CANYON SERVICES GROUP INC.

# Management's Discussion and Analysis

## SIX MONTHS ENDED JUNE 30, 2012

This management discussion and analysis (MD&A) is dated August 2, 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 and six months ending June 30, 2012 and June 30, 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 SECOND QUARTER 2012

| 000's except per share, job amounts and hydraulic pumping capacity (Unaudited) | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Consolidated revenues | $37,974 | $22,886 | $173,909 | $121,923 |
| Profit (loss) and comprehensive income (loss) | ($6,940) | ($6,639) | $30,227 | $23,477 |
| Per share-basic | ($0.11) | ($0.11) | $0.49 | $0.39 |
| Per share-diluted | ($0.11) | ($0.11) | $0.48 | $0.37 |
| EBITDA before share-based payments[1] | ($1,552) | ($3,084) | $56,562 | $44,863 |
| Funds from operations[1] | $2,723 | $1,199 | $49,306 | $38,973 |
| Total jobs completed [2] | 251 | 159 | 1,185 | 895 |
| Consolidated average revenue per job [2] | $162,034 | $147,078 | $150,746 | $137,417 |
| Average fracturing revenue per job | $212,281 | $245,778 | $227,313 | $203,113 |
| Hydraulic Pumping Capacity | | | | |
| Average HHP | 194,000 | 125,500 | 185,000 | 123,000 |
| Exit HHP | 218,000 | 125,500 | 218,000 | 125,500 |
| Capital expenditures | $20,653 | $29,190 | $54,779 | $52,333 |

| 000's (Unaudited) | As at June 30, 2012 | As at December 31, 2011 |
|---|---|---|
| Cash balance, net of loans and borrowings (3) | $23,141 | $42,481 |
| Working capital | $43,027 | $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

In Q2 2012, jobs completed and consolidated revenues increased by 58% and 66% respectively compared to Q2 2011. Nevertheless, operating results were lower than expected in the quarter as extremely wet weather in June deferred several projects into the third quarter. In addition, the recent softening in oil and natural gas liquids prices resulted in sluggish producer activity and modest pricing pressure. For the six months ended June 30, 2012, jobs completed and revenues increased by 27% and 43% respectively compared to the comparable period of 2011.

With low natural gas prices prevailing over the past year, industry activity to date in the Western Canadian Sedimentary Basin ("WCSB") has been supported by strong oil and NGL prices with a focus by Exploration and Production ("E&P") companies on emerging oil and liquids rich natural gas plays, including the Duvernay shale, Cardium 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. However, since May 2012 oil and natural gas liquids prices have experienced considerable volatility, with a downward bias, as a result of several factors including a weak demand outlook for commodities caused by global economic uncertainty. In addition, take-away pipeline capacity constraints exist in Western Canada and are not always able to meet the increased supply of oil resulting from the robust drilling activity of the past two years leading to widening price differentials. For the twelve months to June 30, 2012, the West Texas Intermediate price for oil has decreased by about 10%, while over the same period the Nymex natural gas price has decreased by about 37%.

The current uncertainty around the commodity price outlook has impacted WCSB drilling activity as certain E&P companies reduced their second half 2012 capital spending. This trend is expected to continue to impact industry activity for the remainder of the year. This is evident from such key industry indicators as drilling rig utilization, well licenses issued and well completions. While drilling rig utilization was flat at 49% for the first six months of 2012 compared to the same period in 2011, well licenses issued have declined by 14% to 6,452 from 7,498 over the same periods. Significantly, well completions decreased by 31% to 5,241 in the six months ended June 30, 2012 from 7,611 in the comparable 2011 period partly due to weather delays but also due to some reluctance by E&P companies to complete wells in an uncertain commodity price environment. As a result, the very strong demand for pressure pumping services over the past two years has cooled during the second quarter as E&P companies re-evaluate drilling programs in light of weaker oil and natural gas liquids

pricing in conjunction with the already low natural gas prices. Horizontal well licenses as a percentage of total well licenses issued increased by 21% in the six months ended June 30, 2012 compared to the comparable 2011 period. Horizontal wells drilled represented 65% of total wells drilled in the WCSB during the six months ended June 30, 2012, up from 51% in the comparable 2011 period. Also, natural gas pricing has recently strengthened with NYMEX natural gas price exiting the second quarter at $2.90 US/mmbtu and remaining at around this level into July, up by about 20% from the Q2 2012 average of $2.35 US/mmbtu.

