



## MANAGEMENT'S DISCUSSION AND ANALYSIS FIRST QUARTER 2017

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This management discussion and analysis (MD&A) is dated May 4, 2017. It should be read in conjunction with the condensed consolidated interim financial statements and notes of Canyon Services Group Inc. (“Canyon” or the “Company”) as at and for the three months ending March 31, 2017 and 2016 as well as the audited consolidated financial statements and notes 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, 2016, is available online at [www.sedar.com](http://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.

**Significant Event:** On March 22, 2017, the Company entered into an arrangement agreement with Trican Well Service Ltd. (“Trican”) pursuant to which Trican agreed to acquire all of the issued and outstanding common shares of Canyon (the “Canyon Shares”) on the basis of 1.70 common shares of Trican (the “Trican Shares”) for each outstanding Canyon Share (the “Transaction”).

Under the terms of the arrangement agreement, the Transaction will be effected by way of a plan of arrangement under the Business Corporations Act (Alberta). The Transaction is expected to be completed in the second half of 2017 and is subject to TSX and Alberta Court of Queen’s Bench approval, regulatory approvals and the satisfaction of other customary closing conditions. If the relevant regulatory approvals are obtained sooner, the Transaction may be completed earlier.

**Non-GAAP Measures:** Certain financial measures in this MD&A – namely Adjusted EBITDA, funds from operations, and adjusted income (loss), are not prescribed by IFRS. These financial measures are reconciled to IFRS measures in the Quarterly 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 and Risk Management* 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 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, per tonne amounts and hydraulic pumping capacity (Unaudited)	Three Months Ended	
	March 31,	
	2017	2016
Consolidated revenues	\$144,823	\$71,269
Net income (loss)	\$1,642	(\$20,594)
Per share-basic	\$0.02	(\$0.29)
Per share-diluted	\$0.02	(\$0.29)
Adjusted EBITDA <sup>(1)</sup>	\$23,438	(\$3,673)
Funds from operations <sup>(1)</sup>	\$22,147	\$409
Adjusted income (loss) <sup>(1)</sup>	\$7,828	(\$13,100)
Adjusted per share-basic <sup>(1)</sup>	\$0.09	(\$0.19)
Adjusted per share-diluted <sup>(1)</sup>	\$0.09	(\$0.19)
Total Pressure Pumping proppant pumped (tonnes) <sup>(2)</sup>	194,849	100,589
Consolidated Pressure Pumping revenue per tonne <sup>(3)</sup>	\$692	\$626
Pressure Pumping fracturing revenue per tonne <sup>(3)</sup>	\$570	\$555
Hydraulic Pumping Capacity:		
Average HHP <sup>(2)</sup>	257,650	256,400
Exit HHP	258,900	256,400
Capital expenditures	\$9,316	\$1,278

000's except per share amounts	As at	
	March 31, 2017	December 31, 2016
Cash and cash equivalents	\$2,266	\$2,473
Working capital	\$51,303	\$28,267
Total long-term financial liabilities	\$38,517	\$28,480
Total assets	\$501,995	\$458,034

<sup>1</sup> See *Non-GAAP Measures* described on page 13 of this MD&A.

<sup>2</sup> See *Common Industry Terms*.

<sup>3</sup> For an explanation as to how this number was determined, see *Non-GAAP Measures* on page 13 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 9 of this MD&A.

## FINANCIAL AND OPERATING HIGHLIGHTS

### First quarter 2017 compared with first quarter 2016

Q1 2017 financial results improved significantly compared to Q1 2016 primarily as a result of improved market conditions, increased well intensity and improved cost efficiency. Pressure Pumping equipment prices for fracturing services<sup>1</sup> increased by approximately 20% sequentially and when compared to Q1 2016's unsustainable levels.

- Net income for Q1 2017 of \$1.6 million, compared to a net loss of \$20.6 million in Q1 2016.
- Adjusted EBITDA<sup>2</sup> for Q1 2017 of \$23.4 million, compared to negative \$3.7 million in Q1 2016.
- Total proppant pumped for Q1 2017 of 194,849 tonnes, compared to 100,589 tonnes in Q1 2016.
- Average utilized fracturing equipment<sup>1</sup> was 140,000 HHP, compared to 87,500 HHP in Q1 2016.

