Canyon Services Group Inc.

Consolidated Financial Statements

Three and Six Months Ended June 30, 2007 and 2006

(unaudited)

Canyon Services Group Inc.
Consolidated Balance Sheets
(unaudited)

	June 30, 2007	December 31, 2006
Assets		
Current		
Cash	$ 1,170,579	$ 2,834,741
Accounts receivable	3,399,561	8,561,662
Inventory	4,296,809	3,804,422
Prepaid expenses and deposits	612,411	138,682
Income taxes recoverable	1,045,428	613,308
	10,524,788	15,952,815
Property and equipment (note 2)	106,522,784	101,792,051
Intangible assets (note 3)	252,835	-
	$ 117,300,407	$ 117,744,866
Liabilities		
Current		
Operating facility	$ 1,513,703	$ -
Accounts payable and accrued liabilities	2,998,831	4,129,756
Current portion of obligations under capital lease	2,280,839	2,206,170
Current portion of long-term debt	2,104,443	467,112
	8,897,816	6,803,038
Obligations under capital lease	5,339,608	6,492,599
Long-term debt	11,893,990	6,562,705
Future income taxes	1,280,952	2,750,204
	27,412,366	22,608,546
Shareholders' Equity		
Share capital (note 4)	86,868,904	86,779,804
Warrants (note 4)	257,125	-
Contributed surplus	873,842	563,730
Retained earnings	1,888,170	7,792,786
	89,888,041	95,136,320
	$ 117,300,407	$ 117,744,866

See accompanying notes to the unaudited consolidated financial statements

On behalf of the Board:

Signed: *Dennis J. Weinberger*

Signed: *Raymond P. Antony*

Canyon Services Group Inc.
Consolidated Statements of Retained Earnings
(unaudited)

	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
Retained earnings, beginning of period	$ 6,960,715	$ 8,685,034	$ 7,792,786	$ 5,770,098
Net earnings (loss)	(5,072,545)	(1,645,433)	(5,904,616)	1,269,503
Retained earnings, end of period	$ 1,888,170	$ 7,039,601	$ 1,888,170	$ 7,039,601

See accompanying notes to the unaudited consolidated financial statements

Canyon Services Group Inc.
Consolidated Statements of Operations
(unaudited)

	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
Revenues	$ 3,041,399	$ 4,818,839	$ 17,261,634	$ 20,577,480
Expenses				
Operating	5,482,487	5,255,550	16,439,550	14,333,775
Selling, general and administrative	1,656,684	1,373,705	3,344,682	2,296,276
	7,139,171	6,629,255	19,784,232	16,630,051
Earnings (loss) from continuing operations before the following	(4,097,772)	(1,810,416)	(2,522,598)	3,947,429
Interest on long-term debt	295,136	160,252	565,969	324,979
Other interest	56,016	19,545	92,860	54,168
Depreciation and amortization	2,561,115	1,065,173	5,007,569	2,042,791
Earnings (loss) from continuing operations before income taxes	(7,010,039)	(3,055,386)	(8,188,996)	1,525,491
Income taxes				
Current (recovery)	21,433	(1,390,619)	(815,129)	(142,348)
Future (reduction)	(1,958,927)	(19,334)	(1,469,251)	302,109
	(1,937,494)	(1,409,953)	(2,284,380)	159,761
Net earnings (loss) from continuing operations	(5,072,545)	(1,645,433)	(5,904,616)	1,365,730
Loss from discontinued operations	-	-	-	(96,227)
Net earnings (loss)	$ (5,072,545)	$ (1,645,433)	$ (5,904,616)	$ 1,269,503
Earnings (loss) per share from continuing operations:				
Basic	$ (0.23)	$ (0.08)	$ (0.27)	$ 0.07
Diluted	$ (0.23)	$ (0.08)	$ (0.27)	$ 0.07
Loss per share from discontinued operations:				
Basic	$ -	$ -	$ -	$ -
Diluted	$ -	$ -	$ -	$ -
Earnings (loss) per share:				
Basic	$ (0.23)	$ (0.08)	$ (0.27)	$ 0.07
Diluted	$ (0.23)	$ (0.08)	$ (0.27)	$ 0.07

See accompanying notes to the unaudited consolidated financial statements

Canyon Services Group Inc.
Consolidated Statements of Cash Flows
(unaudited)

