



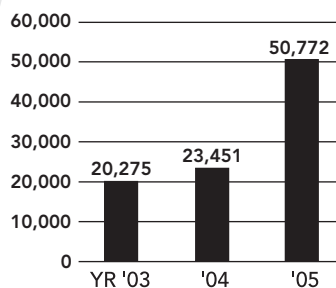
INTERIM REPORT

# Q3

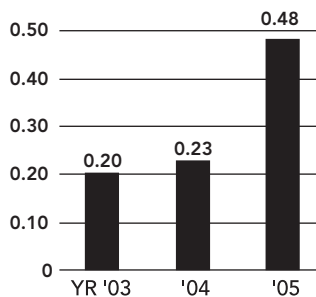
## Interim Report

Three and nine months ended  
September 30, 2005

Q3 – EBITDA  
(\$'000s)



Q3 – NET INCOME PER UNIT  
(diluted)  
(\$)



### THIRD QUARTER RESULTS AND HIGHLIGHTS

- The Trust announced an increase in monthly distributions from \$0.11 to \$0.12 per unit for unitholders of record on November 30, 2005.
- CCS' record setting growth pace continued with third quarter net income increasing by 129% over last year.
- The Energy Services division posted revenue of \$51.8 million in the third quarter, a 34% increase over the same period in 2004.
- Concord Well Servicing recorded a 75% rig utilization rate for the quarter, and a 67% increase in operating margin over the same period in 2004.
- The HAZCO division undertook its single largest site remediation project, contributing to record quarterly revenue for the division of \$80 million.
- CCS received regulatory approval for a new TRD at Spirit River, Alberta, and construction commenced during the quarter.
- The Trust acquired the operating assets of HiAlta Energy Services for \$7.0 million on November 1, 2005. This acquisition will expand Concord's current service offering to include oilfield rental equipment.
- CCS' payout ratio of 48% for the nine months ended September 30, 2005 is 35% lower compared to the same period in 2004. CCS continues to reinvest a significant amount of its cash flow in growth opportunities.

(UNAUDITED)	Three months ended Sept. 30			Nine months ended Sept. 30			
	(000s except per unit amounts)	2005	2004 <sup>3</sup>	% Chg	2005	2004 <sup>3</sup>	% Chg
Revenue		257,193	54,738	370%	613,148	166,242	269%
EBITDA <sup>1</sup>		50,772	23,451	117%	123,733	70,641	75%
Income before non-controlling interest		27,722	12,367	124%	67,142	38,250	76%
Net income per unit – diluted		0.48	0.23	109%	1.18	0.71	66%
Funds from operations <sup>1</sup> per unit – diluted		0.74	0.41	80%	1.84	1.25	47%
Capital expenditures		27,899	21,303	31%	63,501	42,385	50%
Weighted average units		42,173	39,623		42,173	39,623	
Exchangeable Shares <sup>2</sup>		14,589	14,310		14,589	14,310	
Weighted average trust units – diluted		56,762	53,933		56,762	53,933	

<sup>1</sup> Non-GAAP financial measures are identified and defined in the attached Management's Discussion and Analysis.

<sup>2</sup> Assuming all Exchangeable Shares at September 30, 2005 converted at the period end exchange ratio of 2.52144 (2004 – 2.40682).

<sup>3</sup> Certain comparative figures for 2004 have been restated due to the retroactive restatement of the two-for-one trust unit split which took effect on February 28, 2005, and to retroactively restate for the change in accounting policy to account for Exchangeable Shares as non-controlling interest, as described in Notes 6 and 8, respectively, of the consolidated financial statements.

# MANAGEMENT'S DISCUSSION AND ANALYSIS

November 1, 2005

The Management's Discussion and Analysis 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 Management's Discussion and Analysis included in the CCS Income Trust 2004 Annual Report.

## CCS INCOME TRUST – Quarterly Data

(UNAUDITED)	2005			2004				2003			
	Q3	Q2	Q1	Q4	restated Q3	restated Q2	restated Q1	restated Q4	restated Q3	restated Q2	restated Q1
<b>REVENUE</b>	<b>257,193</b>	<b>167,528</b>	<b>188,427</b>	134,334	54,738	41,155	70,349	58,638	47,255	26,823	47,428
<b>EXPENSES</b>											
Operating	<b>202,977</b>	<b>142,048</b>	<b>134,936</b>	87,975	28,637	24,059	35,840	32,136	25,461	16,682	22,914
General and administrative	<b>3,832</b>	<b>3,928</b>	<b>2,859</b>	4,113	3,012	2,717	2,422	2,177	2,020	2,129	2,681
Depreciation and amortization	<b>10,319</b>	<b>7,900</b>	<b>9,560</b>	8,916	5,664	6,208	8,801	11,389	6,766	4,547	5,192
Interest on debt	<b>2,127</b>	<b>2,136</b>	<b>1,978</b>	1,393	1,197	855	1,109	1,359	1,620	855	632
Income before non-controlling interest	<b>27,722</b>	<b>8,382</b>	<b>31,038</b>	25,489	12,367	6,153	19,730	10,622	9,534	4,149	13,440
Net income per unit – diluted	<b>20,665</b>	<b>6,166</b>	<b>23,123</b>	19,308	9,012	4,482	14,620	8,576	6,764	2,912	9,717
	<b>0.48</b>	<b>0.15</b>	<b>0.55</b>	0.47	0.23	0.11	0.37	0.20	0.20	0.08	0.29
Funds from operations <sup>1</sup> per unit – diluted	<b>41,888</b>	<b>18,993</b>	<b>43,704</b>	40,886	22,131	13,910	31,032	23,074	18,527	7,843	20,867
	<b>0.74</b>	<b>0.33</b>	<b>0.77</b>	0.75	0.41	0.26	0.58	0.45	0.38	0.17	0.44
Capital expenditures	<b>27,899</b>	<b>16,869</b>	<b>18,733</b>	27,783	21,303	12,404	8,678	23,738	46,008	31,207	21,158
Long-term debt	<b>154,507</b>	<b>117,209</b>	<b>132,222</b>	136,503	57,426	48,647	52,868	52,088	94,746	55,000	36,250
Non-controlling interest	<b>63,552</b>	<b>56,622</b>	<b>54,406</b>	46,669	40,629	37,286	35,617	30,727	28,681	25,916	24,687
Unitholders' equity	<b>241,086</b>	<b>230,278</b>	<b>238,043</b>	226,834	182,464	183,849	189,672	184,743	123,946	124,359	129,080
Distributions per unit	<b>0.32</b>	<b>0.31</b>	<b>0.29</b>	0.27	0.26	0.26	0.25	0.24	0.23	0.23	0.21

<sup>1</sup> Non-GAAP financial measures are identified and defined in the Management's Discussion and Analysis.

Certain comparative figures for 2004 and 2003 have been retroactively restated to incorporate the February 28, 2005 two-for-one trust unit split, and the retroactive application of the change in accounting policy to account for exchangeable securities as non-controlling interest, as described in Notes 6 and 8, respectively, to the consolidated financial statements for the periods ended September 30, 2005 and 2004.

Certain comparative figures for 2003 have been reclassified to conform to the presentation adopted in 2004 and restated due to a retroactive change in accounting policy for asset retirement obligations.

