Management's Discussion and Analysis

YEAR ENDED DECEMBER 31, 2012

This management discussion and analysis (MD&A) is dated March 7, 2013. It should be read in conjunction with the Consolidated Financial Statements and Notes of Canyon Services Group Inc. ("Canyon" or the "Company") as at and for the years ended December 31, 2012 and 2011. Additional information relating to the Company, including the Company's Annual Information Form for the year ended December 31, 2012, 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 FOURTH QUARTER AND YEAR ENDED 2012

000's except per share, job amounts and hydraulic pumping capacity (Unaudited)	Three Months Ended December 31			Year Ended December 31		
	2012	2011	2010	2012	2011	2010
Consolidated revenues	$84,809	$144,965	$85,153	$353,119	$372,096	$215,891
Profit and comprehensive income	$7,146	$40,932	$24,606	$54,409	$95,270	$53,632
Per share-basic	$0.12	$0.67	$0.41	$0.89	$1.57	$0.95
Per share-diluted	$0.11	$0.65	$0.40	$0.87	$1.53	$0.92
EBITDA before share-based payments[1]	$18,814	$65,421	$40,530	$107,774	$156,798	$90,435
Funds from operations[1]	$18,501	$51,503	$32,076	$95,535	$127,871	$75,961
Total jobs completed [2]	489	854	651	2,198	2,482	2,194
Consolidated average revenue per job [2] [3]	$176,162	$170,063	$131,576	$161,668	$150,107	$98,785
Average fracturing revenue per job[3]	$280,671	$234,765	$166,578	$240,369	$209,855	$133,930
Hydraulic Pumping Capacity						
Average HHP	225,500	160,500	96,000	215,000	137,000	74,000
Exit HHP	225,500	175,500	110,500	225,500	175,500	110,500
Capital expenditures	$5,419	$20,019	$26,095	$69,940	$101,293	$80,848

000's except per share amounts (Unaudited)	As at December 31, 2012	As at December 31, 2011	As at December 31, 2010
Cash and cash equivalents	$22,584	$42,481	$41,247
Working capital	$56,245	$67,009	$49,283
Total long-term financial liabilities	$3,475	$3,530	$1,435
Total assets	$406,113	$407,330	$273,148
Cash dividends declared per share	$0.60	$0.1125	$0.05

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 include invoice adjustments.

2012 represented a much more difficult year in the Canadian pressure pumping market. The year, particularly the fourth quarter, was impacted by generally weaker producer activity and pricing pressure. Activity and pricing levels declined throughout the year resulting in lower job counts with pricing in Q4 2012, approximately 20% 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 and unstable macroeconomic factors impacted drilling activity across the Western Canadian Sedimentary Basin ("WCSB"). In particular, low natural gas prices and volatile oil prices led to curtailed producer spending especially during the second half of 2012. NYMEX natural gas price averaged US$2.83 per mmbtu for 2012, about 30% below the 2011 average of US$4.03 per mmbtu. Although average oil prices have remained relatively flat, with the West Texas Intermediate price averaging US$94.10 per barrel in 2012 compared to US$95.05 per barrel in 2011, the past year experienced volatile oil prices prompted by ongoing global macroeconomic uncertainty. In the second half of 2012, take-away pipeline capacity concerns in Western Canada also led to widening and persisting oil price differentials that reduced industry cash flows and eroded producer confidence which is expected to impact pressure pumping activity throughout 2013. This is evident from key industry metrics such as equity capital raised in 2012 and to date, well completions, well licenses issued and drilling rig utilization. In 2012, well completions decreased by 28% to 11,708 compared to 16,199 in 2011 due to ongoing reluctance by E&P companies to complete wells in an uncertain commodity price and macroeconomic environment. Well licenses issued have declined by 17% to 13,508 in 2012 from 16,319 in 2011 while drilling rig utilization decreased by about 16% from 2011, averaging 43% in 2012 compared to 52% in 2011. In Q4 2012, drilling rig utilization, well completions and well licenses declined by 26%, 21% and 15% respectively over the comparable 2011 quarter.

