

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

Q2 Interim Report  
Three and six months ended June 30, 2007

CALGARY, Aug. 3 /CNW/ -

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- On June 29, 2007, the Trust announced that it had entered into a definitive agreement for a going private transaction with an investor group led by Mr. David Werklund, the Founder, President and Chief Executive Officer of CCS. Through a series of transactions, a company controlled by the investor group will acquire all the assets of CCS and each securityholder of CCS will receive \$46 per trust unit or the equivalent amount per exchangeable share (other than Mr. Werklund, who has agreed to accept \$45.50 for each trust unit sold by him). The transaction is subject to conditions including unitholder approval but has been unanimously recommended for approval by the Board of Directors (with interested and non-independent directors abstaining).
- On April 5, 2007, the Trust acquired the operating assets of Pride Oilfield Services, LLC ("Pride") for approximately \$5.6 million. Pride collects and hauls produced water for customers within the east Texas and northern Louisiana regions.

(UNAUDITED)	Three months ended June 30			Six months ended June 30		
(000s) except per unit amounts	2007	2006(1)	%	2007	2006(1)	%
			change			change
Revenue	\$419,913	\$355,997	18%	\$937,290	\$725,889	29%
EBITDA(2)	40,618	47,193	(14%)	132,268	123,473	7%
Income before non-controlling interest	12,746	26,121	(51%)	65,412	73,350	(11%)
Net income per unit - diluted	0.19	0.39	(51%)	0.97	1.21	(20%)
Funds from operations(2) per unit - diluted	37,662	41,169	(9%)	118,452	105,804	12%
	0.55	0.62	(11%)	1.75	1.74	1%
Capital expenditures(3)	63,396	45,154	40%	112,086	72,522	55%
Weighted average trust units	52,276	45,945	14%	52,276	45,945	14%
Exchangeable shares(4)	15,422	14,753	5%	15,422	14,753	5%
Weighted average trust units - diluted	67,698	60,698	12%	67,698	60,698	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 the attached Management's Discussion and Analysis.

- (3) Does not include business acquisitions.  
(4) Assuming all exchangeable shares at June 30, 2007 converted at the period-end exchange ratio of 2.75134:1 (2006 - 2.60289:1).

MANAGEMENT'S DISCUSSION AND ANALYSIS

August 3, 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		
	Q2	Q1	Q4	Q3	Q2 (1)	Q1 (1)
REVENUE	\$419,913	\$517,377	\$471,530	\$476,400	\$355,997	\$369,892
EXPENSES						
Operating	372,130	418,402	395,188	389,805	302,808	288,806
General and administrative	7,165	7,325	6,160	6,156	5,996	4,806
Depreciation and amortization	21,284	19,622	25,027	16,640	13,804	11,745
Financing charges	5,423	4,819	4,404	3,559	2,577	2,520
Income before non- controlling interest	12,746	52,666	33,443	53,664	26,121	47,229
Net income per unit	9,735	40,763	25,664	41,624	21,880	35,186
- diluted	0.19	0.78	0.48	0.81	0.39	0.82
Funds from operations (2) per unit	37,662	80,790	69,100	70,392	41,169	64,635
- diluted	0.55	1.20	1.02	1.07	0.62	1.12
Capital expenditures (3)	63,396	48,690	63,528	58,059	45,154	27,368
Long-term debt	355,346	374,336	359,001	265,575	211,626	202,533
Non- controlling interest	117,734	113,952	101,745	93,514	81,332	81,619
Unitholders' equity	611,829	636,002	621,854	619,453	586,781	280,429
Distributions per unit	0.53	0.53	0.53	0.46	0.45	0.38

(000s except per unit amounts)	2005(1)	
	Q4	Q3
REVENUE	\$325,511	\$257,193
EXPENSES		
Operating	252,475	203,300
General and admini- strative	6,024	3,369
Depreciation and amort- ization	11,976	10,319
Financing charges	2,357	2,127
Income before non- controlling interest	38,829	27,722
Net income per unit	29,207	20,665
- diluted	0.69	0.48
Funds from operations(2)	54,959	41,888
per unit		
- diluted	0.97	0.74
Capital expend- itures(3)	43,604	27,899
Long-term debt	156,397	154,507
Non- controlling interest	69,582	63,552
Unitholders' equity	259,986	241,086
Distributions per unit	0.35	0.32

(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.

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:

- "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		Six months ended	
	2007	June 30 2006	2007	June 30 2006
Operating margin	\$ 47,783	\$ 53,189	\$ 146,758	\$ 134,275
Less: General and administrative expense	7,165	5,996	14,490	10,802
EBITDA	\$ 40,618	\$ 47,193	\$ 132,268	\$ 123,473

- "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		Six months ended	
	2007	June 30 2006	2007	June 30 2006
Cash provided by operating activities	\$ 108,126	\$ 61,412	\$ 162,853	\$ 83,476
Change in non-cash working capital	(70,556)	(20,246)	(44,778)	22,130
Asset retirement obligations fulfilled	92	3	377	198
Funds from operations	\$ 37,662	\$ 41,169	\$ 118,452	\$ 105,804

- "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 Midstream Services Division (Midstream 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. This division, previously known as 'CCS Energy Services' has been rebranded to 'CCS Midstream Services' to better reflect the production nature of the business and the breadth of services offered. 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 Midstream 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 the United States and Peru.

Concord Well Servicing Division (Concord)

This division owns and operates 140 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 June 30		Six months ended June 30	
	2007	2006(1)	2007	2006(1)
Revenue	\$ 419,913	\$ 355,997	\$ 937,290	\$ 725,889
% change from prior period	18%	113%	29%	104%
EBITDA(2)	40,618	47,193	132,268	123,473
% change from prior period	(14%)	119%	7%	71%
Income before non-controlling interest	12,746	26,121	65,412	73,350
% change from prior period	(51%)	212%	(11%)	86%
Net income	9,735	21,880	50,498	57,066
% change from prior period	(56%)	255%	(12%)	95%
per unit - diluted	0.19	0.39	0.97	1.21
Funds from operations(2)	\$ 37,662	\$ 41,169	\$ 118,452	\$ 105,804
% change from prior period	(9%)	117%	12%	69%
per unit - diluted	0.55	0.62	1.75	1.74

(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.