This Management's Discussion and Analysis 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," "intends," and 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 Management's Discussion and Analysis 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" is determined from the consolidated statements of income and accumulated earnings and is defined as operating margin before asset retirement obligations, less general and administrative expenses.
- "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.
- "Growth capital expenditures" include amounts incurred to add new facilities or services, and to replace utilized capacity and expand CCS' 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, less required principal repayments of term credit facilities, maintenance capital expenditures and amortization of capacity which is cash designated for the replacement of engineered landfill and cavern capacity.
- "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.

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

#### **CCS Energy Services Division (Energy Services)**

This division owns and operates treatment, recovery and

disposal (TRD), cavern and engineered landfill facilities throughout western Canada. Services are provided in the following areas:

- emulsion treatment;
- water disposal;
- waste processing;
- drilling mud disposal;
- tank/truck washing;
- crude oil terminalling;
- cavern disposal; and
- engineered landfill disposal.

#### **CCS Energy Marketing Division (CEM)**

Responding to the opportunity to maximize the return on marketing of recovered crude oil, CCS initiated its in-house Energy Marketing division in October 2004. CCS Energy Marketing (CEM) extracts additional value and operating margin on waste and recovered oil volumes from the Energy Services facilities. The CEM 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;
- 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 landfills, bioremediation facilities and hazardous waste transfer stations across western Canada. HAZCO provides services primarily throughout Canada, with select services provided in Peru and the United States.

#### **Concord Well Servicing Division (Concord)**

This division owns and operates 53 service rigs, forming one of the most modern fleets in the Canadian oil and natural gas service sector. Established in 1979, Concord provides a variety of contract services from its six strategically located offices in western Canada.

## DISCUSSION OF FINANCIAL RESULTS

The reference to “% change” in the tables below represents the period-over-period change in the financial statement component under review. Unit and per unit amounts reported have been retroactively restated to incorporate the effect of the two-for-one trust unit split which took place at the close of business on February 28, 2005.

### EBITDA, NET INCOME AND FUNDS FROM OPERATIONS

<i>(000s except per unit amounts)</i>	Three months ended Sept. 30		Nine months ended Sept. 30	
	2005	2004	2005	2004
EBITDA <sup>1</sup>	\$ 50,772	\$ 23,451	\$ 123,733	\$ 70,641
% change from prior year	117%	16%	75%	39%
Income before non-controlling interest	27,722	12,367	67,142	38,250
% change from prior year	124%	30%	76%	41%
Net income	20,665	9,012	49,954	28,114
% change from prior year	129%	33%	78%	45%
per unit – diluted	0.48	0.23	1.18	0.71
% change from prior year	109%	15%	66%	25%
Funds from operations <sup>1</sup>	41,888	22,131	104,585	67,073
% change from prior year	89%	19%	56%	42%
per unit – diluted	0.74	0.41	1.84	1.25
% change from prior year	80%	8%	47%	26%

<sup>1</sup> Non-GAAP financial measures are identified and defined in the Management's Discussion and Analysis.

EBITDA for the third quarter and nine months ended September 30, 2005 continued to increase over 2004 due in part to the addition of the HAZCO and Energy Marketing divisions in late 2004; which contributed a total of \$14.4 million to operating margins for the quarter and \$25.2 million year-to-date. The Energy Services division's third quarter operating margin increased by \$10.8 million over the same period in 2004 due to higher commodity prices, increased TRD volumes, and incremental earnings generated from facilities constructed in 2004.

Net income for the third quarter and nine months ended September 30, 2005 increased by \$11.7 million and \$21.8 million, respectively, over the same periods in 2004. The increase was due in large part to the operating margins earned in the HAZCO and CEM divisions, which were not reflected in the 2004 results. Factors offsetting the increase in operating margin for the quarter and on a year-to-date basis include increased depreciation and amortization charges as a result of the HAZCO acquisition, and a year-to-date \$13.3 million increase in the provision for current income taxes. The increased tax provision is attributable to the ongoing growth and earnings of the Trust.

As a result of the Trust's strong year-over-year operating performance, funds from operations for the third quarter and nine months ended September 30, 2005 increased by \$19.8 million and \$37.5 million, respectively, over the same periods in 2004.

### CASH DISTRIBUTIONS

Distributions declared for the third quarter of 2005 totaled \$13.7 million, representing a 32 percent increase over the same period in 2004.

The following summary outlines the principal utilization of funds from operations for the three and nine month periods ended September 30, 2005 and 2004:

### CCS CASH DISTRIBUTIONS

(000s)	Three months ended Sept. 30		Nine months ended Sept. 30	
	2005	2004 <sup>1</sup>	2005	2004 <sup>1</sup>
Funds from operations <sup>2</sup>	\$ 41,888	\$ 22,131	\$ 104,585	\$ 67,073
Required principal repayments of long-term debt	(1,088)	(4,221)	(2,880)	(11,192)
Maintenance capital expenditures <sup>2</sup>	(5,703)	(2,656)	(14,853)	(7,822)
Amortization of landfill and cavern capacity <sup>3</sup>	(2,278)	(700)	(5,186)	(6,107)
Cash available for distribution and growth capital expenditures <sup>2</sup> (b)	32,819	14,554	81,666	41,952
Cash retained for growth and capital expenditures	(19,078)	(4,145)	(42,882)	(11,333)
Cash distributions declared (a)	13,741	10,409	38,784	30,619
Accumulated cash distributions, beginning	114,230	67,742	89,187	47,532
Accumulated cash distributions, ending	127,971	78,151	127,971	78,151
Payout ratio <sup>2</sup> (a)/(b)	41.9%	71.5%	47.5%	73.0%

1 Comparative figures for 2004 have been restated to incorporate the inclusion of 'amortization of landfill and cavern capacity' into the CCS Cash Distribution schedule and calculations.

2 Non-GAAP financial measures are identified and defined in the Management's Discussion and Analysis.

3 Based on amortization expense in the consolidated statements of income and accumulated earnings, this is cash retained to replace utilized landfill capacity.

### REVENUES

(000s)	Three months ended Sept. 30		Nine months ended Sept. 30	
	2005	2004	2005	2004
CCS Energy Services	\$ 51,803	\$ 38,621	\$ 141,328	\$ 112,169
% change	34%	30%	26%	40%
Concord Well Servicing	21,439	16,117	62,200	54,073
% change	33%	(9)%	15%	31%
HAZCO	80,814	–	160,776	–
% change	100%	–	100%	–
CCS Energy Marketing	103,137	–	248,844	–
% change	100%	–	100%	–
Total	257,193	54,738	613,148	166,242
% change	370%	16%	269%	37%

#### Energy Services

The growth in revenues in this division for the quarter and year-to-date are a result of sustained, higher activity levels at the TRD facilities and incremental revenue generated from facilities constructed in 2004. Sustained high oil prices and increased demand for services in this area contributed to the higher revenues. The revenue reported on the sale of oil recovered from waste increased by 89 percent for the third quarter of 2005 over the same period in 2004, due to higher commodity prices and volumes sold. On a year-to-date basis, recovered oil sales comprised 14 percent of total revenues earned by this division compared to ten percent in 2004.

### Concord

The Concord Well Servicing division's increased revenues are attributable to an overall increase in rig hours and to price increases implemented in the fourth quarter of 2004. Concord's third quarter rig operating hours increased by 19 percent to 35,137 hours (2004 – 29,473 hours) and year-to-date rig operating hours increased by four percent to 93,627 hours (2004 – 90,224 hours).

