Management's Discussion and Analysis

THREE MONTHS ENDED MARCH 31, 2010

This management discussion and analysis (MD&A) is dated May 12, 2010, and should be read in conjunction with the Consolidated Financial Statements and Notes of Canyon Services Group Inc. ("Canyon" or the "Company") as at and for the three months ending March 31, 2010 and March 31, 2009, and should also be read in conjunction with the Audited Consolidated Financial Statements for the years ended December 31, 2009 and 2008. Additional information relating to the Company, including the Company's Annual Information Form for the year ended December 31, 2009, is available on SEDAR at www.sedar.com.

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

OVERVIEW OF FIRST QUARTER 2010

In Q1 2010, Canyon continued to implement its strategy of improving its market share in the deep basin of Northwest Alberta and Northeast British Columbia. Canyon's increased equipment fleet capacity, which averaged 50,000 hydraulic horsepower ("HHP") in Q1 2010, combined with a much improved operating environment for the well stimulation industry resulted in record total revenues and EBITDA before stock option expense of $41.5 million and $16.1 million, respectively. This represents a 72% revenue increase and a 303% EBITDA increase over Q1 2009. Average consolidated revenue per job increased to $62,646 in Q1 2010, representing 30% growth over the fourth quarter of 2009 and a 31% increase over Q1 2009. A shift to larger, higher-priced jobs and improved pricing were the leading factors for the strong revenue performance and higher average revenue per job.

In Q1 2010, Canyon has seen its customers expand their capital expenditure programs with a focus on pressure pumping intensive resource plays requiring significantly more HHP capacity to complete the well. As a result, HHP capacity was in strong demand during Q1 2010 allowing pressure pumping companies to improve prices over historically low levels experienced in 2009. The industry recovery was underpinned by strong oil prices and increased activity in emerging and established oil plays such as the Cardium and Bakken. In addition, natural gas resource plays in Northeast British Columbia and Northwest Alberta such as the Montney and Horn River were also very active. Well licenses issued and drilling rig utilization rates for Q1 2010 were higher by 22% and 47% respectively over the comparable quarter of 2009. Importantly, E&P companies have increased proportionately the number of oil wells drilled which accounted for about 50% of all wells drilled in the Western Canadian Sedimentary Basin ("WCSB") in Q1 2010 compared to about 30% historically. Also, the higher oil prices have improved the economics of liquids-rich natural gas plays, helping to offset the impact of the ongoing weakness of natural gas prices. In Q1 2010, average WTI oil prices have remained strong averaging $78.68 US per barrel, 3% higher than the average price for the previous quarter, but 82% higher than Q1 2009. The average Nymex natural gas spot price remained relatively unchanged in Q1 2010 at $4.99 US per mcf, 1% higher than the previous quarter and 12% higher than Q1 2009.

Canyon exited Q1 2010 with approximately 75,000 HHP and averaged approximately 50,000 HHP throughout the quarter. Subsequent to the quarter, Canyon closed a $47 million equity financing. The net proceeds of the financing will be used to fund the expansion of the pressure pumping equipment fleet to 125,000. The additional HHP is expected to be delivered by year end 2010.

The operating and financial highlights for the three months ended March 31, 2010 may be summarized as follows:

Operating and Financial Highlights

- In Q1 2010, Canyon's consolidated revenues increased by 72% to a record $41.5 million from $24.1 million in Q1 2009, while jobs completed in the current quarter increased by 32% to 661, from 502 jobs completed in Q1 2009.

- Canyon exited Q1 2010 with approximately 75,000 HHP and averaged approximately 50,000 HHP throughout the quarter. The equipment fleet capacity is projected to increase to 125,000 HHP by the end of the 2010 year.

- Average consolidated revenues per job increased by 30% to $62,646 in Q1 2010 from $48,252 in the previous quarter when the industry-wide recovery in activity levels was first observed. The increase in average revenues per job was attributable to Canyon's continuing success in penetrating the deeper segments of the market and to improved pricing.

