CANYON SERVICES GROUP INC.

# CONSOLIDATED FINANCIAL STATEMENTS

# FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

**KPMG LLP**
Suite 3100, 205 5th Avenue SW
Calgary AB T2P 4B9

Telephone (403) 691-8000
Fax (403) 691-8008
www.kpmg.ca

# INDEPENDENT AUDITORS' REPORT

To the Shareholders of Canyon Services Group Inc.

We have audited the accompanying consolidated financial statements of Canyon Services Group Inc., which comprise the consolidated balance sheets as at December 31, 2015 and December 31, 2014, the consolidated statements of comprehensive income (loss), changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

*Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Canyon Services Group Inc. as at December 31, 2015 and December 31, 2014, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants

March 3, 2016
Calgary, Canada

# CANYON SERVICES GROUP INC.

Consolidated Balance Sheets

| 000's of dollars | Note | December 31, 2015 | December 31, 2014 |
|---|---|---|---|
| **Assets** | | | |
| Current assets: | | | |
| Cash | | $3,059 | $20,613 |
| Trade and other receivables | 4 | 59,142 | 123,669 |
| Inventories | | 16,899 | 23,091 |
| Prepayments | | 2,498 | 2,485 |
| Current tax assets | | 9,418 | - |
| Total current assets | | 91,016 | 169,858 |
| Non-current assets: | | | |
| Property and equipment | 10 | 362,036 | 377,571 |
| Investment | | 364 | 246 |
| Intangible assets | 11 | 35,241 | 41,264 |
| Goodwill | 10, 11 | 21,431 | 49,831 |
| Total non-current assets | | 419,072 | 468,912 |
| Total assets | | $510,088 | $638,770 |
| **Liabilities and Equity** | | | |
| Current liabilities: | | | |
| Bank indebtedness | 13 | $- | $11,588 |
| Trade and other payables | 12 | 57,491 | 115,452 |
| Finance leases | 13 | 3,873 | 2,742 |
| Dividend payable | 15 | 2,074 | 10,294 |
| Current tax liabilities | | - | 7,902 |
| Total current liabilities | | 63,438 | 147,978 |
| Non-current liabilities: | | | |
| Bank indebtedness | 13 | 60,000 | 30,000 |
| Finance leases | 13 | 4,779 | 6,193 |
| Deferred tax liabilities | 14 | 34,934 | 34,070 |
| Total non-current liabilities | | 99,713 | 70,263 |
| Equity: | | | |
| Share capital | 15 | 300,616 | 297,761 |
| Contributed surplus | | 18,819 | 13,565 |
| Retained earnings | | 27,502 | 109,203 |
| Total equity | | 346,937 | 420,529 |
| Total liabilities and equity | | $510,088 | $638,770 |

The notes are an integral part of these consolidated financial statements.

*Signed: "Raymond P. Antony"*
Raymond P. Antony

*Signed: "Bradley P.D. Fedora"*
Bradley P. D. Fedora

# CANYON SERVICES GROUP INC.

Consolidated Statements of Comprehensive Income (Loss)

For the year ended December 31

| 000's of dollars, except per share amounts | Note | 2015 | 2014 |
|---|---|---|---|
| Revenue | | $403,998 | $591,022 |
| Cost of services | 6 | (400,451) | (486,261) |
| Gross profit | | 3,547 | 104,761 |
| Administrative expenses | 7 | (33,288) | (33,547) |
| Amortization expense | 11 | (6,023) | (3,041) |
| Results from operating activities | | (35,764) | 68,173 |
| Finance costs | | (2,699) | (1,512) |
| Foreign exchange loss | | (2,606) | (746) |
| Gain on sale of property and equipment | | 415 | 315 |
| Gain on business combination | 5 | 543 | - |
| Impairment | 10 | (29,615) | - |
| Income (loss) before income tax | | (69,726) | 66,230 |
| Income tax (expense) recovery: | | | |
| Current | 9 | 8,321 | (15,370) |
| Deferred | 9,14 | (658) | (1,766) |
| | | 7,663 | (17,136) |
| Income (loss) and comprehensive income (loss) | | ($62,063) | $49,094 |
| Income (loss) per share: | 15 | | |
| Basic | | ($0.90) | $0.75 |
| Diluted | | ($0.90) | $0.74 |

The notes are an integral part of these consolidated financial statements.

# CANYON SERVICES GROUP INC.

Consolidated Statements of Changes in Equity

| 000's of dollars | Note | Share Capital | Contributed Surplus | Retained Earnings | Total Equity |
|---|---|---|---|---|---|
| Balance at December 31, 2013 | | $189,764 | $11,218 | $100,404 | $301,386 |
| Income and comprehensive income for the year | | - | - | 49,094 | 49,094 |
| Transactions with owners, recorded directly in equity: | | | | | |
| Issue of shares related to business combination | 5 | 101,574 | - | - | 101,574 |
| Issue on exercise of stock options | 15 | 4,648 | - | - | 4,648 |
| Reclassification on exercise of share options and incentive-based units | | 1,775 | (1,775) | - | - |
| Share-based payment transactions | 16 | - | 4,122 | - | 4,122 |
| Dividends | | - | - | (40,295) | (40,295) |
| Balance at December 31, 2014 | | $297,761 | $13,565 | $109,203 | $420,529 |
| Loss and comprehensive loss for the year | | - | - | (62,063) | (62,063) |
| Transactions with owners, recorded directly in equity: | | | | | |
| Issue of shares related to business combination | 5 | 1,008 | - | - | 1,008 |
| Issue on exercise of stock options | 15 | 594 | - | - | 594 |
| Reclassification on exercise of share options and incentive-based units | | 1,253 | (1,253) | - | - |
| Share-based payment transactions | 16 | - | 6,507 | - | 6,507 |
| Dividends | 15 | - | - | (19,638) | (19,638) |
| Balance at December 31, 2015 | | $300,616 | $18,819 | $27,502 | $346,937 |

The notes are an integral part of these consolidated financial statements.

