



CONDENSED INTERIM CONSOLIDATED

FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED

SEPTEMBER 30, 2011 AND 2010

(UNAUDITED)

CANYON SERVICES GROUP INC.

Condensed Consolidated Balance Sheet
(Unaudited)

000's of dollars	Note	September 30, 2011	December 31, 2010
Assets			
Current assets:			
Cash and cash equivalents		\$8,705	\$41,247
Trade and other receivables	3	82,290	46,285
Inventories		12,854	8,059
Prepayments		2,068	1,862
Total current assets		105,917	97,453
Non-current assets:			
Property and equipment	8	241,785	175,298
Intangible assets	9	429	397
Total non-current assets		242,214	175,695
Total Assets:		\$348,131	\$273,148
Liabilities and Equity			
Current liabilities:			
Trade and other payables		\$57,202	\$29,919
Loans and borrowings	10	1,224	1,070
Dividend payable		-	3,020
Current tax liabilities		5,704	14,161
Total current liabilities		64,130	48,170
Non-current liabilities:			
Loans and borrowings	10	1,776	1,435
Deferred tax liabilities	11	6,195	1,276
Total non-current liabilities		7,971	2,711
Equity			
Share capital	12	183,001	181,683
Warrants	12	95	191
Contributed surplus		5,290	4,042
Retained earnings		87,644	36,351
Total equity		276,030	222,267
Total liabilities and equity		\$348,131	\$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
(Unaudited)

000's of dollars, except per share amounts					
	Note	Three Months Ended September 30		Nine Months Ended September 30	
		2011	2010	2011	2010
Revenue		\$105,207	\$66,462	\$227,131	\$130,738
Cost of services	5	(58,128)	(36,592)	(138,067)	(83,138)
Gross profit		47,079	29,870	89,064	47,600
Administrative expenses	6	(4,880)	(6,132)	(14,798)	(11,735)
Results from operating activities		42,199	23,738	74,266	35,865
Finance costs		(133)	(71)	(302)	(208)
Profit before income tax		42,066	23,667	73,964	35,657
Income tax (expense) recovery	7	(11,205)	(6,720)	(19,626)	(6,631)
Net earnings and comprehensive income		\$30,861	\$16,947	\$54,338	\$29,026
Earnings per share					
Basic		\$0.51	\$0.28	\$0.90	\$0.52
Diluted		\$0.49	\$0.28	\$0.87	\$0.51

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CANYON SERVICES GROUP INC.

Condensed Consolidated Statement of Changes in Equity
(Unaudited)

000's 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				29,026	29,026
Transactions with owners, recorded directly in equity:					
Issue of common shares	46,760				46,760
Share issuance costs, net of income taxes	(1,983)				(1,983)
Issue on exercise of stock options	520				520
Reclassification on exercise of stock options and incentive-based units	423		(423)		-
Share-based payment transactions			963		963
Balance at September 30, 2010	\$180,881	\$286	\$3,985	\$14,765	\$199,917
Balance at January 1, 2011	\$181,683	\$191	\$4,042	\$36,351	\$222,267
Total comprehensive income for the period				54,338	54,338
Transactions with owners, recorded directly in equity:					
Issue on exercise of stock options	711				711
Issue on exercise of warrants	50				50
Reclassification on exercise of stock options and incentive-based units	461		(461)		-
Reclassification on exercise of warrants	96	(96)			-
Share-based payment transactions			1,709		1,709
Dividends				(3,045)	(3,045)
Balance at September 30, 2011	\$183,001	\$95	\$5,290	\$87,644	\$276,030

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)

