CANYON SERVICES GROUP INC.

CONDENSED CONSOLIDATED INTERIM

FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED

JUNE 30, 2012 and 2011

UNAUDITED

CANYON SERVICES GROUP INC.

Condensed Consolidated Interim Balance Sheets
(Unaudited)

000's of dollars	Note	June 30, 2012	December 31, 2011
Assets			
Current assets:			
Cash and cash equivalents		$23,141	$42,481
Trade and other receivables	4	42,853	87,288
Inventories		18,418	16,253
Prepayments		2,978	3,231
Income taxes recoverable		365	-
Total current assets		87,755	149,253
Non-current assets:			
Property and equipment	8	299,775	257,670
Intangible assets		362	407
Total non-current assets		300,137	258,077
Total Assets		$387,892	$407,330
Liabilities and Equity			
Current liabilities:			
Trade and other payables	9	$33,305	$60,933
Loans and borrowings	10	2,248	1,555
Dividend payable		9,175	3,816
Current tax liabilities		-	15,940
Total current liabilities		44,728	82,244
Non-current liabilities:			
Loans and borrowings	10	3,607	3,530
Deferred tax liabilities	11	11,215	7,489
Total non-current liabilities		14,822	11,019
Equity			
Share capital	12	184,184	183,224
Contributed surplus		7,517	6,084
Retained earnings		136,641	124,759
Total equity		328,342	314,067
Total liabilities and equity		$387,892	$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 (loss)
(Unaudited)

000's of dollars, except per share amounts	Note	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Revenue		$37,974	$22,886	$173,909	$121,923
Cost of services	5	(42,534)	(27,506)	(122,988)	(79,939)
Gross profit (loss)		(4,560)	(4,620)	50,921	41,984
Administrative expenses	6	(4,276)	(4,528)	(9,812)	(9,918)
Results from operating activities		(8,836)	(9,148)	41,109	32,066
Finance costs		(235)	(88)	(396)	(168)
Profit (loss) before income tax		(9,071)	(9,236)	40,713	31,898
Income tax (expense) recovery					
Current tax	7	4,510	4,372	(6,760)	(5,722)
Deferred tax	11	(2,379)	(1,775)	(3,726)	(2,699)
		2,131	2,597	(10,486)	(8,421)
Profit (loss) and comprehensive income (loss)		$(6,940)	$(6,639)	$30,227	$23,477
Earnings (loss) per share					
Basic		$(0.11)	$(0.11)	$0.49	$0.39
Diluted		$(0.11)	$(0.11)	$0.48	$0.37

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	$4,042	$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
Balance at December 31, 2011	$183,224	$-	$6,084	$124,759	$314,067
Profit and comprehensive income for the period	-	-	-	30,227	30,227
Transactions with owners, recorded directly in equity:					
Issue on exercise of stock options	705	-	-	-	705
Reclassification on exercise of stock options and incentive-based units	255	-	(255)	-	-
Share-based payment transactions	-	-	1,688	-	1,688
Dividends	-	-	-	(18,345)	(18,345)
Balance at June 30, 2012	$184,184	$ -	$7,517	$136,641	$328,342

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

CANYON SERVICES GROUP INC.

Condensed Consolidated Interim Statement of Cash Flows
(Unaudited)

000's of dollars	Note	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Cash flows from operating activities:					
Profit (loss) and comprehensive income (loss) for the year		$(6,940)	$(6,639)	$30,227	$23,477
Adjustments for:					
Depreciation and amortization	5, 6	7,094	5,168	14,180	10,013
Share-based payment transactions	13	(2,144)	872	(1,202)	2,790
Loss (gain) on sale of property and equipment		36	24	77	(6)
Finance costs		235	88	396	168
Income tax expense	7, 11	(2,131)	(2,597)	10,486	8,421
		(3,850)	(3,084)	54,164	44,863
Change in inventories		(960)	(1,324)	(2,165)	(2,847)
Change in trade and other receivables		59,117	45,870	44,436	30,983
Change in prepayments		(312)	(3,162)	253	(3,729)
Change in trade and other payables		(8,576)	(11,198)	(27,539)	(4,973)
Cash generated from operating activities		45,419	27,102	69,149	64,297
Interest paid		(235)	(88)	(396)	(168)
Income tax paid		(3,516)	(4,061)	(23,066)	(19,666)
Net cash from operating activities		41,668	22,953	45,687	44,463
Cash flows from investing activities:					
Proceeds from sale of property and equipment		116	-	149	122
Acquisition of property and equipment	8	(20,653)	(29,190)	(54,779)	(52,333)
Change in trade and other payables		(5,568)	2,548	2,800	2,251
Net cash used in investing activities		(26,105)	(26,642)	(51,830)	(49,960)
Cash flows from financing activities:					
Proceeds from exercise of share options and warrants		93	266	705	722
Repayment of borrowings		(3)	(29)	(7)	(58)
Payment of finance lease liabilities		(488)	(215)	(909)	(448)
Dividends paid	12	(9,170)	-	(12,986)	(3,020)
Net cash from (used in) financing activities		(9,568)	22	(13,197)	(2,804)
Net decrease in cash and cash equivalents		5,995	(3,667)	(19,340)	(8,301)
Cash and cash equivalents at beginning of period		17,146	36,613	42,481	41,247
Cash and cash equivalents at June 30		$23,141	$32,946	$23,141	$32,946

