CANYON SERVICES GROUP INC.

CONDENSED CONSOLIDATED INTERIM

FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED

JUNE 30, 2014 and 2013

UNAUDITED

CANYON SERVICES GROUP INC.

Condensed Consolidated Interim Balance Sheets
(Unaudited)

000's of dollars	Note	June 30, 2014	December 31, 2013
Assets			
Current assets:			
Cash and cash equivalents		$6,372	$21,308
Trade and other receivables	4	49,370	62,403
Inventories		18,447	17,201
Prepayments		2,631	2,278
Current tax assets		17,932	15,864
Total current assets		94,752	119,054
Non-current assets:			
Property and equipment	8	296,342	283,476
Intangible assets		151	177
Total non-current assets		296,493	283,653
Total Assets		$391,245	$402,707
Liabilities and Equity			
Current liabilities:			
Trade and other payables	9	$54,043	$65,239
Loans and borrowings	10	3,039	2,688
Dividend payable	12	10,279	9,397
Total current liabilities		67,361	77,324
Non-current liabilities:			
Loans and borrowings	10	17,517	3,096
Deferred tax liabilities	11	22,533	20,901
Total non-current liabilities		40,050	23,997
Equity			
Share capital	12	194,804	189,764
Contributed surplus		11,750	11,218
Retained earnings		77,280	100,404
Total equity		283,834	301,386
Total liabilities and equity		$391,245	$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 Loss
For the three and six months ended June 30
(Unaudited)

000's of dollars, except per share amounts		Three Months Ended June 30		Six Months Ended June 30	
	Note	2014	2013	2014	2013
Revenue		$60,279	$27,431	$198,464	$114,318
Cost of services	5	(73,313)	(44,035)	(187,892)	(113,617)
Gross (loss) profit		(13,034)	(16,604)	10,572	701
Administrative expenses	6	(7,024)	(5,551)	(13,902)	(11,074)
Results from operating activities		(20,058)	(22,155)	(3,330)	(10,373)
Finance costs		(70)	(162)	(251)	(318)
Foreign exchange gain (loss)		100	(12)	(268)	50
Loss before income tax		(20,028)	(22,329)	(3,849)	(10,641)
Income tax (expense) recovery:					
Current tax	7	5,085	1,486	2,068	(136)
Deferred tax	11	(320)	3,657	(1,632)	2,118
		4,765	5,143	436	1,982
Loss and comprehensive loss		$(15,263)	$(17,186)	$(3,413)	$(8,659)
Loss per share					
Basic		$(0.24)	$(0.28)	$(0.05)	$(0.14)
Diluted		$(0.24)	$(0.28)	$(0.05)	$(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
Loss and comprehensive loss for the period			(8,659)	(8,659)
Transactions with owners, recorded directly in equity:				
Issue on exercise of stock options	1,280			1,280
Reclassification on exercise of stock options and incentive-based units	942	(942)		-
Share-based payment transactions		1,922		1,922
Dividends			(18,697)	(18,697)
Balance at June 30, 2013	$189,395	$9,330	$114,896	$313,621
Balance at December 31, 2013	$189,764	$11,218	$100,404	$301,386
Loss and comprehensive loss for the period			(3,413)	(3,413)
Transactions with owners, recorded directly in equity:				
Issue on exercise of stock options	3,549			3,549
Reclassification on exercise of stock options and incentive-based units	1,491	(1,491)		-
Share-based payment transactions		2,023		2,023
Dividends			(19,711)	(19,711)
Balance at June 30, 2014	$194,804	$11,750	$77,280	$283,834

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 and six months ended June 30
(Unaudited)

