Canyon Services Group Inc.

Consolidated Financial Statements

Three Months Ended March 31, 2009 and 2008

(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 31,2009	December 31, 2008
Assets		
Current		
Cash and cash equivalents	$ 180,349	$ 2,469,819
Accounts receivable	8,227,621	8,138,522
Inventory	5,272,103	6,181,698
Prepaid expenses and deposits	980,190	953,957
Income taxes recoverable	355,660	355,660
	15,015,923	18,099,656
Property and equipment (note 2)	97,635,310	99,771,103
Intangible assets (note 3)	252,024	227,095
	$ 112,903,257	$ 118,097,854
Liabilities		
Current		
Operating facility (note 4)	$ -	$ 2,915,780
Accounts payable and accrued liabilities	5,806,967	9,471,016
Current portion of long-term debt (note 4)	1,750,526	1,166,906
	7,557,493	13,553,702
Long-term debt (note 4)	16,000,908	16,781,504
Future income taxes (note 6)	506,343	69,550
	24,064,744	30,404,756
Shareholders' Equity		
Share capital (note 5)	87,988,904	87,988,904
Warrants (note 5)	286,344	257,125
Contributed surplus (note 5)	2,611,805	2,440,049
Deficit	(2,048,540)	(2,992,980)
	88,838,513	87,693,098
	$ 112,903,257	$ 118,097,854

Commitments (note 10)
Contingency (note 11)

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 Deficit
(Unaudited)

	Three Months Ended March 31,2009		Three Months Ended March 31,2008	
Deficit, beginning of period	$	(2,992,980)	$	(964,089)
Net income (loss) and comprehensive income (loss)		944,440		(983,817)
Deficit, end of period	$	(2,048,540)	$	(1,947,906)

See accompanying notes to the unaudited consolidated financial statements

Canyon Services Group Inc.

Consolidated Statements of Operations and Comprehensive Income (Loss)

(Unaudited)

	Three Months Ended March 31,2009	Three Months Ended March 31,2008
Revenues	$ 24,075,659	$ 18,454,141
Expenses		
Operating	18,286,419	15,022,341
Selling, general and administrative	1,944,303	1,946,718
Interest on long-term debt	142,240	356,614
Other interest	22,109	30,362
Depreciation and amortization	2,299,355	2,381,235
Income (Loss) before income taxes	1,381,233	(1,283,129)
Income taxes (note 6)		
Future (reduction)	436,793	(299,312)
	436,793	(299,312)
Net income (loss) and comprehensive income (loss)	$ 944,440	$ (983,817)
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 31,2009	Three Months Ended March 31,2008
Operating activities		
Net income (loss)	$ 944,440	$ (983,817)
Add (deduct) non-cash operating items:		
Depreciation and amortization	2,299,355	2,381,235
Future income taxes (reduction)	436,793	(299,312)
Stock-based compensation (note 5)	171,756	184,212
Funds provided by operations	3,852,344	1,282,318
Changes in other current assets and liabilities:		
Restricted cash	-	323,160
Accounts receivable	(89,099)	2,189,017
Inventory	909,595	(678,731)
Prepaid expenses and deposits	(26,233)	144,403
Accounts payable and accrued liabilities	(3,664,048)	(3,535,044)
	982,559	(274,877)
Financing activities		
Advances (repayments) on operating facility	(2,915,780)	3,543,657
Repayment of obligations under capital lease	-	(573,141)
Repayment of long-term debt	(196,976)	(1,559,435)
	(3,112,756)	1,411,081
Investing activities		
Property and equipment additions	(159,273)	24,992
Change in accounts payable related to property and equipment additions	-	(647,248)
	(159,273)	(622,256)
Increase (decrease) in cash	(2,289,470)	513,948
Cash, beginning of period	2,469,819	337,468
Cash, end of period	$ 180,349	$ 851,416
Supplemental information:		
Interest paid	$ 184,724	$ 389,891

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. The Company's interim financial statements follow the same accounting policies and methods of their application as the most recent annual audited financial statements for the year ended December 31, 2008, except where noted below. The discosures provided below are incremental to those included with the annual audited consolidated financial statements. The Company's interim financial statements should be read in conjunction with the Company's consolidated financial statements for the year ended December 31, 2008.

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 notes 4 and 8.