Q4 2012 average fracturing revenue per job increased by 20% over the comparable 2011 quarter as Canyon completed larger jobs in emerging oil and natural gas liquids rich plays such as the Duvernay shale and, in particular, drastically increased the number of twenty four hour operations, which accounted for more than 50% of fracturing revenue in the quarter. The aforementioned pricing pressure and the reduced producer activity in the current quarter more than offset the larger job sizes to result in jobs completed and consolidated revenues decreasing by 43% and 41% respectively to 489 and $84,809 in Q4 2012 from 854 and $144,965 in Q4 2011.

Average fracturing revenue per job for the year ended December 31, 2012 increased by 15%, again due to larger job sizes. The impact of industry-wide reduced producer activity resulted in jobs completed decreasing by 11% to 2,198 in 2012 compared to 2,482 in 2011. The lower job count combined with lower pricing for services resulted in 2012 consolidated revenues decreasing by 5% to $353,119 from $372,096 in 2011. These industry conditions combined with higher fixed costs, mostly due to staff increases to support equipment additions and twenty four hour operations, resulted in profit and comprehensive income of $54 million in 2012 compared to $95 million earned in 2011.

NON-GAAP MEASURES

The Company's Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Certain measures in this document do not have any standardized meaning as prescribed by International Financial Reporting Standards ("IFRS") 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 December 31		Year Ended December 31	
	2012	2011	2012	2011
Profit and comprehensive income	$7,146	$40,932	$54,409	$95,270
Add (Deduct):				
Depreciation and amortization	8,241	6,539	30,023	22,377
Finance costs	175	184	747	487
Share-based payment transactions	667	2,647	1,086	3,880
Cash settlement of deferred share units	-	-	2,298	-
Loss on sale of property and equipment	(14)	92	179	131
Income tax expense	2,599	15,027	19,032	34,653
EBITDA before share-based payments	$18,814	$65,421	$107,774	$156,798

Funds from Operations

000's (Unaudited)	Three Months Ended December 31		Year Ended December 31	
	2012	2011	2012	2011
Net cash from operating activities	$41,698	$60,630	$87,912	$104,545
Add (Deduct):				
Income Tax paid	(17)	3,498	31,454	26,662
Change in working capital	(23,042)	1,109	(14,637)	25,104
Cash settlement of deferred share units	-	-	2,298	-
Current tax	(138)	(13,734)	(11,492)	(28,440)
Funds from operations	$18,501	$51,503	$95,535	$127,871

Operating and Financial Highlights

The operating and financial highlights for the three and twelve months ended December 31, 2012 are summarized as follows:

- Average fracturing revenue per job for the year ended December 31, 2012 increased by 15%, as Canyon completed larger jobs in emerging oil and natural gas liquids rich plays such as the Duvernay shale. The larger job size was more than offset by an uncertain commodity price and macro-economic environment that led to reduced producer activity and pricing pressure for most of the year. As a result, jobs completed decreased by 11% to 2,198 in 2012 compared to 2,482 in 2011 while consolidated revenues decreased by 5% to $353,119 from $372,096 in 2011.

- Q4 2012 average fracturing revenue per job increased by 20% over the comparable 2011 quarter, again due to larger job sizes. Industry conditions resulted in jobs completed and consolidated revenues decreasing by 43% and 41% respectively to 489 and $84,809 in Q4 2012 from 854 and $144,965 respectively in Q4 2011.

- Canyon added 50,000 HHP to its equipment fleet in 2012 and exited the year with 225,500 HHP, the major portion of which is relatively new, at three years old or less, and has heavy-duty capability. As at December 31, 2012 Canyon has $10 million in commitments to complete its 2012 capital programs, which when combined with the previously announced 2013 preliminary capital program of $15 million, will be funded out of funds from operations.