In the current quarter, Canyon completed 251 jobs, a 58% increase over the 159 jobs completed in Q2 2011. Consolidated revenues were $38 million in the current quarter, a 66% increase over $23 million in the prior year comparable quarter. Even with higher revenues, the loss and comprehensive loss remained relatively flat at $6.9 million in Q2 2012 compared to a loss $6.6 million in Q2 2011, due to a higher fixed cost structure to support the Company's expanded equipment fleet, less profitable jobs resulting from modestly reduced pricing brought on by industry conditions and weather related drilling delays. The loss per common share, fully diluted was $0.11 in Q2 2012 and in the prior year comparable quarter.

For the six months ended June 30, 2012, Canyon completed 1,185 jobs, a 27% increase over the 934 jobs completed in the comparable 2011 period. Consolidated revenues for the current six month period increased by 43% to $174 million from $122 million in the comparable 2011 period, resulting in average revenues per job of $150,746 in 2012 compared to $137,417 in the 2011 period. Profit and comprehensive income was $30 million in the current period, a 28% increase over the $24 million earned in the comparable 2011 period. Approximately 90% of Canyon's consolidated revenue is generated by its hydraulic fracturing division, with average fracturing revenue per job increasing by 12% to $227,313 in the six months ended June 30, 2012 from $203,113 in the comparable 2011 period. 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 especially in plays such as the Duvernay.

The rapid growth in Canyon's pumping capacity, from 25,500 HHP in late 2009 to 218,000 HHP as at June 30, 2012, and to in excess of 225,000 HHP by end of summer 2012, allows the Company to work on the deeper more complex areas of the 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.

## 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 June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Profit (loss) and comprehensive income (loss) | ($6,940) | ($6,639) | $30,227 | $23,477 |
| Add (Deduct): | | | | |
| Depreciation and amortization | 7,094 | 5,168 | 14,180 | 10,013 |
| Finance costs | 235 | 88 | 396 | 168 |
| Share-based payment transactions | (2,144) | 872 | (1,202) | 2,790 |
| Cash settlement of deferred share units | 2,298 | - | 2,298 | - |
| Loss (gain) on sale of property and equipment | 36 | 24 | 77 | (6) |
| Income taxes(recovery) | (2,131) | (2,597) | 10,486 | 8,421 |
| EBITDA before share-based payments | ($1,552) | ($3,084) | $56,462 | $44,863 |

## Funds from Operations

| 000's (Unaudited) | Three Months Ended June 30 | | Six Months Ended June 30 | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| Net cash from operating activities | $41,668 | $22,953 | $45,687 | $44,463 |
| Add (Deduct): | | | | |
| Income Tax paid | 3,516 | 4,061 | 23,066 | 19,666 |
| Change in working capital | (46,971) | (30,187) | (12,687) | (19,434) |
| Current tax | 4,510 | 4,372 | (6,760) | (5,722) |
| Funds from operations | $2,723 | $1,199 | $49,306 | $38,973 |

## Operating and Financial Highlights

The operating and financial highlights for the six months ended June 30, 2012 are summarized as follows:

- Although industry activity is down year-over-year, Canyon continues to grow its market share in Canada.
- In Q2 2012, jobs completed and consolidated revenues increased by 58% and 66% to 251 and $37,974 respectively from 159 and $22,886 respectively in Q2 2011.
- For the six months ended June 30, 2012, jobs completed and consolidated revenues increased by 32% and 43% to 1,185 and $173,909 respectively from 895 and $121,923 respectively in the comparable 2011 period.
- In Q2 2012, revenues were impacted by modest price decreases as E&P companies adjusted capital programs in response to the current uncertain outlook for oil and natural gas liquids prices. With approximately 90% of consolidated revenues derived from hydraulic fracturing services, the average fracturing revenue per job decreased to $212,281 in Q2 2012 from $245,778 in Q2 2011. This decrease is attributable both to price pressure and job mix. For the six months ended June 30, 2012, average fracturing revenue per job increased by 14% to $227,313 from $203,113 in the comparable 2011 period. In this instance, the completion of larger jobs in Q1 offset the Q2 price reductions to result in the higher average fracturing revenue per job.

