MANAGEMENT'S DISCUSSION AND ANALYSIS
THIRD QUARTER 2009

This management discussion and analysis (MD&A) is dated November 12, 2009, and should be read in conjunction with the Consolidated Financial Statements and Notes of Canyon Services Group Inc. ("Canyon" or the "Company") as at and for the three and nine months ended September 30, 2009 and 2008, and should also be read in conjunction with the Audited Consolidated Financial Statements and Notes for the year ended December 31, 2008. Additional information relating to the Company, including the Company's Annual Information Form for the year ended December 31, 2008, is available on SEDAR at www.sedar.com.

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

OVERVIEW OF THIRD QUARTER 2009

Following the seasonal spring break-up of the previous quarter, activity levels across the well stimulation industry did not rebound to the levels normally expected in the third quarter. In response to continuing low natural gas prices, exploration and production ("E&P") companies across the Western Canadian Sedimentary Basin ("WCSB") continued to rein in capital expenditure budgets during the quarter. As a result, in Q3 2009, the key indicators for utilization of stimulation equipment, well licensing activity and drilling rig utilization, significantly trailed the prior year's levels. Well licenses issued in Q3 2009 and for the first nine months of 2009 were 63% and 53% lower respectively than the 2008 comparable periods. Drilling rig utilization in Canada in the three and nine months ended September 30, 2009 was only 21% and 23% respectively versus the 48% and 42% activity levels achieved in the 2008 comparable periods, representing the weakest activity levels since the early 1990's.

Although consolidated activity and corresponding revenues were very low, Canyon continued to expand into the deeper segments of the WCSB adding to the Company's portfolio of large, horizontal, multi-stage fracs in the Montney. This has resulted in increases of 28% and 22% respectively in the average revenue per job for the three and nine months ended September 30, 2009, over the comparable 2008 periods.

To capitalize on the Company's success penetrating the deeper segments of the market, Canyon completed an equity financing in October 2009 resulting in net proceeds of approximately $47 million, and commenced a $45 million capital program in the fourth quarter to increase the hydraulic horse power pumping capacity of its equipment fleet. This program will increase the pumping capacity of Canyon's fracturing equipment fleet by about 50,000 hydraulic horsepower to in excess of 70,000 hydraulic horsepower. The staff and management would like to welcome ARC Financial Corp. and all of the new institutional and individual shareholders to Canyon.

However, where Q3 2009 is concerned, the increase in the average revenue per job was significantly more than offset by the lower number of jobs completed by Canyon, the direct result of reduced industry-wide activity, leading to a 76% decline in revenues over the 2008 comparable quarter.

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

Operating and Financial Highlights

- On October 28, 2009, Canyon issued 10,000,000 common shares at $2.00 per common share pursuant to a bought deal prospectus offering, and 15,000,000 common shares at $2.00 per common share pursuant to a concurrent private placement, resulting in the total issuance of 25,000,000 common for gross proceeds of $50 million and net proceeds after fees and expenses of approximately $47 million. Canyon intends to use the proceeds to purchase additional hydraulic horsepower capacity and ancillary equipment, temporarily reduce bank indebtedness and for general corporate purposes.
- In connection with the concurrent private placement with limited partnerships comprising ARC Energy Fund 6, Mr. Douglas Freel, Vice President of ARC Financial Corp. was appointed to the Canyon board of directors effective as of October 28, 2009.
- Canyon's continued penetration into the deeper segments of the market resulted in the consolidated average revenue per job increasing in Q3 2009 by 28% to $55,268 from $43,231 in Q3 2008, while for the first nine months of 2009, consolidated average revenue per job increased by 22% to $47,956 from $39,188 in the 2008 comparable period.
- The significant reduction in industry-wide activity in 2009 to date resulted in Canyon's revenues decreasing by 76% to $4.9 million in Q3 2009 from $20.7 million in Q3 2008. In the nine months ended September 30, 2009, total revenues decreased by 24% to $33.0 million from $43.4 million in the 2008 comparable period.
- In Q3 2009, Canyon completed 90 jobs compared to 481 jobs completed in Q3 2008, while for the first nine months of 2009 total jobs completed decreased to 689 from 1,113 in the 2008 comparable period.
- As a result of significant, company-wide cost reductions implemented in late March 2009, fixed costs and SG&A before stock based compensation expense were reduced by 17% in Q3 2009 compared to Q3 2008.
- Continued weak demand across the industry for well stimulation services in the quarter resulted in EBITDA before stock option expense of negative $2.1 million in Q3 2009 compared to $4.1 million earned in Q3 2008. This has resulted in a loss before income taxes of $4.7 million in Q3 2009 compared to income before income taxes of $1.2 million in Q3 2008.
- As at September 30, 2009, the Company's available credit facilities total $15.9 million.
- Effective November 13, 2009 Mr. Dennis Weinberger retired as Chief Executive Officer and was succeeded by Mr. Bradley Fedora. Mr. Weinberger will continue as a director of the Corporation.

