



CONDENSED CONSOLIDATED INTERIM

FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED

MARCH 31, 2014 and 2013

UNAUDITED

CANYON SERVICES GROUP INC.

Condensed Consolidated Interim Balance Sheets
(Unaudited)

000's of dollars		March 31,	December 31,
	Note	2014	2013
Assets			
Current assets:			
Cash and cash equivalents		\$6,471	\$21,308
Trade and other receivables	4	87,351	62,403
Inventories		15,475	17,201
Prepayments		1,730	2,278
Current tax assets		12,847	15,864
Total current assets		123,874	119,054
Non-current assets:			
Property and equipment	8	287,268	283,476
Intangible assets		164	177
Total non-current assets		287,432	283,653
Total Assets		\$411,306	\$402,707
Liabilities and Equity			
Current liabilities:			
Bank indebtedness		\$4,132	\$ -
Trade and other payables	9	63,501	65,239
Loans and borrowings	10	2,891	2,688
Dividend payable	12	9,432	9,397
Total current liabilities		79,956	77,324
Non-current liabilities:			
Loans and borrowings	10	2,802	3,096
Deferred tax liabilities	11	22,213	20,901
Total non-current liabilities		25,015	23,997
Equity			
Share capital	12	191,932	189,764
Contributed surplus		11,580	11,218
Retained earnings		102,822	100,404
Total equity		306,334	301,386
Total liabilities and equity		\$411,306	\$402,707

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	2014	2013
Revenue		\$138,185	\$86,887
Cost of services	5	(114,579)	(69,582)
Gross profit		23,606	17,305
Administrative expenses	6	(6,878)	(5,524)
Results from operating activities		16,728	11,781
Finance costs		(181)	(156)
Foreign exchange gain (loss)		(368)	62
Profit before income tax		16,179	11,687
Income tax expense			
Current tax	7	(3,017)	(1,622)
Deferred tax	11	(1,312)	(1,538)
		(4,329)	(3,160)
Profit and comprehensive income		\$11,850	\$8,527
Earnings per share			
Basic		\$0.19	\$0.14
Diluted		\$0.19	\$0.14

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CANYON SERVICES GROUP INC.

Condensed Consolidated Interim Statements of Changes in Equity
(Unaudited)

000's of dollars	Share Capital	Contributed Surplus	Retained Earnings	Total Equity
Balance at December 31, 2012	\$187,173	\$8,350	\$142,252	\$337,775
Profit and comprehensive income for the period			8,527	8,527
Transactions with owners, recorded directly in equity:				
Issue on exercise of stock options	942			942
Reclassification on exercise of stock options and incentive-based units	371	(371)		-
Share-based payment transactions		1,000		1,000
Dividends			(9,330)	(9,330)
Balance at March 31, 2013	\$188,486	\$8,979	\$141,449	\$338,914
Balance at December 31, 2013	\$189,764	\$11,218	\$100,404	\$301,386
Profit and comprehensive income for the period			11,850	11,850
Transactions with owners, recorded directly in equity:				
Issue on exercise of stock options	1,514			1,514
Reclassification on exercise of stock options and incentive-based units	654	(654)		-
Share-based payment transactions		1,016		1,016
Dividends			(9,432)	(9,432)
Balance at March 31, 2014	\$191,932	\$11,580	\$102,822	\$306,334

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CANYON SERVICES GROUP INC.