- For the six months ended June 30, 2012, EBITDA before share-based payments expense (see NON-GAAP MEASURES) increased by 26% to $56,462 from $44,863 in the comparable 2011.

- Funds from operations (see NON-GAAP MEASURES) increased to $2,723 in Q2 2012 from $1,199 in Q2 2011. For the six months ended June 30, 2012, funds from operations (see NON-GAAP MEASURES) increased by 27% to $49,306 from $38,973 in the comparable 2011 period.

- Even with higher revenues in the current quarter, the loss and comprehensive loss remained flat at $6,940 (loss of $0.11 per share, diluted) in Q2 2012 compared to $6,639 (loss of $0.11 per share, diluted) in Q2 2011. Offsetting the higher revenues were lower field margins due to pricing, higher depreciation and amortization expense and an increase in fixed costs to support the Company's expanded equipment fleet.

- For the six months ended June 30, 2012, the profit and comprehensive income increased by 28% to $30,227 ($0.48 per share, diluted) from $23,477 ($0.37 per share, diluted) in the comparable 2011 period.

- Canyon's equipment fleet exited Q2 2012 with 218,000 HHP and will reach 225,500 HHP by end of summer 2012 following completion of the 2012 capital program announced in May 2011.

- In May, Canyon renewed its bank credit facilities extending the term by a further year to May 31, 2015.

- Canyon remains in a very strong financial position with available cash of $23 million in addition to available undrawn credit facilities of $60 million and working capital of $43 million, including cash, as at June 30, 2012.

- On June 19, 2012, Canyon declared a quarterly dividend of $0.15 per common share, or $9.2 million, which was paid to shareholders on July 26, 2012.

## 2012 OUTLOOK

With the ongoing uncertainty around oil and natural gas prices, we expect 2012 industry field activity will be lower than 2011. Although overall industry cash flows are down, producers with optionality in their asset base are maximizing their pursuit of oil targets and the highest-return liquids natural gas plays, where economics improve dramatically when liquids content exceeds 50 barrels per million cubic feet of natural gas. We expect to increase Canyon's market share in this environment. Our enduring priorities are operational success, safety, strengthening customer relationships, operating with integrity and responsibility, contributing to improved water management, staff retention and profitability.

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. 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. This will provide the opportunity for further capital expansion in Canada and possibly the addition of an operating base in the Horn River Basin. 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 competition, labour, infrastructure and industrial support. We constantly review acquisition opportunities with the main criterion being 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 relatively strong financial and operating results in 2012. We expect that with a larger fixed-cost infrastructure in place to support larger operations, combined with reduced pricing compared to 2011, margins will erode from the record levels that Canyon has been experiencing to-date. 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 June 30 | |
|---|---|---|
| | 2012 | 2011 |
| Revenues | $37,974 | $22,886 |
| Cost of services | (42,534) | (27,506) |
| Gross profit (loss) | (4,560) | (4,620) |
| Administrative expenses | (4,276) | (4,528) |
| Results from operating activities | (8,836) | (9,148) |
| Finance costs | (235) | (88) |
| Profit (loss) before income tax | (9,071) | (9,236) |
| Income tax (expense) recovery | 2,131 | 2,597 |
| Profit (loss)and comprehensive income (loss) | ($6,940) | ($6,639) |
| EBITDA before share-based payments[1] | ($1,552) | ($3,084) |
| Earnings (loss) per share: | | |
| Basic | ($0.11) | ($0.11) |
| Diluted | ($0.11) | ($0.11) |

Note (1): See NON-GAAP MEASURES.