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

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 August 2, 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.

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

The impact for the three months ended June 30, 2012 was $219.

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 six months ended June 30, 2012, no single customer accounted for more than 19% of the Company's revenue (year ended December 31, 2011: 14%). As at June 30, 2012, five customers accounted for 63% (December 31, 2011 – five customers accounted for 52%) of the Company's accounts receivable while five customers account for 55% (December 31, 2011 – five customers account for 38%) of the revenue.

The Company's accounts receivable is aged as follows:

000's of dollars	June 30, 2012	December 31, 2011
Current (0-30 days from invoice date)	$15,724	$43,721
31-60 days past due	9,705	29,360
Over 60 days past due	18,333	15,116
Sub-total	43,762	88,197
Less: Allowance for doubtful accounts	(909)	(909)
Total	$42,853	$87,288

5. Cost of Services:

Cost of services for the three and six months ended June 30, 2012 are detailed as follows:

000's of dollars	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Employee benefits expense	$12,202	$8,972	$32,269	$22,573
Depreciation of equipment	6,788	4,894	13,576	9,485
Operating expense	23,544	13,640	77,143	47,881
	$42,534	$27,506	$122,988	$79,939

During the six months ended June 30, 2012, inventories recognized as cost of services amounted to $42,215 (2011: $25,252).

6. Administrative Expenses:

Administrative expenses for the three and six months ended June 30, 2012 are detailed as follows:

000's of dollars	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Employee benefits expense	$2,086	$1,637	$5,070	$3,378
Depreciation of equipment	284	251	560	484
Amortization of intangibles	22	22	44	44
Share - based payment transactions and cash settlement of deferred share units	154	872	1,096	2,790
Other administration expenses	1,730	1,746	3,042	3,222
	$4,276	$4,528	$9,812	$9,918

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7. Income Tax Expense:

The Company's consolidated effective tax rate for the six months ended June 30, 2012 was 25.8% (2011: 26.4%).

000's of dollars	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Current tax expense (recovery):				
Current period	$(4,510)	$(4,372)	$6,760	$5,722
Deferred tax expense:				
Origination and reversal of temporary differences	1,711	2,529	3,060	3,736
Change in unrecognized deductible temporary differences	668	(754)	666	(1,037)
	2,379	1,775	3,726	2,699
Total income tax expense (recovery)	$(2,131)	$(2,597)	$10,486	$8,421

Reconciliation of Effective Tax Rate

000's of dollars	Six Months Ended June 30,			
		2012		2011
Profit and comprehensive income for the period		$30,227		$23,477
Total income tax expense		10,486		8,421
Profit excluding income tax		40,713		31,898
Income tax using the Company's domestic tax rate	25.0%	10,178	26.5%	8,453
Reduction in tax rate	-	-	(0.5%)	(148)
Non-deductible expenses	1.1%	440	0.9%	285
Other	(0.3%)	(132)	(0.5%)	(169)
	25.8%	$10,486	26.4%	$8,421

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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
Disposals	-	-	-	(850)	-	(850)
Balance at Dec 31, 2011	**$9,046**	**$14,097**	**$234,071**	**$65,540**	**$5,006**	**$327,760**
Additions:						
Owned	86	2,822	38,138	13,592	141	54,779
Finance leases	-	-	-	1,624	62	1,686
Disposals	-	-	-	(548)	(1)	(549)
Balance at June 30, 2012	**$9,132**	**$16,919**	**$272,209**	**$80,208**	**$5,208**	**$383,676**
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**	**$70,090**
Depreciation for the year	-	287	9,215	4,296	337	14,135
Disposals				(323)	(1)	(324)
Balance at June 30, 2012	**$ -**	**$2,541**	**$56,124**	**$22,370**	**$2,866**	**$83,901**
Carrying amounts:						
At December 31, 2011	$9,046	$11,843	$187,162	$47,143	$2,476	$257,670
At June 30, 2012	$9,132	$14,378	$216,085	$57,838	$2,342	$299,775

Property and Equipment Under Construction

As at June 30, 2012, $79,204 (December 31, 2011: $37,565) is under construction and is included in office, shop and yard, field equipment and automotive equipment.

