

**CANYON SERVICES GROUP INC.**

**ANNUAL INFORMATION FORM**  
**For the year ended December 31, 2007**

**March 5, 2008**

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## **FORWARD-LOOKING INFORMATION**

Certain statements contained in this annual information form, including statements that contain words such as "anticipates", "can", "may", "expect", "believe", "believes" and "will" and similar expressions, are forward-looking statements. These statements include, but are not limited to, future capital expenditures, future financial resources, future oil and gas well activity, outcome of specific events, and trends in the oil and gas industry. These statements are derived from certain assumptions and analyses made by the Corporation based on its experience and interpretation of historical trends, current conditions and expected future developments, and other factors that it believes are appropriate in the circumstances. These statements are subject to a number of known and unknown risks and uncertainties that could cause actual results to differ materially from the Corporation's expectations, such as prevailing economic conditions; commodity prices; sourcing, pricing and availability of raw materials, component parts, equipment, suppliers, facilities and skilled personnel; dependence on major customers; uncertainties in weather and temperature affecting the duration of the service periods and the activities that can be completed; regional competition; and other factors, many of which are beyond the control of the Corporation. Consequently, all of the forward-looking statements made in this annual information form are qualified by these cautionary statements and there can be no assurance that actual results or developments anticipated by the Corporation will be realized, or that they will have the expected consequences or effects on the Corporation or its business or operations. The Corporation assumes no obligation to update publicly any such forward-looking statements, whether as a result of new information, future events or otherwise, except as required pursuant to applicable securities laws.

## GLOSSARY

In this annual information form, unless the context otherwise requires, the following words and phrases have the meanings set forth below.

"**ABCA**" means the *Business Corporations Act* (Alberta), R.S.A. 2000, c. B 9, including the regulations thereunder;

"**Board of Directors**" means the board of directors of the Corporation, as from time to time constituted;

"**CO<sub>2</sub>**" means carbon dioxide;

"**Common Shares**" means common shares of the Corporation;

"**Corporation**" or "**Canyon**" means Canyon Services Group Inc.;

"**CS**" means chemical stimulation;

"**E&P Companies**" means companies in the business of exploring for and producing hydrocarbons;

"**Foam**" means foam fracturing;

"**GAAP**" means generally accepted accounting principles in Canada;

"**Grand Canyon Process**" means the patented process of injecting deformable proppants as a partial mono-layer into all reservoirs with a gas or liquid;

"**HP**" means hydraulic proppant fracturing;

"**mmcf/d**" means million cubic feet per day;

"**N<sub>2</sub>**" means nitrogen;

"**Option**" means an option to purchase Common Shares granted pursuant to the Stock Option Plan;

"**Person**" means any individual, partnership, association, body corporate, trust, trustee, executor, administrator, legal representative, government, regulatory authority or other entity;

"**Shareholder**" means a holder from time to time of Common Shares;

"**Stock Option Plan**" means the stock option plan of the Corporation;

"**Subsidiary**" means Canyon Technical Services Ltd., a corporation wholly-owned by the Corporation;

"**TSX**" means the Toronto Stock Exchange; and

"**WCSB**" means the Western Canadian Sedimentary Basin.

Unless otherwise indicated, references herein to "\$" or "dollars" are to Canadian dollars.

## **CANYON SERVICES GROUP INC.**

The Corporation was incorporated under the ABCA on April 8, 2004 as "1101701 Alberta Ltd." The Corporation filed articles of amendment to change its name to "Jade Oilfield Service Frac Division Ltd." on July 5, 2004, and to "Jade Energy Services Inc." on September 7, 2004. On October 28, 2004, the Corporation acquired all of the outstanding shares of the Subsidiary, a private water and vacuum truck services company that has been in operation since 1979. On February 3, 2006, the Corporation filed articles of amendment to remove its private company restrictions. On March 17, 2006, the Corporation filed articles of amendment to change its name to "Canyon Services Group Inc."

On May 15, 2007, Canyon Technical Services Inc. ("**Canyon US**"), a wholly-owned subsidiary of the Corporation, was incorporated in the State of Delaware. To date, Canyon US has not carried on any business.

The head office of the Corporation is located at 1600, 510 - 5th Street S.W., Calgary, Alberta, T2P 3S2. The registered office of the Corporation is located at 855, 2nd Street S.W., Suite 3500, Bankers Hall East Tower, Calgary, Alberta, T2P 4J8.

### **Intercorporate Relationships**

The Subsidiary and Canyon US are the sole subsidiaries of the Corporation and are wholly-owned by the Corporation. The Subsidiary was incorporated under the ABCA.

## **GENERAL DEVELOPMENT OF THE BUSINESS AND THREE YEAR HISTORY**

The Corporation was formed with the objective of becoming a technically focused oilfield services company utilizing experienced personnel and customized, versatile equipment to provide specialized, technical stimulation services to exploration and production companies ("**E&P Companies**") operating in the WCSB. Initial equity contributed by the Corporation's founders in April 2004 was used to fund deposits paid to high-rate nitrogen fracturing equipment fabricators. Also at this time, corporate reorganization plans were developed, which included the acquisition of the Subsidiary, to provide the Corporation with operating capital until its high-rate nitrogen fracturing services commenced.

Advanced stimulation technology currently deployed by the Corporation involves the use of specialized fracturing and acidizing equipment by experienced technical personnel, together with materials chemically engineered to develop and implement treatment solutions that are tailored to maximize hydrocarbon production and recoverable reserves from each different reservoir targeted.

The Corporation established the High-rate Nitrogen Fracturing Division on April 15, 2004 when deposits were paid for the fabrication of equipment for a custom-designed nitrogen equipment spread, including a coil tubing unit, high-rate nitrogen pumpers, nitrogen transport bulkers and data gathering and transmission equipment.

Throughout the summer and fall of 2004, management of the Corporation established an experienced Board of Directors and built a team of qualified and experienced technical and field service personnel. Senior fracturing personnel established the Corporation's Red Deer field office where they recruited experienced field personnel to crew fracturing spreads and oversaw the fabrication of Nitrogen Spread #1.

Pursuant to agreements dated October 28, 2004, the Corporation completed its previously planned corporate reorganization by formally acquiring all of the issued and outstanding shares of the Subsidiary

for total consideration of \$4.5 million. The shares of the Subsidiary were, directly and indirectly, purchased from Dennis Weinberger and Jason C. Weinberger, both of whom are officers of the Corporation. The Subsidiary provided the Corporation with cash flow while the operating capability of its technical divisions was being established.

On October 29, 2004, the Corporation issued 6,882,600 Common Shares by private placement at a price of \$2.25 per Common Share for gross proceeds of \$15.49 million. The proceeds from this private placement were used to fund capital equipment expenditures and to retire certain indebtedness assumed by the Corporation pursuant to the purchase of the Subsidiary.

In December 2004, Nitrogen Spread #1 was delivered to the Corporation and completed its first job on January 8, 2005.

In June 2005, Nitrogen Spread #2 was delivered to the Corporation and included 33% more pumping capacity. This spread completed its first job on June 20, 2005.