### Revenues

In Q2 2012, revenues increased 66% to $37,974 from $22,886 in Q2 2011, while jobs completed increased 58% to 251 from 159 over the same quarters. Approximately 90% of Q2 2012 consolidated revenues were provided by hydraulic fracturing services with average fracturing revenue per job decreasing to $212,281 from $245,778 in Q2 2011. The decrease in average fracturing revenue per job is due to both the completion of larger jobs and to pricing pressure resulting from E&P companies reducing capital programs in response to the current uncertain outlook for commodity prices. In Q2 2012, Canyon's average consolidated revenue per job increased by 10% to $162,034 from $147,078 in Q2 2011.

### Cost of services

Cost of services for the three months ended June 30, 2012 totaled $42,534 (2011: $27,506) and includes materials, products, transportation and repair costs of $23,544 (2011: $13,640), employee benefits expense of $12,202 (2011: $8,972), and depreciation of property and equipment of $6,788 (2011: $4,894).

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 June 30, 2012 totaled $4,276 compared to $4,528 in Q2 2011 with an increase in employee benefits expense to $2,086 in Q2 2012 from $1,637 in Q2 2011 being offset by a decrease in share-based payments expense to $154 in Q2 2012 from $872 in Q2 2011. The increase in employee benefits expense is due to Canyon adding management and administrative staff to support its increased business activities. Share-based payments expense includes a payment pursuant to the exercise of 200,000 deferred share units at an exercise price of $1.25 per unit, less a reduction in share-based payments expense due to 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 $308 (2011: $273). In addition, other administrative expenses totaled $1,730 in Q2 2012 compared to $1,746 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 Q2 2012, $0.9 million (Q2 2011 - $0.6 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 Q2 2012, share-based payments expense was reduced by $0.7 million (Q2 2011 - $0.3 million) for the Company's Deferred Share Unit Plan to reflect the payment pursuant to the exercise of 200,000 units and changes in the price of the common shares of the Company.

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

In Q2 2012, EBITDA before share-based payments (see NON-GAAP MEASURES) improved to negative $1,552 compared to negative $3,084 in the comparable 2011 quarter. The higher fixed costs to support the Company's increased equipment fleet and business activities resulted in the negative EBITDA even though revenues were higher.

**Finance costs**

Finance costs include interest on finance lease obligations and automobile loans and totaled $235 in Q2 2012 (Q2 2011: $88). The increase in finance costs is due to additional finance leases for automotive equipment to support Canyon's increased business activities and expenses relating to renewal of the bank credit facilities.

### Income Tax Expense

At the expected combined income tax rate of 25%, the loss before income tax for Q2 2012 of $9,071 would have resulted in an expected recovery of $2,268, compared to the actual income tax recovery of $2,131.

### Profit and comprehensive income and earnings per share

Loss and comprehensive loss totaled $6,940 in Q2 2012 compared to $6,639 in Q2 2011.

Basic and diluted loss per share was $0.11 in each of Q2 2012 and Q2 2011.

## SIX MONTHS TO JUNE 30, 2012 COMPARATIVE STATEMENTS OF OPERATIONS

| 000's except per share amounts (Unaudited) | Six Months Ended June 30 | |
|---|---|---|
| | 2012 | 2011 |
| Revenues | $173,909 | $121,923 |
| Cost of services | (122,988) | (79,939) |
| Gross profit | 50,921 | 41,984 |
| Administrative expenses | (9,812) | (9,918) |
| Results from operating activities | 41,109 | 32,066 |
| Finance costs | (396) | (168) |
| Profit before income tax | 40,713 | 31,898 |
| Income tax expense | (10,486) | (8,421) |
| Profit and comprehensive income | $30,227 | $23,477 |
| EBITDA before share-based payments[(1)] | $56,462 | $44,863 |
| Earnings per share: | | |
| Basic | $0.49 | $0.39 |
| Diluted | $0.48 | $0.37 |

Note (1): See NON-GAAP MEASURES.