- In 2012, although the key indicators for industry activity, well completions, well licenses and drilling rig utilization, declined by 28%, 17% and 16% respectively, setting the stage for weaker producer activity and price pressure, Canyon's consolidated revenue decreased by only 5% in 2012 compared to 2011.

- Canyon remains in a very strong financial position with undrawn credit facilities of $60 million and working capital of $56 million, including cash of $23 million, as at December 31, 2012.

- On December 18, 2012, Canyon declared a quarterly dividend of $0.15 per common share, or $9.3 million, which was paid to shareholders on January 25, 2013.

2013 OUTLOOK

Canyon expects that 2013 will be another challenging year for Canadian pressure pumping services, much similar to the second half of 2012. Ongoing uncertainty around oil and natural gas prices, Canadian oil price differentials, pipeline take away capacity concerns and a depressed equity financing environment will keep operators exercising caution with respect to capital expenditures. Canyon expects producer spending to decline by approximately 10% in 2013 vs 2012, resulting in less wells drilled and completed. In addition, the competitive pricing environment for pressure pumping services continues to be tough. Although pricing has reached multi-year lows in Canada, we are not yet confident that pricing levels have reached a bottom. Additionally, these reduced pricing levels combined with a larger fixed-cost infrastructure to support larger operations are expected to erode margins from the record levels that Canyon had experienced in previous reporting periods. As a result, Canyon is continually faced with the decision to work at price levels that do not justify the wear and tear on the equipment or forego the revenue. We expect this situation to continue until more drilling and completions activity occurs in the pressure pumping intensive plays. At this time of year, clear visibility on completions activity for the second half of the year is typically quite low, and 2013 is no different. Capital programs remain focused on the most profitable plays and our customers are taking a relatively cautious approach. We expect Q2 2013 to have lower operating activity compared to Q2 2011 and 2012 as the industry returns to historical breakup operating conditions.

Although industry conditions are expected to remain challenging, Canyon is anticipating a significantly improved operating environment for 2014. In particular, both the acquisition of Canadian companies and assets by multi-national corporations and the formation of joint venture agreements with strategic foreign partners should 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 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% 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 the sustainability of and 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.

Overall, Canyon expects its financial and operating results in 2013 to be similar to 2012 and although industry conditions are challenging, Canyon believes that it is in an enviable position. We have 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 December 31	
	2012	2011
Revenues	$84,809	$144,965
Cost of services	(68,627)	(80,017)
Gross profit	16,182	64,948
Administrative expenses	(6,262)	(8,804)
Results from operating activities	9,920	56,144
Finance costs	(175)	(184)
Profit before income tax	9,745	55,960
Income tax expense	(2,599)	(15,028)
Profit and comprehensive income	$7,146	$40,932
EBITDA before share-based payments(1)	$18,814	$65,421
Earnings per share:		
Basic	$0.12	$0.67
Diluted	$0.11	$0.65

Note (1): See NON-GAAP MEASURES.

Revenues

Lower producer activity in Q4 2012 combined with increased equipment capacity across the industry resulted in price reductions averaging about 20% from Q1 2012 levels. As a result, jobs completed in Q4 2012 decreased 43% to 489 from 854 in Q4 2011 while revenues decreased 41% to $84,809 from $144,965 in Q4 2011. However, the lower job count and pricing pressure was partly mitigated by higher average revenues per job. Approximately 90% of Q4 2012 consolidated revenues were provided by hydraulic fracturing services with average fracturing revenue per job increasing by 20% to $280,671 from $234,765 in Q4 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 December 31, 2012 totaled $68,627 (2011: $80,017) and includes materials, products, transportation and repair costs of $42,486 (2011: $54,050), employee benefits expense of $18,296 (2011: $19,782), and depreciation of property and equipment of $7,845 (2011: $6,185).