### First Quarter 2017 Highlights

The first quarter of 2017 saw meaningful year-over-year activity increases.

- Canyon's Pressure Pumping hydraulic fracturing activity (measured by tonnes of proppant pumped) increased by 94% from Q1 2016, which compares to an increase in Q1 2017 Canadian well completions of 43%<sup>3</sup> from Q1 2016.
- Pressure Pumping equipment prices for hydraulic fracturing services<sup>1</sup> were 20% above the comparative first quarter 2016 levels, but remained 45% below Q4 2014 exit pricing levels.
- Canyon was able to maintain relatively stable gross pricing for our customers with Pressure Pumping fracturing revenue per tonne<sup>2</sup> up by only 3% (see below for discussion on optimization efforts).

Canyon continued to maintain and improve service optimization efforts. The results of the optimization efforts helped restore the Company to positive Adjusted EBITDA<sup>2</sup> and positive net income. Some of the key results of our optimization are as follows:

- Canyon's approach to personnel optimization resulted in Q1 2017 direct personnel costs for hydraulic fracturing being \$4.5 million<sup>1</sup> lower than they would have been had Q1 2016's personnel cost structure been carried forward to Q1 2017.
- Personnel optimization, described above, contributed to incremental savings on personnel travel costs of \$0.4 million<sup>1</sup>.
- Materials and inventory costs per tonne related to sand and chemicals decreased by 27% in Q1 2017 relative to Q1 2016 due to negotiated supplier discounts and an increase in demand for more cost effective products. This resulted in direct cost savings for our customers.

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

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<sup>1</sup> For an explanation as to how this number was determined, see *Non-GAAP Measures* on page 13 of this MD&A.

<sup>2</sup> See *Non-GAAP Measures* on page 13 of this MD&A.

<sup>3</sup> Source: Nickles Energy Group.

## 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.

(Unaudited)	Three Months Ended		Year Ended	
	March 31,		December 31,	
	2017	2016	2016	2015
NYMEX WTI - Average Price(US\$/bbl)	\$51.82	\$33.68	\$43.47	\$48.41
AECO-C Spot Average Price (CDN\$/mcf)	\$2.69	\$1.82	\$2.18	\$2.71
Average Exchange Rate (US\$/CDN\$)	\$0.76	\$0.74	\$0.76	\$0.78
Thousands of Meters Drilled <sup>(1)</sup>	6,178	4,557	9,802	13,356
Canadian Average Drilling Rig Count <sup>(1)</sup>	299	165	136	195
Canadian Well Completions <sup>(1)</sup>	1,554	1,086	3,454	5,293

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 Q1 2017 improved relative to Q1 2016. The improvement in WTI prices helped contribute to an increase in Canadian Well Completions. The overall improved industry environment, resulted in the company realizing a 20% increase in Pressure Pumping equipment prices for hydraulic fracturing services relative to Q1 2016.

During Q4 2016 and through Q1 2017, 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. Natural gas prices have also improved, AECO spot prices improved from Q1 2016, increasing by 48% to CDN\$2.69/mcf in Q1 2017 from Q1 2016 prices of CDN\$1.82/mcf. The recent stabilization of oil and natural gas prices have helped reverse oilfield services industry activity declines, which had started in early 2015 and seemed to hit a bottom in Q3 2016. The fourth quarter of 2016 started to show initial signs of activity and pricing improvements which carried-over into Q1 2017.

## INDUSTRY COMMENTARY & 2017 OUTLOOK

There are no material changes to the Company's *Industry Commentary and 2017 Outlook* from that described in the Company's annual MD&A dated March 2, 2017 except that the Company expects to close the Transaction with Trican in the second half of 2017, or earlier, assuming all regulatory approvals are obtained.

<sup>1</sup> Source: Nickles Energy Group.

