Management's Discussion and Analysis

SIX MONTHS ENDED JUNE 30, 2010

This management discussion and analysis (MD&A) is dated August 3, 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 and six months ending June 30, 2010 and June 30, 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 SECOND QUARTER 2010

000's except per share and job amounts	Three months ended June 30		Six months ended June 30	
	2010	**2009**	**2010**	**2009**
Consolidated revenues	$22,817	$4,011	$64,276	$28,087
Operating income (loss)(1)	$5,228	$(1,381)	$23,326	$4,408
Net income (loss)	$340	$(5,389)	$12,357	$(4,445)
Per share-basic	$0.01	$(0.24)	$0.23	$(0.20)
Per share-diluted	$0.01	$(0.24)	$0.23	$(0.20)
EBITDA before stock option expense (1)	$3,254	$(3,003)	$19,401	$1,014
Capital expenditures	$19,686	$178	$39,572	$337
Long term debt	$58	$16,782	$58	$16,782
Working capital	$40,532	$4,757	$40,532	$4,757
Total jobs completed	308	97	969	599
Consolidated average revenue per job	$73,871	$41,193	$66,214	$46,857

Note (1): See Non-GAAP Measures

So far, 2010 has experienced much improved operating conditions across the well stimulation industry. The second quarter also experienced better than expected activity levels as many exploration and production ("E&P") companies worked through spring break-up to complete new wells plus wells drilled in their winter drilling programs, in advance of anticipated increased activity in the second half of 2010.

In Q2 2010, Canyon achieved a significant improvement in operating and financial results compared to Q2 2009. Canyon recorded total revenues of $22.8 million, almost six times the revenue of $4.0 million recorded in Q2 2009. For the first time in the Company's history, Canyon achieved positive EBITDA (before stock option expense) in the quarter totaling $3.4 million, compared to negative $3.0 million in Q2 2009. Average consolidated revenue per job has increased significantly to $73,871 in Q2 2010, representing a 79% increase over Q2 2009 and an 18% increase over Q1 2010.

Canyon's strong revenue performance and higher average revenue per job in Q2 2010, are attributable to the improved operating environment and Canyon's shift to the deeper more complex areas of the Western Canadian Sedimentary Basin ("WCSB") and the subsequent increase in job size and a better pricing environment. The rapid growth in the Company's hydraulic pumping capacity, which averaged 75,500 hydraulic horsepower ("HHP") in Q2 2010, has allowed Canyon to successfully work on larger jobs and longer-term projects.

To-date in 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 is in strong demand in 2010 allowing pressure pumping companies to improve prices over historically low levels experienced in 2009. The industry recovery is 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 are very active. Well licenses issued and drilling rig utilization rates for Q2 2010 were higher by 98% and 86% respectively over the comparable quarter of 2009. Importantly, E&P companies have increased proportionately the number of oil wells drilled which accounted for approximately 47% of all wells drilled in the WCSB in Q2 2010 compared to about 24% in Q2 2009. 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 Q2 2010, average WTI oil prices have remained strong averaging $77.88 US per barrel, 31% higher than the average price for Q2 2009. The average Nymex natural gas spot price increased by 14% to $4.35 US per mcf in Q2 2010 from $3.81 US per mcf in Q2 2009.

In 2010, Canyon's pressure pumping equipment fleet has grown rapidly to an average 75,500 HHP in Q2 2010 from about 25,000 HHP in 2009. This increase in equipment capacity was funded by a $50 million equity issue completed in Q4 2009. In April 2010, Canyon completed an additional $47 million equity financing with the net proceeds earmarked to fund further expansion of the pressure pumping equipment fleet to 125,500 HHP. The additional 50,000 HHP is expected to be delivered by year end 2010.

The operating and financial highlights for the three and six months ended June 30, 2010 may be summarized as follows:

Operating and Financial Highlights

- Canyon completed its first 50,000 HHP capital expansion program which was initiated in the fall of 2009. Canyon's hydraulic pressure pumping fleet averaged 75,500 HHP in Q2 2010.

- In Q2 2010, Canyon's consolidated revenues increased almost six-fold to $22.8 million from $4.0 million in Q2 2009. For the six months ended June 30, 2010, consolidated revenues more than doubled to $64.3 million compared to $28.1 million in Q2 2009.

