions declared(a) | 27,341 | 16,226 |
| Accumulated cash distributions, beginning of period | 233,126 | 142,838 |
| Accumulated cash distributions, end of period | \$ 260,467 | \$ 159,064 |
| Payout ratio(1) (a)/(b) | 43.4% | 29.5% |

(1) Non-GAAP financial measures are identified and defined in this MD&A.

(2) Based on amortization expense in the consolidated statements of income and accumulated earnings, these are funds retained to replace utilized engineered landfill and cavern capacity.

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The Trust's cash distribution policy is focused on maintaining a level of distributions that are sustainable for the longer term while retaining funds for ongoing maintenance capital expenditures, replacement of capacity in the engineered landfills and caverns and for the funding of planned growth initiatives, if determined beneficial to do so. Cash distributions are proposed by management and are subject to the approval and discretion of the Board of Directors. The Board reviews cash distributions in conjunction with its review of operating and financial results throughout the year.

Management monitors and assesses distribution levels through forecasts which incorporate the most recent operating and financial results, maintenance and growth capital requirements as well as market activity and conditions. The Trust is exposed to a number of business risks which are also taken into consideration when establishing distribution levels. The business environment

in which CCS operates involves risks with respect to the overall demand for services, oil and gas prices, environmental requirements and general competition. Treatment and waste disposal services are largely dependent on the willingness of customers to outsource their waste management activities. Environmental regulations do not prohibit numerous internal options available to oilfield waste generators, such as bioremediation, land spreading, road spreading and deep well disposal options. As such, the demand for CCS' services could be curtailed by a trend towards internal waste management.

Please refer to the Trust's 2006 Annual Report and Annual Information Form for further details. Other risks identified are as follows:

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- Capital requirements;
- Access to qualified and experienced personnel;
- Credit risk;
- Interest rate and commodity price risks;
- Foreign exchange risk; and
- Critical accounting estimates.

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The Trust is required to make principal payments on some of its credit facilities, including repayment of the revolving credit facility at the end of its three-year term. However, the Trust has the option to make a request for extension of the facility, which would extend the period of repayment. The Trust is required, under its credit facilities and private placement senior notes, to remain in compliance with specific financial covenants, with, among other possible ramifications, the Trust no longer entitled to make distributions upon receipt of a notice of default. As at March 31, 2007, the Trust was in compliance with all such covenants. Please refer to the "Liquidity and Capital Resources" section of this MD&A.

The exchangeable shares issued by CCS Inc. are reported in the consolidated financial statements as non-controlling interest and are comprised of the carrying value of the exchangeable shares upon issuance plus accumulated earnings attributable to the non-controlling interest. The exchangeable shares, upon conversion to trust units, become eligible for trust unit distributions. If all or a substantial amount of the exchangeable shares are converted to trust units, there may be an increase in the payout ratio. The cash distributions table does not take into consideration the conversion of exchangeable shares, as distributions are not guaranteed and there is no obligation to maintain distribution levels per unit upon conversion.

The income trust model is based on the flow-through of income and the tax liabilities associated with this income to trust unitholders, resulting in increased cash available for distribution by the Trust. On October 31, 2006, the federal Minister of Finance proposed to apply a tax, at the trust level, on distributions of certain income from publicly traded mutual fund trusts, at rates of tax comparable to the combined federal and provincial corporate tax rates and to treat such distributions as dividends to the unitholders (the "Tax Fairness Plan"). On December 21, 2006, the federal Minister of Finance released draft legislation to implement the Tax Fairness Plan pursuant to which, commencing January 1, 2011 (provided the Trust only experiences "normal growth" and no "undue expansion" before then), certain distributions from the Trust, which would have otherwise been taxed as ordinary income, will generally be characterized as dividends in addition to being subject to corporate rates of tax at the trust level. Assuming the Tax Fairness Plan is ultimately enacted in its existing form, with no change to the corporate structure or distribution policy of the Trust, the implementation of such legislation would be expected to result in adverse tax consequences to the Trust and certain Unitholders (most particularly Unitholders that are tax deferred or non-residents of Canada). Cash distributions from the Trust may also be impacted. It is not known at this time when the Tax Fairness Plan will be enacted by Parliament, if at all, or whether it will be enacted in the form currently proposed.

While the distribution policy is focused on mitigating the risk of a reduction in monthly per unit distributions, changes to the current business environment, changes by the Canadian federal government to the taxation of

trusts, required expenditures on asset retirement obligations or failure to achieve forecast financial performance may result in the requirement to reduce future cash distributions.

REVENUE

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| (000s) | Three months ended Mar. 31 | |
|----------------------------|----------------------------|------------|
| | 2007 | 2006 |
| ----- | | |
| CCS Energy Services | \$ 83,698 | \$ 61,570 |
| % change from prior period | 36% | 38% |
| ----- | | |
| Concord Well Servicing | 78,937 | 40,782 |
| % change from prior period | 94% | 38% |
| ----- | | |
| HAZCO | 92,044 | 71,070 |
| % change from prior period | 30% | 43% |
| ----- | | |
| CCS Energy Marketing | 262,698 | 196,470 |
| % change from prior period | 34% | 204% |
| ----- | | |
| Total | \$ 517,377 | \$ 369,892 |
| % change from prior period | 40% | 96% |
| ----- | | |

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Energy Services

The TRD and cavern business units reported a recovery in the first quarter of 2007 from the impacts of unfavourable weather conditions and reduced drilling activity experienced in the fourth quarter of 2006. Despite continued lower levels of drilling activity in the first quarter of 2007, revenue increased by 26 percent over the fourth quarter of 2006. TRD revenue increased by four percent in the first quarter of 2007, as compared to the same period in 2006; activity levels at many of the TRDs have not recovered to prior year levels, with revenue growth mainly attributable to the incremental revenue generated from new facilities opened. Cavern revenue increased by 71 percent over the first quarter of 2006 due to higher activity levels in these geographic areas.

The revenue reported on the sale of oil recovered from waste declined by nine percent in the first quarter of 2007 over the same period in 2006, with the decline attributable to lower oil prices and volumes of oil recovered. The recovered oil revenue stream comprised approximately nine percent (2006 - 14 percent) of total revenue reported for this division.

The division's 36 percent increase in revenue is due largely to incremental revenue of \$17.7 million generated by the Energy Services LLC and Lionhead Engineering & Consulting Ltd. ("Lionhead") acquisitions. Energy Services LLC reported revenue of \$12.1 million for the first quarter of 2007, an increase of 11 percent over the fourth quarter of 2006. The ARKLA business unit reported a 64 percent increase in revenue over the fourth quarter of 2006, due primarily to increased volumes processed. The Gulf Coast Waste Disposal business unit reported a 17 percent decline in revenue over the fourth quarter of 2006 due to lower activity levels in the region along with ongoing limitations on the volume of waste accepted by third party landfill operators. A revised pricing strategy, resulting in an approximate 50 percent increase in rates charged, was implemented in March 2007, with notification to customers and renegotiation of service contracts ongoing as of March 31, 2007. The results of the Mobley acquisition are included in the first quarter results, with the business unit contributing \$1.4 million in revenue for the period from March 7, 2007 to March 31, 2007.

The Lionhead business unit reported first quarter revenue of \$9.7 million, an increase of 113 percent over the fourth quarter of 2006. This

increase was attributable to the awarding of a winter project that increased the well abandonment rig operations to six rigs from the two to three rigs that generally operate at this time of year. This project was substantially completed in the first quarter.

Concord

The Concord division reported a 94 percent increase in revenue over the first quarter of 2006. This increase is attributable to the 86 rigs acquired through the Grizzly acquisition on May 1, 2006, which contributed \$42.2 million to revenue in the first quarter of 2007. Rig hours worked for the first quarter of 2007 totalled 88,623 hours compared to 43,882 hours in the first quarter of 2006 and 75,379 hours for the fourth quarter of 2006. Rig utilization for the division decreased to 74 percent in the first quarter of 2007 as compared to 93 percent for the same period in 2006. The wet weather conditions and reduced industry activity levels experienced in the fourth quarter of 2006 carried over into the first quarter of the year, impacting utilization rates and rig hours worked. Mild, wet weather resulted in an early spring breakup, bringing Concord's March utilization rates to the lowest levels since 1999, which is consistent with industry levels.

HAZCO

The growth in revenue in this division is attributable to the incremental revenue generated by the acquisition of HMI Industries Inc. ("HMI") in April, 2006 and higher activity levels in the project services and geotechnical drilling business units. HMI contributed revenue of \$7.7 million in the first quarter of 2007, with the geotechnical drilling business unit reporting an 80 percent increase in revenue due to the completion of a large drilling program in the Fort McMurray area.

CCS Landfill Services reported a 23 percent decline in revenue over the first quarter of 2006 due to unfavourable weather conditions and reduced levels of drilling and remediation activity. Record levels of snowfall and an earlier than expected spring breakup impacted landfill revenue in various regions.

CCS Energy Marketing

This division reported a 34 percent increase in first quarter revenue due to an increase in the purchase and sale of third party lease volumes. In moving some third party lease purchases through the Energy Services TRD facilities, CEM pays for the trucking costs, which are subsequently billed through to the buying customer, resulting in higher revenue reported.

