

MANAGEMENT'S DISCUSSION AND ANALYSIS

SECOND QUARTER 2009

This management discussion and analysis (MD&A) is dated August 4, 2009, and should be read in conjunction with the Consolidated Financial Statements and Notes of Canyon Services Group Inc. ("Canyon" or the "Company") as at and for the three and six months ended June 30, 2009 and 2008, and should also be read in conjunction with the Audited Consolidated Financial Statements and Notes for the year ended December 31, 2008. Additional information relating to the Company, including the Company's Annual Information Form for the year ended December 31, 2008, is available on SEDAR at www.sedar.com.

The following MD&A contains forward-looking information and statements. We refer you to the end of the MD&A for our disclaimer on forward-looking information and statements.

OVERVIEW OF SECOND QUARTER 2009

The second quarter is traditionally the weakest quarter for the Canadian oilfield services sector as the spring thaw makes the ground unstable for purposes of moving heavy equipment and as a result, municipalities and transportation departments enforce road bans, thereby significantly reducing drilling and well servicing activity levels. Nevertheless, the seasonal break-up in the second quarter was even more pronounced than normal due to the current economic environment, with downward natural gas price pressures resulting in ongoing, lower, industry-wide equipment utilization levels.

In the case of natural gas pricing, AECO-C spot prices decreased by 29% in Q2 2009 compared to Q2 2008, and by 66% for the first six months of 2009 compared to the 2008 comparable period, causing exploration and production companies to significantly curtail 2009 capital expenditure budgets. As a result, in Q2 2009, the key indicators for utilization of stimulation equipment, well licensing activity and drilling rig utilization, significantly trailed the prior year's levels. Well licenses issued in Q2 2009 and for the first half of 2009 were 58% and 50% lower respectively than the 2008 comparable periods. Drilling rig utilization in Q2 2009 was only 11% versus the 20% achieved in Q2 2008 while the first half of 2009 was about 23% versus 38% in the 2008 comparable period, representing the weakest utilization since the early 1990's.

Canyon's continued expansion into deeper segments of the market with the successful completion of large, horizontal, multi-stage fracs in the Montney, has resulted in higher hydraulic fracturing revenues and significantly increased average revenues per job in 2009. For the first half of 2009 revenues increased by 24%, with jobs completed decreasing by 5%. In Q2 2009, total revenues remained relatively flat compared to Q2 2008, with jobs completed decreasing by 27% over the two quarters.

The operating and financial highlights for the three and six months ended June 30, 2009 may be summarized as follows:

Operating and Financial Highlights

- In Q2 2009, Canyon's revenues totaled \$4.0 million compared to \$4.2 million in Q2 2008. However, in the six months ended June 30, 2009, total revenues increased by 24% to \$28.1 million from \$22.6 million in the 2008 comparable period.
- In Q2 2009, Canyon completed 97 jobs compared to 132 jobs completed in Q2 2008, a decrease of 27%, while for the first six months of 2009 total jobs completed decreased by 5% to 599 from 632 in the 2008 comparable period.
- Average revenue per job increased in Q2 2009 by 27% to \$41,228 from \$32,521 in Q2 2008, while for the first six months of 2009, average revenue per job increased by 30% to \$46,947 from \$36,111 in the 2008 comparable period.
- In Q2 2009, Canyon expanded its customer base with the completion of a multi-well pilot project for a major, international exploration and production company, employing the patented Grand Canyon technology process. The results are presently being evaluated by the customer.
- As a result of significant, company-wide cost reductions implemented in late March 2009, fixed costs and SG&A before stock based compensation expense were reduced by 28% in Q2 2009 compared to Q1 2009.
- Spring break-up and weak demand across the industry for well stimulation services in the quarter resulted in a loss before income taxes of \$5.9 million in Q2 2009 compared to a loss before income taxes of \$6.7 million in Q2 2008.
- In May 2009, Canyon renewed its bank credit agreement with no change to the available credit facilities. The interest rate spread over prime on all facilities payable has been increased by 75 basis points pursuant to the renewal terms.
- As at June 30, 2009, the Company's available credit facilities total \$17.8 million.

2009 OUTLOOK

Canyon expects that the remainder of 2009 will be a difficult year for all of those involved in the energy business. Oil and natural gas industry activity levels have been and will continue to be significantly impacted by recent global economic events and we are not forecasting a material improvement in overall economic conditions in the oil and natural gas industry until 2010. Despite recent strengthening in oil prices, commodity prices remain sharply lower than the record levels in Q2 2008. In the current quarter,

WTI oil prices and Nymex natural gas prices have fallen approximately 52% and 67% respectively from Q2 2008 levels. The depressed commodity prices, which immediately caused a reduction in availability of both equity and debt capital, have caused our customers to significantly rein in exploration and development budgets for 2009, as they carefully manage cash flows and credit facilities for the remainder of the year. Despite improved access to capital for producers in recent months and the extension of royalty incentives announced by the Alberta Government in late June, 2009, Canyon believes that activity levels for the second half of 2009 will remain weak. Current industry estimates are for less than 10,000 wells to be drilled in 2009. This represents an approximate 40% decline in overall industry activity compared to 2008, which has resulted in significantly reduced job pricing to historically low levels.

