Management's Discussion and Analysis

THREE MONTHS ENDED MARCH 31, 2014

This management discussion and analysis ("MD&A") is dated May 6, 2014. It 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 months ending March 31, 2014 and March 31, 2013 as well as the annual financial statements and MD&A. Additional information relating to the Company, including the Company's Annual Information Form for the year ended December 31, 2013, 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 FIRST QUARTER 2014

000's except per share, job amounts and hydraulic pumping capacity (Unaudited)	Three Months Ended March 31		
	2014	2013	2012
Consolidated revenues	$138,185	$86,887	$135,935
Profit (loss) and comprehensive income (loss)	$11,850	$8,527	$37,167
Per share-basic	$0.19	$0.14	$0.61
Per share-diluted	$0.19	$0.14	$0.59
EBITDA before share-based payments[1]	$27,432	$20,364	$58,015
Funds from operations[1]	$23,866	$18,648	$46,584
Total jobs completed [2]	890	470	934
Consolidated average revenue per job [2]	$155,963	$185,065	$145,138
Average fracturing revenue per job	$197,282	$246,932	$228,564
Hydraulic Pumping Capacity			
Average HHP	225,500	225,500	175,500
Exit HHP	245,500	225,500	175,500
Capital expenditures	$13,282	$3,501	$34,128

000's except per share amounts (Unaudited)	As at March 31, 2014	As at December 31, 2013	As at December 31, 2012
Cash and cash equivalents, less bank indebtedness	$2,339	$21,308	$22,584
Working capital	$43,919	$41,730	$56,245
Total long-term financial liabilities	$2,802	$3,096	$3,475
Total assets	$411,306	$402,707	$406,113
Cash dividends declared per share	$0.15	$0.60	$0.60

Note (1): See NON-GAAP MEASURES

Note (2): Includes all jobs from each service line, specifically hydraulic fracturing; coiled tubing; nitrogen fracturing; acidizing and remedial cementing

Q1 2014 was the busiest quarter in Canyon's history and followed a very active fourth quarter 2013. Although the quarter got off to a slow start as customers' leases were not ready until mid-January, a long cold winter postponed the seasonal spring break-up allowing Canyon's entire 225,500 HHP equipment fleet to remain fully utilized in February and March. In addition, Canyon continued to grow its market share with certain international oil and gas production companies operating in the deep basin as well as growing market share in southeast Saskatchewan and southwest Manitoba. As a result, jobs completed in the current quarter increased by 89% to 890 from 470 in Q1 2013 and increased by 36% from 654 in the previous quarter, Q4 2013. Consolidated revenues increased by 59% to $138.2 million in Q1 2014 from $86.9 million in Q1 2013 and increased by 33% from $104.2 million in the prior quarter.

Unfortunately, the 89% increase in the job count was not matched by a similar percentage increase in revenues as customer pricing continued to be challenging in Q1 2014, as expected, and only improved very slightly from the unprecedented lows of the prior quarter. During the current quarter Canyon was able to make small adjustments to pricing to recover increased costs for certain inputs such as sand and fuel which resulted in Q1 2014 pricing improving slightly over the Q4 average.

We estimate that overall industry activity in the Western Canadian Sedimentary Basin ("WCSB") increased by approximately five percent in Q1 2014 year over year. The increase was the result of several factors including strengthening natural gas prices, stable oil prices and oil price differentials, more favourable Canadian/US exchange rates, E&P companies' improved access to capital markets to fund capital programs and ongoing LNG-related reserve delineation drilling in North East BC. The AECO spot natural gas price averaged CAD$5.59 per mcf in Q1 2014, up 75% from CAD$3.20 per mcf in Q1 2013, an increase of 59% from CAD$3.52 per mcf in the prior quarter, Q4 2013. The AECO forward strip prices have increased by about 30% since December 2013 and crude oil prices for Edmonton Light increased by 13% to CAD$99.85 per barrel in Q1 2014 from CAD$88.55 per barrel in Q1 2013, up 15% from CAD$87.00 in Q4 2013. The key industry indicators such as well licensing, drilling rig utilization and well completions also support the increased industry-wide activity and point to a positive outlook for the remainder of 2014. Well licensing for service-intensive deep wells in the WCSB increased by about 15% in Q1 2014 compared to Q1 2013, while drilling rig utilization increased by about 4% to 67% over the same periods. Although well completions increased by a modest one percent in Q1 2014 compared to the prior year comparable quarter, the service intensity of these completions has increased significantly due to increasing fracturing stages per well and greater proppant tonnages. Average well depth in the WCSB has increased by about four percent in Q1 2014 compared to Q1 2013. The amount of sand and proppant Canyon pumped in Q1 2014 actually increased 102% compared to Q1 2013.