OPERATING MARGINS

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| (000s) | Three months ended Mar. 31 | |
|---------------------------|----------------------------|-----------|
| | 2007 | 2006(1) |
| CCS Energy Services | \$ 41,759 | \$ 37,110 |
| % of division revenue | 50% | 60% |
| Concord | 28,323 | 17,228 |
| % of division revenue | 36% | 42% |
| HAZCO | 22,132 | 22,687 |
| % of division revenue | 24% | 32% |
| CCS Energy Marketing | 6,761 | 4,061 |
| % of division revenue | 3% | 2% |
| Total | \$ 98,975 | \$ 81,086 |
| % of consolidated revenue | 19% | 22% |

(1) Comparative figures have been reclassified to conform to the presentation adopted in 2006.

Energy Services

For this division, operating margin, as a percentage of revenue, reflected a quarter-over-quarter decline due in large part to the addition of lower margin business units reported under this division. The following business units report under the Energy Services division, with many of the acquired business units generating operating margins lower than what was historically reported when the division was comprised mainly of the Canadian TRD and cavern business units:

- TRD and cavern facilities (Canada);
- Energy Services LLC (U.S.); including the Gulf Coast Disposal business unit, ARKLA and Mobley;
- Hardisty Caverns Limited Partnership;
- Normcan;
- Lionhead; and
- ProDrill.

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Operating margin, as a percentage of revenue, for the TRD and cavern business units declined by five percent in the first quarter of 2007 over the same period in 2006, with \$1.4 million in unexpected well workover costs the significant contributor to higher operating expenses. Operating margin was also impacted by a 34 percent increase in wages and benefits over the first quarter of 2006 and higher overhead costs.

The Energy Services LLC U.S. operations reported an operating margin of \$2.3 million for the first quarter of 2007. The ARKLA business unit generated an operating margin of \$2.6 million, an increase of 193 percent over the fourth quarter of 2006. This increase was attributable to the higher volumes received in the quarter. The Gulf Coast Waste Disposal business unit reported a loss of \$1.2 million in the first quarter of 2007 due primarily to the lower revenue reported along with a higher component of fixed costs, which impacts operating margin in periods of lower activity.

Concord

The reduced drilling activity and early spring breakup mentioned previously impacted operating margin in this division for the first quarter of 2007. Operating margin, as a percentage of revenue, increased by two percent over the fourth quarter of 2006. Repairs and maintenance expenditures for the quarter were focused on essential maintenance, with expenditures, as a percentage of revenue, at five percent as compared to three percent for the first quarter of 2006 and an average of six percent for fiscal 2006.

HAZCO

HAZCO's operating margin, as a percentage of revenue, decreased by eight percent over the first quarter of 2006 and was attributable to a 12 percent decline in operating margin for the Landfill Services business unit. The reduced levels of activity for Landfill Services directly impacted operating margin for the quarter along with increased operating costs. Wages and benefits increased by 48 percent over the first quarter of 2006 and facility overhead costs increased by 62 percent due to in part to incremental costs associated with the opening of new landfills and increased costs for marketing efforts.

HMI contributed incremental operating margin of \$2.6 million for the quarter with the geotechnical drilling business unit reporting a 62 percent increase in operating margin dollars over the same period in 2006.

CCS Energy Marketing

The operating margin for this division remains fairly constant, in the range of one to three percent of revenue. The business model is focused on capturing the incremental value in marketing crude oil through CCS facilities. The division is not expected to generate operating margin, as a percentage of revenue, significantly different from that reflected to date. Revenue is recorded at its gross value, and as a result the financial statements reflect a higher dollar value for both revenue and operating expense, creating a lower operating margin as a percentage of revenue.

GENERAL AND ADMINISTRATIVE EXPENSES

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| (000s) | Three months ended Mar. 31 | |
|-------------------------------------|----------------------------|----------|
| | 2007 | 2006 (1) |
| General and administrative expenses | \$ 7,325 | \$ 4,806 |
| % change from prior period | 52% | 88% |

(1) Comparative figures have been reclassified to conform to the presentation adopted in 2006.

General and administrative expenses increased on a quarter-over-quarter basis primarily as a result of increased wages and benefits associated with the on-going growth of the Trust. Management continues to focus on controlling costs during periods of growth with general and administrative expense, as a percentage of operating margin at seven percent as compared to six percent for the same period in 2006.

DEPRECIATION AND AMORTIZATION

| (000s) | Three months ended Mar. 31 | |
|--|----------------------------|-------|
| | 2007 | 2006 |
| Depreciation | 15,394 | 8,082 |
| % change from prior period | 90% | 20% |
| Amortization of engineered landfills and caverns | 3,179 | 3,181 |
| % change from prior period | 0% | 47% |
| Amortization of intangibles | 1,049 | 482 |
| % change from prior period | 118% | (28%) |

Approximately 50 percent of the first quarter increase in depreciation expense is attributable to the acquisition of the Grizzly assets in May 2006. The remainder of the quarter-over-quarter increase is driven by a higher depreciable asset base resulting from the \$194.1 million of capital spending incurred throughout 2006.

Amortization of the engineered landfills declined in the first quarter of 2007 due to lower volumes of waste received. This decline in landfills amortization was offset by an increase in the amortization of cavern capacity resulting from the higher activity in the quarter for this business unit.

The amortization expense associated with intangible assets may fluctuate from quarter to quarter depending on the nature of intangible assets acquired and their estimated useful life. An annual impairment test is conducted for all intangible assets with any impairment in value reflected in amortization expense. As at March 31, 2007, the Trust has not reported any impairment to intangible assets acquired.

INCOME TAXES

| (000s) | Three months ended Mar. 31 | |
|---|----------------------------|-----------|
| | 2007 | 2006 |
| Income before income taxes and non-controlling interest | \$ 65,365 | \$ 61,719 |
| Provision for income taxes | 12,699 | 14,490 |
| Effective tax rate | 19% | 23% |

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The Trust follows the asset and liability method of accounting for income taxes. Under this method, future tax assets and liabilities are measured using enacted or substantially enacted rates of tax expected to apply to taxable income in the years in which temporary differences are anticipated to be recovered or settled. In 2006, Canadian and provincial governments enacted various reductions in corporate rates, with combined rates declining by approximately four percent over a four year period.

CCS has determined that implementation of the federal government's Tax Fairness Plan would not result in significant changes to the amount of current or future income tax liabilities reported at March 31, 2007. As of the date of this MD&A, this Plan has not been substantially enacted and, as a result, the 2007 financial results do not reflect any adjustments that may arise due to the implementation of this Plan.

The first quarter effective tax rate of 19 percent is unchanged from the rate reported in the fourth quarter of 2006. The quarter-over-quarter decline in effective tax rates results from the enacted rate reductions and an increase in available tax deductions at the operating company level. This increase in available tax deductions is a result of the acquisitions and capital spending incurred in 2006.

The provision for current income taxes in the first quarter of 2007 totalled \$7.3 million (2006 - \$10.1 million), with future income taxes totalling \$5.4 million (2006 - \$4.4 million).

FINANCING

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| (000s) | Three months ended Mar. 31 | |
|----------------------------|----------------------------|----------|
| | 2007 | 2006 |
| Interest expense | \$ 4,819 | \$ 2,520 |
| % change from prior period | 91% | 27% |

Long-term debt increased by \$171.8 million to \$374.3 million as at March 31, 2007. Financing charges incurred in the first quarter of 2007 reflect the interest expense associated with this increased level of debt, with the average interest rate paid approximating 5.3 percent. The Trust reduced its exposure to floating interest rates in December 2006 through the closing of its fixed rate private placement debt financing. At March 31, 2007, approximately 26 percent of the Trust's debt outstanding was subject to floating-rate interest.

The significant transactions impacting long-term debt and financing requirements on a quarter-over-quarter basis are as follows:

- The acquisition of Mobley for cash consideration of \$44.1 million in the first quarter of 2007;
- Capital spending of \$48.7 million in the first quarter of 2007;
- The reclassification of \$5.2 million in deferred financing costs on January 1, 2007 as an offset to long-term debt on adoption of the new rules and regulations with respect to financial instruments;
- A net cash outlay of \$37.8 million in 2006 for the financing of acquisitions; and

- Total capital spending in 2006 of \$194.1 million.

LIQUIDITY AND CAPITAL RESOURCES

| (000s) | As at Mar. 31 2007 | As at Dec. 31 2006 |
|-----------------------------------|--------------------------|--------------------------|
| ----- | | |
| Capital data | | |
| Current portion of long-term debt | \$ 1,816 | \$ 2,657 |
| Long-term debt | 374,336 | 359,001 |
| Less: cash and cash equivalents | (14,092) | (54,399) |
| ----- | | |
| Net debt(1) | 362,060 | 307,259 |
| Unitholders' equity | 636,002 | 621,854 |
| Non-controlling interest | 113,952 | 101,745 |
| ----- | | |
| Total capitalization | \$1,112,014 | \$1,030,858 |
| Net debt to total capitalization | 33% | 30% |
| ----- | | |

(1) Non-GAAP financial measures are identified and defined in this MD&A.

The Trust uses net debt and net debt to total capitalization as key indicators of its leverage and to monitor the strength of the balance sheet. At March 31, 2007 the net debt to total capitalization ratio increased to 33 percent, due to the financing of the Mobley acquisition and adoption, on January 1, 2007, of the new accounting standards for financial instruments, which resulted in a \$5.2 million reduction in long-term debt.