On August 31, 2005, the Board of Directors approved a \$12.0 million capital expenditure program for two additional technical divisions: (i) a specialty chemical stimulation division; and (ii) a conventional fracturing division providing specialty foam fracturing services. Equipment for these divisions included two custom designed and fabricated chemical stimulation units and two medium-rate foam fracturing spreads designed for reservoir specific treatments. Delivery of the two chemical stimulation units, CS Units #1 and #2 took place in March and October 2006, respectively, and delivery of the two specialty foam fracturing spreads, Foam Spreads #1 and #2 took place in August and November 2006, respectively.

On October 26, 2005, the Corporation issued 2,806,200 Common Shares by private placement at a price of \$4.50 per Common Share for gross proceeds of \$12.6 million. The proceeds from this private placement were used to partially fund capital expenditures related to Nitrogen Spread #3, CS Units #1 and #2 and Foam Spreads #1 and #2.

On December 23, 2005, the Board of Directors approved the Corporation's entry into the specialty hydraulic fracturing market expanding the Corporation's conventional fracturing division's focus to include shale gas, tight gas, wet-coal and other unconventional reservoirs. The Board of Directors also approved the establishment of a second field office in Grande Prairie, Alberta and additional capital expenditures to fund the fabrication of three high-rate hydraulic proppant fracturing spreads, including related infrastructure, support for this service line and the fabrication of two additional specialty chemical stimulation equipment spreads .

In January 2006, Nitrogen Spread #3 was delivered to the Corporation and completed its first job on January 16, 2006.

In January 2006, the Corporation paid deposits to equipment fabricators and suppliers for the three high-rate hydraulic proppant fracturing spreads, HP Spreads #1, #2 and #3.

In February 2006, the Corporation placed firm orders for the fabrication of the two chemical stimulation units, CS Units #3 and #4.

In March 2006, the Corporation took delivery of its first chemical stimulation unit, CS Unit #1 which completed its first job in that month.

Effective March 15, 2006, the Corporation sold the Subsidiary's assets related to its water and vacuum truck services for cash consideration of \$6.0 million and discontinued these operations in order for the Corporation to focus on providing specialized stimulation services.

On April 24, 2006, the Corporation received a receipt for its final prospectus filed in every province of Canada.

On May 1, 2006, the Corporation closed its initial public offering pursuant to which the Corporation issued 5,000,000 Common Shares at \$11.00 per Common Share for gross proceeds of \$55 million. The Common Shares began trading on the TSX on May 1, 2006. In conjunction with the initial public offering, a private company owned by Dennis Weinberger, President, Chief Executive Officer and a director of the Corporation and a private company owned by Jason Weinberger, Vice-President, Operations of the Corporation sold an aggregate of 500,000 previously issued Common Shares at \$11.00 per Common Share to the public.

In August 2006, the Corporation took delivery of Foam Spread #1 which completed its first job on August 14, 2006.

In October 2006, the Corporation took delivery of CS Spread #2 and HP Spread #1, with each completing its first job on November 6, 2006 and October 23, 2006, respectively.

In November 2006, the Corporation took delivery of Foam Spread #2 and Nitrogen Spread #4, with each completing its first job on November 14, 2006 and December 6, 2006, respectively.

In January and February 2007, the Corporation took delivery of HP Spreads #2 and #3, respectively.

In April 2007, the Corporation took delivery of CS Spreads #3 and #4, with each unit completing its first job in September 2007.

## **NARRATIVE DESCRIPTION OF THE BUSINESS OF THE CORPORATION**

The Corporation's activities are conducted in the oilfield services industry and are focused on providing specialized fracturing and chemical stimulation services to E&P Companies operating in the WCSB. These services are designed to enhance oil and natural gas production and maximize recovery from conventional and unconventional reservoirs.

### **Fracturing Services Overview**

Oil and natural gas is typically found in reservoirs contained within formations of permeable rock located beneath the earth's surface which are accessed by drilling a well bore from a surface location. Fracturing, or "fracing", is a stimulation technique that involves pumping fluids or gas into the sub-surface formation under sufficiently high pressure to cause fractures within the rock formation, which creates or improves the conductivity within the permeable formation and allows the oil or natural gas within the reservoir to flow through the formation to the well bore, and then to the earth's surface. Fracturing fluids typically carry solid particles when pumped under pressure into a formation. When the fracturing fluid retreats back out of the formation, the particles stay behind to prop open the fractures created, thus the term "proppant" is used to refer to these particles.

Fracturing fluids typically consist of various chemicals added to a base fluid or solution, with the chemical composition tailored to the particular requirements of the targeted reservoir. The development

of effective fracturing fluids can involve complex and sophisticated chemical technologies and such fluids tend to be proprietary to each service company. More recently, the composition of proppants has evolved from the exclusive use of sand granules (which can be pulverized in extreme pressure conditions and thus be rendered useless as a propping agent) to using various ceramic compounds which are more durable, and more recently to the deployment of complex chemical compositions (such as the Corporation's light weight proppant) that can be effectively injected into and carried within various fracturing streams that are pumped into the oil and natural gas reservoir.

### **The Grand Canyon**

The Grand Canyon Process encompasses materials and equipment which are engineered to provide proprietary well stimulation solutions for fracturing challenges faced by customers in the development of conventional and unconventional resources such as shales, coals, shallow sands and other low-pressure and water-sensitive formations. Such formations blanket the southern regions of the WCSB. Canyon developed the Grand Canyon Process to introduce a deformable, light-weight proppant ("**LWP**") into a 100% pure nitrogen gas stream. The absence of traditional fracturing fluids eliminates much of the damage to the reservoir and the addition of LWP in a partial monolayer allows for a high-conductivity frac.

Grand Canyon Process treatments bring many benefits, and have resulted in previously uneconomic reservoirs becoming commercially viable. As a result, E&P companies utilizing the Grand Canyon Process extend reservoir development to areas previously considered uneconomic.

Effective January 22, 2008, the Grand Canyon Process is patent-protected (Cdn. Pat. 2536957). The patent encompasses the introduction of a non-metallic deformable proppant, utilizing both gases and liquids as carrier fluids, to stimulate subsurface reservoirs.

Canyon has stimulated in excess of 1,600 production horizons in over 350 wells using the Canyon application. Project data confirms that several months after stimulation, production rates are approximately 100% greater than in adjacent wells not treated with Canyon's patented process. In addition, wells stimulated with the Grand Canyon Process were placed on production earlier than when conventional stimulant methods were used, as the need to remove conventional stimulant fluids from the well are eliminated.

The Grand Canyon Process also has significant environmental benefits, due to eliminating the use and subsequent disposal of water.

### **Service Divisions and Equipment**

The Corporation's services are marketed and operated under the name Canyon Technical Services Ltd. with its corporate headquarters in Calgary, Alberta. Canyon services the entire WCSB from field operations in Grande Prairie, Red Deer and Medicine Hat.

Canyon operates three divisions, each providing unique well stimulation technologies, from service centres in Grande Prairie, Red Deer and Medicine Hat.

