Management’s Discussion and Analysis

THREE MONTHS ENDED MARCH 31, 2011

This management discussion and analysis (MD&A) is dated May 10, 2011, and should be read in conjunction with the unaudited Interim Consolidated Financial Statements and Notes of Canyon Services Group Inc. (“Canyon” or the “Company”) as at and for the three months ending March 31, 2011 and March 31, 2010, and should also be read in conjunction with the Audited Consolidated Financial Statements for the years ended December 31, 2010 and 2009. Additional information relating to the Company, including the Company’s Annual Information Form for the year ended December 31, 2010, 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.

ACCOUNTING POLICY CHANGES

On January 1, 2011, Canyon adopted International Financial Reporting Standards (“IFRS”) for purposes of financial reporting, using a transition date of January 1, 2010. Accordingly, these Interim Consolidated Financial Statements for the three months ended March 31, 2011 and the comparative information for the three months ended March 31, 2010, have been prepared in accordance with International Financial Reporting Standard 1, “First-time Adoption of International Financial Reporting Standards”, and with International Accounting Standard 34, “Interim Financial Reporting”, as issued by the International Accounting Standards Board (“IASB”).

Previously, the Company prepared its interim and annual consolidated financial statements in accordance with Canadian generally accepted accounting principles (“previous GAAP”).

The adoption of IFRS has not had an impact on the Company’s operations, strategic decisions and funds from operations (see NON-GAAP MEASURES). Further information on the effect of adopting IFRS is outlined in the Accounting Policies and Estimates paragraph of this MD&A.

OVERVIEW OF FIRST QUARTER 2011

(000's except per share and job amounts)

	Three months ended March 31	
	2011	2010
Consolidated revenues	$99,037	$41,460
Operating income	$46,605	$15,529
Net earnings and comprehensive income	$30,118	$11,988
Per share-basic	$0.50	$0.25
Per share-diluted	$0.48	$0.25
EBITDA before stock-based compensation(1)	$47,980	$16,256
Funds from operations(1)	$37,805	$16,175
Total jobs completed (2)	738	661
Consolidated average revenue per job (2)	$134,980	$62,934
Hydraulic Pumping Capacity		
Average HHP	120,500	50,500
Exit HHP	125,500	63,000
Capital expenditures	$23,143	$20,265

	As at March 31, 2011	As at December 31, 2010
Cash balance, net of loans and borrowings (3)	$33,938	$38,742
Working capital	$62,638	$49,283

Note (1): See NON-GAAP MEASURES

Note (2): Includes all jobs from each service line, specifically hydraulic fracturing; coiled tubing; nitrogen fracturing; acidizing and remedial cementing.

Note (3): Includes current and long-term portions

In the first quarter of 2011, activity levels in the pressure pumping industry across the Western Canadian Sedimentary Basin ("WCSB") were quite high compared to the first quarters of the last few years. In Q1 2011, Canyon achieved record revenues of $99.0 million, more than double the revenue of $41.5 million recorded in Q1 2010. EBITDA before stock-based compensation in the quarter was $48.0 million, three times the EBITDA before stock-based compensation of $16.3 million earned in Q1 2010.

Average consolidated revenue per job also increased significantly to $134,980 in Q1 2011 from $62,934 in Q1 2010 mainly due to larger jobs and improved industry pricing.

Underpinning the industry activity were technological improvements and strong oil and liquids prices leading to increased activity in emerging and established oil and liquids rich natural gas plays such as the Cardium, Viking, Bakken, Deep Basin and Montney. Technological improvements have led to a major shift towards drilling wells with lengthy horizontal sections, which has led to a dramatic increase in fracturing intensity as multi-staged fracture treatments are applied to the horizontal sections of the well bore. We estimate the WCSB now requires an average of more than five fracs per well compared to an historical average one frac per well leading to a dramatic growth in fracturing demand. In addition, the size and the pumping rates of the average fracture have also grown significantly which when combined with the increased fracture intensity results in a dramatic increase in demand for fracturing equipment and services. Exploration and Production ("E&P") companies now require significantly more hydraulic horsepower ("HHP") capacity for longer periods of time to complete their programs.