The decrease in materials, products, transportation and repair costs is mostly due to the lower job count in Q4 2012 compared to the prior year comparable quarter. The decrease in employee benefits expense is mainly due to lower variable field pay in the quarter due to the reduced industry-wide producer activity and resulting job count. 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 December 31, 2012 totaled $6,262 compared to $8,804 in Q4 2011 and include employee benefits expense of $3,488 (2011: $3,802) and share-based payments expense of $667 (2011: $2,647). Administrative expenses also include depreciation of buildings and office equipment and amortization of intangibles of $398 (2011: $354). In addition, other administrative expenses totaled $1,709 in Q4 2012 compared to $2,001 in Q4 2011. The decrease in employee benefits expense is mostly due to lower sales commissions partly offset by staff additions to support the larger scale of Canyon's operations in 2012. The decrease in share-based payments expense is mostly 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 Q4 2012, $0.9 million (Q4 2011 - $0.8 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 Q4 2012, share-based payments expense was reduced by $0.2 million (Q4 2011 - $1.8 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 Q4 2012, EBITDA before share-based payments (see NON-GAAP MEASURES) was $18,814 compared to $65,421 in the comparable 2011 quarter. As previously discussed, reduced producer activity, pricing pressure and an increased fixed cost structure to support the Company's expanded equipment fleet resulted in the decreased EBITDA.

Finance costs

Finance costs include interest on finance lease obligations and automobile loans and totaled $175 in Q4 2012 (Q4 2011: $184).

Income Tax Expense

At the expected combined income tax rate of 25%, the profit before income tax for Q4 2012 of $9,745 would have resulted in an expected expense of $2,436, compared to the actual income tax expense of $2,599. The actual income tax expense was increased by non-deductible expenses.

Profit and comprehensive income and earnings per share

Profit and comprehensive income totaled $7,146 in Q4 2012 compared to $40,932 in Q4 2011. As previously discussed, the decrease is due to reduced producer activity across the industry, pricing pressure and a higher fixed cost structure to support the Company's increased equipment fleet.

Basic and diluted earnings per share were $0.12 and $0.11, respectively, for the three months ended December 31, 2012 compared to basic and diluted earnings per share of $0.67 and $0.65, respectively, for the comparable 2011 quarter.

YEAR-TO-DATE COMPARATIVE STATEMENTS OF OPERATIONS

000's except per share amounts (Unaudited)	Year Ended December 31	
	2012	2011
Revenues	$353,119	$372,096
Cost of services	(255,843)	(218,084)
Gross profit	97,276	154,012
Administrative expenses	(23,088)	(23,602)
Results from operating activities	74,188	130,410
Finance costs	(747)	(487)
Profit before income tax	73,441	129,923
Income tax expense	(19,032)	(34,653)
Profit and comprehensive income	$54,409	$95,270
EBITDA before share-based payments[1]	$107,774	$156,798
Earnings per share:		
Basic	$0.89	$1.57
Diluted	$0.87	$1.53

Note (1): See NON-GAAP MEASURES.

Revenues

The reduced producer activity and accompanying price pressure over the last half of the year, as previously discussed, resulted in consolidated revenues decreasing by 5% to $353,119 in 2012 from $372,096 in 2011, while jobs completed in 2012 decreased 11% to 2,198 from 2,482 in 2011. Again, a lower job count and pricing pressure due to industry conditions was partly mitigated by higher average revenues per job. Approximately 90% of the current period's consolidated revenues were provided by hydraulic fracturing services with average fracturing revenue per job increasing 15% to $240,369 from $209,855 in 2011. Larger job sizes accounted for the increases in average revenue per job.

Cost of services

Cost of services for the year ended December 31, 2012 totaled $255,843 (2011: $218,084) and includes materials, products, transportation and repair costs of $158,071 (2011: $139,845), employee benefits expense of $69,079 (2011: $57,091), and depreciation of property and equipment of $28,693 (2011: $21,148).

