



CONDENSED CONSOLIDATED INTERIM

FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED

MARCH 31, 2015 and 2014

UNAUDITED

CANYON SERVICES GROUP INC.

Condensed Consolidated Interim Balance Sheets
(Unaudited)

000's of dollars		March 31,	December 31,
	Note	2015	2014
Assets			
Current assets:			
Cash and cash equivalents		\$10,427	\$20,613
Trade and other receivables	4	97,645	123,669
Inventories		18,145	23,091
Prepayments		2,860	2,485
Current tax assets		347	-
Total current assets		129,424	169,858
Non-current assets:			
Property and equipment	8	381,738	377,571
Investment		322	246
Intangible assets	9	39,759	41,264
Goodwill		49,831	49,831
Total non-current assets		471,650	468,912
Total Assets		\$601,074	\$638,770
Liabilities and Equity			
Current liabilities:			
Bank indebtedness	11	\$13,732	\$11,588
Trade and other payables	10	82,327	115,452
Finance leases	11	3,108	2,742
Dividend payable	13	10,328	10,294
Current tax liabilities		-	7,902
Total current liabilities		109,495	147,978
Non-current liabilities:			
Bank indebtedness	11	40,000	30,000
Finance leases	11	6,938	6,193
Deferred tax liabilities	12	33,512	34,070
Total non-current liabilities		80,450	70,263
Equity			
Share capital	13	298,879	297,761
Contributed surplus		14,413	13,565
Retained earnings		97,837	109,203
Total equity		411,129	420,529
Total liabilities and equity		\$601,074	\$638,770

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

CANYON SERVICES GROUP INC.

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

000's of dollars, except per share amounts	Note	2015	2014
Revenue		\$155,585	\$138,195
Cost of services	5	(144,035)	(114,579)
Gross profit		11,550	23,616
Administrative expenses	6	(8,917)	(6,865)
Amortization expense	9	(1,505)	(13)
Results from operating activities		1,128	16,738
Finance costs		(533)	(181)
Foreign exchange loss		(1,564)	(368)
Loss on sale of property and equipment		(49)	(10)
(Loss) Profit before income tax		(1,018)	16,179
Income tax (expense) recovery			
Current tax	7	(578)	(3,017)
Deferred tax	12	558	(1,312)
		(20)	(4,329)
(Loss) Profit and comprehensive (loss) income		\$(1,038)	\$11,850
(Loss) Earnings per share			
Basic		\$(0.02)	\$0.19
Diluted		\$(0.02)	\$0.19

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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, 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
Balance at December 31, 2014	\$297,761	\$13,565	\$109,203	\$420,529
Loss and comprehensive loss for the period			(1,038)	(1,038)
Transactions with owners, recorded directly in equity:				
Issue on exercise of stock options	595			595
Reclassification on exercise of stock options and incentive-based units	523	(523)		-
Share based payment transactions		1,371		1,371
Dividends			(10,328)	(10,328)
Balance at March 31, 2015	\$298,879	\$14,413	\$97,837	\$411,129

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	2015	2014
Cash flows from operating activities:			
(Loss) profit and comprehensive (loss) income for the period		\$(1,038)	\$11,850
Adjustments for:			
Depreciation and amortization	5, 6, 9	15,836	9,814
Share based payment transactions		1,371	880
Loss on sale of property and equipment		49	10
Finance costs		533	181
Equity investment income		(76)	-
Income tax expense	7, 12	20	4,329
		16,695	27,064
Change in inventories		4,946	1,726
Change in trade and other receivables		26,024	(24,948)
Change in prepayments		(375)	547
Change in trade and other payables		(46,783)	(2,153)
Cash generated from operating activities		507	2,236
Interest paid		(533)	(181)
Income tax paid		(8,827)	-
Net cash (used in) from operating activities		(8,853)	2,055
Cash flows from investing activities:			
Proceeds from sale of property and equipment		409	181
Acquisition of property and equipment	8	(17,618)	(13,282)
Change in trade and other payables		14,386	553
Net cash used in investing activities		(2,823)	(12,548)
Cash flows from financing activities:			
Advances on bank indebtedness		12,144	4,132
Proceeds from exercise of share options		595	1,514
Payment of finance lease liabilities		(955)	(593)
Dividends paid	13	(10,294)	(9,397)
Net cash from (used in) financing activities		1,490	(4,344)
Net increase (decrease) in cash and cash equivalents		(10,186)	(14,837)
Cash and cash equivalents at January 1		20,613	21,308
Cash and cash equivalents at March 31		\$10,427	\$6,471