### HAZCO

Revenues in this division are affected by seasonality with the second half of the year typically yielding higher revenues and earnings. Revenues for the third quarter of 2005 include the largest site remediation project in the division's history. The project was started and substantially completed within the third quarter. This project highlights the potential volatility of the division's operating results, with major unplanned projects capable of significantly impacting revenue and operating income during a reporting period.

### CCS Energy Marketing

Continued high commodity prices and increased volumes of oil purchased and marketed by the division contributed to the increase of \$22.0 million in the division's revenue over the second quarter of 2005. The division began marketing oil from one additional CCS facility during the quarter, contributing to increased monthly sales volumes.

## OPERATING MARGINS AND EXPENSES

(000s)	Three months ended Sept. 30		Nine months ended Sept. 30	
	2005	2004	2005	2004
CCS Energy Services	\$ 32,645	\$ 21,823	\$ 88,922	\$ 62,924
% of division revenue	63%	57%	63%	56%
Concord	7,145	4,278	19,070	14,782
% of division revenue	33%	27%	31%	27%
HAZCO	12,597	–	20,335	–
% of division revenue	16%	–	13%	–
CCS Energy Marketing	1,829	–	4,860	–
% of division revenue	2%	–	2%	–
Total	54,216	26,101	133,187	77,706
% of consolidated revenue	21%	48%	22%	47%

### Energy Services

The Energy Services division continued to report increased operating margins for the quarter and on a year-to-date basis. The TRD facilities, which derive a higher margin from activities in the treating and disposal service sector, were the primary contributor to this improvement. Higher recovered oil sales also contributed to the increased operating margin.

### Concord

Concord's operating margin increase of six percent on a quarter-over-quarter basis is a result of higher utilization rates attributable to the seasonal impact on the business. For the nine month period ended September 30, 2005, the division reported a year-over-year improvement in operating margin of four percent due to higher activity levels and a price increase introduced late in 2004.

### HAZCO

HAZCO reported an operating margin of 16 percent for the third quarter of 2005. Operating margins for this division will fluctuate on a quarterly basis depending on the volume and type of projects undertaken in a quarter. Historically, operating margins for this division ranged from 10 to 15 percent on an annual basis. Operating margins for the third quarter of 2005 are significantly higher than margins reported in the second quarter of the year due to strong activity in the engineered landfill and drilling business units, which generate relatively higher margins. Pent-up demand for these services from the first half of the year and increased activity in projects generated higher volumes and utilization rates in the third quarter of 2005.

### CCS Energy Marketing

The two percent operating margin in the CCS Energy Marketing division is consistent with the operating margin reported in the previous two quarters of 2005. The business model for this division is focused on capturing the incremental value in marketing crude oil through CCS facilities, and the division is not expected to generate operating margins, as a percentage of revenue, significantly different than those reflected to date. Revenues are recorded at gross values, and as a result the financial statements reflect a higher dollar value for both revenues and operating expenses, creating a lower operating margin as a percentage of revenues.

### GENERAL AND ADMINISTRATIVE

(000s)	Three months ended Sept. 30		Nine months ended Sept. 30	
	2005	2004	2005	2004
Amount	\$ 3,832	\$ 3,012	\$ 10,619	\$ 8,151
% change	27%	49%	30%	19%

General and administrative expenses have increased on a year-to-date basis over last year as a result of the Trust's growth, including the new HAZCO and Energy Marketing divisions. Administrative costs directly related to the individual business segments are included in operating costs of that division.

Excluding the Energy Marketing revenue, general and administrative expenses as a percentage of revenue, for the third quarter of 2005, were two percent compared to six percent for the same period in 2004. Overall, general and administrative expenses for the year are anticipated to be in the range of two-and-a-half to three percent of non-Energy Marketing revenues.

General and administrative expenses increased in the following areas during the first nine months of 2005:

- wages and benefits including the recognition of expenses associated with the trust unit option plan and the executive retention bonus plan;
- general office costs, training and travel; and
- communication and information technology.

### DEPRECIATION AND AMORTIZATION

(000s)	Three months ended Sept. 30		Nine months ended Sept. 30	
	2005	2004	2005	2004
Depreciation	\$ 7,774	\$ 4,964	\$ 21,383	\$ 14,566
% change	57%	6%	47%	22%
Amortization	2,545	700	6,396	6,107
% change	264%	(67)%	5%	33%

The acquired HAZCO capital assets contributed \$5.8 million to increase depreciation expense for the nine month period ended September 30, 2005. There was no corresponding depreciation expense for HAZCO in 2004 as it was not acquired until December, 2004. Depreciation expense for the Energy Services and Concord divisions continued to show a general increase as a result of ongoing growth and expansion of the asset base.

Amortization of engineered landfills and disposal caverns totaled \$2.3 million for the quarter and \$5.2 million for the nine months ended September 30, 2005. Overall, amortization rates on the landfills are lower in 2005 due to the prospective application of capacity adjustments resulting from an independent engineering study performed in the second half of 2004.

Included in amortization expense is \$0.3 million for the quarter and \$1.2 million year-to-date relating to the amortization of intangible assets acquired through the HAZCO acquisition.

## INCOME TAXES

(000s)	Three months ended Sept. 30		Nine months ended Sept. 30	
	2005	2004	2005	2004
Net income before income taxes	\$ 37,833	\$ 15,537	\$ 87,124	\$ 44,690
Provision for income taxes	10,111	3,170	19,982	6,440
Effective tax rate	27%	20%	23%	14%

For the current quarter, the Trust provided for taxes at an effective rate of 27 percent of pre-tax income, compared to 20 percent in the same quarter of 2004. The higher tax rate results from the Trust's significant growth in pre-tax income, which is only partially offset by available interest expense deductions within the Trust structure. High year-to-date pre-tax earnings and current internal projections of 2005 annual pre-tax income result in an expected annual effective tax rate for the Trust of approximately 23 percent, compared to the 2004 annual rate of 16 percent.

From the inception of the Trust in May 2002 to the end of 2004, CCS Inc. accumulated sufficient tax pools to offset taxable income and therefore was not subject to current tax except for capital taxes. CCS' continued growth has resulted in available tax pools being utilized more quickly than expected. As a result, tax pool deductions are not anticipated to fully offset taxable income in 2005, and CCS will incur, and has provided for, current income tax expense.

Current tax expense in the third quarter of \$7.1 million consisted of \$6.9 million of income taxes and \$0.2 million in capital taxes. For the nine month period ended September 30, 2005, current tax expense of \$13.9 million was comprised of \$13.1 million of income taxes and \$0.8 million of capital taxes. In 2004, the nine month year-to-date provision for current tax was \$0.6 million and consisted entirely of capital taxes.

## FINANCING

(000s)	Three months ended Sept. 30		Nine months ended Sept. 30	
	2005	2004	2005	2004
Amount	\$ 2,127	\$ 1,197	\$ 6,241	\$ 3,161
% change	78%	(26)%	97%	2%

The average debt outstanding for the Trust for the quarter ended September 30, 2005 was \$143.3 million, an increase of 114% over the same period in 2004. The significant increase in debt outstanding and financing charges is attributable to the following:

- the acquisition of HAZCO in December 2004 required a cash payment of \$29.8 million and the assumption of \$9.9 million in long-term debt;
- the acquisition of the operating assets of three companies in the third quarter of 2005 utilized cash and cash equivalents of \$6.5 million;
- capital expenditures of \$63.5 million to date in 2005; and
- capital expenditures of \$27.9 million for the fourth quarter of 2004.

