MANAGEMENT'S DISCUSSION AND ANALYSIS
First Quarter 2008

This management discussion and analysis (MD&A) is dated May 14, 2008, 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 months ended March 31, 2008 and 2007, and should also be read in conjunction with the Audited Consolidated financial Statements and Notes for the years ended December 31, 2007, December 31, 2006, December 31, 2005 and for the period from incorporation on April 8, 2004 to December 31, 2004. Additional information relating to the Company, including the Company's Annual Information Form for the year ended December 31, 2007, is available on SEDAR at www.sedar.com.

Certain statements in this document may constitute "forward-looking" statements which involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. When used in this document, such statements use such words as "may", "would", "could", "will", "intend", "expect", "believe", "plan", "anticipate", "estimate" and other similar terminology. These statements reflect the Company's current expectations regarding future events and operating performance and speak only as of the date of this document. Forward-looking statements involve significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements, including, but not limited to price volatility for oil and natural gas and the consequent effect on demand for oilfield services, competition, availability of materials and personnel, and general political, economic and weather conditions. Actual results may vary materially from those anticipated depending on the outcome of any of these uncertainties.

OVERVIEW OF FIRST QUARTER 2008

For nearly two years, the oil and gas services sector has been impacted by weak demand for well stimulation services leading to lower equipment utilization levels and downward price pressures. This was also evident in the first quarter of 2008, as well licensing activity and drilling rig utilization, the key indicators for utilization of stimulation equipment, trailed the prior year's quarter by about 7% and 9% respectively. Nevertheless, throughout the economic downturn, Canyon achieved growing customer acceptance for its proprietary technologies resulting in higher job counts and revenues. This was the case in Q1 2008 when Canyon's job count and revenues increased by 89% and 30% respectively over the prior year's quarter, even though activity levels in the well stimulation services industry were lower.

The operational and financial highlights for the first quarter of 2008 may be summarized as follows:

Highlights

- As previously reported, in January 2008, Canyon was granted a Canadian patent for its proprietary Grand Canyon process. The benefits of this process for Canyon's customers include no reservoir damage, higher production rates, reduced completion costs and the elimination of water use.
- Canyon's job count continues to grow quarter by quarter, with 500 jobs completed in Q1 2008, an increase of 89% over the 265 jobs completed in Q1 2007 and an increase of 26% from the 396 jobs completed in the previous quarter, Q4 2007.
- In Q1 2008, Canyon achieved significant growth in the Hydraulic Fracturing Services Division which contributed 42% of the job count compared to 25% in Q1 2007. This gain can be attributed to the addition of experienced sales professionals in the last half of 2007. A further addition to the sales team was made in March 2008.
- During the current quarter under review, Canyon's High Rate Nitrogen Services Division completed a 160-well program for a major E&P company. This program commenced in Q4 2007 and utilized the proprietary Grand Canyon process with excellent results for the customer.
- In Q1 2008, Revenues increased by 30% to $18.5 million from $14.2 million in the prior year comparable quarter.
- The fixed component of operating and SGA expenses decreased by $0.7 million in Q1 2008 over Q1 2007 due to cost cutting and efficiency measures introduced in 2007.
- Canyon has introduced a new service line, remedial cementing, which is expected to commence operations in June 2008 and which will deploy existing underutilized equipment

in the Chemical Services and Cementing Division. No capital expenditures are required to introduce this new service line and the staffing is in place.

- Q1 2008 EBITDA (before stock option expense) was $1.7 million, unchanged from the $1.7 million earned in Q1 2007. Although revenues increased by 30%, pricing competition drastically reduced operating margins.

2008 OUTLOOK

As Canyon exited Q1 2008, the fundamentals for natural gas show signs of much improvement with the strengthening of natural gas prices over the recent winter season, combined with strong strip prices over the remainder of 2008. Leading causes for the improved price of natural gas include a colder than expected winter, an improved natural gas storage position as a result of increasing production declines in Canada, reduced LNG imports into the United States and modest growth in demand. These factors point to increasing confidence among E&P companies that natural gas prices are sustainable at or near current levels.

Management feels that the higher commodity prices should boost E&P companies' revenues which should result in increased capital budgets for Western Canada and a corresponding increased demand for well stimulation services as we enter the second half of 2008. With its existing equipment fleet, with its proprietary technologies including the patented, Grand Canyon process, with the addition of the new service line, remedial cementing, and with the recently-hired, four additional professional sales staff, Canyon will continue to meet the growing demand by customers for its services.

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 collectibility is reasonably assured. The Company's services are sold based upon orders or contracts with customers that include agreed upon rates for equipment and down-hole tools used, 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 $0.1 million has been established as at March 31, 2008 based on management's assessment of the Company's accounts receivable collection history. This assessment of collectibility 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; 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.

