CANYON SERVICES GROUP INC.

Management's Discussion and Analysis

YEAR ENDED DECEMBER 31, 2014

This management discussion and analysis (MD&A) is dated March 5, 2015. It should be read in conjunction with the Consolidated Financial Statements and Notes of Canyon Services Group Inc. ("Canyon" or the "Company") as at and for the years ended December 31, 2014 and 2013. Additional information relating to the Company, including the Company's Annual Information Form for the year ended December 31, 2013, is available on the Company's website at www.canyontech.ca.

The following MD&A contains forward-looking information and statements. We refer you to the end of the MD&A for our disclaimer on forward-looking information and statements.

OVERVIEW OF FOURTH QUARTER AND YEAR ENDED 2014

000's except per share, job amounts and hydraulic pumping capacity (Unaudited)	Three Months Ended December 31			Year Ended December 31		
	2014	2013	2012	2014	2013	2012
Consolidated revenues	$188,265	$104,227	$84,809	$591,022	$299,614	$353,119
Profit (loss) and comprehensive income (loss)	$22,280	$377	$7,146	$49,094	$(4,375)	$54,409
Per share-basic	$0.32	$0.01	$0.12	$0.75	$(0.07)	$0.89
Per share-diluted	$0.32	$0.01	$0.11	$0.74	$(0.07)	$0.87
EBITDA before share-based payments(1)	$45,576	$11,026	$18,814	$121,478	$32,496	$107,774
Funds from operations(1)	$38,084	$17,574	$18,501	$103,819	$38,716	$95,535
Adjusted profit (loss) and comprehensive income (loss) (1)	$24,870	$1,690	$7,836	$56,120	$(45)	$55,584
Adjusted per share-basic (1)	$0.36	$0.03	$0.12	$0.85	$(0.00)	$0.91
Adjusted per share-diluted (1)	$0.36	$0.03	$0.11	$0.84	$(0.00)	$0.89
Total jobs completed (2)	818	654	489	2,942	1,828	2,198
Consolidated average revenue per job (2)	$215,784	$159,835	$176,162	$192,004	$164,529	$161,668
Average fracturing revenue per job	$318,705	$225,675	$280,671	$269,894	$232,460	$240,369
Hydraulic Pumping Capacity:						
Average HHP	245,500	225,500	225,500	240,500	225,500	215,000
Exit HHP	255,500	225,500	225,500	255,500	225,500	225,500
Capital expenditures	$36,830	$7,442	$5,419	$112,677	$14,840	$69,940

000's except per share amounts (Unaudited)	As at December 31, 2014	As at December 31, 2013	As at December 31, 2012
Cash and cash equivalents	$20,613	$21,308	$22,584
Working capital	$21,880	$41,730	$56,245
Total long-term financial liabilities	$36,193	$3,096	$3,475
Total assets	$638,770	$402,707	$406,113
Cash dividends declared per share	$0.60	$0.60	$0.60

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.

The current quarter and the twelve months ended December 31, 2014 includes the results of Canyon's pressure pumping business. The results of Fraction Energy Services Ltd., ("Fraction") are included for the second half of 2014. Fraction was acquired by Canyon effective July 1, 2014 and is a leading provider of fracturing fluid management, including water sourcing, transfer, wellsite storage, fluid heating, flowback transfer and produced water storage services.

Continuing on from the record previous quarter, Q4 2014 was very busy for Canyon, with consolidated revenues increasing by 81% to $188.3 million compared to $104.2 million in Q4 2013. For the year ended December 31, 2014, consolidated revenues almost doubled to $591.0 million, an increase of 97% over the $299.6 million recorded in the 2013 year. The Company did experience an 8% sequential decline in consolidated revenues in Q4 2014 over Q3 2014. This was a result of redeploying equipment from a major customer to other customers, non-typical operational and weather delays, as well as the holiday break.

Consolidated EBITDA before share-based payments (see Non-GAAP Measures) increased over 300% to $45.6 million in Q4 2014 from $11.0 million in Q4 2013. For the year ended December 31, 2014, consolidated EBITDA before share-based payments expense increased almost 300% to $121.5 million from $32.5 million in 2013.

The increased activity and revenues in 2014 combined with Canyon's considerable operating leverage in its pressure pumping business and the inclusion of Fraction resulted in a significant improvement in profitability, with consolidated income and comprehensive income increasing to $22.3 million in Q4 2014 compared to $0.4 million in Q4 2013. Adjusted consolidated income and comprehensive income (see Non-GAAP Measures) for Q4 2014 increased to $24.9 million from $1.7 million in Q4 2013. For the year ended December 31, 2014 consolidated income and comprehensive income increased significantly to $49.1 million from a consolidated loss and comprehensive loss of $4.4 million for 2013. Adjusted consolidated income and comprehensive income (see Non-GAAP Measures) increased to $56.1 million from a consolidated loss and comprehensive loss of $45 thousand in 2013.

Pressure Pumping Services

The fourth quarter was very strong for Canyon's pressure pumping business, with jobs completed and revenues earned increasing by 25% and 68%, respectively, compared to Q4 2013. Jobs completed did not increase proportionately with the percentage revenue increase due to the growing trend for larger job sizes as discussed below. Pressure pumping revenues in the current quarter totaled $175.4 million from 818 jobs completed compared to $104.2 million from 654 jobs in the comparable quarter of 2013. For the year ended December 31, 2014, pressure pumping revenues increased by 88% to $561.9 million compared to $299.6 million in 2013, while jobs completed increased by 61% to 2,942 from 1,828 over the same year. In 2014, Canyon added 30,000 Hydraulic Horsepower ("HHP") to its equipment fleet including 20,000 HHP purchased from a competitor in March and 10,000 HHP of newly constructed pumps delivered in Q4 2014. These additions bring Canyon's equipment capacity to 255,500 HHP as at December 31, 2014.