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 to support increased twenty four hour operations and 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 year ended December 31, 2012 totaled $23,088 (2011: $23,602) and includes employee benefits expense of $12,244 (2011: $11,453), and share-based payments expense of $3,384 (2011: $3,880). Administrative expenses also include depreciation of buildings and office equipment and amortization of intangibles of $1,331 (2011: $1,229). In addition, other administrative expenses totaled $6,129 (2011: $7,040). 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 year ended December 31, 2012, $3.4 million (2011 - $2.6 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 the year ended December 31, 2012, share-based payments expense was reduced by $43 thousand (2011 – increased by $1.3 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)

For the year ended December 31, 2012, EBITDA before share-based payments (see NON-GAAP MEASURES) was $107,774 (2011: $156,798). The decrease was due to reduced producer activity, pricing pressure and a higher fixed cost structure to support the Company's increased equipment fleet.

Finance costs

Finance costs include interest on finance lease obligations and automobile loans and totaled $747 (2011: $487). 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 year ended December 31, 2012 of $73,441 results in an expected income tax expense of $18,360 compared to the actual income tax expense of $19,032. The actual income tax expense was increased by non-deductible expenses.

Profit and comprehensive income and earnings per share

Profit and comprehensive income decreased to $54,409 for the year ended December 31, 2012, from $95,270 in 2011 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 $0.89 and $0.87, respectively earned in the year ended December 31, 2012 compared to basic and diluted earnings per share of $1.57 and $1.53, respectively earned in 2011.

Summary of Quarterly Results

000's except per share amounts (Unaudited) (1)		Revenues	EBITDA[2]	Profit(Loss) and Comprehensive Income (Loss)	Basic Earnings (Loss) per Share	Diluted Earnings (Loss) per Share
2012	Q4	$84,809	$18,814	$7,146	$0.12	$0.11
	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

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 2012, Q3 and Q4 2011, revenues, EBITDA (see NON-GAAP MEASURES) increased significantly over the comparable 2011 quarter 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 and Q4 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 $18,501 in Q4 2012 from $51,503 for the comparable 2011 quarter. For the year ended December 31, 2012, funds from operations (See NON-GAAP MEASURES) decreased to $95,535 from $127,871 in 2011. The funds from operations were primarily used to finance the remaining balance of the Company's 2011 and 2012 capital programs and to fund the Company's quarterly dividend program. Please refer to "Capital Expenditures" below.

Financing

(Share amounts in thousands)

Equity:
For the three and twelve months ended December 31, 2012, there were 11 and 851 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 December 31, 2012 total $5.6 million (December 31, 2011: $5.1 million) which comprise equipment lease obligations of $5.6 million (December 31, 2011: $5.0 million) and automotive equipment loans totaling $nil (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 December 31, 2012, the Company's available debt facilities total $60 million, of which nil is drawn as at December 31, 2012 (December 31, 2011: nil).

Working Capital and Cash Requirements

As at December 31, 2012, Canyon had a working capital balance of $56.2 million compared to $67.0 million as at December 31, 2011. As at December 31, 2012 trade and other receivables decreased by $23.3 million and cash and cash equivalents decreased by $19.9 million compared to December 31, 2011, due to lower revenues in Q4 2012. In addition, the dividend payable increased to $9.3 million as at December 31, 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 $4.0 million as at December 31, 2012 due to the payment of 2011 corporate income taxes in February 2012 and the prepayment of 2012 estimated tax installments that exceeded actual amounts owed. 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 December 31, 2012, accounts receivable includes an allowance of $0.2 million for doubtful receivables (December 31, 2011: $0.9 million).

The Company will use its December 31, 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 $10 million and to fund the previously announced preliminary 2013 capital program estimated at $15 million. Please refer to "Capital Expenditures" below.

