Management's Discussion and Analysis

NINE MONTHS ENDED SEPTEMBER 30, 2013

This management discussion and analysis (MD&A) is dated November 5, 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 nine months ending September 30, 2013 and September 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 THIRD QUARTER 2013

000's except per share, job amounts and hydraulic pumping capacity (Unaudited)	Three Months Ended September 30			Nine Months Ended September 30		
	2013	2012	2011	2013	2012	2011
Consolidated revenues	$81,224	$94,401	$105,207	$195,591	$268,310	$227,131
Profit (loss) and comprehensive income (loss)	$3,908	$17,036	$30,861	$(4,752)	$47,263	$54,338
Per share-basic	$0.06	$0.28	$0.51	$(0.08)	$0.77	$0.90
Per share-diluted	$0.06	$0.27	$0.49	$(0.08)	$0.76	$0.87
EBITDA before share-based payments(1)	$14,384	$32,496	$46,512	$21,663	$88,960	$91,377
Funds from (used in) operations(1)	$14,316	$27,727	$37,395	$21,141	$77,035	$76,368
Total jobs completed (2)	553	524	733	1,174	1,709	1,628
Consolidated average revenue per job (2) (3)	$147,794	$180,540	$143,970	$167,144	$157,521	$139,640
Average fracturing revenue per job(3)	$208,524	$247,746	$191,328	$236,358	$230,516	$196,399
Hydraulic Pumping Capacity						
Average HHP	225,500	220,000	140,000	225,500	200,500	127,000
Exit HHP	225,500	225,500	150,500	225,500	225,500	150,500
Capital expenditures	$1,586	$9,740	$28,941	$7,398	$64,521	$81,273

000's except per share amounts (Unaudited)	As at September 30, 2013	As at December 31, 2012	As at December 31, 2011
Cash and cash equivalents	$15,206	$22,584	$42,481
Working capital	$41,250	$56,245	$67,009
Total long-term financial liabilities	$2,493	$3,475	$3,530
Total assets	$372,326	$406,113	$407,330
Cash dividends declared per share	$0.45	$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.

Canyon's operating results were impacted by weak pricing, E&P well completion interruptions due to pipeline delays in areas where natural gas flaring from newly completed wells is prohibited and wet weather. The third quarter, normally a period that sees a return to more robust activity following spring break-up, experienced persistent wet weather in the active areas of the Western Canadian Sedimentary Basin ("WCSB") such as Northern Alberta and Northeast B.C. Overall, spot pricing declined further by 5% to 8% from the previous quarter as large Canadian and US competitors continue to drive down prices. Pricing has now declined by over 30% since the peak levels of late 2011 and early 2012. In this environment, where price levels continue to be under pressure, Canyon remains focused on only deploying its equipment to projects that contribute positive returns on invested capital.

In 2013, Canyon has taken advantage of the slower industry conditions to continue investing in staff and physical infrastructure in anticipation of a more active industry in 2014. To-date in 2013, Canyon has added approximately 100 people, an increase of almost 13% from the beginning of the year. In addition to hiring new staff, we have significantly increased our training and staff development and upgraded business systems throughout the organization resulting in higher fixed operating and general and administrative costs. Compared to 2012, our fixed operating and general and administrative costs are up almost 10% year-to-date.

As a result, Q3 2013 consolidated revenues decreased by 14% to $81.2 million from $94.4 million in Q3 2012. Average consolidated revenue per job decreased by 18% to $147,794 from $180,540 in Q3 2012 mainly due to lower industry-wide pricing and job mix, while jobs completed increased by 6% to 553 in Q3 2013 from 524 in Q3 2012 due to job mix. The combination of lower revenues and higher fixed costs to prepare for an expected busier 2014 (staffing increase of 80 people in Q3 2013) has resulted in a Q3 2013 profit and comprehensive income of $3.9 million compared to $17.0 million in Q3 2012.