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

On January 1, 2008, the company adopted the new Section 3862, "Financial Instruments-Disclosures", of the Canadian Institute of Chartered Accountants handbook and the new Section 3863, "Financial Instruments-Presentation", of the Canadian Institute of Chartered Accountants handbook. These new sections, effective for years beginning after October 1, 2007, replace Section 3861, "Financial Instruments-Disclosures and Presentation", and increase emphasis on disclosure of the risks arising from financial instruments and how the entity manages such exposure.

Section 3862 describes the required disclosure for the assessment of the significance of financial instruments to an entity's financial position and performance as well as the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages these risks.

Section 3863 establishes standards for presentation of the financial instruments and non-financial derivatives. It carries forward the presentation related to the requirements of Section 3861.

On adoption of the new standards, the Company elected to recognize, as separate assets and liabilities, only for those embedded derivatives in hybrid instruments issued, acquired or substantially modified after January 1, 2003. The Company did not identify any material embedded derivatives, which required separate recognition and measurement.

The new standards require a new statement of comprehensive income, which is comprised of net earnings and other comprehensive income which may report the changes in fair value in, derivatives designated as cash flow hedges and available-for-sale investments and foreign currency translation. The Company had no "other comprehensive income or loss" transactions during the three months ended March 31, 2008 and no opening or closing balances for the accumulated other comprehensive income or loss.

On January 1, 2008 the Company adopted the new Section 1535, "Capital Disclosures", of the Canadian Institute of Chartered Accountants' handbook. This new section, effective for years beginning on or after October 1, 2007, establishes standards for disclosing information about an entity's capital and how it is managed. The new accounting standard addresses only disclosures and has no impact on the Company's financial results. The impact of adopting this section is disclosed in note 5 to the Consolidated Financial Statements for the three months ended March 31, 2008.

On January 1, 2008 the Company adopted the new Section 3031, "Inventories", of the Canadian Institute of Chartered Accountants' handbook. This new section, effective for years beginning on or after January 1, 2008, replaces Section 3030 of the same title. The new section provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories. There has been no impact on the Company's financial position, operations or cash flows related to the implementation of this section.

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 2007.

QUARTERLY COMPARATIVE STATEMENTS OF OPERATIONS

Quarter Ended	March 31, 2008	March 31, 2007
($, except per share amounts)	(Unaudited)	(Unaudited)
Revenues	$18,454,141	$14,220,235
Expenses		
Operating	15,022,341	10,957,063
Selling, general and administrative	1,946,718	1,687,998
Interest on long-term debt	356,614	270,833
Other interest	30,362	36,844
Depreciation	2,381,235	2,446,454
Loss before income taxes	(1,283,129)	(1,178,957)
Income taxes-current (recovery)	-	(749,864)
Income taxes-future (reduction)	(299,312)	402,978
	(299,312)	(346,886)
Net loss	($983,817)	($832,071)
EBITDA before stock option expense – Note(1)	$1,669,294	$1,747,692
EBITDA – Note(1)	$1,485,082	$1,575,174
Loss per share:		
Basic	($0.04)	($0.04)
Diluted	($0.04)	($0.04)

Note (1): See Non-GAAP Measures.

Revenues

In Q1 2008, the total number of jobs completed by Canyon increased by 89% to 500 from 265 in the prior year's quarter, while revenues increased by 30% to $18.5 million from $14.2 million over the same periods. The percentage increase in job count was not matched by a comparable increase in job revenues as the pricing of well stimulation services across the industry declined in response to lower demand by E&P companies and pricing competition within the pumping services industry. Revenue per job declined by 31% to $37,059 in Q1 2008 from $53,481 in the prior year's comparable quarter.

Operating Expenses

Operating expenses for the quarter ended March 31, 2008 were $15.0 million compared to $11.0 million for Q1 2007, a 37% increase. The increase is largely due to the significantly higher job count in the current quarter under review. Although overall operating expenses have increased as a result of increased activity, total fixed costs, including selling, general and administrative expenses decreased by $0.7 million in Q1 2008 compared to Q1 2007, due to cost cutting and efficiency measures introduced in 2007.

Selling, General and Administrative Expenses

Selling, general and administrative expenses have increased in Q1 2008 to $1.9 million from $1.7 million in Q1 2007. The increase is mostly due to one-time costs associated with hiring additional sales professionals and a second operating base in Grande Prairie which became fully operational in January 2008. Included in this category of expense is non-cash stock-based compensation expense of $0.2 million in Q1 2008, unchanged from the $0.2 million recorded in Q1 2007.