2009 OUTLOOK

Canyon expects that the remainder of 2009 will be difficult for all of those involved in the energy business. Oil and natural gas industry activity levels have been and will continue to be significantly impacted by natural gas prices and by recent global economic events and we are not forecasting a material improvement in overall economic conditions in the oil and natural gas industry until the latter half of 2010. Despite the very recent strengthening in natural gas and oil prices, commodity prices remain sharply lower than the record levels in 2008. In the third quarter of 2009, WTI oil prices and Nymex natural gas prices have fallen approximately 42% and 62% respectively from Q3 2008 levels. The depressed commodity prices, which immediately caused a reduction in availability of both equity and debt capital, have caused our customers to significantly rein in exploration and development budgets for 2009, as they carefully manage cash flows and credit facilities for the remainder of the year. Current industry estimates are for less than 9,000 wells to be drilled in 2009. This represents an approximate 45% decline in overall industry activity compared to 2008, which has resulted in significantly reduced job pricing to historically low levels.

Lately, however, in conjunction with strengthening natural gas prices, equity markets have been recovering suggesting that the funds from new issues will find their way into drilling programs. In addition, with the extension of royalty incentives announced by the Alberta Government in late June, 2009, Canyon believes that activity for the fourth quarter of 2009 will improve slightly in comparison to the third quarter.

Amongst the downturn, the pressure pumping services is one of the bright spots in the oilfield services sector. In the past few years exploration and production companies have increasingly changed their focus to the exploration and development of unconventional resource plays that include expansive shales that hold both oil and natural gas. Many of these shale plays holding natural gas (Montney, Horn River, etc) were previously uneconomic due to a lack of understanding and technology required for the effective drilling and completion of the wells in these plays. Horizontal drilling technology combined with multistage fracturing programs has made the development of these plays economic at prices lower than those required for the development of conventional oil & natural gas reservoirs. E&P companies are also applying horizontal drilling and multistage fracturing programs to conventional resources such as shallow and deep oil plays such as Viking Oil in eastern Alberta and Cardium oil in Western Alberta. These types of plays will continue to be the highlight of Western Canadian activity and we believe that operators will be relying on fracturing technologies to maximize production and striving to perform more fracs per well, which will help to offset the reduction in the overall well count experienced in 2009 and which is not expected to recover for the next 6 – 18 months.

The focus on multistage fracturing programs as part of the overall completion program has caused a dramatic increase in the amount of hydraulic horsepower required on well locations as the fractures are trending larger. Hydraulic horsepower deployed per well has increased substantially from approximately 5,000 – 10,000 in a conventional well to 25,000 – 45,000 on the average unconventional well such as in a Montney or Horn River play. The equipment is also on location for much longer as the fracturing programs

have changed from completing all required fractures in one day to multi-stage programs that require several days to complete.

With the $47 million net proceeds from the October 2009 financing, Canyon has commenced construction of the additional equipment required to be able to provide services to multiple customers and to complete larger multi-stage fracturing programs in the Western Canadian Sedimentary Basin. In particular, Canyon plans to add about 50,000 hydraulic horsepower of pumping capacity to its equipment fleet, as well as related equipment including high rate blenders, chemical vans and sand handling equipment. As a result, Canyon's fracturing equipment fleet will exceed 70,000 hydraulic horsepower allowing the Company to act on its plans to expand its existing hydraulic fracturing services in the northwest Alberta and northeast British Columbia market place with existing and new customers. Canyon will also continue to focus on deploying its Grand Canyon technology as it has proven to improve the economic return of oil and natural gas reservoirs.