- Canyon's continued penetration into the deeper segments of the market resulted in the Hydraulic Fracturing Division contributing 83% of consolidated revenues during the quarter, or $34.4 million, compared to 47%, or $11 million, in the first quarter of 2009. The average revenue per job within this division increased by 34% in Q1 2010 over Q1 2009.

- Approximately 70% of the consolidated total revenue is generated from fracturing operations in the deep basins of NW Alberta and NE BC.

- EBITDA before stock based compensation expense (see Non-GAAP Measures) quadrupled to $16.1 million in Q1 2010 from $4.0 million in Q1 2009, mainly due to higher industry activity, a shift to completing larger jobs, improved pricing and fixed costs remaining largely unchanged.

- Fixed operating costs and selling, general and administrative costs increased by only 3% in Q1 2010 compared to Q1 2009 as most of the infrastructure to support the higher revenues was already in place.

- Net income was recorded at $12.0 million in Q1 2010, a thirteen-fold increase from the $0.9 million recorded in Q1 2009.

- On April 6, 2010, the Company closed its previously announced bought deal equity financing and issued 12,305,000 common shares at a price of $3.80 per common share for total gross proceeds of $46.8 million. The net proceeds, estimated at $44.0 million, will be used to fund Canyon's expanded capital expenditure program.

- Capital expenditure programs commencing in November 2009 and totaling $89 million are well underway. In addition to the $16 million spent in Q4 2009, Canyon invested an additional $20 million in Q1, 2010. The remaining $53 million will be funded from the $44 million of net proceeds from the April 2010 equity offering, funds from operations and available credit facilities. The program is expected to be completed by year end 2010. The combined capital expenditure programs will add approximately 100,000 HHP of additional pumping equipment, high rate blending equipment, and sand transportation and storage equipment.

- As at March 31, 2010, the Company’s available cash and credit facilities total $37.8 million.

2010 OUTLOOK

Canyon will continue to implement its corporate strategy to transition our operations and sales focus away from shallow gas in Southeast Alberta to deep, tight, sand and shale resource plays in Northwest Alberta, Northeast British Columbia and Saskatchewan. These plays require much more intensive, pumping services to complete the well and often require multi-stage fracturing as part of a horizontal well completion design. Canyon successfully expanded its operations into these plays and with exceptional performance in the field. The Company continues to capture market share and secure long-term projects with well capitalized customers exploring for developing plays targeting Montney natural gas and Cardium oil. In Q1 2010, our work in these deeper resource type plays represented over 70% of Canyon's consolidated revenues and we expect this trend to continue over the remainder of 2010 and 2011.

One of the most critical elements of implementing our strategy to move into the deeper, multistage areas of the basin was to expand our hydraulic division. In October 2009, Canyon raised $50 million of equity capital and used the net proceeds to purchase 50,000 HHP and high-rate blenders to our fleet of hydraulic pumping equipment. This capital expansion program has increased equipment capacity to approximately 75,000 HHP. In April 2010, Canyon raised a further $47 million of equity capital and has commenced an additional capital expansion program to add another 50,000 HHP, high-rate blenders and associated sand storage and handling to our fleet of hydraulic pumping equipment. Canyon is building 2,500 HHP heavy-duty pumps that are more suitable for deep, higher pressure jobs that have longer pumping durations. By year end 2010, we expect to have 125,000 HHP of equipment capacity in place to service our customers.

As we look out for the remainder of 2010 and into 2011, it appears that industry conditions will remain robust compared to 2009. Despite a weak natural gas price environment, our customers are expanding their capital programs and remain focused on pressure pumping intensive resource plays. Canyon will continue to implement its strategy of measured growth in the deep basin of Northwest Alberta and Northeast British Columbia to benefit from our customers' increased activity in shale and tight sand natural gas plays. We are also continuing to target oil and liquids-rich natural gas plays such as Cardium, Bakken, Shaunavan. To increase our exposure to these oil plays Canyon is proceeding to open an operating base in Southeast Saskatchewan in preparation for second half of 2010 activity.