## LIQUIDITY AND CAPITAL RESOURCES

(000s)	As at Sept. 30	As at Dec. 31
Capital Data	2005	2004
Current portion of long-term debt	\$ 4,485	\$ 3,131
Long-term debt	154,507	136,503
Less: cash and cash equivalents	(3,518)	–
<b>Net debt</b>	<b>155,474</b>	<b>139,634</b>
Unitholders' equity	241,086	226,834
Non-controlling interest	63,552	46,669
<b>Total capitalization</b>	<b>460,112</b>	<b>413,137</b>
Net debt to total capitalization	34%	34%

## Credit Facilities and Swaps

The Trust has the following credit facilities available:

- \$210.0 million extendible, three-year revolving facility bearing interest, at CCS' option, at the bank's prime rate, banker's acceptance rate or LIBOR rate plus 0 to 275 basis points, depending on CCS' ratio of debt-to-EBITDA. At September 30, 2005 the Trust had utilized \$75.0 million of this facility. Outstanding letters of credit of \$26.0 million at September 30, 2005 reduce the amount of credit available on this facility.
- \$50.0 million seven-year, non-revolving, non-amortizing term facility with a fixed interest rate of 6.4 percent. This facility is fully drawn.
- \$2.5 million term facility restricted to the financing of capital equipment, with interest charged at a floating rate of 0.25 percent above the Bank's prime lending rate. Amounts advanced under this facility have a maximum amortization period of 48 months. At September 30, 2005, the amount outstanding on this facility was \$2.5 million.
- \$6.0 million for the financing of capital equipment, with interest charged on a transactional basis; fixed and floating-rate options are available. Interest under the fixed option is currently charged at a maximum rate of four percent. Contracts under the floating option charge interest at prime plus 0.25 to 0.75 percent. At September 30, 2005, the amount outstanding on this facility was \$4.4 million.

At September 30, 2005 the Trust had \$20.4 million of surety bonds outstanding to secure bids and for completion of work, all with respect to the HAZCO operating division. These outstanding bonds do not impact the amount of credit available on the facility.

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. At September 30, 2005, CCS was in compliance with all covenants.

In 2002, the Trust entered into a five-year, non-amortizing, interest-rate swap agreement for \$18.0 million at a fixed rate of 5.6 percent. In 2003, the Trust entered into additional amortizing swap arrangements of \$20.0 million at a fixed rate of 4.1 percent, of which \$11.0 million was outstanding at September 30, 2005.

## UNITHOLDERS' EQUITY

(000s)	As at Sept. 30	As at Dec. 31
Outstanding Unit Data	2005	2004
Trust units	42,358	41,949
Exchangeable Shares <sup>1</sup>	14,589	14,405
Total	56,947	56,354

<sup>1</sup> Converted at an exchange ratio of 2.52144 at September 30, 2005 (December 31, 2004 – 2.44062).

On February 15, 2005 the Trust announced a two-for-one trust unit split for unitholders of record on February 28, 2005. Pursuant to the unit split, each holder of units on February 28, 2005 received one additional unit of CCS Income Trust for every trust unit held. The monthly cash distributions were adjusted to reflect the two-for-one split, effective for the month of February 2005. The impact of the unit split on unitholders' equity and per unit information has been retroactively restated for comparative purposes.

## CAPITAL EXPENDITURES

(000s)	Three months ended Sept. 30		Nine months ended Sept. 30	
	2005	2004	2005	2004
Amount	\$ 27,899	\$ 21,303	\$ 63,501	\$ 42,385
% change	31%	(54)%	50%	(57)%

## Energy Services

The Energy Services division incurred capital expenditures for the third quarter of \$20.4 million, and \$42.5 million year-to-date. Approximately 88 percent of total year-to-date capital expenditures in this division are growth capital expenditures. Growth capital expenditure projects include the following:

- ongoing construction of a new TRD facility at Brooks, Alberta, with completion expected in the fourth quarter, and commissioning of the facility to take place in the first quarter of 2006;

- completion of an expansion to the waste processing facility at the Coronation TRD;
- ongoing development of an oil recovery program utilizing centrifuge technology at eight TRD facilities;
- substantial completion of a new disposal well facility at Moose Creek;
- capacity replacement expansions at the Fox Creek, LaGlace and Marshall engineered landfills;
- construction of the new engineered landfill at Bonnyville, Alberta – completed in October, 2005; and
- the ongoing cavern washing and capacity expansion at the Lindbergh facility.

#### **Concord**

Concord Well Servicing incurred capital expenditures for the third quarter of \$2.5 million, with \$8.6 million spent year-to-date. The majority of capital expenditures in this division are maintenance capital expenditures.

#### **HAZCO**

The HAZCO division incurred capital expenditures of \$5.0 million for the quarter and \$11.6 million year-to-date. Growth capital expenditures for the third quarter of 2005 totaled \$4.1 million and consisted of the purchase of heavy equipment for the site remediation and demolition business units and the acquisition of bins for the waste services business.

#### **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 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 gas production sites incapable of supporting the weight of heavy equipment until they are thoroughly dried 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.

#### **CHANGES IN ACCOUNTING POLICY**

##### **• Unit-based Compensation**

Effective January 1, 2005 the Board of Directors of CCS Inc. approved the implementation of an employee unit option plan which was approved at the Trust's Annual Meeting held on May 4, 2005. Directors, officers, employees and consultants of the Trust are eligible to receive trust unit options to acquire trust units, with terms not to exceed five years from the date of the grant. Under the option plan, vesting periods are determined by the Board of Directors of CCS Inc. at the time of the grant. All options granted to September 30, 2005 vest equally over four years, with 25 percent of the options being exercisable on each anniversary date of the original grant. The maximum number of trust units to be issued under this plan may not exceed 10 percent of the Trust's outstanding units at any time. At September 30, 2005 the maximum number of trust units available for issue under the plan was 4.2 million, of which, 751,500 options were issued and outstanding (18 percent of maximum issuable).

CICA Handbook Section 3870 requires the expensing of options granted using a fair value approach. The fair value of options granted is determined on their grant date using an accepted option-pricing model. This fair value amount is recognized as compensation expense over the period the stock options vest, with a corresponding increase to contributed surplus in unitholders' equity. Consideration paid by the option holder upon the exercise of the options, together with the amount previously recognized in contributed surplus, is recorded as an increase in unitholders' capital.

##### **• Non-controlling Interest**

On January 19, 2005 the CICA issued revised draft EIC-151 "Exchangeable Securities Issued by Subsidiaries of Income Trusts", stating that the exchangeable securities issued by a subsidiary of an income trust should be reflected as either non-controlling interest or debt on the consolidated balance sheet unless they meet certain criteria. The exchangeable shares issued by CCS Inc., the operating subsidiary of the Trust, are considered by EIC-151 to be transferable to third parties. EIC-151 states that if the exchangeable shares are transferable to a third party they should be reflected as non-controlling interest. Previously, the exchangeable shares were reflected as a component of unitholders' equity.

