



**CONDENSED CONSOLIDATED INTERIM  
FINANCIAL STATEMENTS  
FOR THE THREE AND SIX MONTHS ENDED  
JUNE 30, 2015 and 2014  
UNAUDITED**

# CANYON SERVICES GROUP INC.

Condensed Consolidated Interim Balance Sheets  
(Unaudited)

000's of dollars		June 30,	December 31,
	Note	2015	2014
<b>Assets</b>			
Current assets:			
Cash and cash equivalents		\$7,514	\$20,613
Trade and other receivables	4	36,634	123,669
Inventories		16,614	23,091
Prepayments		4,012	2,485
Current tax assets		6,125	-
<b>Total current assets</b>		<b>70,899</b>	<b>169,858</b>
Non-current assets:			
Property and equipment	8	375,099	377,571
Investment		286	246
Intangible assets	9	38,254	41,264
Goodwill		49,831	49,831
<b>Total non-current assets</b>		<b>463,470</b>	<b>468,912</b>
<b>Total Assets</b>		<b>\$534,369</b>	<b>\$638,770</b>
<b>Liabilities and Equity</b>			
Current liabilities:			
Bank indebtedness	11	\$16,929	\$11,588
Trade and other payables	10	41,666	115,452
Finance leases	11	3,580	2,742
Dividend payable		5,164	10,294
Current tax liabilities		-	7,902
<b>Total current liabilities</b>		<b>67,339</b>	<b>147,978</b>
Non-current liabilities:			
Bank indebtedness	11	40,000	30,000
Finance leases	11	6,231	6,193
Deferred tax liabilities	12	35,264	34,070
<b>Total non-current liabilities</b>		<b>81,495</b>	<b>70,263</b>
Equity:			
Share capital	13	298,922	297,761
Contributed surplus		15,841	13,565
Retained earnings		70,772	109,203
<b>Total equity</b>		<b>385,535</b>	<b>420,529</b>
<b>Total liabilities and equity</b>		<b>\$534,369</b>	<b>\$638,770</b>

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		Six Months Ended	
	Note	June 30,		June 30,	
		2015	2014	2015	2014
Revenue		\$43,159	\$60,253	\$198,744	\$198,448
Cost of services	5	(59,829)	(73,313)	(203,864)	(187,892)
Gross (loss) profit		(16,670)	(13,060)	(5,120)	10,556
Administrative expenses	6	(7,389)	(7,011)	(16,306)	(13,876)
Amortization expense	9	(1,505)	(13)	(3,010)	(26)
Results from operating activities		(25,564)	(20,084)	(24,436)	(3,346)
Finance costs		(854)	(70)	(1,387)	(251)
Foreign exchange gain (loss)		274	100	(1,290)	(268)
Gain on sale of property and equipment		199	26	150	16
Loss before income tax		(25,945)	(20,028)	(26,963)	(3,849)
Income tax (expense) recovery:					
Current tax	7	5,795	5,085	5,218	2,068
Deferred tax	12	(1,707)	(320)	(1,194)	(1,632)
		4,088	4,765	4,024	436
Loss and comprehensive loss		\$(21,857)	\$(15,263)	\$(22,939)	\$(3,413)
Loss per share					
Basic	13	\$(0.32)	\$(0.24)	\$(0.33)	\$(0.05)
Diluted	13	\$(0.32)	\$(0.24)	\$(0.33)	\$(0.05)

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	Contributed Surplus	Retained Earnings	Total Equity
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
Balance at December 31, 2014	\$297,761	\$13,565	\$109,203	\$420,529
Loss and comprehensive loss for the period	-	-	(22,939)	(22,939)
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	566	(566)	-	-
Share-based payment transactions	-	2,842	-	2,842
Dividends	-	-	(15,492)	(15,492)
Balance at June 30, 2015	\$298,922	\$15,841	\$70,772	\$385,535

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

# CANYON SERVICES GROUP INC.

Condensed Consolidated Interim Statements of Cash Flows  
For the three and six months ended June 30  
(Unaudited)

