CANYON SERVICES GROUP INC.

Management's Discussion and Analysis

SIX MONTHS ENDED JUNE 30, 2013

This management discussion and analysis (MD&A) is dated August 8, 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 and six months ending June 30, 2013 and June 30, 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 SECOND QUARTER 2013

000's except per share, job amounts and hydraulic pumping capacity (Unaudited)	Three Months Ended June 30			Six Months Ended June 30		
	2013	2012	2011	2013	2012	2011
Consolidated revenues	$27,419	$37,974	$22,886	$114,368	$173,909	$121,923
Profit (loss) and comprehensive income (loss)	$(17,186)	$(6,940)	$(6,639)	$(8,659)	$30,227	$23,477
Per share-basic	$(0.28)	$(0.11)	$(0.11)	$(0.14)	$0.49	$0.39
Per share-diluted	$(0.28)	$(0.11)	$(0.11)	$(0.14)	$0.48	$0.37
EBITDA before share-based payments(1)	$(13,146)	$(1,552)	$(3,084)	$7,280	$56,462	$44,863
Funds from (used in) operations(1)	$(11,822)	$2,723	$1,199	$6,826	$49,306	$38,973
Total jobs completed (2)	151	251	159	621	1,185	895
Consolidated average revenue per job (2) (3)	$181,979	$155,545	$147,078	$184,389	$147,343	$137,417
Average fracturing revenue per job(3)	$320,769	$203,759	$245,778	$261,204	$222,404	$203,113
Hydraulic Pumping Capacity						
Average HHP	225,500	194,000	125,500	225,500	185,000	123,000
Exit HHP	225,500	218,000	125,500	225,500	218,000	125,500
Capital expenditures	$2,310	$20,653	$29,190	$5,811	$54,779	$52,333

000's except per share amounts (Unaudited)	As at June 30, 2013	As at December 31, 2012	As at December 31, 2011
Cash and cash equivalents	$28,199	$22,584	$42,481
Working capital	$38,431	$56,245	$67,009
Total long-term financial liabilities	$2,969	$3,475	$3,530
Total assets	$371,627	$406,113	$407,330
Cash dividends declared per share	$0.30	$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.

Q2 2013 was a disappointing quarter. The total number of well completions in Western Canada was down approximately 20% in the second quarter compared to 2012. Overall, operating results were impacted by extremely wet weather throughout the Western Canadian Sedimentary Basin ("WCSB"). In particular, June 2013, normally a month that sees a return to more robust activity following spring break-up and that typically contributes approximately half of the quarter's revenue, experienced ongoing delays due to the very wet weather in Northern Alberta and Northeastern BC. The wet weather resulted in significant delays in drilling and completions in the quarter, which caused many of our customers to defer projects into the second half of the year. In addition to wet weather conditions, the pricing environment remained very competitive as industry utilization was lower than what was experienced in prior years during the second quarter, reducing the profitability of the work that was completed.

Canyon took advantage of the slow industry conditions to make investments in our staff and physical infrastructure including significantly increasing our training and staff development resulting in higher fixed operating and general and administrative costs. Our fixed operating and general and administrative costs are up almost 10% year-to-date compared to 2012. Q2 2013 consolidated revenues decreased by 28% to $27,419 from $37,974 in Q2 2012. Jobs completed declined by 40% to 151 in Q2 2013 from 251 in Q2 2012 due to the lower producer activity and the wet weather conditions. As a result, Q2 2013 loss and comprehensive loss was $17,186, or $0.28 per share fully diluted, compared to a loss of $6,940, or $0.11 per share fully diluted, in Q2 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, gain or 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 (loss).

EBITDA before share-based payments

000's (Unaudited)	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
Profit (loss) and comprehensive income (loss)	$(17,186)	$(6,940)	$(8,659)	$30,227
Add (Deduct):				
Depreciation and amortization	7,792	7,094	15,496	14,180
Finance costs	162	235	318	396
Share-based payment transactions	1,241	(2,144)	2,151	(1,202)
Cash settlement of deferred share units	-	2,298	-	2,298
(Gain) Loss on sale of property and equipment	(12)	36	(44)	77
Income tax expense (recovery)	(5,143)	(2,131)	(1,982)	10,486
EBITDA before share-based payments	$(13,146)	$(1,552)	$7,280	$56,462

Funds from Operations

000's (Unaudited)	Three Months Ended June 30		Six Months Ended June 30	
	2013	2012	2013	2012
Net cash from operating activities	$10,140	$41,668	$29,472	$45,687
Add (Deduct):				
Income Tax paid	2,512	3,516	3,667	23,066
Change in working capital	(25,960)	(46,971)	(26,177)	(12,687)
Current tax recovery (expense)	1,486	4,510	(136)	$(6,760)
Funds from operations	$(11,822)	$2,723	$6,826	$49,306

Operating and Financial Highlights

The operating and financial highlights for the three and six months ended June 30, 2013 are summarized as follows:

- 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. For the second half of 2013, Canyon expects to incur capital expenditures of approximately $11 million which comprises $5 million to complete prior years' programs and $6 million to add miscellaneous support and logistics equipment. These capital expenditures will be funded out of funds from operations.

