CONDENSED INTERIM CONSOLIDATED

FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED

JUNE 30, 2011 AND 2010

(UNAUDITED)

CANYON SERVICES GROUP INC.

Condensed Consolidated Balance Sheet
(Unaudited)

In thousands of dollars

	Note	June 30, 2011	December 31, 2010
Assets			
Current assets:			
Cash and cash equivalents		$32,946	$41,247
Trade and other receivables	3	15,302	46,285
Inventories		10,908	8,059
Prepayments		5,591	1,862
Total current assets		64,747	97,453
Non-current assets:			
Property and equipment	8	218,223	175,298
Intangible assets	9	353	397
Total non-current assets		218,576	175,695
Total Assets:		$283,323	$273,148
Liabilities and Equity			
Current liabilities:			
Trade and other payables		$28,910	$29,919
Loans and borrowings	10	1,047	1,070
Dividend payable		3,045	3,020
Current tax liabilities		218	14,161
Total current liabilities		33,220	48,170
Non-current liabilities:			
Loans and borrowings	10	1,631	1,435
Deferred tax liabilities	11	3,975	1,276
Total non-current liabilities		5,606	2,711
Equity			
Share capital	12	182,917	181,683
Warrants	12	95	191
Contributed surplus		4,702	4,042
Retained earnings		56,783	36,351
Total equity		244,497	222,267
Total liabilities and equity		$283,323	$273,148

The notes are an integral part of these unaudited condensed interim consolidated financial statements.

CANYON SERVICES GROUP INC.

Condensed Consolidated Statement of Comprehensive Income (loss)
(Unaudited)

For the three and six months ended June 30
In thousands of dollars, except per share amounts

		Three Months Ended June 30		Six Months Ended June 30	
	Note	2011	2010	2011	2010
Revenue		$22,886	$22,817	$121,923	$64,276
Cost of services	5	(27,506)	(20,615)	(79,939)	(46,545)
Gross profit (loss)		(4,620)	2,202	41,984	17,731
Administrative expenses	6	(4,528)	(2,440)	(9,918)	(5,605)
Results from operating activities		(9,148)	(238)	32,066	12,126
Finance costs		(88)	(55)	(168)	(135)
Profit (loss) before income tax		(9,236)	(293)	31,898	11,991
Income tax (expense) recovery	7	2,597	384	(8,421)	88
Net earnings (loss) and comprehensive income (loss)		(6,639)	91	$23,477	$12,079
Earnings (loss) per share					
Basic		$(0.11)	$0.00	$ 0.39	$ 0.23
Diluted		(0.11)	0.00	0.37	0.22

The notes are an integral part of these unaudited condensed interim consolidated financial statements.

CANYON SERVICES GROUP INC.

Condensed Consolidated Statement of Changes in Equity
(Unaudited)

In thousands of dollars

	Share Capital	Warrants	Contributed Surplus	Retained Earnings (Deficit)	Total Equity
Balance at January 1, 2010	$135,161	$286	$3,445	($14,261)	$124,631
Total Comprehensive income for the period				12,079	12,079
Transactions with owners, recorded directly in equity:					
Issue of common shares	46,760				46,760
Share issuance costs, net of income taxes	(2,073)				(2,073)
Issue on exercise of stock options	379				379
Reclassification on exercise of stock options and incentive-based units	319		(319)		-
Share-based payment transactions			514		514
Balance at June 30, 2010	$180,546	$286	$3,640	($2,182)	$182,290
Balance at January 1, 2011	$181,683	$191	$4,042	$36,351	$222,267
Total Comprehensive income for the period				23,477	23,477
Transactions with owners, recorded directly in equity:					
Issue on exercise of stock options	672				672
Issue on exercise of warrants	50				50
Reclassification on exercise of stock options and incentive-based units	416		(416)		-
Reclassification on exercise of warrants	96	(96)			-
Share-based payment transactions			1,076		1,076
Dividends				(3,045)	(3,045)
Balance at June 30, 2011	$182,917	$95	$4,702	$56,783	$244,497

The notes are an integral part of these unaudited condensed interim consolidated financial statements.

CANYON SERVICES GROUP INC.