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)

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1. Reporting entity:

Canyon Services Group Inc. (the “Company” or “Canyon”) is a company domiciled in Canada. The Company is a publicly-traded company listed on the Toronto Stock Exchange under the 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., Canyon Technical Services Inc. and Fraction Energy Services Ltd. (“Fraction”). The address of the Company’s registered office is 2900 Bow Valley Square III, 255 – 5th Avenue S.W., Calgary, Alberta, Canada, T2P 3G6.

The Company's activities are conducted in the oilfield services industry and are focused on providing pressure pumping services and fluid management services. Pressure pumping services specializes in 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. Fluid management services specializes in providing fluid management, including; water sourcing, transfer, wellsite storage, fluid heating, flowback transfer and produced water storage services.

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 2014 annual financial statements.

These Condensed Consolidated Interim Financial Statements were approved by the Board of Directors on May 5, 2015.

Significant accounting policies:

The accounting policies applied in these interim financial statements are the same as those applied in the Company’s consolidated financial statements as at and for the year ended December 31, 2014.

Use of judgments and estimates:

In preparing these interim financial statements, management has made judgments, estimates, and assumptions that affect the application of accounting policies and the reporting amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

CANYON SERVICES GROUP INC.

Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)

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The significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended December 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 March 31, 2015, one customer accounted for more than 23% of the Company's revenue (year ended December 31, 2014: 17%). As at March 31, 2015, five customers accounted for 56% (December 31, 2014 – five customers accounted for 43%) of the Company's accounts receivable while five customers account for 54% (December 31, 2014 – five customers account for 43%) of the revenue.

The Company's accounts receivable is aged as follows:

000's of dollars	March 31, 2015	December 31, 2014
Current (0-30 days from invoice date)	\$46,467	\$65,195
31-60 days past due	27,328	45,511
Over 60 days past due	23,904	13,004
Sub-total	97,699	123,710
Less: Allowance for doubtful accounts	(54)	(41)
Total	\$97,645	\$123,669

CANYON SERVICES GROUP INC.

Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)

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5. Cost of services:

000's of dollars	Three Months Ended	
	March 31,	
	2015	2014
Employee benefits expense	\$34,528	\$27,481
Depreciation of equipment	13,802	9,374
Operating expense	95,705	77,724
	\$144,035	\$114,579

During the three months ended March 31, 2015, inventories recognized as cost of services amounted to \$48,426 (2014: \$38,392).

6. Administrative expenses:

000's of dollars	Three Months Ended	
	March 31,	
	2015	2014
Employee benefits expense	\$4,676	\$3,834
Depreciation of equipment	529	428
Share based payment transactions	1,371	880
Other administration expenses	2,341	1,723
	\$8,917	\$6,865

7. Income tax expense:

The Company's consolidated effective tax rate for the three months ended March 31, 2015 was (2.0%) (2014: 26.7%). 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,	
	2015	2014
Current tax expense:		
Current period	\$578	\$3,017
Deferred tax (recovery) expense:		
Origination and reversal of temporary differences	(558)	1,312
Total income tax expense	\$20	\$4,329

CANYON SERVICES GROUP INC.

Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)

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Reconciliation of Effective Tax Rate

000's of dollars	Three Months Ended March 31,			
	2015	2015	2014	2014
(Loss) profit and comprehensive (loss) income for the period		\$(1,038)		\$11,850
Total income tax expense		20		4,329
(Loss) profit excluding income tax		(1,018)		16,179
Income tax using the Company's domestic tax rate	25.0%	(255)	25.0%	4,045
Non-deductible expenses	(28.7)%	292	1.5%	246
Other	1.7%	(17)	0.2%	38
	(2.0)%	\$20	26.7%	\$4,329

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Notes to the Condensed Consolidated Interim Financial Statements
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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, 2014	\$9,446	\$24,664	\$286,877	\$81,975	\$6,327	\$409,289
Additions:						
Acquisitions through business combination	-	19	19,763	3,572	168	23,522
Owned	3,754	540	95,263	11,710	1,410	112,677
Finance leases	-	-	-	5,358	909	6,267
Disposals	-	-	(12,265)	(3,648)	(278)	(16,191)
Balance at Dec 31, 2014	\$13,200	\$25,223	\$389,638	\$98,967	\$8,536	\$535,564
Additions:						
Owned	-	154	16,618	453	393	17,618
Finance leases	-	-	-	1,589	477	2,066
Disposals	-	-	(3,640)	(938)	(17)	(4,595)
Balance at Mar 31, 2015	\$13,200	\$25,377	\$402,616	\$100,071	\$9,389	\$550,653
Accumulated depreciation:						
Balance at January 1, 2014	\$ -	\$3,940	\$84,184	\$33,788	\$3,901	\$125,813
Depreciation for the year	-	1,157	29,608	8,441	885	40,091
Disposals	-	-	(5,247)	(2,469)	(195)	(7,911)
Balance at Dec 31, 2014	\$ -	\$5,097	\$108,545	\$39,760	\$4,591	\$157,993
Depreciation for the period	-	279	9,740	2,410	300	12,729
Disposals	-	-	(1,193)	(603)	(11)	(1,807)
Balance at Mar 31, 2015	\$ -	\$5,376	\$117,092	\$41,567	\$4,880	\$168,915
Carrying amounts:						
At December 31, 2014	\$13,200	\$20,126	\$281,093	\$59,207	\$3,945	\$377,571
At March 31, 2015	\$13,200	\$20,001	\$285,524	\$58,504	\$4,509	\$381,738

Property and Equipment Under Construction

As at March 31, 2015, costs incurred on field and automotive equipment and facilities under construction totaled \$27,516 (December 31, 2014: \$55,794).

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Leased equipment

Property and equipment includes leased assets as the Company leases equipment under a number of finance lease agreements. The leased equipment secures lease obligations. As at March 31, 2015, the net carrying amount of the leased equipment was \$9,360 (December 31, 2014: \$8,351).

9. Intangible assets:

000's of dollars	Intellectual properties	Licenses	Non-competition agreements	Customer relationships	Total
Cost:					
Balance at January 1, 2014	\$286	\$303	\$-	\$-	\$589
Additions:	-	-	-	-	-
Acquisitions through business combination	-	-	6,820	37,308	44,128
Balance at Dec 31, 2014	\$286	\$303	\$6,820	\$37,308	\$44,717
Additions:	-	-	-	-	-
Balance at Mar 31, 2015	\$286	\$303	\$6,820	\$37,308	\$44,717
Amortization:					
Balance at January 1, 2014	\$128	\$284	\$-	\$-	\$412
Amortization for the year	19	19	1,137	1,866	3,041
Balance at Dec 31, 2014	\$147	\$303	\$1,137	\$1,866	\$3,453
Amortization for the period	5	-	568	932	1,505
Balance at Mar 31, 2015	\$152	\$303	\$1,705	\$2,798	\$4,958
Carrying values:					
At December 31, 2014	\$139	\$-	\$5,683	\$35,442	\$41,264
At March 31, 2015	\$134	\$-	\$5,115	\$34,510	\$39,759

10. Trade and other payables:

000's of dollars	March 31, 2015	December 31, 2014
Trade payables	\$51,519	\$53,844
Accrued expenses	30,808	61,608
	\$82,327	\$115,452