- In Q2 2013, Canyon increased our bank credit facilities to $100 million from $60 million. The increased facilities are comprised of a $15 million Operating Facility and an $85 million Revolving Facility which is available for capital programs. The Revolving Facility includes a $40 million accordion feature which is available upon request by the Company and subject to approval by the lenders. Canyon remains in a very strong financial position with undrawn credit facilities of $100 million including the accordion feature, plus working capital of $38 million, including cash of $28 million, as at June 30, 2013.

- On June 27, 2013, Canyon declared a quarterly dividend of $0.15 per common share, or $9.4 million, which was paid to shareholders on July 25, 2013.

2013 OUTLOOK

Although the second quarter was disappointing and market conditions in 2013 are anticipated to remain somewhat challenging, the future of pumping services in the WCSB looks very appealing.

Canyon expects industry activity to remain very competitive and anticipates that the second half of 2013 will be similar to the first six months. We believe that spot pricing has finally leveled out but pricing for longer term projects is still experiencing some pricing pressure as industry players try to position themselves with the active operators and try to keep crews working in preparation for a more robust 2014. Even though we expect that the market in the remainder of 2013 will be very competitive, we do expect higher utilization and pricing in early 2014. We are receiving anecdotal evidence of a very tight drilling rig market over the next six months indicating that industry dynamics for the pressure pumping sector will be improving over the next 12 months.

Commodity prices, which generally influence producers' spending budgets, have been strengthening over the year. The West Texas Intermediate oil price averaged US$94.17 per barrel in Q2 2013 compared to US$93.35 per barrel in Q2 2012. Current spot prices for Edmonton par are around Cdn$105 per barrel compared to July 2012 Edmonton par spot prices of approximately Cdn$76 per barrel. In Q2 2013, AECO-C spot natural gas prices strengthened by 86% to average $3.55 per mmbtu in Q2 2013 compared to $1.91 per mmbtu in Q2 2012. Although gas prices have softened over the summer, the forward strip as at the end of July 2013 averaged $3.35 per mmbtu, 20% higher than July 2012 price of $2.80 per mmbtu. These positive changes to commodity prices, in particular oil prices, have increased industry cash flow forecasts for the conventional segment of the industry for 2013 by approximately Cdn$5.0 billion. It is expected that this increase to industry cash flow will strengthen the financial health of our customers and/or result in higher spending levels.

Well licenses issued in 2013 to-date have been weighted toward more fracturing intensive plays such as the Montney and the Duvernay. This increase in activity is due both to the economics of the play and LNG sales based reservoir delineation. Although total industry well licenses issued during the six months ended June 30, 2013 decreased by 7% over the comparable 2012 period, well licenses for the Montney and Duvernay plays increased by approximately 35% over the same period. For 2013 these two service intensive plays are estimated to absorb over 40% of the current available equipment capacity in the WCSB. Therefore, relatively small changes in activity in these plays have a disproportionately higher impact on the demand for pumping equipment. As a result, the emphasis on more fracturing intensive plays by producers points to improving demand for pressure pumping services later in 2013 and in 2014. Canyon is very active in both of these plays. In addition to the Duvernay and Montney, plays such as the Cardium, Viking and Bakken plays are also expected to be among the WCSB's busiest areas and the drivers of Canyon's pressure pumping activity for the next several years.

Previous capital spending for 2013 was budgeted at a modest $15 million plus $10 million remaining from 2012. It appears that due to industry conditions, capital spending is now expected to total approximately $17 million, consisting of $7 million to add miscellaneous support and logistics equipment, plus the $10 million remaining from 2012. The continuing increase in 24-hour operations, which now represents over 50% of our revenue, requires significantly more staff and tremendous amounts of pumping, logistics and support equipment to be mobilized in very short periods of time. In response to the demand for 24-hour operations by our customers, more than ever, we are focusing on training and retaining the right staff and optimizing our logistics systems and processes. Around-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, customers will be better able to drill and complete further wells.

