MANAGEMENT'S DISCUSSION AND ANALYSIS
THIRD QUARTER 2008

This management discussion and analysis (MD&A) is dated October 29, 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 nine months ended September 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.

OVERVIEW OF THIRD QUARTER 2008

Canyon is pleased to report that Q3 2008 represents a record quarter for the Company with 481 jobs completed generating $20.7 million of revenues. The operating and financial highlights for the third quarter of 2008 may be summarized as follows:

Operating and Financial Highlights

- In Q3 2008, Revenues reached an all-time quarterly record increasing by 87% to $20.7 million from $11.1 million in the prior year comparable quarter. Year to date Revenues total $43.4 million, an increase of 53% from Revenues of $28.4 million in the first nine months of 2007.

- Canyon generated income before income taxes of $1.2 million for Q3 2008, a significant improvement over the loss before income taxes of $3.9 million in Q3 2007. For the nine months ended September 30, 2008, the loss before income taxes was $6.7 million, compared to the loss before income taxes of $12.1 million in the comparable period of 2007.

- In Q3 2008, Canyon completed 481 jobs, more than double the 215 jobs completed in Q3 2007, for an increase of 124%. For the nine months ended September 30, 2008, Canyon's job count was 1,113, more than double the 527 jobs achieved in the comparable period of 2007, for an overall increase of 111%.

- Canyon's Conventional Fracturing Division enjoyed significant growth in Q3 2008 contributing 41% of the job count with 195 jobs completed, up significantly from the 25%, or 54 jobs, contributed in Q3 2007. For the year to date, this division represented 460 jobs, or 41% of total jobs completed versus 128 jobs, or 24% of total jobs in the 2007 comparable period.

- A new operating base was opened in Medicine Hat allowing Canyon to better service customers with operations in Southeast Alberta and Southeast Saskatchewan where the Company has commenced fracturing operations in the Estevan area.

- In Q3 2008, Canyon completed its first trial well using light weight proppant and produced water to frac the Bakken formation. Further trials will continue in Q4.

- During the quarter, Canyon added to its CO2 transportation and infrastructure which will allow Canyon to better serve its customers from its Grande Prairie operating base and significantly reduce third party equipment costs

- Pricing remains very competitive in the pumping services industry and as a result, revenue per job decreased to $43,231 in Q3 2008 from $51,674 in the comparable 2007 quarter. In the nine months ended September 30, 2008, revenue per job decreased to $39,188 from $53,742 in the comparable 2007 period.

2008 OUTLOOK

The third quarter of 2008 was characterized by weakening commodity prices even though year-to-date price levels were higher than 2007. The one-month NYMEX price decreased by 22% in Q3 2008 over Q3 2007 although it was 44% higher for the nine months ended September 30, 2008 over the comparable 2007 period. The average spot price of WTI oil increased by 57% year-over-year but declined 5% in Q3 2008 over Q3 2007.

Although commodity prices softened in Q3 2008, field activity levels across the oilfield services industry were strong. In the quarter, well licensing activity and drilling rig utilization, the key indicators for utilization of stimulation equipment, were ahead of prior year levels. Well licensing activity was 7% ahead in Q3 2008 compared to Q3 2007, while drilling rig utilization averaged 47% in Q3 2008 compared to 38% in the prior year comparable quarter.

As we enter the fourth quarter, although the drilling rig utilization level exceeds 50% compared to less than 40% at the same time in 2007, it remains unclear how oilfield service activity levels will be impacted by the recent economic events around the world. With financial market weakness and recessionary fears at the forefront, commodity prices have seen further declines since the end of Q3 2008, although this trend could soon reverse for natural gas depending on the magnitude of demand for heating fuel over the coming winter months.

Management continues to believe that the long-term fundamentals for natural gas are attractive as evidenced by the increasing focus by E&P companies on unconventional gas and resource plays employing new drilling and completions' methods, especially fracturing technology. Canyon is also seeing a growing potential for commercial applications of Grand Canyon technology in shallow Colorado shale, Bakken and Montney. In the months ahead, Canyon will build on its recent focus in new areas such as Northwest Alberta, Northeast British Columbia and Southeast Saskatchewan where the Company has gained a foothold with its proprietary technologies.