Canyon's equipment fleet was essentially fully utilized throughout most of 2014 due to higher industry activity in the year as well as the Company's ongoing sales initiatives which have resulted in increased market share with oil and gas exploration companies ("E&P Companies") operating in the deep basin. Market share continues to expand in Southeast Saskatchewan and Southwest Manitoba. In 2014, drilling activity across the Western Canadian Sedimentary Basin ("WCSB") increased by about 9% to an industry utilization rate of 46% from 42% in 2013. Industry activity remained strong throughout the second half of 2014 despite the significant decline in commodity prices since July. Our customers' activity levels were buoyed by strong commodity prices in the first half of the year, improved access to capital markets to fund capital programs, as well as ongoing LNG-related reserve delineation drilling in Northeast British Columbia. Also contributing to the higher pressure pumping activity in the year were changing well designs resulting in increased fracturing intensity on a per well basis in the form of more fractures per wellbore and/or larger fracture designs. One of the main predictors of service intensity for pressure pumping is the average total length in metres per well. The industry experienced an increase of 11% in the total metres per well drilled in 2014 over 2013. In addition, increased proppant usage per stage has increased dramatically in 2014 with fourth quarter total proppant volumes pumped by Canyon increasing by 91% compared to Q4 2013, and by 111% for the year ended December 31, 2014 compared to 2013. The growing trend by customers to use more proppant per stage and in particular more expensive "Ottawa White" sand rather than domestic sand has also contributed to larger job sizes reflected in the increased revenue per job. Therefore, Canyon's average fracturing revenue per job increased by 41% to $318,705 in Q4 2014 from $225,675 in Q4 2013 mostly due to the larger job sizes. Overall, job pricing and cost recovery had only a modest impact on revenue per job and revenues in Q4 2014 as pricing improved by approximately 10% from the beginning of the year.

Pressure pumping cash flow and profitability remains highly levered to changes in revenue due to the fixed cost nature of the business. The increased activity and revenues in the year led to significantly improved margins in Q4 2014 compared to the comparable quarter of 2013. In Q4 2014, EBITDA before share-based payments expense from pressure pumping was $44.0 million, or 25% of revenues, compared to $12.8 million or 12% of revenues in the comparable 2013 quarter. The increased activity has also significantly increased EBITDA before share-based payments expense from pressure pumping to $119.0 million, or 21% of revenues, for the year ended December 31, 2014 from $38.4 million or 13% of revenues for 2013.

In 2014, Canyon increased its pressure pumping field staff by approximately 20% from the beginning of the year. In addition to hiring new staff, we continued to increase our training and staff development and upgraded business systems throughout the organization until late in 2014. Unfortunately, with the significant decline in commodity prices and the expected pullback in E&P companies' capital programs in

2015, Canyon began implementing cost cutting measures in Q4 2014 including a slow down of hiring new staff.

Fluid Management Services

Fraction was acquired by Canyon effective July 1, 2014 and continues as a wholly-owned and independent operating subsidiary. Fraction is a leading provider of fracturing fluid logistics, containment, transfer and storage for the oil and gas industry in Northwest Alberta and Northeast British Columbia. The acquisition of Fraction complements Canyon's current offering of services to our customers.

For the three months ended December 31, 2014 Fraction contributed $12.9 million in revenue and $3.3 million in EBITDA before share-based payments expense (see Non-GAAP Measures). For the six month period, the division contributed $29.1 million in revenue and $9.5 million in EBITDA before share-based payments (see Non-GAAP Measures).

As previously reported, water access restrictions in the northern regions of the WCSB were imposed in the latter half of the third quarter and continued to impact water transfer and fluid logistics revenues during the fourth quarter. As a result, there were a limited number of long distance water transfer projects in the region limiting Fraction's water transfer projects during the quarter to lease site fluid management. Storage tank rental revenues were also lower in Q4 2014 compared to the prior quarter due to lower activity by certain customers in response to the declining commodity prices as well as the deferral of a final investment decision by an LNG project sponsor.

The water access restrictions were lifted in December 2014 allowing Fraction to gain larger fluid transfer and logistics projects late in Q4 2014 and has resulted in a strong start to Q1 2015. In addition, storage tank rental revenues have rebounded in Q1 2015 to date with higher utilization rates of the division's tank fleet. The division took delivery of its two Super Heater units, which were part of the 2014 capital program, in December 2014. This has further enhanced Fraction's full service water management solutions and helped contribute to a strong start to Q1 2015.

2015 Capital Expenditure Budget Update

On November 6, 2014 in our Q3 press release and MD&A, Canyon reported a forecast 2015 capital expenditure budget of approximately $63 million. This budget included both maintenance and growth capital for each of the pressure pumping and fluid management service lines. Given the unexpected and significant decrease in oil and natural gas prices that has caused material cuts to our customers' drilling and completions budgets, Canyon has effectively suspended all growth capital expenditures. Our revised 2015 capital expenditure budget will consist of approximately $12 million for maintenance capital and approximately $8 million for 2014 capital items that have experienced delays into the first half of 2015. Canyon expects that our revised capital budget totaling $20 million will be funded from operating cash flow and existing banking facilities.

Dividend

The Board of Directors (the "Board") continuously reviews the long-term capital structure of the Company and its corresponding dividend policy each fiscal quarter. The Board sets a dividend rate that it believes will be sustainable over the long-term in the context of future cash flows and capital spending opportunities. The Board has determined that the liquidity and financial capacity of the Company allow it to maintain the quarterly dividend at the current rate of $0.15 per common share per quarter.

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 IFRS and are considered NON-GAAP measures.

EBITDA before share-based payments, funds from operations, adjusted profit (loss) and comprehensive income (loss) and adjusted per share amounts are not recognized measures under IFRS. Management believes that in addition to profit (loss) and comprehensive income (loss), EBITDA before share-based payments, funds from operations and adjusted profit (loss) and comprehensive income (loss) 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, funds from operations and adjusted profit (loss) and comprehensive income (loss) and per share amounts 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, funds from operations and adjusted profit (loss) and comprehensive income (loss) may differ from other companies and accordingly, EBITDA before share-based payments, funds from operations and adjusted profit (loss) and comprehensive income (loss) 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, foreign exchange gains and losses and income tax expense. Adjusted profit (loss) and comprehensive income (loss) per share is calculated using the weighted average shares outstanding consistent with the calculation of earnings per share. 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).