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

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QUARTERLY COMPARATIVE STATEMENTS OF OPERATIONS

Quarter Ended	September 30, 2009 (unaudited)	September 30, 2008 (unaudited)
Revenues	$4,872,938	$20,719,250
Expenses		
Operating	5,647,894	15,015,838
Selling, general and administrative	1,359,471	1,568,823
Stock based compensation	127,657	194,223
Interest on long-term debt	151,062	368,989
Other interest	26,200	44,313
Depreciation and amortization	2,299,031	2,284,163
Income (loss) before income taxes	(4,738,377)	1,242,901
Income taxes-future (reduction)	-	-
	-	-
Net income (loss) and comprehensive income (loss)	$(4,738,377)	$1,242,901
EBITDA before stock based compensation (1)	$(2,134,427)	$4,134,589
Income (loss) per share:		
Basic	$(0.21)	$0.06
Diluted	$(0.21)	$0.06

Note (1): See Non-GAAP Measures.

Revenues

In Q3 2009, consolidated average revenue per job increased by 28% to $55,268 from $43,231 in Q3 2008, as Canyon continued its expansion into the deeper segment of the market by completing larger, multi-stage fracs in northeast British Columbia. However, in response to the unprecedented decrease in industry-wide demand by E&P companies for well stimulation services in the quarter, the number of jobs completed in Q3 2009 declined dramatically to 90 from 481 in Q3 2008, resulting in total revenues recorded in Q3 2009 decreasing by 76% to $4.9 million from $20.7 million in Q3 2008.

Operating Expenses

As a result of the reduced job count, operating expenses decreased by 62% to $5.6 million in Q3 2009 from $15.0 million in Q3 2008. The fixed component of operating costs decreased by 19% in Q3 2009 compared to Q3 2008 due to cost cutting measures introduced in late March 2009, including staff reductions, wage rollbacks and suspension of certain benefits.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased to $1.4 million in Q3 2009 from $1.6 million in Q3 2008 mainly due to cost cutting measures introduced in late March 2009.

Stock-Based Compensation Expense

In Q3 2009, the Company recorded stock-based compensation expense of $0.1 million compared to $0.2 million in the 2008 comparable quarter. The decrease is mainly due to a reduction of $47 thousand in the non-cash stock-based compensation expense relating to deferred share units, which will vest commencing February 11, 2010. An expense is recorded by reference to the market price of the Company's common shares at the end of each reporting period, with an offsetting liability included in accounts payable and accrued liabilities.

EBITDA (See Non-GAAP Measures)

In Q3 2009, the significant reduction in industry activity has resulted in EBITDA before stock based compensation expense of negative $(2.1) million, compared to the $4.1 million recorded in the 2008 comparable quarter. The Q3 2009 EBITDA before stock based compensation expense of negative $(2.1) million consists of loss before income taxes of $(4.7) million, plus depreciation and amortization of $2.3 million, plus interest on long-term debt and other interest of $0.2 million, plus stock-based compensation expense of $0.1 million. The comparable Q3 2008 EBITDA before stock based compensation expense 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 and other interest of $0.4 million, plus stock-based compensation expense of $0.2 million.

Interest Expense

Interest on long-term debt and other interest totals $0.2 million in Q3 2009 compared to $0.4 million in Q3 2008. The lower interest expense is mostly due to lower debt levels in the current quarter under review.

Depreciation Expense

Depreciation expense was recorded at $2.3 million in Q3 2009, unchanged from the $2.3 million recorded in Q3 2008.

Income Tax Expense

At the expected combined income tax rate of 29.0%, loss before income taxes for Q3 2009 of $(4.7) million would have resulted in an expected income tax recovery of approximately $(1.4) million compared to the actual recovery of nil. The expected future income tax recovery was reduced by $0.1 million as a result of the effect of stock based compensation and other non-deductible expenses, and reduced by $1.3 million as a result of the effect of a future income tax valuation allowance.

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

Net income (loss) and comprehensive income (loss) totaled $(4.7) million for Q3 2009, compared to $1.2 million in Q3 2008. The decrease is due to the significant decrease in demand by E&P companies for well stimulation services in response to downward natural gas pricing pressures.

For the quarter ended September 30, 2009, basic and diluted income (loss) per share was $(0.21), compared to basic and diluted income per share of $0.06 recorded in Q3 2008.

