



CONDENSED CONSOLIDATED INTERIM

FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED

MARCH 31, 2012 and 2011

UNAUDITED

CANYON SERVICES GROUP INC.

Condensed Consolidated Interim Balance Sheets
(Unaudited)

000's of dollars		March 31,	December 31,
	Note	2012	2011
Assets			
Current assets:			
Cash and cash equivalents		\$17,146	\$42,481
Trade and other receivables	4	101,969	87,288
Inventories		17,458	16,253
Prepayments		2,666	3,231
Total current assets		139,239	149,253
Non-current assets:			
Property and equipment	8	285,482	257,670
Intangible assets		384	407
Total non-current assets		285,866	258,077
Total Assets		\$425,105	\$407,330
Liabilities and Equity			
Current liabilities:			
Trade and other payables	9	\$50,518	\$60,933
Loans and borrowings	10	1,861	1,555
Dividend payable		9,170	3,816
Current tax liabilities		7,660	15,940
Total current liabilities		69,209	82,244
Non-current liabilities:			
Loans and borrowings	10	3,622	3,530
Deferred tax liabilities	11	8,836	7,489
Total non-current liabilities		12,458	11,019
Equity			
Share capital	12	184,047	183,224
Warrants	13	-	-
Contributed surplus		6,635	6,084
Retained earnings		152,756	124,759
Total equity		343,438	314,067
Total liabilities and equity		\$425,105	\$407,330

The notes are an integral part of these Condensed Consolidated Interim Financial Statements.

CANYON SERVICES GROUP INC.

Condensed Consolidated Interim Statements of Comprehensive Income
For the three months ended March 31
(Unaudited)

000's of dollars, except per share amounts	Note	2012	2011
Revenue		\$135,935	\$99,037
Cost of services	5	(80,453)	(52,432)
Gross profit		55,482	46,605
Administrative expenses	6	(5,536)	(5,389)
Results from operating activities		49,946	41,216
Finance costs		(161)	(80)
Profit before income tax		49,785	41,136
Income tax expense			
Current tax	7	(11,270)	(10,095)
Deferred tax	11	(1,348)	(923)
		(12,618)	(11,018)
Profit and comprehensive income		\$37,167	\$30,118
Earnings per share			
Basic		\$0.61	\$0.50
Diluted		\$0.59	\$0.48

The notes are an integral part of these Condensed Consolidated Interim Financial Statements.

CANYON SERVICES GROUP INC.

Condensed Consolidated Interim Statements of Changes in Equity
(Unaudited)

000's of dollars	Share Capital	Warrants	Contributed Surplus	Retained Earnings	Total Equity
Balance at January 1, 2011	\$181,683	\$191	\$4,010	\$36,489	\$222,373
Total Comprehensive income for the period	-	-	-	30,118	30,118
Transactions with owners, recorded directly in equity:					
Issue on exercise of stock options	406	-	-	-	406
Issue on exercise of warrants	50	-	-	-	50
Reclassification on exercise of stock options and incentive-based units	252	-	(252)	-	-
Reclassification on exercise of warrants	95	(95)	-	-	-
Share-based payment transactions	-	-	496	-	496
Balance at March 31, 2011	\$182,486	\$96	\$4,254	\$66,607	\$253,443
Balance at December 31, 2011	\$183,224	\$-	\$6,084	\$124,759	\$314,067
Profit and comprehensive income for the period	-	-	-	37,167	37,167
Transactions with owners, recorded directly in equity:					
Issue on exercise of stock options	612	-	-	-	612
Reclassification on exercise of stock options and incentive-based units	211	-	(211)	-	-
Share-based payment transactions	-	-	762	-	762
Dividends	-	-	-	(9,170)	(9,170)
Balance at March 31, 2012	\$184,047	\$-	\$6,635	\$152,756	\$343,438

The notes are an integral part of these Condensed Consolidated Interim Financial Statements.

CANYON SERVICES GROUP INC.

Condensed Consolidated Interim Statement of Cash Flows
For the three months ended March 31
(Unaudited)