Credit Facilities, Swaps and Bonds

As at March 31, 2007 the Trust has the following credit facilities available:

- \$400.0 million, three-year extendible revolving facility bearing interest, at CCS' option, at the bank's prime rate, bankers' acceptance rate or LIBOR rate plus zero to 175 basis points ("bps"), depending on CCS' ratio of Funded Debt to EBITDA. At March 31, 2007 the Trust had borrowed \$149.0 million on this facility. Outstanding letters of credit of \$43.5 million at March 31, 2007 reduce the amount of credit available on this facility.
- \$270.0 million, non-amortizing, private placement senior notes, with a weighted average interest rate of 5.2 percent. Maturity and repayment terms range from seven to 12 years. On December 14, 2006, a total of \$220.0 million of senior notes were issued, with the remaining \$50.0 million to be issued by June 28, 2007.
- \$30.0 million, seven-year, non-revolving, non-amortizing term facility with a fixed interest rate of 6.4 percent. This facility is fully drawn and repayable in full on December 10, 2011.
- \$6.0 million for the financing of capital equipment, with interest charged on a transactional basis. Fixed and floating-rate options are available. Interest under the fixed option is currently charged at a maximum rate of four percent. Contracts under the floating option charge interest at prime minus 0.7 percent to prime minus 3.5 percent. Repayment terms cannot extend beyond five years. At March 31, 2007 the amount outstanding on this facility was \$1.7 million. CCS will continue to utilize this facility if the cost to do so minimizes overall borrowing costs to the Trust.

- \$6.4 million of bonds outstanding with the Caddo-Bossier Parishes Port Commission (the "Port"). These bonds are carried by CCS Energy Services LLC pursuant to a lease agreement dated October 1, 2004. The bonds were issued to finance the acquisition, construction, renovation and equipping of a facility to clean and process industrial waste water in Shreveport, Louisiana. The bonds bear interest at a rate of five percent and mature on November 1, 2024. Interest and payments of principal on the bonds are due monthly. The bonds, along with accrued interest, can be repaid at any time without penalty.

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In accordance with the terms of its credit facilities, CCS must remain in compliance with certain financial and non-financial covenants, as defined by its lenders. As at March 31, 2007, the Trust was in compliance with all such covenants.

The Trust issues surety bonds to secure bids tendered, to provide for environmental liabilities and for completion of work with respect to its operating divisions. These bonds do not impact the amount of credit available under the credit facilities; however, the total amount of bonds outstanding at any point in time cannot exceed \$60.0 million. At March 31, 2007 the Trust had \$19.7 million of surety bonds outstanding.

In 2002 the Trust entered into a five-year, non-amortizing, interest-rate swap agreement for \$18.0 million at a fixed rate of 5.6 percent. In 2003 the Trust entered into an additional five-year amortizing swap arrangement for \$20.0 million at a fixed rate of 4.1 percent, of which \$5.0 million remained outstanding at March 31, 2007. The fair value of the swaps at March 31, 2007 is \$0.2 million with this value recognized in the consolidated financial statements of the Trust.

<<

UNITHOLDERS' EQUITY

| (000's) | As at Mar. 31 2007 | As at Dec. 31 2006 |
|------------------------|--------------------------|--------------------------|
| Trust units | 52,085 | 51,958 |
| Exchangeable shares(1) | 15,204 | 15,074 |
| Total | 67,289 | 67,032 |

(1) Converted at an exchange ratio of 2.71245:1 at March 31, 2007 (December 31, 2006 - 2.67427:1).

CAPITAL EXPENDITURES

| | Three months ended 2007 | Mar. 31 2006 |
|----------------------------|----------------------------|-----------------|
| Capital expenditures(1) | 48,690 | 27,368 |
| % change from prior period | 78% | 46% |

(1) Excludes business acquisitions.

Energy Services

The following projects contributed to this division's total capital expenditures of \$19.8 million in the first quarter of 2007:

- \$8.2 million on the construction of new TRD facilities including

- South Wapiti and Peace River;
 - \$4.8 million on disposal well additions and recompletions; and
 - \$2.0 million on the installation of centrifuge equipment at existing TRD facilities.
- >>

Concord

Capital expenditures for the quarter totalled \$15.9 million, of which \$5.4 million related to the expansion of the Acheson rig refit facility. Maintenance capital expenditures of \$9.2 million incurred in the quarter related to the refitting of rigs and requisite upgrading of aging mobile equipment.

HAZCO

The HAZCO division, excluding Landfill Services, incurred capital expenditures of \$9.6 million in the first quarter of 2007 compared to \$2.9 million for the same period in 2006. Growth capital expenditures totalled \$6.6 million and included expenditures for the development and expansion of HMI's operating facility, as well as the purchase of heavy equipment for use in the site remediation and demolition business unit.

Capital spending incurred by the Landfill Services business unit totalled \$2.4 million to March 31, 2007. The majority of these expenditures related to costs associated with the Janvier landfill which is expected to be fully operational in the second quarter of 2007.

BUSINESS OUTLOOK

Drilling activity in the western Canadian oil and gas industry continued to weaken in the first quarter of 2007. This was due to a focus on cost reduction and lower capital expenditures by oil and gas producers, lower commodity prices and an earlier than normal spring breakup. The Trust believes that the heavier exposure of its operations to the production side of the oil and gas industry insulates its performance, to some extent, from the reduced level of drilling activity. However, a portion of our revenue in waste processing, well servicing and engineered landfills results from drilling activities, and should lower levels of drilling activity continue, this may impact year-over-year growth in 2007.

The Trust believes that any slowdown in sector activity will be short-lived and plans to continue its previously announced growth capital spending for 2007. This will position the Trust for continued strong growth as sector activity levels strengthen. As previously announced, CCS is forecasting 2007 consolidated capital spending to be in the range of \$230.0 to \$250.0 million. The planned capital spending is comprised of expansion capital of \$195.0 to \$205.0 million plus sustaining capital of \$30.0 to \$35.0 million and \$5.0 to \$10.0 million to replace capacity utilized in the Trust's engineered landfills.

Energy Services

First quarter results for 2007 continued to be impacted by the overall decline in industry activity levels in western Canada. Results for the months of February and March reflected increased activity; however the arrival of an early spring breakup in most areas reduced activity levels heading into the second quarter. Activity levels in Canada are anticipated to recover in the last half of 2007.

Revenue for the Gulf Coast Waste Disposal business unit has been and will continue to be impacted by its ability to dispose of solids waste at third party landfill facilities. Alternative disposal solutions are being assessed and implemented until the Weeks Island cavern project is complete. This project is expected to be operational in the second quarter of 2008, and will reduce the division's reliance on third party waste providers within the U.S. market. Price increases implemented in March have resulted in some customers

seeking alternative service suppliers. For the remainder of 2007, this division will be focused on managing operating costs through restructuring initiatives, implementation and communication of pricing strategies and the effective management and disposal of waste volumes received. It is not expected that these initiatives will be sufficient to offset the impact of reduced volumes during the balance of 2007. However, lower operating margins from this business unit are expected to be offset by earnings in the ARKLA business unit and the Mobley and Pride acquisitions.

Capital expansion and organic growth is ongoing within the Energy Services division. The TRD at South Wapiti, Alberta commenced operations in February 2007 and construction of the TRD at Peace River, Alberta is expected to be completed late in the third quarter of 2007. Construction of a significant expansion at the High Prairie TRD was underway in the first quarter, with completion expected in the fourth quarter of this year. Energy Services LLC is forecasting approximately \$35.0 million of capital expenditures with construction expected to start late in 2007, related primarily to the proposed Weeks Island cavern facility.

Concord

The first quarter of 2007 reflected a decrease in utilization due to lower industry activity levels and lower oil and gas prices. Utilization was also negatively impacted by an early spring breakup. Despite generally lower levels of drilling activity in the second quarter of the year, Concord's utilization is expected to be somewhat offset by the division's increased exposure to oil in the Lloydminster and Cold Lake area.

HAZCO

Quarterly revenue for the division's project services group is expected to follow a fairly consistent cyclical pattern in 2007, with stronger revenue reported in the third and fourth quarters. Annual operating margin for the division, excluding landfills, is anticipated to continue in the 13 to 15 percent range.

First quarter results in the Landfill Services business unit were impacted by poor weather conditions and a reduction in exploration activity in specific areas, most notably in northwestern Alberta and northeastern British Columbia. Many customers are delaying and revisiting projects to manage and reduce costs, however the outlook remains positive for remediation and reclamation projects scheduled for the remainder of the year. Remediation activity has increased but not to the extent where it offsets revenue lost on waste received from drilling activities.

CCS Energy Marketing

This division's revenue and expenses are impacted by fluctuating oil prices and the volume of oil marketed through CCS' facilities. Operating margin, as a percentage of revenue, is expected to remain fairly constant in the one to three percent range. The business model for this division continues to focus on the marketing of crude oil recovered or purchased at the Energy Services facilities, with growth dependent on optimization and lease purchase opportunities.