## QUARTERLY FINANCIAL REVIEW – FIRST QUARTER 2017 COMPARED TO 2016

### Pressure Pumping Services

000's (Unaudited)	Three Months Ended March 31,				
	2017			2016	
	Total	Percentage of revenue	Percentage change	Total	Percentage of revenue
Revenue	\$134,845		114%	\$62,978	
Depreciation - cost of services	(9,272)	(7%)	(13%)	(10,717)	(17%)
Other - cost of services	(107,049)	(79%)	69%	(63,399)	(101%)
Cost of services	(116,321)	(86%)	57%	(74,116)	(118%)
Gross profit (loss)	18,524	14%	266%	(11,138)	(18%)
Depreciation - administrative expenses	(466)	-%	(14%)	(539)	(1%)
Other - administrative expenses	(4,242)	(3%)	26%	(3,371)	(5%)
Administrative expenses	(4,708)	(3%)	20%	(3,910)	(6%)
Amortization expense	(5)	-%	-%	(5)	-%
Results from operating activities	13,811	10%	192%	(15,053)	(24%)
Add non-cash items:					
Depreciation and amortization	9,743	7%	(13%)	11,261	18%
Adjusted EBITDA <sup>(1)</sup>	\$23,554	17%	721%	(\$3,792)	(6%)

#### 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 94% and 59%, respectively. The overall increase in activity, helped contribute to Pressure Pumping equipment prices for hydraulic fracturing services increasing by approximately 20% above first quarter 2016 levels. The increase in activity and pricing were the primary drivers of significant revenue increases in the Pressure Pumping Services segment. Shortage of available equipment has also contributed to pricing increases.

#### 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 March 31,		
	2017	Percentage change	2016
Employee benefits expense	\$24,781	36%	\$18,231
Depreciation of equipment	9,272	(13%)	10,717
Materials and inventory	63,708	89%	33,619
Operating expense	18,560	61%	11,549
Total cost of services	\$116,321	57%	\$74,116

Total cost of services increased by 57% when compared to the prior year, primarily due to higher activity levels. In addition, dramatic steps to optimizing our cost structure undertaken in 2015 and 2016 have resulted in significant changes to Pressure Pumping's overall cost structure with more than \$7 million of cost reductions in Q1 2017 compared to Q1 2016. These reductions are described more fully within *First Quarter 2017 Highlights* section of this MD&A.

<sup>1</sup> See *Non-GAAP Measures* on page 13 of this MD&A.

- Employee benefits expense increased by approximately 36% compared to Q1 2016. This is a direct result of increased Pressure Pumping activity levels in both hydraulic fracturing and well servicing of 94% and 59%, respectively. Employee benefits expense did not increase in proportion to activity as a result of personnel optimization efforts as previously described in the *First Quarter 2017 Highlights* section of this MD&A.
- Depreciation of the Company's equipment decreased by 13% when compared to Q1 2016, due primarily to a decrease in the asset base through disposals of leased equipment.
- Materials and inventory expense increased by 89% when compared to Q1 2016 which approximates the increase in Pressure Pumping activity levels. The Company was able to generate 20% reductions in materials and inventory expense related to sand and chemicals by using lower cost products and negotiating discounts. This cost reduction was offset by increased expense in third party hauling expense as the significant proppant volumes transported exceeded the Company's ability to haul that volume of proppant with its own internal capabilities.
- Other operating expenses increased by 61% due to the increase in Pressure Pumping activity levels relative to Q1 2016. Other operating expense did not increase in proportion to activity increases as certain of this expense is fixed cost and therefore not as affected by activity changes.

### G&A

The following table provides a summary of G&A:

000's (Unaudited)	Three Months Ended March 31,		
	2017	Percentage change	2016
Employee benefits expense	\$3,093	48%	\$2,094
Depreciation of equipment	466	(14%)	539
Other administrative expenses	1,149	(10%)	1,277
<b>Total administrative expenses</b>	<b>\$4,708</b>	<b>20%</b>	<b>\$3,910</b>

Overall, G&A expenses increased primarily due to increases in sales incentives due to higher activity and overall revenue levels.