# CANYON SERVICES GROUP INC.

Consolidated Statements of Cash Flows

For the year ended December 31,

| 000's of Dollars | Note | 2015 | 2014 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Income (loss) for the year | | ($62,063) | $49,094 |
| Adjustments for: | | | |
| Depreciation and amortization | 6,7 | 60,587 | 49,320 |
| Share-based payment transactions | | 6,507 | 3,985 |
| Gain on sale of property and equipment | | (415) | (315) |
| Gain on business combination | | (543) | - |
| Equity investment income | | (117) | (31) |
| Impairment | 10 | 29,615 | - |
| Finance costs | | 2,699 | 1,512 |
| Income tax (recovery) expense | 9,14 | (7,663) | 17,136 |
| Funds provided by operations | | 28,607 | 120,701 |
| Change in inventories | | 6,236 | (5,738) |
| Change in trade and other receivables | | 64,527 | (51,352) |
| Change in prepayments | | (13) | (19) |
| Change in trade and other payables | | (77,276) | 12,996 |
| Change in non-cash working capital related to operating activities | | (6,526) | (44,113) |
| Cash generated from operating activities | | 22,081 | 76,588 |
| Income taxes recovered (paid) | | (8,979) | 6,747 |
| Net cash from operating activities | | 13,102 | 83,335 |
| Cash flows from investing activities: | | | |
| Proceeds from sale of property and equipment | | 3,189 | 1,631 |
| Acquisition of property and equipment | 10 | (28,878) | (112,677) |
| Business combination, net of cash acquired | 5 | (8,504) | 7,711 |
| Change in non-cash working capital related to investing activities | | 19,316 | 24,641 |
| Net cash used in investing activities | | (14,877) | (78,694) |
| Cash flows from financing activities: | | | |
| Interest paid | | (2,699) | (1,512) |
| Advances (repayment) of bank indebtedness | 13 | (6,282) | (7,548) |
| Proceeds from credit facilities | | 24,694 | 41,588 |
| Proceeds from exercise of share options | | 595 | 4,648 |
| Payment of finance lease liabilities | | (4,228) | (3,114) |
| Dividends paid | 15 | (27,859) | (39,398) |
| Net cash used in financing activities | | (15,779) | (5,336) |
| Net decrease in cash and cash equivalents | | (17,554) | (695) |
| Cash and cash equivalents as at beginning of year | | 20,613 | 21,308 |
| Cash and cash equivalents at December 31 | | $3,059 | $20,613 |

The notes are an integral part of these consolidated financial statements.

## 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 consolidated 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

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for the current year.

### (a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and Canadian generally accepted accounting principles (“GAAP”) as contained within Part 1 of the CPA Canada Handbook – Accounting. These consolidated financial statements were approved by the Board of Directors on March 3, 2016.

### (b) Future accounting pronouncements

*Financial Instruments*

IFRS 9 – Financial Instruments (“IFRS 9”) was issued to replace IAS 39 – Financial Instruments: Recognition and Measurement (“IAS 39”). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, as opposed to multiple rules prescribed by IAS 39. The approach is based on how an entity manages its financial instruments given its business model and the contractual cash flow characteristics of the financial assets. IFRS 9 also requires a single impairment method to be used, which replaces the multiple impairment methods within IAS 39. IFRS 9 is effective for years beginning on or after January 1, 2018. Early adoption is permitted if IFRS 9 is adopted in its entirety at the beginning of a fiscal period. The Company is assessing the impacts of adopting IFRS 9 on its consolidated financial statements.

*Revenue Recognition*

IFRS 15 – Revenue from Contracts with Customers (“IFRS 15”) was issued to replace IAS 18 – Revenue. This standard clarifies the principles for recognizing revenue that can be applied consistently across various transactions, industries and capital markets. IFRS 15 is effective for years beginning on or after January 1, 2018 and is to be applied using either a full retrospective approach or a modified retrospective approach. Early adoption is permitted and the Company is assessing the impacts of adopting IFRS 15 on its consolidated financial statements.

*Leases*

IFRS 16 - Leases (“IFRS 16”) was issued to replace the previous leases standard, IAS 17 - Leases. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15 at or before the date of initial adoption of IFRS 16. The Company is assessing the impacts of adopting IFRS 16 on its consolidated financial statements.

**(c) Basis of measurement**

The consolidated financial statements have been prepared on the historical cost basis except as detailed in the significant accounting policies.

**(d) Functional and presentation currency**

These consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Company and its subsidiaries. All financial information presented has been rounded to the nearest thousand, except where indicated.

**(e) Use of estimates and judgments**

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and judgments used are based on management’s experience and the assumptions used are believed to be reasonable given the circumstances that exist at the time the consolidated financial statements are prepared.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

**Key Sources of Estimation Uncertainty**

The following are key estimates and their assumptions made by management affecting the measurement of balances and transactions in these consolidated financial statements.

*Revenue Recognition*

The Company recognizes revenue based on the completion of planned programs of services and is adjusted for required changes as agreed to by the customer.

*Estimates of Collectability of Trade Receivables*

Management regularly reviews outstanding accounts receivable and follows up with customers when settlement has not occurred on a timely basis. A provision for doubtful accounts of $96 has been established as at December 31, 2015 (2014: $41) based on management's assessment of the Company's accounts receivable collection history. This assessment of collectability involves significant judgment and frequently involves material dollar amounts. As such, the Company's operating results could be affected if bad debts in excess of the allowance are actually experienced.

*Income taxes*

Deferred tax assets and liabilities contain estimates about the nature and timing of future permanent and temporary differences as well as the future tax rates that will apply to those differences. Changes in tax laws and rates as well as changes to the expected timing of reversals may have a significant impact on the amounts recorded for deferred tax assets and liabilities. Management closely monitors current and potential changes to tax law and bases its estimates on the best available information at each reporting date.

*Depreciation of Property and Equipment*

Depreciation is calculated using varying methods and is intended to reflect the historical value of the underlying component that is consumed in conducting each period's operations. Estimates affecting management's assessment of the most appropriate depreciation rate and method of calculation for any particular asset component include the productive life of the asset, its salvage value, equipment utilization rates, planned maintenance programs and technological change.

Management believes that its assessment and choice of estimates used in calculating depreciation are reasonable; however, there is no certainty that the depreciation expense provided will correctly measure the actual reduction in value of asset components used in operations over time.

*Non-Financial Assets*

Where impairment indicators exist, the recoverable amount of the asset or cash-generating unit ("CGU") is determined using the greater of fair value less costs of disposal or value-in-use. Value-in-use calculations require assumptions for discount rates and estimations of the timing for events or circumstances that will affect future cash flows. Fair value less costs of disposal requires management to make estimates of fair value using market conditions for similar assets as well as estimations for costs of disposal taking into account dismantling and transportation costs.

Every reporting period, management assesses the carrying value of non-financial assets for indications of impairment. When an indication of impairment is present, an impairment test is performed and if required, the asset is written down to its estimated recoverable amount.

The assessment of impairment indicators is subjective and considers the various internal and external factors such as the financial performance of individual CGUs, market capitalization and industry trends. In addition, the impairment assessment is impacted by how management determines the composition of CGUs. Management has grouped assets into CGUs based on several factors with a primary focus on assets whose cash flows are interdependent. This assessment is subject to management estimate and interpretation.

*Business Combinations*

The measurement of acquired assets and assumed liabilities are based on information available to the Company on the acquisition date. The estimate of fair value of acquired assets and assumed liabilities requires significant judgment which is largely based on projected cash flows, discount rates and other market conditions that are present on the date of acquisition. The acquired assets and assumed liabilities are recognized at fair value on the date the Company obtains control in a business combination.

**Critical Judgments in Applying Accounting Policies**

The following are critical judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

*Non-Financial Assets*

The Company's assets are aggregated into CGUs for the purpose of calculating impairment. CGUs are based on management's judgments and assessment of the CGU's ability to generate independent cash inflows. Judgments are also required to assess when impairment indicators exist and impairment testing is required.