SEASONALITY OF OPERATIONS

The majority of the Trust's operations take place in Canada where the ability to move heavy equipment in the oil and gas fields is dependent on weather conditions. As warm weather returns in the spring, the winter's frost comes out of the ground, rendering many secondary roads and oil and gas production sites incapable of supporting the weight of heavy equipment until they thoroughly dry out. The duration of this "spring breakup" has a direct impact on activity levels of the Trust and its customers. As a result, each year the Trust tends to record lower revenues and operating profit in the second fiscal quarter. The Trust's operations on the U.S. Gulf Coast are

affected by the seasonal differences in weather patterns in the Gulf of Mexico. The rainy weather, tropical storms and hurricanes prevalent in the Gulf of Mexico and along the Gulf Coast at various times of the year may affect operating results, depending on weather patterns experienced in any particular reporting period.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

These interim consolidated financial statements are prepared in accordance with Canadian Generally Accepted Accounting Principles (Canadian GAAP) on a basis consistent with those followed in the most recent annual consolidated financial statements, except for the changes in accounting policies or estimates noted below. Because a precise determination of the valuation of certain revenues, expenses, assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations. CCS uses estimates which are based on certain factors, assumptions and methods which are subject to judgement. Accordingly, actual results could differ from those estimates. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the Trust's accounting policies.

The components of the Trust's financial statements which incorporate significant assumptions or estimates include asset retirement obligations, amortization of engineered landfills and caverns, and the Trust's outstanding gas purchase obligation. For further details please refer to the MD&A disclosure in the Trust's 2006 Annual Report.

CHANGES IN ACCOUNTING POLICIES OR ESTIMATES

Financial Instruments

As of January 1, 2007 the Trust adopted, on a retroactive basis, four new Handbook Sections issued by the Canadian Institute of Chartered Accountants ("CICA") relating to financial instruments. These new accounting standards are effective for fiscal years beginning on or after October 1, 2006 and are identified as follows:

- <<
- Section 1530 - "Comprehensive Income";
- Section 3855 - "Financial Instruments - Recognition and Measurement";
- Section 3861 - "Financial Instruments - Disclosure and Presentation";
- and
- Section 3865 - "Hedges".
- >>

The new standards address the recognition and measurement of financial assets, financial liabilities and non-financial derivatives. These standards, and the impact on the Trust's financial statements, are disclosed in Note 2f of the consolidated financial statements, with no restatement of opening accumulated earnings required.

Accounting Changes

The CICA released revisions to Handbook Section 1506 - "Accounting Changes", applicable to interim and annual financial statements issued after January 1, 2007. The revisions in this section address changes in accounting policies, accounting estimates and the correction of errors. A change in accounting policy is recommended only if the change is required by a primary source of GAAP, or results in the financial statements providing reliable and more relevant information. The Trust has adopted the requirements of this section and will apply these standards to any future changes in accounting policies and/or estimates.

DISCLOSURE CONTROLS AND PROCEDURES RELATED TO FINANCIAL REPORTING

For the three months ended March 31, 2007, no changes were made in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Consolidated Financial Statements

CCS Income Trust
 March 31, 2007
 (Unaudited)

<<
 CONSOLIDATED BALANCE SHEETS
 (UNAUDITED)

| As at (000s) | Mar. 31, 2007 \$ | Dec. 31, 2006 \$ |
|--|------------------------|------------------------|
| <hr/> | | |
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | 14,092 | 54,399 |
| Accounts receivable | 234,002 | 229,410 |
| Inventory and other current assets | 16,250 | 14,385 |
| <hr/> | | |
| | 264,344 | 298,194 |
| Property, plant and equipment | 936,879 | 890,916 |
| Goodwill (note 4) | 106,306 | 86,313 |
| Intangible assets | 21,432 | 22,508 |
| Deferred financing costs (note 2f) | - | 5,196 |
| Investments and other long-term assets | 313 | 180 |
| <hr/> | | |
| | 1,329,274 | 1,303,307 |
| <hr/> | | |
| LIABILITIES | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities | 91,970 | 110,932 |
| Income taxes payable | 471 | 275 |
| Distributions payable | 9,115 | 9,093 |
| Current portion of long-term debt | 1,816 | 2,657 |
| Current portion of long-term purchase obligations | 1,338 | 1,168 |
| Current portion of asset retirement obligations (note 5) | 4,355 | 3,922 |
| <hr/> | | |
| | 109,065 | 128,047 |
| <hr/> | | |
| Long-term debt | 374,336 | 359,001 |
| Long-term purchase obligations | 5,877 | 5,000 |
| Future income tax | 57,250 | 51,887 |
| Asset retirement obligations (note 5) | 31,836 | 35,074 |
| Other long-term liabilities | 956 | 699 |
| <hr/> | | |
| | 470,255 | 451,661 |
| <hr/> | | |
| Non-controlling interest (note 8) | 113,952 | 101,745 |
| <hr/> | | |

| UNITHOLDERS' EQUITY | | |
|--|-----------|-----------|
| Unitholders' capital (note 6a) | 523,228 | 522,114 |
| Accumulated other comprehensive income (loss) (notes 2f and 11) | (221) | 948 |
| Contributed surplus (note 6c) | 3,363 | 2,582 |
| Accumulated earnings | 109,632 | 96,210 |
| ----- | | |
| Total unitholders' equity | 636,002 | 621,854 |
| ----- | | |
| ----- | | |
| Total liabilities and unitholders' equity | 1,329,274 | 1,303,307 |
| ----- | | |
| ----- | | |

See accompanying notes

CONSOLIDATED STATEMENTS OF INCOME AND ACCUMULATED EARNINGS
(UNAUDITED)

| For the three months ended March 31 (000s) | 2007 \$ | 2006 \$ |
|---|------------|------------|
| ----- | | |
| REVENUE | | |
| CCS Energy Services | 83,698 | 61,570 |
| Concord Well Servicing | 78,937 | 40,782 |
| HAZCO Environmental Services | 92,044 | 71,070 |
| CCS Energy Marketing | 262,698 | 196,470 |
| ----- | | |
| | 517,377 | 369,892 |
| ----- | | |
| Operating expenses (note 9) | 418,260 | 288,418 |
| Asset retirement accretion expense (note 5) | 142 | 388 |
| ----- | | |
| | 418,402 | 288,806 |
| ----- | | |
| Operating margin | 98,975 | 81,086 |
| ----- | | |
| EXPENSES | | |
| General and administrative (notes 7 and 9) | 7,325 | 4,806 |
| Financing | 4,819 | 2,520 |
| Depreciation and amortization | 19,622 | 11,745 |
| Gas delivery obligation valuation | 1,367 | 212 |
| Foreign exchange loss | 162 | 73 |
| Loss on sale of assets | 315 | 11 |
| ----- | | |
| | 33,610 | 19,367 |
| ----- | | |
| Income before income taxes and non- controlling interest | 65,365 | 61,719 |
| ----- | | |
| Income taxes | | |
| Current | 7,300 | 10,060 |
| Future | 5,399 | 4,430 |
| ----- | | |
| | 12,699 | 14,490 |
| ----- | | |
| Income before non-controlling interest | 52,666 | 47,229 |
| Non-controlling interest (note 8) | (11,903) | (12,043) |
| ----- | | |
| ----- | | |

| | | |
|---|----------|----------|
| Net income for the period | 40,763 | 35,186 |
| Accumulated earnings, beginning of period | 96,210 | 62,144 |
| Distributions (note 3) | (27,341) | (16,226) |
| ----- | | |
| Accumulated earnings, end of period | 109,632 | 81,104 |
| ----- | | |
| Net income per unit (note 6b) | | |
| Basic | 0.78 | 0.82 |
| Diluted | 0.78 | 0.82 |
| ----- | | |
| ----- | | |

See accompanying notes

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

| | | |
|--|------------|------------|
| For the three months ended March 31 (000s) | 2007 \$ | 2006 \$ |
| ----- | | |
| Net income for the period | 40,763 | 35,186 |
| Other comprehensive income (loss) (note 11) | | |
| Gain (loss) on foreign currency translation of self-sustaining subsidiaries | (1,169) | 161 |
| ----- | | |
| Other comprehensive income (loss) for the period | (1,169) | 161 |
| ----- | | |
| Comprehensive income for the period | 39,594 | 35,347 |
| ----- | | |
| ----- | | |