As a result, Canyon expects significantly improved financial and operating results in 2010, compared to 2009. Already in the first quarter of 2010, Canyon's consolidated revenues of $41.5 million equal 88% of annual 2009 consolidated revenues. Even with spring break-up continuing to restrict equipment mobility in March and April, Canyon was able to continue working especially in the northern areas of the WCSB. We expect Q2 2010 revenues to be a significant improvement over revenues for Q2 2009. Canyon will also seek to operate as cost-effectively as possible and remain ready to respond to changing industry conditions.

QUARTERLY COMPARATIVE STATEMENTS OF OPERATIONS

Quarter Ended	March 31, 2010	March 31, 2009
	(unaudited)	(unaudited)
Revenues	$41,459,800	$24,075,659
Expenses		
Operating	23,361,610	18,286,419
Selling, general and administrative	1,951,199	1,772,547
Stock-based compensation expense	1,126,059	171,756
Interest on long-term debt	22,494	142,240
Other interest	33,948	22,109
Depreciation and amortization	2,652,567	2,299,355
Income before income taxes	12,311,923	1,381,233
Income taxes-future	295,169	436,793
	295,169	436,793
Net income and comprehensive income	$12,016,754	$944,440
EBITDA before stock option expense [(1)]	$16,146,991	$4,016,693
Income per share:		
Basic	$0.25	$0.04
Diluted	$0.25	$0.04

Note (1): See Non-GAAP Measures.

Revenues

Consolidated revenues for Q1 2010 increased by 72% to a record $41.5 million compared to the $24.1 million earned in Q1 2009. Jobs completed in the current quarter increased by 32% to 661, from 502 jobs completed in Q1 2009. The increase in average revenues per job to $62,646 in Q1 2010 from $48,252 in Q1 2009 was attributable to Canyon's continuing success in penetrating the deeper segments of the market and to improved pricing.

Operating Expenses

Operating expenses in Q1 2010 were $23.4 million, or 56% of revenues, compared to $18.3 million, or 76% of revenues, for the comparable quarter of 2009. Operating costs include a significant fixed component comprising salaries and wages for field and support staff, insurance, licenses and registrations for the equipment fleet, safety, laboratory, communications, and operating base costs. Despite the increase in activity Canyon has maintained control over these costs, posting virtually identical numbers in the first quarter of 2010 and 2009.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased to $2.0 million in Q1 2010 from $1.8 million in Q1 2009 primarily due to the increases in sales and marketing expenses .

Stock-Based Compensation Expense

Stock-based compensation expense represents the value assigned to the granting of options and incentive-based units under the Company's Share Purchase Option Plan and Stock Based Compensation Plan respectively, using the Black-Scholes model. For Q1 2010, $0.2 million (2009 - $0.2 million) was charged to expenses and included in contributed surplus in respect of these two plans. In addition, obligations for payments under the Company's Deferred Share Unit Plan are accrued as stock-based compensation expense over the vesting period. The accrued liability increases or decreases with fluctuations in the price of the Company's common shares, with a corresponding increase or decrease in the stock-based compensation expense. This expense totaled $0.9 million for Q1 2010 (Q1 2009 - $nil) and is included in accounts payable and accrued liabilities.

EBITDA (See Non-GAAP Measures)

In Q1 2010, the shift to completing larger jobs, improved pricing and fixed costs remaining largely unchanged has resulted in EBITDA before stock based compensation expense of $16.1 million, significantly higher than the amount of $4.0 million recorded in Q1 2009. The Q1 2010 EBITDA before stock based compensation expense of $16.1 million consists of income before income taxes of $12.3 million, plus depreciation and amortization of $2.6 million, plus interest on long-term debt and other interest of $0.1 million, plus stock-based compensation expense of $1.1 million. The comparable Q1 2009 EBITDA before stock based compensation expense of $4.0 million consists of income before income taxes of $1.4 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 $0.2 million.