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 9.

d) Inventory:

Inventory is primarily comprised of operating supplies and spare parts and is carried at the lower of purchase cost and net realizable value. Inventory is charged to operations as items are sold or consumed at the amount of the average cost of the item.

e) Future accounting pronouncements:

Goodwill and intangible assets

In February 2008, the CICA issued Section 3064, Goodwill and Intangible Assets. Effective for fiscal years beginning on or after October 1, 2008, this section provides guidance on the recognition, measurement, presentation and disclosure for goodwill and intangible assets, other than the initial recognition of goodwill or intangible assets acquired in a business combination. Retroactive application to prior-period financial statements will be required. The Company adopted this standard on January 1, 2009 and there was no significant impact on these financial statements.

International financial reporting standards

In February 2008, the CICA Accounting Standards Board ("AcSB") confirmed the changeover to IFRS from Canadian GAAP will be required for publicly accountable enterprises for interim and annual financial statements effective for fiscal years beginning on or after January 1, 2011, including comparatives for 2010.

The International Accounting Standards Board ("IASB") has also issued an exposure draft relating to certain amendments and exemptions to IFRS 1. It is anticipated that this exposure draft will not result in an amended IFRS 1 standard until late 2009. The amendment, if implemented, will permit the Company to apply IFRS prospectively.

The changeover to IFRS represents a significant change in accounting standards and the transition from current Canadian GAAP to IFRS will be a significant undertaking that may materially affect the Company's reported financial position and reported results of operations.

In response, the Company will complete a high-level IFRS changeover plan in the first half of 2009 and establish a preliminary timeline for the execution and completion of the conversion project. The changeover plan will prepare a preliminary assessment of the differences between Canadian GAAP and IFRS and the potential effects of IFRS to accounting and reporting processes, information systems, businesses processes and external disclosures. This assessment will provide insight into what are anticipated to be the most significant areas of difference applicable to the Company.

1) Significant accounting policies (continued):

During the next phase of the project, scheduled to take place in the second half of 2009, the Company will perform an in-depth review of the significant areas of difference, identified during the preliminary assessment, in order to identify all specific Canadian GAAP and IFRS differences and select ongoing IFRS policies. Key areas addressed will also be reviewed to detemine any information technology issues, the impact on internal controls over financial reporting and the impact on business activities including the effect, if any, on covenants and compensation arrangements. External advisors may be retained to assist management with the project on an as needed basis. Staff training programs will commence in 2009 and be ongoing as the project unfolds.

The Company will also continue to monitor standards development as issued by the IASB and the AcSB as well as regulatory developments as issued by the Canadian Securities Administrators (CSA), which may affect the timing, nature or disclosure of its adoption of IFRS.

Business combinations
In January 2009, the CICA issued Section 1582, Business Combinations. This section is effective January 1, 2011 and applies prospectively to business combinations for which the acquisition date is on or after the first annual reporting period beginning on or after January 1, 2011 for the Company. Early adoption is permitted. This section replaces Section 1581, Business Combination and harmonizes the Canadian standards with IFRS.

f) Measurement of uncertainty:
The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses. Actual results could differ from these estimates.

2) Property and equipment:

	March 31,2009		
	Cost	Accumulated Depreciation	Net Book Value
Land	$ 3,850,791	$ -	$ 3,850,791
Field equipment	86,151,192	19,029,759	67,121,433
Automotive	22,900,170	7,562,454	15,337,716
Office, shop and yard	11,172,870	982,371	10,190,499
Computers and office equipment	2,340,832	1,304,529	1,036,303
Leasehold improvements	112,863	14,295	98,568
	$ 126,528,718	$ 28,893,408	$ 97,635,310

	December 31, 2008		
	Cost	Accumulated Depreciation	Net Book Value
Land	$ 3,850,791	$ -	$ 3,850,791
Field equipment	86,013,575	17,510,818	68,502,757
Automotive	22,877,370	6,980,781	15,896,589
Office, shop and yard	11,176,020	866,143	10,309,877
Computers and office equipment	2,338,826	1,227,553	1,111,273
Leasehold improvements	112,863	13,047	99,816
	$ 126,369,445	$ 26,598,342	$ 99,771,103

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. On February 11, 2009, the warrants, with an exercise price of $4.96, were repriced at $1.20 to reflect the current economic conditions, resulting in the recording of additional consideration of $29,219. The fair value of this property totalling $286,438 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 months ended March 31, 2009.