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EBITDA before share-based payments

000's (Unaudited)	Three Months Ended December 31		Year Ended December 31	
	2014	2013	2014	2013
Profit (loss) and comprehensive income (loss)	$22,280	$377	$49,094	$(4,375)
Add (Deduct):				
Depreciation and amortization	15,225	9,568	49,320	33,035
Finance costs	534	192	1,512	658
Foreign exchange (gain) loss	(155)	22	746	(171)
Share-based payment transactions	1,026	1,238	3,985	4,189
(Gain) Loss on sale of property and equipment	(127)	7	(315)	(5)
Income tax expense (recovery)	6,793	(378)	17,136	(835)
EBITDA before share-based payments	$45,576	$11,026	$121,478	$32,496

Funds from Operations

000's (Unaudited)	Three Months Ended December 31		Year Ended December 31	
	2014	2013	2014	2013
Net cash from operating activities	$56,123	$22,777	$81,823	$51,450
Income tax (received) paid	(2,286)	-	(6,747)	5,135
Change in non-cash working capital	(8,644)	(11,965)	44,113	(24,576)
Less: current tax recovery (expense)	(7,109)	6,762	(15,370)	6,707
Funds from operations	$38,084	$17,574	$103,819	$38,716

Adjusted Profit (Loss) and Comprehensive Income (Loss)

000's (Unaudited)	Three Months Ended December 31		Year Ended December 31	
	2014	2013	2014	2013
Profit (loss) and comprehensive income (loss)	$22,280	$377	$49,094	$(4,375)
Amortization expense on intangibles	1,564	75	3,041	141
Share-based payment transactions	1,026	1,238	3,985	4,189
Adjusted profit (loss) and comprehensive income (loss)	$24,870	$1,690	$56,120	$(45)
Adjusted per share-basic	$0.36	$0.03	$0.85	$(0.00)
Adjusted per share-diluted	$0.36	$0.03	$0.84	$(0.00)

Operating and Financial Highlights

The operating and financial highlights for the three and twelve months ended December 31, 2014 are summarized as follows:

- Q4 2014 was very active for Canyon, with consolidated revenues increasing by 81% to $188.3 million compared to $104.2 million in Q4 2013. For the year ended December 31, 2014, consolidated revenues almost doubled to $591.0 million, an increase of 97% over the $299.6 million recorded in the 2013 year.

- As at December 31, 2014, Canyon had available bank credit facilities combined with positive working capital totaling $92 million. As a result, Canyon remains in a very strong financial position and is well positioned to withstand the dramatically reduced industry activity levels expected in 2015 and to fund potential attractive investment opportunities.

- Canyon's pressure pumping fleet was essentially fully utilized throughout most of 2014 due to higher industry activity, larger job sizes, as well as the Company's ongoing successful sales initiatives. These initiatives resulted in market share growth with companies operating in the deep basin as well as market share expansion in Southeast Saskatchewan and Southwest Manitoba.

- The increased activity and the inclusion of Fraction resulted in a four-fold increase in consolidated EBITDA before share based payments to $45.6 million in the current quarter from $11.0 million in Q4 2013. Consolidated income and comprehensive income increased to $22.3 million in Q4 2014 from $0.4 million in Q4 2013. For the year ended December 31, 2014 consolidated EBITDA before share based payments increased to $121.5 million from $32.5 million in 2013, while consolidated income and comprehensive income significantly increased to $49.1 million from a loss and comprehensive loss of $4.4 million for the comparable 2013 period.

- Effective July 1, 2014, Canyon acquired Fraction, a leading provider of water and fracturing fluid logistics, containment, transfer and storage for the oil and gas industry in Northwest Alberta and Northeast British Columbia. In Q4 2014, Fraction contributed $12.9 million to consolidated revenue and $3.3 million to consolidated EBITDA before share-based payments expense. Water access restrictions, enacted in the third quarter but carrying on into the fourth quarter, impacted fourth quarter results for Fraction. These restrictions were lifted late in the fourth quarter, resulting in increased water transfer and storage tank utilization in 2015 to date.

- Effective July 14, 2014, Canyon acquired four deep coiled tubing packages which included twin fluid pumpers, BOPs, injectors and three cranes (the “Assets”) from a Canadian oilfield services company for approximately $19.7 million. This acquisition has increased Canyon's deep coiled tubing fleet to 11 packages.

- In 2014, Canyon added 30,000 Hydraulic Horsepower (“HHP”) to its equipment fleet, including 20,000 HHP purchased from a competitor in March and 10,000 HHP of newly constructed equipment added in Q4 2014. These additions brought Canyon’s pressure pumping equipment capacity to 255,500 HHP as at December 31, 2014.

- Including the purchase of the coiled tubing packages and the addition of 30,000 HHP in pumping capacity but excluding the purchase of Fraction, Canyon’s 2014 capital expenditures totaled $112.7 million. This amount also included miscellaneous support equipment such as sand logistics equipment, a high rate blender and transportation equipment, coiled tubing equipment including the Assets described above, nitrogen and cement and acid equipment, maintenance capital, expansion of Canyon’s Grande Prairie operating base and storage tanks and water transfer equipment for the Fraction business.

- Canyon’s previously announced 2015 capital program totaling $63 million has been significantly reduced in response to anticipated lower industry activity levels in 2015. Canyon’s 2015 capital program is now estimated at approximately $12 million, mostly for maintenance capital, which combined with a carryover of about $8 million to complete the 2014 program results in total capital expenditures of approximately $20 million for 2015.

- On December 18, 2014, Canyon declared a quarterly dividend of $0.15 per common share, or $10.3 million, which was paid to shareholders on January 26, 2015.

INDUSTRY COMMENTARY & 2015 OUTLOOK

To date in 2015, overall Canadian oilfield industry activity levels have rapidly declined in response to the ongoing dramatic drop in oil and natural gas prices since the summer of 2014. As our customers adjust to lower commodity prices, they have reduced or deferred drilling and completions’ activities, and have further high-graded their projects. The deterioration of oil and natural gas prices over the last 8 months has significantly altered industry and Canyon’s expectations of activity levels and job pricing for 2015. Leading indicators such as drilling rig utilization in the WCSB is down about 33% over the first half of Q1 2015 compared to the same period in Q1 2014. As expected, declining activity levels lead to pricing pressure and this is already evident in Q1 2015, with the pricing gains achieved throughout 2014 already eroding margins. To soften the impact on 2015 operating margins from lower job pricing, Canyon continues to implement measures to reduce our operating costs. Our suppliers have also been very cooperative and have been lowering some of our cost of services, including proppants, diesel, nitrogen and third party trucking costs. Although the Company has very low debt levels and an industry-leading cost structure, we are not immune to what will likely be the worst year-over-year drilling and completions activity reduction in decades. Canyon will take a defensive stance and will implement cost saving initiatives such as reducing compensation levels for staff, management and the board of directors, to reduce the negative impact reduced pricing and activity levels are expected to have on operating margins and cash flow. We believe that Canyon has never been better positioned to not only navigate through this downturn, but to also grow our market share. The key to a successful emergence from this downturn will be keeping the impact of cost saving initiatives on staff to the minimum so that our valued employees are able to stay focused on adding value for our customers and shareholders.