Interest Expense

Interest on long-term debt and other interest was $0.1 million for Q1 2010, compared to $0.2 million for Q1 2009. The decrease is due to lower debt levels following repayment of $20 million from the net proceeds of the October 2009 equity financing.

Depreciation Expense

Depreciation expense was recorded at $2.6 million in Q1 2010, compared to the $2.3 million recorded in Q1 2009. The increase is due to the addition of equipment in late 2009 and Q1 2010 funded from the net proceeds of the October 2009 equity financing. Commencing with Q1 2010, Canyon reassessed the salvage value estimate for fracturing equipment resulting in additional depreciation expense of $0.1 million in the quarter.

Income Tax Expense

At the expected combined income tax rate of 28.0%, the net income before income taxes for Q1 2010 of $12.3 million would have resulted in an expected income tax expense of $3.4 million compared to an actual expense of $0.3 million. The expected future income tax expense was increased by $0.1 million as a result of the effect of stock based compensation expense, other non-deductible expenses and future tax rate differences, and reduced by $3.2 million as a result of the effect of a decrease in a future income tax valuation allowance.

Net Income and Comprehensive Income and Income per Share

Net comprehensive income totaled $12.0 million for Q1 2010, compared to $0.9 million in Q1 2009. The increase in net comprehensive income is due to the significant increase in demand by exploration and production companies for well stimulation services in response to industry recovery.

For the quarter ended March 31, 2010, basic and diluted income per share was $0.25, compared to basic and diluted income per share of $0.04 recorded in Q1 2009.

Summary of Quarterly Results

($,000 except per share amounts-unaudited)

(1)		Revenues	EBITDA before stock-based compensation expense (2)	Net Comprehensive Income (loss)	Basic Income (Loss) per Share	Diluted Income (Loss) per Share
2010	Q1	$41,460	$16,147	$12,017	$0.25	$0.25
2009	Q4	$13,972	$1,367	$(1,876)	$(0.05)	$(0.05)
	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)

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

Note (2): See Non-GAAP Measures

The 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 Q3 2009 and Q4 2009. Over the latter half of 2008, Canyon 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 in Q3 2009 which is normally a profitable quarter. In Q4 2009, a gradual recovery in industry activity resulted in positive EBITDA before stock option expense of $1.4 million and a net loss of $1.9 million. This recovery in activity has continued through Q1 2010, resulting in dramatic improvement of financial results to a positive EBITDA before stock option expense of $16.1 million and a net income of $12.3 million.

LIQUIDITY AND CAPITAL RESOURCES

Equity

On October 28, 2009, Canyon issued 10,000,000 common shares at $2.00 per common share pursuant to a bought deal prospectus offering (the "Offering"), and 15,000,000 common shares 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 gross proceeds of $50 million. The net proceeds of the Offering and the Concurrent Private Placement of $47 million were used to temporarily reduce bank indebtedness and to fund a $45 million capital program which commenced in Q4 2009.

Subsequent to the end of the first quarter Canyon issued an additional 12,305,000 common shares on April 6, 2010 at $3.80 per common share pursuant to a bought deal prospectus offering (2010 Offering) for gross proceeds of $46 million. The net proceeds of the 2010 Offering, estimated at $44 million, will be used to fund an additional capital program consisting of the construction of approximately 50,000 horsepower of additional hydraulic pumping equipment, high rate blending equipment, and sand transportation and storage equipment. A total of $36 million has been spent on the combined capital programs as at March 31, 2010.

In addition, there were 169,399 common shares issued by the Company during the three months ended March 31, 2010 respectively to employees and officers upon exercise of options, and 40,000 common shares issued to a director upon conversion of incentive-based units.

Working Capital and Cash Requirements

Funds generated by the Company's operating activities amounted to $16.1 million for the quarter ended March 31, 2010, compared to $3.9 million recorded in the comparable quarter of 2009. The improved state of the industry, Canyon's success in completing larger jobs and improved pricing, as previously discussed, accounted for the increased funds generated from operations in Q1 2010.