- Jobs completed in the quarter tripled to 308, from 97 jobs completed in Q2 2009, while for the six months ended June 30, 2010, jobs completed increased by 62% to 969 from 599 in the comparable 2009 period.

- EBITDA before stock based compensation expense (see Non-GAAP Measures) improved dramatically to $3.3 million in Q2 2010 from a negative $3.0 million in Q2 2009, mainly due to higher industry activity, a shift to completing larger jobs and improved pricing. For the six months ended June 30, 2010, EBITDA before stock based compensation expense increased to $19.4 million from $1.0 million in the comparable 2009 period.

- Net income was recorded at $0.3 million in Q2 2010, compared to a net loss of ($5.4) million in Q2 2009, while for the six months ended June 30, 2010, net income improved to $12.4 million from a net loss of ($4.4) million in the 2009 comparable period.

- Average consolidated revenue per job increased by 18% to $73,871 in Q2 2010, from $62,646 in the previous quarter and by 79% from $41,193 in Q2 2009. This growth is due to Canyon's continuing success in expanding its market share in the deeper segments of the market resulting in larger, higher priced jobs, and to improved pricing. For the six months ended June 30, 2010, average consolidated revenues per job increased by 41% to $66,214 from $46,857 in the comparable 2009 period.

- Canyon's continued penetration into the deeper segments of the market resulted in the Hydraulic Fracturing Division contributing 86% of consolidated revenues during the quarter compared to 63% in the second quarter of 2009. For the six months ended June 30, 2010, this division contributed 84% of consolidated revenues compared to 49% in the comparable 2009 period. In 2010 year to date, approximately 73% of the consolidated total revenue is generated from fracturing operations in the deeper, more complex areas of the WCSB including Northwest Alberta and Northeast BC.

- On April 6, 2010, the Company closed a 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 of $44.0 million will be used to fund Canyon's expanded capital expenditure program which will add an additional 50,000 HHP by year-end 2010.

- Canyon’s total capital expenditures for fiscal 2010 are estimated at $79 million. $20 million was incurred in Q2 2010 bringing total capital outlays for the six months ended June 30, 2010 to $40 million. The expanded capital program will increase Canyon’s equipment capacity to approximately 125,500 HHP by the end of 2010 and add an operating base in Southeast Saskatchewan. The remaining $39 million will be funded from available cash of $32 million as at June 30, 2010, and funds from operations (See Non-GAAP Measures).

- In July 2010, Canyon purchased land in Estevan, Southeast Saskatchewan and has commenced construction of an operating base.

- As at June 30, 2010, the Company’s available cash and credit facilities total $68.5 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 deeper, more complex areas of the WCSB require much more intensive, pumping services to complete the well and often require multi-stage fracturing as part of a horizontal well completion design. In 2010, Canyon successfully expanded its operations into these areas with exceptional performance in the field. The Company continues to capture market share and secure long-term projects with well capitalized customers exploring for and developing plays targeting Montney natural gas and Cardium oil. In Q2 2010, our work in these deeper resource type plays represented approximately 80% of Canyon’s consolidated revenues and approximately 73% for the 2010 year to date, and we expect this trend to continue over the remainder of 2010 and 2011.

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 continuing 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 will commence construction in Q3 2010 of an operating base on land acquired in July, 2010 in Estevan, Southeast Saskatchewan, in preparation for second half of 2010 activity.

As a result of the aforementioned, Canyon expects significantly improved financial and operating results in 2010, compared to 2009. Already in the six months ended June 30, 2010, Canyon's consolidated revenues of $64.3 million have surpassed annual 2009 consolidated revenues by 37%. We expect the second half of 2010 revenues to exceed first half of 2010 revenues and to be a significant improvement over revenues for the comparable 2009 period. As always, Canyon will operate as cost-effectively as possible and remain ready to respond to changing industry conditions.