In accordance with the transitional provisions of EIC-151, this accounting abstract has been applied retroactively, with restatement of prior periods. As a result of this change and restatement, the Trust has retroactively reflected non-controlling interest of \$46.7 million on the Trust's consolidated balance sheet as at December 31, 2004. Consolidated net income reflects non-controlling interest of \$17.2 million and \$10.1 million as a deduction in arriving at net income for the nine months ended September 30, 2005 and 2004, respectively. The retroactive restatement of this policy resulted in an adjustment of \$14.8 million to opening accumulated earnings for 2004.

## **BUSINESS OUTLOOK**

The favorable industry conditions experienced by the western Canadian oil and gas service sector in 2005 are expected to continue throughout the remaining three months of the year. The Trust continues to forecast that its growth capital expenditures for 2005 will be in the range of \$80 to \$90 million. At present, the outlook for activity in the western Canadian energy industry during 2006 remains positive. The Concord Well Servicing division implemented pricing increases effective October 1, 2005, and the Energy Services and HAZCO divisions are also considering price increases. The price increases are intended to reflect the higher operating costs within the energy industry, including labour and fuel costs, and strong industry demand.

### **Energy Services**

Construction continued on schedule at the Brooks TRD facility with start up anticipated for the first quarter of 2006. In September 2005, disposal operations commenced at the Moose Creek disposal well facility, located approximately five kilometres east of the town of Edson. The demand for water disposal in this market has been strong, and it is anticipated that daily disposal volumes will soon be at or near the facility's capacity. During the quarter, CCS received regulatory approval and began construction of a TRD facility in Spirit River, Alberta. This facility is located adjacent to a CCS Class II engineered landfill and is expected to be operational in the second quarter of 2006. In October 2005, construction of the new Bonnyville, Alberta engineered landfill was completed. This Class II landfill will service local conventional heavy oil markets as well as Steam Assisted Gravity Drainage (SAGD) operations north of Bonnyville.

The Energy Services division is pursuing regulatory approval for two additional engineered landfills and two TRD opportunities, with a target that these facilities will be operational by the third quarter of 2006.

The acquisition of the operating assets of Normcan was completed in early July, and generated third quarter revenue of \$0.8 million. The revenues from this acquisition are reflected within the Energy Services division. Integration of this business unit within the Energy Services division is complete and growth initiatives are currently being developed. A NORM storage facility adjacent to the CCS Silverberry TRD, is expected to be completed during the fourth quarter.

### **Concord**

The acquisition of the operating assets of HiAlta Energy Services was completed on November 1, 2005. This strategic acquisition is intended to generate new revenues in the division through a complementary service offering of oilfield rental equipment, consisting primarily of equipment specific to well servicing and drilling activities.

The fourth quarter of 2005 is expected to meet Concord utilization targets, as pent-up demand from the second quarter still exists.

### **HAZCO**

The second half of the year traditionally reflects higher operating margins with greater demand for all services within this division. Operating margins are expected to be in the 10 to 15 percent range for the year ending December 31, 2005.

In late July 2005, HAZCO acquired the operating assets of Canadian Soil Remediation Services Inc. (CSR). HAZCO expects this addition to increase the customer base in Ontario. HAZCO also acquired the operating assets of Western Waste Management Ltd. (WWM), an environmental filtration and tank rental business based in British Columbia. Demand for this service is very strong.

### **CCS Energy Marketing**

The Energy Marketing division experienced another strong quarter due to strong industry activity and variable crude oil and condensate differentials. Operating margin is expected to be in the range of one to three percent for the year ended December 31, 2005. The business model for this division continues to be focused on the marketing of crude oil recovered or purchased at the Energy Services facilities, with growth dependent on optimization and lease purchases.

### **CCS Income Trust – Corporate**

As discussed in the Income Taxes section of the Management's Discussion and Analysis, the Trust anticipates it will incur current income taxes for the first time since the inception of the Trust. The Trust is forecasting current taxes in the range of 12 to 14 percent of EBITDA for 2005. This estimate has been increased from that previously provided to reflect ongoing, profitable growth in the Trust's business.

## CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

As at	Sept. 30, 2005	Dec. 31, 2004
(000s)	\$	\$
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	3,518	–
Accounts receivable	144,910	112,763
Inventory and other current assets	6,607	4,704
	<b>155,035</b>	<b>117,467</b>
Property, plant and equipment	407,302	365,862
Goodwill and intangible assets	57,584	53,879
Deferred financing costs	1,319	1,711
Investments and other long-term assets	913	446
	<b>622,153</b>	<b>539,365</b>
<b>LIABILITIES AND UNITHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	70,395	59,044
Income taxes payable	13,230	1,038
Distributions payable	4,659	3,880
Current portion of long-term debt	4,485	3,131
Current portion of long-term purchase obligations	1,174	1,002
Current portion of asset retirement obligations [note 5]	1,500	3,633
	<b>95,443</b>	<b>71,728</b>
Long-term debt	154,507	136,503
Long-term purchase obligations	5,899	5,444
Future income tax	42,971	36,927
Asset retirement obligations [note 5]	18,695	15,260
	<b>222,072</b>	<b>194,134</b>
<b>Non-controlling interest [note 8]</b>	<b>63,552</b>	<b>46,669</b>
<b>Unitholders' equity</b>		
Unitholders' capital [note 6a]	192,847	190,200
Contributed surplus [note 7a]	435	–
Accumulated earnings	175,775	125,821
Accumulated cash distributions	(127,971)	(89,187)
	<b>241,086</b>	<b>226,834</b>
	<b>622,153</b>	<b>539,365</b>

See accompanying notes.

("Signed")

Director – David P. Werklund

("Signed")

Director – Brad R. Munro

## CONSOLIDATED STATEMENTS OF INCOME AND ACCUMULATED EARNINGS

(UNAUDITED)

<i>(000s except per unit amounts)</i>	Three months ended Sept. 30		Nine months ended Sept. 30	
	2005 \$	2004 \$	2005 \$	2004 \$
		<i>restated</i> [note 8]		<i>restated</i> [note 8]
<b>REVENUE</b>				
CCS Energy Services	51,803	38,621	141,328	112,169
Concord Well Servicing	21,439	16,117	62,200	54,073
HAZCO Environmental Services	80,814	–	160,776	–
CCS Energy Marketing	103,137	–	248,844	–
	<b>257,193</b>	54,738	<b>613,148</b>	166,242
Operating expenses [note 9]	202,589	28,275	478,796	87,450
Asset retirement obligations [note 5]	388	362	1,165	1,086
	<b>202,977</b>	28,637	<b>479,961</b>	88,536
Operating margin	<b>54,216</b>	26,101	<b>133,187</b>	77,706
<b>EXPENSES</b>				
General and administrative [notes 7, 9]	3,832	3,012	10,619	8,151
Financing	2,127	1,197	6,241	3,161
Gas delivery obligation valuation	185	722	1,574	1,060
Depreciation and amortization	10,319	5,664	27,779	20,673
	<b>16,463</b>	10,595	<b>46,213</b>	33,045
Income before the following:	37,753	15,506	86,974	44,661
(Gain) on sale of assets	(80)	(31)	(150)	(29)
<b>Income before income taxes</b>	<b>37,833</b>	15,537	<b>87,124</b>	44,690
<b>Income taxes</b>				
Current	7,141	180	13,938	590
Future	2,970	2,990	6,044	5,850
	<b>10,111</b>	3,170	<b>19,982</b>	6,440
Income before non-controlling interest	27,722	12,367	67,142	38,250
Non-controlling interest [note 8]	(7,057)	(3,355)	(17,188)	(10,136)
<b>Net income for the period</b>	<b>20,665</b>	9,012	<b>49,954</b>	28,114
Accumulated earnings, beginning of period	155,110	97,501	125,821	93,184
Retroactive application of change in accounting policy [note 8]	–	–	–	(14,785)
<b>Accumulated earnings, end of period</b>	<b>175,775</b>	106,513	<b>175,775</b>	106,513
Net income per unit information – basic	0.48	0.23	1.19	0.71
Net income per unit information – diluted [note 6b]	0.48	0.23	1.18	0.71

