Management's Discussion and Analysis

NINE MONTHS ENDED SEPTEMBER 30, 2012

This management discussion and analysis (MD&A) is dated November 6, 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 nine months ending September 30, 2012 and September 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 THIRD QUARTER 2012

000's except per share, job amounts and hydraulic pumping capacity (Unaudited)	Three Months Ended September 30		Nine Months Ended September 30	
	2012	2011	2012	2011
Consolidated revenues	$94,401	$105,207	$268,310	$227,131
Profit and comprehensive income	$17,036	$30,861	$47,263	$54,338
Per share-basic	$0.28	$0.51	$0.77	$0.90
Per share-diluted	$0.27	$0.49	$0.76	$0.87
EBITDA before share-based payments(1)	$32,496	$46,512	$88,960	$91,377
Funds from operations(1)	$27,727	$37,395	$77,035	$76,368
Total jobs completed (2)	524	733	1,709	1,628
Consolidated average revenue per job (2) (3)	$180,883	$143,970	$157,587	$139,640
Average fracturing revenue per job(3)	$248,095	$191,328	$230,583	$196,399
Hydraulic Pumping Capacity				
Average HHP	220,000	140,000	200,500	127,000
Exit HHP	225,500	150,500	225,500	150,500
Capital expenditures	$9,740	$28,941	$64,521	$81,273

000's (Unaudited)	As at September 30, 2012	As at December 31, 2011
Cash balance	$9,021	$42,481
Working capital	$52,630	$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): 2011 revenue per job numbers are restated to reflect invoice adjustments made in subsequent reporting periods.

Although Canyon reports a strong third quarter, year over year operating results were impacted by weaker producer activity and pricing pressure. The reduced drilling activity was partially offset by a carryover of weather delayed projects and a well completions backlog from the prior quarter. Equipment utilization was stronger in July and August as the carryover from Q2 2012 was worked through, but declined in September to more closely match the reduced current producer activity. Pricing in Q3 2012 was about 15% below Q1 2012 levels due to the combined effect of lower producer activity and equipment capacity additions across the industry over the past two years.

Since the first quarter, uncertainty around the commodity price outlook has impacted drilling activity across the Western Canadian Sedimentary Basin ("WCSB"). In particular, low natural gas prices and volatile oil prices experienced in the first nine months of 2012 has led to curtailed producer spending over the second half of 2012. Specifically, NYMEX natural gas price averaged US$2.89 per mmbtu for Q3 2012, about 30% below the Q3 2011 average price of US$4.06 per mmbtu. Although average oil prices have remained relatively flat, with the West Texas Intermediate price averaging US$92.16 per barrel in Q3 2012 compared to US$89.51 per barrel for Q3 2011, the early summer months experienced volatile oil prices prompted by global economic uncertainty, while take-away pipeline capacity concerns in Western Canada also led to widening oil price differentials.

The current trend of weaker producer activity is expected to continue to impact pressure pumping activity for the remainder of the year. This is evident from key industry indicators such as equity capital raised year-to-date, drilling rig utilization, well licenses issued and well completions. In Q3 2012, drilling rig utilization decreased by about 30% from Q3 2011, averaging 40% in the current quarter compared to 57% in the prior year comparable quarter. Well licenses issued have declined by 23% to 3,060 in Q3 2012 from 3,985 in Q3 2011. In particular, well completions decreased by 27% and 32% to 2,544 and 7,745 respectively in the three and nine months ended September 30, 2012 from 3,482 and 11,466 in the comparable 2011 periods due to ongoing reluctance by E&P companies to complete wells in an uncertain commodity price and macroeconomic environment.

As a result, consolidated revenues for the three months ended September 30, 2012 were $94 million, a 10% decrease from $105 million earned in the prior year comparable quarter. Jobs completed in Q3 2012 totaled 524, a 29% decrease from the

733 jobs completed in Q3 2011. However, average consolidated revenue per job increased by 26% to $180,883 in Q3 2012 from $143,970 in Q3 2011 reflecting larger jobs in emerging oil and natural gas liquids rich plays such as the Duvernay shale. Profit and comprehensive income decreased by 45% to $17 million in Q3 2012 from $31 million in Q3 2011 and reflects a higher fixed cost structure to support the Company's expanded equipment fleet, increased depreciation expense relating to equipment additions and less profitable jobs resulting from reduced pricing brought on by industry conditions. Fully diluted earnings per common share was $0.27 in Q3 2012 compared to $0.49 in Q3 2011.