000's of dollars

	Note	Three Months Ended June 30		Six Months Ended June 30	
		2014	2013	2014	2013
Cash flows from operating activities:					
Loss and comprehensive loss for the period		$(15,263)	$(17,186)	$(3,413)	$(8,659)
Adjustments for:					
Depreciation and amortization	5, 6	9,892	7,792	19,706	15,496
Share based payment transactions		1,006	1,241	1,886	2,151
Gain on sale of property and equipment		(26)	(12)	(16)	(44)
Finance costs		70	162	251	318
Income tax recovery	7, 11	(4,765)	(5,143)	(436)	(1,982)
		(9,086)	(13,146)	17,978	7,280
Change in inventories		(2,972)	(262)	(1,246)	(482)
Change in trade and other receivables		37,981	29,970	13,033	36,979
Change in prepayments		(900)	(908)	(353)	(1,830)
Change in trade and other payables		(16,019)	(2,840)	(18,172)	(8,490)
Cash generated from operating activities		9,004	12,814	11,240	33,457
Interest paid		(70)	(162)	(251)	(318)
Income tax paid		-	(2,512)	-	(3,667)
Net cash from operating activities		8,934	10,140	10,989	29,472
Cash flows from investing activities:					
Proceeds from sale of property and equipment		165	91	346	270
Acquisition of property and equipment	8	(18,589)	(2,310)	(31,871)	(5,811)
Change in trade and other payables		6,561	(733)	7,114	42
Net cash used in investing activities		(11,863)	(2,952)	(24,411)	(5,499)
Cash flows from financing activities:					
Repayment of bank indebtedness		(4,132)	-	-	-
Proceeds from credit facilities		15,000	-	15,000	-
Proceeds from exercise of share options and warrants		2,035	338	3,549	1,280
Payment of finance lease liabilities		(640)	(517)	(1,233)	(1,015)
Dividends paid	12	(9,433)	(9,330)	(18,830)	(18,623)
Net cash from (used in) financing activities		2,830	(9,509)	(1,514)	(18,358)
Net increase (decrease) in cash and cash equivalents		(99)	(2,321)	(14,936)	5,615
Cash and cash equivalents as at beginning of period		6,471	30,520	21,308	22,584
Cash and cash equivalents at June 30		$6,372	$28,199	$6,372	$28,199

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:

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 and Consolidated Interim Financial Statements were approved by the Board of Directors on July 31, 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 June 30, 2014, no single customer accounted for more than 24% of the Company's revenue (year ended December 31, 2013: 11%). As at June 30, 2014, five customers accounted for 52% (December 31, 2013 – five customers accounted for 50%) of the Company's accounts receivable while five customers account for 50% (December 31, 2013 – five customers account for 39%) of the revenue.

The Company's accounts receivable is aged as follows:

000's of dollars	June 30, 2014	December 31, 2013
Current (0-30 days from invoice date)	$25,393	$32,678
31-60 days past due	15,517	23,135
Over 60 days past due	8,501	6,851
Sub-total	49,411	62,664
Less: Allowance for doubtful accounts	(41)	(261)
Total	$49,370	$62,403

5. Cost of services:

Cost of services for the three and six months ended June 30, 2014 is detailed as follows:

000's of dollars	Three Months Ended June 30,		Six Months Ended June 30	
	2014	2013	2014	2013
Employee benefits expense	$18,473	$13,053	$45,954	$32,412
Depreciation of equipment	9,427	7,424	18,801	14,772
Operating expense	45,413	23,558	123,137	66,433
	$73,313	$44,035	$187,892	$113,617

During the six months ended June 30, 2014, inventories recognized as cost of services amounted to $58,047 (2013: $34,850).

6. Administrative Expenses:

Administrative expenses for the three and six months ended June 30, 2014 are detailed as follows:

000's of dollars	Three Months Ended June 30		Six Months Ended June 30	
	2014	2013	2014	2013
Employee benefits expense	$3,300	$2,182	$7,134	$4,899
Depreciation of equipment	451	345	879	680
Amortization of intangibles	13	22	26	44
Share – based payment transactions	1,006	1,242	1,886	2,152
Other administration expenses	2,254	1,760	3,977	3,299
	$7,024	$5,551	$13,902	$11,074

7. Income tax expense:

The Company's consolidated effective tax rate for the six months ended June 30, 2014 was 11.3% (2013: 18.6%). The change in effective tax rate was caused mainly by the impact of non-deductible expenses.

