# MANAGEMENT'S DISCUSSION AND ANALYSIS 2016

## Table of Contents



This management discussion and analysis (MD&A) is dated March 2, 2017. It should be read in conjunction with the audited consolidated financial statements and notes of Canyon Services Group Inc. (Canyon or the Company) as at and for the years ended December 31, 2016 and 2015. Additional information relating to the Company, including the Company's Annual Information Form (AIF) for the year ended December 31, 2015, is available online at www.sedar.com.

**Basis of Presentation:** Unless otherwise noted, all financial information has been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). All financial information is reported in Canadian dollars, unless otherwise noted. Certain figures have been reclassified to conform to the current year presentation of this MD&A.

**Non-GAAP Measures:** Certain financial measures in this MD&A – namely Adjusted EBITDA, funds flow, and adjusted loss and comprehensive loss, are not prescribed by IFRS. These financial measures are reconciled to IFRS measures in the Quarterly Financial Review, Annual Financial Review and *Non-GAAP Measures* section of this MD&A. Other non-standard measures are also described in *Non-GAAP Measures*.

**Common Industry Terms**: For a list of abbreviations and terms that may be used in this MD&A, refer to *Common Industry Terms* section of this MD&A.

**Risks and Forward-Looking Statements:** The Company's financial and operational performance is potentially affected by a number of factors, including, but not limited to the factors described in the Risk Factors section of this MD&A and the Company's other disclosure documents.

This MD&A includes forward-looking information based on the Company's current expectations, estimates, projections and assumptions. This information is subject to a number of risks and uncertainties, many of which are beyond the Company's control. Users of this information are cautioned that the actual results may differ materially. Refer to the *Forward-Looking Statements* section of this MD&A for information on material risk factors and assumptions underlying our forward-looking information.

CANYON SERVICES GROUP INC.

## CANYON OVERVIEW

Canyon Services Group Inc. is an oilfield services company that focuses operations in the Western Canadian Sedimentary Basin (WCSB) with two core business lines: Pressure Pumping Services and Full-Service Fluid Management and Hauling Services.

Pressure Pumping Services are provided by Canyon through its wholly-owned subsidiary Canyon Technical Services Ltd. and include hydraulic fracturing, high-rate nitrogen fracturing, coiled tubing, chemical stimulation, remedial and primary cementing.

Full-Service Fluid Management and Hauling Services are provided by Canyon through its wholly-owned subsidiary Fraction Energy Services Ltd. (Fraction) and include fluid sourcing, transfer, hauling and containment.

## FINANCIAL AND OPERATING SUMMARY

| 000's except per share, tonne amounts and hydraulic pumping capacity (three month information unaudited) | Three Months Ended December 31, | | Year Ended December 31, | | |
|---|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 | 2014 |
| Consolidated revenues | $80,225 | $93,940 | $239,566 | $403,998 | $591,022 |
| Income (loss) and comprehensive income (loss) | ($12,226) | ($18,261) | ($72,199) | ($62,063) | 49,094 |
| Per share-basic | ($0.14) | ($0.26) | ($0.88) | ($0.90) | $0.75 |
| Per share-diluted | ($0.14) | ($0.26) | ($0.88) | ($0.90) | $0.74 |
| Adjusted EBITDA[(1)] | ($942) | $7,667 | ($24,014) | $31,330 | $121,478 |
| Funds from (used in) operations[(1)] | ($584) | $8,668 | ($8,780) | $34,229 | $103,819 |
| Adjusted income (loss) and comprehensive income (loss)[(1)] | ($9,413) | ($4,491) | ($56,321) | ($20,461) | $56,120 |
| Adjusted per share-basic[(1)] | ($0.11) | ($0.07) | ($0.69) | ($0.30) | $0.85 |
| Adjusted per share-diluted[(1)] | ($0.11) | ($0.07) | ($0.69) | ($0.30) | $0.84 |
| Total Pressure Pumping proppant pumped (tonnes)[(2)] | 123,244 | 107,394 | 368,581 | 376,773 | 420,171 |
| Consolidated Pressure Pumping revenue per tonne[(3)] | $608 | $791 | $594 | $953 | $1,337 |
| Pressure Pumping fracturing revenue per tonne[(3)] | $513 | $702 | $522 | $962 | $1,309 |
| Hydraulic Pumping Capacity: | | | | | |
| Average HHP[(2)] | 256,400 | 255,900 | 256,400 | 255,900 | 240,500 |
| Exit HHP | 256,400 | 255,900 | 256,400 | 255,900 | 255,900 |
| Capital expenditures | $10,531 | $2,208 | $15,730 | $28,878 | $112,677 |

| 000's except per share amounts | As at December 31, 2016 | As at December 31, 2015 | As at December 31, 2014 |
|---|---|---|---|
| Cash and cash equivalents | $2,473 | $3,059 | $20,613 |
| Working capital | $28,267 | $27,578 | $21,880 |
| Total long-term financial liabilities | $28,480 | $64,779 | $36,193 |
| Total assets | $458,034 | $510,088 | $638,770 |
| Total cash dividends declared per share | $0.00 | $0.29 | $0.60 |

[1] See *Non-GAAP Measures* described on page 24 of this MD&A.

[2] See *Common Industry Terms*.

[3] For an explanation as to how this number was determined, see *Non-GAAP Measures* on page 24 of this MD&A. Revenue per job information, which was presented in the above table in prior quarters MD&A, is disclosed in *Summary of Quarterly Results* on page 17 of this MD&A.

## FINANCIAL AND OPERATING HIGHLIGHTS

**2016 compared with 2015**

- Revenue for 2016 of $239.6 million, compared to $404.0 million in 2015.
- Net loss for 2016 of $72.2 million, compared to a net loss of $62.1 million in 2015.
- Adjusted EBITDA[1] for 2016 of negative $24.0 million, compared to positive $31.3 million in 2015.
- Total proppant pumped for 2016 of 368,581 tonnes, compared to 376,773 tonnes in 2015.
- Average utilized fracturing equipment[2] was 87,500 HHP, compared to 100,000 HHP in 2015.

Annual financial results declined significantly in 2016 primarily as a result of extreme competition for Canyon's service offerings resulting in significant pricing pressures. Pressure Pumping equipment prices for fracturing services[1] declined by more than 40% year over year. Cost optimization initiatives only partially offset the dramatic decrease in revenue.

**Fourth quarter 2016 compared with fourth quarter 2015**

- Net loss for Q4 2016 of $12.2 million, compared to a net loss of $18.3 million in Q4 2015.
- Adjusted EBITDA[1] for Q4 2016 of negative $0.9 million, compared to positive $7.7 million in Q4 2015.
- Total proppant pumped for Q4 2016 of 123,244 tonnes, compared to 107,394 tonnes in Q4 2015.
- Average utilized fracturing equipment[2] was 107,500 HHP, compared to 100,000 HHP in 2015.

Q4 2016 financial results declined significantly compared to Q4 2015 primarily as a result of extreme competition for Canyon's service offerings resulting in significant pricing pressures. Pressure Pumping equipment prices for fracturing services[1] declined by 30% compared to Q4 2015. Cost optimization initiatives only partially offset the dramatic decrease in revenue.

**2016 Highlights**

In 2015, Canyon underwent an optimization process that resulted in a dramatically improved cost structure in 2016. The results of the optimization process helped reduce the Company's financial losses in 2016 by more than $30 million[1]. Some of the key results of our optimization are as follows:

- Canyon's approach to personnel optimization resulted in 2016 direct personnel costs for hydraulic fracturing being $17 million[1] lower than they would have been had 2015's personnel cost structure been carried forward to 2016.
- Personnel optimization (described above) contributed to $2 million[1] of incremental savings on personnel travel costs.
- Canyon was able to reduce third party contracting costs by 70% ($10 million[1]) through a combination of reduced supplier prices and increasing the use of internal labour to reduce third party contracting requirements.
- The above cost reductions were partially offset by the effect of bad debt expenses, severance costs, and commodity tax reassessments totaling $7.7 million (2015: severance costs of $1.5 million).

We do anticipate that 2016's cost structure will begin to see inflationary pressures in 2017 as the industry environment improves and Canyon's activity increases.

- Canyon's Pressure Pumping operating segment's hydraulic fracturing activity (measured by tonnes of proppant pumped) decreased 2%, despite overall 2016 well completions in the WCSB declining by 35%[3] from 2015.
- Canyon's Pressure Pumping fracturing support well service activity increased with the total number of job days increasing to 3,207 in 2016, compared with 2,011 days in 2015.
- Materials and inventory costs decreased by 10%[1] in 2016, primarily due to negotiated supplier cost reductions and an increase in demand for more cost effective products. This resulted in a direct cost savings for our customers.

Having low debt levels entering 2015 (debt less cash at December 31, 2014: $29.9 million) permitted the Company to be proactive in optimizing its cost structure during the downturn. However, the length and severity of the downturn required that Canyon take additional measures in order to emerge from the downturn in a strong financial position.

- On March 3, 2016, Canyon suspended its dividend of $0.03 per common share in response to the downturn.

---

[1] For an explanation as to how this number was determined, see *Non-GAAP Measures* on page 24 of this MD&A.
[2] See *Common Industry Terms*.
[3] Source: Nickles Energy Group, see page 5 for summary table with industry metrics.

- Canyon issued 15.8 million common shares on March 29, 2016 for gross proceeds of $63 million ($59.7 million net of transaction costs). The net proceeds were initially used to repay bank debt and permitted Canyon to proactively pursue growth prospects.
- As a result of the equity offering, an anticipated recovery in commodity prices, and internal economic rate of return analysis, Canyon announced an investment into the most advanced hydraulic fracturing pumps in the WCSB. The upgrade will reduce Canyon's operating costs and will provide our customers with more continuous pumping operations. The upgraded pump design will allow Canyon to reduce the number of pumps on our customers' locations, fuel consumption, manpower and repair and maintenance requirements. The benefits of this investment will begin to occur in the second half of 2017 once the new fleet of pumps is deployed in the field (see *Capital Expenditures*).