Despite sharply declining oilfield activity levels and pricing pressure, Canyon has actually remained relatively active in both our pressure pumping and fluid management divisions in Q1 2015. These relationships will help to reduce margin pressure by increasing efficiencies in our pad-based, 24 hour work programs resulting in improved value for our customers. With the recent acquisition of the fluid management business, Canyon is able to bundle fracturing and water services for the customer thereby avoiding well completion delays. To date in 2015, our fluid management business has had a strong start to the year. In addition, the increased demand for 24 hour operations by our customers presents the opportunity for us to improve operating cost efficiency. Canyon expects to remain active for the remainder of Q1 2015 as we are essentially fully booked until break up 2015.

LNG driven activity levels and timing remain a big question in this industry. Although Canada is still several years from seeing the first LNG exports, visibility has sharpened, overall risks have been marginalized and upstream momentum has been building. The Federal Government's recent announcement to accelerate the capital cost allowance for certain LNG based expenditures combined with British Columbia's announcement detailing the proposed LNG tax structure have been viewed favourably by the energy industry. Numerous projects have been proposed, representing approximately 15 – 20 billion cubic feet per day in combined export capacity. Project approvals were granted in 2013, while site preparation and front-end engineering were initiated for some projects. We continue to anticipate a positive final investment decision announcement for a west coast of British Columba project in 2015. The timing of meaningful ramp-up in activity remains uncertain.

As a result of our strong balance sheet and our lean cost structure, Canyon's strategy remains essentially unchanged. Our goal is to build a Canadian service provider that can succeed and grow over the long term and provide superior return on invested capital to our investors by reducing finding and development costs for our customers. In the short-term, with our strong balance sheet and prudent fiscal management, we can endure the approaching period of reduced oilfield services activity levels brought on by the recent commodity price degradation without having to make significant adjustments to how we implement our strategy.

During this difficult operating period for the industry, our strong financial position also allows us to seek out attractive investment opportunities. Canyon will actively screen, evaluate and pursue attractive oilfield acquisition opportunities that will add both long-term value on a per share basis and enhance our relative competitive position with customers. Our plan is to continue to grow Canyon's operating assets over the next five years, primarily to service the anticipated demand for pressure-pumping services in Western Canada. We are actively working to cement relationships with top-tier multinational customers and continuing to grow in activity and reputation in the region's premier unconventional plays. Growth in our market share in Northwest Alberta and Northeast British Columbia will be complemented by pursuit of attractive opportunities in the Cardium, Bakken and Lower Shaunavon plays. We continue to believe that Western Canada is still a highly attractive pressure pumping market as it continues to hold significant growth potential and offers superior supply-demand fundamentals to many other international markets.

Canyon will continue our pursuit to continue building a high-quality, growing service provider with a robust organization that can accommodate much higher revenue. This creates the foundation for rapidly growing revenue, operating margins and EBITDA on a per share basis.

QUARTERLY CONSOLIDATED STATEMENTS OF OPERATIONS

000's except per share amounts (Unaudited)	Three Months Ended December 31	
	2014	2013
Revenues	$188,265	$104,227
Cost of services	(147,617)	(96,764)
Gross profit	40,648	7,463
Administrative expenses	(11,323)	(7,243)
Results from operating activities	29,325	220
Finance costs	(534)	(192)
Foreign exchange gain (loss)	155	(22)
Gain (loss) on sale of property and equipment	127	(7)
Profit (loss) before income tax	29,073	(1)
Income tax (expense) recovery	(6,793)	378
Profit and comprehensive income	$22,280	$377
EBITDA before share-based payments(1)	$45,576	$11,026
Earnings per share:		
Basic	$0.32	$0.01
Diluted	$0.32	$0.01

Note (1): See NON-GAAP MEASURES.

Pressure Pumping Services

000's except per share amounts (Unaudited)	Three Months Ended December 31, 2014			
	2014		2013	
Revenues	$175,398		$104,227	
Cost of services	(137,997)	78.7%	(96,764)	92.8%
Gross profit	37,401	21.3%	7,463	7.2%
Administrative expenses	(5,888)	3.4%	(4,671)	4.5%
Results from operating activities	31,513	17.9%	2,792	2.7%
Add non-cash items:				
Depreciation and amortization	12,057	6.9%	9,568	9.2%
Share-based payments expense	390	0.3%	462	0.4%
EBITDA before share-based payments[1]	$43,960	25.1%	$12,822	12.3%

Note (1): See NON-GAAP MEASURES.

Revenues

Improved industry activity in 2014 led to Canyon having a very busy second half to the year and resulted in jobs completed and revenues earned by the pressure pumping division increasing by 25% and 68%, respectively, compared to Q4 2013. Jobs completed did not increase proportionately with the percentage revenue increase due to the growing trend for larger job sizes as previously discussed. Pressure pumping revenues in the current quarter totaled $175,398 from 818 jobs completed compared to $104,227 from 654 jobs in the comparable quarter of 2013 In Q4 2014, Canyon added 10,000 HHP of newly constructed equipment bringing Canyon's equipment capacity to 255,500 HHP as at December 31, 2014.

Over 90% of Q4 2014 pressure pumping revenues were provided by hydraulic fracturing services with average fracturing revenue per job increasing by 41% to $318,705 from $225,675 in Q4 2013. The increase in average fracturing revenue per job is more a function of larger job sizes than pricing increases due to a huge increase in product consumption, particularly proppants. Fourth quarter total proppant volumes pumped by Canyon increased by 91% compared to Q4 2013, and by 111% for the year ended December 31, 2014 compared to 2013. The growing trend by customers to use more proppant per stage and in particular more expensive "Ottawa" sand rather than domestic sand has also contributed to larger job sizes with resulting increased revenue per job. On the other hand, Q4 2014 pricing averaged about 10% higher than at the beginning of the year and as a result only had a modest impact on revenue per job and revenues in the quarter.

Cost of services

Cost of services for the three months ended December 31, 2014 totaled $137,997 (2013: $96,764) and includes materials, products, transportation and repair costs of $96,631 (2013: $64,992), employee benefits expense of $29,836 (2013: $22,743), and depreciation of property and equipment of $11,530 (2013: $9,029).

Materials, products, transportation and repair costs increased by 49% to $96,631 in the current quarter from $64,992 in Q4 2013, due to the increased job count in the quarter and due to the increase in materials consumed per well, especially sand as previously discussed. The increase in employee benefits expense is mainly due to field staff additions to support the higher activity levels, increased variable pay as a result of the higher activity and inflation in labour rates. The increase in depreciation of property and equipment is due to additional depreciation pertaining to equipment introduced into service in late 2013 and in 2014, and accelerated depreciation relating to the replacement of a number of pump components.