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Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)

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11. Bank indebtedness and finance leases:

000's of dollars	Nominal Interest Rate	Year of Maturity	March 31, 2015	December 31, 2014
Current liabilities:				
Drawing on operating facility	3.4-4.4%	2015-2016	\$13,732	\$11,588
Finance lease liabilities	0.0-8.4%	2015-2016	3,108	2,742
			\$16,840	\$14,330
Non-current liabilities:				
Drawing on revolving facility	3.4-4.4%	2017	\$40,000	\$30,000
Finance lease liabilities	0.0-8.4%	2016-2018	6,938	6,193
			\$46,938	\$36,193

The Operating Facility is a three year committed revolving facility up to a maximum of \$20.0 million due on demand, 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, 2015, \$13.7 million (December 31, 2014: \$11.6 million) was drawn on the Operating Facility.

The Revolving Facility is a three year committed revolving facility up to a maximum of \$80.0 million which includes a \$10.0 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 March 31, 2015, \$40.0 million (December 31, 2014: \$30.0 million) 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 as disclosed in note 4 to the December 31, 2014 consolidated financial statements. The Company was in compliance with the terms of the lending agreements as at March 31, 2015 and December 31, 2014.

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12. Deferred tax assets and liabilities:

Recognized Deferred Tax Assets and Liabilities

	Assets		Liabilities		Net	
	Mar. 31 2015	Dec. 31 2014	Mar. 31 2015	Dec. 31 2014	Mar. 31 2015	Dec. 31 2014
Property and equipment	\$-	\$ -	\$26,073	\$25,985	\$26,073	\$25,985
Intangible assets	(45)	(45)	9,957	10,324	9,912	10,279
Finance leases	(2,473)	(2,194)	-	-	(2,473)	(2,194)
	\$(2,518)	\$(2,239)	\$36,030	\$36,309	\$33,512	\$34,070

As at March 31, 2015, deferred tax assets are based on a rate of 25% and total \$2,518 (December 31, 2014: \$2,239). Deferred tax assets mainly comprise amounts deductible for tax purposes in future periods in respect to amounts resulting from the recording of finance leases. The deferred tax liabilities of \$36,030 as at March 31, 2015 (December 31, 2014: \$36,309) which are based on a rate of 25% comprise the difference between the carrying amount of property and equipment and intangible assets and the respective underlying value for tax purposes.

13. Share capital:

	Common Shares	
	March 31, 2015	December 31, 2014
Common shares issued as at January 1	68,604	62,528
Issuance of shares related to business combination	-	5,400
Exercise of share options	219	624
Conversion of incentive based units	28	52
Common shares issued as at end of period	68,851	68,604

Earnings (loss) per share

The following summarizes the weighted average common shares used in calculating (loss) earnings per share:

	Three months ended	
	March 31, 2015	March 31, 2014
(Loss) earnings for the period	\$(1,038)	\$11,850
Weighted average shares		
Basic	68,666	62,715
Dilution effect of stock options and incentive based units	-	738
Diluted	68,666	63,453
Basic earnings (loss) per share	\$(0.02)	\$0.19
Diluted earnings (loss) per share	\$(0.02)	\$0.19

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Notes to the Condensed Consolidated Interim Financial Statements
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Dividends

On March 19, 2015, the Company declared a quarterly dividend of \$0.15 per common share, which was paid on April 24, 2015.

During the three months ended March 31, 2015, the Company paid quarterly dividends of \$10.3 million or \$0.15 per common share.

14. 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, 2015 was \$0.97 (2014: \$1.57) based on the date of grant valuation using the Black-Scholes option pricing model. Stock-based compensation expense of \$465 has been recorded for the three months ended March 31, 2015 (2014: \$643).