000's of dollars		Three months ended September 30		Nine months ended September 30	
	Note	2011	2010	2011	2010
Cash flows from operating activities:					
Net earnings and comprehensive income		\$30,861	\$16,947	\$54,338	\$29,026
Adjustments for:					
Depreciation and amortization	5, 6	5,824	4,645	15,838	10,856
Net finance costs		133	72	302	208
Stock-based compensation expense		(1,557)	1,870	1,233	3,181
Loss on sale of property and equipment		46	-	40	-
Income tax expense	7	11,205	6,720	19,626	6,631
		46,512	30,254	91,377	49,902
Change in inventories		(1,945)	(2,451)	(4,794)	(3,545)
Change in trade and other receivables		(66,989)	(28,088)	(36,006)	(36,985)
Change in prepayments		3,523	297	(205)	100
Change in trade and other payables		30,483	8,264	27,759	14,196
Cash generated from operating activities		11,584	8,276	78,131	23,668
Interest paid		(133)	(72)	(302)	(208)
Income tax paid		(3,498)	-	(23,164)	-
Net cash from operating activities		7,953	8,204	54,665	23,460
Cash flows from investing activities:					
Proceeds from sale of property and equipment		62	-	184	-
Acquisition of property and equipment	8	(28,941)	(15,180)	(81,273)	(54,752)
Net cash used in investing activities		(28,879)	(15,180)	(81,089)	(54,752)
Cash flows from financing activities:					
Issue of common shares, net of issuance costs		-	-	-	44,090
Proceeds from exercise of share options and warrants		39	259	761	520
Repayment of borrowings		(29)	(47)	(86)	(143)
Payment of finance lease liabilities		(280)	(180)	(728)	(373)
Dividends paid	12	(3,045)	-	(6,065)	-
Net cash from (used in) financing activities		(3,315)	32	(6,118)	44,094
Net increase (decrease) in cash and cash equivalents		(24,241)	(6,944)	(32,542)	12,802
Cash and cash equivalents at beginning of period		32,946	32,470	41,247	12,724
Cash & cash equivalents at September 30		\$8,705	\$25,526	\$8,705	\$25,526

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

CANYON SERVICES GROUP INC.

Notes to the condensed interim consolidated financial statements
(Unaudited)

5

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 November 8, 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 September 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

CANYON SERVICES GROUP INC.

Notes to the condensed interim consolidated financial statements
(Unaudited)

6

and total comprehensive income reported under previous Canadian GAAP to those reported under IFRS as at January 1, 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:

- (i) Liabilities for cash-settled share-based payment arrangements which are measured at estimated 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 September 30, 2011, five customers accounted for 49% (December 31, 2010 – five customers accounted for 57%) of the Company's accounts receivable while five customers account for 38% (December 31, 2010 – five customers account for 50%) of the revenue for the nine months ended September 30, 2011.

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 September 30, 2011 before the allowance for doubtful accounts of \$418 (December 31, 2010: \$479) is aged as follows:

<small>000's of dollars</small>	<u>September 30, 2011</u>	<u>December 31, 2010</u>
Current	\$48,460	\$ 21,384
31-60 days past due	22,150	20,713
Over 60 days past due	12,098	4,667
Sub-total	\$82,708	\$46,764
Less: Allowance for doubtful accounts	(418)	(479)
Total	\$82,290	\$46,285

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,

CANYON SERVICES GROUP INC.

Notes to the condensed interim consolidated financial statements
(Unaudited)

7

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 decide to adjust its capital structure from time to time as a result of expansion activities.

The debt to capitalization ratios were as follows:

000's of dollars, except ratios	September 30, 2011	December 31, 2010
Debt, net of cash	\$ -	\$ -
Shareholders' equity (net of intangible assets)	275,601	221,870
Capitalization	\$275,601	\$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 Revolving 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 September 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, third 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 eight weeks between March and June. The Company's operating activities can also be affected by extended periods of adverse weather which can result in restrictions to the movement of heavy equipment. As a result, March through June is traditionally the Company's least active time and as such the operating results of the Company will vary on a quarterly basis.

CANYON SERVICES GROUP INC.

Notes to the condensed interim consolidated financial statements
(Unaudited)

8

5. Cost of Services:

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

000's of dollars	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2011	2010	2011	2010
Employee benefits expense	\$14,736	\$8,236	\$37,309	\$20,372
Depreciation of equipment	5,477	4,437	14,963	10,282
Operating expense	37,915	23,919	85,795	52,484
	\$58,128	\$36,592	\$138,067	\$83,138

6. Administrative Expenses:

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

000's of dollars	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2011	2010	2011	2010
Employee benefits expense	\$4,273	\$2,956	\$7,651	\$5,086
Depreciation of equipment	325	197	809	553
Amortization of intangibles	22	11	66	21
Share – based payment transactions	(1,557)	1,870	1,233	3,181
Other administration expenses	1,817	1,098	5,039	2,894
	\$4,880	\$6,132	\$14,798	\$11,735

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 nine months ended September 30, 2011 was 26.5% (nine months ended September 30, 2010: 18.6%). The change in effective tax rate was caused mainly by the following factor:

- Losses occurred prior to the September 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 period ended September 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 nine months ended September 30, 2010 resulting in the effective tax rate recovery of 18.6%.