*Provisions and Contingencies*

The Company is required to exercise judgment in assessing whether the criterion for recognition of a provision or a contingency has been met. The Company considers whether a present obligation exists, probability of loss and can a reliable estimate be formulated.

**3. Significant accounting policies**

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

**(a) Basis of consolidation**

These consolidated financial statements include the accounts of Canyon and its subsidiaries, which are entities over which Canyon has control. Control exists when Canyon is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the investee. The financial results of Canyon's subsidiaries are included in the consolidated financial statements from the date that control commences until the date control ceases. The accounting policies of Canyon's subsidiaries have been aligned with the policies adopted by Canyon. All inter-company balances and transactions, and any income and expenses arising from inter-company transactions have been eliminated upon preparation of these consolidated financial statements.

**(b) Foreign currency**

Transactions in foreign currencies are translated to the respective functional currency at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on translation are recognized in profit or loss.

**(c) Financial instruments**

(i) Non-derivative financial assets

The Company initially recognizes trade and other receivables and deposits on the date that they originate. All other financial assets are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the balance sheet when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company has the following non-derivative financial assets:

*Financial Assets at Fair Value Through Profit or Loss*

A financial asset is classified at fair value through profit or loss ("FVTPL") if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. Attributable transaction costs are recognised in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

The Company did not hold any financial assets designated at fair value through profit or loss as at December 31, 2015, and December 31, 2014.

*Cash and Cash Equivalents*

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less.

*Loans and Receivables*

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables comprise trade and other receivables.

(ii) Non-derivative financial liabilities

Liabilities (including liabilities designated at FVTPL) are recognized on the date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

The Company has the following non-derivative financial liabilities: Bank indebtedness, dividend payable, finance leases and trade and other payables.

These financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost.

(iii) Derivatives

The fair value of costless collars is based on option models that use level 2 inputs, being published information with respect to volatility, prices and interest rates. The derivatives are recorded at estimated fair value each period with changes in fair value included in profit and loss. The Company had no derivatives in place at December 31, 2015 and 2014.

(iv) Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

**(d) Property and equipment**

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, and borrowing costs on qualifying assets.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and are recognized net within gain on sale of property and equipment in profit or loss.

(ii) Subsequent costs

The cost of replacing a part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment (repair and maintenance) are recognized in profit or loss as incurred.

(iii) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset less its residual value. Management estimates the useful life and salvage value of property and equipment on expected utilization, technological change and effectiveness of maintenance programs. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Depreciation is recognized in profit or loss either on a straight-line or declining balance basis over the estimated useful lives of each component of an item of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land is not depreciated.

Deprecation is calculated as follows:

| | | |
|---|---|---|
| Field equipment | 1.5 to 20 years | straight line |
| Automotive | 15 to 30% | declining balance |
| Office, shop and yard | 5% | declining balance |
| Computers and office equipment | 20 to 30% | declining balance |
| Leasehold improvements | over the term of the lease | straight line |

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

**(e) Intangible assets**

(i) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalized includes the cost of materials, direct labour, overhead costs that are directly attributable to preparing the asset for its intended use, and borrowing costs on qualifying assets. Other development expenditure is recognized in profit and loss as incurred.

Capitalized development expenditure is measured at cost less accumulated amortization and accumulated impairment losses.

(ii) Other intangible assets

Other intangible assets include intellectual properties with respect to proprietary light weight proppant, a license to perform a patented stimulation technique in both horizontal and vertical wellbores that was acquired by the Company, and non-competition agreements and customer relationships acquired through business combinations. Intellectual properties with respect to proprietary light weight proppant and the license to perform a patented stimulation technique have finite useful lives and are measured at cost less accumulated amortization and accumulated impairment losses. Non-competition agreements and customer relationships acquired through business combinations have finite lives and are measured at fair value on the acquisition date and subsequently measured at cost, less accumulated amortization and accumulated impairment losses.

(iii) Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures, including expenditures on internally generated goodwill and brands, is recognized in profit or loss as incurred.

(iv) Amortization

Amortization is calculated over the cost of the asset less its residual value.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life for the current and comparative year is as follows:

| | |
|---|---|
| Intellectual property with respect to light weight proppant | 15 years straight line |
| License for patented stimulation technique | 3 years straight line |
| Non-competition agreements | 3 years straight line |
| Customer relationships | 10 years straight line |

Amortization methods, useful lives and residual values are reviewed at each financial period-end and adjusted if appropriate.

**(f) Leased assets**

Leases where the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Other leases are operating leases and the leased assets are not recognized in the Company’s consolidated balance sheet. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

**(g) Inventories**

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is determined using the weighted average cost method, and includes expenditures incurred in acquiring the inventories, and other costs incurred in bringing them to their existing location and condition.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

**(h) Impairment**

(i) Financial assets (including trade and other receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

The Company considers evidence of impairment for receivables at a specific asset level. All individually significant receivables are assessed for specific impairment. Evidence of impairment may include changes in well-bore, equipment or treating conditions and the customers' ability to pay for the services provided by the Company.

In assessing collective impairment the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(ii) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets and reflects the lowest level at which each CGU is monitored for internal reporting purposes.

The Company's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

**(i) Employee benefits**

(i) Termination benefits

Termination benefits are recognized as an expense when the Company is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if the Company has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

(ii) Short-term employee benefits

Short-term employee benefits are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if it is probable that the liability will be payable.

(iii) Share-based payment transactions

The Company has a Share Purchase Option Plan under which options may be granted to directors, officers, key employees and consultants of the Company. The Company also has a Stock-Based Compensation Plan under which units may be granted to certain directors, officers, key employees and consultants of the Company.

The grant date fair value of awards granted to directors, officers, key employees and consultants pursuant to the Share Purchase Option Plan and Stock-Based Compensation Plan, is recognized as an employee expense, with a corresponding increase in contributed surplus, over the period that the employees unconditionally become entitled to the awards (vesting period). The amount recognized as an expense is adjusted to reflect the number of awards for which the related service is expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service conditions at the vesting date. When awards under the Share Purchase Option Plan and Stock-Based Compensation Plan are exercised, the proceeds together with the amount recorded in contributed surplus are recorded in share capital.

**(j) Provisions**

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance cost.

**(k) Revenue**

The Company's services are generally sold based upon orders or contracts with customers that include agreed upon rates for equipment, services, down-hole tools used, supplies consumed and travel time. Revenue is recognized when there is persuasive evidence that an arrangement exists, the service has been provided, the rate is fixed and determinable, and the collection of the amounts billed to the customer is reasonably assured. The Company considers persuasive evidence to exist when a formal contract is signed or customer acceptance is obtained. There are no post-service delivery obligations.