With Canyon's considerable operating leverage, the increased activity resulted in a significant improvement in profitability. EBITDA before share based payments increased by 35% to $27.4 million in Q1 2014 from $20.4 million in Q1 2013, and increased 149% compared to Q4 2013. Canyon recorded a profit and comprehensive profit of $11.9 million in Q1 2014, an increase of 39% over Q1 2013, and a thirty one fold increase over the profit and comprehensive profit of $0.4 million recorded in Q4 2013.

NON-GAAP MEASURES

The Company's Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (”IFRS”). Certain measures in this document do not have any standardized meaning as prescribed by International Financial Reporting Standards (“IFRS”) and are considered NON-GAAP measures.

EBITDA before share-based payments and funds from operations are not recognized measures under IFRS. Management believes that in addition to profit and comprehensive income, EBITDA before share-based payments and funds from operations are useful supplemental measures as they provide an indication of the results generated by the Company's business activities prior to consideration of how those activities are financed, amortized or taxed, as well as the cash generated by the Company's business activities without consideration of the timing of the monetization of non-cash working capital items. Readers should be cautioned, however, that EBITDA before share-based payments and funds from operations should not be construed as an alternative to profit and comprehensive income determined in accordance with IFRS as an indicator of the Company's performance. Canyon's method of calculating EBITDA before share-based payments and funds from operations may differ from other companies and accordingly, EBITDA before share-based payments and funds from operations may not be comparable to measures used by other companies. Canyon calculates EBITDA before share-based payments as profit and comprehensive income for the year adjusted for depreciation and amortization, equity settled share-based payment transactions, gain or loss on sale of property and equipment, finance costs, foreign exchange (gain) loss and income tax expense. Reconciliations of these NON-GAAP measures to the most directly comparable IFRS measures are outlined below.

The Company describes revenue less cost of services as gross profit.

EBITDA before share-based payments

000's (Unaudited)	Three Months Ended March 31	
	2014	2013
Profit (loss) and comprehensive income (loss)	$11,850	$8,527
Add (Deduct):		
Depreciation and amortization	9,814	7,705
Finance costs	181	156
Foreign exchange (gain) loss	368	(62)
Share-based payment transactions	880	910
(Gain) Loss on sale of property and equipment	10	(32)
Income tax expense (recovery)	4,329	3,160
EBITDA before share-based payments	$27,432	$20,364

Funds from Operations

000's (Unaudited)	Three Months Ended March 31	
	2014	2013
Net cash from operating activities	$2,055	$19,334
Income Tax paid	-	1,155
Change in non-cash working capital	24,828	(219)
Less: current tax (expense)	(3,017)	(1,622)
Funds from operations	$23,866	$18,648

Operating and Financial Highlights

The operating and financial highlights for the three months ended March 31, 2014 are summarized as follows:

- Q1 2014 was the busiest quarter in Canyon's history as a long cold winter postponed the seasonal spring break-up, allowing Canyon's entire 225,500 HHP equipment fleet to be fully utilized in February and March.

- Jobs completed and revenues earned increased by 89% to 890 and by 59% to $138.2 million respectively in Q1 2014 from the prior year comparable quarter.