### Adjusted EBITDA<sup>1</sup>

In Q1 2017, Adjusted EBITDA<sup>1</sup> for Pressure Pumping Services increased to positive \$23.6 million from negative \$3.8 million in Q1 2016. The primary reasons for the increase was the aforementioned pricing increases from previously unsustainable levels combined with increased activity and cost optimization.

<sup>1</sup> See *Non-GAAP Measures* on page 13 of this MD&A.

## Fluid Management Services

000's (Unaudited)	Three Months Ended March 31,				
	2017			2016	
	Total	Percentage of revenue	Percentage change	Total	Percentage of revenue
Revenue	\$9,978		20%	\$8,291	
Depreciation - cost of services	(2,410)	(24%)	-%	(2,411)	(29%)
Other - cost of services	(7,088)	(71%)	18%	(5,987)	(72%)
Cost of services	(9,498)	(95%)	13%	(8,398)	(101%)
Gross profit (loss)	480	5%	549%	(107)	(1%)
Other - administrative expenses	(1,637)	(16%)	13%	(1,446)	(17%)
Administrative expenses	(1,637)	(16%)	13%	(1,446)	(17%)
Amortization expense	(1,501)	(15%)	4%	(1,442)	(17%)
Results from operating activities	(2,658)	(27%)	(11%)	(2,995)	(36%)
Add non-cash items:					
Depreciation and amortization	3,911	39%	2%	3,853	46%
Adjusted EBITDA <sup>(1)</sup>	\$1,253	13%	46%	\$858	10%

### Revenues

The Fluid Management Services division, generated \$10 million of revenue in Q1 2017, an increase of 20% from Q1 2016 levels. In the current quarter, the Fluid Management Services division started to see initial signs of activity and price improvements as the wells completed in the WCSB increased by 468<sup>2</sup> or 43% compared to Q1 2016. The Fluid Management Services division was able to maintain relatively strong activity levels with Q1 2017 tank rental utilization rates at 65% compared to 36% in Q1 2016.

### Cost of services

The following table provides a summary of cost of services:

000's (Unaudited)	Three Months Ended March 31,		
	2017	Percentage change	2016
Employee benefits expense	\$2,471	(7%)	\$2,650
Depreciation of equipment	2,410	-%	2,411
Materials and inventory	1,013	20%	841
Operating expense	3,604	44%	2,496
Total cost of services	\$9,498	13%	\$8,398

- Employee benefits expense decreased by 7% in Q1 2017 mainly due to a reduction in wage rates.
- Depreciation of equipment remained consistent with Q1 2016 levels.
- Materials and inventory costs increased by 20% during Q1 2017 when compared to Q1 2016 due to an increase in Fluid Containment activity, specifically an increase in the number of tank setups completed for the quarter. For Q1 2017, 68 tank setups were completed compared to 59 for the same period last year.
- Other operating expenses increased by 44% primarily due to an increase activity across all service lines. This resulted in increased fuel expenses, equipment repairs and usage of third parties due to equipment and manpower being utilized for other jobs.

<sup>1</sup> See *Non-GAAP Measures* on page 13 of this MD&A.

<sup>2</sup> Source: Nickles Energy Group.

## G&A

The following table provides a summary of G&A:

000's (Unaudited)	Three Months Ended March 31,		
	2017	Percentage change	2016
Employee benefits expense	\$715	(12%)	\$811
Other administrative expenses	922	45%	635
Total administrative expenses	\$1,637	13%	\$1,446

Employee benefits expense decreased 12% in Q1 2017 when compared to the prior period, primarily due to reduced staffing levels. Other administrative expenses increased to support hiring activities.

## Adjusted EBITDA<sup>1</sup>

First quarter 2017 Adjusted EBITDA<sup>1</sup> was \$1.3 million, compared to \$0.9 million in Q1 2016, primarily due to improved activity.