As at March 31, 2010, Canyon had a working capital balance of $12.9 million compared to $17.4 million as at December 31, 2009. The decrease in working capital is mainly due to a decrease in cash and cash equivalents to fund capital expenditures, and an increase in accounts payable and accrued liabilities due to an increase in Canyon's business and capital costs, partially offset by an increase in accounts receivable due to higher sales revenues. The Company's working capital position and available operating credit facilities exceed the level required to manage timing differences between cash collections and cash payments.

The Company continually monitors individual customer trade receivables, taking into account numerous factors including industry conditions, payment history and financial condition in assessing credit risk. The Company establishes an allowance for doubtful accounts for specifically identifiable customer balances which are assessed to have credit risk exposure. As at March 31, 2010, the Company provided an allowance of $0.3 million for doubtful receivables.

Debt Facilities

As at March 31, 2010, the Company's available credit facilities under its debt facilities total $37.8 million ($31.0 million under the Extendible Facility, $5.0 million under the Operating Facility and a cash balance of $1.8 million)

The balance of the debt facilities comprises automotive equipment loans totaling $0.2 million at March 31, 2010 ($0.3 million at December 31, 2009).

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 long-term debt, plus long-term debt. Capitalization is calculated as the debt, as described above, and shareholders' equity less intangible assets. The Company also manages its capital structure to ensure compliance with the financial covenants on its credit facilities. 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)	March 31, 2010	December 31, 2009
Debt (net of cash)	$ -	$ -
Shareholders' equity (net of intangible assets)	136,885,906	124,524,838
Capitalization	$136,885,906	$124,524,838
Debt to capitalization ratio	$ -	$ -

The Company 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. Tangible net worth is defined as shareholders' equity excluding intangibles and goodwill;

- 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 income (loss) before income taxes, plus depreciation and amortization, plus interest on long-term debt and other interest, plus stock-based compensation expense to total debt is calculated on an annual basis on December 31 of each year.

- As of March 31, 2010, the Company is in compliance with each of the above financial covenants and fully expects to be in compliance as of December 31, 2010.

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.

Contractual Obligations

As at March 31, 2010, Canyon's contractual obligations are summarized as follows:

	Total	Next 12 months	1 - 3 years	4 - 5 years	After 5 years
Operating facility	$ -	$ -	$ -	$ -	$ -
Current and Long-term debt	240,486	153,363	87,123	-	-
Operating leases and office space	2,018,815	732,107	1,139,988	146,720	-
Capital Expenditure Commitments	12,821,729	12,821,729	-	-	-
Total contractual obligations	$15,081,030	$13,707,199	$1,227,111	$146,720	$ -

Capital Expenditures

In November 2009, Canyon commenced a previously announced $45.4 million capital program ("Capital Program 1") to add 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. This capital program is expected to be completed in Q2 2010 and has resulted in the capacity of Canyon's fracturing equipment fleet increasing to approximately 75,000 hydraulic horsepower as at March 31, 2010. As at March 31, 2010, Canyon has incurred $34.6 million on this capital program. The balance of $10.8 million will be funded from funds from operations and available bank facilities.

In April 2010, Canyon commenced an additional capital program ("Capital Program 2") to add a further 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. Capital Program 2 is estimated to cost $44.0 million of which $1.1 million had been paid for deposits at March 31, 2010. This program will be funded from the net proceeds estimated at $44.0 million of the bought deal prospectus offering which was completed on April 6, 2010. This capital program is expected to be completed by year end 2010.

In aggregate, Canyon's capital programs total $89.4 million, of which $16.1 million was spent in 2009. For the 2010 year, capital costs are forecast at $73.3 million of which $19.9 million has been incurred in Q1 2010. The balance of $53.4 million will be funded from the $44.0 net proceeds of the April 2010 equity offering, funds from operations and available debt facilities. As at March 31, 2010, the Company's available credit facilities under its debt facilities total $37.8 million.