### Revenues

Consolidated revenues increased by 43% to $173,909 in the six months ended June 30, 2012 from $121,923 in the comparable 2011 period, while jobs completed increased 32% to 1,185 from 934 over the same periods. Approximately 90% of the current period's consolidated revenues were provided by hydraulic fracturing services with average fracturing revenue per job increasing 12% to $227,313 from $203,113 in the six

months to June 30, 2011. Canyon's average consolidated revenue per job in the six months ended June 30, 2012 increased 10% to $150,746 from $137,417 in Q1 2011.

**Cost of services**

Cost of services for the six months ended June 30, 2012 totaled $122,988 (2011: $79,939) and includes materials, products, transportation and repair costs of $77,143 (2011: $47,881), employee benefits expense of $32,269 (2011: $22,573), and depreciation of property and equipment of $13,576 (2011: $9,485).

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 six months ended June 30, 2012 totaled $9,812 (2011: $9,918) with an increase in employee benefits expense to $5,070 (2011: $3,378) being offset by a decrease in share-based payments expense to $1,096 (2011: $2,790). The increase in employee benefits expense is due to Canyon adding management and administrative staff to support its increased business activities. Share-based payments expense includes a payment pursuant to the exercise of 200,000 deferred share units at an exercise price of $1.25 per unit, less a reduction in share-based payments expense due to 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 $605 (2011: $528). In addition, other administrative expenses totaled $3,041 (2011: $3,222).

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 the six months ended June 30, 2012, $1.7 million (2011 - $1.1 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 the six months ended June 30, 2012, share-based payments expense was reduced by $0.6 million (2011 - $1.7 million) for the Company's Deferred Share Unit Plan to reflect the payment pursuant to the exercise of 200,000 units and changes in the price of the common shares of the Company

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

For the six months ended June 30, 2012, EBITDA before share-based payments (see NON-GAAP MEASURES) increased 26% to $56,462 (2011: $44,863) 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 $396 (2011: $168). 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 the six months ended June 30, 2012 of $40,713 results in an expected income tax expense of $10,178 compared to the actual income tax expense of $10,486. The actual income tax expense was increased by non-deductible expenses.

### Profit and comprehensive income and earnings per share

Profit and comprehensive income increased 29% to $30,227 for the six months ended June 30, 2012, from $23,477 in the comparable 2011 period as Canyon's expanded equipment fleet completed an increased number of jobs.

Basic and diluted earnings per share were $0.49 and $0.48, respectively earned in the six months ended June 30 2012 compared to basic and diluted earnings per share of $0.39 and $0.37, respectively earned in the comparable 2011 period.

### 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 | Q2 | $37,974 | ($1,552) | ($6,940) | ($0.11) | ($0.11) |
| | 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 |

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 2011and Q2 2012, EBITDA and Profit (Loss) and comprehensive income decreased primarily due to weather related drilling delays.

## LIQUIDITY AND CAPITAL RESOURCES

### Funds from operations

Funds from operations (See NON-GAAP MEASURES) increased 127% to $2,723 in the three months ended June 30, 2012 from $1,199 for the comparable 2011 quarter. For the six months ended June 30, 2012, funds from operations (See NON-GAAP MEASURES) increased by 27% to $49,306 from $38,973 in the comparable 2011 period. 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 and 2012 capital programs. Please refer to "Capital Expenditures" below.

### Financing

*Equity:*
(Share amounts in thousands)
For the three and six months ended June 30, 2012, there were 48 and 126 common shares respectively issued by the Company to employees and officers upon exercise of options for aggregate proceeds of $0.7 million

*Debt:*
Loans and borrowings as at June 30, 2012 total $5.9 million (December 31, 2011: $5.1 million) which comprise equipment lease obligations of $5.9 million (December 31, 2011: $5.0 million) and automotive equipment loans totaling $13 thousand (December 31, 201: $21 thousand).

