CANYON SERVICES GROUP INC.

CONDENSED CONSOLIDATED INTERIM

FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED

SEPTEMBER 30, 2012 and 2011

UNAUDITED

CANYON SERVICES GROUP INC.

Condensed Consolidated Interim Balance Sheets
(Unaudited)

000's of dollars	Note	September 30, 2012	December 31, 2011
Assets			
Current assets:			
Cash and cash equivalents		$9,021	$42,481
Trade and other receivables	4	70,965	87,288
Inventories		16,687	16,253
Prepayments		2,162	3,231
Income taxes recoverable		4,177	-
Total current assets		103,012	149,253
Non-current assets:			
Property and equipment	8	302,290	257,670
Intangible assets		340	407
Total non-current assets		302,630	258,077
Total Assets		$405,642	$407,330
Liabilities and Equity			
Current liabilities:			
Trade and other payables	9	$38,915	$60,933
Loans and borrowings	10	2,190	1,555
Dividend payable		9,277	3,816
Current tax liabilities		-	15,940
Total current liabilities		50,382	82,244
Non-current liabilities:			
Loans and borrowings	10	3,665	3,530
Deferred tax liabilities	11	12,569	7,489
Total non-current liabilities		16,234	11,019
Equity			
Share capital	12	186,427	183,224
Contributed surplus		8,199	6,084
Retained earnings		144,400	124,759
Total equity		339,026	314,067
Total liabilities and equity		$405,642	$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
(Unaudited)

000's of dollars, except per share amounts	Note	Three Months Ended September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Revenue		$94,401	$105,207	$268,310	$227,131
Cost of services	5	(64,228)	(58,128)	(187,216)	(138,067)
Gross profit		30,173	47,079	81,094	89,064
Administrative expenses	6	(7,015)	(4,880)	(16,826)	(14,798)
Results from operating activities		23,158	42,199	64,268	74,266
Finance costs		(175)	(133)	(572)	(302)
Profit before income tax		22,983	42,066	63,696	73,964
Income tax expense					
Current tax	7	(4,594)	(8,984)	(11,353)	(14,707)
Deferred tax	11	(1,353)	(2,221)	(5,080)	(4,919)
		(5,947)	(11,205)	(16,433)	(19,626)
Profit and comprehensive income		$17,036	$30,861	$47,263	$54,338
Earnings per share					
Basic		$0.28	$0.51	$0.77	$0.90
Diluted		$0.27	$0.49	$0.76	$0.87

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	-	-	-	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
Balance at December 31, 2011	$183,224	$-	$6,084	$124,759	$314,067
Profit and comprehensive income for the period	-	-	-	47,263	47,263
Transactions with owners, recorded directly in equity:					
Issue on exercise of stock options	1,075	-	-	-	1,075
Issue on exercise of warrants	1,700	-	-	-	1,700
Reclassification on exercise of stock options and incentive-based units	428	-	(428)	-	-
Share-based payment transactions	-	-	2,543	-	2,543
Dividends	-	-	-	(27,622)	(27,622)
Balance at September 30, 2012	$186,427	$ -	$8,199	$144,400	$339,026