- In Q1 2014, Canyon continued its successful expansion into Southeast Saskatchewan and Manitoba increasing revenues for this region to 12% of consolidated revenues in Q1 2014 from 4% in Q1 2013.

- EBITDA before share-based payments increased by 35% to $27.4 million in Q1 2014 from $20.4 million in Q1 2013.

- Profit and comprehensive income increased by 39% to $11.9 million in the current quarter from $8.5 million in Q1 2013. Earnings per share increased to $0.19 in Q1 2014 from $0.14 in the prior year comparable quarter.

- In March 2014, Canyon increased its 2014 capital budget to approximately $63 million, adding $30 million to its previously announced budget. The incremental capital will add 30,000 hydraulic horsepower ("HHP") of fracturing equipment, bringing Canyon's total fleet to 255,500 HHP. In addition, the 2014 capital budget will significantly expand Canyon's fleet of sand and chemical storage and handling equipment, nitrogen pumping and storage equipment, acid units and deep coil tubing assets. The addition of the aggregate 30,000 HHP includes the purchase, effective March 18, 2014, of 20,000 HHP and two data vans from a Canadian competitor for $9.3 million.

- Canyon remains in a very strong financial position. As at March 31, 2014, Canyon had available credit facilities of approximately $100 million, including a $40 million accordion feature, plus positive working capital of $44 million.

- On March 24, 2014, Canyon declared a quarterly dividend of $0.15 per common share, or $9.4 million, which was paid to shareholders on April 25, 2014.

2014 OUTLOOK

Our decision to strengthen and expand the organization throughout 2013 proved beneficial as we have been operating flat-out since mid-January, and are already short of people and equipment as we experienced record months in February and March of 2014. We expect this level of activity to continue for the remainder of 2014 based on the discussions we have been having with our valued customers over the last few weeks. Our customers are encouraged by several factors, including strengthening natural gas prices, stable oil prices and oil price differentials, more favourable Canadian/US exchange rates, E&P companies' improved access to capital markets to fund capital programs, and the ongoing LNG-related reserve delineation drilling in North East

BC. The focus of the increased activity will be mainly in the Montney and Duvernay plays in North West Alberta and North East BC. Canyon also expects that pricing will improve post break-up, allowing the Company both to improve margins and to capture some of the increased operating costs that were incurred over Q1, and are expected to be ongoing, in certain products and third party services. Canyon continues to operate with a lean management structure, incurring little change to G&A in the past two to three years. The main exception to this has been expansion of the sales group which was critical in gaining top-tier customers. Our profitability remains highly levered to changes in revenue.

In light of expected improved activity in 2014 and 2015, Canyon recently revised its 2014 capital budget to $63 million. Canyon will add 30,000 hydraulic horsepower, cement and acid units, a deep coiled tubing unit, and logistics support equipment. Canyon is working to hire a further 200 staff by mid-year to meet the increased demands of our customers, including 24-hour service and to staff the new equipment. We anticipate a significantly improved EBITDA margin in 2014, and our goal is to return to industry-leading margins in the near future. We believe the dividend at the current rate of $0.60 per share per annum is sustainable and is reviewed quarterly by the Board of Directors.

Although Canada is still several years from seeing the first LNG exports, visibility has sharpened, overall risks have been marginalized and upstream momentum has accelerated. The BC government has embraced the LNG opportunity, based on its potential for job creation and tax revenue, and the public seems generally supportive. Numerous projects have been proposed, representing approximately 15 billion cubic feet per day in combined export capacity. Project approvals were granted in 2013, while site preparation and front-end engineering were initiated for some projects. We are anticipating an announcement of the first project's final investment decision by early 2015. Development of LNG gas supply is unlike the traditional producer model used for North American markets, requiring much larger investments. In addition, international majors that are investing heavily in resource-rich unconventional formations are assumed to be interested in LNG, because such activity makes little sense for sale into domestic spot markets. We have internally modelled the likely demand impact on Canyon and it is very material.