EBITDA (See Non-GAAP Measures)

EBITDA before stock option expense in Q1 2008 was $1.7 million, unchanged from the $1.7 million recorded in the prior year's comparative quarter. This amount is computed as Loss before income taxes of ($1.3) million, plus Depreciation and amortization of $2.4 million, plus Interest on long-term debt and Other interest of $0.4 million, plus non-cash stock option expense $0.2 million. The prior year's quarter recorded EBITDA before stock option expense of $1.7 million which comprises Loss before income taxes of ($1.2) million, plus Depreciation and amortization of $2.4 million, plus Interest on long-term debt and Other interest of $0.3 million, plus stock option expense $0.2 million. The increase in EBITDA was not proportionate to the increase in Revenues mainly because of pricing pressures associated with the reduced demand by E&P companies for well stimulation services.

Interest Expense

Interest on long-term debt and Other interest increased to $0.4 million for Q1 2008 from $0.3 million for Q1 2007 as the average level of long-term debt outstanding increased to partially fund Canyon's equipment build program that was completed in 2007.

Depreciation Expense

Depreciation expense was recorded at $2.4 million in Q1 2008, unchanged from the $2.4 million recorded in Q1 2007. In the current quarter under review, Canyon provided for depreciation on its full fleet of 13 equipment spreads compared to ten spreads depreciated in Q1 2007. Effective October 1, 2007 in consultation with suppliers and operations management, Canyon changed its estimate for salvage value used in the calculation of depreciation on fracturing equipment which is amortized over ten years on a straight line basis. Previously, salvage values had been estimated to be insignificant. This change reduced the depreciation expense in Q1 2008 by $0.5 million.

Income Tax Expense

At the expected combined income tax rate of 30%, Loss before income taxes from continuing operations for Q1 2008 of $1.3 million would have resulted in income tax recovery of approximately ($379,000) compared to the actual provision of ($299,000). The future income tax recovery was reduced by $80,000 as a result of the effect of stock based compensation and other non-deductible expenses.

Net Loss and Loss per Share

Net loss totaled ($1.0) million for Q1 2008 compared to ($0.8) million for Q1 2007. Although Revenues were 30% higher in Q1 2008, the increase in Net loss is due to several factors including lower margins due to downward pricing pressure caused by industry-wide reduced demand for well stimulation services.

For the quarter ended March 31, 2008, basic and diluted Loss per share was ($0.04) unchanged from the ($0.04) Loss per share recorded in Q1 2007.

Summary of Quarterly Results

($,000 except per share amounts-Unaudited)

	2008	2007				2006		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenues	$18,454	$19,706	$11,102	$3,041	$14,220	$13,557	$12,534	$4,819
EBITDA before stock option expense (Note 2)	$1,669	$3,272	($494)	($3,946)	$1,748	$2,698	$2,329	($1,720)
Net earnings (loss)	($984)	($1)	($2,851)	($5,073)	($832)	$184	$569	($1,645)

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 Measures

The decrease in net earnings in Q2, Q3 and Q4 of 2007 over the comparable quarters of 2006 is due to poor market conditions that resulted in downward pricing pressures from reduced demand by E&P companies for well stimulation services.

LIQUIDITY AND CAPITAL RESOURCES

Equity

There were no common shares issued by the Company during the current quarter under review.

Working Capital and Cash Requirements

Funds generated by the Company's operating activities amounted to $1.3 million for the quarter ended March 31, 2008, compared to $2.3 million recorded in the comparable quarter of 2007. The decrease in funds generated by operations is due to market conditions and associated price pressures, and the recording in Q1 2007 of a one-time income tax recovery amount of $0.8 million as a result of applying operating losses to prior periods' taxable income.

As at March 31, 2008, Canyon had a working capital balance of $3.0 million, compared to $4.6 million at December 31, 2007. The Company's working capital position exceeds the level required to manage timing differences between cash collections and cash payments.

Debt Facilities

On August 28, 2006, the Company entered into a Credit Agreement with a Canadian chartered bank, which includes a revolving extendible credit facility (the "Extendible Facility") up to a maximum amount of $20 million and a demand revolving credit facility (the "Operating Facility") up to a maximum amount of $5 million (together the "Credit Facilities"). These facilities are in addition to the outstanding capital leases.

On August 1, 2007, the lender renewed the Credit Facilities for another year.

As at March 31, 2008, Canyon's net debt including current and long-term portions, was $15.4 million (current liabilities of $13.2 million, plus obligations under capital lease of $3.5 million, plus long-term debt of $14.8 million, less current assets of $16.1 million) compared to $16.7 million as at December 31, 2007. The decrease during the period ended March 31, 2008 primarily relates to funds generated from operations.