QUARTERLY COMPARATIVE STATEMENTS OF OPERATIONS

Quarter Ended	September 30, 2008	September 30, 2007
($, except per share amounts)	(Unaudited)	(Unaudited)
Revenues	$20,719,250	$11,102,225
Expenses		
Operating	15,015,838	10,132,033
Selling, general and administrative	1,763,046	1,758,043
Interest on long-term debt	368,989	371,205
Other interest	44,313	70,779
Depreciation and amortization	2,284,163	2,703,197
Income (loss) before income taxes	1,242,901	(3,933,032)
Income taxes-current (recovery)	-	966
Income taxes-future (reduction)	-	(1,082,740)
	-	(1,081,774)
Net income (loss)	$1,242,901	($2,851,258)
EBITDA before stock option expense – Note(1)	$4,134,589	($494,203)
Income (loss) per share:		
Basic	$0.06	($0.13)
Diluted	$0.06	($0.13)

Note (1): See Non-GAAP Measures.

Revenues

In Q3 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 124% to 481 from 215 in the prior year's quarter, while revenues increased by 87% to $20.7 million from $11.1 million over the same periods. The percentage increase in job count was not matched by a comparable increase in job revenues due to the impact of pricing pressures felt across the oil and gas services sector since late 2007. As a result, revenue per job declined to $43,231 in Q3 2008, from $51,674 for the prior year's comparable quarter.

Operating Expenses

Operating expenses increased by 48% to $15.0 million in Q3 2008 from $10.1 million in Q3 2007. This increase is less than the twofold increase in the Q3 2008 job count compared to Q3 2007, because of a significant fixed operating cost component.

Selling, General and Administrative Expenses

Selling, general and administrative expenses remain largely unchanged at $1.8 million in Q3 2008 from Q3 2007. Included in this category of expense is non-cash stock-based compensation expense of $0.2 million in Q3 2008, compared to the $0.3 million recorded in Q3 2007.

EBITDA (See Non-GAAP Measures)

In Q3 2008, EBITDA before stock option expense has increased significantly to $4.1 million from negative $0.5 million in Q3 2007, due to increased job activity and revenues. The Q3 2008 amount of $4.1 million consists of Income before income taxes of $1.2 million, plus Depreciation and amortization of $2.3 million, plus Interest on long-term debt of $0.3 million, plus Other interest of $0.1 million, plus stock option expense of $0.2 million. The comparable Q3 2007 amount of negative $0.5 million consists of Loss before income taxes of ($3.9) million, plus Depreciation and amortization of $2.7 million, plus Interest on long-term debt of $0.3 million, plus Other interest of $0.1 million, plus stock option expense of $0.3 million.

Interest Expense

Interest on long-term debt and Other interest was $0.4 million for Q3 2008, unchanged from $0.4 million for Q3 2007.

Depreciation Expense

Depreciation expense was recorded at $2.3 million in Q3 2008, compared to $2.7 million recorded in Q3 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 Q3 2008 by $0.5 million. This reduction in depreciation expense was partially offset by additional depreciation in Q3 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%, income before income taxes for Q3 2008 of $1.2 million would have resulted in income tax expense of approximately $0.4 million compared to the actual provision of $0.0 million. The future income tax expense was reduced by a reduction in the future tax valuation allowance of $0.4 million, and increased by $61,000 as a result of the effect of stock based compensation and other non-deductible expenses.

Net Income (Loss) and Income (Loss) per Share

Net income totaled $1.2 million for Q3 2008, a significant improvement over the net loss of ($2.9) million in Q3 2007, primarily due to the 87% increase in revenues in the current quarter.

For the quarter ended September 30, 2008, basic and diluted Income per share was $0.06, compared to Loss per share of ($0.13) recorded in Q3 2007.