For the nine months ended September 30, 2012, Canyon completed 1,709 jobs, a 5% increase over the 1,628 jobs completed in the comparable 2011 period. In addition, average consolidated revenue per job increased by 13% to $157,587 from $139,640 in the 2011 comparable period due to Canyon completing larger jobs for customers in emerging plays such as the Duvernay. The combination of an increased job count and higher average revenue per job resulted in consolidated revenues for the current nine month period increasing by 18% to $268 million from $227 million in the comparable 2011 period. Although revenues increased by 18%, profit and comprehensive income decreased by 13% to $47 million in the current period from $54 million earned in the comparable 2011 period due to pricing pressure across the industry combined with higher fixed costs, including depreciation, to support the additional equipment. Approximately 90% of Canyon's consolidated revenue is generated by its hydraulic fracturing division, with average fracturing revenue per job increasing by 17% to $230,583 in the nine months ended September 30, 2012 from $196,399 in the comparable 2011 period reflecting the larger job sizes as discussed previously.

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.

The Company describes revenue less cost of services as gross profit.

EBITDA before share-based payments

000's (Unaudited)	Three Months Ended September 30		Nine Months Ended September 30	
	2012	2011	2012	2011
Profit and comprehensive income	$17,036	$30,861	$47,263	$54,338
Add (Deduct):				
Depreciation and amortization	7,602	5,824	21,782	15,838
Finance costs	175	133	572	302
Share-based payment transactions	1,620	(1,557)	419	1,233
Cash settlement of deferred share units	-	-	2,298	-
Loss on sale of property and equipment	116	46	193	40
Income tax expense	5,947	11,205	16,433	19,626
EBITDA before share-based payments	$32,496	$46,512	$88,960	$91,377

Funds from Operations

000's (Unaudited)	Three Months Ended September 30		Nine Months Ended September 30	
	2012	2011	2012	2011
Net cash from operating activities	$526	($547)	$46,214	$43,916
Add (Deduct):				
Income Tax paid	8,405	3,498	31,471	23,164
Change in working capital	23,390	43,428	8,405	23,995
Cash settlement of deferred share units	-	-	2,298	-
Current tax	(4,594)	(8,984)	(11,353)	(14,707)
Funds from operations	$27,727	$37,395	$77,035	$76,368

Operating and Financial Highlights

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

- In Q3 2012, average consolidated revenues per job increased by 26% to $180,883 from $143,970 in Q3 2011 as Canyon completed larger jobs in emerging oil and natural gas liquids rich plays such as the Duvernay shale. The reduced producer activity in the current quarter more than offset the larger job sizes to result in consolidated revenues decreasing by 10% to $94,401 from $105,207 in Q3 2011.

- For the nine months ended September 30, 2012, jobs completed and consolidated revenues increased by 5% and 18% to 1,709 and $268,310 respectively from 1,628 and $227,131 respectively in the comparable 2011 period as a result of a strong first six months. Average consolidated revenue per job increased by 13% to $157,587 in the nine months ended September 30, 2012 from $139,640 in the comparable 2011 period due to larger job sizes.

- With approximately 90% of consolidated revenues derived from hydraulic fracturing services, the average fracturing revenue per job increased by 30% to $248,095 in Q3 2012 from $191,328 in Q3 2011 due again to the completion of larger jobs for customers. For the nine months ended September 30, 2012, average fracturing revenue per job increased by 17% to $230,583 from $196,399 in the comparable 2011 period.

- For the nine months ended September 30, 2012, EBITDA before share-based payments expense (see NON-GAAP MEASURES) decreased by 3% to $88,960 from $91,377 in the comparable 2011 period as revenues increased by 18% over the same periods. In Q3 2012 EBITDA before share-based payments expense decreased by 30% to $32,496 from $46,512 in Q3 2011 as revenues declined by 10%.

- The impact of 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 resulted in profit and comprehensive income decreasing by 45% to $17,036 (profit of $0.27 per share, diluted) in Q3 2012 from $30,861 (profit of $0.49 per share, diluted) in Q3 2011.

- For the nine months ended September 30, 2012, the profit and comprehensive income decreased by 13% to $47,263 ($0.76 per share, diluted) from $54,338 ($0.87 per share, diluted) in the comparable 2011 period.

- Canyon's equipment fleet exited Q3 2012 with 225,500 HHP. As at September 30, 2012 Canyon has $13 million in commitments to complete its current capital programs, which will be funded out of funds from operations

- Canyon remains in a very strong financial position with undrawn credit facilities of $60 million and working capital of $53 million, including cash, as at September 30, 2012.

- On September 25, 2012, Canyon declared a quarterly dividend of $0.15 per common share, or $9.3 million, which was paid to shareholders on October 26, 2012.

