Management's Discussion and Analysis

THREE MONTHS ENDED MARCH 31, 2012

This management discussion and analysis (MD&A) is dated May 8, 2012. It should be read in conjunction with the unaudited Condensed Interim Consolidated Financial Statements of Canyon Services Group Inc. ("Canyon" or the "Company") as at and for the three months ending March 31, 2012 and March 31, 2011 as well as the annual financial statements and MD&A. Additional information relating to the Company, including the Company's Annual Information Form for the year ended December 31, 2011, is available on SEDAR at www.sedar.com.

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

OVERVIEW OF FIRST QUARTER 2012

000's except per share, job amounts and hydraulic pumping capacity (Unaudited)	Three months ended March 31	
	2012	2011
Consolidated revenues	$135,935	$99,037
Profit and comprehensive income	$37,167	$30,118
Per share-basic	$0.61	$0.50
Per share-diluted	$0.59	$0.48
EBITDA before share-based payments[(1)]	$58,015	$47,950
Funds from operations[(1)]	$46,584	$37,775
Total jobs completed [(2)]	934	736
Consolidated average revenue per job [(2)]	$147,212	$135,330
Average fracturing revenue per job	$232,279	$195,282
Hydraulic Pumping Capacity		
Average HHP	175,500	120,500
Exit HHP	175,500	125,500
Capital expenditures	$34,128	$23,143

000's (Unaudited)	As at March 31, 2012	As at December 31, 2011
Cash balance, net of loans and borrowings [3]	$17,146	$42,481
Working capital	$70,030	$67,009

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

Canyon achieved strong operating and financial results in Q1 2012, even though industry activity in the quarter was impacted by January's slow start followed by a week of extremely cold weather, as well as an early spring break-up in March. In the current quarter, revenues and profit and comprehensive income increased by 37% and 23%, respectively over Q1 2011. Jobs completed increased by 27% to 934 from 736 in Q1 2011. Approximately 90% of Canyon's consolidated revenue is generated by its hydraulic fracturing division, with average fracturing revenue per job increasing by 19% to $232,279 in Q1 2012 from $195,282 in Q1 2011. This increase was due to larger job sizes as the horizontal sections of wells lengthened resulting in a higher number of fracture sections per well and larger, high-rate treatments in plays such as the Duvernay. In 2012, the average consolidated revenue per job increased by 9% to $147,212 in Q1 2012 from $135,330 in Q1 2011.

Q1 2012 industry activity saw many customers focusing on drilling activities in the first half of the quarter and then shift to completions in the second half, with Canyon estimating that the average well drilled since Christmas became available for fracturing about the third week of February. This resulted in Canyon's expanded equipment fleet operating at slightly less than full utilization in the first half of the quarter but at full utilization to the end of the quarter once customers' wells were ready for completion. With this back-end loading of completion activities in the quarter, the earlier than expected spring break-up resulted in numerous completions programs being deferred to the post spring break-up period, which is expected to augment demand for fracturing services when industry activity again resumes later in Q2 2012.

The rapid growth in Canyon's pumping capacity, from 25,500 HHP in late 2009 to 175,500 HHP as at March 31, 2012, and to in excess of 225,000 HHP by the summer of 2012, allows the Company to work on the deeper more complex areas of the Western Canadian Sedimentary Basin ("WCSB") and commit to customers with longer-term, equipment intensive projects. All equipment added by Canyon since 2009 is heavy duty specification, suitable for deployment in the deep basin and in resource plays where pumping pressures, rates and durations have increased significantly.

To date, industry activity continues to be supported by strong oil and NGL prices with a focus by E&P companies on emerging oil and liquids rich natural gas plays, including the Duvernay shale and Slave Point oil, where Canyon is currently active. Oil and natural gas liquids directed drilling activity now accounts for over 80% of the wells being drilled in the WCSB. With spring break-up beginning earlier than last year, WCSB drilling rig utilization was about 68% in Q1 2012, largely unchanged from the 67% achieved in Q1 2011. On the other hand, well licenses issued in Q1 2012 decreased by approximately 16% over Q1 2011 and by 15% over Q4 2011. This was mainly due to lower industry cash flows resulting from weaker natural gas prices, which have declined by about 40% to average $2.50 US at Nymex in the current quarter compared to Q1 2011. The weaker well licensing activity of recent months will likely indicate lower industry activity in the post spring break-up period, but this could be partially mitigated by the back log of well completions previously discussed.