#### ***High-rate Nitrogen Fracturing Division***

With four custom-designed nitrogen equipment spreads and coiled tubing units, the division offers well stimulations to companies focused on shallow natural gas, including shale gas and coal formations.

Canyon designed specialized proprietary equipment to add to its nitrogen spread to perform its patented Grand Canyon Process (Cdn. Pat. 2536957). This is a process of adding light-weight proppant in a partial monolayer to a nitrogen gas stream, and is effective in the stimulation of shales and other low-pressure and/or water-sensitive formations.

**Nitrogen Services** – Canyon was one of the first providers of high-rate nitrogen pumping equipment for completing shallow coal reservoirs. Units capable of up to 650 scm per minute per pump minimize the equipment footprint required to treat these unconventional zones. In addition to the high-rate nitrogen pumps used in nitrogen fracturing services, Canyon offers the industry smaller conventional nitrogen pumping equipment in support of coiled tubing and fracturing operations.

**Coiled Tubing Operations** – Canyon deploys the largest-diameter coiled tubing used for stimulation in the Canadian industry (3.25"). The large diameter reduces friction pressures and allows Canyon to stimulate reservoirs which could not be treated with smaller coil. Canyon's unique mast designs allow fast rig-ups and the ability to service slant-wells. Small-diameter tubing is also utilized for common well cleanouts and support services.

### ***Conventional Fracturing Division***

This service line offers deep fluid and foam fracturing capability for Canyon's customers in all areas of the WCSB, including the Foothills region of Alberta and northeast British Columbia.

**Hydraulic Fracturing** – Canyon offers five suites of hydraulic fracturing equipment, including CO<sub>2</sub> and nitrogen support services for foam fracturing applications. Canyon's proprietary fracturing fluid systems are specifically tailored to minimize reservoir damage and offer improved cost and performance benefits to operators.

**Foam Fracturing** – CO<sub>2</sub> and nitrogen are used in Canyon's foam fracturing and play a unique role in the stimulation of shallow, low-permeability reservoirs. Canyon is continuing to experiment with innovative applications for CO<sub>2</sub> in the stimulation of shale gas reservoirs.

### ***Chemical Stimulation Division***

With four custom-designed equipment spreads, this division provides acid treatments utilizing proprietary acidizing chemical systems to treat oil and natural gas wells. Canyon's engineering and laboratory staff have developed unique chemical systems to produce reliable and effective results for its customers.

### **Business Objectives**

The Corporation's objective is to become a leading oilfield stimulation services company providing reliable, innovative and technical solutions to E&P Companies. The Corporation's strategy is to compete on the basis of the quality of its customized fracturing and chemical stimulation services rather than to compete on the basis of being a low cost service provider. The Corporation focuses on providing highly technical solutions tailored to the specific requirements of each well, with the intention of pursuing high profit-margin stimulation work. Management believes this strategy will allow the Corporation to take advantage of E&P Companies' increasing focus on unconventional reservoirs and more technically focussed conventional reservoirs.

### **Specialized Skill and Knowledge**

The Corporation has built a team of technical specialists with many combined years of engineering and chemistry experience gained in the western Canadian oil and natural gas industry. The Corporation's operations team has been specifically selected to ensure that experienced and competent technical people are complemented by equally experienced and competent field personnel. This complementary mix of experience and expertise from technical and field personnel has facilitated useful input on equipment design and ongoing monitoring during fabrication. Each well's stimulation treatment program is developed by the team in conjunction with the applicable E&P Company's technical staff, and is individually designed to reflect the particular temperature and pressure characteristics, porosity and permeability, and other potentially unique characteristics of the targeted formation. As at December 31, 2007, the Corporation had approximately 170 employees. The Corporation has made significant investments to recruit employees, provide comprehensive employee training and implement recognized standards for health and safety in order to provide quality support for the services provided to customers.

### **Components**

Management is confident that sufficient quantities of critical supplies such as N<sub>2</sub>, proppant and coil tubing have been contracted for to ensure availability as circumstances require and it will continue to work to ensure such supplies are available as the Corporation's operations grow.

### **Intellectual Property**

The Corporation allocates substantial resources to research and development and is actively developing chemicals, proppants and fracturing processes. The Corporation has developed proprietary technologies and has been granted a patent for a stimulation process described below, and also has patents pending. The patents pending relate to a piece of equipment and processes that allows proppant to be introduced into a pure N<sub>2</sub> stream at fracturing pressures. The equipment meters the proppant and measures the concentration with densitometers. This equipment was specifically designed to use the Corporation's proprietary light weight proppant. Management believes this light weight proppant has the lowest specific gravity of any proppant currently available. On January 22, 2008, the Corporation was granted a patent (Canadian Patent No. 2536957) entitled, "Method of Treating a Formation Using Deformable Proppants". The patent encompasses the introduction of a non-metallic deformable proppant, using both gases and liquids. The Corporation has also developed proprietary chemical stimulation materials for chemical stimulation, acidizing and fluid fracturing, however, no patent applications have been filed with respect to these materials.

Whenever possible, the Corporation undertakes to protect intellectual property that it develops through applications for patent protection.

### **Environmental Protection**

The oil and natural gas industry is subject to environmental regulations pursuant to a variety of provincial and federal legislation. Such legislation provides for restrictions and prohibitions on the release or emission of various substances associated with certain oil and natural gas industry operations. Compliance with such legislation can require significant expenditures and a breach of such requirements may result in the imposition of material fines and penalties. Further, the Corporation owns and operates a radioactive densitometer which requires that the Corporation comply with additional regulations, a breach of which may result in the imposition of significant penalties. See "Risk Factors - Environmental Liability".

## **Risk Factors**

The financial condition and results of operations of the Corporation are subject to the following risk factors.

### ***Volatility of Industry Conditions***

The demand, pricing and terms for oilfield services in the Corporation's existing and anticipated service areas largely depend upon the level of exploration and development activity for both oil and natural gas. Oil and natural gas industry conditions are influenced by numerous factors over which the Corporation has no control, including: oil and natural gas prices; expectations about future oil and natural gas prices; levels of consumer demand; the cost of exploring for, producing and delivering oil and natural gas; the expected rates of declining current production; the discovery rates of new oil and natural gas reservoirs; available pipeline and other oil and natural gas transportation capacity; weather conditions; political, regulatory and economic conditions; and the ability of oil and natural gas companies to raise equity capital or debt financing.

The level of activity in the oil and natural gas exploration and production industry is volatile. No assurance can be given that expected trends in oil and natural gas exploration and production activities will continue. Any prolonged substantial reduction in oil and natural gas prices would likely reduce oil and natural gas exploration and production activity and therefore affect the demand for drilling and well services. A material decline in oil or natural gas prices or industry activity could have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows.

Any addition to, or elimination or curtailment of, government incentives could have a significant impact on the oilfield services industry. Lower oil and natural gas prices could also cause the Corporation's customers to seek to terminate, renegotiate or fail to honour the Corporation's services contracts; affect the fair market value of the Corporation's equipment fleet which in turn could trigger a writedown for accounting purposes; affect the Corporation's ability to retain skilled oilfield services personnel; and affect the Corporation's ability to obtain access to capital to finance and grow the Corporation's business.