Condensed Consolidated Statement of Cash Flows
(Unaudited)

For the six months ended June 30
In thousands of dollars

	Note	Six months ended June 30	
		2011	2010
Cash flows from operating activities:			
Net earnings and comprehensive income		$ 23,477	$ 12,079
Adjustments for:			
Depreciation and amortization	5, 6	10,013	6,211
Net finance costs		168	135
Stock-based compensation expense		2,790	1,313
Loss on sale of property and equipment		(6)	-
Income tax expense	7	8,421	(88)
		44,863	19,650
Change in inventories		(2,847)	(1,095)
Change in trade and other receivables		30,983	(8,896)
Change in prepayments		(3,729)	(196)
Change in trade and other payables		(2,722)	5,929
Cash generated from operating activities		66,548	15,392
Interest paid		(168)	(135)
Income tax paid		(19,666)	-
Net cash from operating activities		46,714	15,257
Cash flows from investing activities:			
Proceeds from sale of property and equipment		122	-
Acquisition of property and equipment	8	(52,333)	(39,572)
Net cash used in investing activities		(52,211)	(39,572)
Cash flows from financing activities:			
Issue of common shares, net of issuance costs		-	43,972
Proceeds from exercise of share options and warrants		722	379
Repayment of borrowings		(58)	(97)
Payment of finance lease liabilities		(448)	(193)
Dividends paid	12	(3,020)	-
Net cash from (used in) financing activities		(2,804)	44,061
Net increase (decrease) in cash and cash equivalents		(8,301)	19,746
Cash and cash equivalents at January 1		41,247	12,724
Cash and cash equivalents at June 30		$ 32,946	$ 32,470

The notes are an integral part of these unaudited condensed interim consolidated financial statements.

1. Reporting Entity:

Canyon Services Group Inc. (the “Company”) is a company incorporated under the laws of the province of Alberta. The Company is a publicly-traded company listed on the Toronto Stock Exchange under symbol ‘FRC’. These consolidated financial statements include the accounts of Canyon Services Group Inc. and its wholly-owned subsidiaries, Canyon Technical Services Ltd. and Canyon Technical Services Inc.

The Company's activities are conducted in the oilfield services industry and are focused on providing specialized fracturing and chemical stimulation services to companies exploring for and developing petroleum and natural gas resources operating in the Western Canadian Sedimentary Basin. These services are designed to enhance oil and natural gas production and maximize recovery from conventional and unconventional reservoirs.

2. Basis of preparation:

(a) Statement of compliance:

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) applicable to the preparation of interim financial statements, including International Accounting Standard (IAS) 34 and IFRS 1. Subject to certain transition elections disclosed in note 16, the company has consistently applied the same accounting policies in its opening IFRS balance sheet as at January 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 16 discloses the impact of the transition of IFRS on the company’s reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the company’s consolidated financial statements for the year ended December 31, 2010.

The policies applied in these condensed interim consolidated financial statements are based on IFRS issued and outstanding as of August 9, 2011, the date the Board of Directors approved the statements. Any subsequent changes to IFRS that are given effect in the company’s annual consolidated financial statements for the year ending December 31, 2011 could result in restatement of these interim consolidated financial statements, including the transition adjustments recognized on change-over to IFRS.

The condensed interim consolidated financial statements should be read in conjunction with the Company’s Canadian GAAP (“CGAAP”) annual financial statements for the year ended December 31, 2010, as well as the Company’s March 31, 2011 condensed interim consolidated financial statements prepared in accordance with IFRS. The Company’s March 31, 2011 condensed interim consolidated financial statements include certain disclosures not repeated in the June 30, 2011 condensed interim consolidated financial statements, including disclosure of IFRS 1 elections made by the Company, the Company’s significant accounting policies in accordance with IFRS (note 3 of the March 31, 2011 condensed interim consolidated financial statements) the Company’s use of judgments and estimates, reconciliations of equity and total

comprehensive income reported under previous Canadian GAAP to those reported under IFRS as at January 1, 2010, as at and for the three months ended March 31, 2010, and as at and for the year ended December 31, 2010, and certain other supplementary annual disclosures for the year ended December 31, 2010.