The recent rebound in the Alberta natural gas price is lifting the fortunes of Western Canada's gas-producing sector. Successes in achieving cost efficiencies over the past few years have made numerous gas producers profitable at gas prices as low as $3.00 per mcf. At $4.50 per mcf AECO we expect that significantly increased industry cash flow should accelerate liquids-rich gas drilling and fracturing, and likely revive drilling activity in some of the better dry gas reservoirs. This incremental demand for oilfield services will provide another platform for growth.

Canyon's strategic focus remains building a service provider that can compete and succeed over the long term. Our long-term plan is to significantly grow Canyon's people and operating assets over the next five years, primarily to service the anticipated LNG-driven demand for pressure-pumping services. We have set out by working to cement relationships with top-tier multinational customers and continuing to grow in activity and reputation in the region's premier unconventional plays. Growth in our market share in North West Alberta and North East BC will be complemented by pursuit of attractive opportunities in the Viking, Bakken and Lower Shaunavon plays. The primary criterion for Canyon's investment and expansion decisions has always been its projected return on capital over a five to seven-year horizon. On this basis, we continue to believe that Western Canada is still the world's best pressure pumping market. It continues to hold fantastic growth potential in all the hydrocarbon commodities. It offers superior supply-side fundamentals to the world's largest market, the United States, with fewer competitors and higher barriers to entry.

Canyon's investment proposition is straightforward: We are a geographically focused, high-quality service provider with a stable fixed-cost structure and robust organization that can accommodate much higher revenue. This creates the foundation for rapidly growing revenue, operating margin and EBITDA per share.

QUARTERLY COMPARATIVE STATEMENTS OF OPERATIONS

000's except per share amounts (Unaudited)	Three Months Ended March 31	
	2014	2013
Revenues	$138,185	$86,887
Cost of services	(114,579)	(69,582)
Gross profit	23,606	17,305
Administrative expenses	(6,878)	(5,524)
Results from operating activities	16,728	11,781
Finance costs	(181)	(156)
Foreign exchange gain (loss)	(368)	62
Profit before income tax	16,179	11,687
Income tax expense	(4,329)	(3,160)
Profit and comprehensive income	$11,850	$8,527
EBITDA before share-based payments(1)	$27,432	$20,364
Earnings per share:		
Basic	$0.19	$0.14
Diluted	$0.19	$0.14

Note (1): See NON-GAAP MEASURES.

Revenues

The increased job count resulting from improved industry activity resulted in consolidated revenues increasing by 59% to $138,185 in Q1 2014 from $86,887 in Q1 2013. Jobs completed increased by 89% to 890 in Q1 2014 from 470 in Q1 2013. The increase in the job count and revenues was due to improved industry-wide activity supported by several factors including strengthening natural gas prices, stable oil prices and oil price differentials, E&P companies' improved access to capital markets as well as ongoing LNG-related reserve delineation drilling in North East BC. The percentage increase in the job count was not matched by a similar percentage increase in revenue due to lower pricing and job mix. Over 90% of Q1 2014 consolidated revenues was provided by hydraulic fracturing services with average fracturing revenue per job decreasing by 20% to $197,282 from $246,932 in Q1 2013 due to industry pricing pressure and job mix.

Cost of services

Cost of services for the three months ended March 31, 2014 totaled $114,579 (2013: $69,582) and included materials, products, transportation and repair costs of $77,724 (2013: $42,875), employee benefits expense of $27,481 (2013: $19,359), and depreciation of property and equipment of $9,374 (2013: $7,348).

Materials, products, transportation and repair costs increased by 81% to $77,724 in Q1 2014 from $42,875 in Q1 2013 mainly due to the 89% increase in the job count to 890 jobs from 470 jobs in Q1 2013. Employee benefits expense has increased mainly due to field staff additions in anticipation of increased 2014 activity and inflation in labour rates experienced in 2013. The increase in depreciation of property and equipment was due to additional depreciation pertaining to equipment introduced into service in the last half of 2013 and accelerated depreciation relating to the replacement of a number of pump components.