000's of dollars					
		Three Months Ended June 30,		Six Months Ended June 30,	
	Note	2015	2014	2015	2014
<b>Cash flows from operating activities:</b>					
Loss and comprehensive loss for the period		\$(21,857)	\$(15,263)	\$(22,939)	\$(3,413)
Adjustments for:					
Depreciation and amortization		14,339	9,892	30,175	19,706
Share-based payment transactions	14	1,471	1,006	2,842	1,886
Gain on sale of property and equipment		(199)	(26)	(150)	(16)
Equity investment loss (income)		35	-	(40)	-
Finance costs		854	70	1,387	251
Income tax recovery	7, 12	(4,088)	(4,765)	(4,024)	(436)
		(9,445)	(9,086)	7,251	17,978
Change in inventories		1,531	(2,972)	6,477	(1,246)
Change in trade and other receivables		61,011	37,981	87,035	13,033
Change in prepayments		(1,152)	(900)	(1,527)	(353)
Change in trade and other payables		(42,230)	(16,019)	(89,009)	(18,172)
Change in non-cash working capital related to operating activities		19,160	18,090	2,976	(6,738)
Cash generated from operating activities		9,715	9,004	10,227	11,240
Interest paid		(854)	(70)	(1,387)	(251)
Income tax received (paid)		17	-	(8,808)	-
Net cash from operating activities		8,878	8,934	32	10,989
<b>Cash flows from investing activities:</b>					
Proceeds from sale of property and equipment		1,686	165	2,095	346
Acquisition of property and equipment	8	(6,053)	(18,589)	(23,671)	(31,871)
Change in non-cash working capital related to investing activities		832	6,561	15,223	7,114
Net cash used in investing activities		(3,535)	(11,863)	(6,353)	(24,411)
<b>Cash flows from financing activities:</b>					
Advances (repayment) of bank indebtedness		3,198	(4,132)	5,341	-
Proceeds from credit facilities		-	15,000	10,000	15,000
Proceeds from exercise of share options and warrants		-	2,035	595	3,549
Payment of finance lease liabilities		(1,126)	(640)	(2,092)	(1,233)
Dividends paid	13	(10,328)	(9,433)	(20,622)	(18,830)
Net cash from (used in) financing activities		(8,256)	2,830	(6,778)	(1,514)
Net decrease in cash and cash equivalents		(2,913)	(99)	(13,099)	(14,936)
Cash and cash equivalents as at beginning of period		10,427	6,471	20,613	21,308
Cash and cash equivalents at June 30		\$7,514	\$6,372	\$7,514	\$6,372

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)

## 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 – 5<sup>th</sup> 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 and Consolidated Interim Financial Statements were approved by the Board of Directors on July 30, 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, with the exception of depreciation which is discussed in Note 8, Property and equipment.

### 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)

## 2. Basis of preparation (continued):

### Use of judgments and estimates (continued):

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. They are subject to typical industry credit risks that include oil and natural gas price fluctuations and customer's ability to secure appropriate financing.

For the three and six months ended June 30, 2015, one customer accounted for more than 21% and 18%, respectively, of the Company's revenue (year ended December 31, 2014: 17%). As at June 30, 2015, five customers accounted for 74% of the Company's accounts receivable (December 31, 2014 – five customers accounted for 43%) while five customers account for 66% and 55% of the revenue for the three and six months ended June 30, 2015 (December 31, 2014 – five customers account for 43%).

The Company's accounts receivable is aged as follows:

000's of dollars	June 30, 2015	December 31, 2014
Current (0-30 days from invoice date)	30,461	\$65,195
31-60 days past due	2,694	45,511
Over 60 days past due	3,524	13,004
Sub-total	36,679	123,710
Less: Allowance for doubtful accounts	(45)	(41)
Total	\$36,634	\$123,669

# CANYON SERVICES GROUP INC.

Notes to the Condensed Consolidated Interim Financial Statements  
(Unaudited)

## 5. Cost of services:

Cost of services for the three and six months ended June 30, 2015 is detailed as follows:

000's of dollars	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
Employee benefits expense	\$16,541	\$18,473	\$51,069	\$45,954
Depreciation of equipment	12,258	9,427	26,060	18,801
Materials	14,020	19,655	62,446	58,047
Operating expense	17,010	25,758	64,289	65,090
	\$59,829	\$73,313	\$203,864	\$187,892

## 6. Administrative expenses:

Administrative expenses for the three and six months ended June 30, 2015 are detailed as follows:

000's of dollars	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
Employee benefits expense	\$3,031	\$3,300	\$7,707	\$7,134
Depreciation of equipment	576	451	1,105	879
Share based payment transactions	1,471	1,006	2,842	1,886
Other administration expenses	2,311	2,254	4,652	3,977
	\$7,389	\$7,011	\$16,306	\$13,876

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# CANYON SERVICES GROUP INC.