Amongst the downturn, the pressure pumping services is one of the bright spots in the oilfield services sector. Throughout North America, exploration and production companies are focusing on tight gas, and oil and natural gas shale plays. These plays are typically drilled horizontally and are completed with multi-stage fractures, significantly increasing overall demand for pressure pumping services on a per well basis. These types of plays will continue to be the highlight of Western Canadian activity and we believe that operators will be relying on fracturing technologies to maximize production and striving to perform more fracs per well, which will help to offset the decline in the overall well count expected for the next 6 – 18 months.

Canyon has continued to expand its customer list and has experienced significant growth in its hydraulic fracturing services division. For the six months ended June 30, 2009, our revenues are 24% ahead of the same period in 2008. Canyon expects our ongoing market penetration, combined with an industry focus on fracturing technology, should make up for a significant portion of the overall decline in industry activity. In addition, Canyon continues to demonstrate the benefits of our patented technologies and how our Grand Canyon fracturing technologies improve the economic return of oil and natural gas reservoirs.

Canyon is cautiously predicting slowly rising commodity prices in the second half of 2009 once the economy stabilizes and the production declines from reduced investments for oil and gas become evident. Once this occurs, confidence and increased activity should return to the basin beginning in 2010 and oilfield services utilization should increase dramatically and operating margins should improve. For the remainder of 2009, in response to near-term lower anticipated industry activity and job pricing, Canyon will be taking a defensive stance by actively managing operating and administrative expenses. The Company has implemented a cost reduction program and will continue its focus on operating with an efficient and cost effective infrastructure.

QUARTERLY COMPARATIVE STATEMENTS OF OPERATIONS

Quarter Ended	June 30, 2009 (unaudited)	June 30, 2008 (unaudited)
Revenues	\$4,011,369	\$4,191,145
Expenses		
Operating	5,392,159	5,972,049
Selling, general and administrative	1,621,881	1,862,471
Stock based compensation	422,380	219,254
Interest on long-term debt	170,915	379,892
Other interest	8,829	62,287
Depreciation and amortization	2,290,549	2,355,458
Loss before income taxes	(5,895,344)	(6,660,266)
Income taxes-future (reduction)	(506,343)	(96,415)
	(506,343)	(96,415)
Net loss and comprehensive loss	\$(5,389,001)	\$(6,563,851)
EBITDA before stock based compensation ⁽¹⁾	\$(3,002,671)	\$(3,643,375)
Loss per share:		
Basic	\$(0.24)	\$(0.30)
Diluted	\$(0.24)	\$(0.29)

Note (1): See Non-GAAP Measures.

Revenues

In Q2 2009, average revenue per job increased by 27% to \$41,228 from \$32,521 in Q2 2008 as Canyon completed larger, multi-stage fracs in northeast British Columbia. Total revenues recorded in Q2 2009 remained relatively flat at \$4.0 million compared to \$4.2 million in Q2 2008 as the number of jobs decreased to 97 in Q2 2009 from 132 in Q2 2008. The decrease in job count is the result of significantly reduced activity across the oilfield services sector.

Operating Expenses

Operating expenses decreased by 10% to \$5.4 million in Q2 2009 from \$6.0 million in Q2 2008, as a result of the reduced job count and reductions in the fixed component of operating costs implemented in late March 2009.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased to \$1.6 million in Q2 2009 from \$1.9 million in Q2 2008 mainly due to cost cutting measures introduced in late March 2009.

Stock-Based Compensation Expense

In Q2 2009, the Company recorded stock-based compensation expense of \$0.4 million compared to \$0.2 million in the 2008 comparable quarter. The increase is due to \$0.2 million accrued non-cash stock-based compensation expense relating to deferred share units which will vest commencing February 11, 2010, with an offsetting liability included in accounts payable and accrued liabilities.

EBITDA (See Non-GAAP Measures)

In Q2 2009, the seasonal reduction in industry activity has resulted in negative EBITDA before stock based compensation expense of negative \$(3.0) million, an improvement over the negative \$(3.6) million recorded in the 2008 comparable quarter. The Q2 2009 EBITDA before stock based compensation expense of negative \$(3.0) million consists of loss before income taxes of \$(5.9) million, plus depreciation and amortization of \$2.3 million, plus interest on long-term debt and other interest of \$0.2 million, plus stock-based compensation expense of \$0.4 million. The comparable Q2 2008 EBITDA before stock based compensation expense of negative \$(3.6) million consists of loss before income taxes of \$(6.6) million, plus depreciation and amortization of \$2.4 million, plus interest on long-term debt and other interest of \$0.4 million, plus stock-based compensation expense of \$0.2 million.

Interest Expense

Interest on long-term debt and other interest totals \$0.2 million in Q2 2009 compared to \$0.4 million in Q2 2008. The lower interest expense is mostly due to lower debt levels in the current quarter under review.

Depreciation Expense

Depreciation expense was recorded at \$2.3 million in Q2 2009, largely unchanged from the \$2.4 million recorded in Q2 2008.

Income Tax Expense

At the expected combined income tax rate of 29.0%, loss before income taxes for Q2 2009 of \$(5.9) million would have resulted in an expected income tax recovery of approximately \$(1.7) million compared to the actual recovery of \$(0.5) million. The expected future income tax recovery was reduced by \$0.2 million as a result of the effect of stock based compensation and other non-deductible expenses, and reduced by \$1.0 million as a result of the effect of a future income tax valuation allowance.