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

| | | |
|---|------------|------------|
| For the three months ended March 31 (000s) | 2007 \$ | 2006 \$ |
| ----- | | |
| OPERATING ACTIVITIES | | |
| Net income for the period | 40,763 | 35,186 |
| Add (deduct) non-cash items: | | |
| Non-controlling interest | 11,903 | 12,043 |
| Unit-based compensation (notes 6c and 7a) | 870 | 416 |
| Depreciation and amortization | 19,622 | 11,745 |
| Asset retirement accretion expense | 142 | 388 |
| Gas delivery obligation valuation | 1,367 | 212 |
| Loss on sale of assets | 315 | 11 |
| Future income taxes | 5,399 | 4,430 |
| Other non-cash operating items | 409 | 204 |
| ----- | | |
| | 80,790 | 64,635 |
| Change in non-cash working capital | (25,778) | (42,376) |
| Asset retirement obligations fulfilled (note 5) | (285) | (195) |
| ----- | | |
| Cash provided by operating activities | 54,727 | 22,064 |
| ----- | | |
| FINANCING ACTIVITIES | | |
| Issuance of long-term debt | 20,542 | 46,877 |
| Repayment of long-term debt | (881) | (654) |

| | | |
|---|----------|----------|
| Deferred financing costs | - | (560) |
| Payments under purchase obligations | (320) | (398) |
| Exercise of trust unit options (notes 6a and c) | 999 | - |
| Trust unit issue (net of costs) | - | 490 |
| Distribution payments (note 3) | (27,319) | (15,582) |
| ----- | | |
| Cash (used in) provided by financing activities | (6,979) | 30,173 |
| ----- | | |
| INVESTING ACTIVITIES | | |
| Purchase of property, plant and equipment | (48,690) | (27,368) |
| Proceeds on disposal of property, plant and equipment | 1,099 | 339 |
| Acquisitions (note 4) | (44,113) | (21,978) |
| Investments and other long-term assets | (133) | 205 |
| Change in non-cash working capital | 3,782 | (1,315) |
| ----- | | |
| Cash used in investing activities | (88,055) | (50,117) |
| ----- | | |
| Increase in cash and cash equivalents | (40,307) | 2,120 |
| Cash and cash equivalents, beginning of period | 54,399 | 3,626 |
| ----- | | |
| Cash and cash equivalents, end of period | 14,092 | 5,746 |
| ----- | | |

Supplementary cash flow information:

| | | |
|--------------------|-------|--------|
| Cash taxes paid | 7,014 | 28,558 |
| Cash interest paid | 1,813 | 2,214 |

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

March 31, 2007 and 2006

(000s except unit and per unit amounts)

1. NATURE OF THE ORGANIZATION

CCS Income Trust (the "Trust" or "CCS") was formed for the purpose of effecting an arrangement (the "Arrangement") under the Business Corporations Act (Alberta), involving, among other things, the exchange of Canadian Crude Separators Inc. ("Canadian Crude Separators") securities on a one-to-one basis, for either trust units of the Trust or Series A Exchangeable Shares ("exchangeable shares") of CCS Inc., a wholly-owned subsidiary of the Trust. The effective date of the Arrangement was May 22, 2002.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Basis of presentation

The consolidated financial statements of the Trust have been prepared by management in accordance with Canadian Generally Accepted Accounting Principles (GAAP). The consolidated financial statements include the accounts of the Trust, its subsidiaries and its proportionate share of

joint venture and partnership interests. Non-controlling interest, which exists through the exchangeable shares in the Trust's wholly owned subsidiary, CCS Inc., is reported on the consolidated balance sheets.

These interim consolidated financial statements follow the same accounting policies and methods of application as described in the notes to the most recent annual audited consolidated financial statements for the year ended December 31, 2006. These interim consolidated financial statements do not include all of the disclosures required in the annual financial statements, and should be read in conjunction with the audited consolidated financial statements included in the Trust's 2006 Annual Report.

Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements necessarily involves the use of estimates and approximations. Accordingly, actual results could differ significantly from those estimates. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the Trust's accounting policies summarized below.

All amounts reported in these statements are in Canadian dollars, unless otherwise stated.

b) Inventory

Inventory of drilling fluids, oilfield supplies and scrap metal is stated at the lower of cost and net realizable value. Crude oil inventory is recorded at fair value at the balance sheet date.

c) Derivative financial instruments

Derivative financial instruments are utilized by the Trust in the management of its interest rate exposures. The Trust enters into interest rate swaps in order to manage the impact of fluctuating interest rates on its floating rate debt and to manage the overall cost of borrowing on its total debt portfolio. The interest rate swap agreements require the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. These instruments are recorded at fair value at the balance sheet date, with any change in fair value reported as a net gain or loss to financing expense, unless the requirements for hedge accounting are met.

The CCS Energy Marketing division utilizes derivative instruments in the trading of crude oil through the use of commodity contracts which are settled with physical delivery. The contracts are recorded at fair value.

d) Foreign currency translation

The Trust's U.S. operations, which are considered financially and operationally independent, are translated into Canadian dollars using the current rate method, with cumulative translation adjustments included as a separate component of accumulated other comprehensive income in unitholders' equity:

- Assets and liabilities are translated at the period-end exchange rate; and
- Revenues and expenses are translated using average exchange rates during the period.

The Peruvian operations of the Trust are considered to be integrated operations and are translated into Canadian dollars using the temporal method, with any translation gains or losses included in net income for the period:

- Monetary items are translated at the period-end exchange rate;
- Non-monetary items are translated using historical rates, unless such items are carried at market, in which case the period-end exchange rate is used;
- Revenues and expenses are recorded using average exchange rates during the period; and
- Depreciation and amortization are translated at the same exchange rates as the assets to which they relate.

Other monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates of exchange in effect at the end of each reporting period.

e) Measurement uncertainty

Certain items recognized in the financial statements are subject to measurement uncertainty as they are based on management's estimates using current information and judgement. The effect on the consolidated financial statements of changes in such estimates in future periods could be significant. The recognized items include:

- Property, plant and equipment, goodwill and intangible assets, the values of which are subject to market conditions in the oil and gas and environmental remediation industries;
- Amortization of engineered landfills, the expense of which is impacted by the type of waste received, compaction and weather and leachate factors;
- Amortization of disposal caverns, the expense of which is impacted by the type of waste received, the ability to recover and process waste oil in the caverns, and uncertainty over total cavern capacity available;
- The quality, quantity and recoverability of oil contained in the disposal caverns, which accumulates through the waste disposal process; the value of recovered oil is recognized when sold;
- Gas delivery obligation, the cost of which is dependent on future gas prices; and
- Asset retirement obligations; the nature, timing and costs of the remediation process are managed by the CCS Environmental department, with estimates based upon CCS' "best practices" and current regulatory requirements.

f) New accounting pronouncements

Financial instruments

On January 1, 2007 the Trust adopted the recommendations of four new Handbook Sections issued by the Canadian Institute of Chartered Accountants ("CICA") on the recognition and measurement of financial assets, financial liabilities and non-financial derivatives. The new sections are as follows:

- Section 1530 - "Comprehensive Income";
- Section 3855 - "Financial Instruments - Recognition and Measurement";
- Section 3861 - "Financial Instruments - Disclosure and Presentation"; and
- Section 3865 - "Hedges".

Upon initial adoption of these standards, the Trust measured all financial instruments at fair value and classified them into one of the following five categories: 1) loans and receivables; 2) assets held-to-maturity; 3) assets available-for-sale; 4) other financial liabilities; or 5) held-for-trading.

Financial instruments classified as available-for-sale or held-for-trading are revalued to fair value each reporting period. Gains and losses on financial instruments classified as held-for-trading are recognized in net income in the period in which they arise, with the exception of gains and losses arising from certain financial instruments that qualify for hedge accounting. Gains and losses on financial instruments classified as available-for-sale are deferred in other comprehensive income until sold or impaired. Subsequent measurement of all other financial instruments is at amortized cost.

Other comprehensive income is comprised of revenues, expenses and gains and losses that are included in comprehensive income, but excluded from net income. Under this new standard, unrealized gains and losses on the translation of self-sustaining foreign operations and other comprehensive income components are disclosed separately as accumulated other comprehensive income on the consolidated balance sheet and reclassified to net income when realized.

Except for other comprehensive income, the Trust has applied these accounting standards on a retroactive basis with no restatement of opening accumulated earnings required. The following is a summary of the impact of these new accounting standards on the consolidated financial statements of the Trust:

- The Trust's inventory of crude oil is classified as held-for-trading and therefore measured at fair value, which is based upon quoted market prices. Crude oil inventory was previously valued at the lower of weighted average cost or net realizable value. On initial adoption, this change in valuation did not have a material impact on inventory values, with no retroactive adjustment made to retained earnings; inventory is normally sold the month after purchase, with very little difference between weighted average cost and net realizable value. These new standards may materially impact future financial results if the market experiences volatile oil prices.
- The CCS Energy Marketing division enters into physical purchase and sales contracts at stated market values that settle the following month. The division does not use financial derivatives to hedge or fix pricing, and as a result these new accounting standards do not impact the current method of accounting for revenue and expenses. The current value recorded for accounts receivable and accounts payable approximates fair value.
- The Trust has two interest rate swaps outstanding which are recognized as financial derivatives and classified as held-for-trading. The difference between the accounting value and fair value of these swaps on January 1, 2007 was \$165; this was charged to financing expense upon initial adoption of the new standards.
- Deferred financing charges are no longer presented separately on the consolidated balance sheet but incorporated as a component of long-term debt, which resulted in a reduction of \$5,196 to long-term debt. Deferred financing charges are now amortized to income using the effective interest method over the term of the debt facility to which they relate. Application of this method did not result in a retroactive adjustment to opening accumulated earnings.
- The Trust's unrealized gains and losses on the translation of self-sustaining foreign operations are presented as a component of other comprehensive income and reclassified to net income when realized. Please refer to the consolidated statements of comprehensive income and Note 11.

