Management’s Discussion and Analysis

THREE MONTHS ENDED MARCH 31, 2013

This management discussion and analysis (MD&A) is dated May 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 three months ending March 31, 2013 and March 31, 2012 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, 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 FIRST QUARTER 2013

000’s except per share, job amounts and hydraulic pumping capacity (Unaudited)	Three Months Ended March 31		
	2013	2012	2011
Consolidated revenues	$86,949	$135,935	$99,037
Profit and comprehensive income	$8,527	$37,167	$30,118
Per share-basic	$0.14	$0.61	$0.50
Per share-diluted	$0.14	$0.59	$0.48
EBITDA before share-based payments[1]	$20,426	$58,015	$47,950
Funds from operations[1]	$18,648	$46,584	$37,775
Total jobs completed [2]	470	934	736
Consolidated average revenue per job [2] [3]	$185,065	$145,138	$135,330
Average fracturing revenue per job[3]	$246,932	$228,564	$195,282
Hydraulic Pumping Capacity			
Average HHP	225,500	175,500	120,500
Exit HHP	225,500	175,500	125,500
Capital expenditures	$3,501	$34,128	$23,143

000's except per share amounts (Unaudited)	As at March 31, 2013	As at December 31, 2012	As at December 31, 2011
Cash and cash equivalents	$30,520	$22,584	$42,481
Working capital	$62,766	$56,245	$67,009
Total long-term financial liabilities	$3,143	$3,475	$3,530
Total assets	$403,540	$406,113	$407,330
Cash dividends declared per share	$0.15	$0.60	$0.1125

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): 2012 revenue per job numbers are restated to include invoice adjustments.

In the second half of 2012, uncertainty around the commodity price outlook prompted by unstable macroeconomic factors led to reduced producer spending and declining pricing across the Western Canadian Sedimentary Basin ("WCSB"). This trend of weak producer activity and pricing pressure continued into 2013 even though natural gas prices have been strengthening and oil prices have remained relatively strong.

NYMEX natural gas prices have strengthened by 50% to average US$3.20 per mmbtu in Q1 2013 from US$2.13 per mmbtu in Q1 2012, while the West Texas oil price averaged US$94.30 per barrel in Q1 2013 compared to $102.99 per barrel in Q1 2012 and has increased by 7% from the average of US$88.17 in Q4 2012.

However, other factors have resulted in producers continuing to maintain a cautious approach to spending, such as concern over oil price differentials due to WCSB takeaway capacity issues, ongoing global macroeconomic uncertainty and scarcity of equity capital. As a result, the weak producer activity and pricing pressure that characterized Q4 2012 carried over into Q1 2013 resulting in lower job counts with pricing in the current quarter approximately 25-30% below Q1 2012 levels. This is evident from key industry metrics such as drilling rig utilization and well licenses issued which decreased by 10% and 6% respectively in Q1 2013 compared to Q1 2012, while well completions remained flat quarter over quarter. Compared to Q4 2012, well completions were down by 18% in Q1 2013.

Q1 2013 was a story of two halves for drilling and completions activity with the first half of the quarter getting off to a slow start as producers were slow to resume activity in January after an early shutdown in December. During February and March, activity increased as producers looked to drill wells before spring breakup conditions came into effect. Although we recorded consistent revenue throughout Q1, Canyon had to turn away work in the last six weeks as its staff was fully utilized due to the increased customer activity and the demands of twenty-four hour operations which now accounts for over 50% of Canyon's revenues. In the prior year's Q1 2012, 24-hr operations accounted for less than 10% of Canyon's revenues.

In Q1 2013, Canyon's average fracturing revenue per job increased by 8% over the comparable 2012 quarter due to larger job sizes. Canyon derives over 90% of consolidated revenues from hydraulic fracturing. The aforementioned pricing pressure and reduced producer activity resulted in Q1 2013 consolidated revenues decreasing by 36% to $86,949 from $135,935 in Q1 2012. Jobs completed decreased by 50% to 470 in Q1 2013 from 934 in Q1 2012 due to the lower producer activity and a high proportion of cement jobs in Q1 2012. These industry conditions resulted in Q1 2013 profit and comprehensive income of $8,527, or $0.14 per share fully diluted, compared to $37,167, or $0.59 per share fully diluted, in Q1 2012.