000's of dollars	Note	2012	2011
Cash flows from operating activities:			
Profit and comprehensive income for the year		\$37,167	\$30,118
Adjustments for:			
Depreciation and amortization	5, 6	7,086	4,846
Equity-settled share based payment transactions		942	1,918
Loss (gain) on sale of property and equipment		41	(30)
Finance costs		161	80
Income tax expense	7, 11	12,618	11,018
		58,015	47,950
Change in inventories		(1,205)	(1,525)
Change in trade and other receivables		(14,680)	(14,889)
Change in prepayments		565	(567)
Change in trade and other payables		(10,595)	5,927
Cash generated from operating activities		32,100	36,896
Interest paid		(161)	(80)
Income tax paid		(19,550)	(15,604)
Net cash from operating activities		12,389	21,212
Cash flows from investing activities:			
Proceeds from sale of property and equipment		33	122
Acquisition of property and equipment	8	(34,128)	(23,143)
Net cash used in investing activities		(34,095)	(23,021)
Cash flows from financing activities:			
Proceeds from issuance of common shares		612	456
Proceeds from exercise of share options and warrants		(5)	(30)
Repayment of borrowings		(420)	(231)
Payment of finance lease liabilities		(3,816)	(3,020)
Dividends paid	12	(3,816)	(3,020)
Net cash from (used in) financing activities		(3,629)	(2,825)
Net decrease in cash and cash equivalents		(25,335)	(4,634)
Cash and cash equivalents at January 1		42,481	41,247
Cash and cash equivalents at March 31		\$17,146	\$36,613

The notes are an integral part of these Condensed Consolidated Interim Financial Statements.

CANYON SERVICES GROUP INC.

Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)

5

1. Reporting Entity:

Canyon Services Group Inc. (the "Company") is a company domiciled in Canada. The Company is a publicly-traded company listed on the Toronto Stock Exchange under symbol 'FRC'. These Condensed Consolidated Interim 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 Consolidated Interim Financial Statements have been prepared in accordance with International Accounting Standards (IAS) 34 and do not include all the information required for full annual financial statements. As such, they should be read in conjunction with the 2011 annual financial statements.

These Condensed Consolidated Interim Financial Statements were approved by the Board of Directors on May 8, 2012.

(b) Change in estimates

Depreciation of Property and Equipment

Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Management believes that its assessment and choice of estimates used in calculating depreciation are reasonable; however, there is no certainty that the depreciation expense provided will correctly measure the actual reduction in value of asset components used in operations over time.

During the period ended March 31, 2012, management revised estimates and underlying assumptions on certain equipment. One of the components of fracturing equipment, which management previously expected to dispose of after five years of use, is now expected to last two years from the date of purchase, another that was expected to last fifteen years is now expected to

CANYON SERVICES GROUP INC.

Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)

6

last ten years and one of the components that had a salvage value of twenty percent now has a salvage value of thirty percent.

Impact of change in estimates

The following table summarizes the impact of the change in estimates:

000's of dollars	2012	2013	2014	2015	2016
Increase in depreciation expense	\$657	\$728	\$196	(\$27)	\$12

3. 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.

4. 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. During the period ended March 31, 2012, no single customer accounted for more than 17% of the Company's revenue (year ended December 31, 2011: 14%). As at March 31, 2012, five customers accounted for 66% (December 31, 2011 – five customers accounted for 52%) of the Company's accounts receivable while five customers account for 59% (December 31, 2011 – five customers account for 38%) of the revenue.

The Company's accounts receivable is aged as follows:

000's of dollars	March 31, 2012	December 31, 2011
Current (0-30 days from invoice date)	\$52,598	\$43,721
31-60 days past due	25,644	29,360
Over 60 days past due	24,636	15,116
Sub-total	102,878	88,197
Less: Allowance for doubtful accounts	(909)	(909)
Total	101,969	87,288

CANYON SERVICES GROUP INC.

Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)

7

5. Cost of Services:

Cost of services for the three months ended March 31, 2012 are detailed as follows:

000's of dollars	Three Months Ended March 31,	
	2012	2011
Employee benefits expense	\$20,067	\$13,601
Depreciation of equipment	6,788	4,591
Operating expense	53,598	34,240
	<u>\$80,453</u>	<u>\$52,432</u>

During the three months ended March 31, 2012, inventories recognized as cost of services amounted to \$32,028 (2011: \$19,732).

6. Administrative Expenses:

Administrative expenses for the three months ended March 31, 2012 are detailed as follows:

000's of dollars	Three Months Ended March 31,	
	2012	2011
Employee benefits expense	\$2,984	\$1,741
Depreciation of equipment	276	233
Amortization of intangibles	22	22
Share – based payment transactions	942	1,918
Other administration expenses	1,312	1,475
	<u>\$5,536</u>	<u>\$5,389</u>

The remainder of this page is intentionally left blank

CANYON SERVICES GROUP INC.

Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)

8

7. Income Tax Expense:

The Company's consolidated effective tax rate for the three months ended March 31, 2012 was 25.3% (2011: 26.8%). The change in effective tax rate was caused mainly by a reduction in the Company's domestic tax rate from 26.5% in 2011 to 25.0% in 2012.