Administrative expenses

Administrative expenses for the three months ended December 31, 2014 totaled $5,888 compared to $4,671 in Q4 2013 and include employee benefits expense, share-based payments expense, amortization of intangibles, depreciation of buildings and office equipment and other administrative expenses. Share-based payments expense represents the value assigned to the granting of options and incentive-based units under the Company's Share Purchase Option Plan and Stock Based Compensation Plan respectively, using the Black-Scholes model. For Q4 2014, $390 (Q4 2013 - $462) was charged to expenses and included in contributed surplus in respect of these two plans.

EBITDA Before Share-Based Payments (See NON-GAAP MEASURES)

Pressure pumping profitability remains highly levered to changes in revenue due to the fixed cost nature of the business and as a result the aforementioned 25% increase in the job count and the 68% increase in revenues led to significantly improved margins in Q4 2014 compared to the comparable quarter of 2013. As a result, Q4 2014, EBITDA before share-based payments totaled $43,960 in the pressure pumping segment, or 25% of revenues compared to $12,822, or 12% of revenues in Q4 2013.

Fluid Management Services

000's except per share amounts (Unaudited)	Three Months Ended December 31			
	2014		2013	
Revenues	$12,867		$-	
Cost of services	(9,620)	74.8%	-	-%
Gross profit	3,247	25.2%	-	-%
Administrative expenses	(3,094)	24.0%	-	-%
Results from operating activities	153	1.2%	-	-%
Add non-cash item:				
Depreciation and amortization	3,168	24.6%	-	-%
EBITDA before share-based payments(1)	$3,321	25.8%	$-	-%

Note (1): See NON-GAAP MEASURES.

Revenues

The water management services business, acquired effective July 1, 2014, contributed $12,867 of revenues to Canyon in Q4 2014. This compares to revenues of $16,256 recorded in the prior quarter. As discussed above, water access restrictions in the northern regions of the WCSB were enacted in the latter half of the third quarter and continued to impact water transfer and fluid logistics revenues during the fourth quarter until December when the restrictions were lifted.

Cost of services

Cost of services for the three months ended December 31, 2014 totaled $9,620 and includes materials, products, transportation and repair costs of $4,681, employee benefits expense of $3,274, and depreciation of property and equipment of $1,665.

Administrative expenses

Administrative expenses for the three months ended December 31, 2014 totaled $3,094 and includes employee benefits expense, depreciation of buildings and office equipment and amortization of intangibles and other administrative expenses. Administrative expenses include $1,443 relating to the amortization of customer relationships and non-competition agreements pursuant to the acquisition of Fraction.

EBITDA Before Share-Based Payments (See NON-GAAP MEASURES)

Q4 2014 EBITDA before share-based payments totaled $3,321 in the fluid management services division, or 26% of revenues.

Corporate

000's except per share amounts (Unaudited)	Three Months Ended December 31	
	2014	2013
Revenues	$-	$-
Administrative expenses	(2,341)	(2,572)
Results from operating activities	(2,341)	(2,572)
Add non-cash item:		
Share-based payments expense	636	776
EBITDA before share-based payments[1]	$(1,705)	$(1,796)

Note (1): See NON-GAAP MEASURES.

This segment consists of costs incurred to operate a public company, including corporate management, head office costs, corporate share-based payment expenses and professional fees.

Administrative expenses

Administrative expenses for the three months ended December 31, 2014 totaled $2,341 compared to $2,572 in Q4 2013 and include employee benefits expense, share-based payments, and other head office administrative expenses. The decrease in administrative expenses is mainly due to lower share-based payments expense.

Share-based payments expense represents the value assigned to the granting of options and incentive-based units under the Company's Share Purchase Option Plan and Stock Based Compensation Plan respectively, using the Black-Scholes model. For Q4 2014, $636 (Q4 2013 - $667) was charged to expenses and included in contributed surplus in respect of these two plans. In addition, obligations for payments under the Company's Deferred Share Unit Plan are accrued as share-based payments expense over the vesting period. The accrued liability increases or decreases with fluctuations in the price of the Company's common shares, with a corresponding increase or decrease in the share-based payments expense. In Q4 2014, share-based payments expense was nil (2013: $109) for the Company's Deferred Share Unit Plan to reflect changes in the price of the common shares of the Company.

Other Items – Quarterly Consolidated Statement of Operations

Finance costs

Finance costs include interest on bank indebtedness and finance lease obligations and totaled $534 in Q4 2014 (2013: $192). The increase in finance costs is due to the increase in loans and borrowings used to partially fund the Company's 2014 capital program.

Income tax expense

At the expected combined income tax rate of 25%, the income before income tax for the three months ended December 31, 2014 of $29,073 would have resulted in an income tax expense of $7,268, compared to the actual income tax expense of $6,793. The actual income tax expense was reduced by deductible expenses for income tax filing purposes exceeding those for financial accounting purposes.

EBITDA before share-based payments (See Non-GAAP Measures)

In Q4 2014, Canyon's increased activity resulted in consolidated EBITDA before share-based payments (see NON-GAAP MEASURES) of $45,576. The four-fold increase over the $11,026 recorded in the comparable 2013 quarter is due to the increase in activity and improved pricing as discussed above.

Income and comprehensive income and earnings per share

Income and comprehensive income increased significantly to $22,280 in Q4 2014 from $377 in Q4 2013, due to the increase in activity as previously discussed.

Basic and diluted earnings per share were $0.32 and $0.32, respectively, for the three months ended December 31, 2014 compared to basic and diluted earnings per share of $0.01 for the comparable 2013 quarter.

YEAR-TO-DATE CONSOLIDATED STATEMENTS OF OPERATIONS

000's except per share amounts (Unaudited)	Year Ended December 31	
	2014	2013
Revenues	$591,022	$299,614
Cost of services	(486,261)	(279,805)
Gross profit	104,761	19,809
Administrative expenses	(36,588)	(24,537)
Results from operating activities	68,173	(4,728)
Finance costs	(1,512)	(658)
Foreign exchange (loss) gain	(746)	171
Gain on sale of property and equipment	315	5
Profit (loss) before income tax	66,230	(5,210)
Income tax (expense) recovery	(17,136)	835
Profit (loss) and comprehensive income (loss)	$49,094	$(4,375)
EBITDA before share-based payments[(1)]	$121,478	$32,496
Earnings (loss) per share:		
Basic	$0.75	$(0.07)
Diluted	$0.74	$(0.07)

Note (1): See NON-GAAP MEASURES.