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 March 31	
	2013	2012
Profit and comprehensive income	$8,527	$37,167
Add (Deduct):		
Depreciation and amortization	7,705	7,086
Finance costs	156	161
Share-based payment transactions	910	942
Loss on sale of property and equipment	(32)	41
Income tax expense	3,160	12,618
EBITDA before share-based payments	$20,426	$58,015

Funds from Operations

000's (Unaudited)	Three Months Ended March 31	
	2013	2012
Net cash from operating activities	$19,334	$12,930
Add (Deduct):		
Income Tax paid	1,155	19,550
Change in working capital	(219)	25,374
Current tax	(1,622)	(11,270)
Funds from operations	$18,648	$46,584

Operating and Financial Highlights

The operating and financial highlights for the three months ended March 31, 2013 are summarized as follows:

- Average fracturing revenue per job for the three months ended March 31, 2013 increased by 8%, 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 in 2012 and that has continued into 2013. As a result, Q1 2013 consolidated revenues decreased by 36% to $86,949 from $135,935 in Q1 2012.

- Canyon exited the quarter 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 March 31, 2013 Canyon has $7 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.

- Canyon added sales and operations staff in its Estevan, Saskatchewan base to build activity in the Bakken and Spearfish plays.

- Canyon remains in a very strong financial position with undrawn credit facilities of $60 million plus working capital of $63 million, including cash of $31 million, as at March 31, 2013.

- On March 27, 2013, Canyon declared a quarterly dividend of $0.15 per common share, or $9.3 million, which was paid to shareholders on April 25, 2013.

2013 OUTLOOK

Market conditions in 2013 are anticipated to remain somewhat challenging. Canyon expects industry activity in 2013 to be similar to or down from 2012, with lower cash flow and earnings resulting from pricing pressures. We do believe that spot pricing finally leveled out in the first quarter of 2013, a period in which activity was down significantly year-over-year. We expect stable pricing for the remainder of 2013. We anticipate average seasonal activity over spring breakup as compared to relatively busy Q2 conditions experienced in 2010 - 2012. The market in the remainder of 2013 will be very competitive as industry players try to position themselves with the busy operators and to keep crews working in preparation for a more robust 2014.

The Duvernay, Montney, Cardium, Viking and Slave Point plays should continue to be among Western Canada's busiest areas and the drivers of Canyon's drilling and pressure pumping activity for the next several years. We have focused our operations around servicing these plays and have sales and operational staff in our Saskatchewan base to build our market share in the active Bakken and Spearfish plays in Saskatchewan and Manitoba.

We believe that the Company needs to prepare in 2013 for a much busier 2014. As the recent joint venture and acquisition transactions evolve, we expect increased drilling activity in late 2013 and 2014 in the pressure pumping intensive plays such as the Montney and Duvernay. The pumping demands of the wells in these areas is such that, even small incremental increases in the number of wells drilled will absorb much, if not all, of the excess pumping capacity available or sidelined today.

To prepare for this shift change in utilization expected over the next 12 months, Canyon is investing in training its people, improving its logistics and augmenting its customer base with multinational enterprises that are actively investing in Western Canada.

Capital spending for 2013 is budgeted at a modest $15 million plus $10 million remaining from 2012. This will enable us to add cementing, acidizing, coiled tubing and logistics equipment, but no new pumping horsepower. The continuing increase in 24-hour operations, which now represent over 50% of our revenue, requires significant numbers of staff and tremendous amounts of pumping, logistics and support equipment to be mobilized in very short periods of time. In response to this demand by our customers, more than ever, we are focusing on training and retaining the right staff and optimizing our logistics systems and processes. Round-the-clock operations make our customers' projects more economic. Our job is to help customers reduce their costs of finding new reserves and bringing them on-stream. The more efficient this process becomes, the better able customers are to drill and complete further wells.

In assessing Canyon's long-term strategic options, including geographical expansion, our decisions are based on generating the most attractive return on invested capital for our shareholders. Although we are continuously monitoring opportunities available for expansion into other basins, including areas in the United States, we believe that the best after-tax returns for a pressure pumping provider can be generated in Canada. We believe Canyon's continued focus on Western Canada sets us up to generate very attractive rates of return for years to come.

Our enduring priorities are operational success, safety, strengthening customer relationships, operating with integrity and responsibility, contributing to improved water management, staff retention and profitability. Canyon's management team and Board of Directors are optimistic about the long term pressure pumping market in Western Canada. We foresee Canyon being a growing company with a strong balance sheet, excellent equipment and technologies, a uniquely capable workforce led by seasoned technical specialists and managers. Our goal is to build a company that provides investors strong returns on invested capital plus a stable and increasing dividend.