2009 YEAR-TO-DATE COMPARATIVE STATEMENTS OF OPERATIONS

Nine Months Ended	September 30, 2009 (Unaudited)	September 30, 2008 (Unaudited)
Revenues	$32,959,966	$43,364,536
Expenses		
Operating	29,326,472	36,010,228
Selling, general and administrative	4,753,899	5,193,800
Stock-based compensation	721,793	597,689
Interest on long-term debt	464,217	1,105,495
Other interest	57,138	136,962
Depreciation and amortization	6,888,935	7,020,856
Loss before income taxes	(9,252,488)	(6,700,494)
Income taxes-future (reduction)	(69,550)	(395,727)
	(69,550)	(395,727)
Net loss and comprehensive loss	$(9,182,938)	$(6,304,767)
EBITDA before stock based compensation[1]	$(1,120,405)	$2,160,508
Loss per share:		
Basic	$(0.41)	$(0.28)
Diluted	$(0.41)	$(0.28)

Note (1): See Non-GAAP Measures.

Revenues

For the nine months ended September 30, 2009, consolidated average revenue per job increased by 22% to $47,956 from $39,188 in Q3 2008 due to Canyon's increasing penetration into the deeper segment of the market by completing larger, multi-stage fracs in northeast British Columbia. However, the significant drop in the industry-wide demand for well stimulation services resulted in a lower job count and revenues in the current period compared to the 2008 period. For the nine months ended September 30, 2009, the job count declined to 689 jobs completed compared to 1,113 in the comparable 2008 period, while revenues decreased by 24% to $33.0 million from $43.4 million over the same periods.

Operating Expenses

Operating expenses for the nine months ended September 30, 2009 decreased by 19% to $29.3 million from $36.0 million in the 2008 comparable period due to the lower job count. In late March 2009, Canyon introduced cost-cutting measures resulting in a 36% and 42% reduction in the fixed component of operating costs in Q3 2009 and Q2 2009 respectively over Q1 2009. Canyon's current level of fixed operating costs will support a much higher level of activity, with the result that, when the industry returns to more normal activity levels, Canyon will incur fixed costs at a proportionately lesser rate for the additional job activity, as the necessary operating infrastructure is mostly in place.

Selling, General and Administrative Expenses ("SG&A")

Selling, general and administrative expenses before stock-based compensation expense were $4.8 million in the nine months ended September 30, 2009 compared to $5.2 million in the comparable 2008 period. The decrease is due to cost cutting measures introduced in late March 2009. Management expects that SG&A will grow at a proportionately lesser rate as the Company's operating activities continue to expand, as much of the back-office infrastructure necessary to support expanded operational activities is in place.

Stock-Based Compensation Expense

In the nine months ended September 30, 2009, the Company recorded stock-based compensation expense of $0.7 million compared to $0.6 million in the 2008 comparable period. Included in the current period's expense is $0.2 million accrued non-cash stock-based compensation expense relating to deferred share units which will vest commencing February 11, 2010, with an offsetting liability included in accounts payable and accrued liabilities.

EBITDA (See NON-GAAP MEASURES)

In the nine months ended September 30, 2009, EBITDA before stock-based compensation expense was negative $(1.1) million, down from the $2.2 million of EBITDA before stock based compensation expense recorded in the 2008 comparable period. The decrease is due to the lower job count and revenues in the nine months ended September 30, 2009. The 2009 EBITDA before stock based compensation expense of negative $(1.1) million consists of loss before income taxes of $(9.3) million, plus depreciation and amortization of $6.9 million, plus interest on long-term debt and other interest of $0.6 million, plus stock-based compensation expense $0.7 million. The comparable 2008 EBITDA before stock based compensation expense 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 and other interest of $1.2 million and stock based compensation expense of $0.6 million.

Interest Expense

Interest on long-term debt and other interest totals $0.6 million in the nine months ended September 30, 2009 compared to $1.2 million in the comparable 2008 period. The lower interest expense is mostly due to lower debt levels in the current period as the Company significantly reduced debt levels in the second half of 2008.

Depreciation Expense

Depreciation expense totaled $6.9 million in the nine months ended September 30 2009, largely unchanged from the $7.0 million recorded in the comparable 2008 period.

Income Tax Expense

At the expected combined income tax rate of 29.0%, loss before income taxes for the nine months ended September 30 2009 of $(9.3) million would have resulted in an expected income tax recovery of approximately $(2.7) million compared to the actual recovery of $(0.1) million. The expected future income tax recovery was reduced by $0.3 million as a result of the effect of stock based compensation and other

non-deductible expenses and $2.3 million as a result of the effect of a future income tax valuation allowance.