The ongoing strength in oil prices has resulted in a dramatic expansion in oil and natural gas liquids ("NGL") focused drilling activity. Oil-directed drilling activity alone now accounts for approximately 70% of the wells being drilled in the WCSB, up from about 50% in 2010. This trend is expected to continue over the next few years. In addition, natural gas resource plays in Northeast British Columbia and Northwest Alberta such as the Montney were also very active. Well licenses issued in Q1 2011 were approximately 4,150 which was 32% higher when compared to 2010, with licensing activity particularly strong in the Cardium, Viking, Bakken and Montney formations. Drilling rig utilization in Q1 increased to average 67% compared to an average of 49% in the previous quarter and 53% in Q1 2010.

Canyon's pressure pumping fleet has grown from 25,500 HHP in 2009 to 125,500 HHP in Q1 2011. All equipment built since 2009, about 80% of Canyon's current fleet, is heavy duty specification, suitable for deployment in the deep basin where pumping pressures, rates and durations have increased significantly. For 2011, Canyon has announced a $82 million capital program to add a further 50,000 HHP of capacity along with deep coil tubing assets and ancillary equipment and infrastructure, bringing the Company's fleet to 175,500 HHP by the end of 2011. This rapid growth in Canyon's pumping capacity has allowed the Company to focus on the deeper more complex areas of the WCSB and commit to larger jobs and longer-term projects.

NON-GAAP MEASURES

The Company's interim consolidated financial statements have been prepared in accordance with IFRS. Certain measures in this document do not have any standardized meaning as prescribed by IFRS and are considered non-GAAP measures.

EBITDA before stock-based compensation means earnings before interest, taxes, depreciation and amortization and stock-based compensation, and is equal to net earnings plus income tax expense, finance costs, depreciation and amortization, and equity-settled share-based payment transactions ("stock-based compensation").

Funds from operations is defined as cash provided from Canyon's operating activities before the net change in non-cash operating assets and liabilities.

EBITDA before stock-based compensation and funds from operations are not recognized measures under IFRS. Management believes that in addition to net earnings, EBITDA before stock-based compensation and funds from operations are useful supplemental measures as they provide an indication of the results generated by the Company's business activities prior to consideration of how those activities are financed, amortized or taxed, as well as the cash generated by the Company's business activities without consideration of the timing of the monetization of non-cash working capital items. Readers should be cautioned, however, that EBITDA before stock-based compensation and funds from operations should not be construed as an alternative to net earnings determined in accordance with IFRS as an indicator of the Company's performance. Canyon's method of calculating EBITDA before stock-based compensation and funds from operations may differ from other companies and, accordingly, EBITDA before stock-based compensation and funds from operations may not be comparable to measures used by other companies. Reconciliations of these NON-GAAP MEASURES to the most directly comparable IFRS measures are outlined below.

EBITDA before stock-based compensation
(000's)

	Three months ended March 31	
	2011	2010
EBITDA before stock-based compensation	$47,980	$16,256
Add (Deduct):		
Depreciation and amortization	(4,846)	(2,862)
Finance costs	(80)	(81)
Stock-based compensation expense	(1,918)	(1,030)
Income taxes	(11,018)	(295)
Net earnings	$30,118	$11,988

Funds from Operations
(000's)

	Three months ended March 31	
	2011	2010
Funds from operations	$37,805	$16,175
Add (Deduct) non-cash operating items:		
Depreciation and amortization	(4,846)	(2,862)
Deferred portion of income taxes	(923)	(295)
Stock-based compensation expense	(1,918)	(1,030)
Net earnings	$30,118	$11,988

Operating and Financial Highlights

The operating and financial highlights for the three months ended March 31, 2011 may be summarized as follows:

- Canyon expanded its 2011 capital program by over $14 million to approximately $82 million, adding additional nitrogen, coil tubing, infrastructure and support equipment to the previously announced program which will add an additional 50, 000 HHP and ancillary support equipment (associated blenders, sand handling, transportation and storage equipment, two deep coiled tubing units). Canyon anticipates funding the aggregate capital program from existing cash and funds from operations (see NON-GAAP MEASURES).