Notes to the Condensed Consolidated Interim Financial Statements  
(Unaudited)

## 7. Income tax (expense) recovery:

The Company's consolidated effective tax rate for the six months ended June 30, 2015 was 14.9% (2014: 11.3%). The change in effective tax rate was caused mainly by the impact of a change in the Alberta provincial corporate tax rate and non-deductible expenses. Effective July 1, 2015, the Alberta provincial corporate tax rate increased from 10% to 12%. As a result, deferred income tax expense and the deferred income tax liability increased by \$2,133 for the three and six months ended June 30, 2015.

000's of dollars	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Current tax recovery:				
Current period	\$(5,795)	\$(5,085)	\$(5,218)	\$(2,068)
Deferred tax expense:				
Origination and reversal of temporary differences	\$1,707	320	1,194	1,632
<b>Total income tax recovery</b>	<b>\$(4,088)</b>	<b>\$(4,765)</b>	<b>\$(4,024)</b>	<b>\$(436)</b>

### *Reconciliation of Effective Tax Rate*

000's of dollars	Six Months Ended June 30,			
	2015	2015	2014	2014
Loss and comprehensive loss for the period		\$(22,939)		\$(3,413)
Total income tax recovery		(4,024)		(436)
Loss excluding income tax		\$(26,963)		(3,849)
Income tax recovery using the Company's domestic tax rate	26.0%	\$(7,010)	25.0%	\$(962)
Non-deductible expenses	(2.1)%	571	(12.6)%	484
Income tax rate changes	(7.9)%	2,133	-	-
Other	(1.1)%	282	(1.1)%	42
	14.9%	\$(4,024)	11.3%	\$(436)

# CANYON SERVICES GROUP INC.

Notes to the Condensed Consolidated Interim Financial Statements  
(Unaudited)

## 8. Property and equipment:

000's of dollars	Land	Office, Shop & Yard	Field Equipment	Automotive	Office Equipment & Leaseholds	Total
<b>Cost:</b>						
Balance at January 1, 2014	\$9,446	\$24,664	\$286,877	\$81,975	\$6,327	\$409,289
Additions:						
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)
<b>Balance at Dec 31, 2014</b>	<b>\$13,200</b>	<b>\$25,223</b>	<b>\$389,638</b>	<b>\$98,967</b>	<b>\$8,536</b>	<b>\$535,564</b>
Additions:						
Owned	-	155	22,319	653	544	23,671
Finance leases	-	-	-	2,196	765	2,961
Disposals	-	-	(7,837)	(2,514)	(110)	(10,461)
<b>Balance at June 30, 2015</b>	<b>\$13,200</b>	<b>\$25,378</b>	<b>\$404,120</b>	<b>\$99,302</b>	<b>\$9,735</b>	<b>\$551,735</b>
<b>Accumulated depreciation:</b>						
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)
<b>Balance at Dec 31, 2014</b>	<b>\$ -</b>	<b>\$5,097</b>	<b>\$108,545</b>	<b>\$39,760</b>	<b>\$4,591</b>	<b>\$157,993</b>
Depreciation for the period	-	558	21,005	4,943	659	27,165
Disposals	-	-	(6,775)	(1,669)	(78)	(8,522)
<b>Balance at June 30, 2015</b>	<b>\$ -</b>	<b>\$5,655</b>	<b>\$122,775</b>	<b>\$43,034</b>	<b>\$5,172</b>	<b>\$176,636</b>
<b>Carrying amounts:</b>						
At December 31, 2014	\$13,200	\$20,126	\$281,093	\$59,207	\$3,945	\$377,571
<b>At June 30, 2015</b>	<b>\$13,200</b>	<b>\$19,723</b>	<b>\$281,345</b>	<b>\$56,268</b>	<b>\$4,563</b>	<b>\$375,099</b>

### *Property and Equipment Under Construction*

As at June 30, 2015, field and automotive equipment and facilities under construction totaled \$30,246 (2014: \$55,794).