Investments

For the three and twelve months ended December 31, 2012, capital expenditures, net of finance leases, totaled $5 million and $70 million respectively, comprising $9 million for the 2011 capital program and $61 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 December 31, 2012, the Company is in compliance with each of the above financial covenants. The Company has nil amounts drawn on its debt facilities as at December 31, 2012. The Company may be required to adjust its capital structure from time to time as a result of expansion activities.

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

Contractual Obligations

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

000's (Unaudited)	Total	Next 12 months	1 - 3 years	4 - 5 years	After 5 years
Trade and other payables	$38,402	$38,402	$ -	$ -	$ -
Loans and borrowings	5,613	2,138	3,475	-	-
Dividend payable	9,294	9,294	-	-	-
Operating leases and office space	6,305	1,331	2,443	2,193	338
Capital Expenditure Commitments	9,880	9,880	-	-	-
Total contractual obligations	$69,494	$61,045	$5,918	$2,193	$338

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 December 31, 2012 cash available, funds from operations (See NON-GAAP MEASURES) and, if required, available debt facilities. Please see "Working Capital and Cash Requirements" above and "Capital Expenditures" below.

Capital Expenditures

In May 2011, Canyon announced its 2012 capital expenditure program at $96 million. The program consisted 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 December 31, 2012 the 50,000 HHP of new equipment and most of the ancillary equipment has been received bringing Canyon's pumping capacity to 225,500 HHP.

In the year ended December 31, 2012, Canyon incurred $70 million in capital expenditures consisting of $61 million on the 2012 capital program and $9 million in the 2011 capital program. The 2011 and 2012 programs have experienced manufacturing delays for coiled tubing, cement and acid and low rate pumping equipment which is now scheduled to be delivered to Canyon in 2013. As at December 31, 2012, there remains $10 million to be spent to complete the capital programs, with $7 million for the 2012 program (total of approximately $96 million less amounts spent in 2011 of $28 million and less $61 million incurred in 2012), and $3 million to complete the 2011 program.

Funding for Canyon's remaining capital expenditures of $10 million, together with funding of the preliminary $15 million capital program for 2013 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 December 31, 2012 and December 31, 2011:

000's (Unaudited)	February 28, 2013	December 31, 2012	December 31, 2011
Common Shares	62,165	61,846	60,995
Warrants	-	-	425
Options	3,378	2,663	2,451

In the three and twelve months ended December 31, 2012, no warrants were issued to directors, officers and employees and 425 warrants were exercised for proceeds of $1,700. In the three months ended December 31, 2012, there were 43 share option grants to employees and officers at an average exercise price of $11.17 per option, 11 share options were exercised by directors, officers and employees and 34 share options were forfeited. During the year ended December 31, 2012, there were 867 share option grants to employees and officers at an average exercise price of $12.21 per option, 426 share options were exercised by directors, officers and employees and 229 share options were forfeited.

FINANCIAL INSTRUMENTS

Fair Values

The carrying values of cash and cash equivalents, trade and other receivables, trade and other payables, 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 year ended December 31, 2012, the loans and borrowings, comprising equipment leases and automobile loans, were at fixed rates.

Foreign Currency Risk

The Company mitigates its foreign currency risk by purchasing foreign currencies to the extent it deems necessary to offset foreign currency obligations at any given time.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements as at December 31, 2012, other than the operating leases described above under “Contractual Obligations”.

ACCOUNTING POLICIES AND ESTIMATES

The Company’s IFRS accounting policies are provided in Note 3 to the Consolidated Financial Statements as at and for the years ended December 31, 2012 and 2011.

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, 2012 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.

Key Sources of Estimation Uncertainty

The following are key estimates and their assumptions made by management affecting the measurement of balances and transactions in these consolidated financial statements.

Revenue Recognition

The Company recognizes revenue based on the completion of planned programs of services and adjusted for required changes as agreed by the customer.

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 $0.2 million has been established as at December 31, 2012 (December 31, 2011 - $0.9 million) based on management’s assessment of the Company’s accounts receivable collection history. This assessment of collectability involves significant judgment and frequently involves material dollar amounts. As such, the Company’s operating results could be affected if bad debts in excess of the allowance are actually experienced.