Canyon enters a potential industry recovery with $27.7 million debt less cash, which is relatively unchanged from the $29.9 million debt less cash balance at the start of the downturn two years ago. This puts Canyon in a strong position to make additional investments in equipment upgrades and/or acquire oilfield services businesses.

**Fourth Quarter 2016 Highlights**

In 2015, Canyon underwent a significant optimization process that resulted in a substantially improved cost structure in 2016. The results of the optimization process helped reduce the Company's financial losses in Q4 2016 by more than $7 million[1]. Some of the key results of our optimization are as follows:

- Canyon's approach to personnel optimization resulted in 2016 direct personnel costs for hydraulic fracturing being $3.5 million[1] lower than they would have been had 2015's personnel cost structure been carried forward to Q4 2016.
- Personnel optimization, described above, contributed to incremental savings on personnel travel costs of $0.6 million[1].
- Canyon was able to reduce third party contracting costs by 55% ($2.8 million[1]) through a combination of reduced supplier prices and increasing the use of internal labour to reduce third party contracting requirements.

We do anticipate that 2016's cost structure will begin to see inflationary pressures in 2017 as the industry environment improves and Canyon's activity increases.

The fourth quarter of 2016 saw the first meaningful year-over-year activity increase since the start of the downturn in the beginning of 2015.

- Canyon's Pressure Pumping hydraulic fracturing activity (measured by tonnes of proppant pumped) increased by 15% from Q4 2015, which compares to Q4 2016 well completion declines in the WCSB of 29%[2] from Q4 2015.
- Canyon's Pressure Pumping fracturing support well service activity increased with the total number of job days increasing to 1,053 in 2016, compared with 707 days in 2015.
- Despite the overall increase in activity, Pressure Pumping equipment prices for hydraulic fracturing services[1] were 30% below fourth quarter 2015 levels, but exited Q4 2016 20% higher from mid-Q3 2016 levels.

**2016 and 2015 compared with 2014**

2016 and 2015 annual results vary significantly from 2014 primarily as a result of the dramatic change in commodity prices (see *Business Environment* below). The Company was able to pump 368,581 tonnes of proppant in 2016, which is only 12% lower than the 420,171 tonnes pumped in 2014. However, the decline in oil and natural gas prices significantly affected our prices, with the declines in Pressure Pumping equipment prices for fracturing services down more than 60%[1] from average 2014 pricing levels.

## BUSINESS ENVIRONMENT

Oil (NYMEX WTI) and natural gas (AECO) prices are important factors that affect the results of Canyon's exploration and production (E&P) customers, and therefore ultimately affect Canyon's financial results. The US$/CDN$ exchange rate provides context for WTI oil prices which are priced in US$. Oilfield services' industry activity statistics help provide context to the operational and financial results of Canyon relative to general oilfield service activity levels.

---

[1] For an explanation as to how this number was determined, see *Non-GAAP Measures* on page 24 of this MD&A.

[2] Source: Nickles Energy Group, see page 5 for summary table with industry metrics.

| (Unaudited) | Three Months Ended December 31, | | | Year Ended December 31, | | |
|---|---|---|---|---|---|---|
| | 2016 | 2015 | 2014 | 2016 | 2015 | 2014 |
| NYMEX WTI - Average Price (US$/bbl) | $49.29 | $42.16 | $73.51 | $43.47 | $48.41 | $93.10 |
| AECO-C Spot Average Price (CDN$/mcf) | $3.11 | $2.48 | $3.44 | $2.18 | $2.71 | $4.28 |
| Average Exchange Rate (US$/CDN$) | $0.75 | $0.75 | $0.88 | $0.76 | $0.78 | $0.91 |
| Thousands of Meters Drilled[(1)] | 2,076 | 3,308 | 6,550 | 9,493 | 13,356 | 24,100 |
| Canadian Average Drilling Rig Count[(1)] | 197 | 177 | 384 | 136 | 195 | 370 |
| Canadian Well Completions[(1)] | 824 | 1,165 | 3,332 | 3,454 | 5,293 | 10,927 |

Canyon's revenue rates are influenced by crude oil and natural gas pricing as changes in these prices directly affect our customer's ability to generate cash flow and ultimately utilize Canyon's services. WTI prices in 2016 and 2015 were significantly below 2014 pricing levels. The significant decline in WTI prices during this period was a result of global oil supply exceeding oil demand. With 2015 and 2016 WTI oil prices 48% and 53%, respectively, below 2014 levels, Canyon's Pressure Pumping and Fluid Management services declined significantly. In particular 2016 Pressure Pumping equipment prices for hydraulic fracturing services were down more than 60%[2] from 2014 pricing levels.

During Q4 2016, global concerns around oversupply of oil have partially abated due to discussions and agreement inside and outside OPEC (Organization of the Petroleum Exporting Countries) to limit oil production, which combined with the continued growth in global oil demand, resulted in WTI oil prices stabilizing above $50/bbl in December 2016. Where natural gas prices are concerned, AECO spot prices improved sequentially, increasing by 31% to CDN$3.11/mcf in Q4 2016 from Q3 2016 prices of CDN$2.38/mcf. With the recent stabilization of oil and natural gas prices, the oilfield services industry activity declines, which started in early 2015, seemed to have hit a bottom in Q3 2016, with initial signs of activity and pricing improvements in Q4 2016.

## INDUSTRY COMMENTARY & 2017 OUTLOOK

### Industry Commentary

The general trend in well completions design has resulted in increased fracturing intensity on a per well basis in the form of more fractures per wellbore and/or larger individual fracture designs. One of the main predictors of fracture intensity for pressure pumping is the average total length in meters per well. Meters drilled per well in 2016 has increased from 2015 and 2014 by approximately 7%[1] and 20%[1], respectively, however, WCSB total meters drilled in 2016 has decreased by approximately 60%[1] from 2014 levels due to the sharp decrease in overall activity. The service intensity per well, combined with the increased proppant volumes, has not been enough to offset the activity and pricing declines experienced in 2016.

Stabilization of oil prices above US$50 per barrel in late Q4 2016 and early 2017 has provided renewed optimism about E&P capital expenditures which has already translated to increases in oilfield services activity. E&P capital programs remain sensitive to the volatile swings in commodity prices. However, recent improvement in commodity prices combined with optimism that global oil demand and supply is closer to equilibrium levels, has introduced the potential for higher activity levels and further price increases for our services in 2017. Therefore, additional increases in commodity prices from current levels may cause demand for services to significantly outstrip the Canadian pressure pumping industry's ability to supply equipment and the corresponding manpower in the current market. Conversely, decreases in commodity prices will defer an oilfield services recovery. Current commodity price levels, and the resultant demand for Canyon's services, should continue to support modest customer price increases for pressure pumping services as the pressure pumping industry strives to return to positive EBITDA margins. Incremental improvements in commodity prices would support the customer price increases necessary to return the business model to sustainable return on investment levels.

E&P's continue to focus on the most economic resource plays within the WCSB. The key trend is for continued investment in the Montney, Bakken and Viking formations with increasing interest in the Duvernay and Shaunavon. These are all areas in which Canyon is active. Given the growing service intensity required by E&P companies to complete wells in the Montney and Duvernay formations, a modest increase in commodity prices could result in an

[1] Source: Nickles Energy Group.

[2] See *Non-GAAP Measures* on page 24 of this MD&A.

increase in E&P's capital programs leading to a return to a sustainable level of well completion services pricing. Any potential pricing increase could be positively or negatively magnified depending upon how quickly the well completion services industry can reactivate idle equipment. Our view is that the ability for the pressure pumping industry to activate idle equipment will depend on: (1) the availability of qualified workers, many of whom have now left the industry; and (2) the need for significant investment to repair equipment which has been idle for more than a year. While a positive final investment decision (FID) on liquefied natural gas would have a positive impact on advancing increases in well completion services pricing, we believe that the economics of the key WCSB resource plays (noted above) are competitive with other significant North American resource plays such that an FID is not required for continued (and potentially increasing) E&P investment in these areas.

**Canyon Commentary**

While Canyon has optimized its cost structure over the past several quarters in response to decreased WCSB activity and customer pricing levels, the impact of lower customer pricing for 2016 has more than offset benefits gained from our cost optimization commitment. This pricing degradation has directly impacted the bottom line as margins have been eroded since 2014, resulting in negative consolidated Adjusted EBITDA for 2016. However, prices for Canyon's services began improving throughout Q4 2016, with further modest price improvements anticipated in Q1 2017. The Company believes that prices will continue to improve throughout 2017 and Canyon is already seeing signs that there is a shortage of equipment and people required to meet well completion needs in the WCSB. In the first two months of Q1 2017, Canyon pumped approximately 120,000 tonnes of proppant. We anticipate Q1 2017 average Pressure Pumping fracturing prices to be 10% to 15% higher than Q4 2016 average pricing levels. The estimated increased pricing, combined with increased activity, should return Canyon to meaningful Adjusted EBITDA levels in Q1 2017.