As at March 31, 2008, the Company's available credit facilities under its debt facilities total $6.1 million ($4.5 million under the Extendible Facility, $0.7 million under the Operating Facility and a cash balance of $0.9 million).

The Extendible Facility bears interest, payable monthly, at the bank's prime lending rate plus 0.5 percent. The Extendible Facility is subject to renewal on August 27, 2008 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 in 16 consecutive quarterly installments, commencing on the last day of the third month following the then maturity date. Security for the Extendible Facility is a general security agreement over all of the Company's assets. As at March 31, 2008, $15.5 million ($17.0 million as at December 31, 2007) was drawn under this facility.

The Operating Facility bears interest, payable monthly, at the bank's prime lending rate plus 0.5 percent and is secured by a general security agreement over all of the Company's assets. Any amounts outstanding on the Operating Facility are repayable on demand. As at March 31, 2008, the net amount drawn on this facility was $3.4 million comprising a $3.9 million balance plus letters of credit of $0.4 million, less a cash balance of $0.9 million ($0.3 million drawn as at December 31, 2007), to fund short-term differences in the timing of cash collections and payments to vendors.

The Company's debt financing facilities include a long-term capital lease secured by nitrogen spreads #1 and #2, with $5.9 million outstanding as at March 31, 2008 ($6.5 million at December 31, 2007).

The balance of the debt facilities comprise a mortgage on certain of the Company's land and buildings in Red Deer ($0.5 million outstanding at March 31, 2008 and $0.5 million outstanding at December 31, 2007), and automotive equipment loans totaling $0.6 million at March 31, 2008 ($0.6 million at December 31, 2007).

Contractual Obligations

As at March 31, 2008, Canyon's contractual obligations are summarized as follows:

	Total	Next 12 months	1-3 years	4-5 years	After 5 years
Operating facility	$3,885,306	$3,885,306	$ -	$ -	$ -
Obligation under capital lease	5,919,968	2,376,858	3,543,110	-	-
Long-term debt	16,620,820	1,795,468	6,689,401	8,005,513	130,438
Operating leases and office space	398,204	163,489	234,715	-	-
Total contractual obligations	26,824,298	8,221,121	10,467,226	8,005,513	130,438

Capital Expenditures

In 2006, Canyon commenced a capital expenditure program totaling $86 million to provide the Company with custom designed and fabricated purpose-built equipment to support all service lines. As at March 31, 2008, $80.7 million of this program has been spent including $Nil incurred in Q1 2008 and $13.7 million total for the year ended December 31, 2007. The Company does not plan to spend the balance of this program at this time. The company is currently reviewing its 2008 capital expenditure requirements. As at March 31, 2008, Canyon's available credit facilities under its debt facilities total $6.1 million, as discussed above.

Outstanding Share, Warrant and Option Data

The following table summarizes Canyon's capitalization at March 31, 2008 and December 31, 2007:

	Outstanding Number as at	
	March 31, 2008	December 31, 2007
Common Shares	22,148,533	22,148,533
Warrants	550,000	550,000
Options	1,988,000	1,933,332

In the three months ended March 31, 2008, no warrants were issued to directors, officers and employees, 181,500 share options were granted to employees, no share options were exercised by directors, officers and employees and 41,332 share options were forfeited and 85,500 share options were cancelled by directors, officers and employees. For the year ended December 31, 2007, 550,000 warrants were issued to an employee and an officer, 527,500 share options were granted to directors, officers and employees, 33,333 share options were exercised by an employee and 246,668 share options were forfeited and cancelled by directors, officers and employees.

Financial Instruments

There are no significant financial instruments as at March 31, 2008.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements as at March 31, 2008, 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 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.

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. There are currently two 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 165 full time staff at March 31, 2008 compared to 171 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, 51% of the Company's Q1 2008 revenue was earned from two 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.

The increase in oil and gas royalties payable to the Alberta Government, set to commence in 2009, could impact the exploration and development activities of E&P companies and lower the demand for well stimulation services.

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 evaluate the effectiveness of the Company’s Procedures on a regular basis throughout the year and have concluded that the Procedures in place as of the end of the period 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 was updated as of the date of this Management's Discussion and Analysis. As with many companies of a similar size, the Company has control deficiencies within the accounting and finance department over segregation of duties. None of the segregation of duty control deficiencies has resulted in a misstatement of the financial statements. Management has identified and is currently implementing improvements in the segregation of duties within the accounting and finance department. At the present time, management oversees all material transactions and related accounting records on a daily basis. In addition, the Audit Committee reviews on a quarterly basis the financial statements and key risks of the company and queries management about significant transactions.

In the event that complex and non-routine transactions arise, the Company consults with third party advisors as needed in connection with the recording and reporting of such transactions.