Net Loss and Loss per Share

Net loss and comprehensive loss totaled $(9.2) million for the nine months ended September 30 2009, compared to the net loss of $(6.3) million for the comparable 2008 period. The increase in net loss and comprehensive loss is due to the significant reduction in demand by E&P companies for well stimulation services in response to downward natural gas pricing pressures.

Basic and diluted loss per share for the nine months ended September 30, 2009 was $(0.41), compared to the basic and diluted loss per share of $(0.28) recorded in the comparable 2008 period.

Summary of Quarterly Results

($,000 except per share amounts-unaudited)

(1)		Revenues	EBITDA before stock-based compensation expense (2)	Net Income (loss)	Basic Income (Loss) per Share	Diluted Income (Loss) per Share
2009	Q3	$4,873	$(2,134)	$(4,738)	$(0.21)	$(0.21)
	Q2	$4,011	$(3,003)	$(5,389)	$(0.24)	$(0.24)
	Q1	$24,076	$4,017	$944	$0.04	$0.04
2008	Q4	$29,007	$7,636	$4,276	$0.19	$0.19
	Q3	$20,719	$4,135	$1,243	$0.06	$0.06
	Q2	$4,191	$(3,643)	$(6,564)	$(0.30)	$(0.30)
	Q1	$18,454	$1,669	$(984)	$(0.04)	$(0.04)
2007	Q4	$19,706	$3,272	$(1)	$0.00	$0.00

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

Note (2): See Non-GAAP Measure

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

In Q3 2009, the Company was severely impacted by the dramatic decrease in industry-wide demand for well stimulation services as E&P companies curtailed drilling expenditures in response to low natural gas prices. As a result, Canyon recorded revenues of $4.9 million and EBITDA before stock option expense of negative $(2.1) million and a net loss of $(4.7) million.

LIQUIDITY AND CAPITAL RESOURCES

Equity

There were 2,500 common shares issued by the Company during the three and nine months ended September 30, 2009 to employees upon exercise of options. On October 28, 2009, 10,000,000 common shares of Canyon were issued at $2.00 per common share pursuant to a bought deal prospectus offering (the "Offering"), and 15,000,000 common shares of Canyon were issued at $2.00 per common share pursuant to a concurrent private placement ("Concurrent Private Placement") with limited partnerships comprising ARC Energy Fund 6, for aggregate net proceeds of approximately $47 million. Canyon intends to use the proceeds of the Offering and the Concurrent Private Placement to fund the Company's capital program, to temporarily reduce bank indebtedness and for general corporate purposes.

Working Capital and Cash Requirements

Funds generated by the Company's operating activities amounted to negative $(2.3) million for the quarter ended September 30, 2009, compared to $3.7 million recorded in the comparable quarter of 2008. Reduced demand across the industry, as previously discussed accounted for the negative funds generated from operations in Q3 2009. For the nine months ended September 30, 2009, funds generated by the Company's operating activities amounted to negative $(1.6) million, compared to $0.9 million recorded in the 2008 comparable period. Again, the year to date results have been impacted by the significant curtailment in drilling activity by E&P companies in response to lower natural gas pricing.

As at September 30, 2009, Canyon had a working capital balance of $1.7 million compared to $4.5 million as at December 31, 2008. The Company's working capital position and available operating credit facilities exceed the level required to manage timing differences between cash collections and cash payments.

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

Debt Facilities

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

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

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

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

The Operating Facility is a demand revolving facility up to a maximum amount of $5.0 million and bears interest, payable monthly, at the bank's prime lending rate plus 1.25 percent and is secured by a general security agreement over all of the Company's assets. As at September 30, 2009, the net amount drawn on this facility was $2.6 million comprising a $2.6 million balance, less a cash balance of $0.04 million, to fund short-term differences in the timing of cash collections and payments to vendors. On October 30, 2009, this amount was repaid from the net proceeds of the equity financing.

As at September 30, 2009, Canyon's net debt including current and long-term portions, was $14.6 million (current liabilities of $5.6 million, plus long-term debt of $16.3 million, less current assets of $7.3 million) compared to the $12.2 million recorded as at December 31, 2008. The increase in net debt in the nine months ended September is mostly attributable to funds used in operations of $1.6 million and capital expenditures of $0.6 million

As at September 30, 2009, the Company's available credit facilities under its debt facilities total $15.9 million ($13.5 million under the Extendible Facility, $2.4 million under the Operating Facility and a cash balance of $0.0 million). The Company believes that it has access to sufficient capital through internally generated cash flows and available credit facilities to meet its obligations associated with financial liabilities

and capital expenditures. On October 28, 2009 the Company completed an equity financing for net proceeds of approximately $47 million to fund the Company's capital program, to temporarily reduce bank indebtedness and for general corporate purposes.