Canyon believes that the pressure pumping industry will continue to evolve and that hydraulic fracturing intensity will increase. For this reason, despite having one of the most modern fracturing fleets in the industry, Canyon is making an initial investment in high specification, continuous duty QEM 3000 hydraulic fracturing pumps. Canyon anticipates making incremental investment in high specification equipment so that it can stay ahead of the inevitable market place shift to higher intensity well completions. The Company's fleet of hydraulic fracturing equipment at December 31, 2016 and projected fleet at June 30, 2017 is presented in the below table[1]:

| | | At December 31, 2016 | | | Estimated by June 30, 2017 | | |
|---|---|---|---|---|---|---|---|
| Fracturing Fleet: | Type of Pump | Pumps (#) | HHP | % of Fleet | Pumps (#) | HHP | % of Fleet |
| High Spec | 3000 HHP | 1 | 3,000 | 1% | 12 | 36,000 | 14% |
| Standard 1 | 2500 – 2700 HHP | 25 | 62,900 | 25% | 25 | 62,900 | 24% |
| Standard 2 | 2500 HHP | 66 | 165,000 | 64% | 55 | 137,500 | 52% |
| Legacy | 2250 HHP and less | 12 | 25,500 | 10% | 12 | 25,500 | 10% |
| Total Fracturing Fleet | | 104 | 256,400 | | 104 | 261,900 | |

The table below[1, 2] shows management's estimate of the allocation of 2016 HHP demands by WCSB formation and provides management's estimate as to what capacity pumps are ideally suited to each formation.

| Formation | Wells[2] 2016 | Formation Intensity HHP | | HHP | Formation Market % | Pump Capability by Formation 3000 | Std 1 | Std 2 | 2250 |
|---|---|---|---|---|---|---|---|---|---|
| Montney | 564 | 30,000 | - | 50,000 | 51% | 1 | 1 | 2 | 3 |
| Duvernay | 114 | 40,000 | - | 60,000 | 13% | 1 | 2 | 2 | 3 |
| Deep Basin | 324 | 20,000 | - | 25,000 | 16% | 1 | 1 | 1 | 3 |
| Bakken | 182 | 6,750 | - | 7,500 | 3% | 2 | 2 | 1 | 1 |
| Viking/Shaunavon | 909 | 6,750 | - | 7,500 | 15% | 2 | 2 | 1 | 1 |
| Other | 126 | n/a | - | 20,000 | 3% | 1 | 2 | 1 | 2 |
| Other (oil sands) | 1,870 | n/a | - | n/a | -% | n/a | n/a | n/a | n/a |

Legacy equipment (2250 HHP pumps and lower HHP pumps) can generally operate in most regions with upgrades, but its efficiency is significantly diminished in high intensity hydraulic fracturing formations where comparatively higher HHP pumps have lower operating costs and less manpower requirements. It is our belief that there will continue

[1] See *Common Industry Terms* on page 28 for basis of equipment ranking (1 = high capability; compared to, 3 = low capability).

[2] Source: Nickles Energy Group. Wells 2016 data is wells drilled by formation, a different metric from wells completed data noted on page 4 and potentially different from other third party sources of wells drilled data.

to be an increased HHP demand in formations like the Montney and Duvernay, and therefore, hydraulic fracturing companies that have High Spec and standard levels of equipment, and/or access to capital to invest in additional High Spec equipment, will be able to generate scale and create more operationally efficient businesses. Companies that are unable to adapt to the changing industry dynamic will eventually be restricted to providing services in a very small segment of the WCSB and/or be less competitive in a majority of the WCSB formations.

**Primary Objectives**

As a result of our relatively strong financial position and our optimized cost structure, Canyon's short-term and long-term objectives remain essentially unchanged for 2017.

Our primary short-term objectives are to:

- Increase prices while maintaining our optimized cost structure, so as to return to positive funds flow and positive return on invested capital.
- Complete deployment of 11 newly retrofitted High Spec QEM 3000 fracturing pumps.
- Increase average utilized fracturing equipment levels by adding personnel to support current customer demands, therefore accelerating our return to positive return on investment.

Our primary long-term objectives are:

- To build a leading Canadian oilfield service provider that can succeed and grow over the long-term and provide superior long-term returns on invested capital to our investors by reducing finding and development costs for our customers through operational and technical advancements in service delivery.
- To grow Canyon's operating assets over the next five years, with a continuing focus on servicing the WCSB.

To achieve our objectives, Canyon will continue to undertake the following key activities:

- Seek out attractive investment opportunities, which will add both long-term value on a per share basis and enhance our relative competitive position with customers including: (1) add purpose built equipment (QEM 3000s) for the increasing well intensity levels of the WCSB; (2) optimize staffing levels; and (3) actively evaluate oilfield merger and acquisition opportunities.
- Strengthen relationships with top-tier customers and build our reputation in the region's premier unconventional plays with a particular focus on high-rate treatments.

## QUARTERLY FINANCIAL REVIEW – FOURTH QUARTER 2016 COMPARED TO 2015

| 000's<br>(three month information unaudited) | Three Months Ended December 31, | |
|---|---|---|
| | 2016 | 2015 |
| Revenue | $80,225 | $93,940 |
| Depreciation - cost of services | (12,377) | (13,391) |
| Other - cost of services | (76,190) | (80,229) |
| Gross (loss) profit | (8,342) | 320 |
| Depreciation - administrative expenses | (502) | (588) |
| Share-based payment transactions - administrative expenses | (1,307) | (1,547) |
| Other - administrative expenses | (5,410) | (6,044) |
| Bad debt recovery (expense) | 433 | - |
| Amortization expense | (1,506) | (1,508) |
| Results from operating activities[1] | (16,634) | (9,367) |
| Add non-cash items: | | |
| Depreciation and amortization | 14,385 | 15,487 |
| Share-based payment transactions | 1,307 | 1,547 |
| Adjusted EBITDA[(1)] | ($942) | $7,667 |

The Consolidated fourth quarter results from operating activities are presented in the above table. Discussion of operating activity results are described by operating segment below.

[1] See *Non-GAAP Measures* on page 24 of this MD&A.

**Pressure Pumping Services**

| 000's (Unaudited) | Three Months Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2016 | | | 2015 | |
| | Total | Percentage of revenue | Percentage change | Total | Percentage of revenue |
| Revenue | $74,942 | | (12%) | $84,932 | |
| Depreciation - cost of services | (9,991) | (13%) | (9%) | (10,966) | (13%) |
| Other - cost of services | (72,173) | (96%) | (3%) | (74,296) | (87%) |
| Cost of services | (82,164) | (110%) | (4%) | (85,262) | (100%) |
| Gross (loss) profit | (7,222) | (10%) | 2,088% | (330) | -% |
| Depreciation - administrative expenses | (502) | (1%) | (15%) | (588) | (1%) |
| Other - administrative expenses | (3,431) | (5%) | (4%) | (3,567) | (4%) |
| Administrative expenses | (3,933) | (5%) | (5%) | (4,155) | (5%) |
| Bad debt recovery (expense) | 392 | 1% | -% | - | -% |
| Amortization expense | (5) | -% | 25% | (4) | -% |
| Results from operating activities | (10,768) | (14%) | 140% | (4,489) | (5%) |
| Add non-cash items: | | | | | |
| Depreciation and amortization | 10,498 | 14% | (9%) | 11,558 | 14% |
| Adjusted EBITDA(1) | ($270) | -% | (104%) | $7,069 | 8% |

*Revenues*

In Pressure Pumping, higher commodity prices contributed to higher activity levels with the tonnes of proppant pumped and number of well service days increasing by 15% and 49%, respectively. Despite the overall increase in activity, Pressure Pumping equipment prices for hydraulic fracturing services[1] was approximately 30% below fourth quarter 2015 levels. The declines in customer pricing more than offset the activity increases resulting in a 12% decline in overall Pressure Pumping revenue.

*Cost of services*

Cost of services includes materials, products, transportation and repair costs, employee benefits expense and depreciation of equipment. The following table provides a summary of cost of services:

| 000's (Unaudited) | Three Months Ended December 31, | | |
|---|---|---|---|
| | 2016 | Percentage change | 2015 |
| Employee benefits expense | $18,622 | 1% | $18,419 |
| Depreciation of equipment | 9,991 | (9%) | 10,966 |
| Materials and inventory | 39,656 | 8% | 36,720 |
| Operating expense | 13,895 | (27%) | 19,157 |
| Total cost of services | $82,164 | (4%) | $85,262 |

Total cost of services did not decline in proportion to revenue declines as supplier discounts and personnel optimization efforts were not in proportion to customer price decreases. However, dramatic steps to optimizing our cost structure resulted in significant changes to Pressure Pumping's overall cost structure with more than $7 million of cost reductions. These reductions are described more fully within *Financial and Operating Highlights, Fourth Quarter 2016 Highlights* section of this MD&A.

- Employee benefits expense were comparable to Q4 2015 even though Pressure Pumping activity levels in hydraulic fracturing and well servicing increased by 15% and 49%, respectively. The Company's ability to

[1] See *Non-GAAP Measures* on page 24 of this MD&A.

maintain a consistent level of costs despite increased activity is a function of personnel optimization efforts as previously described in the *Fourth Quarter 2016 Highlights* section of this MD&A.

- Depreciation of the Company's equipment decreased by 9% when compared to Q4 2015, due primarily to a decrease in the asset base through disposals of leased equipment.
- Materials and inventory expense increased by 8% when compared to Q4 2015 as Pressure Pumping activity levels increased relative to Q4 2015. Supplier cost reductions were negotiated, which in combination with an increased demand for more cost effective products, resulted in customer savings for proppants and chemicals of approximately 31%[1] and 13%[1], respectively.
- Other operating expenses decreased 27% when compared to the prior year even though Pressure Pumping activity levels increased relative to Q4 2015. The decrease is due primarily to short-term optimization efforts in relation to repairs and maintenance expenses that results in $2.5 million[1] of savings relative to 2015 equivalent repairs and maintenance levels. The Company has not yet determined if these optimization efforts will result in a permanent reduction of the Company's ongoing cost structure.

### *G&A*

The following table provides a summary of G&A:

| 000's (Unaudited) | Three Months Ended December 31, | | |
|---|---|---|---|
| | 2016 | Percentage change | 2015 |
| Employee benefits expense | $2,568 | (9%) | $2,824 |
| Depreciation of equipment | 502 | (15%) | 588 |
| Other administration expenses | 863 | 16% | 743 |
| Total administrative expenses | $3,933 | (5%) | $4,155 |

Overall, G&A expenses are consistent with the prior year as the Company had already implemented a 10% wage rate reduction, other benefits reductions, and staffing reductions by Q4 2015. Further G&A reductions beyond Q4 were minimized so as to maintain a base level of infrastructure to support a return to higher activity levels.