## 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 March 31,		
	2017	Percentage change	2016
	Total		Total
Revenue	\$-		\$-
Share-based payment transactions - administrative expenses	(4,987)	3%	(4,860)
Other - administrative expenses	(1,369)	85%	(739)
	(6,356)	14%	(5,599)
Add non-cash items:			
Share-based payment transactions - administrative expenses	4,987	3%	4,860
Adjusted EBITDA <sup>(1)</sup>	(\$1,369)	85%	(\$739)

Administrative expenses for Q1 2017 totaled \$6.4 million and includes employee benefits expense, share-based payments, and other head office administrative expenses. The increase in administrative expenses is primarily due to \$0.7 million of costs incurred in relation to the Transaction.

## Other Items – Quarterly Consolidated Statement of Operations

000's (Unaudited)	Three Months Ended March 31,	
	2017	2016
Finance costs	\$814	\$589
Foreign exchange loss	\$40	\$565
Income tax expense (recovery)	\$2,641	(\$5,227)

## Finance costs

Finance costs include interest on bank indebtedness and finance lease obligations and totaled \$0.8 million in Q1 2017, which increased 38% from the Q1 2016 amount of \$0.6 million. The increase is primarily due to the Company paying a higher average interest rate as a result of negative Adjusted EBITDA<sup>1</sup> levels through-out 2016.

<sup>1</sup> See *Non-GAAP Measures* on page 13 of this MD&A.

### Foreign exchange loss

In Q1 2017, the Company recorded a nominal foreign exchange loss of \$40 (Q1 2016: loss of \$565). The Q1 2016 loss includes losses on foreign exchange contracts which were used to mitigate foreign exchange exposure on certain of its purchases. 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. The Company had no foreign exchange contracts outstanding at March 31, 2017.

### Income tax expense (recovery)

For Q1 2017, 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.

## SUMMARY OF QUARTERLY RESULTS<sup>1</sup>

000's except amounts stated as: per share, well servicing job days, per tonne and per job (Unaudited)	March 31, 2017	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015	September 30, 2015	June 30, 2015
Financial Information:								
Revenue	\$144,823	\$80,225	\$62,339	\$25,733	\$71,269	\$93,940	\$111,314	\$43,159
Adjusted EBITDA <sup>(2)</sup>	\$23,438	(\$942)	(\$5,138)	(\$14,261)	(\$3,673)	\$7,667	\$15,082	(\$9,754)
Income (loss) and Comprehensive Income (loss)	\$1,642	(\$12,226)	(\$16,762)	(\$22,617)	(\$20,594)	(\$18,261)	(\$20,863)	(\$21,857)
Basic Income (loss) per Share	\$0.02	(\$0.14)	(\$0.19)	(\$0.26)	(\$0.29)	(\$0.26)	(\$0.30)	(\$0.32)
Diluted Income (loss) per Share	\$0.02	(\$0.14)	(\$0.19)	(\$0.26)	(\$0.29)	(\$0.26)	(\$0.30)	(\$0.32)
Activity and Financial Metrics:								
Proppant Pumped (tonnes)	194,849	123,244	101,007	43,741	100,589	107,394	104,991	38,056
Total pressure pumping jobs completed	1,193	798	787	530	664	817	759	283
Consolidated Pressure Pumping revenue per tonne <sup>(2)</sup>	\$692	\$608	\$572	\$529	\$626	\$791	\$957	\$961
Pressure Pumping fracturing revenue per tonne <sup>(2)</sup>	\$570	\$513	\$452	\$391	\$555	\$702	\$858	\$866
Consolidated pressure pumping revenue per job <sup>(2)</sup>	\$112,779	\$94,130	\$73,712	\$43,920	\$94,967	\$104,301	\$133,000	\$131,585
Average fracturing revenue per job <sup>(2)</sup>	\$144,770	\$114,843	\$100,115	\$62,665	\$134,015	\$182,352	\$173,638	\$232,569

In Q2 2016 and Q2 2015, the lower revenues, negative Adjusted EBITDA<sup>2</sup> 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. In Q1 2017, the Company began to realize improved activity and pricing levels, resulting in improved financial results. For further discussion regarding the industry environment, see *Business Environment* for further discussion.

