**MANAGEMENT’S DISCUSSION AND ANALYSIS**
**Second Quarter 2008**

This management discussion and analysis (MD&A) is dated August 7, 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 and six months ended June 30, 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 SECOND QUARTER 2008

The second quarter of each year is characterized as "break-up", a time at which seasonal weather severely impacts the oilfield services industry in the Western Canadian Sedimentary Basin for the months of March to June. 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. As a result, Q2 is a quarter of relative inactivity for Canyon and represents the Company's lowest utilization quarter in the year. In addition, the second quarter of 2008 experienced a wetter than normal June prolonging the spring break-up in western Canada and impacting equipment utilization rates. Year over year, well completions in Western Canada were down approximately 18%.

Nevertheless, each of Canyon's service divisions continued to gain market share in Q2 2008 and in the six months ended June 30, 2008 compared to the prior year comparable periods. Canyon achieved a job count in Q2 2008 almost three times the number of jobs completed in Q2 2007, while for the six months ended June 30, 2008, Canyon's job count was more than double the level achieved in the comparable quarter of 2007. Most importantly, the Conventional Fracturing Division experienced significant growth with a fourfold increase in the number of jobs completed in the first half of 2008 compared to the prior year comparable period.

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

### Highlights

- Canyon's job count continued to grow quarter by quarter, with 132 jobs completed in Q2 2008, compared to 47 jobs completed in Q2 2007. For the six months ended June 30, 2008, Canyon's job count was 632, more than double the 312 jobs achieved in the comparable period of 2007.

- The additions to the sales team in the last half of 2007 and in March 2008 largely contributed to the growth in Canyon's Conventional Fracturing Division. In Q2 2008, this division contributed 40% of the job count, up significantly from the 15% contributed in Q2 2007 while for the year to date, this division represented 265 jobs, or 42%, of total jobs completed versus 74 jobs, or 24%, in Q2 2007.

- In June 2008, Canyon completed its first remedial cementing job, thereby increasing the utilization of equipment in the Chemical Stimulation and Remedial Services

Division. No capital expenditures were required to introduce this new service line and the staffing is in place.

- In June 2008, Canyon completed a reorganization of its debt facilities by replacing a portion of short-term debt with a long-term facility, resulting in an annual reduction of $2.1 million in debt service costs (loan principal and interest) and an increase in available credit facilities to fund operating initiatives.

- In Q2 2008, Revenues increased by 38% to $4.2 million from $3.0 million in the prior year comparable quarter. Year to date Revenues total $22.6 million, an increase of 31% from Revenues of $17.3 million in the first half of 2007. The increase in revenues did not match the increase in the job count due to the impact of pricing pressures resulting from lower demand by E&P companies for well stimulation services.

- Weak demand across the industry for well stimulation services in the quarter and the extended spring break-up resulted in a loss before income taxes of $6.7 million for Q2 2008 compared to a loss before income taxes of $7.0 million in Q2 2007. For the six months ended June 30, 2008, the loss before income taxes was $7.9 compared to a loss before income taxes of $8.2 million in the comparable period of 2007.

**2008 OUTLOOK**

The outlook for activity levels across the WCSB for the second half of 2008 has improved considerably, supported by higher commodity prices. The trend in strengthening natural gas and oil prices, which commenced in late 2007, has continued into Q2 2008 when the one-month NYMEX natural gas price increased by 50% over the Q2 2007 average price, while the 12-month futures price increased by 35% over the same periods. In the case of oil prices, the average spot price of West Texas Intermediate increased by 91% in Q2 2008 over Q2 2007. It is expected that the resulting increase in cash flows for E&P companies operating in the WCSB will lead to E&P companies expanding capital programs resulting in increased drilling activity over the last half of 2008 and into 2009. Already as we enter the third quarter, drilling rig utilization levels, a key indicator for utilization of stimulation equipment, have been moving ahead of 2007 levels.

Supported by higher commodity prices and advances in technology, there is now an increased emphasis on new drilling and completions' methods, especially fracturing technology, as E&P companies focus on unconventional gas and resource plays, such as multi-stage horizontal Montney, Bakken wells and Horn River plays, to replace depleting reserves in the WCSB. With its thirteen equipment spreads and its proprietary stimulation technologies, including its light weight proppant (LWP), Canyon is well positioned to provide stimulation services to customers in these plays as well as in any difficult-to-produce formations such as organic shales, sands and limes, and coal seams. To date, Canyon has achieved growing customer satisfaction with its stimulation solutions, especially the LWP technology. In preparation, Canyon has begun recruiting and training the staff required to meet the increased activity levels expected for the 2008/2009 winter.