### *Adjusted EBITDA[1]*

In Q4 2016, Adjusted EBITDA[1] for Pressure Pumping Services decreased to negative $0.3 million from positive $7.1 million in Q4 2015. The primary cause of the decline was the aforementioned pricing declines partially offset by increased activity and significant cost optimization.

[1] See *Non-GAAP Measures* on page 24 of this MD&A.

**Fluid Management Services**

| 000's (Unaudited) | Three Months Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2016 | | | 2015 | |
| | Total | Percentage of revenue | Percentage change | Total | Percentage of revenue |
| Revenue | $5,283 | | (41%) | $9,008 | |
| Depreciation - cost of services | (2,386) | (45%) | (2%) | (2,425) | (27%) |
| Other - cost of services | (4,017) | (76%) | (32%) | (5,933) | (66%) |
| Cost of services | (6,403) | (121%) | (23%) | (8,358) | (93%) |
| Gross (loss) profit | (1,120) | (21%) | (272%) | 650 | 7% |
| Other - administrative expenses | (1,367) | (26%) | (23%) | (1,770) | (20%) |
| Administrative expenses | (1,367) | (26%) | (23%) | (1,770) | (20%) |
| Bad debt recovery (expense) | 41 | 1% | -% | - | -% |
| Amortization expense | (1,501) | (28%) | -% | (1,504) | (17%) |
| Results from operating activities | (3,947) | (75%) | 50% | (2,624) | (29%) |
| Add non-cash items: | | | | | |
| Depreciation and amortization | 3,887 | 74% | (1%) | 3,929 | 44% |
| Adjusted EBITDA(1) | ($60) | (1%) | (105%) | $1,305 | 14% |

*Revenues*

The Fluid Management Services division, generated $5.3 million of revenue in Q4 2016, a decrease of 41% from 2015 levels. The Fluid Management Services division continued to face intense price competition as the wells completed in the WCSB declined by 341[2] or 29% compared to Q4 2015. The Fluid Management Services division was able to maintain relatively strong activity levels with Q4 2016 tank rental utilization rates at 45% compared to 38% in Q4 2015.

*Cost of services*

The following table provides a summary of cost of services:

| 000's (Unaudited) | Three Months Ended December 31, | | |
|---|---|---|---|
| | 2016 | Percentage change | 2015 |
| Employee benefits expense | $1,429 | (34%) | $2,150 |
| Depreciation of equipment | 2,386 | (2%) | 2,425 |
| Materials and inventory | 717 | (11%) | 803 |
| Operating expense | 1,871 | (37%) | 2,980 |
| Total cost of services | $6,403 | (23%) | $8,358 |

- Employee benefits expense decreased by 34% in Q4 2016 due to a reduction in wage rates as well as a decrease in staffing to match reduced Fluid Management segment and industry activity levels.
- Depreciation of equipment decreased slightly in Q4 2016 primarily due to a decrease in the asset base through disposals of leased equipment.
- Materials, products, transportation and repair costs decreased 11% during Q4 2016 when compared to Q4 2015, mainly due to lower activity. Although discounts for costs were negotiated, the costs did not decrease in proportion to revenue as competitive pressures resulted in price decreases which were greater than input cost decreases.
- Other operating expenses decreased by 37% primarily due to a decrease in Fluid Management Services activity levels.

[1] See *Non-GAAP Measures* on page 24 of this MD&A.
[2] Source: Nickles Energy Group.

*G&A*

The following table provides a summary of G&A:

| 000's (Unaudited) | Three Months Ended December 31, | | |
|---|---|---|---|
| | 2016 | Percentage change | 2015 |
| Employee benefits expense | $714 | 8% | $660 |
| Other administration expenses | 653 | (41%) | 1,110 |
| Total administrative expenses | $1,367 | (23%) | $1,770 |

Employee benefits expense increased 8% primarily as a result of increased staffing levels. Overall, G&A expenses decreased by 23% primarily as a result of ongoing cost reductions.

*Adjusted EBITDA*[1]

Fourth quarter 2016 Adjusted EBITDA[1] was negative $0.1 million, compared to positive $1.3 million in Q4 2015, primarily due to lower activity, and reduced customer pricing.

**Corporate**

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

| 000's (Unaudited) | Three Months Ended December 31, | | |
|---|---|---|---|
| | 2016 | | 2015 |
| | Total | Percentage change | Total |
| Revenue | $- | | $- |
| Share-based payment transactions - administrative expenses | (1,307) | (16%) | (1,547) |
| Other - administrative expenses | (612) | (13%) | (707) |
| | (1,919) | (15%) | (2,254) |
| Add non-cash items: | | | |
| Share-based payment transactions - administrative expenses | 1,307 | (16%) | 1,547 |
| Adjusted EBITDA(1) | ($612) | (13%) | ($707) |

Administrative expenses for Q4 2016 totaled $1.9 million and includes employee benefits expense, share-based payments, and other head office administrative expenses. The decrease in administrative expenses is primarily due to a decrease in non-cash share-based payments expense.

**Other Items – Quarterly Consolidated Statement of Operations**

| 000's (Unaudited) | Three Months Ended December 31, | |
|---|---|---|
| | 2016 | 2015 |
| Finance costs | $568 | $689 |
| Foreign exchange loss | $52 | $484 |
| Income tax recovery | $4,927 | $2,827 |

*Finance costs*

Finance costs include interest on bank indebtedness and finance lease obligations and totaled $0.6 million in Q4 2016, which decreased 18% from the 2015 figure of $0.7 million. The decrease is primarily due to using proceeds from the Q1 2016 equity financing to repay outstanding bank debt.

[1] See *Non-GAAP Measures* on page 24 of this MD&A.

*Foreign exchange loss*

In Q4 2016, the Company recorded a nominal foreign exchange loss of $52 (2015: loss of $484). The Company purchases U.S. sourced proppants and chemicals which require payment in USD. Payments are due 30 to 45 days after purchase which result in foreign exchange gains and losses on these outstanding USD accounts payable.

*Income tax recovery*

For Q4 2016, the actual calculated tax rate did not equal the expected combined income tax rate of 27% primarily due to income before income tax including expenses that are not deductible for tax purposes, including non-deductible share-based payment expenses.

## FINANCIAL REVIEW – YEAR TO DATE 2016 COMPARED TO 2015

**Pressure Pumping Services**

| 000's | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2016 | | | 2015 | |
| | Total | Percentage of revenue | Percentage change | Total | Percentage of revenue |
| Revenue | $218,838 | | (39%) | $360,153 | |
| Depreciation - cost of services | (39,844) | (18%) | (10%) | (44,247) | (12%) |
| Other - cost of services | (224,679) | (103%) | (30%) | (321,997) | (89%) |
| Cost of services | (264,523) | (121%) | (28%) | (366,244) | (102%) |
| Gross profit (loss) | (45,685) | (21%) | 650% | (6,091) | (2%) |
| Depreciation - administrative expenses | (2,003) | (1%) | (12%) | (2,283) | (1%) |
| Other - administrative expenses | (12,378) | (6%) | (19%) | (15,296) | (4%) |
| Administrative expenses | (14,381) | (7%) | (18%) | (17,579) | (5%) |
| Bad debt expense | (3,025) | (1%) | -% | - | -% |
| Amortization expense | (19) | -% | -% | (19) | -% |
| Results from operating activities | (63,110) | (29%) | 166% | (23,689) | (7%) |
| Add non-cash items: | | | | | |
| Depreciation and amortization | 41,866 | 19% | (10%) | 46,549 | 13% |
| Adjusted EBITDA(1) | ($21,244) | (10%) | (193%) | $22,860 | 6% |

*Revenues*

For the Pressure Pumping Services segment, 2016 activity (as measured by proppant pumped) remained consistent with 2015, declining by 2%. However, Pressure Pumping equipment prices for fracturing services[1] declined by more than 40% from 2015 levels, resulting in 2016 Pressure Pumping revenue declines of 39%. The revenue declines were largely driven by increased competition resulting from lower overall oil and natural gas prices in 2016 relative to 2015 and 2014.

---

[1] See *Non-GAAP Measures* on page 24 of this MD&A.

*Cost of services*

Cost of services includes materials, products, transportation and repair costs, employee benefits expense and depreciation of equipment. The following table provides a summary of cost of services:

| 000's | Year Ended December 31, | | |
|---|---|---|---|
| | 2016 | Percentage change | 2015 |
| Employee benefits expense | $59,960 | (26%) | $81,478 |
| Depreciation of equipment | 39,844 | (10%) | 44,247 |
| Materials and inventory | 117,244 | (10%) | 130,264 |
| Operating expense | 47,475 | (57%) | 110,255 |
| Total cost of services | $264,523 | (28%) | $366,244 |

Total cost of services did not decline in proportion to revenue declines as supplier discounts and personnel optimization efforts were not in proportion to customer price decreases. However, dramatic steps to optimizing our cost structure resulted in significant changes to Pressure Pumping's overall cost structure with more than $30 million of cost reductions. These reductions are described more fully within the *Financial and Operating Highlights, 2016 Highlights* section of this MD&A.

- Employee benefits expense for 2016 decreased by 26% compared to 2015 due to significant personnel optimization (see *Financial and Operating Highlights, 2016 Highlights*). Severance costs were $0.6 million for 2016. Canyon's approach to personnel optimization during the year resulted in 2016 direct personnel costs savings in hydraulic fracturing of $17 million[1] had 2015's personnel cost structure been carried forward to 2016.
- Depreciation of equipment decreased 10% when compared to 2015, due primarily to the change in expected useful life calculation of coiled tubing, nitrogen and cementing equipment that occurred in Q2 2015.
- Materials, inventory, transportation and other operating expenses decreased significantly from 2016 compared to 2015 primarily due to negotiated supplier cost reductions, which in combination with an increased demand for more cost effective proppants and chemicals, resulted in customer savings for these products of 31%[1] and 21%[1]. Also contributing was reduction in lower third party contracting costs of 70% ($10 million[1]) through a combination of reduced supplier prices and increasing the use of internal labour to reduce third party contracting requirements (see *Financial and Operating Highlights, 2016 Highlights*).
- Other operating expenses decreased from the prior year due to short-term optimization efforts in relation to repairs and maintenance expenses that resulted in approximately $5 million[1] of savings relative to 2015 equivalent repairs and maintenance levels. The Company has not yet determined if these optimization efforts will result in a permanent reduction to the Company's ongoing repairs and maintenance cost structure. Offsetting repairs and maintenance cost savings is a commodity tax provision of $3.0 million resulting from ongoing tax authority reassessments.