Pressure Pumping Services

000's except per share amounts (Unaudited)	Year Ended December 31, 2014			
	2014		2013	
Revenues	$561,899		$299,614	
Cost of services	(467,006)	83.1%	(279,805)	93.4%
Gross profit	94,893	16.9%	19,809	6.6%
Administrative expenses	(21,417)	3.8%	(16,826)	5.6%
Results from operating activities	73,476	13.1%	2,983	1.0%
Add non-cash items:				
Depreciation and amortization	43,338	7.7%	33,035	11.0%
Share-based payments expense	2,175	0.4%	2,391	0.8%
EBITDA before share-based payments[(1)]	$118,989	21.2%	$38,409	12.8%

Note (1): See NON-GAAP MEASURES.

Revenues

Canyon's equipment fleet was essentially fully utilized throughout most of 2014 due to higher industry activity in the year as well as the Company's ongoing sales initiatives which have resulted in market share growth with companies operating in the deep basin as well as market share expansion in Southeast Saskatchewan and Southwest Manitoba. Accordingly, for the year ended December 31, 2014, pressure pumping revenues increased by 88% to $561.9 million compared to $299.6 million in 2013, while jobs completed increased by 61% to 2,942 from 1,828 over the same years. Over 90% of 2014 pressure pumping revenues were provided by hydraulic fracturing services with average fracturing revenue per job increasing by 16% to $269,894 from $232,460 in 2013. The increase in average fracturing revenue per job is more a function of larger job sizes than pricing increases due to an increase in product consumption by customers, particularly proppants. Proppants pumped by Canyon in 2014 increased by 111% over the tonnages pumped in 2013. On the other hand, over the course of the year, 2014 pricing increased by about 10% from the beginning of the year In 2014, Canyon added 30,000 Hydraulic Horsepower ("HHP") to its equipment fleet including 20,000 HHP purchased from a competitor in March and 10,000 HHP of newly constructed equipment added in Q4 2014.

Cost of services

Cost of services for the twelve months ended December 31, 2014 totaled $467,006 (2013: $279,805) and includes materials, products, transportation and repair costs of $318,155 (2013: $174,965), employee benefits expense of $107,433 (2013: $73,539), and depreciation of property and equipment of $41,418 (2013: $31,301).

Materials, products, transportation and repair costs increased by 82% to $318,155 in the current period from $174,965 as the job count increased by 61% in the current year compared to the 2013 year. The increase in materials, products, transportation and repair costs was greater than the percentage increase in the job count mainly due to the larger job sizes in 2014 characterized by higher quantities of materials consumed per well, especially sand, as previously discussed. The increase in employee benefits expense is mainly due to field staff additions to support the higher activity levels, increased variable pay as a result of the higher activity and inflation in labour rates. Canyon had 1,115 employees in its pressure pumping business as at December 31, 2014 compared to about 900 at the same time last year. The increase in depreciation of property and equipment is due to additional depreciation pertaining to equipment introduced into service in late 2013 and in 2014 and accelerated depreciation relating to the replacement of pump components.

Administrative expenses

Administrative expenses for the twelve months ended December 31, 2014 totaled $21,417 (2013: $16,826) and include employee benefits expense, share-based payments expense, depreciation of buildings and office equipment and amortization of intangibles and other administrative expenses. Employee benefits expense increased mainly due to staff additions and the implementation of a cost of living increase effective Q4 2013.

Share-based payments expense represents the value assigned to the granting of options and incentive-based units under the Company's Share Purchase Option Plan and Stock Based Compensation Plan respectively, using the Black-Scholes model. For the year ended December 31, 2014, $2,175 (2013: $2,392) was charged to expenses and included in contributed surplus in respect of these two plans.

EBITDA before share-based payments (See Non-GAAP Measures)

For the year ended December 31, 2014, Canyon's increased activity resulted in EBITDA before share-based payments (see NON-GAAP MEASURES) for pressure pumping services of $118,989, or 21% of revenues, compared to $38,409, or 13% of revenues for the comparable 2013 year.

Fluid Management Services

000's except per share amounts (Unaudited)	Year Ended December 31			
	2014		2013	
Revenues	$29,123		$-	
Cost of services	(19,255)	66.1%	-	-%
Gross profit	9,868	33.9%	-	-%
Administrative expenses	(6,305)	21.7%	-	-%
Results from operating activities	3,563	12.2%	-	-%
Add non-cash item:				
Depreciation and amortization	5,983	20.6%	-	-%
EBITDA before share-based payments(1)	$9,546	32.8%	$-	-%

Note (1): See NON-GAAP MEASURES.

Revenues

The water management services business contributed $29,123 of revenues in 2014 over the period from acquisition of Fraction by Canyon on July 1, 2014 to December 31, 2014. As discussed above, water access restrictions in the northern regions of the WCSB were enacted late in the third quarter which impacted water transfer and fluid logistics revenues during in the current quarter. Storage tank rental revenues were also lower in the current quarter compared to the prior quarter due to lower activity by certain customers in response to the declining commodity prices as well as the deferral of a final investment decision by an LNG project sponsor.

Cost of services

Cost of services for the period ended December 31, 2014 totaled $19,255 and includes materials, products, transportation and repair costs of $9,941, employee benefits expense of $6,335, and depreciation of property and equipment of $2,979.

Administrative expenses

Administrative expenses for the period ended December 31, 2014 totaled $6,305 and include employee benefits expense, depreciation of buildings and office equipment and amortization of intangibles and other administrative expenses. Amortization of intangibles totals $2,884 and includes amortization of customer relationships and non-competition agreements pursuant to the acquisition of Fraction by Canyon effective July 1, 2014.

EBITDA Before Share-Based Payments (See NON-GAAP MEASURES)

2014 EBITDA before share-based payments totaled $9,546 in the fluid management services division, or 33% of revenues.

Corporate

000's except per share amounts (Unaudited)	Year Ended December 31	
	2014	2013
Revenues	$-	$-
Administrative expenses	(8,866)	(7,711)
Results from operating activities	(8,866)	(7,711)
Add non-cash item:		
Share-based payments expense	1,809	1,798
EBITDA before share-based payments[1]	$(7,057)	$(5,913)

Note (1): See NON-GAAP MEASURES.

This segment consists of costs incurred to operate a public company, including corporate management, head office costs, corporate share-based payment expenses and professional fees.

Administrative expenses

Administrative expenses for the year ended December 31, 2014 totaled $8,866 (2013: $7,711) and include employee benefits expense, share-based payments, and other head office administrative expenses.