- Canyon exited Q1 2011 with a total of 125,500 HHP following completion of its 2010 capital program. Upon completion of its 2011 capital program, Canyon expects to exit this year with 175,500 HHP.

- In Q1 2011, Canyon's equipment fleet was fully utilized, resulting in record consolidated revenues of $99.0 million, over double the $41.5 million of revenues earned in Q1 2010.

- EBITDA before stock-based compensation (see NON-GAAP MEASURES) improved to a quarterly record of $48.0 million in Q1 2011 from $16.3 million in Q1 2010, due to a dramatic increase in Canyon's pressure pumping capacity, higher industry activity, a focus on completing larger jobs and improved pricing.

- Net earnings for the period increased to a record of $30.1 million in Q1 2011, compared to $12.0 million in Q1 2010.

- During the quarter Canyon's equipment fleet averaged 120,500 HHP and was fully utilized, resulting in 738 jobs completed compared to 661 in the prior year's quarter.

- Average consolidated revenue per job increased by 115% to $134,980 in Q1 2011, from $62,934 in Q1 2010. This growth is due to Canyon's continuing success in expanding its market share in the deeper segments of the basin resulting in larger jobs augmented by improved industry pricing.

- In Q1 2011, approximately 90% of the consolidated total revenue (and 64% of consolidated jobs) was generated from operations in the deeper, more complex areas of the WCSB including Northwest Alberta and Northeast BC.

- Canyon's operating base in Estevan, Saskatchewan, became fully operational and has commenced serving our customers operating in the Bakken oil play.

- In January 2011, Canyon paid its inaugural semi-annual dividend of $0.05 per common share, totaling $3.0 million.

- As at March 31, 2011, the Company's available cash is $36.6 million in addition to available credit facilities of $36.0 million.

2011 OUTLOOK

Canyon will continue to implement its corporate strategy of focusing our sales and operations on larger, high-rate treatments in the deep basins of NW Alberta and NE British Columbia, including those areas that hold tight sand and shale resource plays and are oil and NGL rich. These areas of the WCSB require much more intensive, pumping services to complete the well and typically require multi-stage fracturing as part of a horizontal well completion design. Canyon has also expanded into Southeast Saskatchewan as we continue our efforts to increase our exposure to oil and liquids rich plays and different geographic areas. In 2011, Canyon successfully operated in these areas with exceptional performance in the field and the Company continues to capture market share and secure long-term projects with well capitalized customers.

As we look out into the remainder of 2011, it appears that industry conditions will remain buoyant and we expect they will continue to improve. Strong and stable oil and NGL pricing has offset weak natural gas prices and as a result, our customers are reallocating their capital programs to plays where rates of return are attractive. The WCSB has once again become an “oil” focused basin and industry forecasts are calling for a bias to oil and NGL rich plays of over 70% for drilling and completions. Activity levels should remain high in 2011 as the number of fracs per well is trending upwards, pumping rates have increased in numerous plays, industry pricing remains strong and analysts have been steadily revising their annual drilling forecasts upwards. Additionally, there are “resource” style plays in the early stages of development, such as the Duvernay shale play and the Alberta Bakken, that if proven economic, will significantly enhance demand for pressure pumping services in the WCSB. Industry activity leading indicators such as well licensing and the portion of wells drilled horizontally requiring multistage fracturing programs also appear favourable for a very busy 2011. In particular, horizontal licensing activity has been strong to-date in the Cardium, with the growing use of “slickwater” fracture treatments, which will augment demand for Canyon’s pressure pumping services as our inventory of wells requiring fracturing services continues to grow.

Canyon will pursue measured growth throughout the WCSB and will continue to benefit from increased oil and NGL rich drilling activity. We have expanded our presence in oil-rich plays such as Cardium and Bakken and to support our strategy, Canyon has successfully established an operating base in Estevan, Saskatchewan to support operations and better serve our customers. Canyon will continue to evaluate other significant expansion opportunities in Canada and internationally throughout 2011 and 2012.