*G&A*

The following table provides a summary of G&A:

| 000's | Year Ended December 31, | | |
|---|---|---|---|
| | 2016 | Percentage change | 2015 |
| Employee benefits expense | $9,585 | (22%) | $12,340 |
| Depreciation of equipment | 2,003 | (12%) | 2,283 |
| Other administration expenses | 2,793 | (6%) | 2,956 |
| Total administrative expenses | $14,381 | (18%) | $17,579 |

[1] See *Non-GAAP Measures* on page 24 of this MD&A.

Overall, G&A expenses decreased by 18% primarily attributable to wage rate, benefits, and staffing reductions implemented throughout 2015 and 2016 in response to a declining industry activity environment, as previously described.

*Adjusted EBITDA*[1]

For the year ended December 31, 2016, Adjusted EBITDA for Pressure Pumping Services decreased to negative $21.2 million from a positive $22.9 million in 2015. The primary cause of the decline was the aforementioned decrease in Pressure Pumping equipment prices. Additional negative effects on Adjusted EBITDA include bad debt expenses, severance costs and commodity tax assessments totaling $7.0 million.

**Fluid Management Services**

| 000's | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2016 | | | 2015 | |
| | Total | Percentage of revenue | Percentage change | Total | Percentage of revenue |
| Revenue | $20,728 | | (53%) | $43,845 | |
| Depreciation - cost of services | (9,487) | (46%) | 18% | (8,034) | (18%) |
| Other - cost of services | (14,938) | (72%) | (43%) | (26,173) | (60%) |
| Cost of services | (24,425) | (118%) | (29%) | (34,207) | (78%) |
| Gross (loss) profit | (3,697) | (18%) | (138%) | 9,638 | 22% |
| Other - administrative expenses | (5,098) | (25%) | (15%) | (6,028) | (14%) |
| Administrative expenses | (5,098) | (25%) | (15%) | (6,028) | (14%) |
| Bad debt expense | (546) | (3%) | -% | - | -% |
| Amortization expense | (6,004) | (29%) | -% | (6,004) | (14%) |
| Results from operating activities | (15,345) | (74%) | 541% | (2,394) | (5%) |
| Add non-cash items: | | | | | |
| Depreciation and amortization | 15,491 | 75% | 10% | 14,038 | 32% |
| Adjusted EBITDA(1) | $146 | 1% | (99%) | $11,644 | 27% |

*Revenues*

The Fluid Management Services division, generated $20.7 million of revenue in 2016, a decrease of 53% from 2015 levels. Fluid Management Services continued to face intense price competition as the wells completed during 2016 in the WCSB declined by 1,839[2] or 35% from 2015. Prices in 2016 were down from 2015 by approximately 25% as evidenced by the decline in large tank rental rates. In addition to lower pricing, Fluid Management's activity levels were also down as evidenced by a decline in tank rental utilization rates to 34% in 2016.

*Cost of services*

The following table provides a summary of cost of services:

| 000's | Year Ended December 31, | | |
|---|---|---|---|
| | 2016 | Percentage change | 2015 |
| Employee benefits expense | $6,298 | (43%) | $11,052 |
| Depreciation of equipment | 9,487 | 18% | 8,034 |
| Materials and inventory | 2,330 | (28%) | 3,253 |
| Operating expense | 6,310 | (47%) | 11,868 |
| Total cost of services | $24,425 | (29%) | $34,207 |

[1] See *Non-GAAP Measures* on page 24 of this MD&A.

[2] Source: Nickles Energy Group.

- Employee benefits expense in 2016 decreased by 43% compared to 2015 due to a reduction in wage rates as well as a decrease in staffing to match reduced industry activity levels.
- Depreciation of equipment expense in 2016 increased by 18% from 2015 due to the acquisition of a fluid hauling business in Q3 2015.
- Materials and inventory decreased 28% in 2016 from 2015 levels, mainly due to lower activity. Although discounts were negotiated, the costs did not decrease in proportion to revenue as competitive pressures resulted in price decreases which were greater than input cost decreases.
- Operating expenses decreased 47% in 2016 from 2015 levels, mainly due to lower activity. Although discounts were negotiated, the costs did not decrease in proportion to revenue declines as competitive pressures resulted in price decreases which were greater than input cost decreases.

*G&A*

The following table provides a summary of G&A:

| 000's | Year Ended December 31, | | |
|---|---|---|---|
| | 2016 | Percentage change | 2015 |
| Employee benefits expense | $2,684 | -% | $2,692 |
| Other administration expenses | 2,414 | (28%) | 3,336 |
| Total administrative expenses | $5,098 | (15%) | $6,028 |

G&A expenses decreased by 15% when compared to 2015, due to cost reduction measures implemented throughout 2015 and 2016 in response to a declining industry environment. Offsetting these reductions was a full year of G&A resulting from the acquisition of a fluid hauling business in Q3 2015 and $0.1 million in severance costs incurred during the first half of 2016.

*Adjusted EBITDA[1]*

For 2016, Adjusted EBITDA[1] totaled $0.1 million, a decrease from $11.6 million in 2015, primarily due to the aforementioned lower industry activity, reduced customer pricing and the impact of bad debt expenses and severance costs totaling $0.7 million.

**Corporate**

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

| 000's | Year Ended December 31, | | |
|---|---|---|---|
| | 2016 | | 2015 |
| | Total | Percentage change | Total |
| Revenue | $- | -% | $- |
| Share-based payment transactions - administrative expenses | (8,668) | 33% | (6,507) |
| Other - administrative expenses | (2,916) | (8%) | (3,174) |
| Results from operating activities | (11,584) | 20% | (9,681) |
| Add non-cash items: | | | |
| Share-based payment transactions - administrative expenses | 8,668 | 33% | 6,507 |
| Adjusted EBITDA[1] | ($2,916) | (8%) | ($3,174) |

Administrative expenses for 2016 totaled $11.6 million (2015: $9.7 million) and includes employee benefits expense, share-based payments, and other head office administrative expenses. The change is primarily due to an increase in

[1] See *Non-GAAP Measures* on page 24 of this MD&A.

non-cash share-based payments expense in Q1 2016 as a result of 2015 annual bonus awards being settled with non-cash share-based payments rather than paid out in cash.

**Other Items – Annual Consolidated Statement of Operations**

| 000's | Year Ended December 31, | |
|---|---|---|
| | 2016 | 2015 |
| Finance costs | $1,696 | $2,699 |
| Foreign exchange loss | $681 | $2,606 |
| Income tax recovery | $20,546 | $7,663 |

*Finance costs*

Finance costs include interest on bank indebtedness and finance lease obligations and totaled $1.7 million for 2016, which decreased 37% from the 2015 figure of $2.7 million. The decrease is primarily due to using proceeds from the March 2016 equity financing to initially repay outstanding bank debt.

*Foreign exchange loss*

For 2016, the Company recorded a foreign exchange loss of $0.7 million (2015: loss of $2.6 million). The Company purchases U.S. sourced proppants which require payment in USD. Payments are due 30 to 45 days after purchase which cause foreign exchange gains and losses on outstanding USD accounts payable. In addition, included within foreign exchange loss are amounts related to the Company's foreign exchange hedging activities.

*Income tax recovery*

For 2016 the actual calculated tax rate did not equal the expected combined income tax rate of 27% primarily due to income before income tax including expenses that are not deductible for tax purposes, including non-deductible share-based payment expenses.

*Impairment*

At the end of each reporting period, Canyon conducts a review of its carrying value for each of its CGUs to assess if there are indicators of impairment. In addition, the Fluid Management Services CGU is tested at least annually due to the presence of goodwill. During Q4 2016, management identified indicators of impairment on both the Pressure Pumping and Fluid Management Services CGUs however, as a result of the impairment tests performed, no impairment charges were recorded. In 2015, the Fluid Management services CGU test for impairment resulted in a goodwill write-down of $28.4 million. Also included in impairment expense in 2016 was $0.5 million of specific equipment in the Fluid Management Services segment that was written down to the lower of cost or market (2015: $1.2 million in the Pressure Pumping CGU).