	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
Operating activities				
Net earnings (loss) from continuing operations	$ (5,072,545)	$ (1,645,433)	$ (5,904,616)	$ 1,365,730
Add (deduct) non-cash operating items:				
Depreciation and amortization	2,561,115	1,065,173	5,007,569	2,042,791
Future income taxes (reduction)	(1,958,927)	(19,334)	(1,469,251)	302,109
Stock-based compensation	151,694	90,420	324,212	154,940
Funds provided by continuing operations	(4,318,663)	(509,174)	(2,042,086)	3,865,570
Changes in other current assets and liabilities:				
Accounts receivable	6,034,773	6,402,156	5,162,101	4,858,148
Inventory	(283,751)	-	(492,387)	-
Prepaid expenses and deposits	(186,454)	(2,531,982)	(473,729)	(2,851,657)
Accounts payable and accrued liabilities	(905,069)	(618,934)	(975,843)	846,487
Income taxes payable	593,611	(1,390,619)	(365,996)	(142,348)
	934,447	1,351,447	812,060	6,576,200
Discontinued operations				
Funds provided by discontinued operations	-	-	-	593,999
Changes in non-cash working capital balances of discontinued operations	-	1,473,060	(66,124)	1,189,123
	934,447	2,824,507	745,936	8,359,322
Financing activities				
Advances on operating facility	(1,328,162)	(1,854,374)	1,513,703	-
Advances on long-term debt	4,098,500	-	7,098,500	-
Capital lease payments	(537,460)	(521,814)	(1,078,322)	(1,031,804)
Repayment of long-term debt	(46,291)	(8,440)	(129,884)	(26,274)
Issuance of common shares	32,250	51,303,822	75,000	51,063,537
	2,218,837	48,919,194	7,478,997	50,005,459
Investing activities				
Acquisition of property and equipment - continuing operations	(3,706,952)	(12,732,878)	(9,734,012)	(22,947,071)
Proceeds on sale of net assets - discontinued operations	-	-	-	5,916,135
Change in accounts payable related to capital expenditures	(503,200)	3,623,958	(155,083)	270,965
	(4,210,152)	(9,108,920)	(9,889,095)	(16,759,971)
Change in cash	(1,056,868)	42,634,781	(1,664,162)	41,604,810
Cash, beginning of period	2,227,447	2,540,119	2,834,741	3,570,090
Cash, end of period	$ 1,170,579	$ 45,174,900	$ 1,170,579	$ 45,174,900

Supplemental information:				
Interest paid	$ 355,184	$ 183,957	$ 665,615	$ 332,868
Income taxes paid (recovered)	$ (613,796)	$ -	$ (526,437)	$ -

See accompanying notes to the unaudited consolidated financial statements

Canyon Services Group Inc.
Notes to Consolidated Financial Statements
Three and Six Months Ended June 30, 2007 and 2006
(unaudited)

1) Significant accounting policies:

a) Basis of presentation:
These financial statements include the accounts of Canyon Services Group Inc., consolidated with the accounts of its wholly-owned subsidiaries Canyon Technical Services Ltd. and Canyon Technical Services Inc., which was incorporated on May 15, 2007. These interim financial statements do not conform in all respects to the requirements of generally accepted accounting principles for annual financial statements. The Company's interim financial statements should be read in conjunction with the most recent annual financial statements. The Company's interim financial statements follow the same accounting policies and methods of their application as the most recent annual financial statements except where noted below.

Two new Canadian accounting standards have been issued which will require additional disclosure in the Company's financial statements commencing January 1, 2008 in connection with the Company's financial instruments as well as the Company's capital with a description as to how this is managed. In addition, there is a new standard related to the measurement and disclosure of inventory which will be applied retrospectively January 1, 2008. Management is assessing the impact of these changes.

b) Seasonality of operations:
The Company's business is seasonal in nature with the periods of greatest activity being in the first and fourth quarter, and the least activity tending to be in the second quarter because of spring break-up. Spring break-up typically occurs for periods of up to six weeks between March and May. The Company's operating activities can also be affected by extended periods of rainy weather which can result in restrictions to the movement of heavy equipment. As a result, March through May is traditionally the Company's least active time and as such the operating results of the Company will vary on a quarterly basis.

c) Financial instruments:
On January 1, 2007 the Company adopted the new accounting standards regarding the recognition, measurement, disclosure and presentation of financial instruments. The financial instruments must be classified into one of these five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. The new standard requires all financial instruments within its scope, including all derivatives, to be recognized on the balance sheet initially at fair market value. Subsequent measurement of all financial assets and liabilities except those held-for-trading and available for sale are measured at amortized cost determined using the effective interest rate method. Held-for-trading financial assets are measured at fair value with changes in fair value recognized in earnings. Available-for-sale financial assets are measured at fair value with changes in fair value recognized in comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net earnings.

On adoption of the new standards, the Company elected to recognize, as separate assets and liabilities, only for those embedded derivatives in hybrid instruments issued, acquired or substantially modified after January 1, 2003. The Company did not identify any material embedded derivatives, which required separate recognition and measurement.

The new standards require a new statement of comprehensive income, which is comprised of net earnings and other comprehensive income which may report the changes in fair value in, derivatives designated as cash flow hedges and available-for-sale investments and foreign currency translation. The Company had no “other comprehensive income or loss” transactions during the three and six months ended June 30, 2007 and no opening or closing balances for the accumulated other comprehensive income or loss.