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

000's of dollars	Note	2014	2013
Cash flows from operating activities:			
Profit and comprehensive income for the period		\$11,850	\$8,527
Adjustments for:			
Depreciation and amortization	5, 6	9,814	7,705
Share based payment transactions		880	910
Loss (gain) on sale of property and equipment		10	(32)
Finance costs		181	156
Income tax expense	7, 11	4,329	3,160
		27,064	20,426
Change in inventories		1,726	(218)
Change in trade and other receivables		(24,948)	7,009
Change in prepayments		547	(922)
Change in trade and other payables		(2,153)	(5,650)
Cash generated from operating activities		2,236	20,645
Interest paid		(181)	(156)
Income tax paid		-	(1,155)
Net cash from operating activities		2,055	19,334
Cash flows from investing activities:			
Proceeds from sale of property and equipment		181	179
Acquisition of property and equipment	8	(13,282)	(3,501)
Change in trade and other payables		553	774
Net cash used in investing activities		(12,548)	(2,548)
Cash flows from financing activities:			
Proceeds from exercise of share options and warrants		1,514	942
Payment of finance lease liabilities		(593)	(498)
Dividends paid	12	(9,397)	(9,294)
Net cash from (used in) financing activities		(8,476)	(8,850)
Net increase (decrease) in cash and cash equivalents		(18,969)	7,936
Cash and cash equivalents at January 1		21,308	22,584
Cash and cash equivalents net of bank indebtedness at March 31		\$2,339	\$30,520

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

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Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)

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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:

Statement of compliance:

These Condensed Consolidated Interim Financial Statements have been prepared in accordance with International Accounting Standards (IAS) 34, Interim Financial Reporting, and do not include all the information required for full annual financial statements. As such, they should be read in conjunction with the 2013 annual financial statements.

These Condensed Consolidated Interim Financial Statements were approved by the Board of Directors on May 6, 2014.

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, 2014, no single customer accounted for more than 34% of the Company's revenue (year ended December 31, 2013: 11%). As at March 31, 2014, five customers accounted for 43% (December 31, 2013 –

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Notes to the Condensed Consolidated Interim Financial Statements
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five customers accounted for 50%) of the Company's accounts receivable while five customers account for 58% (December 31, 2013 – five customers account for 39%) of the revenue.

The Company's accounts receivable is aged as follows:

000's of dollars	March 31,	December 31,
	2014	2013
Current (0-30 days from invoice date)	\$45,988	\$32,678
31-60 days past due	26,752	23,135
Over 60 days past due	14,872	6,851
Sub-total	87,612	62,664
Less: Allowance for doubtful accounts	(261)	(261)
Total	\$87,351	\$62,403

5. Cost of services:

Cost of services for the three months ended March 31, 2014 is detailed as follows:

000's of dollars	Three Months Ended	
	March 31,	March 31,
	2014	2013
Employee benefits expense	\$27,481	\$19,359
Depreciation of equipment	9,374	7,348
Operating expense	77,724	42,875
	\$114,579	\$69,582

During the three months ended March 31, 2014, inventories recognized as cost of services amounted to \$38,392 (2013: \$23,056).

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6. Administrative Expenses:

Administrative expenses for the three months ended March 31, 2014 are detailed as follows:

000's of dollars	Three Months Ended March 31,	
	2014	2013
Employee benefits expense	\$3,834	\$2,717
Depreciation of equipment	428	335
Amortization of intangibles	13	22
Share – based payment transactions	880	910
Other administration expenses	1,723	1,540
	\$6,878	\$5,524

7. Income tax expense:

The Company's consolidated effective tax rate for the three months ended March 31, 2014 was 26.7% (2013: 27.0%). The change in effective tax rate was caused mainly by the impact of non-deductible expenses.

000's of dollars	Three Months Ended March 31,	
	2014	2013
Current tax expense:		
Current period	\$3,017	\$1,622
Deferred tax expense:		
Origination and reversal of temporary differences	1,312	1,538
Total income tax expense	\$4,329	\$3,160

Reconciliation of Effective Tax Rate

000's of dollars	Three Months Ended March 31,			
	2014	2014	2013	2013
Profit and comprehensive income for the period		\$11,850		\$8,527
Total income tax expense		4,329		3,160
Profit excluding income tax		16,179		11,687
Income tax using the Company's domestic tax rate	25.0%	4,045	25.0%	2,922
Non-deductible expenses	1.5%	246	2.2%	260
Other	0.2%	38	(0.2%)	(22)
	26.7%	\$4,329	27.0%	\$3,160