2012 OUTLOOK

With the ongoing uncertainty around oil and natural gas prices and a depressed equity financing environment, we expect 2012 annual and fourth quarter industry field activity will be lower than 2011. The current trend of reduced industry activity and pricing pressure is expected to continue into the first quarter of 2013 as 2012 capital budgets come to completion and our customers start to plan and reserve capital for 2013. Although industry conditions are expected to remain challenging over the next three to six months, Canyon is anticipating a significantly improved operating environment for the second half of 2013 and for 2014. Strong oil prices and improving natural gas prices have increased expected producer cash flows allowing for the eventual expansion of capital budgets. In addition, both the acquisition of Canadian companies and assets by multi-national corporations and the formation of joint venture agreements with strategic foreign partners will likely lead to increased drilling activity in fracture intensive plays such as the Montney and Duvernay. The planned construction of LNG export facilities that will ship LNG to the Asia-Pacific region will require thousands of prolific natural gas producing wells to provide feedstock for export. In the short-term, Canyon will look to position the Company for significant expansion opportunities, such as continued deployment of equipment into the Duvernay play. Canyon views Western

Canada as the world's most attractive hydraulic fracturing market. It is the second largest in the world, and has supply-demand fundamentals that are second to no other major pressure pumping market. In Canyon's chosen market, we foresee long-term demand growth outpacing staffed supply additions.

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 or changes to the dividend. Management and the Board of Directors want the dividend payout to be as high as possible while maintaining sustainability through a variety of economic conditions without 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 concentrated operations in the WCSB and its strong financial position, combined with its positive long-term forecast of operating conditions in Western Canada. There are no changes to the dividend policy or payout planned at this time.

Canyon expects financial and operating results in 2012 to be lower than 2011. With a larger fixed-cost infrastructure in place to support larger operations, combined with reduced pricing compared to 2011, margins have now eroded from the record levels that Canyon has been experiencing in prior reporting periods. 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. Our enduring priorities are operational success, safety, strengthening customer relationships, operating with integrity and responsibility, contributing to improved water management, staff retention and profitability. 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 September 30	
	2012	2011
Revenues	$94,401	$105,207
Cost of services	(64,228)	(58,128)
Gross profit	30,173	47,079
Administrative expenses	(7,015)	(4,880)
Results from operating activities	23,158	42,199
Finance costs	(175)	(133)
Profit before income tax	22,983	42,066
Income tax expense	(5,947)	(11,205)
Profit and comprehensive income	$17,036	$30,861
EBITDA before share-based payments(1)	$32,496	$46,512
Earnings per share:		
Basic	$0.28	$0.51
Diluted	$0.27	$0.49

Note (1): See NON-GAAP MEASURES.

Revenues

In Q3 2012, revenues decreased 10% to $94,401 from $105,207 in Q3 2011, while jobs completed decreased 29% to 524 from 733 over the same quarters. In addition, lower producer activity in the quarter combined with increased equipment capacity across the industry resulted in price reductions averaging about 15% from Q1 2012 pricing. However, the pricing pressure and lower job count was partly mitigated by higher average revenues per job. Approximately 90% of Q3 2012 consolidated revenues were provided by hydraulic fracturing services with average fracturing revenue per job increasing by 30% to $248,095 from $191,328 in Q3 2011. The increase in average fracturing revenue per job is due to the completion of larger jobs such as Duvernay shale gas wells.

Cost of services

Cost of services for the three months ended September 30, 2012 totaled $64,228 (2011: $58,128) and includes materials, products, transportation and repair costs of $38,352 (2011: $37,915), employee benefits expense of $18,604 (2011: $14,736), and depreciation of property and equipment of $7,272 (2011: $5,477).

The increase in materials, products, transportation and repair costs is mostly due to the larger jobs requiring more materials and products, and due to the increase in the scale of Canyon's business activities with added equipment and infrastructure. The increase in employee benefits expense is mainly 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 September 30, 2012 totaled $7,015 compared to $4,880 in Q3 2011 and include employee benefits expense of $3,686 (Q3 2011: $4,273) and share-based payments expense of $1,620 (Q3 2011: a reduction of $1,557). Administrative expenses also include depreciation of buildings and office equipment and amortization of intangibles of $329 (2011: $347). In addition, other administrative expenses totaled $1,380 in Q3 2012 compared to $1,817 in Q3 2011. The decrease in employee benefits expense is due to the allocation of certain management and administrative expenses to cost of services in 2012. Share-based payments expense includes an increase in share-based payments expense due to fluctuations in the price of the Company's common shares.