QUARTERLY COMPARATIVE STATEMENTS OF OPERATIONS

000's except per share amounts (Unaudited)	Three Months Ended March 31	
	2013	2012
Revenues	$86,949	$135,935
Cost of services	(69,582)	(80,453)
Gross profit	17,367	55,482
Administrative expenses	(5,524)	(5,536)
Results from operating activities	11,843	49,946
Finance costs	(156)	(161)
Profit before income tax	11,687	49,785
Income tax expense	(3,160)	(12,618)
Profit and comprehensive income	$8,527	$37,167
EBITDA before share-based payments(1)	$20,426	$58,015
Earnings per share:		
Basic	$0.14	$0.61
Diluted	$0.14	$0.59

Note (1): See NON-GAAP MEASURES.

Revenues

Lower producer activity combined with equipment capacity across the industry in 2012 resulted in pricing that was about 25% to 30% lower in Q1 2013 compared to Q1 2012 levels. As a result, Q1 2013 consolidated revenues decreased by 36% to $86,949 from $135,935 in Q1 2012. Jobs completed decreased by 50% to 470 in Q1 2013 from 934 in Q1 2012 due to the lower producer activity and a high proportion of cement jobs in Q1 2012. However, the lower job count and pricing pressure was partly mitigated by higher average revenues per job. Over 90% of Q1 2013 consolidated revenues were provided by hydraulic fracturing services with average fracturing revenue per job increasing by 8% to $246,932 from $228,564 in Q1 2012. 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 March 31, 2013 totaled $69,582 (2012: $80,453) and includes materials, products, transportation and repair costs of $42,875 (2012: $53,598), employee benefits expense of $19,359 (2012: $20,067), and depreciation of property and equipment of $7,348 (2012: $6,788).

The decrease in materials, products, transportation and repair costs is mostly due to the lower job count in Q1 2013 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, partially offset by increased field staff to support equipment additions in 2012. The increase in depreciation of property and equipment is due to additional depreciation pertaining to equipment additions.

Administrative expenses

Administrative expenses for the three months ended March 31, 2013 totaled $5,524 compared to $5,536 in Q1 2012 and include employee benefits expense of $2,717 (2012: $2,984) and share-based payments expense of $910 (2012: $942). Administrative expenses also include depreciation of buildings and office equipment and amortization of intangibles of $357 (2012: $298). In addition, other administrative expenses totaled $1,540 in Q1 2013 compared to $1,312 in Q1 2012. The decrease in employee benefits expense is mostly attributable to lower sales commissions due to the lower job count partially offset by staff additions to support the increased scale of Canyon's operations. The increase in other administrative expenses is due to costs associated with systems' upgrades.

Share-based payments expense represents the value assigned to the granting of options and incentive-based units under the Company's Share Purchase Option Plan and Stock Based Compensation Plan respectively, using the Black-Scholes model. For Q1 2013, $1,000 (Q1 2012 - $763) was charged to expenses and included in contributed surplus in respect of these two plans. In addition, obligations for payments under the Company's Deferred Share Unit Plan are accrued as share-based payments expense over the vesting period. The accrued liability increases or decreases with fluctuations in the price of the Company's common shares, with a corresponding increase or decrease in the share-based payments expense. In Q1 2013, share-based payments expense was reduced by $90 (Q1 2012 – an increase of $179) 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 Q1 2013, EBITDA before share-based payments (see NON-GAAP MEASURES) was $20,426 compared to $58,015 in the comparable 2012 quarter. As previously discussed, reduced producer activity and pricing pressure resulted in the decreased EBITDA.

Finance costs

Finance costs include interest on finance lease obligations and automobile loans and totaled $156 in Q1 2013 (Q1 2012: $161).

Income Tax Expense

At the expected combined income tax rate of 25%, the profit before income tax for Q1 2013 of $11,687 would have resulted in an expected expense of $2,922, compared to the actual income tax expense of $3,160. The actual income tax expense was increased by non-deductible expenses.

Profit and comprehensive income and earnings per share

Profit and comprehensive income totaled $8,527 in Q1 2013 compared to $37,167 in Q1 2012. As previously discussed, the decrease is mostly due to reduced producer activity across the industry and pricing pressure.