For the nine months ended September 30, 2013, consolidated revenues decreased by 27% to $195.6 million from $268.3 million mostly due to price compression. The jobs completed decreased by 31% to 1,174 for the nine months ended September 30, 2013 compared to 1,709 in 2012. Even though customer pricing across the industry has declined by approximately 30% from 2012 levels, average consolidated revenue per job actually increased by 6% to $167,144 from $157,521 in 2012. This difference is primarily due to a change in customer invoicing methodology related to the increase in 24-hour operations. In the past, customers requested to be invoiced on the basis of work completed in a single shift (one invoice per 12-hour shift) or on a per stage basis. The evolution of 24-hour operations, which now represents approximately 50% of revenue, has meant that many customers have requested to be billed for services provided per 24-hour shift which led to fewer invoices (jobs) in 2013 but for larger amounts. This change has resulted in reporting higher consolidated average revenue per job even though industry prices have significantly declined. Although the job count shows a decline, overall, Canyon has completed almost the same amount of work for our customers year-to-date compared to 2012, albeit at lower prices. The aforementioned industry conditions combined with the ramp-up in fixed costs in advance of more robust industry activity have resulted in a loss and comprehensive loss of $4.8 million for the nine months ended September 30, 2013 compared to a profit and comprehensive income of $47.3 million in the comparable 2012 period.

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 September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
Profit (loss) and comprehensive income (loss)	$3,908	$17,036	$(4,752)	$47,263
Add (Deduct):				
Depreciation and amortization	7,971	7,602	23,467	21,782
Finance costs	149	175	467	572
Share-based payment transactions	799	1,620	2,950	419
Cash settlement of deferred share units	-	-	-	2,298
(Gain) Loss on sale of property and equipment	32	116	(12)	193
Income tax expense (recovery)	1,525	5,947	(457)	16,433
EBITDA before share-based payments	$14,384	$32,496	$21,663	$88,960

Funds from Operations

000's (Unaudited)	Three Months Ended September 30		Nine Months Ended September 30	
	2013	2012	2013	2012
Net cash from operating activities	$(801)	$526	$28,673	$46,214
Income Tax paid	1,468	8,405	5,135	31,471
Change in working capital	13,568	23,390	(12,612)	8,405
Cash settlement of deferred share units	-	-	-	2,298
Less: current tax expense (recovery)	(81)	4,594	55	11,353
Funds from operations	$14,316	$27,727	$21,141	$77,035

Operating and Financial Highlights

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

- In 2013, Canyon has taken advantage of the slower industry conditions to continue investing in staff and physical infrastructure including significantly increasing our training and staff development.
- Staffing increased by 80 people in Q3 2013 to prepare Canyon for an anticipated increase in industry activity in 2014, primarily to support LNG related projects.
- 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.
- Canyon remains in a very strong financial position with undrawn credit facilities of $100 million including a $40 million accordion feature, plus working capital of $41 million, including cash of $15 million, as at September 30, 2013.
- On September 26, 2013, Canyon declared a quarterly dividend of $0.15 per common share, or $9.4 million, which was paid to shareholders on October 25, 2013.

2013 OUTLOOK

Canyon's view of the remainder of 2013 and 2014 is very much consistent with our industry outlook comments as previously reported. We expect industry activity levels to remain very competitive and anticipate that the fourth quarter of 2013 will be challenging from a pricing and activity perspective, yet the medium to longer term dynamics in the Canadian pressure pumping sector look very appealing.

We believe that Q4 2013 and Q1 2014 will be a period of transition for Canyon and the pumping industry in Canada. Activity levels slowly increased as we entered Q4 2013 as operating delays subsided but we still expect Q4 to be challenging with overall activity levels similar to last year. Activity and spot pricing continue to experience volatility in certain areas contrasted by relative stability in other areas. In particular, the bids for longer term projects are still experiencing ongoing 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.

However, several positive indicators have led to improving optimism in respect to the timing of increased activity levels. Strong oil prices, continued positive news relating to the eventual export of LNG off the west coast of Canada and the near term impact of a more receptive new issue equity market for the oil and gas sector supports our expectation of a busier 2014. Importantly, we have finally received confirmation from our customers that activity levels will be ramping up in 2014, as we had previously anticipated, particularly in the Montney and Duvernay plays. We are receiving information that both the number of wells in these plays and the fracturing demand on a per well basis will increase. The increase in demand on a per well basis is resulting from evolving completion methods that can lead to an increase in either the number of stages or the size of the individual fracs. This should result in higher utilization and pricing in 2014. Relatively small improvements in activity in these plays have a disproportionately higher impact on the demand for pumping equipment. Canyon is well positioned with both our domestic and multinational supermajor customers in these plays to be an immediate and direct beneficiary of the improved outlook. In addition to the Duvernay and Montney, plays such as the Viking and Bakken, and to a lesser extent the Cardium play, 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.