CANYON SERVICES GROUP INC.

Notes to the condensed interim consolidated financial statements
(Unaudited)

9

000's of dollars	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2011	2010	2011	2010
Current tax expense	\$8,984	\$5,811	\$14,707	\$5,811
Deferred tax expense	2,221	909	4,919	820
Income tax expense	\$11,205	\$6,720	\$19,626	\$6,631

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CANYON SERVICES GROUP INC.

Notes to the condensed interim consolidated financial statements
(Unaudited)

10

8. Property and equipment:

000's 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	1,218	1,697	60,830	17,447	1,290	82,482
Disposals	-	-	-	(442)	-	(442)
Balance at Sept 30, 2011	\$6,888	\$12,342	\$222,688	\$58,459	\$5,217	\$305,594
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	-	357	10,411	4,553	451	15,772
Disposals	-	-	-	(219)	-	(219)
Balance at Sept 30, 2011	\$ -	\$2,108	\$42,678	\$16,628	\$2,395	\$63,809
Carrying amounts:						
At December 31, 2010	\$5,670	\$8,894	\$129,591	\$29,160	\$1,983	\$175,298
At September 30, 2011	\$6,888	\$10,234	\$180,010	\$41,831	\$2,822	\$241,785

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 September 30, 2011, the net carrying amount of the leased equipment was \$3,190 (December 31, 2010: \$1,288).

CANYON SERVICES GROUP INC.

Notes to the condensed interim consolidated financial statements
(Unaudited)

11

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 \$199 as at September 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 \$230 as at September 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.

000's of dollars	Nominal Interest Rate	Year of Maturity	Sept 30, 2011	Dec 31, 2010
Current Liabilities:				
Secured equipment loans	5%	2012	\$30	\$96
Finance lease liabilities	6.3-8.4%	2011-2014	1,194	974
			\$1,224	\$1,070
Non-current liabilities:				
Secured equipment loans	5%	2012	\$-	\$20
Finance lease liabilities	6.3-8.4%	2011-2014	1,776	1,415
			\$1,776	\$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 a Revolving 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 September 30, 2011 and December 31, 2010, no amounts were drawn on the Operating Facility.

CANYON SERVICES GROUP INC.

Notes to the condensed interim consolidated financial statements
(Unaudited)

12

The Revolving 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 September 30, 2011 and December 31, 2010, no amounts were drawn on the Revolving Facility.

Security for the Operating Facility and the Revolving 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 September 30, 2011 and December 31, 2010.

11. Deferred tax assets and liabilities:

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

000's of dollars	<u>Assets</u>		<u>Liabilities</u>		<u>Net</u>	
	Sept 30 2011	Dec 31 2010	Sept 30 2011	Dec 31 2010	Sept 30 2011	Dec 31 2010
Property and equipment	\$ -	\$ -	\$8,795	\$4,042	\$8,795	\$4,042
Share issuance costs	(757)	(976)	-	-	(757)	(976)
Share-based payment transactions	(1,100)	(1,193)	-	-	(1,100)	(1,193)
Finance leases	(743)	(597)	-	-	(743)	(597)
Tax (assets) liabilities	\$(2,600)	\$(2,766)	\$8,795	\$4,042	\$6,195	\$1,276

As at September 30, 2011, deferred tax assets are based on a rate of 25% and total \$2,600 (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.

CANYON SERVICES GROUP INC.

Notes to the condensed interim consolidated financial statements
(Unaudited)

13

12. Share capital:

000's of shares	Nine Months Ended September 30, 2011	Year Ended December 31, 2010
Common shares issued as at January 1	60,369	47,162
Issued for cash	-	12,305
Exercise of share options	474	820
Exercise of warrants	42	42
Conversion of incentive based units	47	40
Common shares issued as at end of period	60,932	60,369

Issuance of common shares

The above amounts include 161 common shares issued during the nine months ended September 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 nine months ended September 30, 2011, the Company paid total dividends of \$6,065 (2010: nil).

13. Share-based payments:

Description of the share-based payment arrangements

As at September 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.