See accompanying notes.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(000s)	Three months ended Sept. 30		Nine months ended Sept. 30	
	2005 \$	2004 \$	2005 \$	2004 \$
		<i>restated</i> [note 8]		<i>restated</i> [note 8]
<b>OPERATING ACTIVITIES</b>				
Net income for the period	20,665	9,012	49,954	28,114
Add (deduct) non-cash items:				
Non-controlling interest	7,057	3,355	17,188	10,136
Unit-based compensation	185	–	435	–
Depreciation and amortization	10,319	5,664	27,779	20,673
Asset retirement obligations [note 5]	388	362	1,165	1,086
Gas delivery obligation valuation	185	722	1,574	1,060
(Gain) on sale of assets	(80)	(31)	(150)	(29)
Future income taxes	2,970	2,990	6,044	5,850
Other	199	57	596	183
	41,888	22,131	104,585	67,073
Change in non-cash working capital	(26,500)	(3,426)	(14,729)	2,496
Asset retirement obligations [note 5]	(118)	(203)	(316)	(315)
Cash provided by operating activities	15,270	18,502	89,540	69,254
<b>FINANCING ACTIVITIES</b>				
Issuance of long-term debt	38,473	15,000	54,533	25,000
Repayment of long-term debt	(1,088)	(6,219)	(35,380)	(18,192)
Deferred financing costs	–	–	–	(89)
Payments under purchase obligations	(352)	(420)	(947)	(1,244)
Trust unit issue (net of costs)	(4)	–	(4)	(8)
Distribution payments [note 3]	(13,504)	(10,408)	(38,005)	(30,403)
Cash provided by (used) in financing activities	23,525	(2,047)	(19,803)	(24,936)
<b>INVESTING ACTIVITIES</b>				
Purchase of property, plant and equipment	(27,899)	(21,303)	(63,501)	(42,385)
Proceeds on disposal of property, plant and equipment	1,319	230	1,893	733
Acquisitions	(6,537)	–	(6,537)	–
Funding of retention bonus [note 7b]	–	–	(1,231)	–
Investments and other long-term assets	253	45	(467)	(43)
Change in non cash working capital	(2,828)	2,608	3,624	(3,822)
Cash used in investing activities	(35,692)	(18,420)	(66,219)	(45,517)
Increase (decrease) in cash and cash equivalents	3,103	(1,965)	3,518	(1,199)
Cash and cash equivalents, beginning of period	415	5,645	–	4,879
<b>Cash and cash equivalents, end of period</b>	<b>3,518</b>	<b>3,680</b>	<b>3,518</b>	<b>3,680</b>
Supplementary cash flow information:				
Cash taxes paid	202	383	1,746	755
Cash interest paid	1,938	662	5,470	2,744

See accompanying notes.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

*(000s except unit and per unit amounts)*

*September 30, 2005 and 2004*

## 1. NATURE OF THE ORGANIZATION

CCS Income Trust (the "Trust") 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, as disclosed in the CCS Information Circular ("Information Circular") dated April 19, 2002. 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). 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.

These interim consolidated financial statements follow the same accounting policies and methods of application as the most recent annual audited consolidated financial statements for the year ended December 31, 2004. The specific accounting policies applied are described in the notes to the annual consolidated financial statements, appearing in the Trust's 2004 Annual Report.

These interim consolidated financial statements for the three and nine months ended September 30, 2005 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 2004 Annual Report.

All amounts reported in these statements are in Canadian dollars.

### b) Comparative figures

Certain comparative figures have been restated to conform to the current period presentation.

### c) Unit-based compensation

The Trust has established a trust unit option plan for directors, officers, employees and consultants who otherwise meet the definition of an employee of the Trust. The Trust recognizes unit-based compensation expense in the Consolidated Statements of Income and Accumulated Earnings for all trust unit options ("options") granted based on their fair value at the time of the grant. The fair value is determined using an accepted option-pricing model, with total compensation expense recognized over the period the options vest. Compensation expense is offset by a corresponding increase to contributed surplus in unitholders' equity. Consideration paid by the option holder upon exercise of the options, and the amount previously recognized in contributed surplus are recorded as an increase in unitholders' capital.

#### d) Management 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 judgment. The effect on the 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.
- Gas delivery obligation, the cost of which is dependent on future gas prices.
- Asset retirement obligations, the nature timing and costs of the remediation process is managed by the CCS Environmental Department, with estimates based upon CCS' "best practices" and current regulatory requirements.
- 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.

### 3. DISTRIBUTIONS PAID

For the nine month period ended September 30, 2005 the Trust paid distributions to unitholders in the amount of \$38,005 (2004 – \$30,403) in accordance with the following schedule:

<b>Period Covered</b>	<b>Date of Record</b>	<b>Date of Distribution</b>	<b>Per Unit \$</b>
December 1, 2004 to December 31, 2004	12/31/04	01/17/05	0.0925
January 1, 2005 to January 31, 2005	01/31/05	02/15/05	0.0925
February 1, 2005 to February 28, 2005	02/28/05	03/15/05	0.0975
March 1, 2005 to March 31, 2005	03/31/05	04/15/05	0.0975
April 1, 2005 to April 30, 2005	04/30/05	05/16/05	0.0975
May 1, 2005 to May 31, 2005	05/31/05	06/15/05	0.1050
June 1, 2005 to June 30, 2005	06/30/05	07/15/05	0.1050
July 1, 2005 to July 31, 2005	07/31/05	08/15/05	0.1050
August 1, 2005 to August 31, 2005	08/31/05	09/15/05	0.1100

### 4. ACQUISITIONS

In July 2005, CCS Income Trust acquired the assets of three operating companies: Normcan Control Inc. ("Normcan"), Canadian Soil Remediation Services Inc. ("CSR") and Western Waste Management Ltd. ("WWM"). Normcan specializes in providing the Canadian oil and gas industry with expertise in the safe management, handling and disposal of naturally occurring radioactive material (NORM). CSR is an environmental site remediation contractor with operations based in Ontario and Western Waste Management Ltd., based in British Columbia, provides environmental filtration and tank rental services. The combined purchase price for the three asset acquisitions consisted of a combination of \$7,129 in cash and promissory notes, and 119,919 trust units. Normcan's operations are reported within the Energy Services division while CSR and WWM are reported within the HAZCO division.