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 September 30, 2012	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2012	Nine Months Ended September 30, 2011
Cash flows from operating activities:					
Profit and comprehensive income for the period		$17,036	$30,861	$47,263	$54,338
Adjustments for:					
Depreciation and amortization	5, 6	7,602	5,824	21,782	15,838
Share-based payment transactions	13	1,620	(1,557)	419	1,233
Loss on sale of property and equipment		116	46	193	40
Finance costs		175	133	572	302
Income tax expense	7, 11	5,947	11,205	16,433	19,626
		32,496	46,512	86,662	91,377
Change in inventories		1,732	(1,945)	(434)	(4,794)
Change in trade and other receivables		(28,113)	(66,989)	16,323	(36,006)
Change in prepayments		815	3,523	1,069	(205)
Change in trade and other payables		2,176	21,983	(25,363)	17,010
Cash generated from operating activities		9,106	3,084	78,257	67,382
Interest paid		(175)	(133)	(572)	(302)
Income tax paid		(8,405)	(3,498)	(31,471)	(23,164)
Net cash from operating activities		526	(547)	46,214	43,916
Cash flows from investing activities:					
Proceeds from sale of property and equipment		134	62	283	184
Acquisition of property and equipment	8	(9,740)	(28,941)	(64,521)	(81,273)
Change in trade and other payables		2,670	8,500	5,470	10,749
Net cash used in investing activities		(6,936)	(20,379)	(58,768)	(70,340)
Cash flows from financing activities:					
Proceeds from exercise of share options and warrants		2,070	39	2,775	761
Repayment of borrowings		(7)	(29)	(14)	(86)
Payment of finance lease liabilities		(598)	(280)	(1,506)	(728)
Dividends paid	12	(9,175)	(3,045)	(22,161)	(6,065)
Net cash from (used in) financing activities		(7,710)	(3,315)	(20,906)	(6,118)
Net decrease in cash and cash equivalents		(14,120)	(24,241)	(33,460)	(32,542)
Cash and cash equivalents at beginning of period		23,141	32,946	42,481	41,247
Cash and cash equivalents at September 30		$9,021	$8,705	$9,021	$8,705

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 November 6, 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 September 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 nine months ended September 30, 2012, no single customer accounted for more than 16% of the Company's revenue (year ended December 31, 2011: 14%). As at September 30, 2012, five customers accounted for 64% (December 31, 2011 – five customers accounted for 52%) of the Company's accounts receivable while five customers account for 51% (December 31, 2011 – five customers account for 38%) of the revenue.

The Company's accounts receivable is aged as follows:

000's of dollars	September 30, 2012	December 31, 2011
Current (0-30 days from invoice date)	$28,290	$43,721
31-60 days past due	26,035	29,360
Over 60 days past due	17,549	15,116
Sub-total	71,874	88,197
Less: Allowance for doubtful accounts	(909)	(909)
Total	$70,965	$87,288

5. Cost of Services:

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

000's of dollars	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Employee benefits expense	$18,604	$14,736	$50,783	$37,309
Depreciation of equipment	7,272	5,477	20,848	14,963
Operating expense	38,352	37,915	115,585	85,795
	$64,228	$58,128	$187,216	$138,067

During the nine months ended September 30, 2012, inventories recognized as cost of services amounted to $63,629 (2011: $47,705).

6. Administrative Expenses:

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

000's of dollars	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Employee benefits expense	$3,686	$4,273	$8,756	$7,651
Depreciation of equipment	307	325	867	809
Amortization of intangibles	22	22	66	66
Share - based payment transactions and cash settlement of deferred share units	1,620	(1,557)	2,717	1,233
Other administration expenses	1,380	1,817	4,420	5,039
	$7,015	$4,880	$16,826	$14,798

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7. Income Tax Expense:

The Company's consolidated effective tax rate for the nine months ended September 30, 2012 was 25.8% (2011: 26.5%).

000's of dollars	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Current tax expense (recovery):				
Current period	$4,594	$8,984	$11,353	$14,707
Deferred tax expense:				
Origination and reversal of temporary differences	1,477	1,688	4,538	5,423
Change in unrecognized deductible temporary differences	(124)	533	542	(504)
	1,353	2,221	5,080	4,919
Total income tax expense (recovery)	$5,947	$11,205	$16,433	$19,626

Reconciliation of Effective Tax Rate

000's of dollars	Nine Months Ended September 30,			
		2012		2011
Profit and comprehensive income for the period		$47,263		$54,338
Total income tax expense		16,433		19,626
Profit excluding income tax		63,696		73,964
Income tax using the Company's domestic tax rate	25.0%	15,924	26.5%	19,600
Reduction in tax rate	-	-	(0.4%)	(274)
Non-deductible expenses	1.0%	669	0.6%	468
Other	(0.2%)	(160)	(0.2%)	(168)
	25.8%	$16,433	26.5%	$19,626