Net Loss and Loss per Share

Net loss and comprehensive loss totaled \$(5.4) million for Q2 2009, an improvement over the \$(6.6) million recorded in Q2 2008. The decreased loss is mainly due to the higher average job revenues resulting from the larger jobs completed in the quarter and reduced expenses.

For the quarter ended June 30, 2009, basic and diluted loss per share was \$(0.24), compared to basic loss per share of \$(0.30) and diluted loss per share of \$(0.29) recorded in Q2 2008.

2009 YEAR-TO-DATE COMPARATIVE STATEMENTS OF OPERATIONS

Six Months Ended	June 30, 2009 (Unaudited)	June 30, 2008 (Unaudited)
Revenues	\$28,087,028	\$22,645,286
Expenses		
Operating	23,678,578	20,994,390
Selling, general and administrative	3,394,428	3,624,977
Stock-based compensation	594,136	403,466
Interest on long-term debt	313,155	736,506
Other interest	30,938	92,649
Depreciation and amortization	4,589,904	4,736,693
Loss before income taxes	(4,514,111)	(7,943,395)
Income taxes-future (reduction)	(69,550)	(395,727)
	(69,550)	(395,727)
Net loss and comprehensive loss	\$(4,444,561)	\$(7,547,668)
EBITDA before stock based compensation ⁽¹⁾	\$1,014,022	\$(1,974,081)
Loss per share:		
Basic	\$(0.20)	\$(0.34)
Diluted	\$(0.20)	\$(0.34)

Note (1): See Non-GAAP Measures.

Revenues

For the six months ended June 30, 2009, Canyon's continued expansion into the deeper, horizontal segments of the market with the completion of large, multi-stage fracs in the Montney resulted in a 24% increase in revenues to \$28.1 million from \$22.6 million in the six months ended June 30, 2008. Despite a significant drop in the demand for well stimulation services in the first half of 2009, the total job count decreased by only 5% to 599 jobs completed compared to 632 jobs in the 2008 comparable period. As a result, average revenue per job was \$46,947 in the first six months of 2009 compared to \$36,111 per job in the 2008 comparable period.

Operating Expenses

Operating expenses for the six months ended June 30, 2009 increased by 13% to \$23.7 million from \$21.0 million in the 2008 comparable period. Although the job count was 5% lower in the six months ended June 30, 2009 compared to the comparable 2008 period, variable costs per job increased because of the Company's expansion into larger and deeper fracs. In late March 2009, Canyon introduced cost-cutting measures resulting in a 30% reduction in the fixed component of operating costs in Q2 2009 over Q1 2009. Canyon's current level of fixed operating costs will support a much higher level of activity, with the result that, when the industry returns to more normal activity levels, Canyon will incur fixed costs at a proportionately lesser rate for the additional job activity, as the necessary operating infrastructure is mostly in place.

Selling, General and Administrative Expenses (“SG&A”)

Selling, general and administrative expenses before stock-based compensation expense were \$3.4 million in the six months ended June 30, 2009 compared to \$3.6 million in the comparable 2008 period. Management expects that SG&A will grow at a proportionately lesser rate as the Company’s operating activities continue to expand, as much of the back-office infrastructure necessary to support expanded operational activities is in place.

Stock-Based Compensation Expense

In the six months ended June 30, 2009, the Company recorded stock-based compensation expense of \$0.6 million compared to \$0.4 million in the 2008 comparable quarter. Included in the current period’s expense is \$0.2 million accrued non-cash stock-based compensation expense relating to deferred share units which will vest commencing February 11, 2010, with an offsetting liability included in accounts payable and accrued liabilities.

EBITDA (See NON-GAAP MEASURES)

In the six months ended June 30, 2009, EBITDA before stock-based compensation expense was \$1.0 million, a significant improvement over the negative \$(2.0) million of EBITDA before stock based compensation expense recorded in the 2008 comparable period. The 2009 EBITDA before stock based compensation expense of \$1.0 million consists of loss before income taxes of \$(4.5) million, plus depreciation and amortization of \$4.6 million, plus interest on long-term debt and other interest of \$0.3 million, plus stock-based compensation expense \$0.6 million. The comparable 2008 EBITDA before stock based compensation expense of negative \$(2.0) million consists of loss before income taxes of \$(7.9) million, plus depreciation and amortization of \$4.7 million, plus interest on long-term debt and other interest of \$0.8 million and stock based compensation expense of \$0.4 million.

Interest Expense

Interest on long-term debt and other interest totals \$0.3 million in the six months ended June 30, 2009 compared to \$0.8 million in the comparable 2008 period. The lower interest expense is mostly due to lower debt levels in the current period as the Company significantly reduced debt levels in the second half of 2008.

Depreciation Expense

Depreciation expense totaled \$4.6 million in the six months ended June 30 2009 compared to \$4.7 for the comparable 2008 period.