### ***Seasonality***

The level of activity in the oilfield services industry is influenced by seasonal weather. The spring thaw makes the ground unstable and less capable of supporting heavy weights. Consequently, municipalities and transportation departments enforce road bans that restrict the movement of heavy equipment, thereby reducing drilling and well servicing activity levels. In addition, during excessively rainy periods, equipment moves may be delayed, thereby adversely affecting equipment utilization rates and revenues.

There is greater demand for oilfield services provided by the Corporation in the winter season when the occurrence of freezing permits the movement and operation of heavy equipment. Consequently, oilfield service activities tend to increase in the fall and peak in the winter months of November through March. However, if an unseasonably warm winter prevents sufficient freezing, the Corporation may not be able to access well sites and its operating results and financial condition may therefore be adversely affected. The volatility in the weather can therefore create unpredictability in activity and utilization rates, which may have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows.

### ***Reliance on Personnel***

The success of the Corporation is dependent upon its management, technical and field personnel. Any loss of the services of such individuals could have a material adverse effect on the business and operations of the Corporation. The ability of the Corporation to expand its services is dependent upon its ability to attract additional qualified employees. The ability to secure the services of additional personnel is constrained in times of strong industry activity. Currently, the Corporation does not maintain key person insurance.

### ***Competition***

The oilfield services industry is highly competitive and the Corporation competes with a substantial number of companies which have more equipment and personnel as well as greater financial resources. The Corporation's ability to generate revenue and earnings depends primarily upon its ability to win bids in competitive bidding processes and to perform awarded projects within estimated times and costs. There can be no assurance that such competitors will not substantially increase the resources devoted to the development and marketing of products and services that compete with those of the Corporation or that new or existing competitors will not enter the various markets in which the Corporation is active. In certain aspects of its business, the Corporation also competes with a number of small and medium-sized companies, which, like the Corporation, have certain competitive advantages such as low overhead costs and specialized regional strengths. In addition, reduced levels of activity in the oil and natural gas industry can intensify competition and may result in lower revenue to the Corporation.

### ***Dependence on Suppliers***

The ability of the Corporation to compete and grow will be dependent on the Corporation having access, at a reasonable cost and in a timely manner, to equipment, parts and components. Failure of suppliers to deliver such equipment, parts and components at a reasonable cost and in a timely manner would be detrimental to the Corporation's ability to maintain existing customers and expand its customer list. No assurances can be given that the Corporation will be successful in maintaining its required supply of equipment, parts and components. This could have a material adverse affect on the Corporation's business, financial condition, results of operations and cash flows.

The Corporation's ability to provide services to its customers is also dependent upon the availability at reasonable prices of raw materials which the Corporation purchases from various suppliers, most of whom are located in Canada. Alternate suppliers exist for all raw materials. The source and supply of materials has been consistent in the past, however in periods of high industry activity, as has been seen in recent years, periodic shortages of certain materials have been experienced and costs may be affected. Management maintains relationships with a number of suppliers in an attempt to mitigate this risk. However, if the current suppliers are unable to provide the necessary raw materials, or otherwise fail to deliver products in the quantities required, any resulting delays in the provision of services to the Corporation's customers could have a material adverse affect on the Corporation's business, financial condition, results of operations and cash flows.

### ***Credit Risk***

A substantial portion of the Corporation's accounts receivable are with customers involved in the oil and natural gas industry, whose revenues may be impacted by fluctuations in commodity prices. Although collection of these receivables could be influenced by economic factors affecting this industry, management considers the risk of a significant loss to be remote at this time.

### ***Government Regulation***

The Corporation's operations are subject to a variety of Canadian federal, provincial and local laws, regulations and guidelines, including laws and regulations relating to health and safety, the conduct of operations, the protection of the environment and the manufacture, management, transportation, storage and disposal of certain materials used in the Corporation's operations. Management believes that the Corporation is in compliance with such laws, regulations and guidelines. The Corporation has invested financial and managerial resources to ensure compliance with applicable laws, regulations and guidelines and will continue to do so in the future. Although such expenditures have not, historically, been material to the Corporation, such laws, regulations and guidelines are subject to change. Accordingly, it is impossible for the Corporation to predict the cost or impact of such laws, regulations or guidelines on its future operations. It is not expected that any changes to these laws, regulations or guidelines would affect the operations of the Corporation in a manner materially different than they would affect other oil and natural gas service companies of a similar size.

### ***Alberta Royalty Changes***

The Government of Alberta receives royalties on production of natural resources from lands in which it owns the mineral rights. On October 25, 2007 the Government of Alberta unveiled a new royalty regime that will introduce new royalties for conventional oil, natural gas and oil sands that are linked to price and production levels. The new royalty regime is expected to be implemented effective January 1, 2009

The implementation of the proposed changes to the royalty regime in Alberta are subject to certain risks and uncertainties. The significant changes to the royalty regime require new legislation, changes to existing legislation and regulation and development of proprietary software to support the calculation and collection of royalties. Additionally, certain proposed changes contemplate further public and/or industry consultation. There may be modifications introduced to the proposed royalty structure prior to the implementation thereof.

The changes to the royalty regime may effect the exploration for, and the development of, oil and natural gas by entities operating in the Province of Alberta, which effects could negatively impact the business, operations and cash flow of the Corporation. At the current time it is not possible to predict what the impact on the Corporation will be.

### ***Environmental Liability***

The Corporation is subject to various environmental laws and regulations enacted in the jurisdictions in which it operates which govern the manufacture, processing, importation, transportation, handling and disposal of certain materials used in the Corporation's operations. The Corporation has established procedures to address compliance with current environmental laws and regulations and monitors its practices concerning the handling of environmentally hazardous materials. However, there can be no assurance that the Corporation's procedures will prevent environmental damage occurring from spills of materials handled by the Corporation or that such damage has not already occurred. On occasion, substantial liabilities to third parties may be incurred. The Corporation may have the benefit of insurance maintained by it or the operator, however the Corporation may become liable for damages against which it cannot adequately insure or against which it may elect not to insure because of high costs or other reasons.

The Corporation's customers are subject to similar environmental laws and regulations, as well as limits on emissions to the air and discharges into surface and sub-surface waters. While regulatory

developments that may follow in subsequent years could have the effect of reducing industry activity, the Corporation cannot predict the nature of the restrictions that may be imposed. The Corporation may be required to increase operating expenses or capital expenditures in order to comply with any new restrictions or regulations.

### ***Operating Risk and Insurance***

The Corporation has an insurance and risk management program in place to protect its assets, operations and employees. The Corporation also has programs in place to address compliance with current safety and regulatory standards. However, the Corporation's operations are subject to risks inherent in the oilfield services industry, such as equipment defects, malfunction, failures and natural disasters. In addition, hazards such as unusual or unexpected geological formations, pressures, blow-outs, fires or other conditions may be encountered in drilling and servicing wells. Although such hazards are primarily the responsibility of the oil and natural gas companies which contract with the Corporation, these risks and hazards could expose the Corporation to substantial liability for personal injury, loss of life, business interruption, property damage or destruction, pollution and other environmental damages.