## 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 $0.2 million has been established as at June 30, 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 on or 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 those risks.

Section 3863 establishes standards for presentation of the financial instruments and non-financial derivatives. It carries forward the presentation related 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 and six months ended June 30, 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 7 to the Consolidated Financial Statements for the three and six months ended June 30, 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.

## 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, in accordance with IFRS beginning January 1, 2011. Management is assessing the impact of this transition and developing a plan to satisfy the requirements.

## QUARTERLY COMPARATIVE STATEMENTS OF OPERATIONS

| Quarter Ended | June 30, 2008 | June 30, 2007 |
|---|---|---|
| ($, except per share amounts) | (Unaudited) | (Unaudited) |
| Revenues | $4,191,145 | $3,041,399 |
| Expenses | | |
| Operating | 5,972,049 | 5,482,487 |
| Selling, general and administrative | 2,081,725 | 1,656,684 |
| Interest on long-term debt | 379,892 | 295,136 |
| Other interest | 62,287 | 56,016 |
| Depreciation and amortization | 2,355,458 | 2,561,115 |
| Loss before income taxes | (6,660,266) | (7,010,039) |
| Income taxes-current (recovery) | - | (65,265) |
| Income taxes-future (reduction) | (96,415) | (1,872,229) |
| | (96,415) | (1,937,494) |
| Net loss | ($6,563,851) | ($5,072,545) |
| Loss per share: | | |
| Basic | ($0.30) | ($0.23) |
| Diluted | ($0.29) | ($0.23) |

**Revenues**

In Q2 2008, each of Canyon's service divisions, High Rate Fracturing, Conventional Fracturing, and Chemical Stimulation and Remedial Services, achieved significant increases in activity levels as the total number of jobs completed by Canyon increased by 181% to 132 from 47 in the prior year's quarter, while revenues increased by 38% to $4.2 million from $3.0 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 significantly in response to lower demand by E&P companies. As a result, revenue per job declined to $32,521 in Q2 2008, from $64,673 for the prior year's comparable quarter.

**Operating Expenses**

Operating expenses increased by 9% to $6.0 million in Q2 2008 from $5.5 million in Q2 2007. This increase is less than the threefold increase in the Q2 2008 job count compared to Q2 2007, because of a significant fixed operating cost component. In Q2 2008, Canyon reduced fixed operating expenses by 11% as a result of cost cutting measures introduced in late 2007.

**Selling, General and Administrative Expenses**

Selling, general and administrative expenses have increased in Q2 2008 to $2.1 million from $1.7 million in Q2 2007. The increase is mostly due to a second operating base in Grande Prairie which became fully operational in January 2008 and an increased sales force. Also included in this category of expense is non-cash stock-based compensation expense of $0.2 million in Q2 2008, unchanged from the $0.2 million recorded in Q2 2007.

**Interest Expense**

Interest on long-term debt and Other interest increased to $0.4 million for Q2 2008 from $0.3 million for Q2 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 Q2 2008, compared to $2.6 million recorded in Q2 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 impacted the depreciation expense in Q2 2008 by $0.5 million. This reduction in depreciation expense was partially offset by additional depreciation in Q2 2008 attributable to the Grande Prairie facility which became operational in January 2008, and additional depreciation attributable to equipment added in the second half of 2007.

**Income Tax Expense**

At the expected combined income tax rate of 29.5%, Loss before income taxes for Q2 2008 of $6.7 million would have resulted in income tax recovery of approximately ($2.0) million compared to the actual provision of ($0.1) million. The future income tax recovery was reduced by a future tax valuation allowance of $1.8 million despite expectations of future profits, and by $72,000 as a result of the effect of stock based compensation and other non-deductible expenses.

**Net Loss and Loss per Share**

Net loss totaled ($6.6) million for Q2 2008 compared to ($5.1) million for Q2 2007, primarily due to lower margins due to significant downward pricing pressure caused by industry-wide reduced demand for well stimulation services.

For the quarter ended June 30, 2008, basic and diluted Loss per share was ($0.30) and ($0.29) respectively, compared to ($0.23) recorded in Q2 2007.

