Canyon Services Group Inc.

Consolidated Financial Statements

Three Months Ended March 31, 2008 and 2007

(Unaudited)

These interim consolidated financial statements have not been audited or reviewed by the Company's independent external auditors.

Canyon Services Group Inc.
Consolidated Balance Sheets
(Unaudited)

		March 31, 2008		December 31, 2007
Assets				
Current				
Cash	$	851,416	$	337,468
Restricted cash		-		323,160
Accounts receivable		6,584,220		8,773,237
Inventory		7,016,053		6,337,322
Prepaid expenses and deposits		692,608		837,011
Income taxes recoverable		1,002,067		1,002,067
		16,146,364		17,610,265
Property and equipment (note 2)		102,990,673		105,392,610
Intangible assets		239,965		244,255
	$	119,377,002	$	123,247,130
Liabilities				
Current				
Operating facility	$	3,885,306	$	341,649
Accounts payable and accrued liabilities		5,100,717		9,283,008
Current portion of obligations under capital lease		2,376,858		2,341,586
Current portion of long-term debt		1,795,468		1,092,151
		13,158,349		13,058,394
Obligations under capital lease		3,543,110		4,151,523
Long-term debt		14,825,352		17,088,104
Future income taxes (note 6)		96,414		395,727
		31,623,225		34,693,748
Shareholders' Equity				
Share capital (note 3)		87,988,904		87,988,904
Warrants		257,125		257,125
Contributed surplus		1,455,654		1,271,442
Deficit		(1,947,906)		(964,089)
		87,753,777		88,553,382
	$	119,377,002	$	123,247,130

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 (Deficit)

(Unaudited)

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Retained earnings (deficit), beginning of period	$ (964,089)	$ 7,792,786
Net loss	(983,817)	(832,071)
Retained earnings (deficit), end of period	$ (1,947,906)	$ 6,960,715

See accompanying notes to the unaudited consolidated financial statements

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

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Revenues	$ 18,454,141	$ 14,220,235
Expenses		
Operating	15,022,341	10,957,063
Selling, general and administrative	1,946,718	1,687,998
Interest on long-term debt	356,614	270,833
Other interest	30,362	36,844
Depreciation and amortization	2,381,235	2,446,454
Loss before income taxes	(1,283,129)	(1,178,957)
Income taxes		
Current (recovery)	-	(749,864)
Future (reduction)	(299,312)	402,978
	(299,312)	(346,886)
Net loss	$ (983,817)	$ (832,071)
Loss per share:		
Basic	$ (0.04)	$ (0.04)
Diluted	$ (0.04)	$ (0.04)

See accompanying notes to the unaudited consolidated financial statements

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

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Operating activities		
Net loss	$ (983,817)	$ (832,071)
Add (deduct) non-cash operating items:		
Depreciation and amortization	2,381,235	2,446,454
Future income taxes (reduction)	(299,312)	402,978
Stock-based compensation	184,212	172,518
Funds provided by operations	1,282,318	2,189,879
Changes in other current assets and liabilities:		
Restricted cash	323,160	-
Accounts receivable	2,189,017	(872,672)
Inventory	(678,731)	(208,636)
Prepaid expenses and deposits	144,403	(287,275)
Accounts payable and accrued liabilities	(3,535,044)	(70,774)
Income taxes payable	-	(939,033)
	(274,877)	(188,511)
Financing activities		
Advances on operating facility	3,543,657	2,841,865
Advances on long-term debt	-	3,000,000
Capital lease payments	(573,141)	(540,862)
Repayment of long-term debt	(1,559,435)	(83,593)
Issuance of common shares	-	42,750
	1,411,081	5,260,160
Investing activities		
Property and equipment additions	24,992	(6,027,060)
Change in accounts payable related to property and equipment additions	(647,248)	348,117
	(622,256)	(5,678,943)
Change in cash	513,948	(607,294)
Cash, beginning of period	337,468	2,834,741
Cash, end of period	$ 851,416	$ 2,227,447
Supplemental information:		
Interest paid	$ 389,891	$ 310,431
Income taxes paid (recovered)	$ -	$ 87,359

See accompanying notes to the unaudited consolidated financial statements

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. 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 Company's consolidated, audited financial statements for the year ended December 31, 2007. 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.

b) Financial instruments:

On January 1 , 2008 the Company adopted the new Section 3862, "Financial Instruments - Disclosures", of the Canadian Institute of Chartered Accountants' handbook and Section 3863, "Financial Instruments - Presentation", of the Canadian Institute of Chartered Accountants' handbook. These new sections, effective for years beginning on or after October 1, 2007, replace Section 3861, "Financial Instruments - Disclosure and Presentation", and increase emphasis on disclosure of the risks arising from financial instruments and how the entity manages such exposure.