**(l) Finance income and finance costs**

Finance income comprises interest income on funds invested. Interest income is recognized as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through profit or loss, and impairment losses recognized on financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

**(m) Income tax**

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

**(n) Earnings per share**

The Company presents basic and diluted earnings per share (“EPS”) data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted EPS is based on the weighted average number of common shares issued and outstanding during the year, adjusted by the total of the additional common shares that would have been issued assuming exercise of all awards under the Share Purchase Option Plan and Stock-Based Compensation Plan with exercise prices at or below the average market price for the year, offset by the reduction in common shares that would be purchased with the exercise proceeds.

**(o) Business combinations**

The Company uses the acquisition method to account for business acquisitions. The Company measures goodwill as the fair value of the consideration transferred, less the fair value of the identifiable assets acquired and liabilities assumed, all measured at the acquisition date. If the fair value of the identifiable assets acquired and liabilities assumed are in excess of the consideration transferred, a gain is recognized immediately in profit or loss.

Goodwill is allocated to the CGU’s expected to benefit from the business combination. Goodwill acquired through business combinations have indefinite lives and are not subject to amortization. Goodwill is subject to impairment tests at least annually. Goodwill is subsequently measured at cost less accumulated impairment losses.

Transaction costs that the Company incurs in connection with a business combination are expensed as incurred and recognized within administrative expenses within the consolidated statements of comprehensive income (loss).

### (p) Segmented reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. All operating results are reviewed regularly on a segmented basis by the Company's chief operating decision makers to make decisions about resources to be allocated to the segment and to assess its performance, and for which discrete financial information is available.

## 4. Financial risk management overview

The Company has exposure to the following risks:

a) Credit risk
b) Liquidity risk
c) Market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, and processes for measuring and managing risk and the Company's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Company did not change its policy for managing and mitigating financial risk during the year ended December 31, 2015.

### (a) Credit risk

*Trade and Other Receivables*

The Company's trade receivables 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. For the year ended December 31, 2015, two customers, each accounting for more than 10% of revenue, totaled 29% of the Company's revenue (2014: one customer, 17%) which was primarily allocated to the pressure pumping segment. As at December 31, 2015, five customers accounted for 66% (2014: five customers accounted for 43%) of the Company's accounts receivable while five customers account for 49% (2014: five customers account for 43%) of the revenue.

Standard payment terms for the industry are 30-60 days from the invoice date, however industry practice allows for payment up to 90 days after invoice date. The Company's accounts receivable is aged as follows:

| 000's of dollars | December 31, 2015 | December 31, 2014 |
|---|---|---|
| Current (0-30 days from invoice date) | $32,297 | $65,195 |
| 31-60 days past due | 17,978 | 45,511 |
| Over 60 days past due | 8,963 | 13,004 |
| Sub-total | 59,238 | 123,710 |
| Less: Allowance for doubtful accounts | (96) | (41) |
| Total | $59,142 | $123,669 |

The Company estimates that the carrying value of financial assets within trade and other receivables approximates their fair value.

The Company held cash and cash equivalents of $3,059 as at December 31, 2015 (2014: $20,613), which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with major bank and financial institution counterparties.

*Short term cash equivalents*

The Company limits its exposure to credit risk by investing only in liquid debt securities and only major bank and financial institution counterparties. Management does not expect any counterparty to fail to meet its obligations.

**(b) Liquidity risk**

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, where possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The following table of financial obligations shows the timing of cash outflows relative to trade and other payables, bank indebtedness, finance leases and dividend payable as at December 31, 2015:

| 000's of dollars | Total | Next 12 months | 1-3 years | 4-5 years | After 5 years |
|---|---|---|---|---|---|
| Trade and other payables | $57,491 | $57,491 | $- | $- | $- |
| Bank indebtedness | 60,000 | - | 60,000 | - | - |
| Finance leases | 8,652 | 3,873 | 4,779 | - | - |
| Dividend payable | 2,074 | 2,074 | - | - | - |
| | $128,217 | $63,438 | $64,779 | $- | $- |

The Company monitors cash flow requirements and optimizes its cash return on investments. Typically the Company ensures that it has sufficient cash on demand to meet expected operating expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted.

**(c) Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

*Currency risk*

The Company is exposed to currency risk on purchases that are denominated in United States Dollars (USD). At December 31, 2015 and 2014 the exposure to USD was primarily as a result of USD denominated accounts payable of USD8,589 and USD19,454, respectively.

At December 31, 2015, the Company did not engage in the buying and selling of derivatives. Subsequent to December 31, 2015, to manage the currency risk on outstanding USD accounts payables balances and on anticipated USD purchases, the Company entered into derivative contracts. At March 3, 2016, the following contracts were outstanding:

| Notional Quantity (USD) | Floor (CAD:USD) | Cap (CAD:USD) | Time to expiry |
|---|---|---|---|
| Put: 3,500 | n/a | 1.52 | March 15, 2016 |
| Collar: 2,900 | 1.4225 | 1.52 | April 15, 2016 |
| Collar: 2,500 | 1.4225 | 1.52 | May 16, 2016 |

The Company may choose to unwind the derivative instruments in advance of the expiry date to more closely align actual timing of physical payment of the USD accounts payable and anticipated USD purchases.

*Interest rate risk*

The Company is exposed to interest rate risk on its floating rate bank indebtedness. The Company has the ability to enter into economic hedges on its interest bearing loans and borrowings, but has not done so to date. Management believes that a 1% interest rate change during the next year would be reasonably possible. During 2015, a 1% change in the interest rate on the outstanding $60,000 of bank indebtedness would increase or decrease profit (loss) before income tax by $600.

**(d) Capital management**

The Company’s objectives when managing its capital structure are to maintain a balance between debt and capitalization so as to maintain investor, creditor and market confidence and to sustain future development of the business. Debt includes current and non-current portions of bank indebtedness less cash. Capitalization is calculated as the debt, as described above, plus shareholders’ equity. The Company may be required to adjust its capital structure from time to time as a result of expansion activities and/or changes to availability of specific forms of capital.

The debt to capitalization ratios were as follows:

| 000's of dollars, except ratios | December 31, 2015 | December 31, 2014 |
|---|---|---|
| Bank indebtedness, net of cash | $56,941 | $20,975 |
| Shareholders' equity | 346,937 | $420,529 |
| Capitalization | $403,878 | $441,504 |
| Debt to Capitalization ratio | 14.1% | 4.8% |

The Company is not bound by any externally imposed capital requirements other than certain financial and non-financial covenants specified in the Company's bank indebtedness agreements. Therefore, the Company also manages its capital structure to ensure compliance with the financial covenants specified in the extendible revolving operating credit facility (the "Facility"; see note 13).

*Financial covenants*

The Company is required to maintain 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, both measured at the end of each fiscal quarter.

- The debt to capitalization ratio, for purposes of the covenant calculation in the credit facilities agreement, differs slightly from the calculation in the above table. For purposes of the covenant calculation, the ratio is calculated as bank indebtedness, plus finance leases ("Total Debt"), to total equity plus Total Debt ("Capitalization"). The debt to capitalization ratio as at December 31, 2015 was 0.165 to 1.00.