Income Tax Expense

At the expected combined income tax rate of 29.0%, loss before income taxes for the six months ended June 30 2009 of \$(4.5) million would have resulted in an expected income tax recovery of approximately \$(1.3) million compared to the actual recovery of \$(0.1) million. The expected future income tax recovery was reduced by \$0.2 million as a result of the effect of stock based compensation and other non-deductible expenses and 1.0 million as a result of the effect of a future income tax valuation allowance.

Net Loss and Loss per Share

Net loss and comprehensive loss totaled \$(4.4) million for the six months ended June 30 2009, significantly lower than the net loss of \$(7.5) million for the comparable 2008 period. This is primarily due to the 24% increase in revenues in the current period.

Basic and diluted loss per share for the six months ended June 30, 2009 was \$(0.20), an improvement over the basic and diluted loss per share of \$(0.35) recorded in the comparable 2008 period.

Summary of Quarterly Results

(\$,000 except per share amounts-unaudited)

(1)		Revenues		EBITDA before stock-based compensation expense (2)		Net Income (loss)
2009	Q2	\$4,011		\$(3,003)		\$(5,389)
	Q1	\$24,076		\$4,017		\$944
2008	Q4	\$29,007		\$7,636		\$4,276
	Q3	\$20,719		\$4,135		\$1,243
	Q2	\$4,191		\$(3,643)		\$(6,564)
	Q1	\$18,454		\$1,669		\$(984)
2007	Q4	\$19,706		\$3,272		\$(1)
	Q3	\$11,102		\$(494)		\$(2,851)

Note (1): The Company's business is seasonal in nature with the periods of greatest activity being in the first and fourth quarters. Please see below for further discussion, "Seasonality" under "RISK FACTORS AND RISK MANAGEMENT."

Note (2): See Non-GAAP Measure

The well completion and stimulation business is seasonal in nature with significantly reduced activity in Q2 of each year due to road bans resulting from the annual spring break-up. In addition, the business is cyclical as a result of industry activity levels that are highly correlated to commodity prices. Accordingly, the resulting downward pressure in industry activity levels and prices have led to net losses in certain quarters which are expected to be profitable in times of increased activity, namely, Q1 2008, Q3 2007 and Q4 2007. Over the latter half of 2008, Canyon has enjoyed a significant increase in job activity and revenues resulting in EBITDA before stock-based compensation expense of \$7.6 million and net income of \$4.3 million in Q4 2008 and EBITDA before stock option expense of \$4.1 million and net income of \$1.2 million in Q3 2008.

LIQUIDITY AND CAPITAL RESOURCES

Equity

There were 2,500 common shares issued by the Company during the three and six months ended June 30, 2009 to employees upon exercise of options.

Working Capital and Cash Requirements

Funds generated by the Company's operating activities amounted to negative (\$3.2) million for the quarter ended June 30, 2009, compared to negative (\$4.1) million recorded in the comparable quarter of 2008. Reduced demand across the industry, as well as the annual spring break-up accounted for the negative funds generated from operations in Q2 2009 and its comparative 2008 quarter. For the six months ended June 30, 2009, funds generated by the Company's operating activities amounted to \$0.7 million, compared to negative (\$2.8) million recorded in the 2008 comparable period. The 24% increase in Canyon's revenues accounts for the significant improvement in funds generated from operations for the six months ended June 30, 2009 compared to the comparable 2008 period.

As at June 30, 2009, Canyon had a working capital balance of \$4.8 million compared to \$4.5 million as at December 31, 2008. The Company's working capital position exceeds the level required to manage timing differences between cash collections and cash payments.

The Company continually monitors individual customer trade receivables, taking into account numerous factors including industry conditions, payment history and financial condition in assessing credit risk. The Company establishes an allowance for doubtful accounts for specifically identifiable customer balances which are assessed to have credit risk exposure. As at June 30, 2009, the Company provided an allowance of \$0.3 million for doubtful receivables.

Debt Facilities

On May 26, 2008, Canyon entered into a credit agreement (the "Agreement") with its lender to update and restate the existing Extendible Facility and Operating Facility, and to add an \$11.4 million non-revolving extendible term facility (the "Term Facility"). On May 25, 2009 the Company's lender renewed the Agreement with no changes to the available credit facilities. The interest rate payable on the three facilities was increased by 75 basis points resulting in the rates described below.

Under the Agreement, as amended, the Term Facility bears interest at the bank's prime lending rate plus 1.50 percent and is repayable by way of blended monthly principal and interest payments of \$78,419, based on a 20 year amortization period. The Term Facility matures on May 25, 2011 ("Term Maturity Date") and can be extended at the lender's option for a further period of two years from the then current Term Maturity Date. Security for the Term Facility is a mortgage over the Company's land and buildings and a general security agreement over all of the Company's assets. The full amount of \$11.4 million has been drawn under this facility.

In accordance with CICA requirements, the Term Facility as at June 30, 2009 is presented net of \$0.24 million of unamortized finance costs related to the restructuring of the Company's debt facilities. These financing costs will be amortized over the term of the debt and charged to interest expense using the effective interest rate method.

The Extendible Facility is a revolving extendible credit facility up to a maximum amount of \$20 million and bears interest, payable monthly, at the bank's prime lending rate plus 1.25 percent. The Extendible Facility is subject to renewal on May 24, 2010 at which time it can be extended at the lender's option for 364 days. If the Extendible Facility is not extended, all amounts outstanding are repayable commencing on the last day of the third month following the then maturity date, with the first seven of such installments being one-twentieth of the amount outstanding on the maturity date and the eighth of such installments being for the balance outstanding. Security for the Extendible Facility is a general security agreement over all of the Company's assets. As at June 30, 2009, \$6.5 million (\$6.5 million as at December 31, 2008) was drawn under this facility.