Accounting changes

Effective January 1, 2007, the Trust adopted the revised recommendations of CICA Handbook Section 1506, relating to accounting changes. The revisions in this section address changes in accounting policies, accounting estimates and the correction of errors. A change in accounting policy is recommended only if the change is required by a primary source of GAAP or results in the financial statements providing reliable and more relevant information. The revised recommendations also require disclosure when an entity has not applied a new primary source of GAAP that has been issued but is not yet effective. As a result, the Trust has assessed new and revised accounting pronouncements issued but not yet effective and determined that the following may impact the Trust's disclosure in the future:

- As of January 1, 2008, current Handbook Section 3861 "Financial Instruments - Disclosure and Presentation" will be replaced with two new standards: Section 3862 "Financial Instruments - Disclosures" and Section 3863 "Financial Instruments - Presentation". The new disclosure requirements increase the emphasis on the risks associated with both recognized and unrecognized financial instruments and how those risks are managed. The new presentation standard carries forward the former presentation requirements.

- As of January 1, 2008, Handbook Section 1535 "Capital Disclosures" will require companies to disclose their objectives, policies and processes for managing capital. Disclosure must include whether companies have complied with externally imposed capital requirements.

The Trust is assessing the possible impact of these new standards on the consolidated financial statements.

g) Reclassification

Certain information for prior years has been reclassified to conform to the presentation adopted in 2007.

3. DISTRIBUTIONS

For the three month period ended March 31, 2007 the Trust paid distributions to unitholders in the amount of \$27,319 (2006 - \$15,582) and declared distributions of \$27,341 (2006 - \$16,226) in accordance with the following schedule:

| Period covered | Date of record | Date of distribution | Per unit \$ |
|---------------------------------------|----------------|----------------------|-------------|
| December 1, 2006 to December 31, 2006 | 12/29/06 | 01/15/07 | 0.175 |
| January 1, 2007 to January 31, 2007 | 01/31/07 | 02/15/07 | 0.175 |
| February 1, 2007 to February 28, 2007 | 02/28/07 | 03/15/07 | 0.175 |
| March 1, 2007 to March 31, 2007 | 03/30/07 | 04/16/07 | 0.175 |

4. ACQUISITIONS

On March 7, 2007, the Trust, through its wholly-owned subsidiary, CCS Energy Services, LLC, acquired all of the operating assets of Mobley Oilfield Services LP ("Mobley") for cash consideration of \$44,113. Mobley is an integrated oilfield services company providing trucking, on-site storage and disposal of waste produced in the drilling, completion and ongoing production of oil and gas wells. Service areas include the states of Oklahoma, Arkansas, Louisiana and Texas.

The purchase price has been allocated, on a preliminary basis, as

follows:

| | |
|-------------------------------|--------|
| Net assets acquired: | \$ |
| ----- | |
| Working capital | 3,133 |
| Property, plant and equipment | 20,637 |
| Goodwill | 20,343 |
| ----- | |
| | 44,113 |
| ----- | |
| ----- | |
| Consideration paid: | \$ |
| ----- | |
| Cash | 43,966 |
| Transaction costs | 147 |
| ----- | |
| | 44,113 |
| ----- | |
| ----- | |

5. ASSET RETIREMENT OBLIGATIONS

The Trust estimates the undiscounted cash flows related to asset retirement obligations, to be incurred over an estimated period of 20 to 30 years, will total approximately \$86,961 (2006 - \$58,684) using an annual inflation rate of two percent (2006 - three percent). The fair value at March 31, 2007 was \$36,191 (2006 - \$20,994) using a discount rate of 5.8 percent (2006 - eight percent).

For the three months ended March 31, 2007 and 2006, the Trust recorded the following activity related to the liability:

| | 2007 | 2006 |
|---|---------|--------|
| | \$ | \$ |
| ----- | | |
| Asset retirement obligations, beginning of period | 38,996 | 20,326 |
| New obligations and revised estimates | (2,662) | 475 |
| Obligations fulfilled | (285) | (195) |
| Accretion expense | 142 | 388 |
| ----- | | |
| Asset retirement obligations, end of period | 36,191 | 20,994 |
| Less: current portion | 4,355 | 1,373 |
| ----- | | |
| Long-term portion | 31,836 | 19,621 |
| ----- | | |
| ----- | | |

6. UNITHOLDERS' EQUITY

a) Unitholders' capital

Authorized - Unlimited number of voting trust units

| | Trust Units | \$ |
|---|-------------|---------|
| ----- | | |
| December 31, 2006 | 51,958,249 | 522,114 |
| Issued upon conversion of exchangeable shares for trust units | 84,184 | 82 |
| Issued upon exercise of employee trust unit options | 42,363 | 1,088 |
| Adjustment for exchangeable share conversions and trust unit dilution | - | (386) |

| | | |
|---|------------|---------|
| Units vested on retention bonus (note 7b) | - | 330 |
| ----- | | |
| March 31, 2007 | 52,084,796 | 523,228 |
| ----- | | |

b) Weighted average trust units

As at March 31, 2007 and 2006, respectively, diluted net income per trust unit has been calculated based on the following:

| | 2007 | 2006 |
|---|------------|------------|
| ----- | | |
| Weighted average trust units outstanding | | |
| - basic | 52,041,998 | 42,692,112 |
| Trust units issuable on conversion of exchangeable shares | 15,204,470 | 14,582,816 |
| Dilutive options | 189,996 | 186,975 |
| ----- | | |
| Dilutive trust units and exchangeable shares | 67,436,464 | 57,461,903 |
| ----- | | |

c) Contributed surplus

The balance as at March 31, 2007 and 2006, is comprised of the following:

| | 2007 | 2006 |
|--|-------|-------|
| | \$ | \$ |
| ----- | | |
| Balance, beginning of period | 2,582 | 605 |
| Unit-based compensation expense | 870 | 416 |
| Transferred to unitholders' capital on exercise of options | (89) | (21) |
| ----- | | |
| Balance, end of period | 3,363 | 1,000 |
| ----- | | |

7. UNIT-BASED COMPENSATION

a) Unit option plan

Under the Trust's unit option plan, directors, officers, employees and consultants of the Trust are eligible to receive options to acquire trust units, with terms not to exceed five years from the date of the grant. The exercise price is based on the weighted average price of the units for the five trading days immediately prior to the grant date, which may differ from the closing price on the Toronto Stock Exchange for such units on the day of the grant. For options granted to date, the exercise price was not materially different from the trading price of the units on the grant date. Under the unit option plan, vesting periods are determined by the Board of Directors of CCS Inc. at the time of the grant. For all options granted to March 31, 2007, 25 percent of the options are exercisable annually on the anniversary of the original grant.

The maximum number of trust units issuable under this plan may not exceed 10 percent of the Trust's outstanding units. Outstanding units include the issued and outstanding units on a non-diluted basis, plus all units issuable on conversion of all exchangeable shares, at any time, which at March 31, 2007 totaled 67,289,266.

Option transactions for the period are as follows:

| Three months ended March 31 | 2007 | | 2006 | |
|---|-----------|--|-----------|--|
| | Units | Weighted average exercise price \$ | Units | Weighted average exercise price \$ |
| Options outstanding, beginning of period | 1,647,891 | 31.32 | 769,500 | 24.14 |
| Granted | 1,198,500 | 36.46 | 771,500 | 36.17 |
| Exercised | (42,363) | 23.56 | (22,199) | 22.04 |
| Forfeited | - | - | (49,454) | 25.36 |
| Options outstanding, end of period | 2,804,028 | 33.64 | 1,469,347 | 30.45 |

| Range of prices | Options outstanding | | | Options exercisable | |
|-------------------|------------------------------------|--|---|--|--|
| | Outstanding at Mar. 31, 2007 | Weighted average remaining contractual life (years) | Weighted average exercise price (\$) | Options exerci- sable at Mar. 31, 2007 | Weighted average exercise price (\$) |
| \$22.04 - \$27.00 | 397,375 | 2.8 | 22.04 | 171,851 | 22.04 |
| \$27.01 - \$32.00 | 233,778 | 3.2 | 27.98 | 54,167 | 27.94 |
| \$32.01 - \$37.00 | 2,148,375 | 4.4 | 36.35 | 179,750 | 36.16 |
| \$37.01 - \$38.15 | 24,500 | 4.3 | 37.78 | 1,125 | 38.15 |
| Total | 2,804,028 | 4.1 | 33.64 | 406,893 | 32.83 |

The estimated weighted average fair value of trust unit options granted to date is \$5.57 per option. The fair value of each option grant was estimated on the date of the grant and determined using the Black-Scholes option-pricing model with the following assumptions:

| As at March 31, 2007 | Weighted average assumptions |
|--|---------------------------------|
| Dividend yield | 4.99% |
| Discount for forfeiture | 3.00% |
| Risk-free interest rate | 3.88% |
| Expected life of options | 4.1 years |
| Expected volatility factor of the future expected market price of trust units | 27.25% |

The Trust recorded compensation expense, included as part of general and administrative expense of \$870 (2006 - \$416) with an offsetting increase to contributed surplus in respect of the options granted as of March 31, 2007.

b) Retention bonus

The Board of Directors of CCS Inc. approved a one-time retention bonus

for executives of CCS Inc. on December 17, 2004. The retention bonus was funded in June 2005 through the purchase of 40,849 units of the Trust on the open market at a cost of \$1,231. The units vest to the executives in equal amounts on January 1, 2006, 2007, and 2008, provided the executives are employed with the Trust at the time of vesting. The trust unit purchase was charged to unitholders' capital until the units vest and are distributed. For the three months ended March 31, 2007, \$82 (2006 - \$82) was accrued and charged to general and administrative expense. The January 1, 2007 vesting of units carried a total cost of \$330 and was charged to unitholders' capital at the time of vesting.