Although the Corporation has obtained insurance against certain of the risks to which it is exposed which it considers adequate and customary in the oilfield services industry, such insurance is subject to coverage limits and exclusions and may not be available for the risks and hazards to which the Corporation is exposed. In addition, no assurance can be given that such insurance will be adequate to cover the Corporation's liabilities or will be generally available in the future or, if available, that premiums will be commercially justifiable. If the Corporation were to incur substantial liability and such damages were not covered by insurance or were in excess of policy limits, or if the Corporation were to incur such liability at a time when it is not able to obtain liability insurance, this could have a material adverse affect on the Corporation's business, financial condition, results of operations and cash flows.

### ***Vulnerability to Market Changes***

Fixed costs, including costs associated with operating expenses, leases, labour costs and depreciation account for a significant portion of the Corporation's costs and expenses. As a result, reduced productivity resulting from reduced demand, equipment failure, weather or other factors could have a material adverse affect on the Corporation's business, results of operations, financial condition and cash flows.

### ***Operating Equipment Risks***

The ability of the Corporation to meet customer demands in respect of performance and cost will depend upon continuous improvements to its operating equipment. There can be no assurance that the Corporation will be successful in its efforts in this regard or that it will have the resources available to meet this continuing demand. Failure by the Corporation to do so could have a material adverse affect on the Corporation's business, financial condition, results of operations and cash flows. No assurances can be given that its competitors will not achieve technological advantages over the Corporation.

### ***Protection of Technology Risks***

The success and ability of the Corporation to compete depends on the proprietary technology of the Corporation and the Subsidiary, proprietary technology of third parties that has been, or is required to be, licensed by the Corporation and the Subsidiary and the ability of the Corporation and such third parties to prevent others from copying such proprietary technologies. The Corporation currently relies on

intellectual property rights and other contractual or proprietary rights, including (without limitation) copyright, trademark laws, trade secrets, confidentiality procedures, contractual provisions, licenses and patents, to protect its proprietary technology; and on third parties from whom licenses have been received to protect their proprietary technology. The Corporation may have to engage in litigation in order to protect its patents or other intellectual property rights, or to determine the validity or scope of the proprietary rights of others. This kind of litigation can be time-consuming and expensive, regardless of whether or not the Corporation is successful. The process of seeking patent protection can itself be long and expensive, and there can be no assurance that any patent applications of the Corporation and its Subsidiary or such third parties will actually result in issued patents, or that, even if patents are issued, they will be of sufficient scope or strength to provide meaningful protection or any commercial advantage to the Corporation. Furthermore, others may develop technologies that are similar or superior to the technology of the Corporation or such third parties or design around the patents owned by the Corporation, its Subsidiary and/or such third parties.

Despite the efforts of the Corporation or such third parties, the intellectual property rights, particularly existing or future patents, of the Corporation or such third parties may be invalidated, circumvented, challenged, infringed or required to be licensed to others. It cannot be assured that any steps the Corporation or such third parties may take to protect its intellectual property rights and other rights to such proprietary technologies that are central to the Corporation's operations will prevent misappropriation or infringement or the termination of licenses from third parties.

#### ***Dependence on Major Customers***

The Corporation has a customer base of more than 55 E&P Companies, ranging from large multinational public companies to small private companies. Notwithstanding the Corporation's significant customer base, the majority of the Corporation's revenue comes from four large customers. The Corporation has historically had a stable relationship with these customers and has no reason to believe there will be any change to this relationship in the future. Notwithstanding the foregoing, there can be no assurance that the Corporation's relationship with these customers will continue. A significant reduction or total loss of the business from these customers, if not offset by sales to new or existing customers, may have a material adverse effect on the Corporation's business, results of operations, financial condition and cash flows.

#### ***Alternatives to and Changing Demand for Petroleum Products***

Fuel conservation measures, alternative fuel requirements, increasing consumer demand for alternatives to oil and natural gas, and technological advances in fuel economy and energy generation devices could reduce the demand for oil and other liquid hydrocarbons. The Corporation cannot predict the impact of changing demand for oil and natural gas products, and any major changes may have a material adverse effect on the Corporation's business, financial condition, results of operations and cash flows.

#### ***Access to Additional Financing***

The Corporation may find it necessary in the future to obtain additional debt or equity to support ongoing operations, to undertake capital expenditures or to undertake acquisitions or other business combination transactions. There can be no assurance that additional financing will be available to the Corporation when needed or on terms acceptable to the Corporation. The Corporation's inability to raise financing to support ongoing operations or to fund capital expenditures or acquisitions could limit the Corporation's growth and may have a material adverse affect on the Corporation's business, financial condition, results of operations and cash flows.

### ***Conflicts of Interest***

Certain of the directors and officers of the Corporation are also directors and officers of other oil and natural gas exploration and/or production entities and oil and natural gas services companies, and conflicts of interest may arise between their duties as officers and directors of the Corporation and as officers and directors of such other companies. Such conflicts must be disclosed in accordance with, and are subject to such other procedures and remedies as apply under, the ABCA.

### ***Legal Proceedings***

The Corporation is involved in litigation from time to time in the ordinary course of its business. Although the Corporation is not currently a party to any material legal proceedings, legal proceedings could be filed against the Corporation in the future. No assurance can be given as to the final outcome of any legal proceedings or that the ultimate resolution of any legal proceedings will not have a material adverse effect on the Corporation.

### ***Kyoto Protocol***

On February 16, 2005, the Kyoto Protocol came into effect. The Kyoto Protocol requires nations to reduce their emissions of carbon dioxide and other greenhouse gases. Reductions in greenhouse gases from oil and gas producers may be required which could result in, among other things, increased operating and capital expenditures for those producers which may make certain production of crude oil or natural gas by those producers uneconomic, resulting in reductions in such production and a resulting decrease in the demand for the Corporation's services. The Corporation is unable to predict the impact, if any, of the Kyoto Protocol on the Corporation.

## **CAPITAL STRUCTURE**

The Corporation is authorized to issue an unlimited number of Common Shares and an unlimited number of preferred shares, issuable in series. As at December 31, 2007, 22,148,533 Common Shares and nil preferred shares were issued and outstanding as fully-paid and non-assessable. The holders of Common Shares are entitled to receive notice of, and to one vote per share at, every meeting of shareholders of the Corporation, to receive such dividends as the board of directors declares, and to share equally in the assets of the Corporation remaining upon the liquidation of the Corporation after the creditors of the Corporation have been satisfied. There are no constraints imposed on the ownership of Common Shares to ensure that the Corporation has any required level of Canadian ownership.

As at December 31, 2007, there were 1,933,332 options and 550,000 warrants outstanding, each of which entitles the holder thereof to purchase one Common Share.