As written in prior reports, Canyon has been preparing for a much busier 2014 and evolving industry trends. The escalation of 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 this 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 for finding new reserves and bringing them on-stream. The more efficient this process becomes, the easier it is for our customers to obtain attractive rates of returns leading them to drill and complete additional wells. In addition, 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 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 continues to invest 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 programs 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. In anticipation of higher demands for our services and to more efficiently service our customers, Canyon has returned to growth mode as evidenced by our preliminary 2014 capital budget. This will allow us to both provide more overall services and more efficiently and effectively meet the needs of the evolving trends in completions methods. The bulk of the equipment is expected to become operational in the summer of 2014, which will provide Canyon with sufficient time to hire and train any additional staff required to operate the equipment.

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 with 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 September 30	
	2013	2012
Revenues	$81,224	$94,401
Cost of services	69,422	64,228
Gross profit	11,802	30,173
Administrative expenses	6,220	7,015
Results from operating activities	5,582	23,158
Finance costs	149	175
Profit before income tax	5,433	22,983
Income tax expense (recovery)	1,525	5,947
Profit and comprehensive income	$3,908	$17,036
EBITDA before share-based payments(1)	$14,384	$32,496
Earnings per share:		
Basic	$0.06	$0.28
Diluted	$0.06	$0.27

Note (1): See NON-GAAP MEASURES.

Revenues

Persistent pricing pressure, E&P well completion interruptions and wet weather resulted in consolidated revenues decreasing by 14% to $81,224 in Q3 2013 from $94,401 in Q3 2012. Jobs completed increased by 6% to 553 in Q3 2013 from 524 in Q3 2012 due to job mix. Over 90% of Q3 2013 consolidated revenues were provided by hydraulic fracturing services with average fracturing revenue per job decreasing by 16% to $208,524 from $247,746 in Q3 2012.

Cost of services

Cost of services for the three months ended September 30, 2013 totaled $69,422 (2012: $64,228) and includes materials, products, transportation and repair costs of

$43,538 (2012: $38,352), employee benefits expense of $18,384 (2012: $18,604), and depreciation of property and equipment of $7,500 (2012: $7,272).

The Q3 2013 job count increased to 553 jobs from 524 in Q3 2012, resulting in higher materials, products, transportation and repair costs mostly due to the completion of larger jobs such as Duvernay shale gas wells. Employee benefits expense has remained largely flat as the increased cost attributable to additional field staff was offset by a decrease in variable field pay in the quarter due to lower revenues as well as a decrease in the expected payout of the annual discretionary incentive program due to lower than anticipated results. The slight increase in depreciation of property and equipment is due to additional depreciation pertaining to equipment additions.

Administrative expenses

Administrative expenses for the three months ended September 30, 2013 totaled $6,220 compared to $7,015 in Q3 2012 and include employee benefits expense of $3,070 (2012: $3,686) and share-based payments expense of $799 (2012: $1,620). Administrative expenses also include depreciation of buildings and office equipment and amortization of intangibles of $471 (2012: $329). In addition, other administrative expenses totaled $1,880 in Q3 2013 compared to $1,380 in Q3 2012. The decrease in employee benefits expense is attributable to lower sales commissions due to lower revenues as well as a decrease in the expected payout of the annual discretionary incentive program due to lower than anticipated results. 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 Q3 2013, $861 (Q3 2012 - $855) was charged to expenses and included in contributed surplus in respect of these two plans. In addition, obligations for payments under the Company's Deferred Share Unit Plan are accrued as share-based payments expense over the vesting period. The accrued liability increases or decreases with fluctuations in the price of the Company's common shares, with a corresponding increase or decrease in the share-based payments expense. In Q3 2013, share-based payments were reduced by $62 (Q3 2012 - $766) for the Company's Deferred Share Unit Plan to reflect changes in the price of the common shares of the Company.

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

In Q3 2013, EBITDA before share-based payments (see NON-GAAP MEASURES) was $14,384 compared to $32,496 in the comparable 2012 quarter. As previously discussed, continuing pricing pressure, E&P well completion interruptions and weather related delays resulted in the decreased EBITDA.

Finance costs

Finance costs include interest on finance lease obligations and automobile loans and totaled $149 in Q3 2013 (Q3 2012: $175).

Income Tax Expense

At the expected combined income tax rate of 25%, the income before income tax for Q3 2013 of $5,433 would have resulted in an expense of $1,358, compared to the actual income tax expense of $1,525. The actual income tax expense was increased by non-deductible expenses.

Profit and comprehensive income and earnings per share

Profit and comprehensive income totaled $3,908 in Q3 2013 compared to $17,036 in Q3 2012. As previously discussed, the reduced profit is mostly due to the industry conditions and E&P infrastructure issues.