NON-GAAP MEASURES

The Company's Condensed Consolidated Interim Financial Statements have been prepared in accordance with International Accounting Standards (IAS) 34. Certain measures in this document do not have any standardized meaning as prescribed by International Financial Reporting Standards and are considered non-GAAP measures.

EBITDA before share-based payments and funds from operations are not recognized measures under IFRS. Management believes that in addition to profit and comprehensive income, EBITDA before share-based payments 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 share-based payments and funds from operations should not be construed as an alternative to profit and comprehensive income determined in accordance with IFRS as an indicator of the Company's performance. Canyon's method of calculating EBITDA before share-based payments and funds from operations may differ from other companies and accordingly, EBITDA before share-based payments and funds from operations may not be comparable to measures used by other companies. Canyon calculates EBITDA before share-based payments as profit and comprehensive income for the year adjusted for depreciation and amortization, equity settled share-based payment transactions, loss on sale of property and equipment, finance costs and income tax expense. Reconciliations of these NON-GAAP MEASURES to the most directly comparable IFRS measures are outlined below.

In Q1 2011, Canyon described revenue less cost of services as Operating income. In Q2 2011 and going forward, the Company describes revenue less cost of services as Gross profit.

EBITDA before share-based payments

000's (Unaudited)	Three months ended March 31	
	2012	2011
Profit and comprehensive income	$37,167	$30,118
Add (Deduct):		
Depreciation and amortization	7,086	4,846
Finance costs	161	80
Equity-settled share based payment transactions	942	1,918
Loss (gain) on sale of property and equipment	41	(30)
Income taxes	12,618	11,018
EBITDA before share-based payments	$58,015	$47,950

Funds from Operations

000's (Unaudited)	Three months ended March 31	
	2012	2011
Net cash from operating activities	$12,389	$21,212
Add (Deduct):		
Income Tax paid	19,550	15,604
Change in working capital	25,915	11,054
Current tax	(11,270)	(10,095)
Funds from operations	$46,584	$37,775

Operating and Financial Highlights

The operating and financial highlights for the three months ended March 31, 2012 may be summarized as follows:

- In Q1 2012, consolidated revenues increased 37% to $135,935 from $99,037 in Q1 2011.
- For the three months ended March 31, 2012, approximately 90% of consolidated revenues were provided by hydraulic fracturing services, with average fracturing revenue per job increasing by 19% to $232,279 in Q1 2012 from $195,282 in Q1 2011.
- Jobs completed across all services increased 27% to 934 in Q1 2012 from 736 in Q1 2011.
- EBITDA before share-based payments expense (see NON-GAAP MEASURES) increased by 21% to $58,015 in Q1 2012 from $47,950 in Q1 2011.
- In Q1 2012, profit and comprehensive income increased by 23% to $37,167 ($0.59 per share, diluted) from $30,118 ($0.48 per share, diluted) in Q1 2011.
- On March 6, 2012, Canyon increased its annual dividend to $0.60 per common share, payable quarterly, and on April 26, 2012, the Company paid a quarterly dividend of $0.15 per common share, or $9.2 million.
- Canyon's equipment fleet began and exited Q1 2012 with 175,500 HHP but will grow to 225,500 HHP by summer 2012 following completion of the 2012 capital program announced in May 2011.
- Canyon remains in a very strong financial position with available cash of $17 million in addition to available undrawn credit facilities of $60.0 million and working capital of $70 million, including cash, as at March 31, 2012.

2012 OUTLOOK

Given the current price of crude oil, we expect 2012 industry field activity will be lower than 2011. The primary damper is the low natural gas price, below $2 per mcf as we exit the first quarter. Although overall industry cash flows are down, producers with optionality in their asset base are maximizing their pursuit of oil targets and the highest-liquids natural gas plays, where economics improve dramatically when liquids content exceeds 50 barrels per million cubic feet of natural gas – especially if there is significant condensate. We expect to increase Canyon's market share in this environment, but we are not obsessed with size. Our enduring priorities are operational success, safety, strengthening customer relationships, operating with integrity and responsibility, contributing to improved water management, staff retention and profitability. Those are what matter in the energy services business. Growth follows.