We also believe that the Company needs to prepare in 2013 for a much busier 2014. As the recent joint venture and acquisition transactions completed by the multinational E&P companies enter into the development phase, we expect increased drilling and completions activity in late 2013 and 2014 in 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 currently available. To prepare for this shift change in utilization expected over the next 12 months, Canyon is investing in training our people, improving logistics and augmenting our customer base with multinational enterprises that are actively investing in the WCSB. We have made investments in physical and staff infrastructure, training and safety systems to ensure Canyon's framework is in place to be able to significantly grow with our customers. These investments will allow us to accommodate much higher levels of revenue and thus are expecting significant operating leverage with respect to cash flows and earnings over the next few years. Although we are very optimistic about industry demand in 2014 and 2015, Canyon has not yet set our capital expenditure plans for 2014. We expect to announce our 2014 capital expenditure plans later this year, once we obtain more data supporting our views and clarity on the timing of a return to more favourable industry dynamics.

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 on invested capital for a pressure pumping services provider can be generated in Canada. We believe Canyon's continued focus on the WCSB 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 the WCSB. Canyon remains poised for growth 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 June 30	
	2013	2012
Revenues	$27,419	$37,974
Cost of services	(44,035)	(42,534)
Gross profit (loss)	(16,616)	(4,560)
Administrative expenses	(5,551)	(4,276)
Results from operating activities	(22,167)	(8,836)
Finance costs	(162)	(235)
Profit (loss) before income tax	(22,329)	(9,071)
Income tax (expense) recovery	5,143	2,131
Profit (loss) and comprehensive income (loss)	$(17,186)	$(6,940)
EBITDA before share-based payments[1]	$(13,146)	$(1,552)
Earnings (loss) per share:		
Basic	$(0.28)	$(0.11)
Diluted	$(0.28)	$(0.11)

Note (1): See NON-GAAP MEASURES.

Revenues

Weaker producer activity and pricing pressure combined with extremely wet weather conditions resulted in consolidated revenues decreasing by 28% to $27,419 in Q2 2013 from $37,974 in Q2 2012. Jobs completed decreased by 40% to 151 in Q2 2013 from 251 in Q2 2012 due to the lower producer activity and the very wet weather. However, the lower job count and pricing pressure was partly mitigated by higher average revenues per job. Over 90% of Q2 2013 consolidated revenues were provided by hydraulic fracturing services with average fracturing revenue per job increasing by 57% to $320,769 from $203,759 in Q2 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 June 30, 2013 totaled $44,035 (2012: $42,534) and includes materials, products, transportation and repair costs of $23,558 (2012: $23,544), employee benefits expense of $13,053 (2012: $12,202), and depreciation of property and equipment of $7,424 (2012: $6,788).

Although the Q2 2013 job count decreased to 151 jobs from 251 in Q2 2012, materials, products, transportation and repair costs increased mostly due to the completion of larger jobs such as Duvernay shale gas wells. The increase in employee benefits expense is mainly due to increased field staff to support equipment additions in 2012 and higher variable field pay in the quarter due to the increase in 24 hour operations. The increase in depreciation of property and equipment is due to additional depreciation pertaining to equipment additions.

Administrative expenses

Administrative expenses for the three months ended June 30, 2013 totaled $5,551 compared to $4,276 in Q2 2012 and include employee benefits expense of $2,182 (2012: $2,086) and share-based payments expense of $1,241 (2012: $154). Administrative expenses also include depreciation of buildings and office equipment and amortization of intangibles of $367 (2012: $306). In addition, other administrative expenses totaled $1,760 in Q2 2013 compared to $1,730 in Q2 2012.

Share-based payments expense represents the value assigned to the granting of options and incentive-based units under the Company's Share Purchase Option Plan and Stock Based Compensation Plan respectively, using the Black-Scholes model. For Q2 2013, $922 (Q2 2012 - $926) was charged to expenses and included in contributed surplus in respect of these two plans. In addition, obligations for payments under the Company's Deferred Share Unit Plan are accrued as share-based payments expense over the vesting period. The accrued liability increases or decreases with fluctuations in the price of the Company's common shares, with a corresponding increase or decrease in the share-based payments expense. In Q2 2013, share-based payments expense was $319 (Q2 2012 a reduction of $772) 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 Q2 2013, EBITDA before share-based payments (see NON-GAAP MEASURES) was negative $13,146 compared to negative $1,552 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 $162 in Q2 2013 (Q2 2012: $235).