Depreciation of Property and Equipment

Depreciation is calculated using varying methods and is intended to reflect the historical value of the underlying component that is consumed in conducting each period’s operations. Estimates affecting management’s assessment of the most appropriate depreciation rate and method of calculation for any particular asset component include the productive life of the asset, its salvage value, equipment utilization rates, planned maintenance programs and technological change.

Revisions to accounting estimates are recognized in the period in which estimates are reused and in any future periods affected.

Management believes that its assessment and choice of estimates used in calculating depreciation are reasonable; 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 9 to the consolidated financial statements for the years ended December 31, 2012 and 2011.

Non-Financial Assets

Where impairment indicators exist, or annually for goodwill, the recoverable amount of the asset or cash-generating unit ("CGU" or "CGUs") is determined using the greater of fair value less costs to sell or value-in-use. Value-in-use calculations require assumptions for discount rates and estimations of the timing for events or circumstances that will affect future cash flows. Fair value less costs to sell requires management to make estimates of fair value using market conditions for similar assets as well as estimations for costs to sell taking into account dismantling and transportation costs.

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 years ended December 31, 2012 and 2011.

The assessment of impairment indicators is subjective and considers the various internal and external factors such as the financial performance of individual 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.

Provisions and Contingencies

The Company is required to estimate the amount of provisions and contingencies based on the estimated future outcome of the event.

Share-Based Payments

The Company's estimate of share-based payment compensation is dependent upon estimates of historic volatility and forfeiture rates.

Deferred Income Taxes

The deferred tax liability is based on estimates as to the timing of the reversal of temporary differences, substantively enacted tax rates and the likelihood of assets being realized.

Critical Judgments in Applying Accounting Policies

The following are critical judgements that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

Non-Financial Assets

The Company's assets are aggregated into cash-generating units for the purpose of calculating impairment. CGUs are based on management's judgements and assessment of the CGU's ability to generate independent cash inflows. Judgments are also required to assess when impairment indicators exist and impairment testing is required.

Provisions and Contingencies

The Company is required to exercise judgment in assessing whether the criterion for recognition of a provision or a contingency has been met. The Company considers whether a present obligation exists, probability of loss and can a reliable estimate be formulated.

Deferred Income Taxes

Judgments are made by management to determine the likelihood of whether deferred income tax assets at the end of the reporting period will be realized from future taxable earnings.

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, 2012. 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, pipeline capacity for export of oil and natural gas out of Western Canada, 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 800 full time staff as at December 31, 2012 compared to approximately 700 at the beginning of the year.

Access to Equipment, Parts, Development of New Technology

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

Credit Risk

The Company's accounts receivable are due from customers that operate in the oil and natural gas exploration and production industry, and are subject to typical industry credit risks. The Company assesses the credit worthiness of its customers, and monitors accounts receivable outstanding on a regular, ongoing basis.

Interest Rate Risk

The Company manages its interest rate risk through a combination of fixed and floating rate borrowings.

Dependence on Suppliers

The ability of the Company to compete and grow will be dependent on the Company having access, at a reasonable cost and in a timely manner, to equipment, parts and components.

The Company's ability to provide services to its customers is also dependent upon the availability at reasonable prices of raw materials which the Company purchases from various suppliers, most of whom are located in Canada. Alternate suppliers exist for all raw materials.

Dependence on Major Customers

The Company has a customer base of more than 60 exploration and production entities, ranging from large multinational public entities to small private companies. Notwithstanding the Company's significant customer base, five customers account for 38% of the Company's accounts receivable as at December 31, 2012, and 50% of the Company's revenue for the year ended December 31, 2012. The Company has historically had a stable relationship with these customers and has no reason to believe there will be any change to 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 year ended December 31, 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", "objective", "ongoing", "may", "will", "should", "believe", "plans" 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.