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QUARTERLY COMPARATIVE STATEMENTS OF OPERATIONS

Quarter Ended	June 30, 2010 (unaudited)	June 30, 2009 (unaudited)
Revenues	$22,816,613	$4,011,369
Expenses		
Operating	17,588,780	5,392,159
Selling, general and administrative	1,973,399	1,621,881
Stock-based compensation expense	216,584	422,380
Interest on long-term debt	22,319	170,915
Other interest	1,897	8,829
Depreciation and amortization	2,929,327	2,290,549
Income (loss) before income taxes	84,307	(5,895,344)
Income taxes-future (reduction)	(255,602)	(506,343)
	(255,602)	(506,343)
Net income (loss) and comprehensive income (loss)	$339,909	$(5,389,001)
EBITDA before stock option expense (1)	$3,254,434	$(3,002,671)
Income (loss) per share:		
Basic	$0.01	$(0.24)
Diluted	$0.01	$(0.24)

Note (1): See Non-GAAP Measures.

Revenues

Consolidated revenues for Q2 2010 increased almost six-fold to a record $22.8 million compared to the $4.0 million earned in Q2 2009. Jobs completed in the current quarter tripled to 308, from 97 jobs completed in Q2 2009. Average consolidated revenues per job increased to $73,871 in Q2 2010 from $62,646 in the previous quarter and from $41,193 in Q2 2009 due to the general recovery in the industry in 2010 which has led to improved pricing, and to Canyon's continuing success in expanding its market share in the deeper segments of the market which has led to larger, higher priced jobs.

Operating Expenses

Operating expenses in Q2 2010 were $17.6 million, or 77% of revenues, compared to $5.4 million, or 134% of revenues, for the comparable quarter of 2009. The increase in operating expenses is due to the three-fold increase in jobs completed in Q2 2010 compared to Q2 2009. In Q2 2010, the fixed component of operating costs which comprise salaries and wages for field and support staff, insurance, equipment registrations and licenses, safety training programs, laboratory, communications, and operating base costs, etc. increased by 77% over Q2 2009 as increased business activity and the additions to Canyon's equipment fleet in 2010 has necessitated additional field and support staff. Also, Q2 2009 fixed operating costs were reduced with staff reduction and wage rollbacks in response to industry conditions.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased to $2.0 million in Q2 2010 from $1.6 million in Q2 2009 primarily due to the increases in sales and marketing expenses and a generally more active business environment.

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 Q2 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 $16 thousand for Q2 2010 (Q2 2009 - $0.2 million) and is included in accounts payable and accrued liabilities.

EBITDA (See Non-GAAP Measures)

In Q2 2010, the increased utilization, shift to completing larger jobs and improved pricing has resulted in EBITDA before stock based compensation expense of $3.3 million, significantly higher than the negative amount of $3.0 million recorded in Q2 2009. The Q2 2010 EBITDA before stock based compensation expense of $3.3 million consists of income before income taxes of $0.1 million, plus depreciation and amortization of $2.9 million, plus interest on long-term debt and other interest of $0.1 million, plus stock-based compensation expense of $0.2 million. The comparable Q2 2009 EBITDA before stock based compensation expense of negative $3.0 million consists of loss before income taxes of ($5.9) 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 $0.4 million.

Interest Expense

Interest on long-term debt and other interest was $24 thousand for Q2 2010, compared to $0.2 million for Q2 2009. The decrease is due to lower debt levels following repayment of $20 million in Q4 2009 from the net proceeds of the October 2009 equity financing

Depreciation Expense

Depreciation expense was recorded at $2.9 million in Q2 2010, compared to the $2.3 million recorded in Q2 2009. The increase is due to the addition of equipment in late

2009 and the first quarter of 2010 mostly funded from the net proceeds of the October 2009 equity financing. Commencing with Q1 2010, Canyon reassessed the salvage value estimate for certain 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 Q2 2010 of $0.1 million would have resulted in an expected income tax expense of $24 thousand compared to an actual income tax reduction of $0.3 million. The expected income tax expense was decreased by the effect of the future tax benefit of obligations for payments under the Company's Deferred Share Unit Plan and increased by the effect of other non-deductible expenses and future tax rate differences.

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

Net comprehensive income totaled $0.3 million for Q2 2010, compared to net comprehensive loss of ($5.4) million in Q2 2009. The increase in net comprehensive income for Q2 2010 is due to the significant increase in Canyon's fracturing services as discussed above.

For the quarter ended June 30, 2010, basic and diluted income per share was $0.01, compared to basic and diluted loss per share of ($0.24) recorded in Q2 2009.