| As at March 31 | 2007 \$ | 2006 \$ |
|------------------------------|------------|------------|
| Balance, beginning of period | (660) | (1,231) |
| Vesting on January 1 | 330 | 410 |
| Balance, end of period | (330) | (821) |

8. NON-CONTROLLING INTEREST ("NCI")

Exchangeable shares are accounted for in accordance with the CICA's recommendations in EIC-151 "Exchangeable Securities Issued by Subsidiaries of Income Trusts". In accordance with this accounting abstract, the exchangeable shares issued by CCS Inc. are considered transferable to third parties and must therefore be reflected as non-controlling interest.

a) Non-controlling interest

Non-controlling interest on the consolidated balance sheets is comprised of the carrying value of the exchangeable shares upon issuance plus the accumulated earnings attributable to the non-controlling interest. The net income attributable to the non-controlling interest on the consolidated statements of income and accumulated earnings represents the cumulative portion of net income attributable to the non-controlling interest, based on the proportion of trust units issuable for exchangeable shares to total trust units issued and issuable at the end of each period.

| As at March 31 | 2007 \$ | 2006 \$ |
|---|------------|------------|
| Carrying value of exchangeable shares | 14,867 | 14,955 |
| Accumulated earnings attributable to NCI - prior years | 86,878 | 54,627 |
| Balance, beginning of period | 101,745 | 69,582 |
| NCI interest in net income | 11,903 | 12,043 |
| Adjustment for trust unit dilution of NCI interest (note 6a) | 386 | - |
| Redeemed upon conversion to trust units (note 6a) | (82) | (6) |
| Balance, end of period | 113,952 | 81,619 |

b) Exchangeable shares

The exchangeable shares are convertible at the option of the holder into trust units at any time. All exchangeable shares are required to be converted on or before May 21, 2012, subject to extension to such other

later date that the Board of Directors may determine at its sole discretion. The number of trust units issuable upon conversion is based upon the exchange ratio in effect at the conversion date. The exchange ratio, which was initially equal to one-to-one, is cumulatively adjusted each time a distribution is made to unitholders. The adjustment to the exchange ratio is based on the cash distributions paid to unitholders divided by a weighted average trust unit price. The exchange ratio at March 31, 2007 was 2.71245 (March 31, 2006 - 2.57287).

| As at March 31 | 2007 | | 2006 | |
|---|------------|--------|------------|--------|
| | Shares | \$ | Shares | \$ |
| Balance, beginning of period | 5,636,766 | 14,867 | 5,670,143 | 14,955 |
| Redeemed upon conversion to trust units | (31,328) | (82) | (2,225) | (6) |
| Balance, end of period | 5,605,438 | 14,785 | 5,667,918 | 14,949 |
| Exchange ratio, end of period | 2.71245 | - | 2.57287 | - |
| Trust units issuable upon conversion | 15,204,470 | 14,785 | 14,582,816 | 14,949 |

9. RELATED-PARTY TRANSACTIONS

a) Fractional interest

The Trust has a 50 percent fractional interest in a Piaggio Avanti P-180 aircraft for use in CCS' operations. Corpac Canada Ltd. ("Corpac"), a company controlled by the Chairman and CEO of CCS Inc. until March 1, 2007, provides management services and operates the aircraft on behalf of the Trust. For the three months ended March 31, 2007 the Trust incurred management fee expense, operating costs and costs for contract air services with Corpac totaling \$117 (2006 - \$95).

b) Other

HAZCO Industrial Services Limited Partnership, an entity controlled by certain members of management and their immediate families, charges rental fees for the use of land to the Trust. For the three months ended March 31, 2007 these fees totaled \$116 (2006 - \$110). The nature of this relationship has been terminated as a result of the purchase, by the Trust, of this land. Please refer to Note 14.

All related-party transactions are recorded at the exchange amount and charged to either operating or general and administrative expense.

10. FINANCIAL INSTRUMENTS

a) Designation and valuation of financial instruments

Initial adoption of Section 3855 of the CICA Handbook requires an entity to classify its financial instruments into one of the following five categories:

- loans and receivables;
- assets held-to-maturity;
- assets available-for-sale;
- other financial liabilities; and
- held-for-trading (assets and liabilities).

Section 3855 also requires that all financial instruments be initially

measured at their fair value.

Effective January 1, 2007, the Trust has elected to classify its financial instruments as follows:

| | March 31, 2007 | | December 31, 2006 | |
|---|----------------|----------------------|-------------------|----------------------|
| | Carrying Value | Estimated Fair Value | Carrying Value | Estimated Fair Value |
| ----- | | | | |
| Loans and receivables | | | | |
| Accounts receivable(1) | 234,002 | 234,002 | 229,410 | 229,410 |
| ----- | | | | |
| Available-for-sale | | | | |
| ----- | | | | |
| Investments and other long term assets | 313 | 313 | 180 | 180 |
| ----- | | | | |
| Other financial liabilities(1) | | | | |
| ----- | | | | |
| Accounts payable and accrued liabilities | 91,970 | 91,970 | 110,932 | 110,932 |
| Income taxes payable | 471 | 471 | 275 | 275 |
| Distributions payable | 9,115 | 9,115 | 9,093 | 9,093 |
| Long-term debt(2) (3) | 376,152 | 376,152 | 356,462 | 356,462 |
| Other long-term liabilities | 956 | 956 | 699 | 699 |
| ----- | | | | |
| Held-for-trading (assets and liabilities) | | | | |
| ----- | | | | |
| Crude oil inventory | 6,605 | 6,605 | 2,819 | 2,819 |
| ----- | | | | |
| Purchase obligations | 7,215 | 7,215 | 14,385 | 14,385 |
| ----- | | | | |

(1) Due to the nature and/or short maturity of these financial instruments, carrying value approximates fair value.

(2) Includes both current and long-term portions net of deferred financing charges.

(3) Long-term debt has been valued using the effective interest method.

Derivatives

The Trust is party to a five-year, non-amortizing, interest rate swap agreement for \$18,000 at a fixed rate of 5.6 percent, and a five-year amortizing swap arrangement for \$20,000 at a fixed rate of 4.1 percent. At March 31, 2007 the fair value of these derivatives was \$161, the values of which are reported under other accounts receivable and other accrued liabilities.

The Trust has entered into a commitment to deliver a specified volume of gas over a 13-year period. The gas delivery obligation is recorded at fair market value based on the present value of the future delivery obligation using a future gas price curve. At March 31, 2007 a loss of \$1,367 was recognized in earnings to reflect the change in the estimated fair market value of the obligation.

b) Risks

i) Credit Risk

The Trust provides environmental solutions for waste management, crude oil sales and marketing, contract oilwell services, rental of oilfield equipment and sales of drilling fluids to the oil and gas industry. This

results in a concentration of credit risk. The Trust generally extends unsecured credit to these customers, and therefore the collection of accounts receivable may be affected by changes in economic or other conditions and may accordingly impact the Trust's overall credit risk. Management believes the risk is mitigated by the size, reputation and diversified nature of the companies to which the Trust extends credit.

Credit exposure on financial instruments, which consists of interest rate swaps, arises from the possibility that a counter-party in which the Trust has an unrealized gain fails to perform according to the terms of the contract. Management believes the risks of non-performance are minimal as the counter-parties are major financial institutions.

Credit exposure on cash and cash equivalents arises as the Trust holds those assets with major financial institutions. Management believes the risk is mitigated by the size and financial strength of those major financial institutions.

ii) Interest rate risk

The Trust is exposed to interest rate risk with respect to fluctuating interest rates on its revolving credit facilities. At March 31, 2007, approximately 26 percent of the Trust's debt outstanding was subject to floating rate interest. The Trust manages this exposure through interest rate swap initiatives, thereby fixing a portion of the interest on outstanding floating interest rate debt.

iii) Foreign exchange risk

The Trust is exposed to foreign exchange risk with respect to its U.S. operations. Acquisitions in the U.S. of equity interests and operating assets along with the subsequent funding of capital and working capital requirements results in the exchange of Canadian dollars for U.S. dollars on an ongoing basis.

The Trust is also exposed to foreign exchange risk on the translation of its U.S. operations to Canadian dollars on consolidation of financial results. The cumulative translation adjustment is reported in accumulated other comprehensive income as a separate component of unitholders' equity.

The Trust has foreign operations through its subsidiary, HAZCO del Peru S.A., which operates in Peru. Service contracts and bank accounts are denominated in U.S. dollars, with local operating expenses incurred in the local currency (Nuevos Soles). Excess cash earned by this company is transferred to a U.S. dollar bank account in Canada.