A summary of the status of the Company's stock option plan as at March 31, 2015 and December 31, 2014 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, 2014	3,436	\$ 0.96 – \$ 15.54	\$10.12
Granted	1,078	\$ 7.81 – \$ 18.42	\$11.71
Exercised	(624)	\$ 0.96 – \$ 15.54	\$ 7.33
Forfeited	(219)	\$ 4.31 – \$ 16.27	\$11.13
Outstanding as at December 31, 2014	3,671	\$ 2.43 – \$ 18.42	\$11.00
Granted	1,033	\$ 6.52 – \$ 7.75	\$ 7.15
Exercised	(219)	\$ 2.43 – \$ 5.16	\$ 2.95
Forfeited	(46)	\$ 7.24 – \$ 18.42	\$11.99
Outstanding as at March 31, 2015	4,439	\$ 4.20 – \$ 18.42	\$10.49
Exercisable as at March 31, 2015	2,029	\$ 4.20 – \$ 18.42	\$ 11.42

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Notes to the Condensed Consolidated Interim Financial Statements
(Unaudited)

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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, 2015, there were 886 incentive based units granted to directors, officers and employees of the Company (2014: 209). There were 28 incentive based units converted into common shares of the Company by directors, officers and employees during the three months ended March 31, 2015 (2014: 22) and 5 incentive based units were forfeited (2014: 2). The compensation cost to the Company for the three months ended March 31, 2015 was \$906 (2014: \$374). As at March 31, 2015, there were 1,350 incentive based units outstanding (December 31, 2014: 497).

(c) Share Appreciation Rights (cash settled):

(Number of units in thousands)

The Company established a Deferred Share Unit (“DSU”) plan for the President. In the three months ended March 31, 2015, the Company recorded compensation costs of \$nil (December 31, 2014: a reduction of \$137) related to the cash-settlement of the DSU’s. As at March 31, 2015, there are no DSU’s (December 31, 2014: nil) outstanding as they were exercised on January 31, 2014 immediately prior to expiry.

15. Capital commitments:

As at March 31, 2015 the Company has commitments to purchase property and equipment for \$3.3 million (as at December 31, 2014: \$7.4 million).

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Notes to the Condensed Consolidated Interim Financial Statements
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16. Operating segments:

The Company's segments are determined by services provided which are its core business of pressure pumping services, including hydraulic fracturing and chemical stimulation services and its fluid management services which provides water and fracturing fluid management including storage and pumping. The Corporate segment does not represent an operating segment and is included for informational purposes only. Corporate segment administrative expenses consist of salary expenses, share based payment expenses and other general costs related to corporate employees, as well as public company costs.

Three months ended March 31, 2015	Pressure Pumping Services	Fluid Management Services	Corporate	Total
Revenue	\$138,182	\$17,403	\$-	\$155,585
Cost of services	(132,050)	(11,985)	-	(144,035)
Gross profit	6,132	5,418	-	11,550
Administrative expenses	(5,770)	(1,640)	(1,507)	(8,917)
Amortization expense	(5)	(1,500)	-	(1,505)
Results from operating activities	\$357	\$2,278	\$(1,507)	\$1,128
Income tax recovery (expense)	\$540	\$(560)	\$-	\$(20)
Segment assets as at March 31, 2015	\$466,069	\$129,956	\$5,049	\$601,074
Segment liabilities as at March 31, 2015	\$163,038	\$16,149	\$10,758	\$189,945
Three months ended March 31, 2014	Pressure Pumping Services	Fluid Management Services	Corporate	Total
Revenue	\$138,195	\$-	\$-	\$138,195
Cost of services	(114,579)	-	-	(114,579)
Gross profit	23,616	-	-	23,616
Administrative expenses	(4,899)	-	(1,966)	(6,865)
Amortization expense	(13)	-	-	(13)
Results from operating activities	\$18,704	\$-	\$(1,966)	\$16,738
Income tax expense	\$(4,329)	\$-	\$-	\$(4,329)
Segment assets as at December 31, 2014	\$501,070	\$133,499	\$4,201	\$638,770
Segment liabilities as at December 31, 2014	\$186,012	\$21,447	\$10,782	\$218,241