The purchase price has been allocated as follows:

<b>Net assets acquired</b>	<b>\$</b>
Property, plant and equipment	5,797
Goodwill and intangible assets	4,915
	<b>10,712</b>

Consideration	\$
Trust units	3,575
Cash	6,529
Promissory notes	600
Transaction costs	8
	10,712

## 5. ASSET RETIREMENT OBLIGATIONS

The Trust estimates the undiscounted cash flows related to asset retirement obligations to be incurred over an estimated period of 50 to 60 years will total approximately \$53,757. The fair value at September 30, 2005 is \$20,195 using a discount rate of eight percent and an inflation rate of three percent.

In 2005 and 2004, the Trust recorded the following activity related to the liability:

	Three months ended Sept. 30		Nine months ended Sept. 30	
	2005 \$	2004 \$	2005 \$	2004 \$
Asset retirement obligations, beginning of period	\$ 19,925	\$ 18,717	\$ 18,893	\$ 18,105
New obligations and revised estimates	–	–	453	–
Obligations fulfilled	(118)	(203)	(316)	(315)
Accretion expense	388	362	1,165	1,086
Asset retirement obligations, end of period	20,195	18,876	20,195	18,876
Current portion	(1,500)	(1,415)	(1,500)	(1,415)
Long-term portion	18,695	17,461	18,695	17,461

## 6. UNITHOLDERS' EQUITY

On February 15, 2005 the Trust announced a split of the Trust's units on a two-for-one basis, effective at the close of business on February 28, 2005. All information in these consolidated financial statements relating to unit and per unit data, including comparative figures, has been adjusted retroactively to reflect the impact of the unit split.

### a) Unitholders' capital

Authorized – Unlimited number of voting trust units	Trust Units	Amount
December 31, 2004	41,948,972	\$ 190,200
Issued upon conversion of Exchangeable Shares for trust units	288,680	307
Issued upon acquisition of Normcan and CSR (net of costs) [note 4]	119,919	3,571
Units held in trust for retention bonus [note 7b]	–	(1,231)
<b>September 30, 2005</b>	<b>42,357,571</b>	<b>192,847</b>

### b) Weighted average trust units

As at September 30, 2005 and 2004 respectively, net income per trust unit has been determined based on the following:

Nine months ended September 30	2005	2004
Weighted average trust units outstanding – basic	42,127,610	39,622,743
Trust units issuable on conversion of Exchangeable Shares [note 8]	14,588,908	14,310,230
Dilutive options	44,736	–
Weighted average trust units – diluted	56,761,254	53,932,973

## 7. UNIT-BASED COMPENSATION

### a) Unit option plan

In May 2005, the Unitholders of CCS Income Trust approved the implementation of an employee unit option plan. Under the unit option plan, directors, officers, employees, and consultants of the Trust are eligible to receive trust unit 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 will likely be different than the closing price on the Toronto Stock Exchange for such units on the day of the grant. For options granted in 2005, 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. On all options granted to September 30, 2005, twenty-five percent of the options are exercisable on each anniversary date from the date 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 at any time, which at September 30, 2005 totaled 42,357,571.

A summary of option transactions are as follows:

	Three months ended Sept. 30		Nine months ended Sept. 30	
	2005		2005	
	Units	Weighted average exercise price \$	Units	Weighted average exercise price \$
Options outstanding, beginning of period	650,000	23.16	–	–
Granted	103,000	29.01	793,000	23.86
Exercised	–	–	–	–
Forfeited	(1,500)	24.35	(41,500)	22.12
Options outstanding, end of period	751,500	23.96	751,500	23.96

	Options Outstanding			Options Exercisable	
Range of prices	Outstanding at Sept. 30, 2005	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable at Sept. 30, 2005	Weighted average exercise price
\$22.04 – \$31.95	751,500	4.4	23.96	–	–

The Trust recorded compensation expense of \$435 with an offsetting increase to contributed surplus in respect of the options granted for the nine months ended September 30, 2005.

The estimated weighted average fair value of trust unit options granted for the nine months ended September 30, 2005 was \$3.97 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:

	Nine months ended Sept. 30
Weighted average assumptions	2005
Dividend yield	4.81%
Discount for forfeiture	3.00%
Risk-free interest rate	3.51%
Expected life of options	4.4 years
Expected volatility factor of the future expected market price of trust units	27.00%

## 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, providing the executives are employed with the Trust at the time of vesting. The trust unit purchase was charged to unitholders' capital until such time as the units vest and are distributed. At September 30, 2005 \$308 of the bonus was accrued and charged to general and administrative expense.

## 8. NON-CONTROLLING INTEREST

In the fourth quarter of 2004, the Trust retroactively adopted 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. Previously, the Exchangeable Shares were reflected as a component of unitholders' equity.

The Trust retroactively applied these accounting recommendations and has reflected non-controlling interest of \$63,552 and \$46,669 as at September 30, 2005 and December 31, 2004, respectively on the Trust's consolidated balance sheets. Consolidated net income reflects non-controlling interest of \$17,188 and \$10,136 as a deduction in arriving at net income for the nine month periods ended September 30, 2005 and 2004, respectively. Opening accumulated earnings for 2004 have been reduced by \$14,785.

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 in 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 September 30, 2005 was 2.52144 (September 30, 2004 – 2.40682) and has been adjusted to reflect the impact of the February 28, 2005 two-for-one trust unit split.

## EXCHANGEABLE SHARES

	Nine months ended Sept. 30		Nine months ended Sept. 30	
	2005		2004	
	Shares	\$	Shares	\$
Balance, beginning of period	5,902,060	15,567	6,036,413	15,942
Redeemed upon conversion to trust units	(116,117)	(307)	(90,713)	(234)
<b>Balance, end of period</b>	<b>5,785,943</b>	<b>15,260</b>	<b>5,945,700</b>	<b>15,708</b>
Exchange ratio, end of period	2.52144	–	2.40682	–
Trust units issuable upon conversion	14,588,908	–	14,310,230	–

## 9. RELATED PARTY TRANSACTIONS

### a) Fractional interest

The Trust has a 37.5 percent fractional interest in a Piaggio Avanti P-180 aircraft for use in CCS' operations. The remaining fractional interest is held by Avia Aviation Ltd, a company controlled by the Chairman and CEO of CCS Inc. Avia Aviation Ltd. also provides management services and operates the aircraft on behalf of the Trust. During the nine month period ended September 30, 2005 the Trust incurred management fee expense, operating costs and costs for contract air services totaling \$363 (2004 – \$313) with Avia Aviation Ltd.

### b) Other

During the nine month period ended September 30, 2005, HAZCO Industrial Services Limited Partnership, an entity controlled by certain members of HAZCO's management and their immediate families, charged rental fees to the Trust of \$329 for the use of premises (2004 – nil).

All transactions were charged to either operating or general and administrative expense depending on the nature of the transaction, and were recorded at the exchange amount.

## 10. SEGMENTED INFORMATION

The following table provides information by operating segment as at and for the three and nine month periods ended September 30, 2005 and 2004. The operating segments consist of the following divisions: CCS Energy Services ("CCS"), Concord Well Servicing ("Concord"), HAZCO Environmental Services ("HAZCO"), and CCS Energy Marketing ("CEM"). The HAZCO and CEM operating segments became reportable in the fourth quarter of 2004. Business activity between the divisions is recorded at market rates. Inter-segment eliminations adjust revenues, expenses and margins on inter-segment activity.