Section 3862 describes the required disclosure for the assessment of the significance of financial instruments to an entity's financial position and performance, as well as the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks.

Section 3863 establishes standards for presentation of the financial instruments and non-financial derivatives. It carries forward the presentation related requirements of Section 3861. The impact of adopting this section is disclosed in note 4.

c) Capital disclosures:

On January 1, 2008 the Company adopted the new Section 1535, "Capital Disclosures", of the Canadian Institute of Chartered Accountants' handbook. This new section, effective for years beginning on or after October 1, 2007, establishes standards for disclosing information about an entity's capital and how it is managed. The new accounting standard addresses only disclosures and has no impact on the Company's financial results. The impact of adopting this section is disclosed in note 5.

d) Inventory:

On January 1, 2008 the Company adopted the new Section 3031, "Inventories", of the Canadian Institute of Chartered Accountants' handbook. This new section, effective for years beginning on or after January 1, 2008, replaces Section 3030 of the same title. The new section provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories. There has been no impact on the Company's financial position, operations or cash flows related to the implementation of this section for the period ended March 31, 2008.

Inventory is comprised of operating supplies and spare parts and is carried at cost using a weighed average formula. No items have been written down to net realizable value in the period. Inventories in the amount of $5,410,000 (2007 - $3,347,000) have been consumed in the process of providing services relating to sales in the period and are reflected as operating costs in the statement of operations.

e) Future accounting pronouncements:

Goodwill and intangible assets

Effective January 1, 2009, the Corporation is required to adopt new Canadian accounting standards related to goodwill and intangible assets (Section 3064). This standard replaces Section 3062 “Goodwill and other intangible assets” and Section 3450 “Research and development costs”. The new Section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The Corporation is evaluating the impact of this new Section on its consolidated financial statements.

International financial reporting standards

The Canadian Accounting Standards Board (AcSB) has confirmed that the use of International Financial Reporting Standards (IFRS) will be required in 2011 for publicly accountable profit-oriented enterprises. IFRS will replace Canada’s current GAAP for those enterprises. These include listed companies and other profit-oriented enterprises that are responsible to large or diverse groups of stakeholders. The official changeover date is for interim and annual financial statements related to fiscal years beginning on or after January 1, 2011. Companies will be required to provide comparative IFRS information for the previous fiscal year. The Corporation is currently evaluating the impact of adopting IFRS.

2) Property and equipment:

	March 31, 2008		
	Cost	Accumulated Depreciation	Net Book Value
Land	$ 3,836,460	$ -	$ 3,836,460
Field equipment	83,634,767	13,124,161	70,510,606
Automotive	21,688,063	5,054,622	16,633,441
Office, shop and yard	11,062,647	525,178	10,537,469
Computers and office equipment	2,296,581	927,637	1,368,944
Leasehold improvements	112,863	9,110	103,753
	$ 122,631,381	$ 19,640,708	$ 102,990,673

	December 31, 2007		
	Cost	Accumulated Depreciation	Net Book Value
Land	$ 3,836,460	$ -	$ 3,836,460
Field equipment	83,978,928	11,602,369	72,376,559
Automotive	21,661,863	4,422,807	17,239,056
Office, shop and yard	10,814,129	403,313	10,410,816
Computers and office equipment	2,266,879	827,415	1,439,464
Leasehold improvements	98,113	7,859	90,254
	$ 122,656,372	$ 17,263,762	$ 105,392,610

3) Share capital:

a) Common shares issued:

	Number	Amount
Balance, December 31, 2006	21,835,200	86,779,804
Private placement for cash	280,000	1,120,000
Issued on exercise of stock options	33,333	75,000
Reclassification from contributed surplus on exercise of options	-	14,100
Balance, December 31, 2007 and March 31, 2008	22,148,533	$ 87,988,904

b) Stock options:
There were 181,500 options granted during the three months ending March 31, 2008. The average fair value of these options was $1.877 (2007 - $1.933) per option using the Black-Scholes option pricing model with the following assumptions: risk free interest rate of 3.10%, maximum life of 5 years, expected dividends of nil and expected volatility of 64%. The compensation cost to the Company for the three months ending March 31, 2008 and 2007 was $184,212 and $172,518 respectively.