Leased equipment

The leased equipment secures lease obligations. As at June 30, 2012, the net carrying amount of the leased equipment was $6,161 (December 31, 2011: $5,320).

The Company reviewed the carrying amounts of property, equipment and intangible assets for any indication of impairment as at June 30, 2012 and concluded no impairment indicators were present.

9. Trade and other payables:

000's of dollars	June 30, 2012	December 31, 2011
Trade payables	$18,708	$44,552
Accrued expenses	11,265	10,159
Deferred share unit obligation	3,332	6,222
	$33,305	$60,933

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	June 30, 2012	December 31, 2011
Current Liabilities:				
Secured equipment loans	5%	2012	$13	$21
Finance lease liabilities	6.0-9.3%	2012-2015	2,235	1,534
			$2,248	$1,555
Non-current liabilities:				
Secured equipment loans	5%	2012	$-	$-
Finance lease liabilities	6.0-9.3%	2012-2015	3,607	3,530
			$3,607	$3,530

Effective May 31, 2012, the Company renewed its bank credit facilities, extending the term by a further year to May 31, 2015. 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, 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, 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 June 30, 2012 and December 31, 2011, 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 and non-financial covenants. The Company was in compliance with the terms of the lending agreements as at June 30, 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	$ -	$ -	$14,218	$11,007	$14,218	$11,007
Intangible assets	(18)	(12)	-	-	(18)	(12)
Loans and borrowings	(1,460)	(1,266)	-	-	(1,460)	(1,266)
Share-based payment transactions	(833)	(1,555)	-	-	(833)	(1,555)
Share issue costs	(547)	(685)	-	-	(547)	(685)
Non-capital losses	(145)	-	-	-	(145)	-
	$(3,003)	$(3,518)	$14,218	$11,007	$11,215	$7,489

As at June 30, 2012, deferred tax assets are based on a rate of 25% and total $3,003 (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 $14,218 as at June 30, 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	
	June 30, 2012	December 31, 2011
Common shares issued as at January 1	60,995	60,369
Exercise of share options	174	495
Exercise of warrants	-	84
Conversion of incentive based units	-	47
Common shares issued as at end of period	61,169	60,995

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 June 19, 2012, the Company declared a quarterly dividend of $0.15 per common share payable on July 26, 2012.

During the six months ended June 30, 2012, the Company paid dividends of $12,986 or $0.1125 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 six months ended June 30, 2012 was $3.62 (2011: $4.48) based on the date of grant valuation using the Black-Scholes option pricing model. Stock-based compensation of $1,267 has been recorded for the six months ended June 30, 2012 (2011: $932).

A summary of the status of the Company's stock option plan as at June 30, 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	757	$ 9.66 – $ 14.35	$ 12.50
Exercised	(174)	$ 0.78 – $ 11.64	$ 4.07
Forfeited	(122)	$ 2.43 – $ 12.77	$ 10.37
Outstanding as at June 30, 2012	2,912	$ 0.78 – $ 15.54	$ 7.68
Exercisable as at June 30, 2012	1,066	$ 0.78 – $ 15.12	$ 3.80

(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 six months ended June 30, 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 six months ended June 30, 2012 and nil incentive based units were forfeited. The compensation cost to the Company for the six months ended June 30, 2012 was $421 (2011: $144). As at June 30, 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 $3,332 as at June 30, 2012 (December 31, 2011: $6,222) is recorded as a liability in trade and other payables and revalued at each reporting period. In the six months ended June 30, 2012, the Company recorded a reduction in compensation costs of $2,890 (2011: $1,714) related to the outstanding deferred share units. In addition, the Company recorded a cash payment of $2,298 for the exercise of 200,000 deferred share units on April 11, 2012, at a value equal to the difference between the market price of the Company’s common shares and the 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 June 30, 2012 the Company has commitments to purchase property and equipment for $21 million (as at December 31, 2011: $66 million).