- The debt service coverage ratio refers to the ratio of earnings before interest, taxes, depreciation, amortization, impairment and share-based payments ("EBITDAS") of the Company for the four quarters ending December 31, 2015 to interest expense plus all scheduled principal repayments of debt including finance leases for the four quarters ending December 31, 2015. The debt service coverage ratio as at December 31, 2015 was 4.15 to 1.00.

- The debt to capitalization ratio will be replaced by a debt to EBITDAS ratio beginning with the fiscal quarter ending September 30, 2016. 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.

The Company was in compliance with the terms of the Facility as at December 31, 2015 and 2014, including the above financial covenants.

Subsequent to December 31, 2015, the Company amended certain terms of the Facility (the "Amended Facility"). Although there were no changes to amounts available under the Facility, there were amendments to certain of the financial covenants.

- The debt to capitalization ratio was amended such that the ratio is not to exceed 0.30 to 1.00 and the definition of Total Debt has been changed to be reduced by cash on hand and the definition of Total Capitalization was changed to exclude the value of goodwill and intangibles. The debt to capitalization ratio shall be replaced by a debt to EBITDAS ratio beginning with the fiscal quarter ending September 30, 2017. The debt to EBITDAS ratio shall not exceed 4.00 to 1.00 at any time during the fiscal quarter ended September 30, 2017, 3.50 to 1.00 at any time during the fiscal quarter ended December 31, 2017, and 3.00 to 1.00 thereafter.

- The debt service coverage ratio shall not be less than 0.75:1.00 for the period from July 1, 2016 to December 31, 2016. From January 1, 2017 to June 30, 2017, the debt service coverage ratio shall not be less than 1.00:1.00, returning to a ratio of 1.25:1.00 thereafter.

## 5. Business combination

*2015 Business Acquisition*

On September 11, 2015, the Company acquired the assets of a privately held fluid transportation company. The total consideration paid was $9,512 which consisted of 200 common shares issued at $5.04 per share and cash consideration of $8,504. The purchase has been accounted for as a business combination using the acquisition method of accounting. Transaction costs of $79 were expensed within administrative expenses on the consolidated statements of comprehensive income (loss). The acquisition represents a new service line for the Fluid Management division and is part of a long term strategy of developing comprehensive service solutions for water and fracturing fluid management.

The following summarizes the consideration paid:

| 000's of dollars | |
|---|---|
| Common shares of Canyon issued | $1,008 |
| Cash consideration | 8,504 |
| Total consideration paid | $9,512 |

The following summarizes the allocation of the consideration paid:

| 000's of dollars | |
|---|---|
| Tank trucks & other equipment | $10,218 |
| Inventory | 42 |
| Deferred tax liability | (205) |
| Net identifiable assets | 10,055 |
| Gain on business combination | (543) |
| Total consideration paid | $9,512 |

The allocations and determinations of the consideration described above are preliminary and subject to changes upon final adjustments.

The gain on business combination arose due to depressed commodity prices, which allowed the Company to acquire the assets for less than fair value.

From the date of acquisition to the end of the year, revenue of $1,967 and net loss of $529 has been recognized in the consolidated statements of comprehensive income (loss). If the business combination had occurred on January 1, 2015, revenue and net loss for the Company for the year ended December 31, 2015 would increase by $7,627 and $1,171, respectively.

These amounts are included within the fluid management services operating segment.

*2014 Business Acquisition*

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 $101,574 which consisted of

5,400 common shares issued at $18.81 per share. The purchase was accounted for as a business combination using the acquisition method of accounting. Transaction costs of $674 were incurred by the Company and were expensed within administrative expenses on the consolidated statements of comprehensive income (loss).

The purchase price was allocated as follows:

| 000's of dollars | |
|---|---|
| Working capital assumed (includes cash of $7,711) | $2,918 |
| Equipment | 23,522 |
| Debt assumed | (7,548) |
| Intangible assets | 44,128 |
| Deferred tax liability | (11,403) |
| Other | 126 |
| Net identifiable assets | 51,743 |
| Goodwill on acquisition | 49,831 |
| Total consideration paid | $101,574 |

The goodwill on acquisition represents the potential future cash flows derived from the Fluid Management Services segment and the strategic benefit and synergies that are created with the Pressure Pumping segment. The goodwill on acquisition is not deductible for tax purposes.

For the year ended December 31, 2014, revenue of $29.1 million and net income of $5.4 million was recognized in the consolidated statements of comprehensive income (loss). These amounts are included within the fluid management services operating segment.

## 6. Cost of services

| 000's of dollars | Year Ended December 31, | |
|---|---|---|
| | 2015 | 2014 |
| Employee benefits expense | $92,530 | $113,769 |
| Depreciation of equipment | 52,281 | 44,397 |
| Materials and inventory | 180,739 | 163,323 |
| Operating expense | 74,901 | 164,772 |
| | $400,451 | $486,261 |

## 7. Administrative expenses

| 000's of dollars | Year Ended December 31, | |
|---|---|---|
| | 2015 | 2014 |
| Employee benefits expense | $15,032 | $19,069 |
| Depreciation of equipment | 2,285 | 1,882 |
| Share-based payment transactions | 6,507 | 3,985 |
| Other administration expenses | 9,464 | 8,611 |
| | $33,288 | $33,547 |

## 8. Related parties

*Compensation of key management personnel*

Key management personnel are comprised of the Company's directors and executive officers. Key management personnel compensation comprised:

| 000's of dollars | Year Ended December 31, | |
|---|---|---|
| | 2015 | 2014 |
| Salaries, other benefits and directors' fees | $3,080 | $3,594 |
| Share-based payments | 1,999 | 1,805 |
| | $5,079 | $5,399 |

## 9. Income tax expense

The Company's consolidated effective tax rate for the year ended December 31, 2015 was 18.5% (2014: 25.9%). The change in effective tax rate was caused mainly by the impact of a change in the Alberta provincial corporate tax rate increase from 10.0% to 12.0% effective July 1, 2015 and non-deductible expenses.

| 000's of dollars | 2015 | 2014 |
|---|---|---|
| Current tax expense (recovery): | | |
| Current year | ($8,321) | $15,370 |
| | (8,321) | 15,370 |
| Deferred tax expense: | | |
| Origination and reversal of temporary differences | 658 | 1,766 |
| | 658 | 1,766 |
| Total income tax expense (recovery) | ($7,663) | $17,136 |