On March 6, 2012 Canyon announced a 140 percent increase to its quarterly dividend to $0.15 per share, effective April 2012, equating to an annualized dividend of $0.60 per share. We are frequently asked by shareholders about increases to the dividend. Management and the Board of Directors want the dividend to be as high as possible while being sustainable through a variety of economic conditions and not restricting our financial flexibility or our ability to pursue growth opportunities. We believe that the latest increase to the dividend is sustainable, given the Company's strong financial position, combined with its positive long-term forecast of operating conditions in Western Canada.

In the short-term, Canyon will evaluate other significant expansion opportunities in Canada, such as continued deployment of equipment into the Duvernay play and possibly the Horn River basin. It is expected that a final investment decision will be made by the owners of the Kitimat LNG export facility by late 2012. The export of LNG for the Asia-Pacific market will likely cause significant activity as the owners drill for feedstock for the LNG facility. Over the long-term, Canyon will also continue to look for attractive expansion locations internationally.

The long-term vision of Canyon's management team is to ultimately have multiple service lines operating in multiple countries. But all such expansions present hurdles related to labour, infrastructure and industrial support. We are also in the early phases of evaluating international basins. And we constantly review acquisition opportunities; the main criterion is always the candidate's ability to generate attractive, long-term return on capital rather than the opportunity to add equipment. In the meantime, Canyon continues to see Western Canada as the world's most attractive hydraulic fracturing market. It is the second-largest in the world, and from the service provider's perspective offers far superior supply-demand fundamentals to the largest market, the United States, and the number-three market, Russia. In Canyon's chosen market – Western Canada – we foresee long-term demand growth continuing to outpace supply additions.

Canyon expects strong financial and operating results in 2012. We expect that with a larger fixed-cost infrastructure in place to support larger operations, combined with ongoing cost inflation in all areas of the business, margins will erode from the record levels that Canyon has been experiencing to-date. We are also expecting reduced efficiency throughout oilfield operations in general throughout the WCSB as the utilization of most service lines in the oilfield sector is exceeding the required supply of skilled and experienced labour. Canyon believes that it is in the enviable position of having long-established customer relationships, excellent operating performance augmented by new, state-of-the-art equipment and a very strong balance sheet. Therefore, we are still excited about our expected results and opportunities for 2012. As always, Canyon will operate as cost-effectively as possible and remain ready to respond to changing industry conditions and investment opportunities.

QUARTERLY COMPARATIVE STATEMENTS OF OPERATIONS

000's except per share amounts (Unaudited)	Three Months Ended March 31	
	2012	2011
Revenues	$135,935	$99,037
Cost of services	(80,453)	(52,432)
Gross profit	55,482	46,605
Administrative expenses	(5,536)	(5,389)
Results from operating activities	49,946	41,216
Finance costs	(161)	(80)
Profit before income tax	49,785	41,136
Income tax expense	(12,618)	(11,018)
Profit and comprehensive income	$37,167	$30,118
EBITDA before share-based payments(1)	$58,015	$47,950
Earnings per share:		
Basic	$0.61	$0.50
Diluted	$0.59	$0.48

Note (1): See NON-GAAP MEASURES.

Revenues

In Q1 2012, revenues increased 37% to $135,935 from $99,037 in Q1 2011, while jobs completed increased 27% to 934 in Q1 2012 from 736 in Q1 2011. Approximately 90% of Q1 2012 consolidated revenues were provided by hydraulic fracturing services with average fracturing revenue per job increasing 19% to $232,279 in Q1 2012 from $195,282 in Q1 2011 due to Canyon's continuing success in expanding its market share in the deeper segments of the market. In Q1 2012, Canyon's average consolidated revenue per job increased 9% to $147,212 from $135,330 in Q1 2011.