Canyon expects strong financial and operating results in 2011. Revenues and EBITDA are expected to exceed 2010 levels, but with some margin erosion due to a higher fixed cost structure required to support a less experienced work force combined with the rapid growth of our equipment fleet. We are also expecting reduced efficiency throughout oilfield operations in general throughout in the WCSB as the utilization of most service lines is exceeding the required supply of skilled and experienced labour. As always, Canyon will operate as cost-effectively as possible and will maintain a healthy and conservative balance sheet, remaining ready to respond to changing industry conditions.

QUARTERLY COMPARATIVE STATEMENTS OF OPERATIONS

(000's except per share amounts)

Quarter Ended	March 31, 2011 (Unaudited)	March 31, 2010 (Unaudited)
Revenues	$99,037	$41,460
Cost of services	(52,432)	(25,931)
Operating income	46,605	15,529
Administrative expenses	(5,389)	(3,165)
Results from operating activities	41,216	12,364
Finance costs	(80)	(81)
Profit before income tax	41,136	12,283
Income tax expense	(11,018)	(295)
Net earnings and comprehensive income	$30,118	$11,988
EBITDA before stock-based compensation(1)	$47,980	$16,256
Earnings per share:		
Basic	$0.50	$0.25
Diluted	$0.48	$0.25

Note (1): See NON-GAAP MEASURES.

Revenues

Consolidated revenues for Q1 2011 increased significantly to a record $99,037, more than double the $41,460 earned in Q1 2010, due to the dramatic growth of Canyon's pressure pumping equipment fleet, combined with the improved industry activity. During the quarter Canyon's equipment fleet averaged 120,500 HHP and was fully utilized, resulting in 738 jobs completed compared to 661 in the prior year's quarter. Average consolidated revenues per job increased to $134,980 in Q1 2011 from $62,934 in Q1 2010 due to Canyon's continuing success in expanding its market share in the deeper segments of the market resulting in large jobs, augmented by improved industry pricing.

Cost of services

Cost of services for the three months ended March 31, 2011 totaled $52,432 (2010: $25,931) and includes employee benefits expense of $13,601 (2010: $6,502), depreciation of property and equipment of $4,591 (2010: $2,679). As a percentage of revenues cost of services declined to 53% in Q1 2011 compared to 63% in Q1 2010 mainly due to the fixed component of cost of services and due to improved pricing across the industry.

The increase in depreciation of property and equipment is mostly due to additional depreciation pertaining to 2010 and 2011 equipment additions.

Administrative expenses

Administrative expenses for the three months ended March 31, 2011 totaled $5,389 (2010: $3,165) and includes employee benefits expense of $1,741 (2010: $1,093), depreciation of buildings and office equipment of $233 (2010: $178), amortization of intangible assets of $22 (2010: $5), and stock-based compensation expense of $1,918 (2010: $1,030). The increase is also attributable to the increases in sales and marketing expenses, and the increased number of employees resulting from a higher volume of business.

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 2011, $0.5 million (Q1 2010 - $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 $1.4 million for Q1 2011 (Q1 2010 - $0.8 million) and is included in accounts payable and accrued liabilities.

EBITDA before stock-based compensation (See NON-GAAP MEASURES)

In Q1 2011, the increased utilization, the focus on completing larger, higher-priced jobs, improved pricing and the operating leverage available in a high fixed cost structure has resulted in EBITDA before stock-based compensation of $48.0 million, a threefold increase over the $16.3 million recorded in Q1 2010.

Finance costs

Finance costs include interest on capital lease obligations and automobile loans and total $80 in Q1 2011 (2010: $81).

Income Tax Expense

At the expected combined income tax rate of 26.5%, the profit before income tax for Q1 2011 of $41.1 million would have resulted in an expected income tax expense of $10.9

million, compared to the actual income tax expense of $11.0 million. The expected income tax expense was increased by $0.2 million as a result of the effect of non-deductible expenses, and reduced by $0.1 million for future tax rate differences.