(b) Basis of measurement:

The consolidated financial statements have been prepared on the historical cost basis except for the following material item in the consolidated balance sheet:

(i) Liabilities for cash-settled share-based payment arrangements are measured at fair value.

3. Financial Risk Management Overview

Trade and other receivables

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 that include oil and natural gas price fluctuations and the customers' ability to secure appropriate financing. As at June 30, 2011, five customers accounted for 71% (December 31, 2010 – five customers accounted for 57%) of the Company's accounts receivable while five customers account for 41% (December 31, 2010 – five customers account for 50%) of the revenue.

Standard payment terms for the industry are 30-60 days from the invoice date, however industry practice allows for payment up to 90 days after invoice date. The Company's accounts receivable as at June 30, 2011 before the allowance for doubtful accounts of $418 (December 31, 2010: $479) is aged as follows:

Thousands of dollars	June 30, 2011	December 31, 2010
Current (0-30 days from invoice date)	$10,282	$21,384
31-60 days past due	1,634	20,713
Over 60 days past due	3,804	4,667
Total	$15,720	$46,764

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 and cash equivalents, plus current portion of long-term debt, 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:

(Thousands of dollars, except ratios)

	June 30, 2011	December 31, 2010
Debt, net of cash	$ -	$ -
Shareholders' equity (net of intangible assets)	244,144	221,870
Capitalization	$ 244,144	$ 221,870
Debt to Capitalization ratio	-	-

The Company also manages its capital structure to ensure compliance with the following financial covenants specified in the credit facilities:

The Company is required to maintain a working capital ratio of not less than 1.25 to 1.00, calculated as at the end of each fiscal quarter.

The Company is required to maintain a ratio of funded debt to profit (loss) before income tax, plus depreciation and amortization, plus finance costs, plus share-based payment transactions that does not exceed 3.0 to 1.0, calculated as at the end of each fiscal quarter.

As at the end of each fiscal quarter, the total outstanding balances under the Operating Facility and the Extendible Facility cannot exceed 50% of the net book value of property and equipment net of real estate assets.

The Company's ratio of profit (loss) before income tax, plus depreciation and amortization, plus finance costs, plus share-based payment transactions to total debt service obligations is calculated on an annual basis on December 31 of each year. On December 31, 2011, the ratio cannot be less than 1.25 to 1.00.

As at June 30, 2011, the Company is in compliance with each of the above financial covenants.

4. 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.

5. Cost of Services:

Cost of services for the three and six months ended June 30, 2011 are detailed as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Employee benefits expense	$8,972	$5,634	$22,573	$12,136
Depreciation of equipment	4,894	3,166	9,485	5,845
Operating expense	13,640	11,815	47,881	28,564
	$27,506	$20,615	$79,939	$46,545

6. Administrative Expenses:

Administrative expenses for the three and six months ended June 30, 2011 are detailed as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Employee benefits expense	$1,637	$1,037	$3,378	$2,130
Depreciation of equipment	252	179	484	356
Amortization of intangibles	22	5	44	10
Share –based payment transactions	872	283	2,790	1,313
Other administration expenses	1,745	936	3,222	1,796
	$4,528	$2,440	$9,918	$5,605

7. Income Tax (Expense) Recovery:

Income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected applied to the pre-tax income of the interim period. The Company's consolidated effective tax rate for the six months ended June 30, 2011 was 25.9% (six months ended June 30, 2010: a tax recovery of 0.1%). The change in effective tax rate was caused mainly by the following factor:

- Losses occurred prior to the June 30, 2010 interim period for which no deferred tax asset had been recognized in 2009 because management did not consider it probable in 2009 that future taxable profits would be available against which those tax losses could be utilized. In the three months ended June 30, 2010, management reassessed this estimate and considered it probable that future taxable profits would be available against which those tax losses could be utilized. As a result, a decrease in the unrecognized deferred tax assets was recorded in the six months ended June 30, 2010 resulting in the effective tax rate recovery of 0.1%.