## LIQUIDITY AND CAPITAL RESOURCES

### Funds from operations

Funds from operations totaled \$22.1 million for the three months ended March 31, 2017, up from funds from operations of \$0.4 million in Q1 2016. Funds from operations were primarily used to finance changes in working capital.

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

<sup>2</sup> See *Non-GAAP Measures* on page 13 of this MD&A.

## Financing

### *Equity (Share amounts in thousands)*

In the comparable first quarter of 2016, 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). There were 28 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 ended March 31, 2017. The Company issued 349 common shares for nil proceeds pursuant to the Stock-Based Compensation Plan during the three months ended March 31, 2017.

### *Debt*

The Company had \$32.7 million of bank indebtedness net of cash at March 31, 2017 (December 31, 2016 bank indebtedness net of cash: \$22.5 million). In addition, finance leases as at March 31, 2017 totaled \$5.0 million (December 31, 2016: \$5.2 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 March 31, 2017, the Company had a working capital balance of \$51.3 million (December 31, 2016: \$28.3 million) and, subject to certain conditions, also had available on its credit facility approximately \$65 million (December 31, 2016: \$75 million available). As at March 31, 2017, the Company had financial 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 decline of the oil and gas services business in Canada.

## Working Capital and Cash Requirements

As at March 31, 2017, Canyon had a working capital balance of \$51.3 million compared to \$28.3 million as at December 31, 2016. As at March 31, 2017 trade and other receivables increased to \$97.0 million from \$46.8 million as at December 31, 2016 due to higher activity levels and improved pricing, as previously discussed. As at March 31, 2017 trade and other payables increased to \$77.5 million from \$52.3 million as at December 31, 2016 due to higher activity levels, as previously discussed. 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 March 31, 2017, accounts receivable includes an allowance of \$1.4 million for doubtful receivables (December 31, 2016: \$0.8 million).

## Investing Activities

For the three months ended March 31, 2017, capital expenditures, net of finance leases, totaled \$9.3 million included 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 9 of the Company's March 31, 2017 Condensed Consolidated Interim Financial Statements.

As at March 31, 2017, Canyon is in compliance with each of the financial covenants and has \$35 million drawn on its amended facility (see *Financing* above) (December 31, 2016: \$25 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 March 31, 2017:

000's	Total	Next 12 months	1-3 years	4-5 years	After 5 years
Trade and other payables	\$77,527	\$77,527	\$-	\$-	\$-
Bank indebtedness and finance leases	\$39,971	1,454	38,517	-	-
Operating and office space leases	\$4,523	2,257	1,631	635	-
Capital expenditure commitments	\$10,534	10,534	-	-	-
Total contractual obligations	\$132,555	\$91,772	\$40,148	\$635	\$-

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.

### 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*. The Company's planned 2017 capital program is summarized below:

(millions)	Maintenance	Upgrade / Expansion	Fluid Management	Total
Capital Expenditures				
Previously disclosed capital expenditures	\$24.3	\$9.3	\$3.7	\$37.3
Spent in Q1 2017	\$1.0	\$7.7	\$0.6	\$9.3
Total remaining 2017 capital expenditures	\$23.3	\$1.6	\$3.1	\$28.0

Expenditures incurred during the first quarter of 2017 were primarily focused on the completion of the Company's previously announced investment into new High Spec SPM QEM 3000 HHP pumps (QEM 3000). The remaining

planned expenditures are for the ongoing maintenance of the business and completion of the QEM 3000 capital expenditure program.