Net earnings and comprehensive income and earnings per share

Net earnings and comprehensive income totaled $30.1 million for Q1 2011, compared to $12.0 million in Q1 2010. The increase in net earnings for Q1 2011 is due to the significant increase in Canyon's fracturing services as discussed above.

For the first quarter ended March 31, 2011, basic and diluted earnings per share was $0.50 and $0.48 respectively, compared to basic and diluted earnings per share of $0.25 recorded in Q1 2010.

Summary of Quarterly Results

(000's except per share amounts-unaudited)

(1)		Revenues	EBITDA (2) (3)	Net Earnings and Comprehensive Income (Loss) (3)	Basic Earnings (Loss) per Share (3)	Diluted Earnings (Loss) per Share (3)
2011	Q1	$99,037	$47,980	$30,118	$0.50	$0.48
2010	Q4	$85,153	$40,228	$24,623	$0.41	$0.40
	Q3	$66,461	$30,025	$17,373	$0.29	$0.28
	Q2	$22,817	$3,254	$340	$0.01	$0.01
	Q1	$41,460	$16,256	$11,988	$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)

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.

Note (3): EBITDA before stock-based compensation and Net Earnings (Loss) for Q1 2011 and Q1 2010 are stated in accordance with IFRS, while EBITDA before stock-based compensation, Net Earnings (Loss) and Basic and Diluted Earnings (Loss) per Share for Q2, Q3 and Q4 of 2010 and 2009 are stated in accordance with previous GAAP.

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. Further, the downward pressure in industry activity levels and prices experienced in 2009, led to net losses in certain quarters which were expected to be profitable in times of increased activity, namely Q3 2009 and Q4 2009. 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-based compensation 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-based compensation of $1.4 million and a net loss of $(1.9) million.

This recovery in activity continued to build throughout 2010, and combined with the additions to the Company's equipment fleet, resulted in a dramatic improvement of financial results in 2010 quarters. The industry did not experience as much of a seasonal decrease in activity in Q2 2010 as certain E&P companies worked through spring break-up to complete new wells in addition to the wells drilled in their winter drilling programs. In 2011, the industry continues to experience maximum equipment utilization resulting in record Q1 2011 financial results for the Company.

LIQUIDITY AND CAPITAL RESOURCES

Funds from operations

Funds from operations (See NON-GAAP MEASURES) increased significantly to $37.8 million in Q1 2011 compared to $16.2 million for the comparable 2010 quarter. The increase in funds from operations is due to the dramatic growth in Canyon's business and revenues attributable to equipment capacity additions in 2010 and the much improved operating environment across the well stimulation industry as discussed above. A substantial portion of the funds from operations will be used to finance the Company's 2011 capital program. Please refer to "Capital Expenditures" below.

Financing

Equity:
(Number of common shares in thousands)
In Q1 2011, there were 267 common shares issued by the Company to employees and officers upon exercise of options, 40 common shares issued to a director upon conversion of incentive-based units, and 42 common shares upon exercise of warrants, for aggregate proceeds of $0.5 million.

Debt:
Loans and borrowings as at March 31, 2011 total $2.7 million (December 31, 2010: $2.5 million) which comprise equipment lease obligations of $2.6 million (March 31, 2010: $2.4 million) and automotive equipment loans totaling $0.1 million (December 31, 2010: $0.1 million).

As at March 31, 2011, the Company's available debt facilities total $36.0 million ($26.0 million under the Extendible Facility, $10.0 million under the Operating Facility), on which nil is drawn as at March 31, 2011 (December 31, 2010: nil).

Working Capital and Cash Requirements

Funds from operations (See NON-GAAP MEASURES) amounted to $37.8 million for the three months ended March 31, 2011, compared to $16.2 million recorded in Q1 2010. As at March 31, 2011, Canyon had a working capital balance of $62.6 million compared to $49.3 million as at December 31, 2010. The increase in working capital is mainly due to an increase in accounts receivable due to higher sales revenues, an increase in inventory due to higher job activity levels and a decrease in income taxes payable, partially offset by a decrease in cash and cash equivalents, and an increase in accounts payable and accrued liabilities due to an increase in Canyon's business and capital costs. 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, 2011, accounts receivable includes an allowance of $0.4 million for doubtful receivables (December 31, 2010 - $0.5 million).