*Reconciliation of Effective Tax Rate*

| 000's of dollars | 2015 | 2015 | 2014 | 2014 |
|---|---|---|---|---|
| Income (loss) for the year | | ($62,063) | | $49,094 |
| Total income tax expense (recovery) | | (7,663) | | 17,136 |
| Income (loss) excluding income tax | | (69,726) | | 66,230 |
| Goodwill impairment not subject to tax | | 28,400 | | - |
| Income (loss) subject to tax | | (41,326) | | 66,230 |
| Income tax expense (recovery) using the Company's domestic rate | 26.0% | (10,745) | 25.0% | 16,558 |
| Non-deductible expenses | (4.6%) | 1,904 | 1.2% | 774 |
| Income tax rate changes | (4.1%) | 1,688 | (0.2%) | (138) |
| Other | 1.2% | (510) | (0.1%) | (58) |
| | 18.5% | ($7,663) | 25.9% | $17,136 |

### 10. 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: | | | | | | |
| 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 December 31, 2014** | **$13,200** | **$25,223** | **$389,638** | **$98,967** | **$8,536** | **$535,564** |
| Additions: | | | | | | |
| Business combination | - | - | 53 | 10,089 | 76 | 10,218 |
| Owned | - | 152 | 27,288 | 558 | 880 | 28,878 |
| Finance leases | - | - | - | 3,148 | 778 | 3,926 |
| Disposals | - | - | (14,389) | (4,112) | (157) | (18,658) |
| **Balance at December 31, 2015** | **$13,200** | **$25,375** | **$402,590** | **$108,650** | **$10,113** | **$559,928** |
| **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 December 31, 2014** | **$0** | **$5,097** | **$108,545** | **$39,760** | **$4,591** | **$157,993** |
| Depreciation for the year | - | 1,122 | 41,311 | 10,736 | 1,397 | 54,566 |
| Asset write off | - | - | 1,215 | - | - | 1,215 |
| Disposals | - | - | (13,298) | (2,474) | (110) | (15,882) |
| **Balance at December 31, 2015** | **$0** | **$6,219** | **$137,773** | **$48,022** | **$5,878** | **$197,892** |
| **Carrying amounts:** | | | | | | |
| At December 31, 2014 | $13,200 | $20,126 | $281,093 | $59,207 | $3,945 | $377,571 |
| **At December 31, 2015** | **$13,200** | **$19,156** | **$264,817** | **$60,628** | **$4,235** | **$362,036** |

*Property and equipment under construction*

As at December 31, 2015, costs incurred on field and automotive equipment and facilities under construction totaled $4,532 (2014: $55,794).

As at December 31, 2015, costs incurred on field and automotive equipment and facilities that are available for use, but not yet in service, therefore not being depreciated, totaled $3,915 (2014: $6,940).

*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 (see note 17). As at December 31, 2015, the net carrying amount of the leased equipment was $7,876 (2014: $8,351).

*Change in depreciation estimate*

During the year ended December 31, 2015, 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, 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 on a prospective basis. The effect of these changes on actual and expected depreciation expense is as follows:

| 000's of dollars | 2016 | 2017 | 2018 | 2019 | Later |
|---|---|---|---|---|---|
| (Decrease) increase in expense | ($2,950) | ($1,750) | ($1,118) | ($1,038) | $19,721 |

The impact of the change in estimate for the year ended December 31, 2015 was a decrease of $2,907.

*Impairment*

At the end of each reporting period, the Company conducts a review of its carrying value for each of its cash generating units ("CGU") for indicators of impairment. As a result of the current commodity price environment and the resulting decrease in industry activity, the Company tested its Pressure Pumping Services CGU and its Fluid Management Services CGU for impairment of its long-lived assets.

a) Pressure Pumping Services

The impairment test for the Pressure Pumping Services CGU used an expected cash flow approach based on internal cash flow estimates at December 31, 2015 at a risk-adjusted pre-tax discount rate of 16.4% and a terminal growth rate of 2%. The estimated cash flows were based on 2016 and 2017 budgets with future revenues increasing in correlation with forecasted oil and gas industry activity over the following three years. A terminal value thereafter was applied. Based on the analysis, no provision for impairment for the Company's long term assets was required.

The estimated value in use for the CGU was particularly sensitive to an increase in the pre-tax discount rate and the terminal growth rate. An increase to the pre-tax discount rate by 1% or a decrease to the terminal growth rate by 1% would continue to support no impairment.

Although no impairment loss was recognized in the Pressure Pumping CGU as a result of the above analysis, the CGU incurred an impairment loss of $1,215 on specific equipment.

b) Fluid Management Services

As a result of the impairment test performed, the Company recorded a goodwill write-down of $9,500 during Q4 2015 and $28,400 for the year ended December 31, 2015 in its Fluid Management Services CGU.

The impairment test performed involves considerable judgment and is subject to measurement uncertainty as they are dependent on factors outside of management's control. The recoverable amount of the CGU was based on its estimated value in use using a pre-tax discount rate of 18.9% and a terminal growth rate of 3%. The estimated cash flows were based on 2016 and 2017 budgets with future revenues increasing in correlation with forecasted oil and gas industry activity over the following three years. A terminal value thereafter was applied.

The estimated value in use for the CGU was particularly sensitive to the following estimates:

- An increase of 1% in the pre-tax discount rate would have increased the impairment by approximately $8 million.
- A decrease of 1% in the terminal growth rate of 3% would have increased the impairment by approximately $1 million.

A goodwill impairment of $28,400 is recorded in the impairment line on the consolidated statements of comprehensive income (loss). As a result of the impairment, the aggregate carrying amount of goodwill allocated to the Fluid Management Services CGU has been reduced to $21,431 and the carrying amount of the CGU has been reduced to the recoverable amount of $97,899.

## 11. Intangible assets and goodwill

### (a) 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 December 31, 2014** | **$286** | **$303** | **$6,820** | **$37,308** | **$44,717** |
| Additions: | - | - | - | - | - |
| **Balance at December 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 December 31, 2014** | **$147** | **$303** | **$1,137** | **$1,866** | **$3,453** |
| Amortization for the year | 19 | - | 2,273 | 3,731 | 6,023 |
| **Balance at December 31, 2015** | **$166** | **$303** | **$3,410** | **$5,597** | **$9,476** |
| **Carrying amounts:** | | | | | |
| At December 31, 2014 | $139 | $- | $5,683 | $35,442 | $41,264 |
| **At December 31, 2015** | **$120** | **$-** | **$3,410** | **$31,711** | **$35,241** |

### (b) Goodwill

The following table summarizes the carrying amount of goodwill for the year ended December 31, 2015:

| 000's of dollars | Year Ended December 31, 2015 | 2014 |
|---|---|---|
| Opening balance, January 1 | $49,831 | $- |
| Goodwill acquired through business combination | - | 49,831 |
| Impairment | (28,400) | - |
| Carrying amount, December 31 | $21,431 | $49,831 |

Refer to note 10 for details regarding impairment.

## 12. Trade and other payables

| 000's of dollars | Year Ended December 31, 2015 | 2014 |
|---|---|---|
| Trade payables | $33,503 | $53,844 |
| Accrued expenses | 23,988 | 61,608 |
| | $57,491 | $115,452 |

The Company estimates that the carrying value of the trade and other payables approximate their fair value.