	Three Months Ended		Six Months Ended	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Current tax (expense) recovery	$4,372	$ -	($5,722)	$ -
Deferred tax (expense) recovery	(1,775)	384	(2,699)	88
Income tax (expense) recovery	$2,597	$384	($8,421)	$88

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8. Property and equipment:

In thousands of dollars	Land	Office, Shop & Yard	Field Equipment	Automotive	Office Equipment & Leaseholds	Total
Cost or deemed cost:						
Balance at January 1, 2010	$3,851	$11,173	$102,244	$23,896	$2,928	$144,092
Additions	1,291	-	62,571	17,789	1,045	82,696
Reclassification	528	(528)	-	-	-	-
Disposals	-	-	(2,957)	(231)	(46)	(3,234)
Balance at Dec 31, 2010	**$5,670**	**$10,645**	**$161,858**	**$41,454**	**$3,927**	**$223,554**
Additions	742	1,082	38,992	11,023	1,171	53,010
Disposals	-	-	-	(221)	-	(221)
Balance at Jun 30, 2011	**$6,412**	**$11,727**	**$200,850**	**$52,256**	**$5,098**	**$276,343**
Depreciation:						
Balance at January 1, 2010	$ -	$1,307	$23,731	$9,429	$1,604	$36,071
Depreciation for the year	-	444	10,743	2,958	381	14,526
Disposals	-	-	(2,207)	(93)	(41)	(2,341)
Balance at Dec 31, 2010	**$ -**	**$1,751**	**$32,267**	**$12,294**	**$1,944**	**$48,256**
Depreciation for the period	-	212	6,603	2,882	272	9,969
Disposals	-	-	-	(105)	-	(105)
Balance at Jun 30, 2011	**$ -**	**$1,963**	**$38,870**	**$15,071**	**$2,216**	**$58,120**
Carrying amounts:						
At December 31, 2010	5,670	8,894	129,591	29,160	1,983	175,298
At June 30, 2011	6,412	9,764	161,980	37,185	2,882	218,223

Leased equipment

Property and equipment includes leased assets as the Company leases equipment under a number of finance lease agreements. The leased equipment secures lease obligations (see note 10). At June 30, 2011, the net carrying amount of the leased equipment was $3,111 (December 31, 2010: $1,288).

9. Intangible Assets:

Intangible assets comprise intellectual properties with respect to proprietary light weight proppant and were acquired in February 2007 for consideration of 125,000 warrants of the Company. The carrying value of this property totaling $205 as at June 30, 2011 ($215 as at December 31, 2010) is being amortized using the straight line method over its estimated useful life of 15 years. Intangible assets also include the purchase from a major exploration and production company of a license to perform a patented stimulation technique in both horizontal and vertical wellbores and is recorded at cost and amortized over its expected useful life of 3 years using the straight line method. The carrying value of this property totaled $148 as at June 30, 2011 ($182 as at December 31, 2010).

10. Loans and borrowings:

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortized cost.

In thousands of dollars	Nominal Interest Rate	Year of Maturity	June 30, 2011	Dec 31, 2010
Current Liabilities:				
Secured equipment loans	5%	2012	$54	$96
Finance lease liabilities	6.3-8.4%	2011-2014	993	974
			$1,047	$1,070
Non-current liabilities:				
Secured equipment loans	5%	2012	$4	$20
Finance lease liabilities	6.3-8.4%	2011-2014	1,627	1,415
			$1,631	$1,435

Effective June 23, 2011, the Company renewed its bank credit facilities, increasing the total amount available from $36 million to $60 million. The renewed facilities comprise an Operating Facility and an Extendible Facility.

The Operating Facility is a three year committed revolving facility up to a maximum of $15 million (increased from $10 million previously), and bears interest, payable monthly, at the bank's prime lending rate plus 0.5% to 1.5%, dependent on certain financial ratios of the Company. As at June 30, 2011 and December 31, 2010, no amounts were drawn on the Operating Facility.

The Extendible Facility is a three year committed revolving facility up to a maximum of $45 million (increased from $26 million previously), and bears interest, payable monthly, at the bank's prime

lending rate plus 0.5% to 1.5%, dependent on certain financial ratios of the Company. As at June 30, 2011 and December 31, 2010, no amounts were drawn on the Extendible Facility.