000's of dollars	Three Months Ended March 31,	
	2012	2011
Current tax expense:		
Current period	\$11,270	\$10,095
	11,270	10,095
Deferred tax expense:		
Origination and reversal of temporary differences	1,349	1,206
Change in unrecognized deductible temporary differences	(1)	(283)
	1,348	923
Total income tax expense	12,618	11,018

Reconciliation of Effective Tax Rate

000's of dollars	Three Months Ended March 31,			
	2012	2012	2011	2011
Profit and comprehensive income for the period		\$37,167		\$30,118
Total income tax expense		12,618		11,018
Profit excluding income tax		49,785		41,136
Income tax using the Company's domestic tax rate	25.0%	12,446	26.5%	10,901
Reduction in tax rate	(0.1%)	(26)	(0.1%)	(51)
Non-deductible expenses	0.4%	198	1.3%	521
Other	-	-	(0.9%)	(353)
	25.3%	\$12,618	26.8%	11,018

The remainder of this page is intentionally left blank

CANYON SERVICES GROUP INC.

Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)

9

8. Property and equipment:

000's of dollars	Land	Office, Shop & Yard	Field Equipment	Automotive	Office Equipment & Leaseholds	Total
Cost:						
Balance at January 1, 2011	\$5,670	\$10,645	\$161,858	\$41,454	\$3,927	\$223,554
Additions:						
Owned	3,376	3,452	72,213	21,251	902	101,194
Finance leases	-	-	-	3,685	177	3,862
Reclassification	-	-	-	-	-	-
Disposals	-	-	-	(850)	-	(850)
Balance at Dec 31, 2011	\$9,046	\$14,097	\$234,071	\$65,540	\$5,006	\$327,760
Additions:						
Owned	66	376	22,139	11,474	73	34,128
Finance leases	-	-	-	811	11	822
Disposals	-	-	-	(193)	-	(193)
Balance at Mar 31, 2012	\$9,112	\$14,473	\$256,210	\$77,632	\$5,090	\$362,517
Depreciation:						
Balance at January 1, 2011	\$ -	\$1,751	\$32,267	\$12,294	\$1,944	\$48,256
Depreciation for the year	-	503	14,642	6,505	638	22,288
Disposals	-	-	-	(402)	(52)	(454)
Balance at Dec 31, 2011	\$ -	\$2,254	\$46,909	\$18,397	\$2,530	\$70,090
Depreciation for the year	-	144	4,711	2,076	133	7,064
Disposals	-	-	-	(118)	(1)	(119)
Balance at Mar 31, 2012	\$ -	\$2,398	\$51,620	\$20,355	\$2,662	\$77,035
Carrying amounts:						
At December 31, 2011	9,046	11,843	187,162	47,143	2,476	257,670
At March 31, 2012	9,112	12,075	204,590	57,277	2,428	285,482

Property and Equipment Under Construction

As at March 31, 2012, costs incurred on field and automotive equipment and facilities under construction totaled \$59,068 (December 31, 2011: \$37,565).

CANYON SERVICES GROUP INC.

Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)

10

Leased equipment

The leased equipment secures lease obligations. As at March 31, 2012, the net carrying amount of the leased equipment was \$5,682 (December 31, 2011: \$5,320).

The Company reviewed the carrying amounts of property, equipment and intangible assets for any indication of impairment as at March 31, 2012 and concluded no impairment indicators were present.

9. Trade and other payables:

000's of dollars	March 31, 2012	December 31, 2011
Trade payables	\$25,517	\$44,552
Accrued expenses	18,599	10,159
Deferred share unit obligation	6,402	6,222
	<u>\$50,518</u>	<u>\$60,933</u>

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	March 31, 2012	December 31, 2011
Current Liabilities:				
Secured equipment loans	5%	2012	\$16	\$21
Finance lease liabilities	6.0-9.3%	2012-2015	1,845	1,534
			<u>\$1,861</u>	<u>\$1,555</u>
Non-current liabilities:				
Secured equipment loans	5%	2012	\$-	\$-
Finance lease liabilities	6.0-9.3%	2012-2015	3,622	3,530
			<u>\$3,622</u>	<u>\$3,530</u>

The Company's 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, 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 March 31, 2012 and December 31, 2011, no amounts were drawn on the Operating Facility.

The Revolving Facility is a three year committed revolving facility up to a maximum of \$45 million, 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 March 31, 2012 and December 31, 2011, no amounts were drawn on the Revolving Facility.

CANYON SERVICES GROUP INC.

Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)

11

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 and non-financial covenants. The Company was in compliance with the terms of the lending agreements as at March 31, 2012 and December 31, 2011.