Administrative expenses

Administrative expenses for the three months ended March 31, 2014 totaled $6,878 compared to $5,524 in Q1 2013 and included employee benefits expense of $3,834 (2013: $2,717) and share-based payments expense of $880 (2013: $910). Administrative expenses also include depreciation of buildings and office equipment and amortization of intangibles of $441 (2013: $357). In addition, other administrative expenses totaled $1,723 in Q1 2014 compared to $1,540 in Q1 2013. The increase in employee benefits expense was mainly attributable to staff additions and the implementation of a cost of living increase effective October 2013.

Share-based payments expense represents the value assigned to the granting of options and incentive-based units under the Company's Stock Option Plan and Stock Based Compensation Plan respectively, using the Black-Scholes model. For Q1 2014, $1,016 (2013 - $1,000) was charged to expenses and included in contributed surplus in respect of these two plans. In addition, obligations for payments under the Company's Deferred Share Unit Plan are accrued as share-based payments expense over the vesting period. The accrued liability increases or decreases with fluctuations in the price of the Company's common shares, with a corresponding increase or decrease in the share-based payments expense. In Q1 2014, share-based payments were decreased by $136 (2013 – a reduction of $90) for the Company's Deferred Share Unit Plan.

EBITDA before share-based payments (See NON-GAAP MEASURES)

In Q1 2014, EBITDA before share-based payments (see NON-GAAP MEASURES) increased by 35% to $27,432 from $20,364 in the comparable 2013 quarter. As previously discussed, improved industry activity resulted in the increased EBITDA.

Finance costs

Finance costs include interest on finance lease obligations and automobile loans and totaled $181 in Q1 2014 (2013: $156).

Income Tax Expense

At the expected combined income tax rate of 25%, the income before income tax for Q1 2014 of $16,179 would have resulted in an income tax expense $4,045, compared to the actual income tax expense of $4,329. The increase in the actual income tax expense was due to the impact of non-deductible expenses.

Profit and comprehensive income and earnings per share

Profit and comprehensive income totaled $11,850 in Q1 2014 compared to profit and comprehensive income of $8,527 in Q1 2013. As previously discussed, the increased profit was mostly due to stronger industry-wide activity.

Basic and diluted earnings per share were $0.19 for the three months ended March 31, 2014 compared to basic and diluted earnings per share of $0.14 for the comparable 2013 quarter.

Summary of Quarterly Results

000's except per share amounts (Unaudited) (1)		Revenues	EBITDA(2)	Profit (Loss) and Comprehensive Income (Loss)	Basic Earnings (Loss) per Share	Diluted Earnings (Loss) per Share
2014	Q1	$138,185	$27,432	$11,850	$0.19	$0.19
2013	Q4	$104,198	$11,004	$377	$0.01	$0.01
	Q3	$81,224	$14,384	$3,908	$0.06	$0.06
	Q2	$27,419	$(13,146)	$(17,186)	$(0.28)	$(0.28)
	Q1	$86,887	$20,364	$8,527	$0.14	$0.14
2012	Q4	$84,809	$18,814	$7,146	$0.12	$0.11
	Q3	$94,401	$32,496	$17,036	$0.28	$0.27
	Q2	$37,974	$(1,552)	$(6,940)	$(0.11)	$(0.11)

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

Note (2): See NON-GAAP MEASURES.

In Q4 2012, Q1 2013 and Q3 2013, EBITDA and Profit and comprehensive income decreased primarily due to industry pricing pressure that commenced in the second half of 2012 and which continued throughout 2013. In Q2 2012 and Q2 2013, the lower revenues, negative EBITDA and loss and comprehensive loss were also negatively impacted by the seasonal weather related drilling delays caused by the annual spring break-up. Q4 2013 was a very active quarter supported by strong commodity prices but still at very low pricing. Q1 2014 was the busiest quarter in Canyon's history and although customer pricing continued to be challenging, the increased revenues combined with Canyon's operating leverage resulted in improved EBITDA and profit and comprehensive profit.