Cost of services

Cost of services for the three months ended March 31, 2012 totaled $80,453 (2011: $52,432) and includes materials, products, transportation and repair costs of $53,598 (2011: $34,240), employee benefits expense of $20,067 (2011: $13,601), and depreciation of property and equipment of $6,788 (2011: $4,591).

The increase in materials, products, transportation and repair costs is due to the increase in Canyon's business activities. The increase in employee benefits expense is due to the additional staff for Canyon's expanded equipment fleet. The increase in depreciation of property and equipment is due to additional depreciation pertaining to equipment additions.

Administrative expenses

Administrative expenses for the three months ended March 31, 2012 increased to $5,536 from $5,389 in Q1 2011 with an increase in employee benefits expense to $2,984 in Q1 2012 from $1,741 in Q1 2011 being offset by a decrease in share-based payments expense to $942 in Q1 2012 from $1,918 in Q1 2011. The increase in employee benefits expense is due to Canyon adding management and administrative staff to support its increased business activities, while the lower share-based payments expense is mainly due fluctuations in the price of the Company's common shares. Administrative expenses also include depreciation of buildings and office equipment and amortization of intangibles of $298 (2011: $255). In addition, other administrative expenses totaled $1,312 in Q1 2012 compared to $1,475 in Q1 2011.

Share-based payments 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 2012, $0.7 million (Q1 2011 - $0.5 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 share-based payments 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 share-based payments expense. In Q1 2012, $0.2 million was charged to expenses for the Company's Deferred Share Unit Plan and included in accounts payable and accrued liabilities, compared to $1.4 million in Q1 2011.

EBITDA before share-based payments (See NON-GAAP MEASURES)

In Q1 2012, EBITDA before share-based payments (see NON-GAAP MEASURES) increased 21% to $58,015 from $47,950 in Q1 2011 due to increased business with Canyon's expanded equipment fleet supported by strong market conditions across the industry.

Finance costs

Finance costs include interest on finance lease obligations and automobile loans and totaled $161 in Q1 2012 (2011: $80). The increase in finance costs is due to additional finance leases for automotive equipment to support Canyon's increased business activities.

Income Tax Expense

At the expected combined income tax rate of 25%, the profit before income tax for Q1 2012 of $49,785 results in an expected income tax expense of $12,446 compared to the actual income tax expense of $12,618.

Profit and comprehensive income and earnings per share

Profit and comprehensive income increased 23% to $37,167 for Q1 2012, from $30,118 in Q1 2011 as Canyon's expanded equipment fleet experienced high utilization for most of the quarter.

Basic and diluted earnings per share were $0.61 and $0.59, respectively earned in Q1 2012 compared to basic and diluted earnings per share of $0.50 and $0.48, respectively earned in Q1 2011.

Summary of Quarterly Results

000's except per share amounts (Unaudited) (1)		Revenues	EBITDA(2)	Profit(Loss) and Comprehensive Income (Loss)	Basic Earnings (Loss) per Share	Diluted Earnings (Loss) per Share
2012	Q1	$135,935	$58,015	$37,167	$0.61	$0.59
2011	Q4	$144,965	$65,421	$40,932	$0.67	$0.65
	Q3	$105,207	$46,512	$30,861	$0.51	$0.49
	Q2	$22,886	($3,085)	($6,639)	($0.11)	($0.11)
	Q1	$99,037	$47,950	$30,118	$0.50	$0.48
2010	Q4	$85,153	$40,530	$24,606	$0.41	$0.40
	Q3	$66,462	$30,254	$16,947	$0.28	$0.28
	Q2	$22,817	$3,395	$91	$0.00	$0.00

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

Note (2): See NON-GAAP MEASURES.

In Q1 of 2012, Q3 and Q4 of 2011, revenues, EBITDA (see NON-GAAP MEASURES) increased significantly over the comparable 2011 and 2010 quarters as Canyon's expanded equipment fleet was fully utilized due to an expanding market share amid robust industry conditions. In Q2 2011, EBITDA and Profit (Loss) and comprehensive income decreased over Q2 2010, primarily due to weather related drilling delays.