## 13. Bank indebtedness and finance leases

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortized cost.

| 000's of dollars | Nominal Interest Rate | Year of Maturity | December 31, 2015 | December 31, 2014 |
|---|---|---|---|---|
| Current liabilities: | | | | |
| Drawing on credit facility | 3.4-4.4% | - | $- | $11,588 |
| Finance lease liabilities | 0.0-8.4% | 2016 | 3,873 | 2,742 |
| | | | $3,873 | $14,330 |
| Non-current liabilities: | | | | |
| Drawing on credit facility | 3.4-4.4% | 2018 | $60,000 | $30,000 |
| Finance lease liabilities | 0.0-8.4% | 2017-2019 | 4,779 | 6,193 |
| | | | $64,779 | $36,193 |

The Company entered into a new Facility with a syndicate of financial institutions on July 21, 2015. The amount of the Facility totals $100,000 with an accordion feature that allows for the expansion of the Facility by up to $50,000. 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 Company amended its Facility subsequent to December 31, 2015 (see note 4).

The Company is bound by certain financial and non-financial covenants as disclosed in note 4. The Company was in compliance with the terms of the lending agreements as at December 31, 2015 and December 31, 2014.

## 14. Deferred tax assets and liabilities

*Recognized Deferred Tax Assets and Liabilities*

| 000's of dollars | Assets | | Liabilities | | Net | |
|---|---|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| Property and equipment | $- | $- | $28,253 | $25,985 | $28,253 | $25,985 |
| Intangible assets | (48) | (45) | 8,972 | 10,324 | 8,924 | 10,279 |
| Finance leases | (2,243) | (2,194) | - | - | (2,243) | (2,194) |
| | ($2,291) | ($2,239) | $37,225 | $36,309 | $34,934 | $34,070 |

*Movement in Deferred Tax Balances During the Year*

| 000's of dollars | Balance January 1, 2014 | Recognized in earnings | Recognized on business combination | Balance at December 31, 2014 | Recognized in loss | Recognized on business combination | Balance at December 31, 2015 |
|---|---|---|---|---|---|---|---|
| Property and equipment | $23,564 | $2,050 | $371 | $25,985 | $2,062 | $206 | $28,253 |
| Intangible assets | (44) | (709) | 11,032 | 10,279 | (1,355) | - | 8,924 |
| Finance leases | (1,446) | (748) | - | (2,194) | (49) | - | (2,243) |
| Share-based payment transactions | (1,040) | 1,040 | - | - | - | - | - |
| Share issue costs | (133) | 133 | - | - | - | - | - |
| | $20,901 | $1,766 | $11,403 | $34,070 | $658 | $206 | $34,934 |

## 15. Capital and reserves

The Company is authorized to issue an unlimited number of no par value common shares.

### Share capital

The following table summarizes the Company's common shares outstanding:

| 000's of dollars and shares | Year Ended December 31, 2015 | | Year Ended December 31, 2014 | |
|---|---|---|---|---|
| | Number of shares | Amount | Number of shares | Amount |
| Common shares issued at January 1, | 68,604 | $297,761 | 62,528 | $189,764 |
| Issuance of shares related to business combination | 200 | 1,008 | 5,400 | 101,574 |
| Exercise of share options | 219 | 594 | 624 | 4,648 |
| Conversion of incentive based units | 101 | - | 52 | - |
| Reclassification on exercise of share options and incentive based units | - | 1,253 | - | 1,775 |
| | 69,124 | $300,616 | 68,604 | $297,761 |

### Income (loss) per share

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

| 000's of dollars and shares | Year ended December 31, | |
|---|---|---|
| | 2015 | 2014 |
| Income (loss) for the year | ($62,063) | $49,094 |
| Weighted average shares: | | |
| Basic | 68,882 | 65,699 |
| Dilution effect of share options and incentive based units | - | 867 |
| Diluted | 68,882 | 66,566 |
| Basic income (loss) per share | ($0.90) | $0.75 |
| Diluted income (loss) per share | ($0.90) | $0.74 |

### Dividends

On March 19, 2015, the Company declared a quarterly dividend of $10,327 or $0.15 per common share, which was paid on April 24, 2015.

On June 24, 2015, the Company declared a quarterly dividend of $5,162 or $0.075 per common share, which was paid on July 24, 2015.

On September 10, 2015, the Company declared a quarterly dividend of $2,075 or $0.03 per common share, which was paid on October 23, 2015.

On December 17, 2015, the Company declared a quarterly dividend of $2,074 or $0.03 per common share, which was paid on January 25, 2016.

During the year ended December 31, 2015, the Company paid total dividends of $27,859 or $0.41 per common share (2014: $39,398; $0.60 per common share).

Subsequent to December 31, 2015, the Company suspended its Dividend.

## 16. Share-based payments

### Description of the share-based payment arrangements

As at December 31, 2015 the Company has the following share-based payment arrangements:

### (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 Plan allows for the granting of options to purchase Common shares to a maximum number equal to 10% of the then issued and outstanding Common Shares of the Company. The price of each share purchase option granted is set by the Company's Board of Directors based on the market value of the Company's stock on the date of the grant. Issued share purchase options generally vest equally over a three year period or, as determined by the Board of Directors, and expire on the fifth anniversary date of their issuance.

During the year, the Company offered its employees the opportunity but not the obligation, to exchange every option granted prior to January 1, 2015 for 0.5 of a new option for every 1.0 option currently held. As a result, 1,774,460 options were cancelled in exchange for 887,227 new options granted on September 15, 2015 at an exercise price of $5.31. The replacement options vest one-third immediately and one-third on each of the first and second anniversaries of the grant. The fair value of the replacement options was $635.

The stock option exchange was accounted for as a modification of the options. Approximately $412 of incremental cost and $661 of unamortized expense related to the cancelled options will be recognized over the next two years. The value of the options cancelled was calculated immediately before the modification using the Black-Scholes valuation model with the following assumptions:

Risk-free interest rate: 0.52% - 0.54%

Expected dividend yield: 2.61%

Expected volatility: 38.13-40.21%

Expected option remaining life: 1.5 – 3.5 years

The per share weighted average fair value of stock options granted during the year ended December 31, 2015 was $1.03 (2014: $1.73) based on the date of grant valuation using the Black-Scholes option pricing model. Stock-based compensation of $1,722 has been recorded for the year ended December 31, 2015 (2014: $2,348).

A summary of the status of the Company's stock option plan as at December 31, 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 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 | 1,925 | $4.79 | - | $7.75 | $6.30 |
| Exercised | (219) | $2.43 | - | $5.16 | $2.95 |
| Forfeited | (341) | $5.31 | - | $18.42 | $11.37 |
| Exchanged | (1,774) | $5.16 | - | $18.42 | $11.64 |
| Expired | (59) | $4.20 | - | $4.97 | $4.93 |
| Outstanding as at December 31, 2015 | 3,203 | $4.79 | - | $16.27 | $8.57 |
| Exercisable as at December 31, 2015 | 1,293 | $5.31 | - | $16.27 | $10.27 |

The weighted average share price on the exercise of options for the year ended December 31, 2015 was $6.61 (2014: $14.45).