The Company will use its March 31, 2011 cash available of $36.6 million to fund a portion of the remaining balance of its 2011 capital expenditure program of approximately $64.3 million. Please refer to "Capital Expenditures" below.

Investments

For the three months ended March 31, 2011, capital expenditures totaled $23.1 million, comprising $5.3 million to complete the 2010 capital program and $17.8 million incurred on the 2011 million capital program. Please refer to "Capital Expenditures" below.

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 the current and long-term portions of loans and borrowings less cash and cash equivalents. 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, which include a working capital ratio, a ratio of total debt to total tangible net worth and a ratio of EBIDTA before stock-based compensation to total debt service obligations. As of March 31, 2011, the Company is in compliance with each of the above financial covenants and fully expects to be in compliance as of December 31, 2011. The Company has nil amounts drawn on its debt facilities as at March 31, 2011. The Company may be required to adjust its capital structure from time to time as a result of expansion activities.

The Company believes that it has access to sufficient capital through cash on hand, internally generated funds from operations and available credit facilities to meet its obligations associated with financial liabilities and capital expenditures.

Contractual Obligations
(000's)

As at March 31, 2011, Canyon's contractual obligations are summarized as follows:

	Total	Next 12 months	1 - 3 years	4 - 5 years	After 5 years
Operating facility	$ -	$ -	$ -	$ -	$ -
Loans and borrowings	2,675	1,243	1,432	-	-
Operating leases and office space	6,239	1,191	1,771	1,655	1,622
Capital Expenditure Commitments	48,071	48,071	-	-	-
Total contractual obligations	$56,985	$50,505	$3,203	$1,655	$1,622

The Company leases a number of offices and warehouse facilities under operating leases. The leases typically run for a period of three to seven years, with an option to renew the lease after that date.

Capital expenditure commitments will be funded from the March 31, 2011 cash available of $36.6 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

2010 Capital Programs: In Q1 2011, the Company completed its 2010 Capital program adding the final 15,000 hydraulic horsepower of pumping capacity to bring Canyon's fleet to 125,500 HHP. To complete this program, capital expenditures of $5.3 million were incurred in Q1 2011.

2011 Capital Program: In November 2010, Canyon announced its 2011 capital expenditure program which was subsequently increased in January 2011 to a total capital budget of approximately $82.1 million for the year. This capital program consists of 50,000 HHP, associated blenders, sand handling transportation and storage equipment, two deep coiled tubing units and miscellaneous other support equipment and facilities and will increase Canyon's equipment fleet capacity to 175,500 HHP in the second half of 2011. In Q1 2011, Canyon incurred $17.8 million on its 2011 capital program (total Q1 2011 expenditures were $23.1 million less $5.3 million to complete the 2010 capital program). The remaining $64.3 million for the 2011 capital program (total of approximately $82.1 million less Q1 2011 expenditures of $17.8 million) is expected to be incurred mainly over the second and third quarters of 2011. Canyon is in a very strong financial position and anticipates funding the 2011 capital expansion program from existing cash which as at March 31, 2011 totaled $36.6 million and funds from operations (see NON-GAAP MEASURES). In addition, Canyon has unused debt facilities of $36.0 million as at March 31, 2011.

Outstanding Share, Warrant and Option Data

The following table summarizes Canyon's capitalization as at April 30, 2011, March 31, 2011 and December 31, 2010:

(000's)	April 30, 2011	March 31, 2011	December 31, 2010
Common Shares	60,770	60,718	60,369
Warrants	467	467	508
Options	2,449	2,436	2,190

In the three months ended March 31, 2011, no warrants were issued to directors, officers and employees and 42 warrants were exercised. There were 520 share options granted to employees and officers at an average exercise price of $11.62 per option, 267 share options were exercised by directors, officers and employees and 7 share options were forfeited.