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2008 YEAR-TO-DATE COMPARATIVE STATEMENTS OF OPERATIONS

Period Ended	September 30, 2008	September 30, 2007
($, except per share amounts)	(Unaudited)	(Unaudited)
Revenues	$43,364,536	$28,363,859
Expenses		
Operating	36,010,228	26,571,583
Selling, general and administrative	5,791,489	5,102,725
Interest on long-term debt	1,105,495	937,174
Other interest	136,962	163,639
Depreciation and amortization	7,020,856	7,710,766
Loss before income taxes	(6,700,494)	(12,122,028)
Income taxes-current (recovery)	-	(814,163)
Income taxes-future (reduction)	(395,727)	(2,551,991)
	(395,727)	(3,366,154)
Net loss	($6,304,767)	($8,755,874)
EBITDA before stock option expense – Note(1)	$2,160,508	($2,692,589)
Loss:		
Basic	($0.28)	($0.40)
Diluted	($0.28)	($0.40)

Note (1): See Non-GAAP Measures.

Revenues

For the nine months ended September 30, 2008, each of Canyon's divisions achieved increases in activity levels as the total job count increased by 111% with 1,113 jobs completed compared to 527 jobs in the nine months ended September 30, 2007. Importantly, the Conventional Fracturing division accounted for 41% of the jobs completed in the nine months ended September 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 that commenced in 2007, reduced margins further in 2008 and, as a result, Revenues increased by 53% to $43.4 million over $28.4 in the nine months ended September 30, 2007.

Operating Expenses

Operating expenses for the nine months ended September 30, 2008 increased by 36% to $36.0 million from $26.6 million due to the increased job activity. Canyon's current level of fixed operating costs will support a much higher level of activity, with the result that, when the industry returns to more normal activity levels, Canyon will incur fixed costs at a proportionately lesser rate for the additional job activity, as the necessary operating infrastructure is mostly in place.

Selling, General and Administrative Expenses

Selling, general and administrative expenses have increased to $5.8 million for the nine months ended September 30, 2008 from $5.1 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 $0.6 million for the nine months ended September 30, 2008 compared to $0.6 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 infrastructure necessary to support expanded operational activities is in place.

EBITDA (See NON-GAAP MEASURES)

The increased job activity and revenues has resulted in EBITDA before stock option expense for the nine months ended September 30, 2008 of positive $2.2 million, a significant improvement over the negative $2.7 million of EBITDA before stock option expenses recorded in the nine months ended September 30, 2007. The 2008 positive amount of $2.2 million consists of Loss before income taxes of ($6.7) million, plus Depreciation and amortization of $7.0 million, plus Interest on long-term debt of $1.1 million, plus Other interest of $0.1 million, plus stock option expense $0.6 million. The comparable 2007 amount of negative $2.7 million consists of Loss before income taxes of ($12.1) million, plus Depreciation and amortization of $7.7 million, plus Interest on long-term debt of $0.9 million, other interest of $0.2 million and stock option expense of $0.6 million.

Interest Expense

Interest on long-term debt and other interest increased slightly to $1.2 million for the nine months ended September 30, 2008 from $1.1 million for the 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 $7.0 million for the nine months ended September 30, 2008 from $7.7 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, and 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 nine months ended September 30, 2008 of $6.7 million would have resulted in income tax recovery of approximately ($2.0) million compared to the actual provision of ($0.4) million. The future income tax recovery was reduced by a future tax valuation allowance of $1.4 million despite expectations of future profits, and by $192,000 as a result of the effect of stock based compensation and other non-deductible expenses.

Net Loss and Loss per Share

Net loss totaled ($6.3) million for the nine months ended September 30, 2008, lower than the net loss of ($8.8) million for the comparable 2007 period, primarily due to higher activity levels and revenues and in the period.

Basic and diluted loss per share for the nine months ended September 30, 2008 was ($0.28), an improvement over the basic and diluted loss per share of ($0.40) in the comparable period of 2007.

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Summary of Quarterly Results

($,000 except per share amounts-Unaudited)

	2008			2007				2006
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenues	$20,719	$4,191	$18,454	$19,706	$11,102	$3,041	$14,220	$13,557
EBITDA before stock option expense (Note 2)	$4,135	($3,643)	$1,669	$3,272	($494)	($3,946)	$1,748	$2,698
Net income (loss)	$1,243	($6,564)	($984)	($1)	($2,851)	($5,073)	($832)	$184

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 2008, Q1 2007, Q3 2007 and Q4 2007. However, in Q3 2008, Canyon has enjoyed a significant increase in job activity and revenues resulting in EBITDA before stock option expense of $4.1 million and net income of $1.2 million. Management believes that the outlook for activity levels across the WCSB for Q4 2008 is also positive (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 $3.7 million for the quarter ended September 30, 2008, compared to negative $0.9 million recorded in the comparable quarter of 2007. For the nine months ended September 30, 2008, funds generated by the Company's operating activities amounted to $0.9 million, compared to negative $3.0 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. The increase in Canyon's job count accounts for the significant improvement in funds generated from operations for the three and nine months ended September 30, 2008 compared to the comparable 2007 periods.