Security for the Operating Facility and the Extendible Facility is provided by a general security over all of the Company's assets.

The Company is bound by certain financial covenants as described in Note 3 and non-financial covenants. The Company was in compliance with the terms of the lending agreements as at June 30, 2011 and December 31, 2010.

11. Deferred tax assets and liabilities:

Recognized deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
In thousands of dollars	June 30/11	Dec. 31/10	June 30/11	Dec. 31/10	June 30/11	Dec. 31/10
Property and equipment	$ -	$ -	$7,108	$3,584	$7,108	$4,042
Share issuance costs	(830)	(976)	-	-	(830)	(976)
Share-based payment transactions	(1,647)	(1,193)	-	-	(1,647)	(1,193)
Finance leases	(656)	(139)	-	-	(656)	(597)
Tax (assets) liabilities	$(3,133)	$(2,308)	$7,108	$3,584	$3,975	$1,276

As at June 30, 2011, deferred tax assets are based on a rate of 25% and total $3,133 (December 31, 2010: $2,308). Deferred tax assets comprise amounts deductible for tax purposes in future periods in respect of: (i) expenses associated with the issuance of common shares in 2009 and 2010; (ii) amounts included in trade and other payables in respect of the Company's Share Appreciation Rights; and (iii) amounts resulting from the recording of finance lease obligations. The deferred tax liabilities which are based on a rate of 25% comprise the difference between the carrying amount of property and equipment and the underlying value for tax purposes.

12. Capital and reserves:

Share capital, warrants and contributed surplus
In thousands of shares

	Common Shares	
	Six Months Ended June 30, 2011	Year Ended December 31, 2010
On issue at January 1	60,369	47,162
Issued for cash	-	12,305
Exercise of share options	448	820
Exercise of warrants	42	42
Conversion of incentive based units	47	40
On issue at end of period	60,906	60,369

Issuance of common shares

The above includes 161 common shares issued during the six months ended June 30, 2011 as a result of the exercise of vested options arising from the share purchase option plan granted to key management. Options were exercised at an average price of $1.03 per option. All issued shares are fully paid.

Common shares

The holders of common shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

Dividends

During the six months ended June 30, 2011, the Company paid total dividends of $3,020 (2010: nil).

13. Share-based payment:

Description of the share-based payment arrangements

As at June 30, 2011 the Company has the following share-based payment arrangements:

a) Share Purchase Option Plan:

The Company's share purchase option plan (the "Plan") is available to Directors and certain employees as determined by the Company's Board of Directors. The Plan allows for the granting of options to purchase Common shares to a maximum number equal to 10% of the then issued and outstanding Common Shares of the Company. The price of each share purchase option granted is set by the Company's Board of Directors based on the market value of the Company's stock on the date of the grant. Issued share purchase options generally vest equally over a three

year period or, as determined by the Board of Directors, and expire on the fifth anniversary date of their issuance.

The per share weighted average fair value of stock options granted during the six months ended June 30, 2011 was $4.48 based on the date of grant valuation using the Black-Scholes option pricing model. Stock-based compensation of $932 has been recorded for the six months ended June 30, 2011 (2010: $342) using the fair value method.

A summary of the status of the Company's stock option plan as at June 30, 2011 and December 31, 2010 and changes during the periods then ended is presented below:

Number of options in thousands	Options Outstanding	Range of Exercise Price	Weighted Average Exercise Price
Outstanding as at January 1, 2010	1,746	$ 0.78 – $ 2.15	$ 1.17
Granted	1,387	$ 2.43 – $ 11.41	$ 3.78
Exercised	(820)	$ 0.96 – $ 2.15	$ 1.14
Forfeited	(123)	$ 0.96 – $ 5.10	$ 1.57
Outstanding as at December 31, 2010	2,190	$ 0.78 – $ 11.41	$ 2.79
Granted	607	$ 10.86 – $15.12	$ 11.86
Exercised	(448)	$ 0.96 – $ 4.31	$ 1.51
Forfeited	(54)	$ 1.20 – $11.64	$ 6.10
Outstanding as at June 30, 2011	2,295	$ 0.78 – $15.12	$ 5.36

b) Stock-based Compensation Plan:

(Number of incentive based units in thousands)

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. For the six months ended June 30, 2011, there were 53 incentive based units granted to directors of the Company. There were 48 incentive based units converted into common shares of the Company by directors during the six months ended June 30, 2011 and 15 incentive based units were forfeited. The compensation cost to the Company for the six months

ended June 30, 2011 was $144 (2010: $50). As at June 30, 2011, there were 173 incentive based units outstanding (183 as at December 31, 2010).

c) Share Appreciation Rights (cash settled):
(Number of units in thousands)

In August, 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 units with base values varying between $5.00 and $8.65 per unit. Effective February, 2009, the term was extended, the number of units granted was modified to 600 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, expiring on February 14, 2014, 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 obligation of $6.6 million as at June 30, 2011 is recorded as a liability in trade and other payables and revalued at each reporting period. In the six months ended June 30, 2011, the Company recorded compensation costs of $1,714 (2010 – $799) related to the outstanding deferred share units.

d) Warrants:
(Number of warrants in thousands)

In connection with the purchase of intangible assets in February 2007, the Company issued 125 warrants. These warrants are recorded at $95 as at June 30, 2011 ($191 as at December 31, 2010). These warrants entitle the holder to purchase common shares of the Company at an exercise price of $1.20 per share, and were exercisable over a three year period and expire in November 2011. On March 3, 2011, 42 warrants were exercised for proceeds of $50. Upon exercise of the warrants $96 was reclassified from warrants to capital stock. The outstanding 42 (2010 – 83) warrants were exercisable as at June 30, 2011.

Upon acceptance of the Company's offer of employment, the President was granted 425 warrants valued at $712 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 August 2012. Stock-based compensation has been recorded over the three year vesting period and $nil has been recorded in the six months ended June 30, 2011 (2010: $122). The outstanding 425 warrants were exercisable as at June 30, 2011.

e) Inputs for measurement of grant date fair values

The grant date fair value of the share based payment plans was measured based on the Black-Scholes formula. Expected volatility is estimated by considering historic average share price volatility. The inputs used in the measurement of the fair values at grant date of the share-based payment plans during the second quarter of 2011 are the following:

	Six Months Ended	
Share Purchase Option Plan	June 30, 2011	June 30, 2010
Fair value of share options and assumptions:		
Fair value at grant date	$4.48	$0.96
Share price at grant date	$11.86	$2.58
Exercise price	$11.86	$2.58
Expected volatility (weighted average)	50.5%	44.1%
Option life (expected weighted average life)	3.8 years	4.0 years
Expected dividends (weighted average)	0.9%	0.0%
Risk-free interest rate (weighted average)	2.3%	2.1%
Forfeiture rate	5.3%	12.5%

14. Operating leases:

Non-cancellable operating lease rentals are payable as follows:

In thousands of dollars	June 30, 2011	December 31, 2010
Less than one year	$1,429	$995
Between one and five years	4,269	3,531
More than five years	1,846	1,815
	$7,544	$6,341

The Company leases a number of offices and warehouse facilities under operating leases. The leases typically run for a period of three to seven years, with an option to renew the lease after that date.

15. Capital commitments:

As at June 30, 2011 the Company has commitments to purchase property and equipment for $29 million (as at December 31, 2010: $57 million).

16. First Time adoption of IFRS:

The Company adopted IFRS on January 1, 2011, with a transition date of January 1, 2010. Under IFRS 1 "First time Adoption of International Financial Reporting Standards", IFRS is applied retrospectively at the transition date with the offsetting adjustments to assets and liabilities generally included in deficit. While the adoption of IFRS has not changed the actual cash flows of the Company, the adoption has resulted in changes to the reported financial position and results of operations of the Company. There are no material differences between the statement of cash flows presented under IFRS and the statement of cash flows presented under Canadian GAAP.

The changes in presentation due to IFRS are presented below as reconciliations to the Condensed Interim Consolidated Balance Sheet of the Company from the amounts reported under Canadian GAAP.