Income Tax Expense

At the expected combined income tax rate of 25%, the loss before income tax for Q2 2013 of $22,329 would have resulted in an expected recovery of $5,582, compared to the actual income tax recovery of $5,143. The actual income tax recovery was reduced by non-deductible expenses.

Loss and comprehensive loss and loss per share

Loss and comprehensive loss totaled $17,186 in Q2 2013 compared to $6,940 in Q2 2012. As previously discussed, the increased loss is mostly due to reduced producer activity across the industry and pricing pressure, as well as the very wet weather conditions in the quarter.

Basic and diluted loss per share were $0.28 and $0.28, respectively, for the three months ended June 30, 2013 compared to basic and diluted loss per share of $0.11 and $0.11 respectively for the comparable 2012 quarter.

SIX MONTHS TO JUNE 30, 2013 COMPARATIVE STATEMENTS OF OPERATIONS

000's except per share amounts (Unaudited)	Six Months Ended June 30	
	2013	2012
Revenues	$114,368	$173,909
Cost of services	(113,617)	(122,988)
Gross profit (loss)	751	50,921
Administrative expenses	(11,074)	(9,812)
Results from operating activities	(10,323)	41,109
Finance costs	(318)	(396)
Profit (loss) before income tax	(10,641)	40,713
Income tax (expense) recovery	1,982	(10,486)
Profit (loss) and comprehensive income (loss)	$(8,659)	$30,227
EBITDA before share-based payments(1)	$7,280	$56,462
Earnings (loss) per share:		
Basic	$(0.14)	$0.49
Diluted	$(0.14)	$0.48

Note (1): See NON-GAAP MEASURES.

Revenues

Weaker producer activity and pricing pressure resulted in consolidated revenues decreasing by 34% to $114,368 in the six months ended June 30, 2013 from $173,909 in the 2012 comparable period. Jobs completed decreased by 48% to 621 in the six months ended June 30, 2013 from 1,185 in the 2012 comparable period due to the lower producer activity. Over 90% of consolidated revenues in the six months ended June 30, 2013 were provided by hydraulic fracturing services with average fracturing revenue per job increasing by 17% to $261,204 from $222,404 in the 2012 comparable period. 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 six months ended June 30, 2013 totaled $113,617 (2012: $122,988) and includes materials, products, transportation and repair costs of $66,433

(2012: $77,143), employee benefits expense of $32,412 (2012: $32,269), and depreciation of property and equipment of $14,772 (2012: $13,576).

The decrease in materials, products, transportation and repair costs is mostly due to the lower job count in both Q1 and Q2 2013 compared to the prior year comparable periods, partially offset by the completion of larger jobs in 2013, such as Duvernay shale gas wells. The increase in depreciation of property and equipment is due to additional depreciation pertaining to equipment additions.

Administrative expenses

Administrative expenses for the six months ended June 30, 2013 totaled $11,074 compared to $9,812 in the 2012 comparable period and include employee benefits expense of $4,899 (2012: $5,070) and share-based payments expense of $2,152 (2012: $1,096). Administrative expenses also include depreciation of buildings and office equipment and amortization of intangibles of $724 (2012: $604). In addition, other administrative expenses totaled $3,299 in the six months ended June 30, 2103 compared to $3,042 in the 2012 comparable period. 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 mainly 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 the six months ended June 30, 2013, $1,921 (Q2 2012 - $1,688) 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. For the six months ended June 30, 2013, share-based payments expense was $230 (2012 a reduction of $592) 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)

For the six months ended June 30, 2013, EBITDA before share-based payments (see NON-GAAP MEASURES) was $7,280 compared to $56,462 in the comparable 2012 period. 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 $318 for the six months ended June 30, 2013 (2012: $396).

Income Tax Expense

At the expected combined income tax rate of 25%, the loss before income tax for the six months ended June 30, 2013 of $10,641 would have resulted in an expected recovery of $2,660, compared to the actual income tax recovery of $1,982. The actual income tax recovery was reduced by non-deductible expenses.

Profit (Loss) and comprehensive income (loss) and earnings (loss) per share

Loss and comprehensive loss totaled $8,659 for the six months ended June 30, 2013 compared to profit and comprehensive income of $30,227 in the 2012 comparable period. As previously discussed, the loss is mostly due to reduced producer activity across the industry and pricing pressure, as well as the very wet weather conditions in the second quarter.