FINANCIAL INSTRUMENTS

Fair Values

The carrying values of accounts receivable, bank indebtedness, accounts payable and accrued liabilities and dividends payable approximate their fair value due to the relatively short periods to maturity of the instruments. Loans and borrowings utilize 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 three months ended March 31, 2011, the loans and borrowings, comprising equipment leases and automobile loans, were 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, 2011, other than the operating leases described above under “Contractual Obligations”.

ACCOUNTING POLICIES AND ESTIMATES

Adoption of International Financial Reporting Standards

The Company has prepared the Interim Consolidated Financial Statements for the three months ended March 31, 2011 and the comparative information for the three months ended March 31, 2010, in accordance with International Financial Reporting Standard 1, “First-time Adoption of International Financial Reporting Standards”, and with International Accounting Standard 34, “Interim Financial Reporting”, as issued by the IASB. Previously, the Company prepared its interim and annual consolidated financial statements in accordance with Canadian GAAP, or previous GAAP. The adoption of IFRS has not had an impact on the Company’s operations, strategic decisions and funds from operations (see NON-GAAP MEASURES).

The Company’s IFRS accounting policies are provided in Note 3 to the Interim Consolidated Financial Statements. In addition, Note 17 to the Interim Consolidated Financial Statements presents reconciliations between the Company’s 2010 previous GAAP results and the 2010 IFRS results. The reconciliations include consolidated balance sheets as at January 1, 2010, March 31, 2010 and December 31, 2010, and consolidated statements of comprehensive income for the three months ended March 31, 2010 and for the twelve months ended December 31, 2010.

Accounting Policy Changes

The following discussion explains the significant differences between Canyon’s previous GAAP accounting policies and those applied by the Company under IFRS. IFRS policies have been consistently and retrospectively applied except where specific IFRS 1 optional and mandatory exemptions permitted an alternative treatment upon transition to IFRS for first-time adopters. The most significant changes to the Company’s accounting policies are as follows:

- *Property and equipment:* In valuing property and equipment at the date of the transition to IFRS, Canyon recalculated the net book value using IFRS accounting policies. In addition, IFRS requires breaking down material property and equipment assets into components and applying a depreciation method to each component that reflects its economic life. Accordingly, Canyon has segmented major equipment units into individual components with appropriate asset lives and residual values, in accordance with IFRS requirements.

The effect of this change resulted in an increase to depreciation expense of $138 as at January 1, 2010, the date of transition, and $157 as at March 31, 2010.

- *Impairment of property and equipment:* Under previous GAAP, an impairment was recognized if the carrying amount exceeded the undiscounted cash flows.

Impairments recognized under previous GAAP were not reversed. Under IFRS, an impairment is recognized if the carrying amount exceeds the recoverable amount for a cash-generating unit. Impairments recognized under IFRS are reversed when there has been a subsequent increase in the recoverable amount. As at January 1, 2010 the date of transition, as at March 31, 2010 and as at December 31, 2010, there were no indicators of impairment present.

- *Share-based payments:* Under IFRS, share-based awards that vest in installments are accounted for as though each installment is a separate award. The fair value, using an option pricing model, is required to be measured separately for each installment and is recognized over the vesting period of each installment. Canyon has also incorporated a forfeiture multiplier under IFRS rather than account for forfeitures as they occur under previous GAAP. In addition, under previous GAAP, Canyon valued units issued under the Company's Deferred Share Unit Plan using the intrinsic value method, while under IFRS the fair value of the units issued is calculated using an option pricing model.

The effect of this change resulted in an increase to stock-based compensation expense of $134 as at January 1, 2010, and a decrease of $94 for the three months ended March 31, 2010.

- *Finance leases:* Under IFRS, contracts are assessed on the basis of whether or not in substance the Company bears the risks and rewards. The Company has applied the criteria under IAS 17 to lease contracts in order to determine which items are required to be capitalized and to reflect retrospective application from the date of initial recognition (at inception date of the lease). As a result, the Company has re-classified certain equipment from operating leases to finance leases.

As at January 1, 2010, the effect of this change in classification from an operating lease to a finance lease results in an increase of $1,112 to property and equipment, an increase of $152 to accumulated depreciation, and an increase of $897 to loans and borrowings, and an increase of $63 to retained earnings.