## **DIVIDENDS**

The Corporation has not paid any dividends on its Common Shares since the date of its incorporation. The Corporation has no plans to pay any dividends and currently intends to reinvest any earnings to fund the development and growth of its business. Any future payments of dividends will be at the discretion of the Board of Directors and will depend upon the financial condition, capital requirements and earnings of the Corporation as well as other factors it may deem relevant. The Corporation's articles do not contain any restrictions on the payments of dividends.

### MARKET FOR SECURITIES

The Common Shares are listed on the TSX under the symbol "FRC". The following table sets forth the monthly price ranges and volumes of trading of the Common Shares on the TSX from January 1, 2007 to December 31, 2007:

<b>Period</b>	<b>High \$</b>	<b>Low \$</b>	<b>Volume</b>
January .....	5.00	4.00	303,857
February .....	5.60	4.41	310,896
March .....	5.00	4.25	262,050
April .....	6.00	4.75	904,291
May .....	6.00	5.50	608,134
June .....	5.50	4.40	728,339
July .....	4.85	3.80	721,937
August .....	4.25	3.26	138,407
September .....	3.31	3.06	724,660
October .....	3.25	2.95	804,917
November .....	2.85	2.00	1,108,139
December .....	2.28	2.00	80,583

### ESCROWED SECURITIES

The following table sets out, as at December 31, 2007 and to the best of the Corporation's knowledge, the number of securities of each class of the Corporation's shares held subject to escrow, and the percentage that number represents of the outstanding securities of that class.

<b>Designation of Class</b>	<b>Number of Securities held in Escrow as at December 31, 2007</b>	<b>Percentage of Class</b>
Common Shares	2,479,906 <sup>(1)</sup>	11.197%

<sup>(1)</sup>These Common Shares are held in escrow pursuant to an escrow agreement dated May 1, 2006 under which Olympia Trust Company acts as escrow agent. Of the total 2,479,906 Common Shares, 1,775,360 Common Shares are held by D. Weinberger Holdings Ltd. and 704,546 Common Shares are held by Argo Management Ltd. The Common Shares will be released as to 1,239,953 Common Shares on May 1, 2008, and as to 1,239,953 Common Shares on May 1, 2009.

### DIRECTORS AND OFFICERS

The following table sets forth information with respect to the directors and executive officers of the Corporation for the year ended December 31, 2007:

<b>Name and Municipality of Residence</b>	<b>Offices Held and Date Appointed<sup>(5)</sup></b>	<b>Principal Occupation During the Past Five Years</b>
Dennis J. Weinberger <sup>(3)</sup>	Chief Executive Officer and	Chief Executive Officer of the

<b>Name and Municipality of Residence</b>	<b>Offices Held and Date Appointed<sup>(5)</sup></b>	<b>Principal Occupation During the Past Five Years</b>
Alberta, Canada	Director from April 8, 2004 and President from April 8, 2004 to September 1, 2007	Corporation and the Subsidiary since incorporation and President of the Corporation and its predecessor companies since 1979 until September 1, 2007.
Stan G.P. Grad <sup>(2)(3)</sup> Alberta, Canada	Chairman and Director (April 8, 2004)	President of Soderglen Ranches Ltd., a private ranching company.
Charles C. Matson <sup>(1)(3)</sup> Alberta, Canada	Director (September 7, 2004)	Self employed businessman and president of 920924 Alberta Ltd., a private company involved in residential and commercial property investments. Prior thereto Marketing Director for Collicut Hanover Services Ltd. from October 1998 to May 2001.
Raymond P. Antony <sup>(1)(2)</sup> Alberta, Canada	Director (September 7, 2004)	Self employed businessman since August 2006. Prior thereto President and a director of Breakside Energy Ltd., a private oil and natural gas exploration and production company since December 2003. Prior thereto President of Resolution Resources Ltd., a public oil and natural gas exploration and production company since October 2001.
Harvey A. Trimble <sup>(1)(2)</sup> Alberta, Canada	Director (November 2, 2004)	President of Valiant Ranches Ltd., a private real estate development company.
Bradley P.D. Fedora Alberta, Canada	President from September 1, 2007	President of the Corporation since September 1, 2007. Prior thereto Principal in the Corporate Finance group of Peters & Co. Limited
Barry O'Brien <sup>(4)</sup> Alberta, Canada	Vice-President, Finance and Chief Financial Officer	Vice-President, Finance and Chief Financial Officer of the Corporation since January 2007. Prior thereto provided financial consultant services since August 2005 and prior thereto was the Secretary and Chief Financial Officer of Taylor Gas Liquids Ltd.
A.J. (Joe P.) Peskunowicz Alberta, Canada	Chief Operating Officer	Officer of the Corporation since November 2004. Prior thereto performed management and sales roles for Airborne Energy Solutions

<u>Name and Municipality of Residence</u>	<u>Offices Held and Date Appointed<sup>(5)</sup></u>	<u>Principal Occupation During the Past Five Years</u>
Jason C. Weinberger Alberta, Canada	Vice-President, Operations	Ltd. from February 2003 to November 2004 and for GTI E&P Services Canada, Inc. from October 2001 to February 2003. Prior thereto performed engineering, operations and sales roles with Halliburton Energy Services Inc.  Vice-President, Operations of the Corporation since November 2004 and general manager of the Subsidiary since 2000.
Garnet R. Olson Alberta, Canada	Vice-President, Engineering	Vice-President, Engineering of the Corporation since October 2004. Prior thereto technical specialist for Trican Well Services Ltd. from October 1999 to October 2004.

**Notes:**

- (1) Member of Audit Committee.
- (2) Member of Corporate Governance and Compensation Committee.
- (3) Member of Health, Safety and Environment Committee.
- (4) On January 2, 2007, Barry O'Brien was appointed Vice-President, Finance and Chief Financial Officer of the Corporation. Previously, Paul Rose held this position from January 2005 until his resignation in November 2006.
- (5) All directorships expire at the next annual general meeting of the shareholders of the Corporation. All officers hold office at the pleasure of the Board of Directors.

As at March 5, 2008, the directors and executive officers of the Corporation beneficially owned, directly or indirectly, or exercised control or direction over an aggregate of 7,839,571 Common Shares, representing 35.40% of the 22,148,533 issued and outstanding Common Shares as at that date.

**CEASE TRADE ORDERS, BANKRUPTCIES, PENALTIES OR SANCTIONS**

1. No director or executive officer of the Corporation is, as at the date of this Annual Information Form, or was within ten years before the date of this Annual Information Form, a director, chief executive officer or chief financial officer of any company (including the Corporation) that:
  - (a) was subject to an order that was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer; or
  - (b) was subject to an order that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

For the purposes hereof, the term "order" means:

- (a) a cease trade order;

- (b) an order similar to a cease trade order; or
- (c) an order that denied the relevant company access to any exemption under securities legislation,

that was in effect for a period of more than 30 consecutive days.