Basic and diluted earnings per share were $0.06 for the three months ended September 30, 2013 compared to basic and diluted loss per share of $0.28 and $0.27 respectively for the comparable 2012 quarter.

NINE MONTHS TO SEPTEMBER 30, 2013 COMPARATIVE STATEMENTS OF OPERATIONS

000's except per share amounts (Unaudited)	Nine Months Ended September 30	
	2013	2012
Revenues	$195,591	$268,310
Cost of services	183,039	187,216
Gross profit	12,552	81,094
Administrative expenses	17,294	16,826
Results from operating activities	4,742	64,268
Finance costs	467	572
Profit (loss) before income tax	(5,209)	63,696
Income tax expense (recovery)	(457)	16,433
Profit (loss) and comprehensive income (loss)	$(4,752)	$47,263
EBITDA before share-based payments[1]	$21,663	$88,960
Earnings (loss) per share:		
Basic	$(0.08)	$0.77
Diluted	$(0.08)	$0.76

Note (1): See NON-GAAP MEASURES.

Revenues

For the nine months ended September 30, 2013, consolidated revenues decreased by 27% to $195.6 million from $268.3 million mostly due to price compression. The jobs completed decreased by 31% to 1,174 for the nine months ended September 30, 2013 compared to 1,709 in 2012. Even though customer pricing across the industry has declined by approximately 30% from 2012 levels, average consolidated revenue per job actually increased by 6% to $167,144 from $157,521 in 2012. This difference is primarily due to a change in customer invoicing methodology related to the increase in 24-hour operations, as discussed above. Over 90% of consolidated revenues in the nine months ended September 30, 2013 were provided by hydraulic fracturing services with average fracturing revenue per job increasing 3% to $236,358 from $230,516 in the 2012 comparable period even though customer pricing has declined by about 30% year over year. This is due to the completion of larger jobs such as Duvernay shale gas wells in 2013 as well as to the impact of 24-hour operations as discussed above.

Cost of services

Cost of services for the nine months ended September 30, 2013 totaled $183,039 (2012: $187,216) and includes materials, products, transportation and repair costs of $109,972 (2012: $115,585), employee benefits expense of $50,796 (2012: $50,783), and depreciation of property and equipment of $22,271 (2012: $20,848).

The decrease in materials, products, transportation and repair costs is mostly due to the lower job count in 2013 compared to the prior year comparable period, partially offset by the completion of larger jobs in 2013, such as Duvernay shale gas wells. Employee benefits expense has remained flat as the increased cost attributable to additional field staff was offset by a decrease in variable field pay in the period due to lower revenues as well as a decrease in the expected payout of the annual discretionary incentive program due to lower than anticipated results. The increase in depreciation of property and equipment is due to additional depreciation pertaining to equipment additions.

Administrative expenses

Administrative expenses for the nine months ended September 30, 2013 totaled $17,294 compared to $16,826 in the 2012 comparable period and include employee benefits expense of $7,969 (2012: $8,756) and share-based payments expense of $2,950 (2012: $2,717). Administrative expenses also include depreciation of buildings and office equipment and amortization of intangibles of $1,196 (2012: $933). In addition, other administrative expenses totaled $5,179 in the nine months ended September 30, 2103 compared to $4,420 in the 2012 comparable period. The decrease in employee benefits expense is mostly attributable to lower sales commissions due to the lower revenues 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 nine months ended September 30, 2013, $2,783 (Q3 2012 - $2,543) 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 nine months ended September 30, 2013, share-based payments expense was $167 (2012 - $173) 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 nine months ended September 30, 2013, EBITDA before share-based payments (see NON-GAAP MEASURES) was $21,663 compared to $88,960 in the comparable 2012 period. As previously discussed, continuing pricing pressure, E&P well completion interruptions and weather related delays resulted in the decreased EBITDA.

Finance costs

Finance costs include interest on finance lease obligations and automobile loans and totaled $467 for the nine months ended September 30, 2013 (2012: $572).

Income Tax Expense

At the expected combined income tax rate of 25%, the loss before income tax for the nine months ended September 30, 2013 of $5,209 would have resulted in an expected recovery of $1,302, compared to the actual income tax recovery of $457. The actual income tax recovery was reduced by non-deductible expenses.

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

Loss and comprehensive loss totaled $4,752 for the nine months ended September 30, 2013 compared to profit and comprehensive income of $47,263 in the 2012 comparable period. As previously discussed, the loss is mostly due to the industry conditions and E&P infrastructure issues.