## SUMMARY OF QUARTERLY RESULTS[1]

| 000's except amounts stated as: per share, well servicing job days, per tonne and per job (Unaudited) | December 31, 2016 | September 30, 2016 | June 30, 2016 | March 31, 2016 | December 31, 2015 | September 30, 2015 | June 30, 2015 | March 31, 2015 |
|---|---|---|---|---|---|---|---|---|
| Financial Information: | | | | | | | | |
| Revenue | $80,225 | $62,339 | $25,733 | $71,269 | $93,940 | $111,314 | $43,159 | $155,585 |
| Adjusted EBITDA[2] | ($942) | ($5,138) | ($14,261) | ($3,673) | $7,667 | $15,082 | ($9,754) | $18,335 |
| Loss and Comprehensive Loss | ($12,226) | ($16,762) | ($22,617) | ($20,594) | ($18,261) | ($20,863) | $21,857 | ($1,038) |
| Basic Loss per Share | ($0.14) | ($0.19) | ($0.26) | ($0.29) | ($0.26) | ($0.30) | ($0.32) | ($0.02) |
| Diluted Loss per Share | ($0.14) | ($0.19) | ($0.26) | ($0.29) | ($0.26) | ($0.30) | ($0.32) | ($0.02) |
| Activity and Financial Metrics: | | | | | | | | |
| Proppant Pumped (tonnes) | 123,244 | 101,007 | 43,741 | 100,589 | 107,394 | 104,991 | 38,056 | 126,332 |
| Total pressure pumping jobs completed | 798 | 787 | 530 | 664 | 817 | 759 | 283 | 620 |
| Consolidated Pressure Pumping revenue per tonne[2] | $608 | $572 | $529 | $626 | $791 | $957 | $961 | $1,094 |
| Pressure Pumping fracturing revenue per tonne[2] | $513 | $452 | $391 | $555 | $702 | $858 | $866 | $961 |
| Consolidated pressure pumping revenue per job [2] | $94,130 | $73,712 | $43,920 | $94,967 | $104,301 | $133,000 | $131,585 | $224,162 |
| Average fracturing revenue per job[2] | $114,843 | $100,115 | $62,665 | $134,015 | $182,352 | $173,638 | $232,569 | $261,973 |

In Q2 2016 and Q2 2015, the lower revenues, negative Adjusted EBITDA and loss and comprehensive loss were negatively impacted by seasonal weather related drilling delays caused by the annual spring break-up. Since Q1 2015, a weakening business environment has caused a general negative trend in sequential quarterly financial results which also included goodwill impairments in Q3 2015 and Q4 2015, approximately $4.0 million of bad debt expenses in Q2 2016, and an expense of $2.2 million in Q3 2016 for assessments related to commodity taxes. For further discussion the industry environment, see *Business Environment* for further discussion.

## LIQUIDITY AND CAPITAL RESOURCES

### Funds from (used in) operations

Funds from operations totaled negative $0.6 million and negative $8.8 million for the three months and year ended December 31, 2016, respectively, down from funds from operations of $8.7 million and $34.2 million, respectively, in the prior year's comparable periods. See *Business Environment* for further discussion. Funds from operations were primarily financed by changes in working capital and through *Financing* activities, described below.

### Financing

*Equity (Share amounts in thousands)*

The Company issued 15,813 common shares at $4.00 per common for gross proceeds of $63.3 million ($59.7 million net of share issue costs) during the year ended December 31, 2016. There were 49 and 52 common shares issued by the Company to employees and officers upon exercise of options pursuant to the Share Purchase Option Plan during the three months and year ended December 31, 2016, respectively. The Company issued 91 and 1,060 common shares for nil proceeds pursuant to the Stock-Based Compensation Plan during the three months and year ended December 31, 2016, respectively.

[1] The Company's business is seasonal in nature with the periods of greatest activity being in the first, third and fourth quarters.

[2] See *Non-GAAP Measures* on page 24 of this MD&A.

*Debt*

As a result of the Offering, the Company had $22.5 million of bank indebtedness, net of cash outstanding at December 31, 2016 (December 31, 2015 bank indebtedness net of cash: $56.9 million). In addition, finance leases as at December 31, 2016 totaled $5.2 million (December 31, 2015: $8.7 million).

The principal amount of the amended credit facility totals $100 million with an accordion feature that allows for the expansion of the amended credit facility by up to an aggregate maximum principal amount of $50 million. The accordion feature is available upon request by Canyon, subject to review and unanimous approval by the lenders. The $100 million credit facility has a term of three years, extendible annually, and bears interest at variable rates depending on certain financial ratios and metrics. See *Capital Management* for further discussion of the amended credit facility financial covenant requirements.

As at December 31, 2016, the Company had a working capital balance of $28.3 million (December 31, 2015: $27.6 million) and, subject to certain conditions, also had available on its credit facility approximately $75 million (December 31, 2015: $40 million available). As at December 31, 2016, the Company was committed to various commitments (see *Liquidity Risk*) which require the Company to have available various sources of capital and/or require the Company to generate future operating cash flow to meet the obligations associated with these commitments.

The Company's availability under its existing credit facilities, or availability under alternate similar credit facilities, is dependent on its ability to maintain compliance with certain financial covenants. Current credit facility availability and operating cash flows are expected to be greater than anticipated obligations and commitments over the next year. Credit facility availability, including covenant compliance, could be adversely affected by a continued and/or further decline of the oil and gas services business in Canada.

**Working Capital and Cash Requirements**

As at December 31, 2016, Canyon had a working capital balance of $28.3 million compared to $27.6 million as at December 31, 2015. As at December 31, 2016 trade and other receivables decreased to $46.8 million from $59.1 million as at December 31, 2015 due to lower activity levels and lower pricing as previously discussed. Inventories decreased by $4.6 million primarily due to lower chemical and proppant levels required for decreased activity levels and a $1.0 million adjustment to retire fatigued strings of coil tubing. 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 identified customer balances which are assessed to have credit risk exposure and also a general provision for financial credit risk. When it is determined that no recovery of the allowance for doubtful accounts is expected, the doubtful account is reclassified as a bad debt expense. As at December 31, 2016, accounts receivable includes an allowance of $0.8 million for doubtful receivables (December 31, 2015: $0.1 million).

**Investing Activities**

For the three months and year ended December 31, 2016, capital expenditures, net of finance leases, totaled $10.5 million and $15.7 million, respectively, including maintenance capital, storage, transportation and water transfer equipment. Please refer to *Capital Expenditures* below.

**Capital Management**

The Company's objective when managing its capital structure is to maintain a balance between debt and equity 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 bank indebtedness less cash. Capitalization is calculated as the debt, as described above, plus shareholders' equity.

The Company also manages its capital structure to maintain compliance with the financial covenants on its amended facility.

The Company is required to maintain certain financial covenants, including a debt to tangible capitalization ratio and debt service coverage ratio. Each of the Company's covenants are described in note 4 of the Company's December 31, 2016 and December 31, 2015 Annual Consolidated Financial Statements.

As of December 31, 2016, Canyon is in compliance with each of the financial covenants and has $25 million drawn on its amended facility (see *Financing* above) (December 31, 2015: $60 million). The Company may be required to adjust its capital structure from time to time as a result of expansion activities or industry conditions.

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.

**Liquidity Risk**

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, where possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The following table of financial obligations shows the timing of cash outflows relative to trade and other payables, bank indebtedness, finance leases, operating and office leases and capital expenditure commitments as at December 31, 2016:

| 000's | Total | Next 12 months | 1-3 years | 4-5 years | After 5 years |
|---|---|---|---|---|---|
| Trade and other payables | $52,307 | $52,307 | $- | $- | $- |
| Bank indebtedness and finance leases | $30,213 | 1,733 | 28,480 | - | - |
| Operating and office space leases | $5,086 | 2,267 | 2,016 | 803 | - |
| Capital expenditure commitments | $9,712 | 9,712 | - | - | - |
| Total contractual obligations | $97,318 | $66,019 | $30,496 | $803 | $- |

The Company monitors cash flow requirements and optimizes its cash return on investments. Typically, the Company ensures that it has sufficient cash on demand to meet expected operating expenses for a period of 60 days, including the servicing of financial obligations.

The Company is committed to operating leases for various premises. Included in operating and office space leases are lease obligations with an entity controlled by a member of key management personnel. The total obligation at December 31, 2016 is $2,021 payable over the next 5 years. As at December 31, 2016, the total costs incurred under the lease obligation was $498 (December 31, 2015: $421).

**Capital Expenditures**

Capital expenditure commitments will be funded from cash available, funds from operations and if required, available debt facilities. Please see *Working Capital and Cash Requirements*, and *Capital Management.*

On September 8, 2016, the Company announced it is expanding its capital program by $16.5 million, primarily to upgrade the capability of existing pressure pumping equipment, add ancillary equipment for support services to its pressure pumping division, and expand its fluid management equipment.

Canyon is upgrading 11 existing 2500 HHP pumps to new High Spec SPM QEM 3000 HHP pumps (QEM 3000). Since February 2016 Canyon has been testing a prototype of the QEM 3000 in deeper high pressure reservoirs in the WCSB. Increased pumping pressures and durations required by our customers in areas such as the Duvernay and Montney have pushed the current Standard 2500 HHP pumps to their maximum capabilities resulting in higher maintenance costs and increased downtime. The QEM 3000 is a more robust pump designed for continuous operation and is better suited to 24-hour operations with high pumping pressures and long pumping durations compared to the existing 2500 HHP pumps currently operating in the WCSB. The upgrade will reduce Canyon's operating costs and will provide our customers with more continuous pumping operations where needed. At completion of the retrofit, Canyon will have 12 QEM 3000's, which will represent 14% of Canyon's total pressure pumping fleet, the highest such percentage amongst our competitive peers.

In addition to the previously disclosed QEM 3000 capital program, the Company is adding $25.6 million to its 2017 capital spending plans. The primary focus of the new capital spending is maintenance capital expenditures to support anticipated increasing oilfield service activity levels. If pricing does not improve during 2017, the Company will modify its capital program to meet activity demands. Canyon's capital spending plans, other than capital expenditures through business combinations, are summarized below:

| (millions)<br>Capital Expenditures | Maintenance | Upgrade / Expansion | Fluid Management | Total |
|---|---|---|---|---|
| Previously anticipated capital expenditures | $10.0 | $12.9 | $5.1 | $28.0 |
| 2016 actual capital expenditures | $10.6 | $3.6 | $1.5 | $15.7 |
| Carry-forward from 2016 into 2017 | $0.9 | $9.3 | $1.5 | $11.7 |
| Additional 2017 capital expenditures | $23.4 | $0.0 | $2.2 | $25.6 |
| Total anticipated 2017 capital expenditures | $24.3 | $9.3 | $3.7 | $37.3 |

**Outstanding Share, Option and Incentive Based Unit Data**

The following table summarizes Canyon's capitalization:

| 000's | March 2, 2017 | December 31, 2016 | December 31, 2015 |
|---|---|---|---|
| Common Shares | 86,364 | 86,049 | 69,124 |
| Options | 2,273 | 2,090 | 3,203 |
| Incentive Based Units | 3,041 | 2,212 | 1,240 |

Stock options and incentive based units granted, exercised, cancelled, expired and forfeited for the three months and year ended December 31, 2016 and 2015 are summarized as follows:

| 000's | Three months ended December 31, | | Year ended December 31, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Share Options Granted | 10 | - | 744 | 1,925 |
| Share Options Exercised | 49 | - | 52 | 219 |
| Share Options Cancelled/Exchanged | - | - | 1,347 | 1,774 |
| Share Options Forfeited | 12 | 171 | 320 | 341 |
| Share Options Expired | - | 2 | 138 | 59 |
| Incentive Based Units Granted | 13 | 7 | 2,158 | 896 |
| Incentive Based Units Exercised | 91 | 35 | 1,060 | 101 |
| Incentive Based Units Forfeited | 18 | 32 | 126 | 52 |

The average exercise price of the options granted for the year ended December 31, 2016 was $5.30 (2015: $6.30). Please refer to *Financing*.