11. ACCUMULATED OTHER COMPREHENSIVE INCOME

The Trust's accumulated other comprehensive income includes the unrealized gain (loss) on the translation of self-sustaining foreign operations.

| | 2007 | 2006 |
|--|---------|------|
| | \$ | \$ |
| Three months ended March 31 | | |
| ----- | | |
| Balance, beginning of period | 948 | - |
| Unrealized gain (loss) on translation of self-sustaining subsidiaries | (1,169) | 161 |
| ----- | | |
| Balance, end of period | (221) | 161 |
| ----- | | |
| ----- | | |

12. SEASONALITY

The majority of the Trust's operations take place in Canada where the ability to move heavy equipment in the oil and natural gas fields is dependent on weather conditions. As warm weather returns in the spring, the winter's frost comes out of the ground, rendering many secondary roads and oil and natural gas production sites incapable of supporting the weight of heavy equipment until they thoroughly dry out. The duration of "spring breakup" has a direct impact on activity levels of the Trust and its customers. As a result, each year the Trust tends to earn lower revenues and operating margin in the second fiscal quarter. The Trust's operations on the U.S. Gulf Coast are affected by seasonal differences in weather patterns in the Gulf of Mexico. The rainy weather, tropical storms and hurricanes prevalent in the Gulf of Mexico and along the Gulf Coast during the year may affect operating results depending on the weather patterns in any particular reporting period.

13. SEGMENTED INFORMATION

The Trust's reportable operating segments consist of the following divisions: CCS Energy Services ("Energy Services"); Concord Well Servicing ("Concord"); HAZCO Environmental Services ("HAZCO"); and CCS Energy Marketing ("CEM").

- The Energy Services operating segment owns and operates treatment, recovery and disposal (TRD) facilities, transfer stations and cavern facilities throughout western Canada and the Gulf Coast region of the U.S. Services are provided in the areas of emulsion treatment, water processing and disposal, waste processing, drilling mud disposal, tank/truck washing, crude oil terminalling, cavern disposal, well and site abandonment, trucking, on site storage and processing of naturally occurring radioactive material (NORM).
- Concord provides contract oilfield services including well completions, workovers, abandonments and, through the HiAlta business unit, the rental of oilfield equipment. Concord operates 140 rigs in western Canada.
- HAZCO provides a wide range of specialized services including site remediation, decommissioning, waste services, environmental construction and technologies, emergency response, engineered landfill disposal, sulphur and other specialty services. HAZCO also operates a network of industrial and engineered landfills, bioremediation facilities and hazardous waste transfer stations that span western Canada. Through its HMI business unit, HAZCO provides scrap metal collection and processing services. HAZCO provides services primarily throughout Canada, with select services provided in Peru and the U.S.
- CEM extracts additional value and operating margin on waste and recovered oil volumes from the Energy Services facilities. This division captures the incremental value created through the marketing chain with revenue streams of lease purchases, single shipper/optimization and bulk purchases.

Business activity among the divisions is recorded at market rates. Inter-segment eliminations adjust revenue, expenses and profit on inter-segment activity.

The accounting policies followed by these operating segments are the same as those described in the summary of significant accounting policies. Administrative expenses directly related to the individual business segments are included in the operating expenses of that division.

The following tables provide information by operating and geographic segment for the three months ended March 31, 2007 and 2006:

| For the three months ended March 31, 2007 | Energy Services \$ | Concord \$ | HAZCO \$ | CEM \$ | Consoli- dated \$ |
|---|--------------------------|---------------|-------------|-----------|-------------------------|
| Revenue prior to inter- segment eliminations | 84,355 | 79,523 | 92,993 | 270,485 | 527,356 |
| Inter-segment eliminations | (657) | (586) | (949) | (7,787) | (9,979) |
| Net revenue | 83,698 | 78,937 | 92,044 | 262,698 | 517,377 |
| Operating expenses prior to inter- segment eliminations | 42,890 | 50,617 | 70,553 | 263,734 | 427,794 |
| Inter-segment eliminations | (951) | (3) | (641) | (7,797) | (9,392) |
| Net expenses | 41,939 | 50,614 | 69,912 | 255,937 | 418,402 |
| Operating margin | 41,759 | 28,323 | 22,132 | 6,761 | 98,975 |
| Gas delivery obligation valuation | 1,367 | - | - | - | 1,367 |
| Loss on sale of assets | - | 182 | 92 | 41 | 315 |
| Depreciation and amortization | 6,331 | 5,833 | 7,089 | 11 | 19,264 |
| Income before corporate items | 34,061 | 22,308 | 14,951 | 6,709 | 78,029 |
| General and administrative | | | | | 7,325 |
| Financing | | | | | 4,819 |
| Depreciation and amortization | | | | | 358 |
| Foreign exchange loss | | | | | 162 |
| Income taxes | | | | | 12,699 |
| Income before non- controlling interest | | | | | 52,666 |
| Non-controlling interest | | | | | (11,903) |
| Net income for the period | | | | | 40,763 |
| Total assets | 550,977 | 460,504 | 305,049 | 12,744 | 1,329,274 |
| Goodwill | 39,696 | 9,286 | 57,324 | - | 106,306 |
| Capital expenditures | 19,849 | 15,915 | 11,997 | 929 | 48,690 |

Operations related to Canada and foreign countries were as follows:

| For the three months ended | Canada | International | Total |
|----------------------------|--------|---------------|-------|
|----------------------------|--------|---------------|-------|

| March 31, 2007 | | \$ | \$ | \$ | |
|--|-----------------|-----------|---------|-----------|--------------|
| Revenue | | 502,012 | 15,365 | 517,377 | |
| Capital assets and goodwill | | 951,084 | 92,101 | 1,043,185 | |
| Total assets | | 1,210,452 | 118,822 | 1,329,274 | |
| | | | | | |
| For the three months ended March 31, 2006 | Energy Services | Concord | HAZCO | CEM | Consolidated |
| | \$ | \$ | \$ | \$ | \$ |
| Revenue prior to inter-segment eliminations | 61,733 | 40,782 | 71,305 | 205,047 | 378,867 |
| Inter-segment eliminations | (163) | - | (235) | (8,577) | (8,975) |
| Net revenue | 61,570 | 40,782 | 71,070 | 196,470 | 369,892 |
| Operating expenses prior to inter-segment eliminations | 24,623 | 23,554 | 48,618 | 200,986 | 297,781 |
| Inter-segment eliminations | (163) | - | (235) | (8,577) | (8,975) |
| Net expenses | 24,460 | 23,554 | 48,383 | 192,409 | 288,806 |
| Operating margin | 37,110 | 17,228 | 22,687 | 4,061 | 81,086 |
| Gas delivery obligation valuation | 212 | - | - | - | 212 |
| Loss (gain) on sale of assets | (1) | 58 | (46) | - | 11 |
| Depreciation and amortization | 4,360 | 1,511 | 5,591 | 17 | 11,479 |
| Income before corporate items | 32,539 | 15,659 | 17,142 | 4,044 | 69,384 |
| General and administrative | | | | | 4,806 |
| Financing | | | | | 2,520 |
| Depreciation and amortization | | | | | 266 |
| Foreign exchange loss | | | | | 73 |
| Income taxes | | | | | 14,490 |
| Income before non-controlling interest | | | | | 47,229 |
| Non-controlling interest | | | | | (12,043) |
| Net income for the period | | | | | 35,186 |
| Total assets | 380,346 | 121,970 | 212,728 | 7,185 | 722,229 |

| | | | | | |
|----------------------|--------|-------|--------|-------|--------|
| Goodwill | 15,165 | 1,372 | 38,482 | - | 55,019 |
| Capital expenditures | 13,621 | 7,210 | 4,969 | 1,568 | 27,368 |

Operations related to Canada and foreign countries were as follows:

| For the three months ended March 31, 2006 | Canada \$ | International \$ | Total \$ |
|--|--------------|---------------------|-------------|
| Revenue | 365,211 | 4,681 | 369,892 |
| Capital assets and goodwill | 507,232 | 22,526 | 529,758 |
| Total assets | 685,644 | 36,585 | 722,229 |

14. SUBSEQUENT EVENTS

On April 5, 2007, the Trust completed an asset purchase agreement with Pride Oilfield Services, LLC ("Pride"). Headquartered in Benton, Louisiana, Pride collects produced water from various generators within the east Texas and northern Louisiana areas and hauls it to various locations for disposal. The purchase price for these assets was approximately \$5,515, consisting of \$4,514 in cash and \$1,001 in trust units.

On April 30, 2007, the Trust acquired approximately 19 acres of land in Edmonton, Alberta and nine acres in Richmond, B.C. from HAZCO Industrial Services Limited Partnership, an entity controlled by certain members of HAZCO's management and their immediate families. The purchase price for the two parcels of land was equal to its appraised fair market value of \$5,100 and \$5,675 respectively. The land had previously been leased by the Trust for use in its operations.

CORPORATE INFORMATION

EXECUTIVE MANAGEMENT

DAVID P. WERKLUND
 Founder, Chairman of the Board,
 President and Chief Executive
 Officer

JOHN BEAN, CA
 President, HAZCO Division

DONALD E. FRIESEN
 Vice President, Business
 Development, HAZCO Division

RALPH C. HESJE, P. Eng.
 President, CCS Energy Services
 Division

BRIAN K.S. MCGURK
 Vice President, Human Resources

JIM McMAHON

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 Website: www.ccsincometrust.com

STOCK TRADING INFORMATION

CCS Income Trust units are listed on the Toronto Stock Exchange (TSX) under the symbol CCR.UN.

TRANSFER AGENT AND REGISTRAR

Computershare Trust Company of
 Canada
 Calgary, Alberta

BANKERS

Toronto Dominion Bank
 Calgary, Alberta

Vice President, Business
Development

MARSHALL L. McRAE, CA
Chief Financial Officer

BLAINE G. MELNYK
General Counsel and Corporate
Secretary

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Vice President, Finance

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