The second quarter of the year is generally one of lower activity levels, when the ability to move heavy equipment in the Canadian oil and gas fields is dependent on weather conditions. Please refer to the 'Seasonality of Operations' section below. The second quarter of 2007 was impacted by an extended spring breakup period, unfavourable weather conditions and a continued lower level of capital spending by many of the oil and gas producers. These adverse weather and economic conditions negatively impacted the Trust's financial results, with the Concord division reporting its lowest second quarter utilization rate in five years, at 29 percent. Unfavourable conditions also impacted activity levels and operating costs in the Landfills Services business unit. The U.S. Midstream operations were negatively impacted by \$1.4 million in one-time costs associated with restructuring efforts in the Gulf Coast Waste Disposal business unit, and by the cancellation of its temporary discharge permit at the Shreveport facility.

On a more positive note, all divisions, except Concord, reported growth in revenue due to the ongoing growth of the Trust through acquisitions and capital projects completed throughout 2006.

CASH DISTRIBUTIONS

Monthly distributions declared per trust unit, for the three months ended June 30, 2007, were \$0.175 per unit, with total distributions paid of \$27.4 million (2006 - \$20.5 million). The following summary outlines the principal utilization of funds from operations for the three and six month periods ended June 30, 2007 and 2006:

(000s)	Three months ended		Six months ended	
	2007	June 30 2006	2007	June 30 2006
Funds from operations(1)	\$ 37,662	\$ 41,169	\$ 118,452	\$ 105,804
Required principal repayments of long-term debt	(295)	(1,355)	(1,176)	(2,009)
Maintenance capital expenditures(1)	(20,063)	(12,930)	(33,754)	(18,708)
Amortization of landfill and cavern capacity(2)	(2,052)	(1,716)	(5,231)	(4,897)
Cash available for distribution and growth capital expenditures(1) (b)	15,252	25,168	78,291	80,190
Cash retained for growth and capital expenditures	12,113	(2,449)	(23,585)	(41,245)
Cash distributions declared (a)	27,365	22,719	54,706	38,945
Accumulated cash distributions, beginning of period	260,467	159,064	233,126	142,838
Accumulated cash distributions, end of period	\$ 287,832	\$ 181,783	\$ 287,832	\$ 181,783
Payout ratio(1) (a)/(b)	179%	90%	70%	49%

- (1) Non-GAAP financial measures are identified and defined in this MD&A.  
(2) Based on the amortization expense in the consolidated statements of income and accumulated earnings, these are funds retained to replace utilized engineered landfill and cavern capacity.

The unfavourable weather and economic conditions mentioned above had a direct impact on funds from operations for the second quarter of the year. Despite these adverse conditions, the Trust continued with its 2007 capital budget for growth and maintenance expenditures and maintained monthly distributions at \$0.175 per unit. As a result, the payout ratio for the second quarter increased to 179 percent.

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:

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

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 June 30, 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 June 22, 2007, the federal government passed legislation 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. This legislation does not take effect until January 1, 2011 for trusts that commenced trading prior to November 2006, providing the Trust only experiences "normal growth" and no "undue expansion" before then. Implementation of this legislation is 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 due to the requirement of the Trust to pay a 32 percent tax on distributions paid.

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

Three months ended  
June 30

Six months ended  
June 30

(000s)	2007	2006	2007	2006
CCS Midstream Services	\$ 59,702	\$ 52,028	\$ 143,400	\$ 113,598
% change from prior period	15%	70%	26%	51%
Concord Well Servicing	24,184	36,907	103,121	77,689
% change from prior period	(34%)	227%	33%	91%
HAZCO	78,928	67,548	170,972	138,618
% change from prior period	17%	52%	23%	47%
CCS Energy Marketing	257,099	199,514	519,797	395,984
% change from prior period	29%	146%	31%	172%
Total	\$ 419,913	\$ 355,997	\$ 937,290	\$ 725,889
% change from prior period	18%	113%	29%	104%

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#### Midstream Services

The TRD and cavern business units reported a nine percent increase in revenue in the second quarter due to incremental revenue generated from new facilities and higher volumes received in the caverns business unit. Activity levels at the TRDs were impacted by unfavourable weather conditions and road bans that extended into mid-June. Cavern revenue increased by 62 percent over the second quarter of 2006 due to higher activity levels in these geographic areas.

The revenue reported on the sale of oil recovered from waste increased by two percent in the second quarter of 2007 over the same period in 2006, with the increase attributable to an 18 percent increase in the volume of oil recovered. On a year-to-date basis, revenue in this area declined by four percent over the prior year due to lower oil prices. The recovered oil revenue stream comprised approximately 11 percent (2006 - 14 percent) of total revenue reported for this division.

The U.S. Midstream operations reported a 46 percent increase in revenue over the same quarter in 2006 and a 32 percent increase over the first quarter of 2007. The acquisitions of Mobley Oilfield Services, LP ("Mobley") and Pride Oilfield Services, LLC ("Pride") in March and April, respectively, of this year resulted in a \$7.0 million increase to revenue for the second quarter. The Shreveport facility was impacted negatively late in the quarter from a ruling by the Louisiana Department of Environmental Quality ("LDEQ"), canceling the temporary discharge permit. CCS will resubmit its application for this permit by the end of July, with a decision from the LDEQ expected to take approximately six months. In the interim, the facility will utilize its permit with the Publicly Operated Treatment Works ("POTW") to continue accepting disposal volumes. For the remainder of 2007, this interim solution should not impact revenue for this facility. The Gulf Coast Waste Disposal business unit reported a slight increase in revenue over the first quarter of the year, attributable primarily to the revised pricing strategy implemented in March of 2007. On a year-to-date basis, revenue for this division totaled \$28.2 million compared to \$15.1 million for 2006.

#### Concord

Revenue for the second quarter of 2007 showed a significant decline over the same period in 2006. An early spring breakup lasted until mid-June, with wet weather conditions and reduced capital spending by many of the oil and gas

producers contributing to a 29 percent utilization rate for the second quarter. Utilization rates for the same period in 2006 were 55 percent. Year-to-date utilization of 51 percent is consistent with published industry results. On a year-over-year basis, the growth in revenue is primarily attributable to the acquisition of the Grizzly service rigs on May 1, 2006.

Rig hours worked for the second quarter of 2007 totalled 34,721 hours compared to 53,190 hours in the second quarter of 2006.

#### HAZCO

The HAZCO division reported a 17 percent quarter-over-quarter increase in revenue, due primarily to a 65 percent and 44 percent increase in the geotechnical drilling and HMI business units, respectively. Expansion capital incurred late in 2006 and the first quarter of 2007 contributed to the increased revenue generated by both of these business units. The Landfill Services business unit reported a 15 percent decline in quarter-over-quarter revenue due to the prolonged spring breakup and lower levels of drilling and remediation activity.