The Operating Facility is a demand revolving facility up to a maximum amount of \$5.0 million and bears interest, payable monthly, at the bank's prime lending rate plus 1.25 percent and is secured by a general security agreement over all of the Company's assets. As at June 30, 2009, the net amount drawn on this facility was \$0.7 million comprising a \$0.9 million balance, less a cash balance of \$0.2 million, to fund short-term differences in the timing of cash collections and payments to vendors.

As at June 30, 2009, Canyon's net debt including current and long-term portions, was \$12.2 million (current liabilities of \$5.1 million, plus long-term debt of \$16.9 million, less current assets of \$9.8 million) unchanged from the \$12.2 million recorded as at December 31, 2008.

As at June 30, 2009, the Company's available credit facilities under its debt facilities total \$17.8 million (\$13.5 million under the Extendible Facility, \$4.1 million under the Operating Facility and a cash balance of \$0.2 million). The Company believes that it has access to sufficient capital through internally generated cash flows and available credit facilities to meet its obligations associated with financial liabilities and capital expenditures.

The balance of the debt facilities comprises automotive equipment loans totaling \$0.4 million at June 30, 2009 (\$0.5 million at December 31, 2008).

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 operating facility less cash, plus current portion of obligations under capital lease, plus current portion of long-term debt, plus obligations under capital lease, plus long-term debt. Capitalization is calculated as the debt, as described above, and shareholders' equity less intangible

assets. The Company may be required to adjust its capital structure from time to time as a result of expansion activities.

The debt to capitalization ratios were as follows:

(Stated in dollars, except ratios)	June 30, 2009	December 31, 2008
Debt	\$18,338,739	\$18,394,371
Shareholders' equity (net of intangible assets)	83,404,458	87,466,003
Capitalization	\$101,743,197	\$105,860,374
Debt to capitalization ratio	0.18	0.17

The Company also manages its capital structure to ensure compliance with the following financial covenants specified in the credit facilities:

- The Company is required to maintain a working capital ratio of not less than 1.25 to 1.00, calculated as at the end of each fiscal quarter;
- The company is required to maintain a ratio of total debt to total tangible net worth of not greater than 2.0 to 1.0, calculated as at the end of each fiscal quarter;
- As at the end of each fiscal quarter, the total outstanding balances under the Operating Facility and the Extendible Facility cannot exceed 50% of the net book value of property and equipment net of real estate assets;
- The Company's ratio of EBITDA (see NON-GAAP MEASURES) before stock option expense to total debt cannot be less than 1.25 to 1.00, calculated on an annual basis on December 31 of each year.

As of June 30, 2009, the Company is in compliance with each of the above financial covenants.

Contractual Obligations

As at June 30, 2009, Canyon's contractual obligations are summarized as follows:

	Total	Next 12 months	1 - 3 years	4 - 5 years	After 5 years
Operating facility	\$884,077	\$884,077	\$ -	\$ -	\$ -
Long-term debt	17,610,799	728,279	11,626,388	5,254,294	1,838
Operating leases and office space	1,539,963	660,562	661,658	217,743	-
Total contractual obligations	\$20,034,839	\$2,272,918	\$12,288,046	\$5,472,037	\$1,838

Capital Expenditures

Canyon's total capital expenditures for the six months ended June 30, 2009 were \$0.3 million for miscellaneous equipment and leasehold improvements and were financed by funds generated from operations. As at June 30, 2009, Canyon's available aggregate credit facilities under its debt facilities total \$17.8 million, as discussed above.

Outstanding Share, Warrant and Option Data

The following table summarizes Canyon's capitalization at June 30, 2009 and December 31, 2008.

	Outstanding Number as at	
	June 30, 2009	December 31, 2008
Common Shares	22,151,033	22,148,533
Warrants	550,000	550,000
Options	1,713,834	965,334

In the three months ended June 30, 2009, no warrants were issued to directors, officers and employees, 20,000 share options were granted to employees, 2,500 share options were exercised by employees and 88,665 share options were forfeited and no share options were cancelled by directors, officers and employees. For the six months ended June 30, 2009, no warrants were issued, 879,000 share options were granted to directors, officers and employees, 2,500 share options were exercised by employees, 128,000 share options were forfeited by directors, officers and employees and no options were cancelled by directors, officers and employees.

On February 11, 2009, 125,000 warrants were repriced to \$1.20 from \$4.96 per option to reflect current economic conditions, resulting in the recording of additional consideration of \$29,219. These warrants were originally issued in February 2007 as consideration to acquire from a private company certain intellectual property for proprietary light weight proppant. The 425,000 remaining warrants are held by the President of Canyon and have an exercise price of \$4.00 per share.

Financial Instruments

There are no significant financial instruments as at June 30, 2009.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements as at June 30, 2009, other than the operating leases described above.

NON-GAAP MEASURES

The Company's Consolidated Financial Statements are prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") and are reported in Canadian currency.