2. No director or executive officer of the Corporation, or a shareholder holding a sufficient number of securities of the Corporation to affect materially the control of the Corporation:
  - (a) is, as at the date of this Annual Information Form, or has been within the ten years before the date of this Annual Information Form, a director or executive officer of any company (including the Corporation) that, while such person was acting in such capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver-manager or trustee appointed to hold its assets; or
  - (b) has, within ten years before the date of this Annual Information Form, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or has a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder.
3. No director or executive officer of the Corporation, or a shareholder holding a sufficient number of securities of the Corporation to affect materially the control of the Corporation, has been subject to:
  - (a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or
  - (b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor making an investment decision.

### **CONFLICTS OF INTEREST**

The directors of the Corporation are required by law to act honestly and in good faith with a view to the best interests of the Corporation and to disclose any interests which they may have in any project or opportunity of the Corporation. If a conflict of interest arises at a meeting of the board of directors of the Corporation, any director in a conflict will disclose his interest and, if required, abstain from voting on such matter.

### **PROMOTERS**

Dennis Weinberger and Stan Grad are promoters of the Corporation. Dennis Weinberger controls 3,550,720 Common Shares (16.03%) and Stan Grad controls 1,854,660 Common Shares (8.37%). Mr. Weinberger and Mr. Grad own options to purchase 120,000 Common Shares and 95,000 Common Shares, respectively. All of the securities of the Subsidiary were, directly and indirectly, purchased from Dennis Weinberger and Jason C. Weinberger, both of whom are officers of the Corporation. The

Subsidiary was valued at \$4.5 million and the Common Shares issued in exchange for the Subsidiary's issued and outstanding securities were priced at \$1.00 per Common Share based on the price of Common Shares issued for cash before and after the aforementioned agreement in principle was reached. See "Canyon Services Group Inc. - General Development of the Business and Three Year History".

### **LEGAL PROCEEDINGS**

The Corporation is not involved in any material legal proceedings.

### **REGULATORY ACTIONS**

There have not been any:

1. penalties or sanctions imposed against the Corporation by a court relating to securities legislation or by a securities regulatory authority during the financial year ended December 31, 2007;
2. any other penalties or sanctions imposed against the Corporation by a court relating to securities legislation or by a securities regulatory authority that would likely be considered important to a reasonable investor making an investment decisions; or
3. settlement agreements entered into by the Corporation with a court relating to securities legislation or with a securities regulatory authority during the financial year ended December 31, 2007.

### **INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

Other than as disclosed herein, no director, executive officer or any person or company that is the direct or indirect beneficial holder of, or who exercises control or direction over, more than 10% of the Common Shares, and no known associate or affiliate of any of them, has or had any material interest, direct or indirect, in any transaction within the three years prior to the date hereof or in any proposed transaction, that has materially affected or will materially affect the Corporation or the Subsidiary. See "General Development of the Business and Three Year History" for details relating to the purchase of the Subsidiary directly and indirectly from Mr. Weinberger and Mr. Grad.

### **MATERIAL CONTRACTS**

Other than in the ordinary course of the Corporation's business, there are no material contracts that have been entered into by the Corporation in the most recently completed financial year, or before the most recently completed financial year, but are still in effect.

### **TRANSFER AGENT AND REGISTRAR**

The transfer agent and registrar for the Common Shares is Olympia Trust Company at its principal offices in Calgary, Alberta, and Toronto, Ontario.

### **INTERESTS OF EXPERTS**

KPMG LLP has prepared the auditor's report on the consolidated financial statements of the Corporation for the year ended December 31, 2007. KPMG LLP is independent in accordance with the auditor's rules of professional conduct in Canada.

## **AUDIT COMMITTEE INFORMATION**

### **Audit Committee Mandate**

The Corporation's Audit Committee mandate sets out the committee's purpose, organization, duties and responsibilities. A copy of the mandate is attached hereto as Appendix "A".

### **Composition of Audit Committee**

The Corporation's Audit Committee is comprised of Harvey Trimble, Charles C. Matson and Raymond P. Antony, all of whom are financially literate and independent, as such terms are defined in Multilateral Instrument 52-110 – Audit Committees ("**MI 52-110**").

### **Relevant Education and Experience**

#### *Harvey Trimble*

Mr. Trimble has 40 years of experience in the oil and natural gas industry. Mr. Trimble is the President of Valiant Ranches Ltd., a private real estate development company. Mr. Trimble has been a director of a number of public and private companies engaged in the oil and natural gas industry since 1985. Mr. Trimble has a Bachelor of Science in Geological Engineering from the University of Oklahoma.

#### *Raymond P. Antony*

Mr. Antony has been a Chartered Accountant and member of the Canadian Institute of Chartered Accountants for the past 25 years. He serves as an officer and director of a number of public and private oil and gas companies, and is presently chairman of Wellco Energy Services Trust. Mr. Antony has a Bachelor of Commerce from the University of Alberta.

#### *Charles Matson*

Mr. Matson has 25 years of experience in the oil and natural gas industry. Mr. Matson is the President of 920924 Alberta Ltd., a private company involved in residential and commercial property investments. Formerly Mr. Matson was the President of Superior Oilwell Cementers Inc., a private company that was sold in 1997 to Trican Well Services Ltd., a public oilfield services company.

### **Reliance on Certain Exemptions**

At no time since the commencement of the Corporation's most recently completed financial year has the Corporation relied on any exemptions from MI 52-110.

### **Audit Committee Oversight**

At no time since the commencement of the Corporation's most recently completed financial year was a recommendation of the audit committee to nominate or compensate an external auditor not adopted by the board of directors of the Corporation.

## **Pre-Approval Policies and Procedures**

The Corporation's Audit Committee mandate requires the Audit Committee to pre-approve all non-audit services to be provided to the Corporation or any of its subsidiary entities by the Corporation's external auditor or the external auditor of Canyon's subsidiary entities, provided that the Audit Committee may satisfy the pre-approval requirement by either delegating to one or more members of the Audit Committee the authority to pre-approve non-audit services or adopting specific policies and procedures for the engagement of non-audit services.

## **External Audit Fees by Category**

KPMG LLP has served as the Corporation's external auditor since its formation in 1999. The following table lists the fees paid to KPMG LLP, by category, for the year ended December 31, 2007.

	<b>Year Ended December 31, 2006</b>	<b>Year Ended December 31, 2007</b>
Audit fees	\$156,044	\$124,881
Audit-related fees	-	-
Tax-related fees	\$7,300	\$21,650
All other fees	\$116,555	\$4,295
Total fees	<u>\$279,899</u>	<u>\$150,826</u>

### ***Audit Fees***

Audit fees were paid for professional services rendered by the auditors for the audit of the Corporation's annual financial statements or services provided in connection with statutory and regulatory filings or engagements and the review of the Corporation's interim financial statements. Audit fees for 2006 and 2007 were \$156,044 and \$124,881, respectively.

### ***Audit-related Fees***

Audit-related fees were paid for assurance and related services that are reasonably related to the performance of the audit or review of the annual and interim financial statements and are not reported under the audit fees item above. These services included the review of incentive bonus calculations as well as accounting consultations and advice relating to variable interest entities, lease accounting and accounting for future income taxes. Audit related fees for 2006 and 2007 were nil.