## FINANCIAL INSTRUMENTS

### Fair Values

The carrying values of cash and cash equivalents, trade and other receivables, trade and other payables, and accrued liabilities 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

Loans and borrowings comprise amounts drawn on the Company's bank credit facilities and finance leases for equipment and automobiles. The Company manages its interest rate risk on bank credit facilities by utilizing a combination of short-term fixed rates through the use of 30 to 90 day Banker's Acceptance rates and floating rates. The finance leases for equipment and automobiles are at fixed interest rates.

### Foreign Currency Risk

The Company is exposed to currency risk on purchases that are denominated in United States Dollars (USD). At December 31, 2016 and December 31, 2015, the exposure to USD was primarily as a result of USD denominated accounts payable of USD$5.7 million and USD$8.6 million, respectively.

To manage the currency risk on outstanding USD accounts payable balances and on anticipated USD purchases, the Company may enter into derivative contracts. As at December 31, 2016 and December 31, 2015, there were no derivative contracts outstanding.

### Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements as at December 31, 2016, other than the operating leases described above under *Liquidity Risk*.

## ACCOUNTING POLICIES AND ESTIMATES

The Company's International Financial Reporting Standards (IFRS) accounting policies are provided in note 3 to the Annual Consolidated Financial Statements as at and for the years ended December 31, 2016 and 2015. Future accounting pronouncements are provided at note 2(b) to the Consolidated Financial Statements as at and for the years ended December 31, 2016 and 2015.

### 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 years ended December 31, 2016 and 2015 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.

<u>Revenue Recognition</u>

The Company recognizes revenue based on the completion of planned programs of services and adjusted for required changes as agreed upon by the customer. For Pressure Pumping Services, revenue is recognized as work is completed and agreed upon by the customer. For Fluid Management Services, revenue is recognized based on equipment and manpower usage by the customer.

<u>Estimates of Collectability of Accounts Receivable</u>

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 $0.8 million has been established as at December 31, 2016 (December 31, 2015: $0.1 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 debt expenses in excess of the allowance are actually experienced.

<u>Depreciation of Property and Equipment</u>

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.

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 of disposal 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 of disposal requires management to make estimates of fair value using market conditions for similar assets as well as estimations for costs of disposal, 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, 2016, an impairment test was performed per IAS 36, Impairment of Assets on the Pressure Pumping and Fluid Management Services CGUs and no impairment expense was recorded for the year ended December 31, 2016 (2015: goodwill impairment of $28.4 million and an impairment loss of $1.2 million on specific equipment). The Company did however identify $454 of specific equipment that was no longer in use and was written-off as at December 31, 2016. Refer to note 10 and note 11 of the Company's Annual Consolidated Financial Statements as at and for the years ended December 31, 2016 and 2015.

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.

Liquidity Risk

As at December 31, 2016, the Company had a working capital balance of $28.3 million (December 31, 2015: $27.6 million) and, subject to certain conditions, also had available on its credit facility approximately $75 million (December 31, 2015: $40 million available). As at December 31, 2016, the Company was committed to various commitments which require the Company to have available various sources of capital and/or require the Company to generate future operating cash flow to meet the obligations associated with these commitments.

The Company's availability under its existing credit facilities, or availability under alternate similar credit facilities, is dependent on its ability to maintain compliance with certain financial covenants. Current credit facility availability and operating cash flows are expected to be greater than anticipated obligations and commitments over the next year. Credit facility availability, including covenant compliance, could be adversely affected by a continued and/or further decline of the oil and gas services business in Canada.

Tax Positions

The Company is subject to income and commodity taxes. Judgment is required in determining provisions for taxation. There are many transactions and calculations for determination of the various tax assets and liabilities. The Company maintains provisions for tax assets and liabilities. These provisions are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, the Company is subject to ongoing audits, and it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these matters is different from the amounts that were initially recorded, such differences will be recognized in the consolidated financial statements in the period in which such determination is made.

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 annual 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 judgments 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 MD&A should carefully consider the risks described under the heading "Risk Factors" in the Company's most recently filed AIF, which are specifically incorporated by reference herein. The AIF is available on SEDAR at *www.sedar.com*. Other than risks described within this MD&A, including within this section, the Company's risk factors and management of those risks has not changed substantially from the most recently filed AIF.

### Credit Risk and Dependence on Major Customers

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

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 accounted for 52% of the Company's accounts receivable at December 31, 2016 (year ended December 31, 2015: five customers, 66% of accounts receivable). For the three months and year ended December 31, 2016, five customers accounted for 44% and 42%, respectively, of the Company's revenue (three months and year ended December 31, 2015: five customers, 53% and 49% of revenue, respectively).

Standard payment terms for the industry are 30-60 days from the invoice date, however industry practice allows payment for up to 90 days after the invoice date.

## 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 December 31, 2016 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 December 31, 2016 for the foregoing purposes.

No material changes in the Company's internal controls over financial reporting were identified during the period beginning on January 1, 2016 and ended on December 31, 2016, 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.

## NON-GAAP MEASURES

The Company's Annual Consolidated Financial Statements have been prepared in accordance with IFRS. Certain measures in this document do not have any standardized meaning as prescribed by IFRS and are considered Non-GAAP Measures.

Adjusted EBITDA, funds from (used in) operations, adjusted loss and comprehensive loss and adjusted per share amounts are not recognized measures under IFRS. Management believes that in addition to loss and comprehensive loss, the following measures are useful to help assess the results of the Company.

Descriptions and reconciliations of these Non-GAAP Measures to the most directly comparable IFRS measures are outlined below. Readers should be cautioned that the below metrics should not be construed as an alternative to or a more meaningful measure than those determined in accordance with IFRS. Canyon's method of calculating these metrics may differ from other companies and accordingly, they may not be comparable to measures used by other companies.

**Adjusted EBITDA**

Canyon calculates Adjusted EBITDA as loss and comprehensive loss for the period adjusted for depreciation and amortization, equity settled share-based payment transactions, gain or loss on sale of property and equipment, finance costs, foreign exchange gain or loss, income tax recovery, gain on business combination and impairment.

Adjusted EBITDA is a useful supplemental measure as it provides an indication of the cash results generated by the Company's principal business activities prior to consideration of how those activities are financed and how the results are taxed.

| 000's<br>(three month information unaudited) | Three Months Ended December 31, | | Year Ended December 31, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Loss and comprehensive loss | ($12,226) | ($18,261) | ($72,199) | ($62,063) |
| Add (deduct): | | | | |
| Depreciation and amortization | 14,385 | 15,487 | 57,357 | 60,587 |
| Finance costs | 568 | 689 | 1,696 | 2,699 |
| Foreign exchange loss | 52 | 484 | 681 | 2,606 |
| Share-based payment transactions | 1,307 | 1,547 | 8,668 | 6,507 |
| Gain on sale of property and equipment | (101) | (167) | (858) | (415) |
| Gain on business combination | - | - | - | (543) |
| Goodwill impairment | - | 9,500 | - | 28,400 |
| Write-off of equipment and onerous contract | - | 1,215 | 1,187 | 1,215 |
| Income tax recovery | (4,927) | (2,827) | (20,546) | (7,663) |
| Adjusted EBITDA | ($942) | $7,667 | ($24,014) | $31,330 |

**Funds from (used in) Operations**

Funds from (used in) operations refers to cash flow from (used in) operations before changes in non-cash working capital, income taxes recovered (paid), but includes finance costs and current tax recovery (expense).

Funds from (used in) operations is a measure of liquidity based on cash generated by the Company's activities without consideration of the timing of the monetization of non-cash working capital items or payment of taxes. Management believes that funds from (used in) operations provides investors with an indication of cash available for capital commitments, debt repayments, payment of taxes, and other expenditures.

| 000's<br>(three month information unaudited) | Three Months Ended December 31, | | Year Ended December 31, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Net cash (used in) from operating activities | $1,479 | $11,374 | ($4,035) | $13,102 |
| Add (deduct): | | | | |
| Income tax paid (recovered) | 9 | (346) | (9,764) | 8,979 |
| Change in non-cash working capital related to operating activities | (2,493) | (3,858) | (10,990) | 6,526 |
| Current tax recovery | 989 | 2,187 | 17,705 | 8,321 |
| Finance costs | (568) | (689) | (1,696) | (2,699) |
| Funds from (used in) operations | ($584) | $8,668 | ($8,780) | $34,229 |

**Adjusted Loss and Comprehensive Loss**

Adjusted loss and comprehensive loss is calculated as loss and comprehensive loss plus amortization expense on intangibles, impairment expense, gain on business combination and share-based payment transactions.

Adjusted per share basic and diluted loss per share are calculated as adjusted loss and comprehensive loss divided by weighted average basic and diluted shares outstanding.

These measures provide investors with results generated by the Company's business activities in the normal course of business, not taking into account share-based payments expense, amortization of intangibles or impairment, which are not reflective of past operational activity.