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**2008 YEAR-TO-DATE COMPARATIVE STATEMENTS OF OPERATIONS**

| Period Ended | June 30, 2008 | June 30, 2007 |
|---|---|---|
| ($, except per share amounts) | (Unaudited) | (Unaudited) |
| Revenues | $22,645,286 | $17,261,634 |
| Expenses | | |
| Operating | 20,994,390 | 16,439,550 |
| Selling, general and administrative | 4,028,443 | 3,344,682 |
| Interest on long-term debt | 736,506 | 565,969 |
| Other interest | 92,649 | 92,860 |
| Depreciation and amortization | 4,736,693 | 5,007,569 |
| Loss before income taxes | (7,943,395) | (8,188,996) |
| Income taxes-current (recovery) | - | (815,129) |
| Income taxes-future (reduction) | (395,727) | (1,469,251) |
| | (395,727) | (2,284,380) |
| Net loss | ($7,547,668) | ($5,904,616) |
| EBITDA before stock option expense – Note(1) | ($1,974,081) | ($2,198,386) |
| EBITDA – Note(1) | ($2,377,547) | ($2,522,598) |
| Loss: | | |
| Basic | ($0.34) | ($0.27) |
| Diluted | ($0.34) | ($0.27) |

Note (1): See Non-GAAP Measures.

**Revenues**

For the six months ended June 30, 2008, each of Canyon's divisions achieved increases in activity levels as the total job count increased by 103% with 632 jobs completed compared to 312 jobs in the six months ended June 30, 2007. Importantly, the Conventional Fracturing division accounted for 42% of the jobs completed in the six months ended June 30, 2008 compared to 24% in the comparable period of 2007. The additions to the sales team in the last half of 2007 and in March 2008 largely contributed to the growth in this division. However, the downturn in the demand by E&P companies for well stimulation services reduced margins further in 2008 and, as a result, Revenues increased by 31% to $22.6 million over $17.3 in the six months ended June 30, 2007.

**Operating Expenses**

Operating expenses for the six months ended June 30, 2008 increased by 28% to $21.0 million from $16.4 million due to the increased job activity. Importantly, fixed operating costs decreased by 16% for the current period under review compared to the corresponding period of 2007 mainly due to cost cutting measures introduced in the latter half of 2007. 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 manpower and operating infrastructure is mostly in place.

**Selling, General and Administrative Expenses**

Selling, general and administrative expenses have increased to $4.0 million for the six months ended June 30, 2008 from $3.3 million for the prior year's comparable period. The increase is mostly due to the expansion in the Company's scope of operations including the opening of new operating bases in Grande Prairie and Medicine Hat, an increase in the sales force along with one-time hiring costs. In addition, SG&A includes non-cash stock option expense of $0.4 million for the six months ended June 30, 2008 compared to $0.3 million in the comparable 2007 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 support infrastructure necessary to support expanded operational activities is in place.

**EBITDA (See NON-GAAP MEASURES)**

The low equipment utilization and resulting pricing pressures associated with the downturn in market conditions over the past two years have resulted in EBITDA before stock option expense for the six months ended June 30, 2008 of negative $2.0 million, down by about 10% from the EBITDA before stock option expenses of negative $2.2 million recorded in the six months ended June 30, 2007. This 2008 amount consists of Loss before income taxes of ($7.9) million, plus Depreciation and amortization of $4.7 million, plus Interest on long-term debt of $0.7 million, plus Other interest of $0.1 million, plus stock option expense $0.4 million. The comparable 2007 amount of negative $2.2 million consists of Loss before income taxes of ($8.2) million, plus Depreciation and amortization of $5.0 million, plus Interest on long-term debt of $0.6 million, other interest of $0.1 million and stock option expense of $0.3 million.

**Interest Expense**

Interest on long-term debt and other interest increased to $0.8 million for the six months ended June 30, 2008 from $0.7 million for 2007 comparable period, as the average level of long-term debt outstanding increased to partially fund Canyon’s equipment build program that was completed in the last half of 2007.

**Depreciation Expense**

Depreciation expense has decreased to $4.7 million for the six months ended June 30, 2008 from $5.0 million for the comparable 2007 period. As discussed previously, the reduction in depreciation expense is attributable to the change in estimate of salvage values that was implemented effective October 1, 2007, has been partially offset by higher depreciation charges relating to the introduction of the Grande Prairie facility to commercial operations and to equipment additions in the last half of 2007.