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As at June 30, 2010
Consolidated Balance Sheet
In thousands of dollars

		CGAAP June 30, 2010	Effects of Transition to IFRS January 1, 2010	Effects of Transition to IFRS	IFRS June 30, 2010
Assets					
Current assets:					
Cash and cash equivalents		$32,470			32,470
Trade and other receivables		15,931			15,931
Inventories		6,034			6,034
Prepayments		1,100			1,100
Future income tax asset	*note d*	674		128	802
Other assets		24			24
Total current assets		56,233		128	56,361
Non-current assets:					
Property and equipment	*notes a, b*	141,199	822	231	142,252
Intangible assets		225			225
Total non-current assets		141,424	822		142,477
Total Assets:		$197,657	$822	$359	$198,838
Liabilities and Equity					
Current liabilities:					
Trade and other payables	*note c*	14,893	53	(153)	14,793
Loans and borrowings	*note b*	134	317	338	789
Total current liabilities		15,027	370	185	15,582
Non-current liabilities:					
Loans and borrowings	*note b*	58	580	328	966
Future income taxes					
Total non-current liabilities		15,085	580	328	966
Equity:					
Share capital		180,546			180,546
Warrants		286			286
Contributed surplus	*note c*	3,436	81	123	3,640
Retained earnings (deficit)	*notes a, b, c*	(1,696)	(209)	(277)	(2,182)
Total equity		182,572	(128)	(154)	182,290
Total liabilities and equity:		$197,657	$822	$359	$198,838

The changes in presentation due to IFRS are presented below as reconciliations to the Condensed Interim Consolidated Statement of Comprehensive Income of the Company from the amounts reported under Canadian GAAP.

Condensed Interim Consolidated Statement of Comprehensive Income under IFRS
For the three months ended June 30
In thousands of dollars, except per share amounts

		CGAAP 2010	Effects of Transition to IFRS	IFRS 2010
Revenue		$22,817		$22,817
Cost of services	*notes a, b*	(20,334)	(281)	(20,615)
Operating income		2,483		2,202
Administrative expenses	*note c*	(2,374)	(66)	(2,440)
Results from operating activities		109		(238)
Finance costs	*note b*	(25)	(30)	(55)
Profit (loss) before income tax		84		(293)
Income tax expense	*note d*	(256)	128	(384)
Total comprehensive income		340	(249)	$91
Earnings per share				
Basic		$0.01		$0.00
Diluted		$0.01		$0.00

Condensed Interim Consolidated Statement of Comprehensive Income under IFRS
For the six months ended June 30
In thousands of dollars, except per share amounts

		CGAAP 2010	Effects of Transition to IFRS	IFRS 2010
Revenue		$64,276		$64,276
Cost of services	*notes a, b*	(46,165)	(380)	(46,545)
Operating income		18,111		17,731
Administrative expenses	*note c*	(5,635)	30	(5,605)
Results from operating activities		12,476		12,126
Finance costs	*note b*	(80)	(55)	(135)
Profit before income tax		12,396		11,991
Income tax expense	*note d*	(40)	128	88
Total comprehensive income		12,356	(277)	$12,079
Earnings per share				
Basic		$0.23		$0.23
Diluted		$0.23		$0.22

Notes to the IFRS reconciliations of Equity and Total Comprehensive Income from Canadian GAAP to IFRS

a) Property and Equipment

On transition, IFRS requires detailed analysis of property and equipment costs that should and should not be capitalized, component accounting and application of a depreciation method that reflects the pattern that matches the future economic benefits expected to be consumed. In order to componentize its assets, the Company considered the materiality and significance of each component of an asset in relation to the total cost of the asset as well as its necessity to the asset, percentage of asset and economic useful life of each possible component. The Company also considered the economic useful lives of each component of its property and equipment using the same approach used for componentization.

With respect to property and equipment cost, IFRS 1 provides optional exemptions from the retrospective restatement of cost in accordance with IFRS. The Company reconstructed the carrying amount of all items of property and equipment to comply with IFRS on an asset by asset basis. The Company has elected under IAS 16 and IFRS 1 to use the retrospective IFRS carrying amount, which for us, was very

similar to Canadian GAAP except for depreciation expense, whereby assets will be at original cost less depreciation adjusted under IFRS. Furthermore, since borrowing costs were never capitalized under CGAAP, the Company elected under IFRS 1 to apply the borrowing cost standard (IAS 23), prospectively on transition (January 1, 2010).