For the three months ended March 31, 2010, this change in classification from an operating lease to finance lease resulted in an increase of $379 to property and equipment, an increase of $52 to accumulated depreciation, an increase of $295 to loans and borrowings, and an increase of $32 to retained earnings. This is in addition to the changes as at January 1, 2010 relating to IFRS.

- *Income taxes:* In the three months ended March 31, 2010, there was no significant change to the deferred tax liability resulting from capitalization of finance leases and related obligations.

New IFRS Pronouncements

A number of new standards, amendments to standards and interpretations are not yet effective for the quarter ended March 31, 2011, and have not been applied in preparing these consolidated financial statements.

IFRS 9 Financial Instruments

In November 2009 the IASB issued IFRS 9 *Financial Instruments* (IFRS 9 (2009)), and in October 2010 the IASB published amendments to IFRS 9 (IFRS 9 (2010)).

IFRS 9 (2009) replaces the guidance in IAS 39 *Financial Instruments: Recognition and Measurement*, on the classification and measurement of financial assets. The Standard eliminates the existing IAS 39 categories of loans and receivable.

Financial assets will be classified into one of two categories on initial recognition:

- financial assets measured at amortized cost; or
- financial assets measured at fair value.

The Company intends to adopt IFRS 9 (2010) in its financial statements for the annual period beginning on January 1, 2013. The Company does not expect IFRS 9 (2010) to have a material impact on the financial statements. The classification and measurement of the Group's financial assets is not expected to change under IFRS 9 (2010) because of the nature of the Company's operations and the types of financial assets that it holds.

Critical Accounting Estimates and Judgments

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 note 3 to the interim consolidated financial statements for the three months ended March 31, 2011 for a description of the accounting policies of the Company. The Company considers the following to be the significant accounting policies and practices involving the use of estimates and judgments that are critical to determining Canyon's financial results.

Estimates of Collectability of Accounts Receivable

Company management regularly reviews outstanding accounts receivable and follows up with customers when settlement has not occurred on a timely basis. A provision for doubtful accounts of $0.4 million has been established as at March 31, 2011 (December 31, 2010 - $0.5 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 component 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 asset component include the productive life of the asset, its salvage value, equipment utilization rates, planned maintenance programs and technological change.

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 asset components used in operations over time.

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 or cash generating unit is written down to its recoverable amount being the higher of its estimated fair value and value in use. 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.

RELATED PARTY TRANSACTIONS

Concurrent with the closing of an equity offering on October 28, 2009, Canyon entered into an Investment Rights Agreement with ARC Financial Corp. ("ARC"). 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 10% of the outstanding common shares of Canyon. Where ARC owns or exercises control or direction over 15% of the outstanding common shares of Canyon it also has the right to nominate one additional director, to be acceptable to the President and Chief Executive Officer of the Company and approved by the Board of Directors of the Company. Such additional director was appointed on May 25, 2010. In November, 2010, ARC reduced its shareholding in the Company to approximately 14% of the issued and outstanding common shares of the Company.

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 year ended December 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 508 full time staff as at March 31, 2011 compared to 453 at the beginning of the year.

Access to Equipment, Parts, Development of New Technology

The ability of Canyon to compete and increase its operations and provide reliable service to customers is dependent on the Company having access to reliable equipment, spare parts and components, which are at least technologically equivalent to those utilized by competitors and to the development and acquisition of new and competitive technologies as industry conditions require. There can be no assurance that existing sources for equipment will be maintained or that new technologically advanced equipment will be acquired. If such equipment is not available, Canyon's ability to compete may be weakened.

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, five customers account for 48% of the Company's accounts receivable as at March 31, 2011, and 45% of the Company's revenue for the three months ended March 31, 2011. 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.

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, 2011 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, 2011.

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, 2011 in all material respects. There are no material weaknesses in the Company's internal controls over financial reporting as of March 31, 2011.

There have been no changes in the Company's internal controls over financial reporting during the period ending March 31, 2011 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.