For the six months ended June 30, 2007, this division reported a 23 percent increase in year-over-year revenue. The growth in revenue results from the acquisition of HMI in the second quarter of 2006, increased capacity resulting from expansion capital and a continued strong economy in western Canada.

#### CCS Energy Marketing

The second quarter and year-to-date revenue increase in this division is attributable to an increase in the purchase and sale of third-party lease volumes.

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#### OPERATING MARGINS

(000s)	Three months ended		Six months ended	
	2007	June 30 2006(1)	2007	June 30 2006(1)
CCS Midstream Services	\$ 24,529	\$ 23,113	\$ 66,288	\$ 60,223
% of division revenue	41%	44%	46%	53%
Concord	733	10,374	29,056	27,602
% of division revenue	3%	28%	28%	36%
HAZCO	16,828	14,939	38,960	37,626
% of division revenue	21%	22%	23%	27%
CCS Energy Marketing	5,693	4,763	12,454	8,824
% of division revenue	2%	2%	2%	2%
Total	\$ 47,783	\$ 53,189	\$ 146,758	\$ 134,275
% of consolidated revenue	11%	15%	16%	18%

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

#### Midstream 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 Midstream 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);
  - Midstream Services (U.S.), including the Gulf Coast Waste Disposal business unit, ARKLA, Mobley, and Pride;
  - 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 two percent in the second quarter of 2007 over the same period in 2006. A well workover in the first quarter of 2007 carried over into the second quarter, with an additional \$0.9 million of expenses incurred. On a year-to-date basis, well workover expenses have negatively impacted operations by \$2.6 million.

The U.S. Midstream Services operations reported an operating margin of \$3.7 million for the second quarter of 2007, with earnings negatively impacted by a \$1.4 million, one-time charge to operating expense in the Gulf Coast Waste Disposal business unit. The \$1.4 million charge was directly related to the restructuring of operations and moving the Baton Rouge, Louisiana regional office to Houston, Texas. The Mobley and Pride acquisitions contributed \$3.3 million to operating margin in the quarter. Operating margin for the ARKLA business unit declined by 31 percent over the first quarter of the year, due primarily to the cancellation of the temporary discharge permit. The interim alternative of utilizing the POTW permit will result in higher monthly operating expenses of approximately \$0.2 million per month.

#### Concord

Operating margin in this division was impacted by low utilization rates for the quarter, as previously mentioned. With utilization rates at this level, the fixed costs of the business have a larger impact on operating margin and this is reflected in both the quarterly and year-to-date results. Repairs and maintenance expenditures for the quarter were focused on essential maintenance, with expenditures increasing in June as crews prepared the rigs for a return to higher activity levels.

#### HAZCO

On a quarter-over-quarter basis, HAZCO's operating margin was relatively unchanged at 21 percent of divisional revenue. The geotechnical drilling and HMI business units generated higher operating margins, as a percentage of revenue, due to high utilization rates, increased activity levels and capital expansion. The Landfill Services business unit reported a 39 percent decline in operating margin dollars over the second quarter of 2006. The reduced levels of activity for this business unit along with increased operating costs directly impacted operating margin for the quarter. Trucking costs related to the landfill business unit increased by \$0.6 million in the quarter in order to manage higher leachate volumes attributable to the wet weather conditions.

On a year-to-date basis, operating margin, as a percentage of revenue, declined to 23 percent due to the lower activity levels in the Landfill Services business unit.

#### 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.

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GENERAL AND ADMINISTRATIVE EXPENSES

(000s)	Three months ended		Six months ended	
	2007	June 30 2006(1)	2007	June 30 2006(1)
General and administrative expenses	\$ 7,165	\$ 5,996	\$ 14,490	\$ 10,802
% change from prior period	19%	65%	34%	75%

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

Overall, general and administrative expenses are higher in 2007, due primarily to the ongoing growth of the Trust. Expenses have increased in the following areas:

- Wages and benefits, due to higher staff levels along with incremental costs associated with the trust unit option plan;
- Information technology and communications; and
- General office costs.

Administrative costs directly related to the individual business segments are included in operating expenses for that division.

DEPRECIATION AND AMORTIZATION

(000s)	Three months ended		Six months ended	
	2007	June 30 2006	2007	June 30 2006
Depreciation	\$ 17,588	\$ 11,605	\$ 32,982	\$ 19,687
% change from prior period	52%	69%	68%	45%
Amortization of engineered landfills and caverns	2,052	1,716	5,231	4,897
% change from prior period	20%	130%	7%	68%
Amortization of intangibles	1,644	483	2,693	965
% change from prior period	240%	80%	179%	2%

The Trust's capital assets continue to increase through in-house capital expansion and acquisitions. Capital spending of \$194.1 million and the acquisition of 86 service rigs in 2006 has resulted in higher depreciation expense for the quarter and year-to-date, compared to the same periods in 2006.

The increased activity in the caverns business unit resulted in higher depletion charges for the second quarter and year-to-date. Depletion expense for Landfill Services is lower because of reduced activity levels, but is comparable to prior years due to additional depletion reported on new

landfills opened.

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 June 30, 2007, the Trust has not reported any impairment to intangible assets acquired.

#### INCOME TAXES

(000s)	Three months ended		Six months ended	
	2007	June 30 2006	2007	June 30 2006
Income before income taxes and non-controlling interest	\$ 13,096	\$ 30,431	\$ 78,461	\$ 92,150
Provision for income taxes	350	4,310	13,049	18,800
Effective tax rate	3%	14%	17%	20%

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.

On June 22, 2007, the federal government passed and enacted legislation eliminating the deduction of distributions from taxable income for certain publicly traded mutual fund trusts. This legislation does not take effect until January 1, 2011 for trusts that commenced trading prior to November 2006, providing the Trust only experiences "normal growth" and no "undue expansion" before then. This legislation also introduced a reduction in federal corporate tax rates by 0.5 percent starting in 2011. For the second quarter of 2007, the consolidated financial statements of the Trust reflect the impact of this legislation, resulting in a decrease of \$0.8 million in future income taxes. This adjustment is directly attributable to applying the 0.5 percent rate reduction to temporary differences which are expected to reverse in 2011 and beyond.

The second quarter income tax provision is directly related to the lower income reported to June 30, 2007. The provision for current income taxes in the second quarter of 2007 is a recovery of \$1.6 million (2006 - expense of \$4.2 million), with future income taxes totaling \$1.9 million (2006 - \$0.1 million).