The balance of the debt facilities comprises automotive equipment loans totaling $0.3 million at September 30, 2009 ($0.5 million at December 31, 2008).

Capital Management

The Company's objectives when managing its capital structure are to maintain a balance between debt and capitalization so as to maintain investor, creditor and market confidence and to sustain future development of the business. Debt includes operating facility less cash, plus current portion of obligations under capital lease, plus current portion of long-term debt, plus obligations under capital lease, plus long-term debt. Capitalization is calculated as the debt, as described above, and shareholders' equity less intangible assets. The Company may be required to adjust its capital structure from time to time as a result of expansion activities.

The debt to capitalization ratios were as follows:

(Stated in dollars, except ratios)	September 30, 2009	December 31, 2008
Debt, less cash	$19,957,928	$18,394,371
Shareholders' equity (net of intangible assets)	78,845,879	87,466,003
Capitalization	$98,803,807	$105,860,374
Debt to capitalization ratio	0.20	0.17

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

- The Company is required to maintain a working capital ratio of not less than 1.25 to 1.00, calculated as at the end of each fiscal quarter;

- The company is required to maintain a ratio of total debt to total tangible net worth of not greater than 2.0 to 1.0, calculated as at the end of each fiscal quarter;

- As at the end of each fiscal quarter, the total outstanding balances under the Operating Facility and the Extendible Facility cannot exceed 50% of the net book value of property and equipment net of real estate assets;

- The Company's ratio of EBITDA (see NON-GAAP MEASURES) before stock option expense to total debt cannot be less than 1.25 to 1.00, calculated on an annual basis on December 31 of each year.

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

Contractual Obligations
As at September 30, 2009, Canyon's contractual obligations are summarized as follows:

	Total	Next 12 months	1 - 3 years	4 - 5 years	After 5 years
Operating facility	$2,570,289	$2,570,289	$ -	$ -	$ -
Long-term debt	17,387,639	1,079,797	16,307,842	-	-
Operating leases and office space	1,348,481	607,878	577,356	163,247	-
Total contractual obligations	$21,306,409	$4,257,964	$16,885,198	$163,247	$-

Capital Expenditures
Canyon's total capital expenditures for the nine months ended September 30, 2009 were $0.6 million for miscellaneous equipment and leasehold improvements and were financed by available credit facilities. As at September 30, 2009, Canyon's available aggregate credit facilities under its debt facilities total $15.9 million, as discussed above. Subsequent to the closing of the equity financing on October 28, 2009, Canyon has commenced a capital program which will be financed from the net proceeds received of approximately $47 million.

Outstanding Share, Warrant and Option Data
The following table summarizes Canyon's capitalization at September 30, 2009 and December 31, 2008.

	Outstanding Number as at	
	September 30, 2009	December 31, 2008
Common Shares	22,151,033	22,148,533
Warrants	550,000	550,000
Options	1,769,500	965,334

In the three months ended September 30, 2009, no warrants were issued to directors, officers and employees, 65,000 share options were granted to employees, no share options were exercised by employees and 9,334 share options were forfeited and no share options were cancelled by directors, officers and employees. For the nine months ended September 30, 2009, no warrants were issued, 944,000 share options were granted to directors, officers and employees, 2,500 share options were exercised by employees, 137,334 share options were forfeited by directors, officers and employees and no options were cancelled by directors, officers and employees.

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

On October 28, 2009, 10,000,000 common shares of Canyon were issued at $2.00 per common share pursuant to a bought deal prospectus offering (the "Offering"), and 15,000,000 common shares of Canyon were issued at $2.00 per common share pursuant to a concurrent private placement ("Concurrent Private Placement") with limited partnerships comprising ARC Energy Fund 6, for aggregate net proceeds of approximately $47 million.