2) Property and equipment:

June 30, 2007	Cost	Accumulated Depreciation	Net Book Value
Land	$ 3,349,060	$ -	$ 3,349,060
Field equipment	82,859,402	8,261,837	74,597,565
Automotive	21,334,476	2,985,876	18,348,600
Office, shop and yard	8,928,366	321,504	8,606,862
Computers and office equipment	2,121,729	589,618	1,532,111
Leasehold improvements	94,450	5,864	88,586
	$ 118,687,483	$ 12,164,699	$ 106,522,784

December 31, 2006	Cost	Accumulated Depreciation	Net Book Value
Land	$ 3,349,060	$ -	$ 3,349,060
Field equipment	76,028,043	4,869,634	71,158,409
Automotive	20,445,407	1,668,383	18,777,024
Office, shop and yard	7,207,855	227,731	6,980,124
Computers and office equipment	1,830,700	392,537	1,438,163
Leasehold improvements	92,406	3,135	89,271
	$ 108,953,471	$ 7,161,420	$ 101,792,051

3) Intangible assets:

In February 2007, the Company completed the acquisition of intangible assets for consideration of 125,000 warrants of the Company. The property consists of certain intellectual property from a private company for proprietary light weight proppant. The fair value of this property totalling $257,125 is being amortized using the straight line method over its estimated useful life of 15 years. Amortization in the amount of $4,290 has been recorded for the three month period ending June 30, 2007. The private company is one-third owned by a senior employee of the Company.

4) Share capital:

a) Common shares issued:

	Number	Amount
Balance, December 31, 2005	16,835,200	$ 34,563,197
Initial public offering	5,000,000	55,000,000
Share issuance costs (net of income tax effect of $1,202,934)	-	(2,783,393)
Balance, December 31, 2006	21,835,200	86,779,804
Issued on exercise of stock options	33,333	75,000
Transfer from contributed surplus on exercise of options	-	14,100
Balance, June 30, 2007	21,868,533	$ 86,868,904

b) Stock options:

There were 66,000 and 305,000 options granted during the three and six months ending June 30, 2007 respectively. The average fair value of these options was $2.35 (2006 - $4.68) and $2.02 (2006 - $1.63) respectively per option using the Black-Scholes option pricing model with the following assumptions: risk free interest rate of 4.25%, maximum life of 5 years, expected dividends of nil and expected volatility of 40%. The compensation cost to the Company for the three and six months ending June 30, 2007 was $151,694 (2006 - $90,420) and $324,212 (2006 - $154,940) respectively.

c) Warrants:

In connection with the purchase of intellectual property during the first quarter of 2007, the Company issued 125,000 warrants valued at $257,125 using the Black-Scholes method with the following assumptions: risk free interest rate of 4.25%, maximum life of 5 years, expected dividends of nil and expected volatility of 40%. These warrants entitle the holder to purchase common shares of the Company at an exercise price of $4.96 per share, become exercisable over a three year period and expire in November 2011.

5) Income taxes:

Income tax expense differs from the amount that would be computed by applying the Federal and Provincial statutory income tax rates.

	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
Income tax rate	*32.12%*	*32.12%*	*32.12%*	*32.12%*
Expected income tax expense	$ (2,251,625)	$ (981,390)	$ (2,630,306)	$ 489,988
Increase (decrease) in income taxes resulting from:				
Non-deductible expenses	44,628	(1,786)	85,797	6,145
Non-deductible stock-based compensation expense	48,724	28,075	104,137	49,767
Future income tax benefit from income tax rate reduction	220,779	(454,852)	155,992	(386,139)
	$ (1,937,494)	$ (1,409,953)	$ (2,284,380)	$ 159,761

5) Income taxes (continued):

The components of the net future income tax liability are as follows:

	June 30, 2007	December 31, 2006
Future income tax assets		
Share issuance costs	$ 1,018,647	$ 1,192,042
Income tax losses	192,720	-
Future income tax liabilities		
Property and equipment	(2,491,295)	(3,942,246)
Intangible assets	(1,024)	-
	$ (1,280,952)	$ (2,750,204)

6) Per share amounts:

	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
Weighted average common shares outstanding - basic	21,863,755	20,168,533	21,855,811	18,501,867
Effect of stock options and warrants	-	-	-	360,796
Weighted average common shares outstanding - diluted	21,863,755	20,168,533	21,855,811	18,862,663

The calculation of dilutive earnings per share does not include anti-dilutive options or warrants. Including those options and warrants would cause the diluted earnings per share to be overstated. The number of excluded options at June 30, 2007 is 1,825,666 (2006 - 1,207,204) and the number of warrants is 125,000 (2006 - nil).

7) Subsequent event:

On July 20, 2007 the Company announced the appointment of a new President with duties to commence on September 1, 2007. In conjunction with the appointment, the new President will subscribe for, on a private placement basis, 280,000 common shares of the Company at a price of $3.60 per common share for total gross proceeds of approximately $1.0 million. The issue price represents approximately a 10% discount to the July 19, 2007 closing price. The share subscription transaction has received approval by the Toronto Stock Exchange. In addition, 425,000 warrants will be issued. These warrants will be valued at $711,875 using the Black-Scholes method with the following assumptions: risk free interest rate of 4.50%, maximum life of 5 years, expected dividends of nil and expected volatility of 40%. These warrants entitle the holder to purchase common shares of the Corporation at an exercise price of $4.00 per share, becoming exercisable over a three year period and expire in July 2012.