Basic and diluted loss per share were $0.14 and $0.14, respectively, for the six months ended June 30, 2013 compared to basic and diluted earnings per share of $0.49 and $0.48 respectively for the comparable 2012 period.

Summary of Quarterly Results

000's except per share amounts (Unaudited) (1)		Revenues	EBITDA(2)	Profit (Loss) and Comprehensive Income (Loss)	Basic Earnings (Loss) per Share	Diluted Earnings (Loss) per Share
2013	Q2	$27,419	$(13,146)	$(17,186)	$(0.28)	$(0.28)
	Q1	$86,949	$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

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 2013 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 negative $11,822 in Q2 2013 from $2,723 for the comparable 2012 quarter. For the six months ended June 30, 2013, funds from operations decreased to $6,826 from $49,306 in the comparable 2012 period due to reduced producer activity and pricing pressure as previously discussed. 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 and six months ended June 30, 2013, there were 125 and 469 common shares respectively issued by the Company to employees and officers upon exercise of options pursuant to the Share Purchase Option Plan and 125 and 132 incentive based units respectively pursuant to the Stock-Based Compensation Plan for aggregate proceeds of $338 and $1,280 respectively.

Debt:
Loans and borrowings as at June 30, 2013 total $5.5 million (December 31, 2012: $5.6 million) which comprise equipment lease obligations of $5.5 million (December 31, 2012: $5.6 million) and automotive equipment loans totaling $8 thousand (December 31, 2012: $8 thousand).

In Q2 2013, Canyon increased its bank credit facilities to $100 million from $60 million. The facilities comprise a $15 million Operating Facility and a $85 million Revolving Facility. The Revolving Facility now includes a $40 million accordion feature which is available upon request by the Company and subject to review and approval by the lenders. As at June 30, 2013, nil is drawn (December 31, 2012: nil) on the company's credit facilities.

Working Capital and Cash Requirements

As at June 30, 2013, Canyon had a working capital balance of $38.4 million compared to $56.2 million as at December 31, 2012. As at June 30, 2013 trade and other receivables decreased by $37 million and cash and cash equivalents increased by $5.6 million compared to December 31, 2012. Current tax receivable mainly 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 June 30, 2013, accounts receivable includes an allowance of $0.3 million for doubtful receivables (December 31, 2012: $0.2 million).

The Company will use its June 30, 2013 cash available of $28 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 $5 million and to fund the 2013 capital program which has been revised from the previously announced $15 million to about $7 million due to industry conditions. Please refer to “Capital Expenditures” below.

Investments

For the three and six months ended June 30, 2013, capital expenditures, net of finance leases, totaled $2 million and $6 million respectively, mostly relating to the 2011 and 2012 capital programs. 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 June 30, 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 June 30, 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 June 30, 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	$30,183	$30,183	$ -	$ -	$ -
Loans and borrowings	5,545	2,576	2,969	-	-
Dividend payable	9,367	9,367	-	-	-
Operating leases and office space	5,582	1,221	2,420	1,941	-
Capital Expenditure Commitments	4,764	4,764	-	-	-
Total contractual obligations	$55,441	$48,111	$5,389	$1,941	$ -

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

Capital expenditure commitments will be funded from the June 30, 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 six months ended June 30, 2013, Canyon incurred $6 million in capital expenditures of which $5 million relates 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 June 30, 2013, there remains $5 million to be spent to complete the 2011 and 2012 capital programs.

Due to industry conditions, the previously announced 2013 capital program of $15 million has been revised to approximately $7 million to add miscellaneous support and logistics equipment. Funding for Canyon's remaining capital expenditures of $11 million ($5 million to complete the 2011 and 2012 capital programs and $6 million to complete the 2013 revised capital program) 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 June 30, 2013 and December 31, 2012:

000's (Unaudited)	July 31, 2013	June 30, 2013	December 31, 2012
Common Shares	62,450	62,447	61,846
Options	3,236	3,234	2,663
Incentive Based Units	278	278	276

In the three months ended June 30, 2013, 78 share options were granted to directors, officers and employees at an average exercise price of $11.40 per option, 125 share options were exercised by directors, officers and employees and 72 share options were forfeited. In the three months ended June 30, 2013, 8 incentive based units were granted to directors, officers and employees, 125 were exercised and 16 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 six months ended June 30, 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 June 30, 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 $0.3 million has been established as at June 30, 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 June 30, 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 the WCSB, 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 the WCSB 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 June 30, 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 76% of the Company's accounts receivable as at June 30, 2013, and 42% of the Company's revenue for the three months ended June 30, 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 June 30, 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.