LIQUIDITY AND CAPITAL RESOURCES

Funds from operations

Funds from operations (See NON-GAAP MEASURES) increased by 28% to $23.9 million in Q1 2014 from $18.6 million for the comparable 2013 quarter. The funds from operations were primarily used to finance the capital program and to fund the Company's quarterly dividend. Please refer to "Capital Expenditures" below.

Financing

(Share amounts in thousands)

Equity:
For the three months ended March 31, 2014, there were 297 common shares issued by the Company to employees and officers upon exercise of options pursuant to the Stock Option Plan and 22 incentive based units respectively pursuant to the Stock-Based Compensation Plan for aggregate proceeds of $1.5 million.

Debt:
Loans and borrowings as at March 31, 2014 total $5.7 million (December 31, 2013: $5.8 million) which comprise equipment lease obligations.

Canyon's bank credit facilities total $100 million and comprise a $15 million Operating Facility and an $85 million Revolving Facility. The Revolving Facility of $85 million now includes a $40 million accordion feature which is available upon request by the Company and subject to review and approval by the lenders. As at March 31, 2014, $4.1 million was drawn (December 31, 2013: NIL) on the Company's Operating Facility which was offset by a positive cash balance of $6.4 million for a net cash position of $2.3 million.

Working Capital and Cash Requirements

As at March 31, 2014, Canyon had a working capital balance of $43.9 million compared to $41.7 million as at December 31, 2013. As at March 31, 2014, trade and other receivables increased by $24.9 million due to increased revenues resulting from the improved industry activity, as previously discussed. Cash and cash equivalents less bank indebtedness decreased by $19.0 million compared to December 31, 2013 due to the timing of customer receipts versus supplier payments and due to the purchase in March of fracturing equipment from a Canadian competitor. Current tax assets mainly resulted from the prepayment of 2012 estimated tax installments that exceeded actual amounts owed, as well as a recovery of prior years' income taxes due to the application of current year's non-capital losses. The Company's working capital position and available operating credit facilities exceed 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 March 31, 2014, accounts receivable included an allowance of $0.3 million for doubtful receivables (December 31, 2013: $0.3 million).

The Company will use its cash available, funds from operations and, if required, available credit facilities to fund the completion of prior years' capital programs and to fund the 2014 capital program. Please refer to "Capital Expenditures" below.

Investments

For the three months ended March 31, 2014, capital expenditures, net of finance leases, totaled $13.3 million, relating to the purchase, effective March 18, 2014, of 20,000 HHP and two data vans from a Canadian competitor for $9.3 million and the addition of support equipment. Please refer to "Capital Expenditures" below.

Capital Management

The Company's objectives when managing its capital structure are to maintain a balance between debt and capitalization so as to withstand industry and seasonal volatility, maintain investor, creditor and market confidence and to sustain future development of the business. Debt includes the current and long-term portions of loans and borrowings less cash and cash equivalents. Capitalization is calculated as the debt, as described above, and shareholders' equity less intangible assets.

The Company also manages its capital structure to ensure compliance with the financial covenants on its credit facilities, which include a working capital ratio, a ratio of funded debt to EBITDA before share-based payments, a ratio of EBITDA before share-based payments to total debt service obligations and a ratio of total debt to tangible net worth. As of March 31, 2014, the Company was in compliance with each of the above financial covenants. The Company had NIL amounts drawn on its debt facilities as at March 31, 2014. The Company may be required to adjust its capital structure from time to time as a result of expansion activities.

The Company believes that it has access to sufficient capital through cash on hand, internally generated funds from operations and available credit facilities to meet its obligations associated with financial liabilities and capital expenditures.