2010 YEAR-TO-DATE COMPARATIVE STATEMENTS OF OPERATIONS

Year To Date	June 30, 2010 (Unaudited)	June 30, 2009 (Unaudited)
Revenues	$64,276,413	$28,087,028
Expenses		
Operating	40,950,390	23,678,578
Selling, general and administrative	3,924,598	3,394,428
Stock-based compensation expense	1,342,643	594,136
Interest on long-term debt	44,813	313,155
Other interest	35,845	30,938
Depreciation and amortization	5,581,894	4,589,904
Income (loss) before income taxes	12,396,230	(4,514,111)
Income taxes-future (reduction)	39,567	(69,550)
	39,567	(69,550)
Net income (loss)	$12,356,663	($4,444,561)
EBITDA before stock option expense[(1)]	$19,401,425	$1,014,022
Income (Loss) per share:		
Basic	$0.23	($0.20)
Diluted	$0.23	($0.20)

Note (1): See Non-GAAP Measures.

Revenues

Consolidated revenues for the six months ended June 30, 2010 more than doubled to $64.3 million from $28.1 earned in the comparable 2009 period. Jobs completed in the six months ended June 30, 2010 totaled 969, a 62% increase from the 599 jobs completed in the six months ended June 30, 2009. Average consolidated revenues per job increased to $66,214 in the half-year to June 30, 2010 from $46,857 in the comparable 2009 period. The increase in revenues, jobs and average consolidated revenues per job is due to the much improved operating environment across the well stimulation industry, as discussed above. In addition, Canyon continued to be successful in expanding our market share in the deeper segments of the basin resulting in about 73% of consolidated revenues being generated from larger-priced jobs.

Operating Expenses

Operating expenses for the first half of 2010 increased by 73% to $41.0 million from $23.4 million in the first half of 2009 mainly due to the increased job count and a corresponding higher fixed operating cost component. The 73% increase in operating costs does not match the 129% increase in revenues due to the fixed component which includes salaries and wages for field and support staff, insurance, licenses and registrations for the equipment fleet, safety, laboratory, communications, and operating base costs, etc. Fixed operating costs increased by 30% in the six months ended June 30, 2010 over the comparable 2009 period as Canyon added staff and equipment to match the increase in activity. The 2009 period was impacted by significant cost cutting measures implemented in response to the decreased level of activity in the industry, consisting mostly of staff reductions and wage and benefit rollbacks.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased to $3.9 million in the six months ended June 30, 2010 from $3.4 million in the comparable 2009 period mostly due to additional sales and engineering staff and the reversal of wage and benefit reductions implemented in March 2009. Management expects that SG&A will grow at a low rate as the Company's operating activities continue to expand, as much of the back-office infrastructure necessary to support expanded operational activities is already in place.

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 method. For the six months ended June 30, 2010, $0.4 million (2009 $0.4 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. Fluctuations in the price of the Company's common shares change the accrued stock-based compensation and are recognized when they occur. This expense totaled $0.9 million for the first half of 2010 (2009 - $0.2 million) and included in accounts payable and accrued liabilities.

EBITDA (See NON-GAAP MEASURES)

In the first half of 2010, EBITDA before stock-based compensation expense was $19.4 million, significantly higher than the $1.0 million of EBITDA before stock based compensation expense recorded in the first half of 2009. The leading factors for the increase are higher utilization, Canyon's shift to larger, higher-priced jobs and improved pricing, as discussed above.

The first half 2010 EBITDA before stock based compensation expense of $19.4 million consists of income before income taxes of $12.4 million, plus depreciation and amortization of $5.6 million, plus interest on long-term debt and other interest of $0.1 million, plus stock-based compensation expense $1.3 million. The comparable first half 2009 EBITDA before stock based compensation expense of $1.0 million consists of loss before income taxes of $(4.5) million, plus depreciation and amortization of $4.6 million, plus interest on long-term debt and other interest of $0.3 million and stock based compensation expense of $0.6 million.

Interest Expense

Interest on long-term debt and other interest decreased to $0.1 million in the first half of 2010 compared to $0.3 million for the first half of 2009. The decreased interest expense 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 $5.6 million for the first half of 2010, up from $4.6 million recorded in the first half of 2009. The increase is due to the addition of equipment in late 2009 and in the first quarter of 2010 mostly 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 $0.2 million in the period to June 30, 2010.