The total impact of this change due to componentization decreased (increased) retained earnings as follows:

Consolidated Balance Sheet

In thousands of dollars	As at June 30, 2010
Increase (Decrease) in non-current assets	($511)
Increase (Decrease) in retained earnings	($511)

Consolidated Statement of Comprehensive Income

In thousands of dollars	As at June 30, 2010
Increase (Decrease) in depreciation expense	$511

b) Finance Leases

Under IFRS, contracts are assessed on the basis of whether or not the Company bears the risks and rewards, in substance. The Company applied the criteria under IAS 17 to contracts in order to determine which items are required to be capitalized and to reflect retrospective application from the date of initial recognition (at inception date of the lease). As a result, the Company has re-classified certain equipment leases from operating to finance leases.

The effect of this change in classification from an operating lease to finance lease were as follows:

Consolidated Balance Sheet

In thousands of dollars	As at June 30, 2010
Increase (Decrease) in non-current assets	$742
Increase (Decrease) in current liabilities	338
Increase (Decrease) in non-current liabilities	328
Increase (Decrease) in retained earnings	$1,408

Consolidated Statement of Comprehensive Income

In thousands of dollars	As at June 30, 2010
Increase (Decrease) in cost of services	($249)
Increase (Decrease) in finance costs	55
Increase (Decrease) in depreciation expense	118
	($76)

Under IAS 37, contracts are considered onerous when the unavoidable costs of meeting the obligations or the cost of fulfilling the obligations under the contract exceed the economic benefits expected to be received under the contract. The company has determined that none of the leases represent onerous contracts.

The company has, under IFRS 1, taken the exemption not to reassess whether or not an arrangement contains a lease as it had already done so under Canadian GAAP. Under IFRS, applying IAS 17 and IFRIC 4, the determination of whether or not an arrangement contains a lease would provide the same outcome as EIC 150 under Canadian GAAP.

c) Share Based Payments

The Company grants share-based payments, including a stock based compensation plan, deferred share unit plan and warrants to certain key employees, consultants, directors and officers. Forfeitures were not previously estimated under Canadian GAAP. Under Canadian GAAP, the Company accounted for the deferred share units using the intrinsic value method. Under IFRS, the fair values of all of these share based payments at fair value are measured using the Black-Scholes option pricing model. A forfeitures estimate has been applied under IFRS to determine the fair value of all awards. The company elected under IFRS 2 not to restate awards that had vested prior to the date of transition.

The effect of this change in the re-measurement of deferred share units, application of a forfeiture estimate to all awards, and graded vesting, where applicable, were as follows:

Consolidated Balance Sheet:

In thousands of dollars	As at June 30, 2010
Increase (Decrease) in current liabilities	($153)
Increase (Decrease) in contributed surplus	123
Increase (Decrease) in retained earnings	$30

Consolidated Statement of Comprehensive Income (Loss)

In thousands of dollars	As at June 30, 2010
Increase (Decrease) in administrative expenses	($30)

d) Income Taxes

The net reduction of the deferred tax liability is attributable to the deferred tax asset resulting from the recording of capital lease obligations upon conversion to IFRS, partially offset by the deferred tax liability attributable to changes in property and equipment from the recording of capitalization of leases and additional depreciation.

The effects of the transition to IFRS decrease the deferred income tax liability based on a rate of 25%. The effect of this change is as follows:

Consolidated Balance Sheet

In thousands of dollars	As at June 30, 2010
Increase (Decrease) in current assets	$128
Increase (Decrease) in non-current liabilities	-
Increase (Decrease) in retained earnings	128

Consolidated Statement of Comprehensive Income (Loss)

In thousands of dollars	As at June 30, 2010
	-
Increase (Decrease) in income tax expense	(128)

e) Impairment of Property and Equipment and Intangible Assets

The methodology used for performing impairment testing under IFRS differs from Canadian GAAP. The Company reviewed the carrying amounts of property and equipment and intangible assets for any indication of impairment at the date of transition as well as at June 30, 2011 and concluded no indicators were present.