The term "EBITDA" is used in this document to refer to Earnings from continuing operations before interest, taxes, depreciation and amortization. EBITDA before stock compensation expense is also used in this document. EBITDA is not a term recognized under Canadian GAAP and does not have a standardized meaning prescribed by GAAP. While management of the Company believes that EBITDA is commonly used, and is a useful measure for readers in evaluating financial performance of the Company, the Company's method of calculating EBITDA may differ from, and therefore, not be comparable to similar measures provided by other reporting issuers.

The following table provides a reconciliation of net loss and comprehensive loss under GAAP as disclosed in the consolidated statements of operations to EBITDA before stock-based compensation expense.

	Three months ended June 30		Six Months ended June 30	
	2009	2008	2009	2008
EBITDA before stock-based compensation expense	\$(3,002,671)	\$(3,643,375)	\$1,014,022	\$(1,974,081)
Add (Deduct):				
Depreciation and amortization	(2,290,549)	(2,355,458)	(4,589,904)	(4,736,693)
Other interest	(8,829)	(62,287)	(30,938)	(92,649)
Interest on long-term debt	(170,915)	(379,892)	(313,155)	(736,506)
Stock-based compensation	(422,380)	(219,254)	(594,136)	(403,466)
Income taxes	506,343	96,415	69,550	395,727
Net loss and comprehensive loss	\$(5,389,001)	\$(6,563,851)	\$(4,444,561)	\$(7,547,668)

CRITICAL ACCOUNTING ESTIMATES

In the preparation of the Company's consolidated financial statements, management has made estimates that affect the recorded amounts of certain assets, liabilities, revenues and expenses. Actual results could 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. The Company considers the following to be its critical accounting policies and estimates:

Revenue Recognition – Accounts Receivable

The Company recognizes revenue when services are provided and collectability is reasonably assured. The Company's services are sold based upon orders or contracts with customers that include agreed upon rates for equipment, tools, services, supplies consumed and travel time. There are no post-service delivery obligations. All revenues recorded are based on actual invoices issued to customers.

Company management regularly reviews outstanding accounts receivables and follows up with customers when settlement has not occurred on a timely basis. A bad debt allowance of \$0.3 million has been established as at June 30, 2009 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.

Depreciation of Property and Equipment

Depreciation is calculated using varying methods and is intended to reflect the historical value of the underlying asset 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 class of asset include the productive life of the asset, its salvage value, equipment utilization rates, planned maintenance programs and technological change. Commencing with Q4 2007, Canyon reassessed a salvage value estimate for fracturing equipment in computing the depreciation charge. Management believes that its assessment and choice of estimates used in calculating depreciation are reasonable and consistent with our competitors; however there is no certainty that the depreciation expense provided will correctly measure the actual reduction in value of assets used in operations over time. There have been no changes to the estimated useful lives of the Company's property and equipment deployed in continuing operations since the inception of these operations.

Intangible Assets

Intangible assets consist of certain intellectual property for proprietary light weight proppant. On a periodic basis, management assesses the carrying value of intangible assets for indications of impairment. When an indication of impairment is present, the asset is written down to its estimated fair value. The value of intangible assets was assessed for impairment. No write-down is required.

Long-lived Assets

On a periodic basis, management assesses the carrying value of long-lived assets for indications of impairment. When an indication of impairment is present, the asset is written down to its estimated fair value. The value of long-lived assets was assessed for impairment. No write-down is required.

Income Taxes

The Company follows the liability method of accounting for future income taxes, under which future income tax assets and liabilities are determined based on temporary differences between the accounting basis and the tax basis of the Company's assets and liabilities. Income tax rates used and statutes followed are those currently enacted (or substantively enacted) that are expected to apply when these differences reverse. Income tax expense is the sum of the Company's provision for current income taxes and the difference between opening and ending balances of the future income tax assets and liabilities.

CHANGES IN ACCOUNTING POLICY

There were no other new accounting standards enacted that would affect the Company's Consolidated Financial Statements nor did the Company change any of its existing accounting policies from those used in 2008.

INTERNATIONAL FINANCIAL REPORTING STANDARDS UPDATE

The Canadian Accounting Standards Board has confirmed that Canadian publicly accountable profit-oriented enterprises will be required to adopt International Financial Reporting Standards (IFRS) for years beginning on or after January 1, 2011. IFRS will replace Canadian generally accepted accounting principles. As a result, the Company must report its results of operations, together with comparatives for the year ended December 31, 2010, in accordance with IFRS beginning January 1, 2011.

The Company has commenced a comprehensive process to analyze the differences between IFRS and Canyon's existing Canadian generally accepted accounting principles, and to assess the impact of various alternatives under IFRS. The matters being addressed include identifying the expected changes in accounting policy, selecting the IFRS policies, changes in note disclosure, quantifying the disclosures required for the comparative 2010 year, and determining the effect of conversion to IFRS on Canyon's material business agreements. In addition, the Company's internal controls over financial reporting will include systems and processes to address the changes resulting from applying the new accounting standards. Disclosure controls and procedures will also be updated as the IFRS conversion process proceeds. At this time the impact on Canyon's consolidated financial statements is not reasonably determined.