For the share options outstanding, as at December 31, 2015, the following additional information is provided:

000's of options

| Grant Date | Expiry Date | Range of Exercise Price | | | Share Options |
|---|---|---|---|---|---|
| 2011 | 2016 | $11.64 | - | $14.34 | 215 |
| 2012 | 2017 | $12.38 | - | $12.73 | 271 |
| 2013 | 2018 | $10.65 | - | $12.10 | 572 |
| 2014 | 2019 | $7.81 | - | $16.27 | 370 |
| 2015 | 2020 | $4.79 | - | $7.24 | 1,775 |
| | | $4.79 | - | $16.27 | 3,203 |

For the share options outstanding as at December 31, 2015, the weighted average remaining contracted life is 3 years (2014: 3 years).

Subsequent to December 31, 2015, the Company issued 36 share options at an exercise price of $3.20 per share.

**(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. Under the Plan, the Board of Directors from time to time may grant incentive based units to participants as compensation in respect of services rendered by the participant for a fiscal year. 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. Issued incentive based units generally vest equally over a three year period or, as determined by the Board of Directors, and expire on the fifth anniversary date of their issuance. The aggregate number of common shares that may be issued pursuant to the exercise of incentive based units awarded under the Plan is 5% of the issued and outstanding common shares of the Company.

The following table summarizes the Share-Based Compensation Units (“SBCU”) for the year ending December 31, 2015:

| 000's of dollars | December 31, 2015 | December 31, 2014 |
|---|---|---|
| SBCU’s issued at January 1, | 497 | 329 |
| Granted | 896 | 236 |
| Exercised | (101) | (52) |
| Forfeited | (52) | (16) |
| SBCU's outstanding as at December 31, 2015 | 1,240 | 497 |

The compensation cost to the Company for the year ended December 31, 2015 was $4,785 (2014: $1,774). As at December 31, 2015, there were 1,240 (2014: 497) incentive based units outstanding.

Subsequent to December 31, 2015, the Company issued 2,132 SBCU’s with various vesting and expiry dates.

**(c) Inputs for measurement of grant date fair values**

The grant date fair value of the share-based payment plans was measured based on the Black-Scholes option pricing model. Expected volatility is estimated by considering historic average share price volatility. The inputs used in the measurement of the fair values at grant date of the share-based payment plans during the years ended December 31, 2015 and 2014 are the following:

| Share Purchase Option Plan | Key management personnel 2015 | Key management personnel 2014 | Senior/other employees 2015 | Senior/other employees 2014 |
|---|---|---|---|---|
| Fair value of share options and assumptions: | | | | |
| Fair value at grant date (weighted average) | $0.98 | $1.56 | $1.03 | $1.78 |
| Share price at grant date (weighted average) | $7.17 | $10.74 | $6.27 | $12.03 |
| Exercise price | $7.17 | $10.74 | $6.27 | $12.03 |
| Expected volatility (weighted average) | 39.2% | 32.0% | 39.2% | 32.0% |
| Option life (expected weighted average life) | 2.5 years | 2.5 years | 2.5 years | 2.5 years |
| Expected dividends (weighted average) | 8.6% | 5.0% | 5.8% | 4.8% |
| Risk-free interest rate (weighted average) | 0.4% | 1.1% | 0.5% | 1.1% |
| Forfeiture rate | 6.4% | 11.2% | 6.4% | 11.2% |

**17. Leases**

Non-cancellable operating lease rentals are payable as follows:

| 000's of dollars | December 31, 2015 | December 31, 2014 |
|---|---|---|
| Less than one year | $1,511 | $2,107 |
| Between one and five years | 1,894 | 4,712 |
| | $3,405 | $6,819 |

The Company leases a number of offices and warehouse facilities under operating leases. The leases typically run for a period of one to five years, with an option to renew the lease after that date.

Finance lease liabilities are payable as follows:

| 000's of dollars | December 31, 2015 | | | December 31, 2014 | | |
|---|---|---|---|---|---|---|
| | Future minimum lease payments | Interest | Present value of minimum lease payments | Future minimum lease payments | Interest | Present value of minimum lease payments |
| One year | $3,873 | $542 | $4,415 | $2,742 | $541 | $3,283 |
| Two to five years | 4,779 | 365 | 5,144 | 6,193 | 525 | 6,718 |
| | $8,652 | $907 | $9,559 | $8,935 | $1,066 | $10,001 |

## 18. Capital commitments and contingencies

As at December 31, 2015 the Company has commitments to purchase property and equipment of approximately $755 (2014: $7,426).

The Company is subject to income and commodity taxes. Judgment is required in determining provisions for taxation. There are many transactions and calculations for determination of the various tax assets and liabilities. The Company maintains provisions for tax assets and liabilities. These provisions are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, the Company is subject to ongoing audits, and it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these matters is different from the amounts that were initially recorded, such differences will be recognized in the consolidated financial statements in the period in which such determination is made.

## 19. Operating segments

The Company's segments are determined by services provided which are its core business of pressure pumping services and 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, water storage services and fluid transportation 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.

| Year ended December 31, 2015 | Pressure Pumping Services | Fluid Management Services | Corporate | Total |
|---|---|---|---|---|
| Revenue | $360,153 | $43,845 | $- | $403,998 |
| Cost of services | (366,244) | (34,207) | - | (400,451) |
| Gross profit | (6,091) | 9,638 | - | 3,547 |
| Administrative expenses | (20,092) | (6,307) | (6,889) | (33,288) |
| Amortization expense | (19) | (6,004) | - | (6,023) |
| Results from operating activities | ($26,202) | ($2,673) | ($6,889) | ($35,764) |
| Impairment | ($1,215) | ($28,400) | $- | ($29,615) |
| Income tax (recovery) expense | (7,216) | (447) | - | (7,663) |
| Segment assets as at December 31, 2015 | $422,030 | $88,058 | - | $510,088 |
| Segment liabilities as at December 31, 2015 | $149,625 | $13,526 | - | $163,151 |

| Year ended December 31, 2014 | Pressure Pumping Services | Fluid Management Services | Corporate | Total |
|---|---|---|---|---|
| Revenue | $561,899 | $29,123 | $- | $591,022 |
| Cost of services | (467,006) | (19,255) | - | (486,261) |
| Gross profit | 94,893 | 9,868 | - | 104,761 |
| Administrative expenses | (21,417) | (3,264) | (8,866) | (33,547) |
| Amortization expense | - | (3,041) | - | (3,041) |
| Results from operating activities | $73,476 | $3,563 | ($8,866) | $68,173 |
| Income tax (recovery) expense | (16,399) | (737) | - | (17,136) |
| 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 |