4) Financial instruments and financial risk management:

As at March 31, 2008, the Company's financial instruments are cash, accounts receivable, operating facility, accounts payable and accrued liabilities, obligations under capital lease and long-term debt. These financial instruments are classified as follows:

Cash - held for trading
Accounts receivable - loans and receivables
Operating facility - held for trading
Accounts payable and accrued liabilities - other financial liabilities
Obligations under capital lease - other financial liabilities
Long-term debt - other financial liabilities

Credit risk:
The Company's accounts receivable are due from customers that operate in the oil and gas exploration and production industry, and are subject to typical industry credit risks. The Company assesses the credit worthiness of its customers on an ongoing basis as well as monitoring the amount and age of balances outstanding. As at March 31, 2008, seven customers account for 53% (December 31, 2007 - three customers account for 51%) of the accounts receivable. For the three months ended March 31, 2008, two customers account for 51% (2007 - five customers account for 56%) of the revenue. The Company has made an allowance for doubtful accounts of $0.1 million as at March 31, 2008.

Fair values:
With the exceptions of long-term debt and obligations under capital lease, the fair values of financial instruments included on the consolidated balance sheet approximate their carrying amounts due to the short-term maturity of those instruments. The fair value of long-term debt and obligations under capital lease is not materially different from the carrying amounts since the interest rate approximates a market rate of interest.

Interest rate risk:
Interest rate risk is the risk that future cash flow will fluctuate as a result of change in market interest rates. The Company manages its interest rate risk through a combination of fixed and floating rate borrowings. For the three months ended March 31, 2008, an increase or decrease in interest expense for each one percent change in interest rates on floating rate debt would have been $45 thousand.

Liquidity risk:
Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due given the cyclical nature of the Company's business. As at March 31, 2008, the Company had available unused bank credit facilities plus cash of $6.1 million, plus accounts receivable of $6.6 million to meet its financial liabilities.

5) Capital management:

The Company's objectives when managing its capital structure are to maintain a balance between debt and capitalization so as to maintain investor, creditor and market confidence and to sustain future development of the business. Debt includes operating facility less cash, plus current portion of obligations under capital lease, plus current portion of long-term debt, plus obligations under capital lease, plus long-term debt. Capitalization is calculated as the debt, as described above, and shareholders' equity less intangible assets. The Company also manages its capital structure to ensure compliance with the financial covenants on its credit facilities. The Company may be required to adjust its capital structure from time to time as a result of expansion activities.

The debt to capitalization ratios as at March 31, 2008 and December 31, 2007 were as follows:

(Stated in dollars, except ratios)	March 31, 2008	December 31, 2007
Debt	$ 25,574,678	$ 24,677,545
Shareholders' equity (net of Intangible assets)	87,513,812	88,309,127
Capitalization	$ 113,088,490	$ 112,986,672
Debt to Capitalization ratio	0.23	0.22

6) Income taxes:

Income tax expense differs from the amount that would be computed by applying the Federal and Provincial statutory income tax rates. The reasons for the differences are as follows:

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Income tax rate	*29.50%*	*32.12%*
Expected income tax expense	$ (378,523)	$ (378,681)
Increase (decrease) in income taxes resulting from:		
Non-deductible expenses	4,682	41,169
Non-deductible stock-based compensation expense	54,343	55,413
Future income tax benefit from income tax rate reduction	20,186	(64,787)
Provision for income taxes	$ (299,312)	$ (346,886)

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

	March 31, 2008	December 31, 2007
Future income tax assets		
Share issuance costs	$ 737,365	$ 845,252
Future income tax liabilities		
Property and equipment	833,779	1,240,979
	$ 96,414	$ 395,727

7) Per share amounts:

	March 31, 2008	March 31, 2007
Weighted average common shares outstanding - basic	22,148,533	21,847,867
Effect of stock options	222,670	-
Weighted average common shares outstanding - diluted	22,371,203	21,847,867

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 March 31, 2008 is 1,257,000 (2007 - 1,880,333) and the number of warrants is 550,000 (2006 - 125,000).