Outstanding Share, Warrant and Option Data

The following table summarizes Canyon's capitalization at March 31, 2010 and December 31, 2009.

	Outstanding Shares as at		
	April 30, 2010	March 31, 2010	December 31, 2009
Common Shares	59,741,599	47,371,432	47,162,033
Warrants	550,000	550,000	550,000
Options	2,442,267	2,507,101	1,746,667

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 gross proceeds of $50 million and net proceed of approximately $47 million.

On April 6, 2010, 12,305,000 common shares of Canyon were issued at $3.80 per common share pursuant to a bought deal prospectus offering as discussed at Equity above.

In the three months ended March 31, 2010, no warrants were issued to directors, officers and employees, 944,000 share options were granted to employees and officers at an average price of $2.46 per option, 169,399 share options were exercised by directors, officers and employees and 14,167 share options were forfeited.

FINANCIAL INSTRUMENTS

Fair Values

The carrying values of accounts receivable, income taxes receivable, bank indebtedness, accounts payable and accrued liabilities, distributions payable, income taxes payable and obligations under capital leases approximate their fair value due to the relatively short periods to maturity of the instruments. Long-term debt utilizes a combination of short term fixed rates through the use of 30 to 90 day Banker's Acceptance and floating rates and accordingly its fair market value approximates its carrying value.

Interest Rate Risk

The Company manages its interest rate risk on borrowings by utilizing a combination of short-term fixed rates through the use of 30 to 90 day Banker's Acceptance rates and floating rates on debt. For the period ended March 31, 2010, the outstanding debt, comprising automobile loans, was at fixed rates.

Foreign Currency Risk

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

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements as at March 31, 2010, 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-based 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 comprehensive income (loss) under GAAP as disclosed in the consolidated statements of operations to EBITDA before stock compensation expense.

	Three months ended March 31 (Unaudited)	
	2010	2009
EBITDA before stock compensation expense	$16,146,991	$4,016,693
Add (Deduct):		
Depreciation and amortization	(2,652,567)	(2,299,355)
Interest on long-term debt	(22,494)	(142,240)
Other interest	(33,948)	(22,109)
Stock-based compensation	(1,126,059)	(171,756)
Income taxes	(295,169)	(436,793)
Net comprehensive income	$12,016,754	$944,440

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. Please refer to the notes to the consolidated financial statements for the quarter ended March 31, 2010 for a description of the accounting policies of the Company. The Company considers the following to be its critical accounting policies and estimates:

Revenue Recognition – Estimates of Collectability of 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 March 31, 2010 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 Q1 2010, Canyon reassessed the salvage value estimate for fracturing equipment in computing the depreciation charge based on new information received from the equipment manufacturer. The impact of this change will be to increase the deprecation expense by approximately $0.5 million per annum.

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 assessed to determine if a write down to its estimated fair value is required. The value of intangible assets was assessed for impairment. No write-down was 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 was 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

Goodwill and Intangible Assets

Effective January 1, 2009, the company prospectively adopted the new accounting recommendation from the Canadian Institute of Charted Accountants ("CICA"), Handbook Section 3064, Goodwill and intangible assets, replacing previous guidance. The new section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets subsequent to its initial recognition. Implementation of this standard did not have a material impact on the Company's financial statements.

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 2009.

RECENT CANADIAN ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED

The CICA issued three new accounting standards in January 2009: Section 1582, Business Combinations, Section 1601, Consolidated Financial Statements and Section 1602, Non-Controlling interests. These new standards harmonize the Canadian Standards with IRFS and will be effective for fiscal years beginning on or after January 1, 2011. The Company is in the process of evaluating the requirements of these new standards.