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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, 2013	\$9,340	\$21,026	\$281,867	\$81,141	\$5,565	\$398,939
Additions:						
Owned	106	3,638	10,508	90	498	14,840
Finance leases	-	-	-	1,994	264	2,258
Disposals	-	-	(5,498)	(1,250)	-	(6,748)
Balance at Dec 31, 2013	\$9,446	\$24,664	\$286,877	\$81,975	\$6,327	\$409,289
Additions:						
Owned	-	29	11,524	1,440	289	13,282
Finance leases	-	-	-	442	59	501
Disposals	-	-	(3,307)	(419)	(186)	(3,912)
Balance at Mar 31, 2014	\$9,446	\$24,693	\$295,094	\$83,438	\$6,489	\$419,160
Accumulated depreciation:						
Balance at January 1, 2013	\$ -	\$2,923	\$66,393	\$26,704	\$3,203	\$99,223
Depreciation for the period	-	1,017	21,908	7,890	698	31,513
Disposals	-	-	(4,117)	(806)	-	(4,923)
Balance at Dec 31, 2013	\$ -	\$3,940	\$84,184	\$33,788	\$3,901	\$125,813
Depreciation for the period	-	288	6,109	1,835	169	8,401
Disposals	-	-	(1,907)	(285)	(129)	(2,321)
Balance at Mar 31, 2014	\$ -	\$4,228	\$88,387	\$35,338	\$3,941	\$131,893
Carrying amounts:						
At December 31, 2013	9,446	20,724	202,693	48,187	2,426	283,476
At March 31, 2014	9,446	20,465	206,707	48,102	2,547	287,268

Property and Equipment Under Construction

As at March 31, 2014, costs incurred on field and automotive equipment and facilities under construction totaled \$19,741 (December 31, 2013: \$7,759).

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Leased equipment

The leased equipment secures lease obligations. As at March 31, 2014, the net carrying amount of the leased equipment was \$5,491 (December 31, 2013: \$5,567).

9. Trade and other payables:

000's of dollars	March 31, 2014	December 31, 2013
Trade payables	\$55,498	\$53,575
Accrued expenses	8,003	7,508
Deferred share unit obligation	-	4,156
	<u>\$63,501</u>	<u>\$65,239</u>

10. Loans and borrowings:

000's of dollars	Nominal Interest Rate	Year of Maturity	March 31, 2014	December 31, 2013
Current Liabilities:				
Finance lease liabilities	6.0-9.3%	2014-2015	\$2,891	\$2,688
			<u>\$2,891</u>	<u>\$2,688</u>
Non-current liabilities:				
Finance lease liabilities	6.0-9.3%	2014-2015	\$2,802	\$3,096
			<u>\$2,802</u>	<u>\$3,096</u>

The Company's facilities comprise an Operating Facility and a Revolving Facility.

Effective January 31, 2014, the Company amended its credit agreement to include a foreign exchange limit of \$5 million to facilitate the purchase of foreign exchange forward contracts should the Company decide to do so.

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 0.4% to 1.4%, dependent on certain financial ratios of the Company. As at March 31, 2014, \$4,132 (December 31, 2013: \$nil) was drawn on the Operating Facility.

The Revolving Facility is a three year committed revolving facility up to a maximum of \$85 million including a \$40 million accordion feature. This facility bears interest, payable monthly, at the bank's prime lending rate plus 0.4% to 1.4%, dependent on certain financial ratios of the Company. As at March 31, 2014 and December 31, 2013, no amounts were drawn on the Revolving Facility. The \$40 million accordion feature is available upon request by the Company, subject to review and approval by the lender.

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

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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, 2014 and December 31, 2013.