#### FINANCING

(000s)	Three months ended		Six months ended	
	2007	June 30 2006	2007	June 30 2006
Interest expense	\$ 5,423	\$ 2,577	\$ 10,242	\$ 5,097
% change from prior period	110%	21%	101%	24%

Financing charges in 2007 reflect the interest expense associated with increased levels of debt. Long-term debt increased by \$143.7 million on a year-over-year basis to June 30, 2007. The average interest rate paid on long-term debt for the six month period in 2007 was 5.4 percent, essentially

unchanged from the same period in 2006. The Trust reduced its exposure to floating interest rates in December 2006 through the closing of its fixed-rate private placement debt financing. As at June 30, 2007, approximately eight percent of the Trust's debt outstanding was subject to floating-rate interest (2006 - 57 percent).

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 \$44.2 million in the first quarter of 2007;
- Capital spending of \$112.1 million in the first six months of 2007 (2006 - \$72.5 million); and
- A non-cash 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.

#### LIQUIDITY AND CAPITAL RESOURCES

(000s)	As at June 30 2007	As at Dec. 31 2006
-----		
Capital data		
Current portion of long-term debt	\$ 1,488	\$ 2,657
Long-term debt	355,346	359,001
Less: cash and cash equivalents	(6,192)	(54,399)
-----		
Net debt(1)	350,642	307,259
Unitholders' equity	611,829	621,854
Non-controlling interest	117,734	101,745
-----		
Total capitalization	\$ 1,080,205	\$ 1,030,858
Net debt to total capitalization	32%	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 June 30, 2007, the net debt to total capitalization ratio increased to 32 percent, due to the financing of the Mobley and Pride acquisitions 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 June 30, 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 June 30, 2007, the Trust had borrowed \$45.6 million on this facility. Outstanding letters of credit of \$43.8 million at June 30, 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 issued on 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.
- \$11.0 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 June 30, 2007, the amount outstanding on this facility was \$1.4 million. CCS will continue to utilize this facility if the cost to do so minimizes overall borrowing costs to the Trust.
- \$5.7 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.

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 June 30, 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 June 30, 2007, the Trust had \$18.9 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. This swap expired on July 1, 2007. 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 \$4.0 million remained outstanding at June 30, 2007. The fair value of this swap is recognized in the consolidated financial statements of the Trust.

#### UNITHOLDERS' EQUITY

(000s)	As at June 30 2007	As at Dec. 31 2006
Trust units	52,126	51,958
Exchangeable shares(1)	15,422	15,074
<b>Total</b>	<b>67,548</b>	<b>67,032</b>

(1) Converted at an exchange ratio of 2.75134:1 at June 30, 2007 (December 31, 2006 - 2.67427:1).

The increase in the number of trust units outstanding at June 30, 2007 is attributable to the issuance of units with respect to the Pride acquisition and the exercising of stock options.

#### CAPITAL EXPENDITURES

Three months ended

Six months ended

	2007	June 30 2006	2007	June 30 2006
Capital expenditures (1)	\$ 63,396	\$ 45,154	\$ 112,086	\$ 72,522
% change from prior period	40%	168%	55%	104%

(1) Excludes business acquisitions.

#### Midstream Services

The following projects contributed to this division's total capital expenditures of \$22.9 million in the second quarter of 2007:

- \$8.5 million for ongoing construction of the new Peace River TRD facility;
- \$4.7 million on disposal well additions and recompletions;
- \$3.1 million in new trucks and equipment for the Mobley business unit; and
- \$2.0 million for the installation of centrifuge equipment at existing TRD facilities.

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On a year-to-date basis, this division incurred \$42.0 million in expansion capital and \$1.7 million in maintenance capital expenditures.

#### Concord

Capital expenditures for the quarter totalled \$14.8 million, of which \$5.3 million related to the expansion of the Acheson rig refit facility; this facility was completed and opened in the second quarter. Maintenance capital expenditures of \$6.9 million incurred in the quarter related to the refitting of rigs and requisite upgrading of aging mobile equipment.

On a year-to-date basis, expansion capital for this division totaled \$14.6 million with maintenance capital expenditures totaling \$16.2 million.

#### HAZCO

In the second quarter of 2007, the HAZCO division purchased previously leased land and buildings in Edmonton, Alberta and Richmond, British Columbia for \$10.8 million. Expansion of the HMI facility in Red Deer, Alberta and the HAZCO head office facility in Calgary, Alberta contributed to expansion capital expenditures of \$8.6 million for the second quarter (excluding Landfill Services).

Capital spending by the Landfill Services business unit totalled \$4.8 million for the second quarter of 2007. Construction of the Janvier landfill is substantially complete and expected to be operational early in the third quarter of 2007. Capital spending also included expansion at the Fox Creek landfill and construction of a tank farm at the Marshall landfill.

On a year-to-date basis, this division incurred \$20.6 million in expansion capital and \$17.1 million in maintenance capital expenditures.

#### BUSINESS OUTLOOK

Drilling activity in the western Canadian sedimentary basin declined sharply in the second quarter of 2007, a result of seasonal weather conditions and road bans, lower projected natural gas prices and reduced capital spending programs by oil and gas producers. The lower level of drilling activity negatively impacted revenue streams in several of the Trust's business units in the second quarter. The Trust believes that the heavier exposure of its operations to the production side of the oil and gas industry will continue to insulate its performance, to some extent, from this reduced level of drilling

activity. However, a portion of our revenue in several areas, including waste processing, well servicing and engineered landfills results from drilling activities and, should lower levels of drilling activity continue, this will impact year-over-year growth for the balance of 2007.

While the Trust generally believes that drilling activity levels will improve in the second half of the year, the amount of such improvement will be dependent on producer capital spending plans and other factors outside the control of the Trust. The Trust plans to continue its previously announced growth capital spending plan for 2007, and now anticipates growth capital spending for calendar 2007 to aggregate approximately \$235.0 million. This represents a \$30.0 million increase over previously announced growth capital spending, with approximately \$16.0 million attributable to increased costs on previously announced projects.

#### Midstream Services

Second quarter results for 2007 continued to be impacted by a prolonged spring breakup and lower than anticipated drilling activity. Waste volumes related to production activity continue to increase, with drilling activity anticipated to recover late in the third quarter of the year. Construction of the TRD at Peace River, Alberta is expected to be completed late in the third quarter of the year, with expansion of the High Prairie TRD on schedule to be completed in the fourth quarter.