**Income Tax Expense**

At the expected combined income tax rate of 29.5%, Loss before income taxes for the six months ended June 30, 2008 of $7.9 million would have resulted in income tax recovery of approximately ($2.3) million compared to the actual provision of ($0.4) million. The future income tax recovery was reduced by a future tax valuation allowance of $1.8 million despite expectations of future profits, and by $72,000 as a result of the effect of stock based compensation and other non-deductible expenses.

**Net Loss and Loss per Share**

Net loss totaled ($7.5) million for the six months ended June 30, 2008 compared to a net loss of ($5.9) million for the comparable 2007 period primarily due to a prolonged spring break-up and poor market conditions.

Basic and diluted loss per share for the six months ended June 30, 2008 was ($0.34) compared to basic and diluted loss per share of ($0.27) in the comparable period of 2007.

**Summary of Quarterly Results**

($,000 except per share amounts-Unaudited)

| | 2008 | | 2007 | | | | 2006 | |
|---|---|---|---|---|---|---|---|---|
| | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 |
| Revenues | $4,191 | $18,454 | $19,706 | $11,102 | $3,041 | $14,220 | $13,557 | $12,534 |
| | | | | | | | | |
| EBITDA before stock option expense (Note 2) | ($3,643) | $1,669 | $3,272 | ($494) | ($3,946) | $1,748 | $2,698 | $2,329 |
| | | | | | | | | |
| Net earnings (loss) | ($6,564) | ($984) | ($1) | ($2,851) | ($5,073) | ($832) | $184 | $569 |

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 stimulation business is seasonal in nature with significantly reduced activity in Q2 of each year due to the annual spring break-up. In addition, the business is cyclical and for about two years has experienced reduced demand by E&P companies for well stimulation services caused by low natural gas prices. Accordingly, the resulting downward pressure on prices has led to net losses in recent quarters which would be profitable in times of increased activity, namely, Q1, Q3 and Q4 of each year. Management believes that the outlook for activity levels across the WCSB for the second half of 2008 and into 2009 has improved considerably (please refer to 2008 Outlook).

## 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 negative $4.1 million for the quarter ended June 30, 2008, compared to negative $4.2 million recorded in the comparable quarter of 2007. Reduced demand for well stimulation services across the industry, as well as the annual spring break-up account for the negative funds generated from operations in Q2 2008 and its comparable 2007 quarter. For the six months ended June 30, 2008, funds generated by the Company's operating activities amounted to negative $2.8 million, compared to negative $2.0 million recorded in the comparable period of 2007. The 2007 comparative amount included a one-time income tax recovery of $0.8 million as a result of applying operating losses to prior periods' taxable income.

As at June 30, 2008, Canyon had a working capital balance of $7.1 million, compared to $4.6 million as at December 31, 2007. The increase in the working capital balance is mainly attributable to the replacement of the short-term capital lease and previous mortgage with a longer-term mortgage on the Company's land and buildings, as discussed below under Debt Facilities. The Company's working capital position exceeds the level required to manage timing differences between cash collections and cash payments.

**Debt Facilities**

On May 30, 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"). Under the Agreement, the Term Facility bears interest at the bank's prime lending rate plus 0.75 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 30, 2010 ("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 and was used to repay the long-term capital lease ($5.5 million) and the previous mortgage on certain of the Company's land and buildings in Red Deer ($0.5 million). The balance of $5.4 million was used to reduce the Operating Facility and is available to the company for capital expenditures and working capital.

As described in Critical Accounting Estimates above and in note 1 (b) to the consolidated financial statements for the three and six months ended June 30, 2008, Canyon adopted the new CICA requirements relating to financial instruments. In accordance with these requirements, the Term Facility as at June 30, 2008 is presented net of $0.26 million of unamortized finance costs related to the restructuring of the Company's debt facilities. Commencing with Q3 2008, 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 0.5 percent. The Extendible Facility is subject to renewal on May 29, 2009 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, with the first fifteen of such installments being one-twentieth of the amount outstanding on the maturity date and the sixteenth 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, 2008, $15.5 million ($17.0 million as at December 31, 2007) was drawn under this facility.

The Operating Facility is a demand revolving facility up to a maximum amount of $5 million and 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. As at June 30, 2008, the net amount drawn on this facility was $1.0 million comprising a $1.1 million balance, less a cash balance of $0.1 million, to fund short-term differences in the timing of cash collections and payments to vendors.