Contractual Obligations

As at March 31, 2014, Canyon's contractual obligations are summarized as follows:

000's (Unaudited)	Total	Next 12 months	1 - 3 years	4 - 5 years	After 5 years
Trade and other payables	$63,501	$63,501	$-	$-	$-
Loans and borrowings	5,693	2,891	2,802	-	-
Dividend payable	9,432	9,432	-	-	-
Operating leases and office space	5,985	1,526	2,920	1,539	-
Capital expenditure commitments	10,211	10,211	-	-	-
Total contractual obligations	$94,822	$87,561	$5,722	$1,539	$-

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

Capital expenditure commitments will be funded from cash available, funds from operations (See NON-GAAP MEASURES) and, if required, available debt facilities. Please see "Working Capital and Cash Requirements" above and "Capital Expenditures" below.

Capital Expenditures

In March 2014, Canyon increased its 2014 capital budget to approximately $63 million, adding $30 million to its previously announced budget. The incremental capital will add 30,000 hydraulic horsepower ("HHP") of fracturing equipment bringing Canyon's total fleet to 255,500 HHP. In addition, the 2014 capital budget will significantly expand Canyon's fleet of sand and chemical storage and handling equipment, nitrogen pumping and storage equipment and acid units, and deep coil tubing assets. The addition of the aggregate 30,000 HHP includes the purchase, effective March 18, 2014, of 20,000 HHP and two data vans from a Canadian competitor for $9.3 million. The $63 million capital budget for 2014 also includes approximately $9.2 million to complete 2013 and prior years' programs.

In the three months ended March 31, 2014, Canyon incurred capital expenditures totaling $13.3 million including the aforementioned purchase of fracturing equipment from a Canadian competitor.

Funding for Canyon's remaining capital expenditures will be provided from existing cash flows, funds from operations (see NON-GAAP MEASURES), and, if required, available bank credit facilities.

Outstanding Share, Option and Incentive Based Unit Data

The following table summarizes Canyon's capitalization as follows:

000's (Unaudited)	April 30, 2014	March 31, 2014	December 31, 2013
Common Shares	62,918	62,847	62,528
Options	3,831	3,908	3,436
Incentive Based Units	514	514	329

In the three months ended March 31, 2014, 816 stock options were granted to directors, officers and employees at an average exercise price of $10.82 per option, 297 stock options were exercised by directors, officers and employees and 47 stock options were forfeited. In the three months ended March 31, 2014, 209 incentive based units were granted to directors, officers and employees, 22 were exercised and 2 were forfeited.

FINANCIAL INSTRUMENTS

Fair Values

The carrying values of cash and cash equivalents, trade and other receivables, trade and other payables, accrued liabilities, and dividends payable approximate their fair value due to the relatively short periods to maturity of the instruments. Loans and borrowings utilize a combination of short term fixed rates through the use of 30 to 90 day Banker's Acceptance and floating rates and accordingly its fair market value approximates its carrying value.

Interest Rate Risk

The Company manages its interest rate risk on borrowings by utilizing a combination of short-term fixed rates through the use of 30 to 90 day Banker's Acceptance rates and floating rates on debt. For the period ended March 31, 2014, the loans and borrowings, comprising equipment leases and automobile loans, were at fixed rates.

Foreign Currency Risk

The Company mitigates its foreign currency risk by purchasing foreign currencies to the extent it deems necessary to offset foreign currency obligations at any given time.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements as at March 31, 2014, other than the operating leases described above under "Contractual Obligations".

ACCOUNTING POLICIES AND ESTIMATES

The Company's IFRS accounting policies are provided in Note 3 to the Consolidated Financial Statements as at and for the years ended December 31, 2013 and 2012.

Critical Accounting Estimates and Judgments

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. Please refer to the note 3 to the consolidated financial statements for the year ended December 31, 2013 for a description of the accounting policies of the Company. The Company considers the following to be the significant accounting policies and practices involving the use of estimates and judgments that are critical to determining Canyon's financial results.

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 adjusted for required changes as agreed by the customer.

Estimates of Collectability of Accounts Receivable

The Company's 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 $0.3 million has been established as at March 31, 2014 (December 31, 2013 - $0.3 million) 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 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.