The U.S. Midstream Services division continues to restructure and integrate operations, with the recently acquired Mobley and Pride companies consolidating fleet operations under the Mobley name. The Baton Rouge regional office was relocated to Houston, and management was added in key areas to accommodate the growth of this division. The Gulf Coast Waste Disposal business unit was able to resolve its issue with the disposal of solids waste at third-party landfill facilities by making operational changes at one of its facilities and utilizing third-party cavern disposal options. These operational changes, along with the revised pricing strategy undertaken in the first quarter, are anticipated to make this business unit profitable for the remainder of the year. The Shreveport facility will be impacted by additional costs required to discharge its volume for the remainder of the year, with the total impact to operating margin estimated at \$1.5 million. Capital projects for the remainder of 2007 consist of ongoing permitting and development of the Weeks Island cavern and expansion of the Shreveport facility. The permitting process for Weeks Island continues, with a permit expected to be issued by the end of the first quarter in 2008, and the facility operational late in the third quarter of 2008.

#### Concord

The first half of 2007 was impacted by a variety of factors including lower industry activity levels, poor weather, and lower oil and gas pricing. This is reflected in Concord's year-to-date results with a lower than anticipated average utilization rate of 51 percent. The latest Canadian Association of Oilwell Drilling Contractors ("CAODC") forecast includes a 14 percent reduction in drilling activity from their preliminary forecast, and a 27 percent reduction from 2006 results. Drier weather conditions, coupled with improved oil prices should lead to improved utilization late in the third quarter of 2007.

#### 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.

The Landfill Services business unit will continue to be negatively impacted by the reduced levels of drilling activity. However, the outlook remains positive for remediation and reclamation projects scheduled for the

remainder of the year. Despite an anticipated increase in the receipt of volumes at the landfills during the second half of the year, it is not expected that the increased disposal activity from remediation projects will fully offset prior year revenue generated from drilling related waste disposal.

#### 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 Midstream 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 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 June 30, 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.

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Consolidated Interim Financial Statements  
 CCS Income Trust  
 June 30, 2007  
 (Unaudited)

#### CONSOLIDATED BALANCE SHEETS (UNAUDITED)

As at (000s)	June 30, 2007 \$	Dec. 31, 2006 \$
-----		
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	6,192	54,399
Accounts receivable	151,569	229,410
Inventory and other current assets	14,408	14,385
	-----	-----
	172,169	298,194
Property, plant and equipment (note 4)	975,178	890,916
Goodwill (note 4)	94,871	86,313
Intangible assets (note 4)	32,963	22,508
Deferred financing costs (note 2f)	-	5,196
Investments and other long-term assets	244	180
	-----	-----
	1,275,425	1,303,307
-----		
<b>LIABILITIES</b>		
Current liabilities		

Accounts payable and accrued liabilities	81,835	110,932
Income taxes payable (recoverable)	(5,202)	275
Distributions payable	9,122	9,093
Current portion of long-term debt	1,488	2,657
Current portion of long-term purchase obligations	1,288	1,168
Current portion of asset retirement obligations (note 5)	4,343	3,922
	92,874	128,047
Long-term debt	355,346	359,001
Long-term purchase obligations	5,425	5,000
Future income tax	58,728	51,887
Asset retirement obligations (note 5)	32,412	35,074
Other long-term liabilities	1,077	699
	452,988	451,661
Non-controlling interest (note 8)	117,734	101,745
UNITHOLDERS' EQUITY		
Unitholders' capital (note 6a)	523,712	522,114
Accumulated other comprehensive income (loss) (notes 2f and 11)	(8,163)	948
Contributed surplus (note 6c)	4,278	2,582
Accumulated earnings	92,002	96,210
Total unitholders' equity	611,829	621,854
Total liabilities and unitholders' equity	1,275,425	1,303,307

See accompanying notes

CONSOLIDATED STATEMENTS OF INCOME AND ACCUMULATED EARNINGS  
(UNAUDITED)

(000s except per unit amounts)	Three months ended June 30		Six months ended June 30	
	2007 \$	2006 \$	2007 \$	2006 \$
REVENUE				
CCS Midstream Services	59,702	52,028	143,400	113,598
Concord Well Servicing	24,184	36,907	103,121	77,689
HAZCO Environmental Services	78,928	67,548	170,972	138,618
CCS Energy Marketing	257,099	199,514	519,797	395,984
	419,913	355,997	937,290	725,889
Operating expenses (note 9)	371,355	302,366	789,615	590,784
Asset retirement accretion expense (note 5)	775	442	917	830
	372,130	302,808	790,532	591,614
Operating margin	47,783	53,189	146,758	134,275

EXPENSES

General and administrative (notes 7 and 9)	7,165	5,996	14,490	10,802
Financing	5,423	2,577	10,242	5,097
Depreciation and amortization	21,284	13,804	40,906	25,549
Gas delivery obligation valuation	(185)	(116)	1,182	96
Foreign exchange loss	1,008	341	1,170	414
Loss (gain) on sale of assets	(8)	156	307	167
	34,687	22,758	68,297	42,125
Income before income taxes and non-controlling interest	13,096	30,431	78,461	92,150
Income taxes				
Current	(1,554)	4,240	5,746	14,300
Future	1,904	70	7,303	4,500
	350	4,310	13,049	18,800
Income before non- controlling interest	12,746	26,121	65,412	73,350
Non-controlling interest (note 8)	(3,011)	(4,241)	(14,914)	(16,284)
Net income for the period	9,735	21,880	50,498	57,066
Accumulated earnings, beginning of period	109,632	81,104	96,210	62,144
Distributions (note 3)	(27,365)	(22,719)	(54,706)	(38,945)
Accumulated earnings, end of period	92,002	80,265	92,002	80,265
Net income per unit (note 6b)				
Basic	0.19	0.43	0.97	1.25
Diluted	0.19	0.39	0.97	1.21

See accompanying notes

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(UNAUDITED)

(000s)	Three months ended		Six months ended	
	June 30		June 30	
	2007	2006	2007	2006
	\$	\$	\$	\$
Net income for the period	9,735	21,880	50,498	57,066
Other comprehensive income (loss) (note 11)				
Gain (loss) on foreign currency translation of self-sustaining sub-				

sidiaries (net of tax)	(7,942)	(1,018)	(9,111)	(857)
-----				
Other comprehensive income (loss) for the period	(7,942)	(1,018)	(9,111)	(857)
-----				
Comprehensive income for the period	1,793	20,862	41,387	56,209
-----				
-----				

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(UNAUDITED)