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 Q3 2012, $0.9 million (Q3 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 Q3 2012, share-based payments expense was increased by $0.7 million (Q3 2011 – a reduction of $2.2 million) for the Company's Deferred Share Unit Plan to reflect changes in the price of the common shares of the Company.

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

In Q3 2012, EBITDA before share-based payments (see NON-GAAP MEASURES) was $32,496 compared to $46,512 in the comparable 2011 quarter. As previously discussed, reduced producer activity, pricing pressure and a higher fixed cost structure to support the Company's increased equipment fleet resulted in the decreased EBITDA.

Finance costs

Finance costs include interest on finance lease obligations and automobile loans and totaled $175 in Q3 2012 (Q3 2011: $133). 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 Q3 2012 of $22,983 would have resulted in an expected expense of $5,746, compared to the actual income tax expense of $5,947. The actual income tax expense was increased by non-deductible expenses.

Profit and comprehensive income and earnings per share

Profit and comprehensive income totaled $17,036 in Q3 2012 compared to $30,861 in Q3 2011. As previously discussed, the decrease is due to reduced producer activity, pricing pressure and a higher fixed cost structure to support the Company's increased equipment fleet.

Basic and diluted earnings per share were $0.28 and $0.27, respectively, for the three months ended September 30, 2012 compared to basic and diluted earnings per share of $0.51 and $0.49, respectively, for the comparable 2011 period.

NINE MONTHS TO SEPTEMBER 30, 2012 COMPARATIVE STATEMENTS OF OPERATIONS

000's except per share amounts (Unaudited)	Nine Months Ended September 30	
	2012	2011
Revenues	$268,310	$227,131
Cost of services	(187,216)	(138,067)
Gross profit	81,094	89,064
Administrative expenses	(16,826)	(14,798)
Results from operating activities	64,268	74,266
Finance costs	(572)	(302)
Profit before income tax	63,696	73,964
Income tax expense	(16,433)	(19,626)
Profit and comprehensive income	$47,263	$54,338
EBITDA before share-based payments[1]	$88,960	$91,377
Earnings per share:		
Basic	$0.77	$0.90
Diluted	$0.76	$0.87

Note (1): See NON-GAAP MEASURES.

Revenues

Consolidated revenues increased by 18% to $268,310 in the nine months ended September 30, 2012 from $227,131 in the comparable 2011 period, while jobs completed increased 5% to 1,709 from 1,628 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 17% to $230,583 from $196,399 in the nine months to September 30, 2011. Canyon's average consolidated revenue per job in the nine months ended September 30, 2012 increased 13% to $157,587 from $139,640 in Q1 2011. As previously discussed, larger job sizes accounted for the increases in average revenue per job.

Cost of services

Cost of services for the nine months ended September 30, 2012 totaled $187,216 (2011: $138,067) and includes materials, products, transportation and repair costs of $115,585 (2011: $85,795), employee benefits expense of $50,783 (2011: $37,309), and depreciation of property and equipment of $20,848 (2011: $14,963).

The increase in materials, products, transportation and repair costs is mostly due to the larger jobs requiring more materials and products, and due to the increase in the scale of Canyon's business activities with added equipment and infrastructure. 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 nine months ended September 30, 2012 totaled $16,826 (2011: $14,798) and includes employee benefits expense of $8,756 (2011: $7,651), and share-based payments expense of $2,717 (2011: $1,233). Administrative expenses also include depreciation of buildings and office equipment and amortization of intangibles of $933 (2011: $875). In addition, other administrative expenses totaled $4,420 (2011: $5,039). The increase in employee benefits expense is mainly 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.

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 nine months ended September 30, 2012, $2.5 million (2011 - $1.7 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 nine months ended September 30, 2012, share-based payments expense was increased by $0.2 million (2011 – decreased by $0.5 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 nine months ended September 30, 2012, EBITDA before share-based payments (see NON-GAAP MEASURES) was $88,960 (2011: $91,377). The 3% decrease was due to reduced producer activity, pricing pressure and a higher fixed cost structure to support the Company's increased equipment fleet even though revenues increased by 18%.

Finance costs

Finance costs include interest on finance lease obligations and automobile loans and totaled $572 (2011: $302). 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 nine months ended September 30, 2012 of $63,696 results in an expected income tax expense of $15,924 compared to the actual income tax expense of $16,433. The actual income tax expense was increased by non-deductible expenses.

Profit and comprehensive income and earnings per share

Profit and comprehensive income decreased 13% to $47,263 for the nine months ended September 30, 2012, from $54,338 in the comparable 2011 period mainly due to reduced producer activity, pricing pressure and a higher fixed cost structure to support the Company's increased equipment fleet.