In Q2 2012, Canyon renewed its bank credit facilities, extending the term by a further year to May 31, 2015. The renewed facilities comprise a $15 million Operating Facility and a $45 million Revolving Facility. As at June 30, 2012, the Company's available debt facilities total $60 million, of which nil is drawn as at June 30, 2012 (December 31, 2011: nil).

### Working Capital and Cash Requirements

As at June 30, 2012, Canyon had a working capital balance of $43.0 million compared to $67.0 million as at December 31, 2011. As at June 30, 2012, trade and other receivables decreased by $44.4 million compared to December 31, 2011 due to the expected, seasonally low sales revenue experienced in Q2 2012, while cash and cash equivalents decreased by $19.3 million to fund the Company's capital programs. In addition, the dividend payable increased to $9.2 million as at June 30, 2012 from $3.8 million as at December 31, 2011 due to the March 6, 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 from $15.9 million as at December 31, 2011 to an income tax recovery of $0.4 million as at June 30, 2012 due to the payment of 2011 corporate income taxes in February 2012 and due to payment of 2012 tax installments. 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 June 30, 2012, accounts receivable includes an allowance of $0.9 million for doubtful receivables (December 31, 2011: $0.9 million).

The Company will use its June 30, 2012 cash available of $23 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 $21 million. Please refer to "Capital Expenditures" below.

### Investments

For the three and six months ended June 30, 2012, capital expenditures, net of finance leases, totaled $21 million and $55 million respectively, comprising $8 million to complete the 2011 capital program and $47 for 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 June 30, 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 June 30, 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 June 30, 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 | $33,305 | $33,305 | $ - | $ - | $ - |
| Loans and borrowings | 5,855 | 2,248 | 3,607 | - | - |
| Dividend payable | 9,175 | 9,175 | | | |
| Operating leases and office space | 7,071 | 1,468 | 2,446 | 2,278 | 879 |
| Capital Expenditure Commitments | 21,442 | 21,442 | - | - | - |
| Total contractual obligations | $76,848 | $67,638 | $6,053 | $2,278 | $879 |

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 June 30, 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 June 30, 2012, $2 million remains to be spent on this program for certain items of ancillary equipment to be delivered to Canyon in the third quarter of 2012.

*2012 Capital Programs:* In May 2011, Canyon announced its initial capital expenditure program for 2012 at $94 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 six months ended June 30, 2012, Canyon incurred $47 million on its 2012 capital program (total capital expenditures for the quarter of $55 million less $8 million to complete the 2011 capital program). The remaining $19 million for the 2012 capital program (total of approximately $94 million less amounts spent in 2011 of $28 million

and less $47 million incurred in 2012) is expected to be incurred over the third quarter of 2012.

Funding for Canyon's 2012 remaining capital expenditures of $21 million ($2 million for the 2011 program, $19 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 June 30, 2012 and December 31, 2011:

| 000's (Unaudited) | July 31, 2012 | June 30, 2012 | December 31, 2011 |
|---|---|---|---|
| Common Shares | 61,212 | 61,169 | 60,995 |
| Warrants | 425 | 425 | 425 |
| Options | 2,912 | 2,912 | 2,451 |

In the three and six months ended June 30, 2012, no warrants were issued to directors, officers and employees and no warrants were exercised. In the six months ended June 30, 2012, there were 757 share options granted to employees and officers at an average exercise price of $12.50 per option, 174 share options were exercised by directors, officers and employees and 122 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 six months ended June 30, 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 June 30, 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.

### 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 June 30, 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 prior 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 and six months ended June 30, 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 and six months ended June 30, 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 770 full time staff as at June 30, 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 63% of the Company's accounts receivable as at June 30, 2012, and 55% of the Company's revenue for the six months ended June 30, 2012. The Company has historically had a stable relationship with these customers and has no reason to believe there will be any change to these relationships 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 AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

No change in Canyon's Disclosure Controls and Procedures and Internal Controls Over Financial Reporting were made during the three months ended June 30, 2012, that materially affected, or are reasonably likely to materially affect, the Company's Internal Controls Over Financial Reporting and disclosures or required information.

## 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.