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

The following table summarizes Canyon's capitalization:

000's	May 4, 2017	March 31, 2017	December 31, 2016
Common Shares	86,519	86,426	86,049
Options	2,158	2,205	2,090
Incentive Based Units	2,839	2,903	2,212

Stock options and incentive based units granted, exercised, cancelled, expired and forfeited for the three months ended March 31, 2017 are summarized as follows:

000's	Three Months Ended March 31,	
	2017	2016
Share Options Granted	224	36
Share Options Exercised	28	-
Share Options Cancelled/Exchanged	-	1,347
Share Options Forfeited	81	182
Share Options Expired	-	138
Incentive Based Units Granted	1,124	2,132
Incentive Based Units Exercised	349	824
Incentive Based Units Forfeited	84	23

The average exercise price of the options granted for the period ended March 31, 2017 was \$7.23 per option (2016: \$5.30). 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 March 31, 2017 and December 31, 2016, the exposure to USD was primarily as a result of USD denominated accounts payable of USD\$8.2 million and USD\$5.7 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 March 31, 2017 and December 31, 2016, there were no derivative contracts outstanding.

## **Off-Balance Sheet Arrangements**

The Company has no off-balance sheet arrangements as at March 31, 2017, 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 note 2(d) to the Consolidated Financial Statements for the years ended December 31, 2016 and 2015 for a description of the Company's use of estimates and judgments.

## **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](http://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 57% of the Company's accounts receivable at March 31, 2017 (year ended December 31, 2016: five customers, 52% of accounts receivable). For the three months ended March 31, 2017, five customers accounted for 56% of the Company's revenue (three months ended March 31, 2016: five customers, 57% of revenue).

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**

There have been no changes in Canyon's internal control over financial reporting that occurred during the quarter ending March 31, 2017, which have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

## **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 operations, adjusted income (loss) and comprehensive income (loss) and adjusted per share amounts are not recognized measures under IFRS. Management believes that in addition to income (loss) and comprehensive income (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 income (loss) and comprehensive income (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 expense or recovery 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 (Unaudited)	Three Months Ended March 31,	
	2017	2016
Income (loss) and comprehensive income (loss)	\$1,642	(\$20,594)
Add (deduct):		
Depreciation and amortization	13,654	15,114
Finance costs	814	589
Foreign exchange loss	40	565
Share-based payment transactions	4,987	4,860
Gain on sale of property and equipment	(33)	(167)
Write-off (reversal) of equipment and onerous contract	(307)	1,187
Income tax expense (recovery)	2,641	(5,227)
Adjusted EBITDA	\$23,438	(\$3,673)

### Funds from Operations

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

Funds from 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 operations provides investors with an indication of cash available for capital commitments, debt repayments, payment of taxes, and other expenditures.

000's (Unaudited)	Three Months Ended March 31,	
	2017	2016
Net cash from operating activities	\$1,598	\$5,342
Add (deduct):		
Income tax paid (recovered)	-	(675)
Change in non-cash working capital related to operating activities	21,800	(8,679)
Current tax expense (recovery)	(437)	5,010
Finance costs	(814)	(589)
Funds from operations	\$22,147	\$409

## Adjusted Income (loss) and Comprehensive Income (loss)

Adjusted income (loss) and comprehensive income (loss) is calculated as income (loss) and comprehensive income (loss) plus amortization expense on intangibles, impairment expense, and share-based payment transactions.

Adjusted per share basic and diluted income (loss) per share are calculated as adjusted income (loss) and comprehensive income (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 income (loss) and comprehensive income (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 (Unaudited)	Three Months Ended March 31,	
	2017	2016
Income (loss) and comprehensive income (loss)	\$1,642	(\$20,594)
Amortization expense on intangibles	1,506	1,447
Write-off (reversal) of equipment and onerous contract	(307)	1,187
Share-based payment transactions	4,987	4,860
Adjusted income (loss) and comprehensive income (loss)	\$7,828	(\$13,100)
Adjusted per share-basic	\$0.09	(\$0.19)
Adjusted per share-diluted	\$0.09	(\$0.19)

## 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 2017 and 2016 comparative periods. 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 2017 data included in the Business <i>Environment</i> 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. 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.

**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", "objective", "ongoing", "optimize", "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: closing of the Transaction; 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: the Transaction is expected to be completed in the second half of 2017, impact of commodity prices on E&P capital programs, activity and pricing, and our ability to generate a sustainable return on investment; our cost structure will see inflationary pressures in 2017, our 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.