000's of dollars	Three Months Ended June 30		Six Months Ended June 30	
	2014	2013	2014	2013
Current tax expense (recovery):				
Current period	$(5,085)	$(1,486)	$(2,068)	$136
Deferred tax expense (recovery):				
Origination and reversal of temporary differences	320	(3,657)	1,632	(2,118)
Total income tax recovery	$(4,765)	$(5,143)	$(436)	$(1,982)

Reconciliation of Effective Tax Rate

000's of dollars	Six Months Ended June 30,			
	2014	2014	2013	2013
Loss and comprehensive loss for the period		$(3,413)		$(8,659)
Total income tax recovery		(436)		(1,982)
Loss excluding income tax		(3,849)		(10,641)
Income tax recovery using the Company's domestic tax rate	25.0%	(962)	25.0%	(2,660)
Non-deductible expenses	12.6%	484	5.0%	531
Other	1.1%	42	1.4%	147
	(11.3)%	$(436)	(18.6)%	$(1,982)

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	5	421	28,218	2,297	930	31,871
Finance leases	-	-	-	872	133	1,005
Disposals	-	-	(5,275)	(802)	(208)	(6,285)
Balance at June 30, 2014	**$9,451**	**$25,085**	**$309,820**	**$84,342**	**$7,182**	**$435,880**
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**	**$125,813**
Depreciation for the period	-	575	12,627	3,695	362	17,259
Disposals	-	-	(2,854)	(534)	(146)	(3,534)
Balance at June 30, 2014	**$ -**	**$4,515**	**$93,957**	**$36,949**	**$4,117**	**$139,538**
Carrying amounts:						
At December 31, 2013	9,446	20,724	202,693	48,187	2,426	283,476
At June 30, 2014	9,451	20,570	215,863	47,393	3,065	296,342

Property and Equipment Under Construction

As at June 30, 2014, costs incurred on field and automotive equipment and facilities under construction totaled $34,282 (December 31, 2013: $7,759).

Leased equipment

The leased equipment secures lease obligations. As at June 30, 2014, the net carrying amount of the leased equipment was $5,402 (December 31, 2013: $5,567).

Change in depreciation estimate

During the three month period ended June 30, 2014, management revised estimates and underlying assumptions on the depreciable lives of certain equipment. One of the components of fracturing equipment, which management previously expected to dispose of after two years of use, is now expected to last one and a half years from the date of purchase.

The change in estimate is being made on a prospective basis and management estimates depreciation expense on this equipment to increase by approximately $432 in 2014.

9. Trade and other payables:

000's of dollars	June 30, 2014	December 31, 2013
Trade payables	$31,888	$32,079
Accrued expenses	22,155	29,004
Deferred share unit obligation	-	4,156
	$54,043	$65,239

10. Loans and borrowings:

000's of dollars	Nominal Interest Rate	Year of Maturity	June 30, 2014	December 31, 2013
Current Liabilities:				
Finance lease liabilities	6.0-9.3%	2014-2015	$3,039	$2,688
			$3,039	$2,688
Non-current liabilities:				
Drawing on credit facility	0.4-1.4%	2014	$15,000	$-
Finance lease liabilities	6.0-9.3%	2014-2015	$2,517	$3,096
			$17,517	$3,096

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 June 30, 2014, no amounts (December 31, 2013: $nil) were 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 which is available upon request by the Company, subject to review and approval by the lender. 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 June 30, 2014 $15 million (December 31, 2013: $nil) was 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, 2014 and December 31, 2013.

On July 2, 2014, the Company amended its credit agreement to extend the term by one year. This facility now consists of a $20 million Operating Facility and an $80 million Revolving Facility which includes a $30 million accordion feature.