(000s)	Three months ended June 30		Six months ended June 30	
	2007 \$	2006 \$	2007 \$	2006 \$
-----				
OPERATING ACTIVITIES				
Net income for the period	9,735	21,880	50,498	57,066
Add (deduct) non-cash items:				
Non-controlling interest	3,011	4,241	14,914	16,284
Unit-based compensation (notes 6c and 7a)	924	491	1,794	907
Depreciation and amortization	21,284	13,804	40,906	25,549
Asset retirement accretion expense	775	442	917	830
Gas delivery obligation valuation	(185)	(116)	1,182	96
Loss (gain) on sale of assets	(8)	156	307	167
Future income taxes	1,904	70	7,303	4,500
Other non-cash operating items	222	201	631	405
-----				
	37,662	41,169	118,452	105,804
Change in non-cash working capital	70,556	20,246	44,778	(22,130)
Asset retirement obligations fulfilled (note 5)	(92)	(3)	(377)	(198)
-----				
Cash provided by operating activities	108,126	61,412	162,853	83,476
-----				
FINANCING ACTIVITIES				
Issuance of long-term debt	(18,695)	10,575	1,847	57,452
Repayment of long-term debt	(295)	(1,355)	(1,176)	(2,009)
Deferred financing costs	-	-	-	(560)
Payments under purchase obligations	(317)	(270)	(637)	(668)
Exercise of trust unit options (notes 6a and c)	246	608	1,245	608
Trust unit issue (net of costs)	-	231,381	-	231,871
Distribution payments (note 3)	(27,357)	(20,480)	(54,676)	(36,062)

Cash (used in) provided by financing activities	(46,418)	220,459	(53,397)	250,632
<b>INVESTING ACTIVITIES</b>				
Purchase of property, plant and equipment	(63,396)	(45,154)	(112,086)	(72,522)
Proceeds on disposal of property, plant and equipment	1,018	1,964	2,117	2,303
Acquisitions (note 4)	(4,676)	(237,781)	(48,789)	(259,759)
Funding of retention bonus	-	161	-	161
Investments and other long-term assets	69	(2,166)	(64)	(1,962)
Change in non-cash working capital	(2,623)	(664)	1,159	(1,978)
Cash used in investing activities	(69,608)	(283,640)	(157,663)	(333,757)
Increase in cash and cash equivalents	(7,900)	(1,769)	(48,207)	351
Cash and cash equivalents, beginning of period	14,092	5,746	54,399	3,626
Cash and cash equivalents, end of period	6,192	3,977	6,192	3,977
<b>Supplementary cash flow information:</b>				
Cash taxes paid	4,210	6,812	11,224	35,370
Cash interest paid	2,591	2,405	4,404	4,619

See accompanying notes  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)**

June 30, 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 and statements of income and accumulated earnings.

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, except for note 2f. 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.

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 on January 1, 2007. 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, net of tax, 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 six month period ended June 30, 2007, the Trust paid distributions to unitholders in the amount of \$54,676 (2006 - \$36,062) and declared distributions of \$54,706 (2006 - \$38,945) 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

April 1, 2007 to April 30, 2007	04/30/07	05/15/07	0.175
May 1, 2007 to May 31, 2007	05/31/07	06/15/07	0.175
June 1, 2007 to June 30, 2007	06/29/07	07/16/07	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 \$44,212. Mobley is an integrated oilfield services company providing trucking and 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.

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 \$5,578, consisting of \$4,577 in cash and \$1,001 in trust units. Trust units issued are held in escrow, to be released in equal amounts over the next five years, beginning April 2008.

The purchase price for these transactions has been allocated, on a preliminary basis, as follows:

	Mobley	Pride	Total
	\$	\$	\$
Net assets acquired:			
Working capital	3,135	-	3,135
Property, plant and equipment	20,637	1,441	22,078
Goodwill	8,808	978	9,786
Intangibles	11,632	3,055	14,687
Future income tax	-	104	104
	44,212	5,578	49,790

#### Consideration paid:

Cash	43,910	4,513	48,423
Trust units	-	1,001	1,001
Transaction costs	302	64	366
	44,212	5,578	49,790

#### 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 \$86,624 (2006 - \$60,760) using an annual inflation rate of two percent (2006 - three percent). The fair value at June 30, 2007 was \$36,755 (2006 - \$22,781) using a discount rate of 5.8 percent (2006 - eight percent).

For the six months ended June 30, 2007 and 2006, the Trust recorded the following activity related to the liability:

Three months ended	Six months ended
--------------------	------------------

	June 30		June 30	
	2007	2006	2007	2006
	\$	\$	\$	\$
Asset retirement obligations, beginning of period	36,191	20,994	38,996	20,326
New obligations and revised estimates	(119)	1,348	(2,781)	1,823
Obligations fulfilled	(92)	(3)	(377)	(198)
Accretion expense	775	442	917	830
Asset retirement obligations, end of period	36,755	22,781	36,755	22,781
Less: current portion	4,343	2,720	4,343	2,720
Long-term portion	32,412	20,061	32,412	20,061

## 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	83
Issued upon exercise of employee trust unit options	51,894	1,344
Issued upon acquisitions (net of costs)	31,832	999
Adjustment for exchangeable share conversions and trust unit dilution	-	(1,158)
Units vested on retention bonus (note 7b)	-	330
June 30, 2007	52,126,159	523,712

### b) Weighted average trust units

As at June 30, 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	52,080,500	45,762,373
Trust units issuable on conversion of exchangeable shares	15,422,466	14,752,772
Dilutive options	194,994	182,709
Dilutive trust units and exchangeable shares	67,697,960	60,697,854

### c) Contributed surplus

The balance as at June 30, 2007 and 2006, is comprised of the following:

	2007 \$	2006 \$
Balance, beginning of period	2,582	605
Unit-based compensation expense	1,794	907
Transferred to unitholders' capital on exercise of options	(98)	(27)
Balance, end of period	4,278	1,485

## 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 June 30, 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 ten 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 June 30, 2007 totaled 67,548,625.