Readers should be cautioned that the above metrics should not be construed as an alternative to loss and comprehensive loss, determined in accordance with IFRS, as an indicator of the Company's performance. Canyon's method of calculating these metrics may differ from other companies and accordingly, they may not be comparable to measures used by other companies.

| 000's (three month information unaudited) | Three Months Ended December 31, | | Year Ended December 31, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Loss and comprehensive loss | ($12,226) | ($18,261) | ($72,199) | ($62,063) |
| Amortization expense on intangibles | 1,506 | 1,508 | 6,023 | 6,023 |
| Gain on business combination | - | - | - | (543) |
| Goodwill impairment | - | 9,500 | - | 28,400 |
| Write-off of equipment and onerous contract | - | 1,215 | 1,187 | 1,215 |
| Share-based payment transactions | 1,307 | 1,547 | 8,668 | 6,507 |
| Adjusted loss and comprehensive loss | ($9,413) | ($4,491) | ($56,321) | ($20,461) |
| Adjusted per share-basic | ($0.11) | ($0.07) | ($0.69) | ($0.30) |
| Adjusted per share-diluted | ($0.11) | ($0.07) | ($0.69) | ($0.30) |

**Other Non-Standard Financial Terms and Calculations**

*Consolidated Pressure Pumping revenue per tonne*

This calculation is determined based on total Pressure Pumping revenue divided by total proppant pumped for the relevant period. This calculation will change from period to period based on pricing changes, changes in types of product utilized (primarily proppant and chemicals), the weight of the proppant used, prices for the product sourced by our third party customers, and the weighting of Pressure Pumping fracturing revenue relative to non-fracturing support services.

*Pressure Pumping fracturing revenue per tonne*

This calculation is determined based on total Pressure Pumping hydraulic fracturing revenue divided by total proppant pumped for the relevant period. This calculation is determined based on the change in hydraulic fracturing revenue per tonne of proppant pumped. This calculation will change from period to period based on pricing changes, changes in types of product utilized (primarily proppant and chemicals), the weight of the proppant used, and prices for the product sourced by our third party customers.

*Pressure Pumping equipment prices for fracturing services*

This calculation is determined based on the change in Pressure Pumping fracturing revenue per tonne of proppant pumped, but excludes from revenue products that are sourced on behalf of third parties, such as proppant, chemicals, and/or third party equipment specific to a fracturing job. This calculation will change from period to period based on customer pricing changes and the weight of the proppant used.

*Consolidated Pressure Pumping revenue per job*

This calculation is determined based on total Pressure Pumping revenue divided by total pressure pumping jobs for the relevant period. This calculation is the historical revenue activity metric which will fluctuate dramatically based on the types of jobs and intensity of jobs and billing process used to invoice clients.

*Average fracturing revenue per job*

This calculation is determined based on total Pressure Pumping hydraulic fracturing revenue divided by total pressure pumping hydraulic fracturing jobs for the relevant period. This calculation is the historical revenue activity metric which will fluctuate dramatically based on the types of jobs and intensity of jobs and billing process used to invoice clients.

*Optimization Process Savings Calculations*

These calculations were made by applying 2015 Pressure Pumping fracturing's full year per tonne average variable cost structure, and 2015 average fixed cost structure, to 2016 activity levels (activity levels are based on tonnes of proppant pumped). Personnel optimization, personnel travel expenses, third party contracting costs, and repairs and maintenance (R&M) expenses are components of Pressure Pumping's expenses 'other – cost of services expense'.

*Customer Savings for Proppant and Chemical Calculations*

These calculations were made by calculating the change in total proppant and chemical costs on a per tonne basis for each of 2016 and 2015. Proppant and chemical costs are components of Pressure Pumping's 'other – cost of services expense'.

## COMMON INDUSTRY TERMS

The following is a list of abbreviations, terms and other items that are commonly referred to in the oilfield services business and internally at Canyon. The terms, calculations and definitions may differ from those used by other oilfield services businesses and may not be comparable. Some of the terms which may be used in this MD&A are as follows:

| | |
|---|---|
| **Measurement:** | |
| bbl | Barrel, generally in reference to oil prices |
| mcf | Thousands of cubic feet of natural gas |
| Tonne | Metric tonne |
| **Places and Currencies:** | |
| US | United States |
| BC | British Columbia |
| WCSB | Western Canadian Sedimentary Basin (an oil and natural gas producing area of Canada generally considered to cover a region from south west Manitoba to north east BC) |
| Montney/Duvernay | An oil and natural gas formation in the WCSB with oilfield activity focused in north west Alberta and north east BC region |
| Bakken | In this MD&A, the Bakken refers to a light oil formation in the WCSB with oilfield activity primarily focused in south eastern Saskatchewan, and excludes the US Bakken |
| Shaunavon | A light oil formation in the WCSB with oilfield activity primarily focused in south western Saskatchewan |
| Viking | A light oil formation in the WCSB with oilfield activity primarily focused in central Alberta and west central Saskatchewan |
| $ or CDN$ | Canadian dollars |
| US$ or USD | United States dollars |
| **Common Business Terms:** | |
| NYMEX WTI | The US$ quoted price on the New York Stock Exchange for West Texas Intermediate crude oil. |
| AECO-C | Alberta reference price for natural gas quoted in CDN$. |
| Canadian Average Drilling Rig Count | The estimated average number of drilling rigs operating in the WCSB at a specified time reported in this MD&A as annual and quarterly averages. |
| Canadian Well Completions | The estimated number of wells that have been made ready for production reported in an annual or quarterly period within this MD&A. |
| Canadian Wells Drilled | Wells 2016 data included in the *Industry Commentary and Outlook* section of the MD&A is sourced from Nickels Energy Group and represents wells drilled by formation which is a different metric than Canadian wells completion data disclosed in the *Business Environment* section of this MD&A. This data may also differ from other sources. |
| G&A | General and administrative expenses |
| E&P | Exploration and production company |

**Company Specific Industry Terms:**

| | |
|---|---|
| Proppant | A solid material, typically sand, treated sand or man-made ceramic materials, designed to keep an induced hydraulic fracture open during and following a fracturing treatment. |
| Proppant Pumped | The Company uses this as one measure of activity levels within the Pressure Pumping segment. The correlation of proppant pumped to Pressure Pumping activity may vary in the future depending upon changes in fracturing intensity, weight of proppant used, and job mix. |
| Well Servicing Job Days | This refers to a calendar revenue day for primary pieces of well servicing equipment in each of the Pressure Pumping segment service lines, excluding hydraulic fracturing. These services are: (1) high-rate nitrogen support services; (2) coiled tubing; and (3) remedial and primary cementing. These service lines primarily support hydraulic fracturing activity. |
| Jobs | The Company historically used jobs to measure activity levels. However, as the diversity in job mix has changed and customer administrative billing methodology has increased the number of jobs, jobs is no longer as highly correlated to activity levels. |
| HHP | Hydraulic horse power which is generally the measure of an individual hydraulic fracturing pump and a company's hydraulic fracturing fleet size. |
| Average Utilized Fracturing Equipment | Represents the average Pressure Pumping hydraulic fracturing equipment generating revenue on a calendar day. |
| Types of Pumps | The pressure pumping industry utilizes different types of pumps to complete hydraulic fracturing services for its customers. Some of the most common types of pumps are as follows:<br><u>High Spec / 3000</u>: Capable of operating efficiently and on a continuous duty basis and for competitive prices in approximately 90% of the WCSB (based on 2016 wells drilled data and our internal estimates). Currently not strategic to operate a High Spec pump in low HHP intensity formations.<br><u>Standard 1/ 2500-2700</u>: Capable of operating efficiently and on an intermittent duty basis in approximately 80% of the WCSB (based on 2016 wells drilled data and our internal estimates).<br><u>Standard 2 / 2500</u>: Capable of operating efficiently and on an intermittent duty in approximately 70% of the WCSB (based on 2016 wells drilled data and our internal estimates). The difference from Standard 1, is that this pump will require slightly more R&M on a typical Montney well.<br><u>Legacy Pump / 2250</u>: Capable of operating efficiently in approximately 20% of the WCSB (based on 2016 wells drilled data and our internal estimates). |
| Ranking | Management has ranked the pumps based on 2016 wells drilled data by formation and then applied a ranking based on the estimated feasibility of using this style of pump to treat specific formations. Our estimate of the required HHP for wells drilled in that formation is based on internal standard HHP requirements for those formations. The rankings by pump type are as follows:<br>1. Most efficient, or equally efficient, at operating in an area due to minimal quantity of pumps required on location thereby reducing the overall well cost.<br>2. Efficient to use for the formation, requiring relatively less maintenance and less pumps on location compared to lower ranked Legacy pumps, thereby offering comparatively lower overall costs relative to Legacy pumps.<br>3. Can operate in the formation, but requires more maintenance, man power and other costs thereby not relatively efficient compared to other equipment. |

## 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 "anticipate", "believe", "continue", "estimate", "expect", "grow", "may", "plans", "objective", "ongoing", "optimize", "plans", "should", "trend", "will" 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 inflationary pressure, future results from operations; future liquidity and financial capacity and financial resources; future costs and expenses; future interest costs; future capital expenditures; future capital structure and expansion; the making and timing of future regulatory filings; anticipated activity levels of our customers; 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, but not limited to: impact of commodity prices on E&P capital programs, activity and pricing, and our ability to generate a sustainable return on investment; ability to hire personnel and reactivate idle equipment; effect of an FID on activity; 10% to 15% increase in Pressure Pumping fracturing price from Q4 2016; financial results will return to meaningful Adjusted EBITDA levels in Q1 2017; our fracturing fleet at June 30, 2017; estimated HHP allocation by WCSB formation and pumps suited to these formations; companies will be required to invest in High Spec equipment to remain efficient and competitive in a majority of the WCSB formations; management's estimate of the allocation of 2016 HHP demands by WCSB formation and provides management's estimate as to what capacity pumps are ideally suited to each formation, our primary objectives, and methods of achieving those objectives; 2017 capital program, the general continuance of current or, where applicable, assumed industry conditions; the continuance of existing 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 the collectability of customer accounts; 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, unfavorable 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.