11. Deferred tax assets and liabilities:

Recognized Deferred Tax Assets and Liabilities

	Assets		Liabilities		Net	
	Mar. 31 2014	Dec. 31 2013	Mar. 31 2014	Dec. 31 2013	Mar. 31 2014	Dec. 31 2013
Property and equipment	\$-	\$ -	\$23,781	\$23,564	\$23,781	\$23,564
Intangible assets	(45)	(44)	-	-	(45)	(44)
Loans and borrowings	(1,423)	(1,446)	-	-	(1,423)	(1,446)
Share-based payment transactions	-	(1,040)	-	-	-	(1,040)
Share issue costs	(100)	(133)	-	-	(100)	(133)
	<u>\$(1,568)</u>	<u>\$(2,663)</u>	<u>\$23,781</u>	<u>\$23,564</u>	<u>\$22,213</u>	<u>\$20,901</u>

As at March 31, 2014, deferred tax assets are based on a rate of 25% and total \$1,568 (December 31, 2013: \$2,663). 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 \$23,781 as at March 31, 2014 (December 31, 2013: \$23,564) 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:

	Common Shares	
	March 31, 2014	December 31, 2013
Common shares issued as at January 1	62,528	61,846
Exercise of share options	297	550
Conversion of incentive based units	22	132
<u>Common shares issued as at end of period</u>	<u>62,847</u>	<u>62,528</u>

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Dividends

On March 19, 2014, the Company declared a quarterly dividend of \$0.15 per common share, which was paid on April 25, 2014.

During the three months ended March 31, 2014, the Company paid quarterly dividends of \$9,397 or \$0.15 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, 2014 was \$1.57 (2013: \$2.52) based on the date of grant valuation using the Black-Scholes option pricing model. Stock-based compensation of \$643 has been recorded for the three months ended March 31, 2014 (2013: \$729).

A summary of the status of the Company's stock option plan as at March 31, 2014 and December 31, 2013 and changes during the periods then ended is presented below:

	Options Outstanding	Range of Exercise Price	Weighted Average Exercise Price
Outstanding as at January 1, 2013	2,663	\$ 0.78 – \$ 15.54	\$ 8.22
Granted	1,618	\$10.28 – \$ 12.15	\$11.05
Exercised	(550)	\$ 0.78 – \$ 11.64	\$ 2.81
Forfeited	(295)	\$ 4.28 – \$ 15.12	\$11.70
Outstanding as at December 31, 2013	3,436	\$ 0.96 – \$ 15.54	\$10.12
Granted	816	\$10.74 – \$ 12.28	\$10.82
Exercised	(297)	\$ 0.96 – \$ 12.73	\$ 5.09
Forfeited	(47)	\$ 9.29 – \$ 11.82	\$10.99
Outstanding as at March 31, 2014	3,908	\$ 2.06 – \$ 15.54	\$10.64
Exercisable as at March 31, 2014	1,585	\$ 2.06 – \$ 15.54	\$ 9.82

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(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, 2014, there were 209 incentive based units (2013: 142) granted to directors, officers and employees of the Company. There were 22 incentive based units (2013: 7) converted into common shares of the Company by directors, officers and employees during the three months ended March 31, 2014 and 2 incentive based units (2013: nil) were forfeited. The compensation cost to the Company for the three months ended March 31, 2014 was \$374 (2013: \$271). As at March 31, 2014, there were 514 incentive based units outstanding (December 31, 2013: 329).

(c) Share Appreciation Rights (cash settled):

(Number of units in thousands)

The Company established a Deferred Share Unit (DSU) plan for the President. The deferred share units obligation of \$nil as at March 31, 2014 (December 31, 2013: \$4,156) is recorded as a liability in trade and other payables and revalued at each reporting period. In the three months ended March 31, 2014, the Company recorded a reduction in compensation costs of \$137 (2013: a reduction of \$90) related to the cash-settlement of the DSU’s. As at March 31, 2014, there are nil DSU’s (December 31, 2013: 400) outstanding as they were exercised on January 16, 2014 immediately prior to expiry.

14. Capital commitments:

As at March 31, 2014 the Company has commitments to purchase property and equipment for \$10.2 million (as at December 31, 2013: \$9.2 million).