As at June 30, 2015 field and automotive equipment and facilities that are available for use, but not yet in service, therefore not being depreciated, totaled \$17,146 (2014: \$6,940).

# CANYON SERVICES GROUP INC.

Notes to the Condensed Consolidated Interim Financial Statements  
(Unaudited)

## 8. Property and equipment (continued):

### *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 June 30, 2015, the net carrying amount of the leased equipment was \$8,968 (December 31, 2014: \$8,351).

### *Change in estimate*

During the quarter, the Company reviewed the useful lives of certain equipment which resulted in changes in the expected useful lives of coil tubing, nitrogen and cementing equipment. Based on the Company's physical examination of these assets, it was found that due to the Company's preventative maintenance program it was determined that the equipment would last longer than initially estimated. The equipment is now expected to remain in use twice as long as initially estimated.

As a result of the review, the expected useful lives of the equipment increased and its estimated residual value decreased. The effect of these changes on actual and expected depreciation expense is as follows:

<sup>000's of dollars</sup>	2015	2016	2017	2018	2019	Later
(Decrease) increase in expense	\$(1,932)	\$(2,950)	\$(1,750)	\$(1,118)	\$(1,038)	\$19,721

The impact of the change in estimate for the three months ended June 30, 2015 was \$(975).

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# CANYON SERVICES GROUP INC.

Notes to the Condensed Consolidated Interim Financial Statements  
(Unaudited)

## 9. Intangible assets:

000's of dollars	Intellectual properties	Licenses	Non-competition agreements	Customer relationships	Total
<b>Cost:</b>					
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:					
	-	-	-	-	-
<b>Balance at June 30, 2015</b>	<b>\$286</b>	<b>\$303</b>	<b>\$6,820</b>	<b>\$37,308</b>	<b>\$44,717</b>
<b>Amortization:</b>					
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					
	10	-	1,136	1,864	3,010
<b>Balance at June 30, 2015</b>	<b>\$157</b>	<b>\$303</b>	<b>\$2,273</b>	<b>\$3,730</b>	<b>\$6,463</b>
<b>Carrying amounts:</b>					
At December 31, 2014	\$139	\$-	\$5,683	\$35,442	\$41,264
<b>At June 30, 2015</b>	<b>\$129</b>	<b>\$-</b>	<b>\$4,547</b>	<b>\$33,578</b>	<b>\$38,254</b>

## 10. Trade and other payables:

000's of dollars	June 30, 2015	December 31, 2014
Trade payables	\$23,878	\$53,844
Accrued expenses	17,788	61,608
	\$41,666	\$115,452

# CANYON SERVICES GROUP INC.

Notes to the Condensed Consolidated Interim Financial Statements  
(Unaudited)

## 11. Bank indebtedness and finance leases:

000's of dollars	Nominal Interest Rate	Year of Maturity	June 30, 2015	December 31, 2014
<b>Current liabilities:</b>				
Drawing on Operating Facility	3.25 – 4.25%	2015-2016	\$16,929	\$11,588
Finance lease liabilities	0.0 – 8.4%	2015-2016	\$3,580	\$2,742
			<b>\$20,509</b>	<b>\$14,330</b>
<b>Non-current liabilities:</b>				
Drawing on Revolving Facility	3.25 – 4.25%	2017	\$40,000	\$30,000
Finance lease liabilities	0.0 – 8.4%	2016 - 2018	\$6,231	\$6,193
			<b>\$46,231</b>	<b>\$36,193</b>

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

Effective January 31, 2015, 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. As at June 30, 2015, the Company does not have any foreign exchange forward contracts.

As at June 30, 2015 the Operating Facility is a three year committed revolving facility up to a maximum of \$20 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, 2015, \$16,929 was drawn on the Operating Facility (December 31, 2014: \$11,588).

As at June 30, 2015 the Revolving Facility is a three year committed revolving facility up to a maximum of \$80 million including a \$10 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, 2015 \$40,000 was drawn on the Revolving Facility (December 31, 2014: \$30,000).

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 credit agreement as at June 30, 2015 and December 31, 2014.