Option transactions for the period are as follows:

Six months ended June 30	Units	2007		2006	
		Weighted average exercise price \$	Units	Weighted average exercise price \$	Units
Options outstanding, beginning of period	1,647,891	31.32	769,500	24.14	36.19
Granted	1,198,500	36.46	908,500	22.04	28.31
Exercised	(51,894)	23.99	(27,579)		
Forfeited	(155,920)	33.24	(85,360)		
Options outstanding, end of period	2,638,577	33.69	1,565,061	30.94	

Options outstanding

Options exercisable

Range of prices	Outstanding at June 30, 2007	Weighted average remaining con- tractual life (years)	Weighted average exercise price (\$)	Options exercis- able at June 30, 2007	Weighted average exercise price (\$)
\$22.04 - \$27.00	359,660	2.5	22.04	161,034	22.04
\$27.01 - \$32.00	226,792	2.9	27.94	87,962	27.66
\$32.01 - \$37.00	2,027,625	4.1	36.35	210,000	36.18
\$37.01 - \$38.15	24,500	4.1	37.78	1,125	38.15
<b>Total</b>	<b>2,638,577</b>	<b>3.8</b>	<b>33.69</b>	<b>460,121</b>	<b>29.60</b>

The estimated weighted average fair value of trust unit options granted to date is \$5.58 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 June 30	Weighted average assumptions
Dividend yield	5.75%
Discount for forfeiture	3.00%
Risk-free interest rate	4.03%
Expected life of options	4.0 years
Expected volatility factor of the future expected market price of trust units	27.60%

The Trust recorded compensation expense, included as part of general and administrative expense, of \$1,794 (2006 - \$907) with an offsetting increase to contributed surplus in respect of the options granted as of June 30, 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 six months ended June 30, 2007, \$165 (2006 - \$165) 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 June 30	2007 \$	2006 \$
Balance, beginning of period	(660)	(1,231)
Vesting on January 1	330	410
Proceeds on sale	-	161
<b>Balance, end of period</b>	<b>(330)</b>	<b>(660)</b>

## 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 June 30	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	14,914	16,284
Adjustment for trust unit dilution of NCI interest (note 6a)	1,158	(4,528)
Redeemed upon conversion to trust units (note 6a)	(83)	(6)
Balance, end of period	117,734	81,332

### 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 June 30, 2007 was 2.75134 (June 30, 2006 - 2.60289).

As at June 30	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)	(83)	(2,300)	(6)
Balance, end of period	5,605,438	14,784	5,667,843	14,949
Exchange ratio, end of period	2.75134	-	2.60289	-

Trust units issuable upon conversion	15,422,466	14,784	14,752,772	14,949
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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. To March 1, 2007, the Trust incurred management fee expense, operating costs and costs for contract air services with Corpac totaling \$117 (2006 - \$194).

b) Other

On April 30, 2007, the Trust acquired approximately 19 acres of land in Edmonton, Alberta and nine acres in Richmond, B.C by acquiring the shares of 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. To the date of purchase, lease fees totaled \$155 (2006 - \$219).

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

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:

	June 30, 2007		December 31, 2006	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Loans and receivables				
Accounts receivable(1)	151,569	151,569	229,410	229,410
Available-for-sale				
Investments and other long-term assets	244	244	180	180

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Other financial  
liabilities(1)  
-----

Accounts payable and accrued liabilities	81,835	81,835	110,932	110,932
Income taxes payable	(5,202)	(5,202)	275	275
Distributions payable	9,122	9,122	9,093	9,093
Long-term debt(2) (3)	356,834	356,834	356,462	356,462
Other long-term liabilities	1,077	1,077	699	699

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Held-for-trading (assets  
and liabilities)  
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Crude oil inventory	3,586	3,586	2,819	2,819
Purchase obligations	6,713	6,713	6,168	6,168

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- (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 June 30, 2007, the fair value of these derivatives was \$46, 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. For the six months ended June 30, 2007, a loss of \$1,182 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 June 30, 2007, approximately eight 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.

	Three months ended		Six months ended	
	June 30		June 30	
	2007	2006	2007	2006
	\$	\$	\$	\$
Balance, beginning of period	(221)	161	948	-
Unrealized gain (loss) on translation of self-sustaining subsidiaries	(8,077)	(1,018)	(9,246)	(857)
Tax effect of unrealized gain (loss) on translation of self-sustaining subsidiaries	135	-	135	-
Balance, end of period	(8,163)	(857)	(8,163)	(857)

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 Midstream Services ("Midstream Services"); Concord Well Servicing ("Concord"); HAZCO Environmental Services ("HAZCO"); and CCS Energy Marketing ("CEM").

- The Midstream 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 the U.S. and Peru.
- CEM extracts additional value and operating margin on waste and recovered oil volumes from the Midstream 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. General and 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 and six months ended June 30, 2007 and 2006:

For the six months ended June 30, 2007	Midstream Services \$	Concord \$	HAZCO \$	CEM \$	Con- solidated \$
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Revenue prior to inter-segment eliminations	145,986	103,763	172,451	535,353	957,553
Inter-segment eliminations	(2,586)	(642)	(1,479)	(15,556)	(20,263)
Net revenue	143,400	103,121	170,972	519,797	937,290
Operating expenses prior to inter-segment eliminations	78,573	74,070	134,512	522,917	810,072
Inter-segment eliminations	(1,461)	(5)	(2,500)	(15,574)	(19,540)
Net expenses	77,112	74,065	132,012	507,343	790,532
Operating margin	66,288	29,056	38,960	12,454	146,758
Gas delivery obligation valuation	1,182	-	-	-	1,182
Loss (gain) on sale of assets	18	213	35	41	307
Depreciation and amortization	14,741	11,931	13,492	22	40,186
Income before corporate items	50,347	16,912	25,433	12,391	105,083
General and administrative					14,490
Financing					10,242
Depreciation and amortization					720
Foreign exchange loss					1,170
Income taxes					13,049
Income before non-controlling interest					65,412
Non-controlling interest					(14,914)
Net income for the period					50,498
Total assets	530,430	425,869	309,412	9,714	1,275,425
Goodwill	28,261	9,286	57,324	-	94,871
Capital expenditures	42,695	30,746	37,716	929	112,086

Operations related to Canada and foreign countries are as follows:

For the six months ended June 30, 2007	Canada \$	Inter- national \$	Total \$
Revenue	903,234	34,056	937,290