For the year ended December 31, 2014, employee benefits expense increased due to the larger scale of Canyon's operations and due to transaction costs pertaining to the acquisition of Fraction. Share-based payments expense represents the value assigned to the granting of options and incentive-based units under the Company's Share Purchase Option Plan and Stock Based Compensation Plan respectively, using the Black-Scholes model. For the year ended December 31, 2014 $1,809 (2013 - $1,798) was charged to expenses and included in contributed surplus in respect of these two plans.

Other Items – Year Ended December 31, 2014 Statements of Operations

Finance costs

Finance costs include interest on bank indebtedness and finance lease obligations which total $1,512 for the year ended December 31, 2014 (2013: $658). The increase in finance costs is due to the increase in loans and borrowings used to partially fund the Company's 2014 capital program.

Income tax expense

At the expected combined income tax rate of 25%, the income before income tax for the year ended December 31, 2014 of $66,230 would have resulted in an income tax expense of $16,558, compared to the actual income tax expense of $17,136. The actual income tax expense was increased by non-deductible expenses.

EBITDA before share-based payments (See Non-GAAP Measures)

For the year ended December 31, 2014, improved industry-wide conditions as previously discussed, resulted in an increase in consolidated EBITDA before share-based payments (see NON-GAAP MEASURES) to $121,478 from $32,496 recorded in the comparable 2013 year.

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

Income and comprehensive income totaled $49,094 for the year ended December 31, 2014 compared to loss and comprehensive loss of $4,375 in 2013. The significant improvement in income and comprehensive income was due to the increase in activity as previously discussed.

Basic and diluted earnings per share were $0.75 and $0.74 respectively for the year ended December 31, 2014 compared to basic and diluted loss per share of $0.07 in 2013.

Summary of Quarterly Results[1]

000's except per share amounts (Unaudited)		Revenues	EBITDA Before Share-Based Payments Expense[2]	Profit (Loss) and Comprehensive Income (Loss)	Basic Earnings (Loss) per Share	Diluted Earnings (Loss) per Share
2014	Q4	$188,265	$45,576	$22,280	$0.32	$0.32
	Q3	$204,309	$57,656	$30,227	$0.46	$0.45
	Q2	$60,253	$(9,186)	$(15,263)	$(0.23)	$(0.23)
	Q1	$138,195	$27,432	$11,850	$0.20	$0.19
2013	Q4	$104,227	$11,026	$377	$0.01	$0.01
	Q3	$81,103	$14,231	$3,908	$0.06	$0.06
	Q2	$27,429	$(13,134)	$(17,186)	$(0.28)	$(0.28)
	Q1	$86,855	$20,373	$8,526	$0.14	$0.14

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.

Q1 2013 and Q3 2013, EBITDA and income and comprehensive income were impacted by industry-wide pricing pressure that commenced in the second half of 2012 and which continued throughout 2013. In Q2 2013 and Q2 2014, the lower revenues, negative EBITDA and loss and comprehensive loss were negatively impacted by the seasonal weather related drilling delays caused by the annual spring break-up. Q4 2013 was a very active quarter supported by strong commodity prices but still at very low pricing. In Q1 2014, activity improved considerably but customer pricing continued to be challenging. In the third and fourth quarters of 2014, revenue, EBITDA and income and comprehensive income increased significantly as Canyon's equipment fleet was essentially fully utilized for most of the period, as well as the inclusion of Fraction's financial results.

LIQUIDITY AND CAPITAL RESOURCES

Funds from operations

In the fourth quarter, funds from operations (See NON-GAAP MEASURES) more than doubled to $38,084 from $17,574 in the prior year comparable quarter. For the year ended December 31, 2014, funds from operations increased by 168% to $103,819 from $38,716 in the 2013 year due to higher industry activity throughout the year, as previously discussed. The funds from operations were primarily used to finance a portion of the 2014 capital program and to fund the Company's quarterly dividend program. Please refer to "Capital Expenditures" below.

Financing

(Share amounts in thousands)

Equity:
For the three and twelve months ended December 31, 2014, there were 10 and 624 common shares issued by the Company, respectively, to employees and officers upon exercise of options pursuant to the Share Purchase Option Plan and Nil and 52 incentive based units respectively pursuant to the Stock-Based Compensation Plan for aggregate proceeds of $0.1 million and $4.6 million respectively.

Debt:
Bank indebtedness net of cash and cash equivalents as at December 31, 2014 totals $21.0 million (December 31, 2013: cash balance of $21.3 million) and comprises $30.0 million drawn on the Revolving Facility (December 31, 2013: Nil), $11.6 million drawn on the Operating Facility (December 31, 2013: Nil), less cash and cash equivalents of $20.6 million (December 31, 2013: $21.3 million). In addition, finance leases as at December 31, 2014 total $8.9 million (December 31, 2013: $5.8 million).

In Q3, 2014, Canyon amended its bank credit facilities to extend the term by one year. These facilities comprise a $20 million Operating Facility and an $80 million Revolving Facility which now includes a $10 million accordion feature. In August, Canyon exercised $20 million of the accordion feature thereby reducing this feature from $30 million to $10 million as at December 31, 2014. The accordion feature is available upon request by the Company and subject to review and approval by the lenders.

Working Capital and Cash Requirements

As at December 31, 2014, Canyon had a working capital balance of $21.9 million compared to $41.7 million as at December 31, 2013. As at December 31, 2014 trade and other receivables increased by $61.3 million and cash and cash equivalents decreased by $0.7 million compared to December 31, 2013. The Company's working capital position and available operating credit facilities exceed the level required to manage timing differences between cash collections and cash payments.

The Company continually monitors individual customer trade receivables, taking into account numerous factors including industry conditions, payment history and financial condition in assessing credit risk. The Company establishes an allowance for doubtful accounts for specifically identifiable customer balances which are assessed to have credit risk exposure. As at December 31, 2014, accounts receivable includes an allowance of $41 thousand for doubtful receivables (December 31, 2013: $0.3 million).

The Company will use its December 31, 2014 cash available of $20.6 million, funds from operations and, if required, available credit facilities to fund the completion of the 2014 capital program and to fund the reduced 2015 capital program. In response to the dramatic decline in commodity prices over the second half of 2014, Canyon anticipates significantly reduced activity levels in 2015 and as a result has reduced its previously announced 2015 capital program to approximately $12 million which when combined with the carryover amount of approximately $8 million to complete the 2014 capital program results in an estimated capital program for 2015 of $20 million. Please refer to "Capital Expenditures" below.