Section 1582 replaces section 1581 and establishes standards for the accounting for a business combination, and applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Sections 1601 and 1602 together replace section 1600, Consolidated Financial Statements. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1601 applies to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Section 1602 establishes standards for accounting for non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination and applies to the interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011

INTERNATIONAL FINANCIAL REPORTING STANDARDS UPDATE

Canadian publicly accountable profit-oriented enterprises will be required to retrospectively adopt International Financial Reporting Standards (IFRS) for financial periods beginning on or after January 1, 2011. IFRS will replace Canadian generally accepted accounting principles ("GAAP"). As a result, the Company must report its results of operations in accordance with IFRS beginning January 1, 2011 and restate, for comparative purposes, amounts reported for the year ended December 31, 2010, including the opening balance sheet as at January 1, 2010. The Company expects the conversion to IFRS will impact accounting, financial reporting, internal controls over financial reporting, taxes and IT systems and procedures.

In 2008, the Company commenced the process to transition from current Canadian GAAP to IFRS. 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. In addition, regular reporting is provided to the Company's senior executive management and to the Audit Committee. Key personnel within the finance, accounting and operations functions, supplemented by external advisors, are assisting in the conversion process. Training has also commenced through external IFRS courses and workshops.

IFRS Plan

Canyon's conversion project consists of three phases: diagnostic, standards design and implementation.

Diagnostic phase: This phase involved identification of the key differences between Canadian GAAP and IFRS and included a ranking of the IFRS standards based on their anticipated impact on Canyon's consolidated financial statements and the effort their implementation requires. The diagnostic analysis began in 2008 and was completed in 2009.

Standards design phase: This phase includes the selection of the accounting policies that Canyon will adopt, selection of IFRS exemptions at the date of transition, and calculation of the quantitative impact on the consolidated financial statements. This phase will also consider the impact on Canyon's IT systems, internal controls over financial reporting and disclosure controls and procedures. The standards design phase is in progress since late 2008 and also includes working with peer companies since mid-2009 to select, where appropriate, accounting policies in an effort to facilitate comparability. This phase will be completed in the second half of 2010 as Canyon works towards selecting the IFRS accounting policies and exemptions and assesses the need for systems and procedural changes, if any.

Implementation phase: This phase includes the conversion of the opening balance sheet as at January 1, 2010 from Canadian GAAP to IFRS, and the preparation of IFRS interim and annual financial statements and notes. Canyon is targeting the second half of 2010 to complete draft 2010 IFRS consolidated financial statements and notes. This implementation phase will be completed after issuance of the 2011 audited consolidated financial statements.

First-Time Adoption of IFRS

In 2009, Canyon completed the diagnostic phase which was a high level assessment that identified the key areas where the implementation of IFRS is likely to have a significant impact on the financial statements of the Company. IFRS 1, "First Time Adoption of International Financial Reporting Standards" establishes the requirements for preparing financial statements using IFRS for the first time. In general, IFRS 1 requires that the IFRS accounting policies selected be applied to the financial statements retrospectively. However, IFRS 1 offers elective exemptions that can avoid the otherwise required full retrospective application of IFRS. The most significant of these elective exemptions for Canyon to consider are:

- *Property and equipment:* In valuing property and equipment at the date of the transition to IFRS, Canyon has the choice of using fair value or recalculating the net book value using IFRS accounting policies.

- *Share-based payments:* IFRS 1 allows Canyon to not account for share-based transactions retrospectively for stock options granted and vested prior to the IFRS transition date.

IFRS Differences

At this time, Canyon has identified key differences between Canadian GAAP and IFRS that will likely impact the financial statements, which include the following:

- *Property and equipment:* Since component accounting will be strictly applied under IFRS, Canyon is presently segmenting major equipment units into individual components with appropriate asset lives and residual values, in accordance with IFRS requirements. IFRS requires breaking down material property and equipment assets into components and amortizing each one separately.

- *Impairment of property and equipment:* Impairment calculations will be performed at the cash generating unit level and will be based on discounted cash flows rather than undiscounted cash flows as under Canadian GAAP. As a result, impairment charges under IFRS may be more frequent.