Overall responsibility for the successful implementation of the Company's conversion plan lies with Canyon's senior financial management who report to and are overseen by the Company's Audit Committee of the Board of Directors. Canyon has commenced training key employees and will continue throughout the conversion process. In addition, regular reporting is provided to the Company's senior executive management and to the Audit Committee.

RELATED PARTY TRANSACTIONS

In July, 2007, the Company established a Deferred Share Unit Plan. Under this Plan, upon acceptance of the Company's offer of employment, the President was granted 800,000 units with base values varying between \$5.00 and \$8.65 per unit. Effective February, 2009, the number of units granted was modified to 600,000 and the base values were modified to between \$1.25 and \$2.00 per unit in response to market conditions. The term of the plan is 5 years, and at that time the President will receive a cash amount equal to the market value of the Company's shares in excess of the base value of the deferred share units. The deferred share units will be recorded as a liability and revalued at each reporting period. In the three and six months ended June 30, 2009, the Company recorded compensation costs of \$225,130 (2008 - nil) related to the outstanding deferred share units, and this obligation is reflected in accounts payable and accrued liabilities.

RISK FACTORS AND RISK MANAGEMENT

Readers of the Company's interim report should carefully consider the risks described under the heading "Risk Factors" in the Company's Annual Information Form. In addition, readers should also consider the following principal risks.

Business Risks

The demand, pricing and terms for oilfield services in the Company's service areas largely depend upon the level of exploration and development activity for both oil and natural gas. Oil and natural gas industry conditions are influenced by numerous factors over which Canyon has no control, including: oil and natural gas prices, expectations about future oil and natural gas prices, levels of consumer demand; the cost of exploring for, producing and delivering oil and natural gas; the expected rates of declining current production; the discovery rates of new oils and natural gas reservoirs; and weather conditions. As a result, the level of activity in the oil and natural gas exploration and production industry is volatile. A material decline in oil or natural gas prices or industry activity could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows. Conversely, during periods of high commodity prices, when customers' cash flows increase, the demand for Canyon's services can also increase.

Seasonality

There is greater demand for oilfield services provided by the Company in western Canada in the winter season when the occurrence of freezing permits the movement and operation of heavy equipment. Consequently, oilfield services activities tend to increase in the fall and peak in the winter months of November through March. The volatility in the weather can therefore create unpredictability in activity and utilization rates, which could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

Intangible Property

In delivering services to its customers, Canyon has developed proprietary technology and know-how. To maintain its competitive position, the Company undertakes to protect its intellectual property by applying for patent protection. On January 22, 2008, Canyon was granted a Canadian patent entitled "A Method Of Treating A Formation Using Deformable Proppants (Patent #2536957)". There are currently two other patents pending on the Company's Grand Canyon process.

Competition

Canyon's market is highly competitive. Management considers Canyon as the dominant player in nitrogen fracturing utilizing the Grand Canyon process. However, Canyon does not presently hold a dominant market position with respect to its other service offerings.

Reliance on Personnel

The success of the Company is dependent on attracting and retaining skilled personnel. To support the new service line offerings, the Company has 183 full time staff at June 30, 2009 compared to 241 at the beginning of the year.

Equipment

Canyon's ability to increase its operations and provide reliable service to customers is dependent upon the availability of reliable equipment and spare parts. With the completion of the capital expenditure program that commenced in 2006, Canyon now has available for service a significant fleet of custom-designed equipment and related parts to support all of its service lines.

Credit Risk

The Company's accounts receivable are due from customers that operate in the oil and natural gas exploration and production industry, and are subject to typical industry credit risks. The Company assesses the credit worthiness of its customers, and monitors accounts receivable outstanding on a regular, ongoing basis.

Interest Rate Risk

The Company manages its interest rate risk through a combination of fixed and floating rate borrowings.

Dependence on Suppliers

The ability of the Company to compete and grow will be dependent on the Company having access, at a reasonable cost and in a timely manner, to equipment, parts and components.

The Company's ability to provide services to its customers is also dependent upon the availability at reasonable prices of raw materials which the Company purchases from various suppliers, most of whom are located in Canada. Alternate suppliers exist for all raw materials.

Dependence on Major Customers

The Company has a customer base of more than 60 E&P entities, ranging from large multinational public entities to small private companies. Notwithstanding the Company's significant customer base, 55% of the Company's revenue for the six months ended June 30, 2009 was earned from three large customers. The Company has historically had a stable relationship with these customers and has no reason to believe there will be any change to this relationship in the future. The Company continuously makes efforts to expand its customer base.

Vulnerability to Market Changes

Fixed costs, including costs associated with operating expenses, leases, labour costs and depreciation account for a significant portion of the Company's costs and expenses. As a result, reduced productivity resulting from reduced demand, equipment failure, weather or other factors could have a material adverse effect on the Company's business, results of operations, financial condition and cash flows.

Government Regulation

The Company's operations are subject to a variety of Canadian federal, provincial and local laws, regulations and guidelines, including laws and regulations relating to health and safety, the conduct of operations, the protection of the environment and the manufacture, management, transportation, storage and disposal of certain materials used in the Company's operations. Management believes that the Company is in compliance with such laws, regulations and guidelines.