Basic and diluted earnings per share were $0.77 and $0.76, respectively earned in the nine months ended September 30, 2012 compared to basic and diluted earnings per share of $0.90 and $0.87, 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	Q3	$94,401	$32,496	$17,036	$0.28	$0.27
	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

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 and Q2 2012, EBITDA and Profit (Loss) and comprehensive income decreased primarily due to weather related drilling delays. In Q3 2012, the decrease in revenues, EBITDA and profit and comprehensive income is due to reduced producer activity, pricing pressure and a higher fixed cost structure to support the Company's expanded equipment fleet.

LIQUIDITY AND CAPITAL RESOURCES

Funds from operations

Funds from operations (See NON-GAAP MEASURES) decreased to $27,727 in the Q3 2012 from $37,795 for the comparable 2011 quarter. For the nine months ended September 30, 2012, funds from operations (See NON-GAAP MEASURES) increased slightly to $77,035 from $76,368 in the comparable 2011 period. 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

(Share amounts in thousands)

Equity:
For the three and nine months ended September 30, 2012, there were 666 and 840 common shares respectively issued by the Company to employees and officers upon exercise of options and warrants for aggregate proceeds of $2.8 million

Debt:
Loans and borrowings as at September 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 $6 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 September 30, 2012, the Company's available debt facilities total $60 million, of which nil is drawn as at September 30, 2012 (December 31, 2011: nil).

Working Capital and Cash Requirements

As at September 30, 2012, Canyon had a working capital balance of $52.6 million compared to $67.0 million as at December 31, 2011. As at September 30, 2012 trade and other receivables decreased by $16.3 million compared to December 31, 2011, due to higher revenues in Q4 2011 while cash and cash equivalents decreased by $33.5 million mainly to fund the Company's capital programs. In addition, the dividend payable increased to $9.3 million as at September 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 $4.2 million as at September 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 September 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 September 30, 2012 cash available of $9 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 $13 million. Please refer to “Capital Expenditures” below.

Investments

For the three and nine months ended September 30, 2012, capital expenditures, net of finance leases, totaled $10 million and $65 million respectively, comprising $8 million to complete the 2011 capital program and $57 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 EBITDA before share-based payments to total debt service obligations. As of September 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 September 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 September 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	$38,915	$38,915	$ -	$ -	$ -
Loans and borrowings	5,855	2,190	3,665	-	-
Dividend payable	9,277	9,277	-	-	-
Operating leases and office space	6,661	1,374	2,442	2,236	609
Capital Expenditure Commitments	12,506	12,506	-	-	-
Total contractual obligations	$73,214	$64,262	$6,107	$2,236	$609

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 September 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 September 30, 2012, $3 million remains due to manufacturing delays for cement and acid and low rate pumping equipment. The equipment is scheduled to be delivered to Canyon in the fourth quarter of 2012.

2012 Capital Program: In May 2011, Canyon announced its initial capital expenditure program for 2012 at $95 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. As at September 30, 2012 the 50,000 HHP of new equipment has been received bringing Canyon’s pumping capacity to 225,500 HHP.

In the nine months ended September 30, 2012, Canyon incurred $57 million on its 2012 capital program (total capital expenditures for the period of $65 million less $8 million to complete the 2011 capital program). The remaining $10 million for the 2012 capital program (total of approximately $95 million less amounts spent in 2011 of $28 million and less $57 million incurred in 2012) is expected to be incurred over the fourth quarter of 2012 and first half of 2013 due to manufacturing delays for coiled tubing and cement and acid equipment.

Funding for Canyon’s 2012 remaining capital expenditures of $13 million ($3 million for the 2011 program, $10 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 September 30, 2012 and December 31, 2011:

000's (Unaudited)	October 31, 2012	September 30, 2012	December 31, 2011
Common Shares	61,846	61,835	60,995
Warrants	-	-	425
Options	2,670	2,665	2,451

In the three and nine months ended September 30, 2012, no warrants were issued to directors, officers and employees and 425 warrants were exercised for proceeds of $1,700. In the nine months ended September 30, 2012, there were 824 share options granted to employees and officers at an average exercise price of $12.26 per option, 415 share options were exercised by directors, officers and employees and 195 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 nine months ended September 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 September 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 September 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 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 nine months ended September 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 nine months ended September 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 the Company 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 773 full time staff as at September 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 64% of the Company's accounts receivable as at September 30, 2012, and 51% of the Company's revenue for the nine months ended September 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 September 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.