CANYON SERVICES GROUP INC.

Notes to the condensed interim consolidated financial statements
(Unaudited)

14

The per share weighted average fair value of stock options granted during the nine months ended September 30, 2011 was \$4.36 based on the date of grant valuation using the Black-Scholes option pricing model. Stock-based compensation of \$1,468 has been recorded for the nine months ended September 30, 2011 (2010: \$710) using the fair value method.

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

000's except per share amounts	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	786	\$10.09 – \$15.54	\$12.06
Exercised	(474)	\$0.96 – \$4.31	\$1.51
Forfeited	(69)	\$1.10 – \$15.11	\$7.11
Outstanding as at September 30, 2011	2,433	\$ 0.78 – \$15.54	\$5.91

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 nine months ended September 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 nine months ended September 30, 2011 and 15 incentive based units were forfeited. The compensation cost to the Company for the nine months ended September 30, 2011 was \$242 (2010: \$89). As at September 30, 2011, there were 173 incentive based units outstanding (183 as at December 31, 2010).

CANYON SERVICES GROUP INC.

Notes to the condensed interim consolidated financial statements
(Unaudited)

15

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 modified to between \$1.25 and \$2.00 per unit in response to market conditions. As of September 30, 2011, 400 of these units are vested and remain unexercised. The term of the plan is 5 years and expires on February 14, 2014. Pursuant to the plan, the deferred share units obligation of \$4,401 as at September 30, 2011 is recorded as a liability in trade and other payables and revalued at each reporting period. In the nine months ended September 30, 2011, the Company recorded a decrease in compensation costs of \$477 (2010 – an increase of \$2,218) related to the outstanding deferred share units. In the three months ended September 30, 2011, a decrease of \$2,192 was recorded relating 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 September 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 are 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 September 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 nine months ended September 30, 2011 (2010: \$164). The outstanding 425 warrants were exercisable as at September 30, 2011.

CANYON SERVICES GROUP INC.

Notes to the condensed interim consolidated financial statements
(Unaudited)

16

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:

Share Purchase Option Plan	Nine months ended September 30	
	2011	2010
Fair value of share options and assumptions:		
Fair value at grant date	\$4.36	\$1.11
Share price at grant date	\$12.06	\$4.91
Exercise price	\$12.06	\$4.91
Expected volatility (weighted average)	50.5%	40.0%
Option life (expected weighted average life)	3.5 years	4.0 years
Expected dividends (weighted average)	0.8%	0.0%
Risk-free interest rate (weighted average)	2.0%	1.6%
Forfeiture rate	5.3%	12.5%

14. Operating leases:

Non-cancellable operating lease rentals are payable as follows:

000's of dollars	September 30, 2011	December 31, 2010
Less than one year	\$1,355	\$995
Between one and five years	4,161	3,531
More than five years	1,662	1,815
	\$7,178	\$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 September 30, 2011 the Company has commitments to purchase property and equipment for \$85 million (as at December 31, 2010: \$57 million).

CANYON SERVICES GROUP INC.

Notes to the condensed interim consolidated financial statements
(Unaudited)

17

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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CANYON SERVICES GROUP INC.

Notes to the condensed interim consolidated financial statements
(Unaudited)

18

As at September 30, 2010 Consolidated Balance Sheet

000's of dollars		CGAAP Sept 30, 2010	Effects of Transition to IFRS Jan 1, 2010	Effects of Transition to IFRS	IFRS Sept 30, 2010
Assets					
Current assets:					
Cash and cash equivalents		\$25,526			\$25,526
Trade and other receivables		44,019			44,019
Inventories		8,485			8,485
Prepayments		803			803
Total current assets		78,833			78,833
Non-current assets:					
Property and equipment	<i>notes a, b</i>	151,910	822	751	153,483
Intangible assets		419			419
Total non-current assets		152,329	822		153,902
Total Assets:		\$231,162	\$822	\$751	\$232,735
Liabilities and Equity					
Current liabilities:					
Trade and other payables	<i>note c</i>	24,385	53	41	24,479
Loans and borrowings	<i>note b</i>	117	317	502	936
Current tax liabilities		5,787			5,787
Total current liabilities		30,289	370	543	31,202
Non-current liabilities:					
Loans and borrowings	<i>note b</i>	28	580	874	1,482
Deferred income tax	<i>note d</i>	310		(176)	134
Total non-current liabilities		338	580	698	1,616
Equity:					
Share capital		180,881			180,881
Warrants		286			286
Contributed surplus	<i>note c</i>	3,691	81	213	3,985
Retained earnings	<i>notes a, b, c, d</i>	15,677	(209)	(703)	14,765
Total equity		200,535	(128)	(490)	199,917
Total liabilities and equity:		\$231,162	\$822	\$751	\$232,735

CANYON SERVICES GROUP INC.