Revisions to accounting estimates are recognized in the period in which estimates are revised and in any future periods affected.

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. Please refer to Note 9 to the consolidated financial statements for the years ended December 31, 2013 and 2012.

Non-Financial Assets

Where impairment indicators exist, the recoverable amount of the asset or cash-generating unit ("CGU" or "CGUs") is determined using the greater of fair value less costs to sell 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 to sell requires management to make estimates of fair value using market conditions for similar assets as well as estimations for costs to sell 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. No indications of impairment existed in the quarter ended March 31, 2014 or in the years ended December 31, 2013 and 2012.

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.

Provisions and Contingencies

The Company is required to estimate the amount of provisions and contingencies based on the estimated future outcome of the event.

Share-Based Payments

The Company's estimate of share-based payment compensation is dependent upon estimates of historic volatility and forfeiture rates.

Critical Judgments in Applying Accounting Policies

The following are critical judgements 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 cash-generating units for the purpose of calculating impairment. CGUs are based on management's judgements 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.

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 for the year ended December 31, 2013. In addition, readers should also consider the following principal risks.

Industry Conditions

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 oil, NGLs 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, pipeline capacity for export of oil and natural gas out of the WCSB, 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 oil 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 the WCSB 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. The Company has been granted a patent in Canada, Australia and the United States for fracturing with deformable, light weight proppant.

Competition

Canyon's market is highly competitive and the Company does not presently hold a dominant market position with respect to its service offerings.

Reliance on Personnel

The success of the Company is dependent on attracting and retaining skilled personnel. Any loss of key personnel could adversely affect the Company's business. To support the service line offerings, the Company had approximately 920 full time staff as at March 31, 2014.

Access to Equipment, Parts, Development of New Technology

The ability of Canyon to compete and increase its operations and provide reliable service to customers is dependent on the Company having access to reliable equipment, spare parts and components, which are at least technologically equivalent to those utilized by competitors and to the development and acquisition of new and competitive technologies as industry conditions require. There can be no assurance that existing sources for equipment will be maintained or that new technologically advanced equipment will be acquired. If such equipment is not available, Canyon's ability to compete may be weakened.

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 exploration and production entities, ranging from large multinational public entities to small private companies. Notwithstanding the Company's significant customer base, five customers accounted for 43% of the Company's accounts receivable as at March 31, 2014, and 58% of the Company's revenue for the three months ended March 31, 2014. The Company has historically had a stable relationship with these customers and has no reason to believe there will be any change to these relationships 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.

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.

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Canyon's Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, disclosure controls and procedures to provide reasonable assurance that: (i) material information relating to the Company is made known to Canyon's Chief Executive Officer and Chief Financial Officer by others, particularly during the period in which the annual and interim filings are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation. Such officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of Canyon's disclosure controls and procedures at the financial year end of the Company and have concluded that the Company's disclosure controls and procedures are effective at the financial year end of the Company for the foregoing purposes.

Internal Controls over Financial Reporting

Canyon's Chief Executive Officer and Chief Financial Officer have designed or caused to be designed under their supervision, internal controls over financial reporting to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles applicable to the Company. Such officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of Canyon's internal controls over financial reporting at the financial year end of the Company and have concluded that Canyon's internal controls over financial reporting are effective at the financial year end of the Company for the foregoing purposes.

No material changes in the Company's internal controls over financial reporting were identified during the period beginning on January 1, 2014 and ended on March 31, 2014, that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting. No material changes in Canyon's internal controls over financial reporting were identified during such period that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting. It should be noted that a control system, including the Company's disclosure and internal controls and procedures, no matter how well conceived, can provide only reasonable, but not absolute, assurance that the objectives of the control system will be met and it should not be expected that the disclosure and internal controls and procedures will prevent all errors or fraud.

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", "objective", "ongoing", "may", "will", "should", "believe", "plans" 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; attracting and retaining skilled personnel 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.