Income Tax Expense

At the expected combined income tax rate of 28%, income before income taxes for the first half of 2010 of $12.4 million would have resulted in income tax expense of approximately $3.5 million compared to actual income tax expense of $40 thousand. The income tax expense was increased by $0.1 million as a result of the effect of stock-based compensation expense and other non-deductible expenses, reduced by $0.3 million for 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 (Loss) and Comprehensive Income (Loss) and Income (Loss) per Share

Net income and comprehensive income totaled $12.4 million for the first half of 2010 compared to a net loss and comprehensive loss of ($4.4) million. The significant improvement in net income and comprehensive income in 2010 is primarily due to increased activity levels and revenues resulting from a significant increase in demand by E&P companies for well stimulation services as discussed above.

Basic income per share for the first half of 2010 was $0.23 (diluted - $0.23), compared to the basic and diluted loss per share of ($0.20) in the first half of 2009.

Summary of Quarterly Results

(000's except per share amounts-unaudited)

(1)		Revenues	EBITDA before stock-based compensation expense (2)	Comprehensive Income (loss)	Basic Income (Loss) per Share	Diluted Income (Loss) per Share
2010	Q2	$22,817	$3,254	$340	$0.01	$0.01
	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 into 2010, resulting in dramatic improvement of financial results in Q1 2010 to a positive EBITDA before stock option expense of $16.1 million and a net income of $12.0 million, and a positive EBITDA before stock option expense of $3.3 million and a net income of

$0.3 million in Q2 2010. The industry did not experience as much of a seasonal decrease in activity in Q2 2010 as many E&P companies worked through spring break-up to complete new wells plus wells drilled in their winter drilling programs in the second quarter in advance of anticipated increased activity in the second half of 2010.

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.

On April 6, 2010, Canyon issued an additional 12,305,000 common shares 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 of $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 $55 million has been spent on the combined capital programs as at June 30, 2010.

In addition, there were 338,932 common shares issued by the Company during the six months ended June 30, 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, for aggregate proceeds of $0.4 million.

Working Capital and Cash Requirements

Funds from operations (See Non-GAAP Measures) amounted to $19.3 million for the six months ended June 30, 2010, compared to $0.7 million recorded in the comparable 2009 period. 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 the six months ended June 30 2010.

As at June 30, 2010, Canyon had a working capital balance of $40.5 million compared to $17.4 million as at December 31, 2009. The increase in working capital is mainly due to an increase in cash and cash equivalents resulting from the 2010 Offering to fund capital expenditures, 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 and an increase in inventory due to higher job activity levels. 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 will use its June 30, 2010 cash available of $32.5 million to partially fund the remaining balance of its 2010 capital expenditure programs. Please refer to "Capital Expenditures" below.

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 June 30, 2010, the Company provided an allowance of $0.5 million for doubtful receivables (December 31, 2009 - $0.3 million).

Debt Facilities

As at June 30, 2010, the Company's available credit facilities under its debt facilities total $68.5 million ($26.0 million under the Extendible Facility, $10.0 million under the Operating Facility and a cash balance of $32.5 million)

The balance of the debt facilities comprises automotive equipment loans totaling $0.2 million as at June 30, 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:

	June 30, 2010	December 31, 2009
Debt (net of cash)	$ -	$ -
Shareholders' equity (net of intangible assets)	$182,347,452	$124,524,838
Capitalization	$182,347,452	$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. On December 31, 2010 the ratio cannot be less than 1.25 to 1.00.
- As of June 30, 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 June 30, 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	192,132	134,431	57,701	-	-
Operating leases and office space	1,767,719	828,464	864,979	74,276	-
Capital Expenditure Commitments	38,520,458	38,520,458	-	-	-
Total contractual obligations	$40,480,309	$39,483,353	$922,680	$74,276	$ -

Capital expenditure commitments will be funded from the June 30, 2010 cash available of $32.5 million, funds from operations (See Non-GAAP Measures) and available debt facilities. Please see “Working Capital and Cash Requirements” above and “Capital Expenditures” below.

Capital Expenditures

In November 2009, Canyon commenced a $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 has been completed on schedule and on budget and has resulted in the capacity of Canyon’s fracturing equipment fleet averaging approximately 75,500 hydraulic horsepower for Q2 2010.