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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	204	5,221	44,660	14,133	303	64,521
Finance leases	-	-	-	2,211	79	2,290
Disposals	-	-	-	(1,081)	(36)	(1,117)
Balance at Sept 30, 2012	**$9,250**	**$19,318**	**$278,731**	**$80,803**	**$5,352**	**$393,454**
Depreciation:						
Balance at January 1, 2011	$ -	$1,751	$32,267	$12,294	$1,944	$48,256
Depreciation for the period	-	503	14,642	6,505	638	22,288
Disposals	-	-	-	(402)	(52)	(454)
Balance at Dec 31, 2011	**$ -**	**$2,254**	**$46,909**	**$18,397**	**$2,530**	**$70,090**
Depreciation for the period	-	448	14,118	6,634	515	21,715
Disposals				(612)	(29)	(641)
Balance at Sept 30, 2012	**$ -**	**$2,702**	**$61,027**	**$24,419**	**$3,016**	**$91,164**
Carrying amounts:						
At December 31, 2011	$9,046	$11,843	$187,162	$47,143	$2,476	$257,670
At September 30, 2012	$9,250	$16,616	$217,704	$56,384	$2,336	$302,290

Property and Equipment Under Construction

As at September 30, 2012, $57,110 (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 September 30, 2012, the net carrying amount of the leased equipment was $6,007 (December 31, 2011: $5,320).

9. Trade and other payables:

000's of dollars	September 30, 2012	December 31, 2011
Trade payables	$29,969	$44,552
Accrued expenses	4,849	10,159
Deferred share unit obligation	4,097	6,222
	$38,915	$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	September 30, 2012	December 31, 2011
Current Liabilities:				
Secured equipment loans	5%	2012	$6	$21
Finance lease liabilities	6.0-9.3%	2012-2015	2,184	1,534
			$2,190	$1,555
Non-current liabilities:				
Finance lease liabilities	6.0-9.3%	2012-2015	$3,665	$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 September 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 September 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 September 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	$ -	$ -	$15,698	$11,007	$15,698	$11,007
Intangible assets	(20)	(12)	-	-	(20)	(12)
Loans and borrowings	(1,462)	(1,266)	-	-	(1,462)	(1,266)
Share-based payment transactions	(1,024)	(1,555)	-	-	(1,024)	(1,555)
Share issue costs	(478)	(685)	-	-	(478)	(685)
Non-capital losses	(145)	-	-	-	(145)	-
	$(3,129)	$(3,518)	$15,698	$11,007	$12,569	$7,489

As at September 30, 2012, deferred tax assets are based on a rate of 25% and total $3,129 (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 $15,695 as at September 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	
	September 30, 2012	December 31, 2011
Common shares issued as at January 1	60,995	60,369
Exercise of share options	415	495
Exercise of warrants	425	84
Conversion of incentive based units	-	47
Common shares issued as at end of period	61,835	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 September 25, 2012, the Company declared a quarterly dividend of $0.15 per common share payable on October 26, 2012.

During the nine months ended September 30, 2012, the Company paid dividends of $22,161 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 nine months ended September 30, 2012 was $3.52 (2011: $4.36) based on the date of grant valuation using the Black-Scholes option pricing model. Stock-based compensation of $1,900 has been recorded for the nine months ended September 30, 2012 (2011: $1,468).

A summary of the status of the Company's stock option plan as at September 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	824	$ 9.29 – $ 14.35	$ 12.26
Exercised	(415)	$ 0.78 – $ 11.64	$ 2.60
Forfeited	(195)	$ 2.43 – $ 13.86	$ 10.90
Outstanding as at September 30, 2012	2,665	$ 0.78 – $ 15.54	$ 8.17
Exercisable as at September 30, 2012	958	$ 0.78 – $ 15.54	$ 4.89

(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 nine months ended September 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 nine months ended September 30, 2012 and nil incentive based units were forfeited. The compensation cost to the Company for the nine months ended September 30, 2012 was $643 (2011: $242). As at September 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 $4,097 as at September 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 nine months ended September 30, 2012, the Company recorded compensation costs of $174 (2011: a decrease of $477) 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. The warrants were exercised in full in August 2012.

14. Capital commitments:

As at September 30, 2012 the Company has commitments to purchase property and equipment for $13 million (as at December 31, 2011: $66 million).