# CANYON SERVICES GROUP INC.

Notes to the Condensed Consolidated Interim Financial Statements  
(Unaudited)

## 11. Bank indebtedness and finance leases (continued):

Subsequent to June 30, 2015, the Company replaced the previous facility, by entering into a new extendible revolving operating credit facility (the “Facility”) with a syndicate of financial institutions. The total amount of the Facility totals \$100 million with an accordion feature that allows for the expansion of the Facility by up to \$50 million. The accordion feature is available upon request by the Company, subject to approval by the lenders. The Facility has a term of three years, extendible annually, and bears interest, payable monthly, at the bank’s prime lending rate plus 50 basis points to 200 basis points, dependent on certain financial ratios of the Company. Security for the Facility is provided by a general security over all of the Company’s assets.

The financial covenants in place, under the Facility, are comprised of a debt to capitalization ratio, which shall not exceed 0.25 to 1.00, and a debt service coverage ratio, which shall not be less than 1.25 to 1.00, each measured at the end of each fiscal quarter. The debt to capitalization ratio will be replaced by a debt to earnings before interest, taxes, depreciation, amortization, and share-based payments (“EBITDAS”) ratio beginning with the fiscal quarter ending September 30, 2016. Once enacted, the debt to EBITDAS ratio shall not exceed 3.50 to 1.00 at any time during the fiscal quarter ended September 30, 2016 and 3.00 to 1.00 thereafter.

## 12. Deferred tax assets and liabilities:

### *Recognized Deferred Tax Assets and Liabilities*

	Assets		Liabilities		Net	
	June 30, 2015	Dec. 31, 2014	June 30, 2015	Dec. 31, 2014	June 30, 2015	Dec. 31, 2014
Property and equipment	\$-	\$ -	\$28,222	\$25,985	\$28,222	\$25,985
Intangible assets	(48)	(45)	9,701	10,324	\$9,653	10,279
Finance leases	(2,611)	(2,194)	-	-	(2,611)	(2,194)
	<u>\$(2,659)</u>	<u>\$(2,239)</u>	<u>\$37,923</u>	<u>\$36,309</u>	<u>\$35,264</u>	<u>\$34,070</u>

As at June 30, 2015, deferred tax assets are based on a rate of 27% and total \$2,659 (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 \$37,923 as at June 30, 2015 (December 31, 2014: \$36,309) which are based on a rate of 27% comprise the difference between the carrying amount of property and equipment and intangible assets and the underlying value for tax purposes.

## 13. Share capital:

	Common Shares	
	June 30, 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	32	52
<u>Common shares issued as at end of period</u>	<u>68,855</u>	<u>68,604</u>

# CANYON SERVICES GROUP INC.

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## 13. Share capital (continued):

### Loss per share

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

	Three months ended June 30,		Six months ended June 30,	
000's of shares	2015	2014	2015	2014
Loss for the period	\$(21,857)	\$(15,263)	\$(22,939)	\$(3,413)
Weighted average shares				
Basic	68,855	62,913	68,761	62,821
Dilution effect of stock options and incentive based units	-	-	-	-
Diluted	68,855	62,913	68,761	62,821
Basic loss per share	\$(0.32)	\$(0.24)	\$(0.33)	\$(0.05)
Diluted loss per share	\$(0.32)	\$(0.24)	\$(0.33)	\$(0.05)

### Dividends

On June 24, 2015, the Company declared a quarterly dividend of \$5.2 million, or \$0.075 per common share, which was paid on July 24, 2015.

During the six months ended June 30, 2015, the Company paid quarterly dividends of \$20.6 million or \$0.30 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 six months ended June 30, 2015 was \$0.97 (2014: \$1.67) based on the date of grant valuation using the Black-Scholes option pricing model. Share-based compensation of \$891 has been recorded for the six months ended June 30, 2015 (2014: \$1,209).

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## 14. Share-based payments (continued):

A summary of the status of the Company's stock option plan as at June 30, 2015 and December 31, 2014 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, 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	1,035	\$ 6.52 – \$ 7.75	\$ 7.15
Exercised	(219)	\$ 2.43 – \$ 5.16	\$ 2.95
Forfeited	(142)	\$ 7.24 – \$ 18.42	\$12.29
Outstanding as at June 30, 2015	4,345	\$ 4.20 – \$ 18.42	\$10.46
Exercisable as at June 30, 2015	2,080	\$ 4.20 – \$ 18.42	\$11.44

### (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. On or after the vesting date for such incentive based unit, each unit will give the participant the right to receive, upon exercise, one common share for no further consideration or payment by such participant.