Basic and diluted earnings per share were $0.14 and $0.14, respectively, for the three months ended March 31, 2013 compared to basic and diluted earnings per share of $0.61 and $0.59 respectively for the comparable 2012 quarter.

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
2013	Q1	$84,949	$20,426	$8,527	$0.14	$0.14
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)

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 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 Q1 2013, Q3 2012 and Q4 2012, the decrease in revenues, EBITDA and profit and comprehensive income is due to reduced producer activity and pricing pressure as previously discussed.

LIQUIDITY AND CAPITAL RESOURCES

Funds from operations

Funds from operations (See NON-GAAP MEASURES) decreased to $18,648 in Q1 2013 from $46,584 for the comparable 2012 quarter. The funds from operations were primarily used to finance a portion of 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 months ended March 31, 2013, there were 344 common shares issued by the Company to employees and officers upon exercise of options pursuant to the Share Purchase Option Plan and 7 incentive based units pursuant to the Stock-Based Compensation Plan for aggregate proceeds of $942.

Debt:
Loans and borrowings as at March 31, 2013 total $5.3 million (December 31, 2011: $5.6 million) which comprise equipment lease obligations of $5.3 million (December 31, 2012: $5.6 million) and automotive equipment loans totaling $8 thousand (December 31, 2012: $8 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 March 31, 2013, the Company's available debt facilities total $60 million, of which nil is drawn as at March 31, 2013 (December 31, 2012: nil).

Working Capital and Cash Requirements

As at March 31, 2013, Canyon had a working capital balance of $62.8 million compared to $56.2 million as at December 31, 2012. As at March 31, 2013 trade and other receivables decreased by $7.0 million and cash and cash equivalents increased by $7.9 million compared to December 31, 2012. Current tax assets have resulted from 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 March 31, 2013, accounts receivable includes an allowance of $0.2 million for doubtful receivables (December 31, 2012: $0.2 million).

The Company will use its December 31, 2012 cash available of $31 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 $7 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 months ended March 31, 2013, capital expenditures, net of finance leases, totaled $4 million, mostly relating to 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 March 31, 2013, the Company is in compliance with each of the above financial covenants. The Company has nil amounts drawn on its debt facilities as at March 31, 2013. The Company may be required to adjust its capital structure from time to time as a result of expansion activities.

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

Contractual Obligations

As at March 31, 2013, Canyon’s contractual obligations are summarized as follows:

000’s (Unaudited)	Total	Next 12 months	1 - 3 years	4 - 5 years	After 5 years
Trade and other payables	$33,437	$33,437	$ -	$ -	$ -
Loans and borrowings	5,291	2,148	3,143	-	-
Dividend payable	9,330	9,330	-	-	-
Operating leases and office space	6,305	1,276	2,435	2,159	435
Capital Expenditure Commitments	7,074	7,074	-	-	-
Total contractual obligations	$61,437	$53,265	$5,578	$2,159	$435

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

Capital expenditure commitments will be funded from the March 31, 2013 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 the three months ended March 31, 2013, Canyon incurred $4 million in capital expenditures mostly relating to completing the 2011 and 2012 capital programs. These 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 March 31, 2013, there remains $7 million to be spent to complete these capital programs.

Funding for Canyon’s remaining capital expenditures of $7 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, Option and Incentive Based Unit Data

The following table summarizes Canyon’s capitalization as at March 31, 2013 and December 31, 2012:

000’s (Unaudited)	April 30, 2013	March 31, 2013	December 31, 2012
Common Shares	62,200	62,197	61,846
Options	3,324	3,353	2,663
Incentive Based Units	411	411	276

In the three months ended March 31, 2013, there were 1,068 share option grants to directors, officers and employees at an average exercise price of $10.67 per option, 344 share options were exercised by directors, officers and employees and 34 share options were forfeited. In the three months ended March 31, 2013, 142 incentive based units were granted to directors, officers and employees, 7 were exercised and nil 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 three months ended March 31, 2013, the loans and borrowings, comprising equipment leases and automobile loans, were at fixed rates.

Foreign Currency Risk

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

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements as at March 31, 2013, 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 March 31, 2013 (December 31, 2012 - $0.2 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 revised 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 period ended March 31, 2013 or 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 March 31, 2013.

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

46% of the Company’s accounts receivable as at March 31, 2013, and 45% of the Company's revenue for the three months ended March 31, 2013. 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 March 31, 2013, 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.