As at September 30, 2008, Canyon had a working capital balance of $7.6 million, compared to $4.6 million as at December 31, 2007. The increase in the working capital balance is mainly attributable to higher accounts receivable resulting from Canyon's increased job count, and 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 (c) to the consolidated financial statements for the three and nine months ended September 30, 2008, Canyon adopted the new CICA requirements relating to financial instruments. In accordance with these requirements, the Term Facility as at September 30, 2008 is presented net of $0.26 million of unamortized finance costs related to the restructuring of the Company's debt facilities. These financing costs will be amortized over the term of the debt and charged to interest expense using the effective interest rate method.

The Extendible Facility is a revolving extendible credit facility up to a maximum amount of $20 million and bears interest, payable monthly, at the bank's prime lending rate plus 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 September 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 September 30, 2008, the net amount drawn on this facility was $2.9 million comprising a $3.1 million balance, less a cash balance of $0.2 million, to fund short-term differences in the timing of cash collections and payments to vendors.

As at September 30, 2008, Canyon's net debt including current and long-term portions, was $18.2 million (current liabilities of $13.4 million, plus long-term debt of $25.8 million, less current assets of $21.0 million) compared to $16.7 million as at December 31, 2007. The increase during the period ended September 30, 2008 primarily relates to capital expenditures of $2.5 million less funds generated from operations in the period.

As at September 30, 2008, the Company's available credit facilities under its debt facilities total $6.6 million ($4.5 million under the Extendible Facility, $1.9 million under the Operating Facility and a cash balance of $0.2 million).

The balance of the debt facilities comprises automotive equipment loans totaling $0.5 million at September 30, 2008 ($0.6 million at December 31, 2007).

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Contractual Obligations

As at September 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	$3,182,702	$3,182,702	$ -	$ -	$ -
Long-term debt	27,098,032	1,284,142	7,215,053	9,340,914	9,257,923
Operating leases and office space	1,559,840	488,572	672,518	398,750	-
Total contractual obligations	31,840,574	4,955,416	7,887,571	9,739,664	9,257,923

Capital Expenditures

Canyon's total capital expenditures for the 2008 year are estimated at $4.0 million for tractors, trailers and storage tanks. For the nine months ended September 30, 2008, capital expenditures totaled $2.5 million. 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 September 30, 2008, Canyon's available credit facilities under its debt facilities total $6.6 million, as discussed above.

Outstanding Share, Warrant and Option Data

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

	Outstanding Number as at	
	September 30, 2008	December 31, 2007
Common Shares	22,148,533	22,148,533
Warrants	550,000	550,000
Options	1,913,667	1,933,332

In the three months ended September 30, 2008, no warrants were issued to directors, officers and employees, 32,000 share options were granted to employees, no share options were exercised by directors, officers and employees and 72,001 share options were forfeited and nil share options were cancelled by directors, officers and employees. For the nine months ended September 30, 2008, no warrants were issued to an employee or an officer, 234,500 share options were granted to directors, officers and employees, no share options were exercised by directors, officers and employees and 168,665 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 September 30, 2008.

Off-Balance Sheet Arrangements
The Company has no off-balance sheet arrangements as at September 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.

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 $0.3 million has been established as at September 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 nine months ended September 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 nine months ended September 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.

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 $59,811 and $177,481 was recorded for the three and nine months ended September 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 213 full time staff at September 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, 55% of the Company's revenue for the nine months ended September 30, 2008 was earned from four 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 nine months period ending September 30, 2008 that have materially affected, or are reasonably likely to affect, Canyon's internal controls over financial reporting.

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FORWARD-LOOKING STATEMENTS

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.