Investments

For the three and twelve months ended December 31, 2014, capital expenditures, net of finance leases, totaled $36.8 million and $112.7 million, respectively, including the purchase, effective March 18, 2014, of 20,000 HHP and two data vans from a Canadian competitor for $9.3 million, the purchase of four coiled tubing packages for $19.7 million, as well as miscellaneous support equipment such as sand logistics equipment, a high rate blender and transportation equipment, additional coiled tubing equipment, nitrogen and cement and acid equipment, maintenance capital, expansion of Canyon's Grande Prairie operating base and storage tanks and water transfer equipment for the Fraction business. 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 withstand industry and seasonal volatility, 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 and goodwill.

The Company also manages its capital structure to ensure compliance with the financial covenants on its credit facilities, which include a ratio of funded debt to EBITDA before share-based payments and a ratio of EBITDA before share-based payments to total debt service obligations. As of December 31, 2014, the Company is in compliance with each of the above financial covenants. The Company has $41.6 million drawn on its bank debt facilities as at December 31, 2014 (see "Financing" above), which combined with cash and cash equivalents of $20.6 million results in net bank debt of $21.0 million at year end. The Company may be required to adjust its capital structure from time to time as a result of expansion activities.

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

Contractual Obligations

As at December 31, 2014, 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	$115,452	$115,452	$-	$-	$-
Bank indebtedness and finance leases	50,523	14,330	36,193	-	-
Dividend payable	10,294	10,294	-	-	-
Operating leases and office space	6,819	2,107	3,733	979	-
Capital expenditure commitments	7,426	7,426	-	-	-
Total contractual obligations	$190,514	$149,609	$39,926	$979	$-

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

Capital expenditure commitments will be funded from the December 31, 2014 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 year ended December 31, 2014, Canyon incurred capital expenditures of $112.7 million including $15.9 million for fracturing equipment including the addition of 30,000 HHP of pumping capacity, $24.4 million for coiled tubing equipment, $28.6 million for transportation and sand logistics equipment, $9.7 million for nitrogen and cement and acid equipment, $16.8 for maintenance capital, $11.0 million for storage tanks and water transfer equipment, and the balance for expansion of the Grande Prairie operating base and expenditures related to office leaseholds and information technology. Canyon's previously announced 2015 capital program totaling $63 million has been suspended in response to anticipated lower industry activity levels in 2015. Canyon's 2015 capital program is now estimated at approximately $12 million mostly for maintenance capital, which combined with a carryover of about $8 million to complete the 2014 program results in total capital expenditures of approximately $20 million for 2015.

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 follows:

000's (Unaudited)	February 28, 2015	December 31, 2014	December 31, 2013
Common Shares	68,635	68,604	62,528
Options	4,522	3,671	3,436
Incentive Based Units	1,284	497	329

In the three months ended December 31, 2014, 84 share options were granted to directors, officers and employees at an average exercise price of $10.97 per option, 6 share options were exercised by directors, officers and employees and 52 share options were forfeited. In the three months ended December 31, 2014, 18 incentive based units were granted to directors, officers and employees, Nil were exercised and 2 were forfeited.

FINANCIAL INSTRUMENTS

Fair Values

The carrying values of cash and cash equivalents, trade and other receivables, trade and other payables, accrued liabilities, and dividends payable approximate their fair value due to the relatively short periods to maturity of the instruments. Loans and borrowings utilize a combination of short term fixed rates through the use of 30 to 90 day Banker's Acceptance and floating rates and accordingly its fair market value approximates its carrying value.

Interest Rate Risk

The Company manages its interest rate risk on borrowings by utilizing a combination of short-term fixed rates through the use of 30 to 90 day Banker's Acceptance rates and floating rates on debt. For the year ended December 31, 2014, the loans and borrowings, comprising equipment leases and automobile loans, were at fixed rates.

Foreign Currency Risk

Although the Company operates exclusively in Canada, it does have exchange rate exposure on purchases of some materials and equipment produced in the United States. The Company has not entered into any material hedging positions.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements as at December 31, 2014, 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, 2014 and 2013. New accounting policies and future accounting pronouncements are provided at notes 2(b) and 2(c), respectively, to the consolidated financial statements as at and for the year ended December 31, 2014.

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, 2014 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 the 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 $41 thousand has been established as at December 31, 2014 (December 31, 2013 - $0.3 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 June 30, 2014, management revised estimates and underlying assumptions on certain equipment. Please refer to Note 10 to the consolidated financial statements for the years ended December 31, 2014 and 2013.

Non-Financial Assets

Where impairment indicators exist, the recoverable amount of the asset or cash-generating unit ("CGU") 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, an impairment test is performed and if required, the asset is written down to its estimated recoverable amount. As at December 31, 2014 an impairment test was performed and no impairment was recognized.

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.

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.

RISK FACTORS AND RISK MANAGEMENT

Readers of the Company's annual 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, 2014. 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, Australia and the United States for fracturing with deformable, light weight proppant.

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 1,300 full time staff as at December 31, 2014.

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 43% of the Company's accounts receivable as at December 31, 2014, and 43% of the Company's revenue for the year ended December 31, 2014. 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 manufacturing, 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.

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Canyon’s Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, disclosure controls and procedures to provide reasonable assurance that: (i) material information relating to the Company is made known to Canyon’s Chief Executive Officer and Chief Financial Officer by others, particularly during the period in which the annual and interim filings are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation. Such officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of Canyon’s disclosure controls and procedures at the financial year end of the Company and have concluded that the Company’s disclosure controls and procedures are effective at the financial year end of the Company for the foregoing purposes.

Internal Controls over Financial Reporting

Canyon’s Chief Executive Officer and Chief Financial Officer have designed or caused to be designed under their supervision, internal controls over financial reporting to provide reasonable assurance regarding the reliability of the Company’s financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles applicable to the Company. Such officers have evaluated, or caused to be evaluated under their supervision, the effectiveness of Canyon’s internal controls over financial reporting at the financial year end of the Company and have concluded that Canyon’s internal controls over financial reporting are effective at the financial year end of the Company for the foregoing purposes.

No material changes in the Company's internal controls over financial reporting were identified during the year beginning on January 1, 2014 and ending on December 31, 2014, that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting. No material changes in Canyon's internal controls over financial reporting were identified during such period that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting. It should be noted that a control system, including the Company's disclosure and internal controls and procedures, no matter how well conceived, can provide only reasonable, but not absolute, assurance that the objectives of the control system will be met and it should not be expected that the disclosure and internal controls and procedures will prevent all errors or fraud.

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.