In Alberta, the Crown royalty rates on conventional oil and natural gas fluctuate, depending on when a well was drilled, well depth, well production volume and the price of oil and natural gas. On October 25, 2007, the Alberta provincial government introduced a new royalty regime which became effective on January 1, 2009 and is applicable to all existing conventional oil and natural gas wells in Alberta. The new royalty regime assesses the applicable royalty rate on a well by well basis using a sliding scale which takes into account the price of oil and/or natural gas and the well's production volumes.

On November 19, 2008 and November 24, 2008 the Alberta provincial government announced details of an optional five-year transitional royalty program that applies to conventional oil and natural gas wells drilled to measured depths between 1,000 to 3,500 meters between November 19, 2008 and January 1, 2014. For each well, the producer can make a one time election to produce the well under the transitional royalty program or the new royalty regime. As of January 1, 2014, all production subject to the transitional program will revert to the new royalty regime. In late June 2009, the Alberta Government announced that it will extend two key royalty incentives to March 2011 (from March 2010) to encourage drilling activity in the province.

These changes to the Alberta royalty regime, as well as the potential for future corresponding changes in the royalty regimes applicable in other provinces, have created uncertainty surrounding the ability to accurately estimate future royalties, resulting in additional volatility and uncertainty in the oil and gas market. At the current time it is not possible to predict what the impact on the Company will be.

Environmental Liability

The Company is subject to various environmental laws and regulations enacted in the jurisdictions in which it operates which govern the manufacture, processing, importation, transportation, handling and disposal of certain materials used in the Company's operations. The Company has established procedures to address compliance with current environmental laws and regulations and monitors its practices concerning the handling of environmentally hazardous materials.

DISCLOSURE CONTROLS

The Company's Chief Executive Officer and Chief Financial Officer (the "Certifying Officers") are responsible for establishing and maintaining disclosure controls and procedures (the "Procedures") which provide reasonable assurance that information required to be disclosed by the Company under provincial or territorial securities legislation (the "Required Filings") is reported within time periods specified. Without limitation, the Procedures are designed to ensure that material information relating to the Company is

accumulated and communicated to management, including its Certifying Officers, as appropriate to allow for timely decisions regarding the Required Filings.

The Certifying Officers have evaluated, or caused to be evaluated under supervision, the effectiveness of the Company's Procedures on a regular basis throughout the year and have concluded that the Procedures in place as of June 30, 2009 covered by the Required Filings are effective in providing reasonable assurance that material information relating to the Company is accumulated and communicated to management and reported within time periods specified.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

The design of the Company's internal controls over financial reporting has been updated as of the date of this Management's Discussion and Analysis.

The Certifying Officers have evaluated, or caused to be evaluated under supervision, the effectiveness of the Company's internal controls over financial reporting and have concluded that the internal controls over financial reporting are effective as of June 30, 2009. There are no material weaknesses in the Company's internal controls over financial reporting as of June 30, 2009.

There have been no changes in the Company's internal controls over financial reporting during the three and six months period ending June 30, 2009 that have materially affected, or are reasonably likely to affect, Canyon's internal controls over financial reporting.

The remainder of this page had been left blank intentionally.

FORWARD-LOOKING STATEMENTS

This document contains certain forward-looking information and statements within the meaning of applicable securities laws. The use of any of the words "expect", "anticipate", "continue", "estimate", "guidance", "objective", "ongoing", "may", "will", "project", "should", "believe", "plans", "intends", "budget", "strategy" and similar expressions are intended to identify forward-looking information or statements. In particular, but without limiting the foregoing, this document contains forward-looking information and statements pertaining to the following: future oil and natural gas prices; future results from operations; future liquidity and financial capacity and financial resources; future costs, expenses and royalty rates; future interest costs; future capital expenditures; future capital structure and expansion; the making and timing of future regulatory filings; and the Company's ongoing relationship with major customers.

The forward-looking information and statements contained in this document reflect several material factors and expectations and assumptions of the Company including, without limitation: that the Company will continue to conduct its operations in a manner consistent with past operations; the general continuance of current or, where applicable, assumed industry conditions; the continuance of existing (and in certain circumstances, the implementation of proposed) tax, royalty and regulatory regimes; certain commodity price and other cost assumptions; the continued availability of adequate debt and/or equity financing and cash flow to funds its capital and operating requirements as needed; and the extent of its liabilities. The Company believes the material factors, expectations and assumptions reflected in the forward-looking information and statements are reasonable but no assurance can be given that these factors, expectations and assumptions will prove to be correct.

The forward-looking information and statements included in this document are not guarantees of future performance and should not be unduly relied upon. Such information and statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information or statements including, without limitation: changes in commodity prices; changes in the demand for or supply of the Company's services; unanticipated operating results; changes in tax or environmental laws, royalty rates or other regulatory matters; changes in the development plans of third parties; increased debt levels or debt service requirements; limited, unfavourable or a lack of access to capital markets; increased costs; a lack of adequate insurance coverage; the impact of competitors; reliance on industry partners; and certain other risks detailed from time to time in the Company's public disclosure documents (including, without limitation, those risks identified in this document and the Company's Annual Information Form).

The forward-looking information and statements contained in this document speak only as of the date of the document, and none of the Company or its subsidiaries assumes any obligation to publicly update or revise them to reflect new events or circumstances, except as may be required pursuant to applicable laws.