For the three and six months ended June 30, 2015, there were nil and 886 incentive based units, respectively, granted to directors, officers and employees of the Company (three and six months ended June 30, 2014: 7 and 216, respectively). There were 4 and 32 units, respectively, converted into common shares of the Company during the three and six months ended June 30, 2015 (three and six months ended June 30, 2014: 30 and 52, respectively) and 12 and 17 incentive based units, respectively, which were forfeited (three and six months ended June 30, 2014: 9 and 11, respectively).

The compensation cost to the Company for the six months ended June 30, 2015 was \$1,951 (2014: \$863). As at June 30, 2015, there were 1,334 incentive based units outstanding (December 31, 2014: 497).



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## 15. Operating segments:

The Company's segments are determined by services provided which are its core business of pressure pumping services and its fluid management services. Pressure pumping services include hydraulic fracturing, nitrogen fracturing, coiled tubing, chemical stimulation and cementing, which combined, are part of the Pressure Pumping Services Segment. The Fluid Management Services segment includes fluid management services, water sourcing, water transfer, wellsite storage, fluid heating, flowback transfer and water storage services. 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 June 30, 2015	Pressure Pumping Services	Fluid Management Services	Corporate	Total
Revenue	\$36,560	6,599	\$-	\$43,159
Cost of services	(54,178)	(5,651)	-	(59,829)
Gross profit (loss)	(17,618)	948	-	(16,670)
Administrative expenses	(4,617)	(1,373)	(1,399)	(7,389)
Amortization expense	(5)	(1,500)	-	(1,505)
Results from operating activities	\$(22,240)	\$(1,925)	\$(1,399)	\$(25,564)
Income tax recovery	\$3,577	\$511	\$-	\$4,088

  

Six months ended June 30, 2015	Pressure Pumping Services	Fluid Management Services	Corporate	Total
Revenue	\$174,742	\$24,002	\$-	\$198,744
Cost of services	(186,228)	(17,636)	-	(203,864)
Gross profit (loss)	(11,486)	6,366	-	(5,120)
Administrative expenses	(10,384)	(3,015)	(2,907)	(16,306)
Amortization expense	(10)	(3,000)	-	(3,010)
Results from operating activities	\$(21,880)	\$351	\$(2,907)	\$(24,436)
Income tax recovery (expense)	\$4,119	\$(95)	\$-	\$4,024
Segment assets as at June 30, 2015	\$408,130	\$126,028	\$211	\$534,369
Segment liabilities as at June 30, 2015	\$129,648	\$13,623	\$5,563	\$148,834

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## 15. Operating segments (continued):

Three months ended June 30, 2014	Pressure Pumping Services	Fluid Management Services	Corporate	Total
Revenue	\$60,253	\$-	\$-	\$60,253
Cost of services	(73,313)	-	-	(73,313)
Gross loss	(13,060)	-	-	(13,060)
Administrative expenses	(5,348)	-	(1,663)	(7,011)
Amortization expense	(13)	-	-	(13)
Results from operating activities	\$(18,421)	-	\$(1,663)	\$(20,084)
Income tax recovery	\$4,765	\$-	-	\$4,765

  

Six months ended June 30, 2014	Pressure Pumping Services	Fluid Management Services	Corporate	Total
Revenue	\$198,448	\$-	\$-	\$198,448
Cost of services	(187,892)	-	-	(187,892)
Gross profit	\$10,556	-	-	\$10,556
Administrative expenses	(10,247)	-	(3,629)	(13,876)
Amortization expense	(26)	-	-	(26)
Results from operating activities	\$283	-	\$(3,629)	\$(3,346)
Income tax recovery	\$436	\$-	\$-	\$436
Segment assets as at December 31, 2014	\$505,047	\$133,499	\$224	\$638,770
Segment liabilities as at December 31, 2014	\$186,012	\$21,447	\$10,782	\$218,241

## 16. Capital commitments:

As at June 30, 2015 the Company has commitments to purchase property and equipment for \$0.2 million (as at December 31, 2014: \$7.4 million).