LIQUIDITY AND CAPITAL RESOURCES

Funds from operations

Funds from operations (See NON-GAAP MEASURES) increased 23% to $46,584 in the three months ended March 31, 2012 from $37,775 for the comparable 2011 quarter. The increase in funds from operations (See NON-GAAP MEASURES) is due to the dramatic growth in Canyon's business activities and revenues attributable to equipment capacity additions in 2011 and the much improved operating environment across the well stimulation industry as discussed above. The funds from operations were primarily used to finance the remaining balance of the Company's 2011 $82 million capital program and to make installments on the 2012 $90 million capital program which was announced in May 2011. Please refer to "Capital Expenditures" below.

Financing

Equity:

(Share amounts in thousands)

For the three months ended March 31, 2012, there were 126 common shares issued by the Company to employees and officers upon exercise of options, nil common shares issued to a director upon conversion of incentive-based units, and nil common shares upon exercise of warrants, for aggregate proceeds of $0.6 million

Debt:

Loans and borrowings as at March 31, 2012 total $5.5 million (December 31, 2011: $5.1 million) which comprise equipment lease obligations of $5.4 million (December 31, 2011: $5.0 million) and automotive equipment loans totaling $16 thousand (December 31, 201: $21 thousand).

In 2011, Canyon renewed its bank credit facilities and replaced its existing Operating Facility with a three year committed revolving Operating Facility of $15 million (increased from $10 million). In addition the Extendible Facility was replaced with a three year committed Revolving Facility of $45 million (increased from $26 million). As at March 31, 2012, the Company's available debt facilities total $60 million, of which nil is drawn as at March 31, 2012 (December 31, 2011: nil).

Working Capital and Cash Requirements

As at March 31, 2012, Canyon had a working capital balance of $70.0 million compared to $67.0 million as at December 31, 2011. As at March 31, 2012, trade and other receivables increased by $14.7 million due to March sales reaching a monthly record, while cash and cash equivalents decreased by $25.3 million to fund the Company's capital programs. In addition, the dividend payable increased to $9.2 million as at March 31, 2012 from $3.8 million as at December 31, 2011 due to the March 7, 2012 announcement to increase the annual dividend from $0.25 per common share to $0.60 per common share, payable quarterly. Current tax liabilities decreased to $7.7 million as at March 31, 2012 from $15.9 million as at December 31, 2011 due to the payment of 2011 corporate income taxes in February 2012. 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, 2012, accounts receivable includes an allowance of $0.9 million for doubtful receivables (December 31, 2011: $0.9 million).

The Company will use its March 31, 2012 cash available of $17 million, funds from operations and, if required, available credit facilities to fund the remaining balance of its 2011 and 2012 capital expenditure programs of approximately $40 million. Please refer to “Capital Expenditures” below.

Investments

For the three months ended March 31, 2012, capital expenditures, net of finance leases, totaled $34 million, comprising $4 million to complete the 2011 capital program and $30 for installments on the 2012 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 funded debt to EBITDA before share-based payments and a ratio of EBIDTA before share-based payments to total debt service obligations. As of March 31, 2012, the Company is in compliance with each of the above financial covenants. The Company has nil amounts drawn on its debt facilities as at March 31, 2012. 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

As at March 31, 2012, Canyon's contractual obligations are summarized as follows:

000's (Unaudited)	Total	Next 12 months	1 - 3 years	4 - 5 years	After 5 years
Trade and other payables	$50,518	$50,518	$ -	$ -	$ -
Loans and borrowings	5,483	1,861	3,622	-	-
Dividend payable	9,170	9,170			
Current tax liabilities	7,660	7,660			
Operating leases and office space	7,476	1,509	2,501	2,321	1,145
Capital Expenditure Commitments	39,775	39,775	-	-	-
Total contractual obligations	$120,082	$110,493	$6,123	$2,321	$1,145

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, 2012 cash available, funds from operations (See NON-GAAP MEASURES) and, if required, available debt facilities. Please see "Working Capital and Cash Requirements" above and "Capital Expenditures" below.