Financial Instruments

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

Off-Balance Sheet Arrangements

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

NON-GAAP MEASURES

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

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

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

	Three months ended September 30		Nine Months ended September 30	
	2009	2008	2009	2008
EBITDA before stock-based compensation expense	$(2,134,427)	$4,134,589	$(1,120,405)	$2,160,508
Add (Deduct):				
Depreciation and amortization	(2,299,031)	(2,284,163)	(6,888,935)	(7,020,856)
Other interest	(26,200)	(44,313)	(57,138)	(136,962)
Interest on long-term debt	(151,062)	(368,989)	(464,217)	(1,105,495)
Stock-based compensation	(127,657)	(194,223)	(721,793)	(597,689)
Income taxes	-	-	69,550	395,727
Net loss and comprehensive loss	$(4,738,377)	$1,242,901	$(9,182,938)	$(6,304,767)

CRITICAL ACCOUNTING ESTIMATES

In the preparation of the Company's consolidated financial statements, management has made estimates that affect the recorded amounts of certain assets, liabilities, revenues and expenses. Actual results could differ from these estimates. Estimates and judgments used are based on management's experience and the assumptions used are believed to be reasonable given the circumstances that exist at the time the consolidated financial statements are prepared. The Company considers the following to be its critical accounting policies and estimates:

Revenue Recognition – Accounts Receivable

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

Company management regularly reviews outstanding accounts receivables and follows up with customers when settlement has not occurred on a timely basis. A bad debt allowance of $0.3 million has been established as at September 30, 2009 based on management's assessment of the Company's accounts receivable collection history. This assessment of collectability involves significant judgment and frequently involves material dollar amounts. As such, the Company's operating results could be affected if bad debts in excess of the allowance are actually experienced.

Depreciation of Property and Equipment

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

Intangible Assets

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

Long-lived Assets

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

Income Taxes

The Company follows the asset and 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

Other than as disclosed in the Consolidated Financial Statements and Notes as at and for the three and nine months ended September 30, 2009 there were no other new accounting standards enacted that would affect the Company's Consolidated Financial Statements nor did the Company change any of its existing accounting policies from those used in 2008.

INTERNATIONAL FINANCIAL REPORTING STANDARDS UPDATE

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

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

Overall responsibility for the successful implementation of the Company's conversion plan lies with Canyon's senior financial management who report to and are overseen by the Company's Audit Committee

of the Board of Directors. Canyon has commenced training key employees and will continue throughout the conversion process. In addition, regular reporting is provided to the Company's senior executive management and to the Audit Committee.

RELATED PARTY TRANSACTIONS

In July, 2007, the Company established a Deferred Share Unit Plan. Under this Plan, upon acceptance of the Company's offer of employment, the President was granted 800,000 units with base values varying between $5.00 and $8.65 per unit. Effective February, 2009, the number of units granted was modified to 600,000 and the base values were modified to between $1.25 and $2.00 per unit in response to market conditions. The term of the plan is 5 years, and at that time the President will receive a cash amount equal to the market value of the Company's shares in excess of the base value of the deferred share units. The deferred share units will be recorded as a liability and revalued at each reporting period. In the three and nine months ended September 30, 2009, the Company recorded compensation costs of $178,091 (2008 - nil) related to the outstanding deferred share units, and this obligation is reflected in accounts payable and accrued liabilities.

RISK FACTORS AND RISK MANAGEMENT

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

Business Risks

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

Seasonality

There is greater demand for oilfield services provided by the Company in western Canada in the winter season when the occurrence of freezing permits the movement and operation of heavy equipment. Consequently, oilfield services activities tend to increase in the fall and peak in the winter months of November through March. The volatility in the weather can therefore create unpredictability in activity and

utilization rates, which could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

Intangible Property

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

Competition

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

Reliance on Personnel

The success of the Company is dependent on attracting and retaining skilled personnel. To support the new service line offerings, the Company has 177 full time staff at September 30, 2009 compared to 241 at the beginning of the year.

Equipment

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

Credit Risk

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

Interest Rate Risk

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

Dependence on Suppliers

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

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

Dependence on Major Customers

The Company has a customer base of more than 60 E&P entities, ranging from large multinational public entities to small private companies. Notwithstanding the Company's significant customer base, 40% of the Company's revenue for the nine months ended September 30, 2009 was earned from three large customers. The Company has historically had a stable relationship with these customers and has no reason to believe there will be any change to this relationship in the future. The Company continuously makes efforts to expand its customer base.

Vulnerability to Market Changes

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

Government Regulation

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

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

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

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

Environmental Liability

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

DISCLOSURE CONTROLS

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

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

INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

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

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FORWARD-LOOKING STATEMENTS

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

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

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

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