As at June 30, 2008, Canyon's net debt including current and long-term portions, was $19.6 million (current liabilities of $5.5 million, plus long-term debt of $26.7 million, less current assets of $12.6 million) compared to $16.7 million as at December 31, 2007. The increase during the period ended June 30, 2008 primarily relates to negative funds generated from operations in the second quarter due to the expected, annual, seasonal spring break-up and a wetter than normal June.

As at June 30, 2008, the Company's available credit facilities under its debt facilities total $8.5 million ($4.5 million under the Extendible Facility, $3.9 million under the Operating Facility and a cash balance of $0.1 million).

The balance of the debt facilities comprises automotive equipment loans totaling $0.6 million at June 30, 2008 ($0.6 million at December 31, 2007).

**Contractual Obligations**

As at June 30, 2008, Canyon's contractual obligations are summarized as follows:

| | Total | Next 12 months | 1-3 years | 4-5 years | After 5 years |
|---|---|---|---|---|---|
| Operating facility | $1,176,888 | $1,176,888 | $ - | $ - | $ - |
| Long-term debt | 27,204,779 | 502,680 | 7,223,946 | 10,136,543 | 9,341,610 |
| Operating leases and office space | 516,677 | 245,593 | 271,084 | - | - |
| Total contractual obligations | 28,898,344 | 1,925,161 | 7,495,030 | 10,136,543 | 9,341,610 |

**Capital Expenditures**

For the remainder of 2008, the Company plans to incur capital expenditures of about $4 million for tractors, trailers and storage tanks. This equipment will reduce operating costs, particularly third party hauling costs and will be financed by funds generated from operations and available debt facilities. As at June 30, 2008, Canyon's available credit facilities under its debt facilities total $8.5 million, as discussed above.

**Outstanding Share, Warrant and Option Data**

The following table summarizes Canyon's capitalization at June 30, 2008 and December 31, 2007.

| | Outstanding Number as at | |
|---|---|---|
| | June 30, 2008 | December 31, 2007 |
| Common Shares | 22,148,533 | 22,148,533 |
| Warrants | 550,000 | 550,000 |
| Options | 1,953,668 | 1,933,332 |

In the three months ended June 30, 2008, no warrants were issued to directors, officers and employees, 21,000 share options were granted to employees, no share options were exercised by directors, officers and employees and 55,332 share options were forfeited and nil share options were cancelled by directors, officers and employees. For the six months ended June 30, 2008, no warrants were issued to an employee and an officer, 202,500 share options were granted to directors, officers and employees, no share options were exercised by directors, officers and employees and 96,664 share options were forfeited and 85,500 options were cancelled by directors, officers and employees.

**Financial Instruments**
There are no significant financial instruments as at June 30, 2008.

**Off-Balance Sheet Arrangements**
The Company has no off-balance sheet arrangements as at June 30, 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.

## RELATED PARTY TRANSACTIONS

In February, 2007, the Company closed the acquisition of certain intellectual property from a private company for proprietary Light Weight Proppant ("LWP"). Consideration for these assets consist of 125,000 warrants to purchase 125,000 common shares of the Company, at $4.96 per common share, and amounts in the aggregate not to exceed $250,000 payable on the delivery of LWP to the Company over a five year period. The private company was one-third owned by a senior employee of the Company.

Effective September 1, 2007, the Company appointed a new President. In conjunction with the appointment, the new President subscribed for 280,000 common shares of the Company, on a private placement basis, at a price of $3.60 per common share for total gross proceeds of approximately $1.0 million. The issue price represents approximately a 10% discount to the July 19, 2007 closing price. The share subscription transaction was approved by the Toronto Stock Exchange. In addition, 425,000 warrants were issued to the new President as an inducement. These warrants entitle the holder to purchase common shares of the Corporation at an exercise price of $4.00 per share, becoming exercisable over a three year period and expiring in July 2012. These warrants have been valued at $711,875 using the Black-Scholes method with the following assumptions: risk free interest rate of 4.50%, maximum life of 5 years, expected dividends of nil and expected volatility of 40%. Stock-based compensation of $59,160 and $117,671 was recorded for the three and six months ended June 30, 2008.

## 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 178 full time staff at June 30, 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 revenue for the six months ended June 30, 2008 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.

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**

There have been no changes in the Company's internal controls over financial reporting during the three and six months period ending June 30, 2008 that have materially affected, or are reasonably likely to affect, Canyon's internal controls over financial reporting.