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. This program will be funded from the net proceeds of $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 addition to Capital Program 1 and Capital program 2, Canyon has acquired land in July 2010 and commenced construction of an operating base in Estevan, Saskatchewan. This approved expenditure, combined with other miscellaneous capital items (“Other”), are estimated to cost $5.4 million.

In aggregate, Canyon’s capital programs total $94.8 million (Capital Program 1 $45.4 million, plus Capital Program 2 $44.0 million, plus Other $5.4 million), of which $15.9 million was spent in 2009 and $39.6 million in the first half of 2010. For the 2010 year, capital costs are forecast at $78.9 million of which $39.6 million has been incurred in the six months ended June 30, 2010. The balance of $39.3 million will be funded from the June 30, 2010 cash available of $32.5 million, funds from operations (see Non-GAAP Measures) and available debt facilities. As at June 30, 2010, the Company’s available credit facilities under its debt facilities and cash available total $68.5 million. Please also refer to “Working Capital and Cash Requirements” and “Contractual Obligations” above.

Outstanding Share, Warrant and Option Data

The following table summarizes Canyon’s capitalization at June 30, 2010 and December 31, 2009.

	Outstanding Shares as at	
	June 30, 2010	December 31, 2009
Common Shares	59,845,965	47,162,033
Warrants	550,000	550,000
Options	2,391,068	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 June 30, 2010, no warrants were issued to directors, officers and employees. 69,500 share options were granted to employees and officers at an average price of $4.29 per option, 169,533 share options were exercised by directors, officers and employees and 16,000 share options were forfeited. In the six months ended June 30, 2010, no warrants were issued to directors, officers and employees. 1,013,500 share options were granted to employees and officers at an average price of $2.58 per option, 338,932 share options were exercised by directors, officers and employees and 30,167 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 June 30, 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 June 30, 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 "Operating income (loss)" is defined as revenue less operating expenses. Management believes that Operating income (loss) is a useful supplemental measure as it provides an indication of the financial results generated by Canyon prior to selling, general and administrative expenses, stock-based compensation expense, interest, depreciation and incomes taxes. Operating income (loss) is a measure that does not have any standardized meaning under GAAP and, accordingly, may not be comparable to similar measures used by other companies.

The term "funds from operations" is defined as cash provided by Canyon's operating activities before the net change in non-cash operating assets and liabilities. Management uses this measure to assess the Company's ability to finance operating activities and capital expenditures. Funds from operations is a measure that does not have any standardized meaning under GAAP and accordingly, may not be comparable to similar measures used by other companies

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 June 30		Six months ended June 30	
	2010	2009	2010	2009
EBITDA before stock compensation expense	$3,254,434	$(3,002,671)	$19,401,425	$1,014,022
Add (Deduct):				
Depreciation and amortization	(2,929,327)	(2,290,549)	(5,581,894)	(4,589,904)
Interest on long-term debt	(22,319)	(170,915)	(44,813)	(313,155)
Other interest	(1,897)	(8,829)	(35,845)	(30,938)
Stock-based compensation	(216,584)	(422,380)	(1,342,643)	(594,136)
Income taxes	255,602	506,343	(39,567)	69,550
Net income (loss)	$339,909	$(5,389,001)	$12,356,663	$(4,444,561)

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 six months ended June 30, 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 provision for doubtful accounts of $0.5 million has been established as at June 30, 2010 (December 31, 2009 - $0.3 million) 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 depreciation 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. Canyon would also be required to incorporate a forfeiture multiplier rather than account for forfeitures as they occur under Canadian GAAP.

- *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 six months ended June 30, 2010, the Company recorded compensation costs of $1.0 million (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 on October 28, 2009, 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. Such additional director was appointed on May 21, 2010

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 six months ended June 30, 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 312 full time staff at June 30, 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 the end of 2010 Canyon's fracturing equipment fleet will increase to approximately 125,500 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 42% of the Company's accounts receivable as at June 30, 2010, and 38% of the Company's revenue for the six 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 and in 2010, the Alberta Government revised its royalty program and issued amendments which favour the oil and natural gas industry, including enhancements to the Alberta Royalty Framework designed to encourage and incent deep natural gas drilling. 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 June 30, 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 June 30, 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 June 30, 2010 in all material respects. There are no material weaknesses in the Company's internal controls over financial reporting as of June 30, 2010.

There have been no changes in the Company's internal controls over financial reporting during the three and six months periods ending June 30, 2010 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.