4) Operating facility and long-term debt:

	March 31,2009	December 31, 2008
Extendible Facility, see below	$ 6,500,000	$ 6,500,000
Term Facility, see below	10,825,019	10,976,564
Automotive loans payable, secured by certain of automotive assets, requiring monthly payments totalling $17,047 including interest at an implied rate of 5.0% and maturing through August 2012	426,415	471,846
	17,751,434	17,948,410
Less current portion	1,750,526	1,166,906
	$ 16,000,908	$ 16,781,504

Principal payments due over the next five years are as follows:

2009	$ 1,750,526
2010	11,690,354
2011	1,375,447
2012	1,310,107
2013	1,625,000

On May 30, 2008, Canyon entered into a credit agreement (the “Agreement”) with its lender to change the existing Extendible Facility and Operating Facility, and to add a non-revolving extendible term facility (the “Term Facility”).

Under the Agreement, the Term Facility bears interest at the bank’s prime lending rate plus 0.75 percent and is repayable by way of blended monthly principal and interest payments of $78,419, based on a 20 year amortization period. The Term Facility matures on May 26, 2010 (“Term Maturity Date”) and can be extended at the lender’s option for a further period of two years from the then current Term Maturity Date. Security for the Term Facility is a mortgage over the Company’s land and buildings and a general security agreement over all of the Company’s assets. The full amount of $11.4 million has been drawn under this facility.

In accordance with the Company's accounting policy on financial instruments, the finance costs incurred to obtain bank financing are netted against related debt and amortized using the effective interest rate method. The Term Facility as at March 31, 2009 is presented net of $254,192 of unamortized finance costs related to the restructuring of the Company's debt facilities.

The Extendible Facility is a revolving extendible credit facility up to a maximum amount of $20 million and bears interest, payable monthly, at the bank’s prime lending rate plus 0.5 percent. The Extendible Facility is subject to renewal on May 25, 2009 at which time it can be extended at the lender’s option for 364 days. If the Extendible Facility is not extended, all amounts outstanding are repayable in 16 consecutive quarterly installments, commencing on the last day of the third month following the then maturity date, with the first fifteen of such installments being one-twentieth of the amount outstanding on the maturity date and the sixteenth of such installments being for the balance outstanding. Security for the Extendible Facility is a general security agreement over all of the Company’s assets.

The Operating Facility is a demand revolving facility up to a maximum amount of $5 million and bears interest, payable monthly, at the bank’s prime lending rate plus 0.5 percent and is secured by a general security agreement over all of the Company’s assets. The operating facility is unutilized as at March 31, 2009 ($2.9 million as at December 31, 2008).

5) Share capital:

a) Authorized:

Authorized share capital comprises an unlimited number of voting Common Shares without nominal or par value, and an unlimited number of Preferred Shares. The Preferred Shares are issuable in series, with the Company's directors to determine the number of Preferred Shares to comprise a Series and the designation, rights, privileges, restrictions and conditions attaching to each Series, including voting rights (if any), dividend terms and entitlement, and terms and conditions of redemption, purchase and conversion.

b) Common shares issued:

	Number	Amount
Balance, March 31, 2009 and December 31, 2008	22,148,533	$ 87,988,904

c) Contributed surplus:

Balance, December 31, 2008	$ 2,440,049
Stock-based compensation expense	171,756
Balance, December 31, 2008	$ 2,611,805

d) Stock options:

During the three months ended March 31, 2009, the Company granted 859,000 options (2008-181,500) to officers, directors and employees at exercise prices ranging from $0.78 to $1.04. The average fair value of these options was $0.97 (2008-$1.88) per option using the Black-Scholes option pricing model with the following assumptions: risk free interest rate of 1.13% (2008-3.10%), maximum life of 5 years, expected dividends of nil and expected volatility of 40%. The compensation cost to the Company for the three months ended March 31, 2009 and 2008 was $171,756 and $184,212 respectively.

e) Stock Based Compensation Plan:

On March 31, 2009, the Company's shareholders approved a Stock Based Compensation Plan (the "Plan") to provide certain directors, officers, key employees and consultants of the Company with an opportunity to acquire common shares in lieu of cash bonuses. Under the Plan, the board of directors from time to time may grant incentive based units to participants as compensation in respect of services rendered by the participant for a fiscal year. Each incentive based unit will give the participant the right to receive, on or after the vesting date for such incentive based unit upon exercise, one common share for no further consideration or payment by such participant. The aggregate number of common shares that may be issued pursuant to the exercise of incentive based units awarded under the Plan is 5% of the issued and outstanding common shares of the Company. On April 2, 2009, 147,500 incentive based units were granted to certain directors of the Company.

f) Warrants:

In connection with the purchase of intangible assets in February 2007, the Company issued 125,000 warrants valued at $286,344 as at March 31, 2009 ($257,125 as at December 31, 2008) 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. On February 11, 2009, the warrants were repriced at $1.20 to reflect the current economic conditions, resulting in the recording of additional consideration of $29,219.

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:

	March 31,2009	March 31,2008
Income tax rate	29.00%	29.50%
Expected income tax expense	$ 400,558	$ (378,523)
Increase (decrease) in income taxes resulting from:		
Non-deductible expenses	2,857	4,682
Non-deductible stock-based compensation expense	49,809	54,343
Future income tax benefit from income tax rate reduction	(16,431)	20,186
Provision for income taxes	$ 436,793	$ (299,312)

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

Future income tax assets		
Share issuance costs	$ (498,488)	$ 737,365
Future income tax liabilities		
Property and equipment	$ 1,004,831	833,779
	$ 506,343	$ 96,414

7) Per share amounts:

	March 31,2009	March 31,2008
Weighted average common shares outstanding - basic	22,148,533	22,148,533
Effect of stock options	866	222,670
Weighted average common shares outstanding - diluted	22,149,399	22,371,203

The calculation of dilutive earnings per share does not include anti-dilutive options. These are options that would not be exercised because their exercise price is higher than the average market value of the shares for the period. The number of excluded options at March 31, 2009 is 1,774,999 (March 31, 2008 - 1,257,000).

8) Financial instruments and financial risk management:

As at March 31, 2009, the Company's financial instruments are cash, accounts receivable, operating facility, accounts payable and accrued liabilities 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
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. Two customers account for 64% (2008 - two customers account for 35%) of the Company's accounts receivable while two customers account for 40% (2008 - two customers account for 40%) of the revenue.

Fair values:
With the exception of long-term debt and capital leases, 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 capital leases is not materially different from the carrying amounts since the interest rate approximates a market rate of interest.

8) Financial instruments and financial risk management (continued):

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, 2009, an increase or decrease in interest expense for each one percent change in interest rates on floating rate debt would have been $47 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, 2009, the Company had available unused bank credit facilities plus cash of $18.7 million (2008: $6.1 million), plus accounts receivable of $8.2 million (2008: $6.6 million) to meet its financial liabilities.

9) 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 were as follows:

(Stated in dollars, except ratios)	March 31,2009	December 31, 2008
Debt	$ 17,571,085	$ 18,394,371
Shareholders' equity (net of Intangible assets)	88,586,489	87,466,003
Capitalization	$ 106,157,574	$ 105,860,374
Debt to Capitalization ratio	0.17	0.17

10) Commitments:

a) The Company has operating lease commitments for vehicles and office space as follows:

2009	$465,095
2010	$371,185
2011	$257,663
2012	$290,218

b) In July, 2007, the Company established a Deferred Share Unit Plan. Under this Plan, upon acceptance of the Company's offer of employment, the President was granted 800,000 units with base values varying between $5.00 and $8.65 per unit. In February, 2009, the number of units granted was modified to 600,000 and the base values were modifed to between $1.25 and $2.00 per unit in response to market conditions. The term of the plan is 5 years, and at that time the President will receive a cash amount equal to the market value of the Company's shares in excess of the base value of the deferred share units. The deferred share units will be recorded as a liability and revalued at each reporting period. As at March 31, 2009 and December 31, 2008 , the units were out of the money and as such, no liability has been recorded.

11) Contingency:

The corporation has commenced legal action against a customer of the corporation, MD Energy Ltd., seeking payment in the sum of $538,433 for services rendered. The customer has filed a defence and counterclaim against the corporation and a third party seeking damages in the sum of $1,285,000. Management is of the opinion that the statement of defence and counterclaim is without merit.