- *Share-based payments:* Under IFRS, share-based awards that vest in installments must be accounted for as though each installment is a separate award. The fair value is required to be measured separately for each installment and is recognized over the vesting period of each installment. This will result in the front-loading of compensation expense.

- *Lease Accounting:* IFRS provides certain indicators beyond those explicitly addressed under Canadian GAAP that may lead to the conclusion that an operating lease is a capital or finance lease.

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, management has not yet finalized the Company's accounting policies under IFRS and as such is unable to determine the financial impact of adopting IFRS on the financial statements. In addition, anticipated changes to IFRS arising after the date of this MD&A could also impact the financial statements after transition to IFRS.

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 based on their intrinsic value. In the three months ended March 31, 2010, the Company recorded compensation costs of $935,515 (2009-nil) related to the outstanding deferred share units, and this obligation is reflected in accounts payable and accrued liabilities.

Concurrent with the closing of the Concurrent Private Placement, Canyon entered into an Investment Rights Agreement with ARC Financial Corp. ("ARC"). Please refer to "Liquidity and Capital Resources" above. Pursuant to the Investment Rights Agreement, ARC has the right to nominate one representative as a director of Canyon for so long as ARC owns or exercises control or direction over 15% or more of the outstanding common shares of Canyon. ARC also has the right to nominate one additional director of Canyon, to be acceptable to the President of Canyon and approved by the board of directors of Canyon, and such additional director shall not be a director, officer or employee of ARC unless otherwise agreed by the board of directors of Canyon.

RISK FACTORS AND RISK MANAGEMENT

Readers of the Company's interim report should carefully consider the risks described under the heading "Risk Factors" in the Company's Annual Information Form for the quarter ended March 31, 2010. In addition, readers should also consider the following principal risks.

Industry Conditions

The demand, pricing and terms for oilfield services in the Company's service areas largely depend upon the level of exploration and development activity for 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 oil and natural gas reservoirs; and weather conditions. As a result, the level of activity in the oil and natural gas exploration and production industry is volatile. A material decline in oil or natural gas prices or industry activity could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows. Conversely, during periods of high commodity prices, when customers' cash flows increase, the demand for Canyon's services can also increase.

Seasonality

There is greater demand for oilfield services provided by the Company in 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. Any loss of key personnel could adversely affect the Company's business. To support the new service line offerings, the Company has 254 full time staff at March 31, 2010 compared to 194 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. Canyon commenced a $45 million capital program in November 2009 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.

Canyon also commenced a $44 million capital program in April 2010 to add an additional 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. This additional expansion was commenced to meet increasing market demand for higher horsepower equipment for use on deeper wells in Northwest Alberta and Northeast British Columbia. Following the completion of this additional capital program scheduled for Q1 2011 Canyon's fracturing equipment fleet will increase to approximately 125,000 hydraulic horsepower, providing Canyon with a significant fleet of custom-designed equipment and related parts to support its multiple customers.

Credit Risk

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

Interest Rate Risk

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

Dependence on Suppliers

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

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

Dependence on Major Customers

The Company has a customer base of more than 60 exploration and production entities, ranging from large multinational public entities to small private companies. Notwithstanding the Company's significant customer base, three customers account for 52% of the Company's accounts receivable as at March 31, 2010, and 45% of the Company's revenue for the three months ended March 31, 2010. 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.

In 2009, the Alberta Government revised its royalty program and issued amendments which favour the oil and natural gas industry. However there is a risk that future amendments could have a non-favourable impact on the Corporation, 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 of the recent changes in the Alberta royalty regime.

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 March 31, 2010 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 March 31, 2010.

The Certifying Officers of Canyon are responsible for establishing and maintaining adequate internal control and financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. 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 March 31, 2010 in all material respects. There are no material weaknesses in the Company's internal controls over financial reporting as of March 31, 2010.

There have been no changes in the Company’s internal controls over financial reporting during the three months period ending March 31, 2010 that have materially affected, or are reasonably likely to affect, Canyon’s internal controls over financial reporting.

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.