Notes to the condensed interim consolidated financial statements
(Unaudited)

19

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 September 30, 2010

000's of dollars, except per share amounts	CGAAP 2010	Effects of Transition to IFRS	IFRS 2010
Revenue	\$66,462		\$66,462
Cost of services <i>notes a, b</i>	(36,450)	(142)	(36,592)
Operating income	30,012		29,870
Administrative expenses <i>note c</i>	(5,848)	(284)	(6,132)
Results from operating activities	24,164		(23,738)
Finance costs <i>note b</i>	(23)	(48)	(71)
Profit (loss) before income tax	24,141		23,677
Income tax expense <i>note d</i>	(6,768)	48	(6,720)
Total comprehensive income	\$17,373	\$(426)	\$16,947
Earnings per share			
Basic	\$0.29		\$0.28
Diluted	\$0.28		\$0.28

CANYON SERVICES GROUP INC.

Notes to the condensed interim consolidated financial statements
(Unaudited)

20

Condensed Interim Consolidated Statement of Comprehensive Income under IFRS For the nine months ended September 30, 2010

000's of dollars, except per share amounts	CGAAP 2010	Effects of Transition to IFRS	IFRS 2010
Revenue	\$130,738		\$130,738
Cost of services <i>notes a, b</i>	(82,617)	(521)	(83,138)
Operating income	48,121		47,600
Administrative expenses <i>note c</i>	(11,481)	(254)	(11,735)
Results from operating activities	36,640		35,865
Finance costs <i>note b</i>	(104)	(104)	(208)
Profit before income tax	36,536		35,657
Income tax expense <i>note d</i>	(6,807)	176	(6,631)
Total comprehensive income	\$29,729	\$(703)	\$29,026
Earnings per share			
Basic	\$0.54		\$0.52
Diluted	\$0.52		\$0.51

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

CANYON SERVICES GROUP INC.

Notes to the condensed interim consolidated financial statements
(Unaudited)

21

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

000's of dollars	September 30, 2010
Increase (Decrease) in non-current assets	(\$780)
Increase (Decrease) in retained earnings	(\$780)

Consolidated Statement of Comprehensive Income

000's of dollars	September 30, 2010
Increase (Decrease) in depreciation expense	\$780

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

000's of dollars	September 30, 2010
Increase (Decrease) in non-current assets	\$1,531
(Increase) Decrease in current liabilities	(502)
(Increase) Decrease in non-current liabilities	(874)
Increase (Decrease) in retained earnings	\$155

CANYON SERVICES GROUP INC.

Notes to the condensed interim consolidated financial statements
(Unaudited)

22

Consolidated Statement of Comprehensive Income

000's of dollars	September 30, 2010
Increase (Decrease) in cost of services	(\$477)
Increase in finance costs	104
Increase (Decrease) in depreciation expense	219
	(\$155)

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. 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:

000's of dollars	September 30, 2010
Increase (Decrease) in current liabilities	\$41
Increase (Decrease) in contributed surplus	213
Increase (Decrease) in retained earnings	\$254

CANYON SERVICES GROUP INC.

Notes to the condensed interim consolidated financial statements
(Unaudited)

23

Consolidated Statement of Comprehensive Income (Loss)

000's of dollars	September 30, 2010
Increase (Decrease) in administrative expenses	\$254

d) Income Taxes

The net reduction of the deferred tax liability is attributable to the deferred tax asset resulting from the recording of finance 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

000's of dollars	September 30, 2010
Increase (Decrease) in non-current liabilities	\$(176)
Increase (Decrease) in retained earnings	176

Consolidated Statement of Comprehensive Income (Loss)

000's of dollars	September 30, 2010
Increase (Decrease) in income tax expense	\$(176)

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 September 30, 2011 and concluded no indicators were present.