Capital assets and goodwill		991,293	78,756	1,070,049	
Total assets		1,218,348	57,077	1,275,425	
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For the six months ended June 30, 2006	Midstream Services	Concord	HAZCO	CEM	Consolidated
	\$	\$	\$	\$	\$
-----					
Revenue prior to inter-segment eliminations	114,119	77,756	139,607	412,297	743,779
Inter-segment eliminations	(521)	(67)	(989)	(16,313)	(17,890)
-----					
Net revenue	113,598	77,689	138,618	395,984	725,889
Operating expenses prior to inter-segment eliminations	53,896	50,087	101,981	403,473	609,437
Inter-segment eliminations	(521)	-	(989)	(16,313)	(17,823)
-----					
Net expenses	53,375	50,087	100,992	387,160	591,614
-----					
Operating margin	60,223	27,602	37,626	8,824	134,275
Gas delivery obligation valuation	96	-	-	-	96
Loss (gain) on sale of assets	(78)	(3)	248	-	167
Depreciation and amortization	8,968	5,086	10,938	33	25,025
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Income before corporate items	51,237	22,519	26,440	8,791	108,987
-----					
General and administrative					10,802
Financing					5,097
Depreciation and amortization					524
Foreign exchange loss					414
Income taxes					18,800
-----					
Income before non-controlling interest					73,350
Non-controlling interest					(16,284)
-----					
Net income for the period					57,066
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Total assets	388,282	411,949	242,669	7,443	1,050,343
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Goodwill	15,095	10,671	54,756	-	80,522
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Capital expenditures	35,699	18,243	16,948	1,632	72,522

Operations related to Canada and foreign countries are as follows:

For the six months ended June 30, 2006	Canada \$	Inter- national \$	Total \$
Revenue	709,527	16,362	725,889
Capital assets and goodwill	834,117	26,051	860,168
Total assets	1,012,172	38,171	1,050,343

For the three months ended June 30, 2007	Midstream Services \$	Concord \$	HAZCO \$	CEM \$	Con- solidated \$
Revenue prior to inter-segment eliminations	61,631	24,240	79,458	264,868	430,197
Inter-segment eliminations	(1,929)	(56)	(530)	(7,769)	(10,284)
Net revenue	59,702	24,184	78,928	257,099	419,913
Operating expenses prior to inter- segment elimin- ations	35,683	23,453	63,959	259,183	382,278
Inter-segment eliminations	(510)	(2)	(1,859)	(7,777)	(10,148)
Net expenses	35,173	23,451	62,100	251,406	372,130
Operating margin	24,529	733	16,828	5,693	47,783
Gas delivery obligation valuation	(185)	-	-	-	(185)
Loss (gain) on sale of assets	18	31	(57)	-	(8)
Depreciation and amortization	8,410	6,098	6,403	11	20,922
Income before corporate items	16,286	(5,396)	10,482	5,682	27,054
General and administrative					7,165
Financing					5,423
Depreciation and amortization					362
Foreign exchange loss					1,008
Income taxes					350
Income before non- controlling interest					12,746
Non-controlling interest					(3,011)

Net income for the period					9,735
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Total assets	530,430	425,869	309,412	9,714	1,275,425
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Goodwill	28,261	9,286	57,324	-	94,871
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Capital expenditures	22,846	14,831	25,719	-	63,396
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Operations related to Canada and foreign countries are as follows:

For the three months ended June 30, 2007	Canada \$	Inter- national \$	Total \$
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Revenue	401,222	18,691	419,913
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Capital assets and goodwill	991,293	78,756	1,070,049
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Total assets	1,218,348	57,077	1,275,425
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For the three months ended June 30, 2006	Midstream Services \$	Concord \$	HAZCO \$	CEM \$	Con- solidated \$
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Revenue prior to inter-segment eliminations	52,386	36,974	68,302	207,250	364,912
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Inter-segment eliminations	(358)	(67)	(754)	(7,736)	(8,915)
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Net revenue	52,028	36,907	67,548	199,514	355,997
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Operating expenses prior to inter-segment eliminations	29,273	26,533	53,363	202,487	311,656
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Inter-segment eliminations	(358)	-	(754)	(7,736)	(8,848)
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Net expenses	28,915	26,533	52,609	194,751	302,808
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Operating margin	23,113	10,374	14,939	4,763	53,189
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Gas delivery obligation valuation	(116)	-	-	-	(116)
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Loss (gain) on sale of assets	(77)	(61)	294	-	156
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Depreciation and amortization	4,608	3,575	5,347	16	13,546
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Income before corporate items	18,698	6,860	9,298	4,747	39,603
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General and administrative					5,996
Financing					2,577

Depreciation and amortization					258
Foreign exchange loss					341
Income taxes					4,310
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Income before non-controlling interest					26,121
Non-controlling interest					(4,241)
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Net income for the period					21,880
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Total assets	388,282	411,949	242,669	7,443	1,050,343
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Goodwill	15,095	10,671	54,756	-	80,522
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Capital expenditures	22,078	11,033	11,979	64	45,154
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Operations related to Canada and foreign countries are as follows:

For the three months ended June 30, 2006	Canada \$	Inter- national \$	Total \$
Revenue	344,316	11,681	355,997
Capital assets and goodwill	834,117	26,051	860,168
Total assets	1,012,172	38,171	1,050,343

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#### 14. SUBSEQUENT EVENTS

On June 29, 2007, the Trust entered a definitive agreement for a going private transaction with an investor group led by Mr. David Werklund, the President and CEO of CCS, and which includes CAI Capital Partners, Goldman Sachs Capital Partners, Kelso & Company, Vestar Capital Partners, British Columbia Investment Management Corporation and O.S.S. Capital Management L.P.

Subject to unitholder and regulatory approvals, the investor group, through a series of transactions, will acquire all the assets of the Trust and each securityholder of the Trust will receive \$46.00 per trust unit or the equivalent amount per exchangeable share, based on the applicable exchange ratio (other than Mr. Werklund, who has agreed to accept \$45.50 for each trust unit sold by him). The transaction has been approved unanimously by the Board of Directors of the Trust (with interested and non-independent directors abstaining), following receipt of the unanimous recommendation of an Independent Committee of directors of CCS Inc.

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CORPORATE INFORMATION

EXECUTIVE MANAGEMENT

CCS INCOME TRUST  
Corporate Office  
Watermark Tower

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 Midstream  
Services Division

JIM McMAHON  
Vice President, Business  
Development

MARSHALL L. McRAE, CA  
Chief Financial Officer

BLAINE G. MELNYK  
General Counsel and Corporate  
Secretary

DOUGLAS B. OLSON, CA  
Vice President, Finance

GORDON N. VIVIAN  
President, Concord Well  
Servicing Division

RICK M. WISE, P.Eng.  
Vice President, Engineering,  
Regulatory and Midstream  
Development

DIANE YUILL, CA  
Corporate Controller  
>>

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(CCR.UN.)

CO: CCS Income Trust

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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

AUDITORS  
Ernst & Young LLP  
Calgary, Alberta

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