The accounting policies followed by these business segments are the same as those described in the summary of significant accounting policies.

For the nine months ended Sept. 30, 2005	CCS	Concord	HAZCO	CEM	Consolidated
	\$	\$	\$	\$	\$
Revenue prior to inter-segment eliminations	143,188	62,815	160,810	268,060	634,873
Inter-segment eliminations	(1,860)	(615)	(34)	(19,216)	(21,725)
<b>Net revenue</b>	<b>141,328</b>	<b>62,200</b>	<b>160,776</b>	<b>248,844</b>	<b>613,148</b>
Operating expenses prior to inter-segment eliminations	54,201	43,745	140,475	263,200	501,621
Inter-segment eliminations	(1,795)	(615)	(34)	(19,216)	(21,660)
<b>Net expenses</b>	<b>52,406</b>	<b>43,130</b>	<b>140,441</b>	<b>243,984</b>	<b>479,961</b>
Operating margin	88,922	19,070	20,335	4,860	133,187
Gas delivery obligation valuation	1,574	-	-	-	1,574
(Gain) on sale of assets	(80)	-	(70)	-	(150)
Depreciation and amortization	14,930	3,377	8,758	-	27,065
Income before corporate items	72,498	15,693	11,647	4,860	104,698
General and administrative					10,619
Financing					6,241
Depreciation and amortization					714
Income taxes					19,982
Income before non-controlling interest					67,142
Non-controlling interest [note 8]					(17,188)
<b>Net income for the period</b>					<b>49,954</b>
Total assets	397,454	114,325	106,125	4,249	622,153
Goodwill and intangible assets	12,961	-	44,623	-	57,584
Capital expenditures	42,490	8,627	11,553	831	63,501

For the nine months ended Sept. 30, 2004	CCS	Concord	Consolidated
	\$	\$	\$
Revenue prior to inter-segment eliminations	112,171	54,269	166,440
Inter-segment eliminations	(2)	(196)	(198)
<b>Net revenue</b>	<b>112,169</b>	<b>54,073</b>	<b>166,242</b>
Operating expenses prior to inter-segment eliminations	49,247	39,333	88,580
Inter-segment eliminations	(2)	(42)	(44)
<b>Net expenses</b>	<b>49,245</b>	<b>39,291</b>	<b>88,536</b>
Operating margin	62,924	14,782	77,706
Gas delivery obligation valuation	1,060	–	1,060
(Gain) loss on sale of assets	(74)	45	(29)
Depreciation and amortization	16,622	3,322	19,944
Income before corporate items	45,316	11,415	56,731
General and administrative			8,151
Financing			3,161
Depreciation and amortization			729
Income taxes			6,440
Income before non-controlling interest			38,250
Non-controlling interest [note 8]			(10,136)
<b>Net income for the period</b>			<b>28,114</b>
Total assets	285,337	90,531	375,868
Goodwill and intangible assets	9,166	–	9,166
Capital expenditures	37,418	4,967	42,385

For the three months ended Sept. 30, 2005	CCS	Concord	HAZCO	CEM	Consolidated
	\$	\$	\$	\$	\$
Revenue prior to inter-segment eliminations	52,254	21,924	80,845	115,684	270,707
Inter-segment eliminations	(451)	(485)	(31)	(12,547)	(13,514)
<b>Net revenue</b>	<b>51,803</b>	<b>21,439</b>	<b>80,814</b>	<b>103,137</b>	<b>257,193</b>
Operating expenses prior to inter-segment eliminations	19,544	14,779	68,248	113,855	216,426
Inter-segment eliminations	(386)	(485)	(31)	(12,547)	(13,449)
<b>Net expenses</b>	<b>19,158</b>	<b>14,294</b>	<b>68,217</b>	<b>101,308</b>	<b>202,977</b>
Operating margin	32,645	7,145	12,597	1,829	54,216
Gas delivery obligation valuation	185				185
(Gain) loss on sale of assets	(88)		8	–	(80)
Depreciation and amortization	5,634	1,199	3,241	–	10,074
Income before corporate items	26,914	5,946	9,348	1,829	44,037
General and administrative					3,832
Financing					2,127
Depreciation and amortization					245
Income taxes					10,111
Income before non-controlling interest					27,722
Non-controlling interest [note 8]					(7,057)
<b>Net income for the period</b>					<b>20,665</b>
Total assets	397,454	114,325	106,125	4,249	622,153
Goodwill and intangible assets	12,961	–	44,623	–	57,584
Capital expenditures	20,390	2,504	5,015	(10)	27,899

For the three months ended Sept. 30, 2004	CCS	Concord	Consolidated
	\$	\$	\$
Revenue prior to inter-segment eliminations	38,621	16,219	54,840
Inter-segment eliminations	–	(102)	(102)
<b>Net revenue</b>	<b>38,621</b>	<b>16,117</b>	<b>54,738</b>
Operating expenses prior to inter-segment eliminations	16,799	11,881	28,680
Inter-segment eliminations	(1)	(42)	(43)
<b>Net expenses</b>	<b>16,798</b>	<b>11,839</b>	<b>28,637</b>
Operating margin	21,823	4,278	26,101
Gas delivery obligation valuation	722	–	722
(Gain) on sale of assets	(31)	–	(31)
Depreciation and amortization	4,281	1,126	5,407
Income before corporate items	16,851	3,152	20,003
General and administrative			3,012
Financing			1,197
Depreciation and amortization			257
Income taxes			3,170
Income before non-controlling interest			12,367
Non-controlling interest [note 8]			(3,355)
<b>Net income for the period</b>			<b>9,012</b>
Total assets	285,337	90,531	375,868
Goodwill and intangible assets	9,166	–	9,166
Capital expenditures	19,410	1,893	21,303

## 11. SUBSEQUENT EVENTS

On November 1, 2005, CCS Income Trust, through its limited partnership, CCS Operations Limited Partnership, acquired the operating assets of HiAlta Energy Services (“HiAlta”). HiAlta supplies rental equipment to the oil and gas industry for both the drilling and production sectors. The combined purchase price consists of \$6,200 cash and 26,000 trust units.

## 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 gas production sites incapable of supporting the weight of heavy equipment until they are thoroughly dried 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 earn lower revenues and operating profit in the second fiscal quarter.

## CORPORATE INFORMATION

### EXECUTIVE MANAGEMENT

#### DAVID P. WERKLUND

*Founder, Chairman of the Board, President  
and Chief Executive Officer*

#### MARSHALL L. McRAE, CA

*Chief Financial Officer*

#### RENE E. AMIRALTY

*Vice President,  
Corporate Development*

#### RICK WISE

*Vice President,  
Engineering, Regulatory and  
Midstream Development*

#### BRIAN McGURK

*Vice President,  
Human Resources*

#### BLAINE MELNYK

*General Counsel and  
Corporate Secretary*

#### GORDON N. VIVIAN

*Vice President and  
General Manager,  
Concord Well Servicing*

#### JOHN THOMPSON

*Vice President, Operations  
HAZCO*

### Corporate Office

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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

The Trust's transfer agent and registrar is  
Computershare Trust Company of Canada, Calgary, AB.

### Bankers

Toronto Dominion Bank  
Calgary, AB.

### Auditors

Ernst & Young LLP  
Calgary, AB.

### Investor Relations

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