### ***Tax-related Fees***

Tax-related fees were paid for professional services relating to tax compliance, tax advice and tax planning. These services consisted of tax compliance including the review of original and amended tax returns, tax planning and advisory services relating to common forms of taxation including income tax, large corporations tax, goods and services tax, sales tax and tax consulting related to employee benefit programs. Tax related fees for 2006 and 2007 were \$7,300 and \$21,650, respectively.

*All Other Fees*

All other fees were paid for products or services other than the audit fees, audit-related fees and tax fees described above. These services included advice related to the initial public offering of the Corporation. All other fees for 2006 and 2007 were \$116,555 and \$4,295, respectively.

**ADDITIONAL INFORMATION**

Additional information, including directors' and officers' remuneration, principal holders of the Corporation's securities and securities authorized for issue under equity compensation plans, is contained in the Corporation's management information circular for the annual meeting of shareholders to be held on April 9, 2008. Additional financial information is provided in the Corporation's comparative financial statements and management's discussion and analysis for the year ended December 31, 2007.

Further additional information relating to the Corporation may be found on the Corporation's SEDAR profile at [www.sedar.com](http://www.sedar.com).

## **APPENDIX "A"**

### **CANYON SERVICES GROUP INC.**

#### **AUDIT COMMITTEE CHARTER**

##### **I. Mandate**

The primary function of the audit committee (the "Committee") is to assist the Board of Directors in fulfilling its financial oversight responsibilities by reviewing the financial reports and other financial information provided by the Corporation to regulatory authorities and shareholders, the Corporation's systems of internal controls regarding finance and accounting, and the Corporation's auditing, accounting and financial reporting processes. Consistent with this function, the Committee will encourage continuous improvement of, and should foster adherence to, the Corporation's policies, procedures and practices at all levels. The Committee's primary duties and responsibilities are to:

- Serve as an independent and objective party to monitor the Corporation's financial reporting and internal control system and review the Corporation's financial statements.
- Review and appraise the performance of the Corporation's external auditors.
- Provide an open avenue of communication among the Corporation's auditors, financial and senior management and the Board of Directors.

##### **II. Composition**

The Committee shall be comprised of three directors as determined by the Board of Directors, the majority of whom shall be independent directors, pursuant to the policies of the TSX.

At least one member of the Committee shall have accounting or related financial management expertise. All members of the Committee that are not financially literate will work towards becoming financially literate to obtain a working familiarity with basic finance and accounting practices. For the purposes of the Corporation's Charter, the definition of "financially literate" is the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can presumably be expected to be raised by the Corporation's financial statements.

The members of the Committee shall be elected by the Board of Directors at its first meeting following the annual shareholders' meeting. Unless a Chair is elected by the full Board of Directors, the members of the Committee may designate a Chair by a majority vote of the full Committee membership.

##### **III. Meetings**

The Committee shall meet at least twice annually, or more frequently as circumstances dictate. As part of its job to foster open communication, the Committee will meet at least annually with management and the external auditors in separate sessions.

The minutes of the Committee meetings shall accurately record the decisions reached and shall be distributed to the Audit Committee members with copies to the Board of Directors, the Chief Financial Officer or such other officer acting in that capacity, and the external auditor.

#### **IV. Responsibilities and Duties**

To fulfill its responsibilities and duties, the Committee shall:

##### **Documents/Reports Review**

1. Review and update this Charter annually.
2. Review the Corporation's financial statements, MD&A and any annual and interim earnings, press releases before the Corporation publicly discloses this information and any reports or other financial information (including quarterly financial statements), which are submitted to any governmental body, or to the public, including any certification, report, opinion, or review rendered by the external auditors.

##### **External Auditors**

3. Require the external auditors to report directly to the Committee.
4. Review annually the performance of the external auditors who shall be ultimately accountable to the Board of Directors and the Committee as representatives of the shareholders of the Corporation.
5. Obtain annually, a formal written statement of external auditors setting forth all relationships between the external auditors and the Corporation and confirming their independence from the Corporation.
6. Review and discuss with the external auditors any disclosed relationships or services that may impact the objectivity and independence of the external auditors.
7. Take, or recommend that the full Board of Directors take, appropriate action to oversee the independence of the external auditors.
8. Recommend to the Board of Directors the selection and, where applicable, the replacement of the external auditors nominated annually for shareholder approval and the compensation of the external auditors.
9. Review with management and the external auditors the terms of the external auditors' engagement letter.
10. At each meeting, may consult with the external auditors, without the presence of management, about the quality of the Corporation's accounting principles, internal controls and the completeness and accuracy of the Corporation's financial statements.
11. Review and approve the Corporation's hiring policies regarding partners, employees and former partners and employees of the present and former external auditors of the Corporation.
12. Review with management and the external auditors the audit plan for the year-end financial statements and intended template for such statements.

13. Review and pre-approve all audit and audit-related services and the fees and other compensation related thereto, and any non-audit services, provided by the Corporation's external auditors. The pre-approval requirement is waived with respect to the provision of non-audit services if:
  - (a) the aggregate amount of all such non-audit services provided to the Corporation constitutes not more than five percent (5%) of the total amount of revenues paid by the Corporation to its external auditors during the fiscal year in which the non-audit services are provided;
  - (b) such services were not recognized by the Corporation at the time of the engagement to be non-audit services; and
  - (c) such services are promptly brought to the attention of the Committee by the Corporation and approved prior to the completion of the audit by the Committee or by one or more members of the Committee who are members of the Board of Directors to whom authority to grant such approvals has been delegated by the Committee.

Provided the pre-approval of the non-audit services is presented to the Committee's first scheduled meeting following such approval, such authority may be delegated by the Committee to one or more independent members of the Committee.

#### **Financial Reporting Process**

14. In consultation with the external auditors, review with management the integrity of the Corporation's financial reporting process, both internal and external.
15. Consider the external auditors' judgments about the quality and appropriateness of the Corporation's accounting principles as applied in its financial reporting.
16. Consider and approve, if appropriate, changes to the Corporation's auditing and accounting principles and practices as suggested by the external auditors and management.
17. Review significant judgments made by management in the preparation of the financial statements and the view of the external auditors as to appropriateness of such judgments.
18. Following completion of the annual audit, review separately with management and the external auditors any significant difficulties encountered during the course of the audit, including any restrictions on the scope of work or access to required information.
19. Review any significant disagreement among management and the external auditors regarding financial reporting.
20. Review with the external auditors and management the extent to which changes and improvements in financial or accounting practices have been implemented.
21. Review the certification process.
22. Establish procedures for:

- (a) the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls, or auditing matters; and
- (b) the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters.

**Other**

23. Review disclosure of any related-party transactions.

**V. Authority**

The Committee may:

- (a) engage independent outside counsel and other advisors as it determines necessary to carry out its duties;
- (b) set and pay the compensation for any advisors employed by the Committee; and
- (c) communicate directly with the internal and external auditors.

The Committee shall have unrestricted access to the Corporation's personnel and documents and will be provided with the resources necessary to carry out its responsibilities.