11. Deferred tax assets and liabilities:

Recognized Deferred Tax Assets and Liabilities

000's of dollars	Assets		Liabilities		Net	
	2012	2011	2012	2011	2012	2011
Property and equipment	\$ -	\$ -	\$12,459	\$11,007	\$12,459	\$11,007
Intangible assets	(15)	(12)	-	-	(15)	(12)
Loans and borrowings	(1,367)	(1,266)	-	-	(1,367)	(1,266)
Share-based payment transactions	(1,600)	(1,555)	-	-	(1,600)	(1,555)
Share issue costs	(641)	(685)	-	-	(641)	(685)
	\$(3,623)	\$(3,518)	\$12,459	\$11,007	\$8,836	\$7,489

As at March 31, 2012, deferred tax assets are based on a rate of 25% and total \$3,623 (December 31, 2011: \$3,518). Deferred tax assets mainly comprise amounts deductible for tax purposes in future periods in respect of: (i) amounts resulting from the recording of finance lease obligations; (ii) amounts included in trade and other payables in respect of the Company's Share Appreciation Rights; and (iii) expenses associated with the issuance of common shares in 2009 and 2010. The deferred tax liabilities of \$12,459 as at March 31, 2012 (December 31, 2011: \$11,007) 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. Share capital:

000's of shares	Common Shares	
	March 31, 2011	December 31, 2011
Common shares issued as at January 1	60,995	60,369
Exercise of share options	126	495
Exercise of warrants	-	84
Conversion of incentive based units	-	47
Common shares issued as at end of period	61,121	60,995

CANYON SERVICES GROUP INC.

Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)

12

Dividends

On March 6, 2012, the Company increased its dividend from \$0.25 per share per annum to \$0.60 per share per annum to be paid quarterly commencing April 2012. On March 26, 2012, the Company declared a quarterly dividend of \$0.15 per common share payable April 26, 2012.

During the three months ended March 31, 2012, the Company paid quarterly dividends of \$3,816 or \$0.0625 per common share.

13. Share-based payments:

(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 per share weighted average fair value of stock options granted during the three months ended March 31, 2012 was \$3.74 (2011: \$4.54) based on the date of grant valuation using the Black-Scholes option pricing model. Stock-based compensation of \$562 has been recorded for the three months ended March 31, 2012 (2011: \$424).

A summary of the status of the Company's stock option plan as at March 31, 2012 and December 31, 2011 and changes during the periods then ended is presented below:

000's of options	Options Outstanding	Range of Exercise Price	Weighted Average Exercise Price
Outstanding as at January 1, 2011	2,190	\$ 0.78 – \$ 11.41	\$ 2.79
Granted	863	\$10.09 – \$ 15.54	\$ 12.03
Exercised	(495)	\$ 0.78 – \$ 4.31	\$ 1.54
Forfeited	(107)	\$ 2.43 – \$ 15.11	\$ 7.78
Outstanding as at December 31, 2011	2,451	\$ 0.78 – \$ 15.54	\$ 6.07
Granted	635	\$ 11.41 – \$ 14.35	\$ 12.64
Exercised	(126)	\$ 0.78 – \$ 11.64	\$ 4.81
Forfeited	(100)	\$ 2.43 – \$ 12.77	\$ 10.19
Outstanding as at March 31, 2012	2,860	\$ 0.78 – \$ 15.54	\$ 7.44
Exercisable as at March 31, 2012	1,069	\$ 0.78 – \$ 13.20	\$ 3.51

CANYON SERVICES GROUP INC.

Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)

13

(b) Stock-Based Compensation Plan:

(Number of incentive based units in thousands)

The Company has 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. 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. For the three months ended March 31, 2012, there were 103 incentive based units granted to directors of the Company. There were nil incentive based units converted into common shares of the Company by directors during the three months ended March 31, 2012 and nil incentive based units were forfeited. The compensation cost to the Company for the three months ended March 31, 2012 was \$201 (2011: \$72). As at March 31, 2012, there were 276 incentive based units outstanding (173 as at December 31, 2011).

(c) Share Appreciation Rights (cash settled):

(Number of units in thousands)

The Company established a Deferred Share Unit Plan for the President. The deferred share units obligation of \$6,402 as at March 31, 2012 (December 31, 2011: \$6,222) is recorded as a liability in trade and other payables and revalued at each reporting period. In the three months ended March 31, 2012, the Company recorded compensation costs of \$179 (2011: \$1,422) related to the outstanding deferred share units. On April 11, 2012, 200,000 deferred share units were exercised at a base value of \$1.25 per unit.

(d) Warrants:

(Number of warrants in thousands)

Upon acceptance of the Company's offer of employment, the President was granted 425 warrants that entitle the holder to purchase common shares of the Corporation at an exercise price of \$4.00 per share that are currently exercisable and expire in August 2012.

14. Capital commitments:

As at March 31, 2012 the Company has commitments to purchase property and equipment for \$40 million (as at December 31, 2011: \$66 million).