Capital Expenditures

2011 Capital Program: The 2011 $82 million capital program consisted 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 increased Canyon's equipment fleet capacity to 175,500 HHP at the end of 2011. As at March 31, 2012, $6 million remains to be spent on this program for certain items of ancillary equipment to be delivered to Canyon in the second quarter of 2012.

2012 Capital Programs: In May 2011, Canyon announced its initial capital expenditure program for 2012 at $90 million. The program consists of 50,000 HHP, blenders, associated sand handling and storage equipment, three deep coil tubing units, nitrogen equipment and miscellaneous other support equipment and facilities. Following completion of this program in 2012, Canyon's pumping capacity will grow to in excess of 225,000 HHP.

In the three months ended March 31, 2012, Canyon incurred $30 million on its 2012 capital program (total capital expenditures for the quarter of $34 million less $4 million to complete the 2011 capital program). The remaining $34 million for the 2012 capital program (total of approximately $90 million less amounts spent in 2011 of $28 million and less $30 million incurred in 2012, plus miscellaneous items of $2 million) is expected to be incurred over the second and third quarters of 2012.

Funding for Canyon's 2012 remaining capital expenditures of $40 million ($6 million for the 2011 program, $34 million for the 2012 capital program) will be provided from existing cash, funds from operations (see NON-GAAP MEASURES), and, if required, available bank credit facilities.

Outstanding Share, Warrant and Option Data

The following table summarizes Canyon's capitalization as at March 31, 2012 and December 31, 2011:

000's (Unaudited)	April 30, 2012	March 31, 2012	December 31, 2011
Common Shares	61,132	61,121	60,995
Warrants	425	425	425
Options	2,929	2,860	2,451

In the three months ended March 31, 2012, no warrants were issued to directors, officers and employees and no warrants were exercised. In the period, there were 635 share options granted to employees and officers at an average exercise price of $12.64 per option, 126 share options were exercised by directors, officers and employees and 100 share options were forfeited.

FINANCIAL INSTRUMENTS

Fair Values

The carrying values of accounts receivable, bank indebtedness, accounts payable, 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, 2012, 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, 2012, other than the operating leases described above under "Contractual Obligations".

ACCOUNTING POLICIES AND ESTIMATES

The Company's IFRS accounting policies are provided in Note 3 to the Consolidated Financial Statements as at and for the years ended December 31, 2011 and 2010.

New IFRS Pronouncements

One new standard, not yet effective for the year ended December 31, 2011, has 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, 2015. 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 consolidated financial statements for the year ended December 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

The Company's 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 $0.9 million has been established as at March 31, 2012 (December 31, 2011 - $0.9 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 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. During the quarter ended March 31, 2012, management revised estimates and underlying assumptions on certain equipment. Please refer to Note 2(b) to the Condensed Consolidated Interim Financial Statements for the three months ended March 31. 2012 and 2011.

Impairment of Non-Financial Assets

Every reporting period, management assesses the carrying value of non-financial assets for indications of impairment. When an indication of impairment is present, the asset is written down to its estimated recoverable amount. No indications of impairment existed in the three months years ended March 31, 2012 and 2011.

The assessment of impairment indicators is subjective and considers the various internal and external factors such as the financial performance of individual cash-generating units (CGUs), market capitalization and industry trends. In addition, the impairment assessment is impacted by how management determines the composition of CGUs. Management has grouped assets into CGUs based on several factors with a primary focus on assets whose cash flows are interdependent. This assessment is subject to management estimate and interpretation.

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, 2011. 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 oil, NGLs 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. The Company has been granted a patent in Canada and the United States for its Grand Canyon ® process and has a patent pending in Australia.

Competition

Canyon's market is highly competitive and does not presently hold a dominant market position with respect to its 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 approximately 724 full time staff as at March 31, 2012 compared to approximately 700 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 66% of the Company's accounts receivable as at March 31, 2012, and 59% of the Company's revenue for the three months ended March 31, 2012. 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, 2012 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, 2012.

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 December 31, 2011 in all material respects. There are no material weaknesses in the Company's internal controls over financial reporting as at March 31, 2012.

There have been no changes in the Company's internal controls over financial reporting during the period ending March 31, 2012 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; attracting and retaining skilled personnel 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.