Basic and diluted loss per share were $0.08 for the nine months ended September 30, 2013 compared to basic and diluted earnings per share of $0.77 and $0.76 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	Q3	$81,224	$14,384	$3,908	$0.06	$0.06
	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

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 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 Q3 2012, Q4 2012, Q1 2013 and Q3 2013, EBITDA and Profit and comprehensive income decreased primarily due to reduced producer activity and pricing pressure as previously discussed. In Q2 2012 and Q2 2013, the lower revenues, negative EBITDA and loss and comprehensive loss are due to the seasonal weather related drilling delays caused by the annual spring break-up.

LIQUIDITY AND CAPITAL RESOURCES

Funds from operations

Funds from operations (See NON-GAAP MEASURES) decreased to $14,316 in Q3 2013 from $27,727 for the comparable 2012 quarter. For the nine months ended September 30, 2013, funds from operations decreased to $21,141 from $77,035 in the comparable 2012 period due to weak pricing, E&P well completion interruptions and wet weather, 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 nine months ended September 30, 2013, there were 51 and 520 common shares respectively issued by the Company to employees and officers upon exercise of options pursuant to the Share Purchase Option Plan and 1 and 133 incentive based units respectively pursuant to the Stock-Based Compensation Plan for aggregate proceeds of $102 and $1,381 respectively.

Debt:
Loans and borrowings as at September 30, 2013 total $5.3 million (December 31, 2012: $5.6 million) which comprise equipment lease obligations of $5.3 million (December 31, 2012: $5.6 million) and automotive equipment loans totaling nil (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 of $85 million 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 September 30, 2013, nil is drawn (December 31, 2012: nil) on the company's credit facilities.

Working Capital and Cash Requirements

As at September 30, 2013, Canyon had a working capital balance of $41.3 million compared to $56.2 million as at December 31, 2012. As at September 30, 2013 trade and other receivables decreased by $19 million and cash and cash equivalents decreased by $7.4 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 September 30, 2013, accounts receivable includes an allowance of $0.2 million for doubtful receivables (December 31, 2012: $0.2 million).

The Company will use its September 30, 2013 cash available of $15 million, funds from operations and, if required, available credit facilities to fund the completion of the 2011 and 2012 capital programs and to fund the 2013 capital program. Please refer to "Capital Expenditures" below.

Investments

For the three and nine months ended September 30, 2013, capital expenditures, net of finance leases, totaled $2 million and $7 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 September 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 September 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 September 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	$33,992	$33,992	$-	$-	$-
Loans and borrowings	5,327	2,834	2,493	-	-
Dividend payable	9,378	9,378	-	-	-
Operating leases and office space	6,337	1,439	3,253	1,645	-
Capital expenditure commitments	9,178	9,178	-	-	-
Total contractual obligations	$64,212	$56,821	$5,746	$1,645	$-

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

Capital expenditure commitments will be funded from the September 30, 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 nine months ended September 30, 2013, Canyon incurred capital expenditures of $7.4 million and expects to incur an additional $7.0 million in the fourth quarter 2013 for total capital expenditures of approximately $14.4 million in the current year. In addition, Canyon expects to incur $9.2 million in 2014 to complete 2013 and prior years’ programs.

The $9.2 million carryover to 2014 includes $6.0 million to complete equipment under construction which was delayed due to the insolvency of the manufacturer, Surefire Industries Ltd. Canyon has taken possession of all partially constructed equipment which has been relocated to new manufacturers to complete fabrication. The total capital program previously allocated to Surefire Industries Ltd. is expected to be completed by the other manufacturers in the first half of 2014 and is expected to result in a cost overrun of approximately $1.4 million, which is included in the $9.2 million carryover amount.

Funding for Canyon’s remaining capital expenditures will be provided from existing cash flows, 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 September 30, 2013 and December 31, 2012:

000’s (Unaudited)	October 31, 2013	September 30, 2013	December 31, 2012
Common Shares	62,523	62,499	61,846
Options	3,401	3,298	2,663
Incentive Based Units	329	309	276

In the three months ended September 30, 2013, 230 share options were granted to directors, officers and employees at an average exercise price of $11.99 per option, 51 share options were exercised by directors, officers and employees and 114 share options were forfeited. In the three months ended September 30, 2013, 35 incentive based units were granted to directors, officers and employees, 1 were exercised and 3 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 nine months ended September 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 September 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 $0.2 million has been established as at September 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 September 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 870 full time staff as at September 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

52% of the Company's accounts receivable as at September 30, 2013, and 38% of the Company's revenue for the nine months ended September 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 September 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.