11. Deferred tax assets and liabilities:

Recognized Deferred Tax Assets and Liabilities

000's of dollars	Assets		Liabilities		Net	
	June 30, 2014	Dec. 31, 2013	June 30, 2014	Dec. 31, 2013	June 30, 2014	Dec. 31, 2013
Property and equipment	$-	$ -	$24,035	$23,564	$24,035	$23,564
Intangible assets	(46)	(44)	-	-	(46)	(44)
Loans and borrowings	(1,389)	(1,446)	-	-	(1,389)	(1,446)
Share-based payment transactions	-	(1,040)	-	-	-	(1,040)
Share issue costs	(67)	(133)	-	-	(67)	(133)
	$(1,502)	$(2,663)	$24,035	$23,564	$22,533	$20,901

As at June 30, 2014, deferred tax assets are based on a rate of 25% and total $1,502 (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 $24,035 as at June 30, 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:

000's of shares	Common Shares	
	June 30, 2014	December 31, 2013
Common shares issued as at January 1, 2014	62,528	61,846
Exercise of share options	518	550
Conversion of incentive based units	52	132
Common shares issued as at end of period	63,098	62,528

Dividends

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

On June 26, 2014, the Company declared a quarterly dividend of $0.15 per common share, which was paid on July 25, 3014.

During the six months ended June 30, 2014, the Company paid quarterly dividends of $18,830 or $0.30 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, 2014 was $1.67 (2013: $2.53) based on the date of grant valuation using the Black-Scholes option pricing model. Stock-based compensation of $1,209 has been recorded for the six months ended June 30, 2014 (2013: $1,435).

A summary of the status of the Company's stock option plan as at June 30, 2014 and December 31, 2013 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, 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	899	$10.74 – $ 17.92	$11.31
Exercised	(518)	$ 0.96 – $ 15.54	$ 6.95
Forfeited	(123)	$ 4.31 – $ 12.73	$10.44
Outstanding as at June 30, 2014	3,694	$ 2.43 – $ 17.92	$10.84
Exercisable as at June 30, 2014	1,411	$ 2.43 – $ 15.54	$ 9.97

(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, 2014, there were 216 incentive based units (2013: 150) granted to directors, officers and employees of the Company. There were 52 incentive based units (2013: 132) converted into common shares of the Company by directors, officers and employees during the six months ended June 30, 2014 and 11 incentive based units (2013: 16) were forfeited. The compensation cost to the Company for the six months ended June 30, 2014 was $863 (2013: $486). As at June 30, 2014, there were 482 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 June 30, 2014 (December 31, 2013: $4,156) is recorded as a liability in trade and other payables and revalued at each reporting period. In the six months ended June 30, 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 June 30, 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 June 30, 2014 the Company has commitments to purchase property and equipment for $41.7 million (as at December 31, 2013: $9.2 million).

15. Subsequent events

(a) Acquisition of Fraction Energy Services Ltd. ("Fraction")

On July 1, 2014 the Company acquired all of the issued and outstanding shares of Fraction, a privately held water and fracturing fluid management company. The total consideration paid was $106.1 million which consisted of 5.4 million shares issued at $18.81 per share and cash consideration of $4.5 million. The purchase will be recognized as a business combination and accounted for as such using the acquisition method of accounting.

The acquisition represents a complementary division for the Company and is part of a long term strategy of developing comprehensive service solutions for water and fracturing fluid management.

The initial accounting for the business combination has not been completed to date as the Company is working to quantify and confirm the opening fair values of Fraction. As the opening fair value balances of Fraction have not been determined, goodwill arising from the transaction cannot be quantified.

No amounts have been recognized from the acquisition as it relates to profit and comprehensive income as at June 30, 2014.

(b) Acquisition of Coil Tubing Assets

On July 8, 2014, the Company acquired coil tubing assets from a privately held company for cash consideration of approximately $19.7 million. The acquisition expands Canyon's coil tubing division and was primarily funded by drawing on the Company's revolving credit facility.