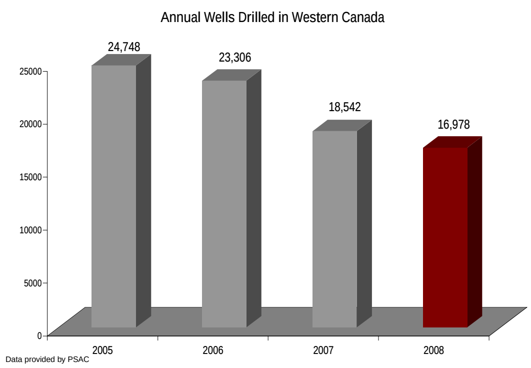
CANYON
Services Group Inc.

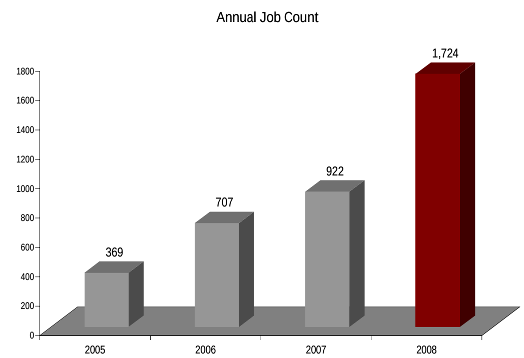
Annual Report 2008

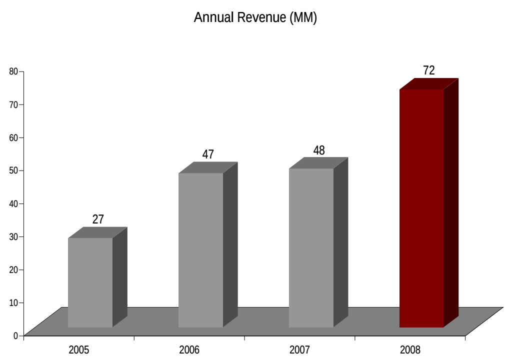
Highlights

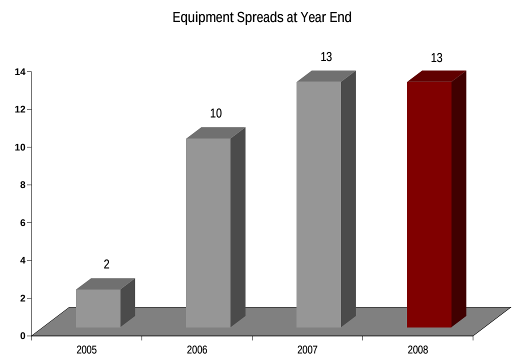
(thousands, except for per share results)	Three Months Ended December 31, 2008	Three Months Ended December 31, 2007	Year Ended December 31, 2008	Year Ended December 31, 2007
Revenues	$ 29,007	$ 19,706	$ 72,371	$ 48,070
EBITDA before stock options expense - Note[1]	7,636	3,272	9,797	579
Net earnings (loss)	4,726	(1)	(2,029)	(8,757)
Earnings (loss) per share - diluted	0.19	-	(0.09)	(0.40)
Funds provided by continuing operations	7,299	2,817	8,217	(162)
Capital expenditures	1,282	1,788	3,765	13,703
Shares outstanding, end of period	22,149	22,149	22,149	22,149

Note (1): The term "EBITDA" is used to refer to earnings before interest, taxes, depreciation and amortization, and "EBITDA before stock option expense" refers to EBITDA with stock-based compensation added back. See NON-GAAP MEASURES









President's Letter

On behalf of the employees and the board of directors of Canyon Services Group Inc, we are pleased to report Canyon's operational and financial results for 2008.

Overall, industry activity levels continued to decline in 2008 from the cyclical highs reached in 2004 to 2006. The number of wells drilled in Western Canada declined approximately 10% from 18,500 wells in 2007 to 16,800 wells in 2008. Although the world witnessed record commodity prices in 2008, several factors including an uncertain provincial royalty régime, the loss of the federal oil and gas trust structure, a high Canadian dollar and finally, a world economic crisis emerging in the third quarter of 2008, all led to fairly conservative budgets by exploration and production companies in the Western Canadian Sedimentary Basin.

2008 was a very important year for Canyon as the Company achieved several significant milestones. Despite relatively challenging fiscal conditions present throughout the year, Canyon experienced significant year over year growth posting record job numbers and revenue results. Canyon completed over 1,700 jobs in 2008, an increase of almost 90% over 2007. The much improved job number led to an annual revenue increase of approximately 50% year over year to over $72 million.

As part of our overall strategic plan, Canyon focused on expanding its conventional fluid fracturing division out of its Grande Prairie operating base. These efforts paid off and the conventional division contributed approximately 35% of aggregate revenue and more importantly almost 50% of corporate EBITDA. The increased contribution is a result of market penetration in both the central and northern areas of the Western Canadian Sedimentary Basin. In central Alberta, Canyon distinguished itself with a variety of treatments, but particularly high quality foam fracturing services. In the northern areas of the Western Canadian Sedimentary Basin, Canyon broadened its customer base significantly to include several large capitalization customers and provided fluid fracturing in both horizontal and vertical wells. Canyon is cautiously expanding into the more high profile and profitable segments of the basin, particularly the Montney, however, as we want to maintain our excellent track record of field performance, Canyon will ensure that it has all the pieces of the puzzle in place before we seek to become a pumping services provider in other high profile areas such as the Horn River Basin.

In 2008, although our job count was expanding significantly in all divisions, Canyon maintained its focus on cost controls and efficient operations. Fixed operating costs and selling, general and administrative expenses remained flat year over year even though the job count almost doubled. The Company allocated its cash flow to debt reduction to enable it to maintain financial flexibility and to a $3.8 million capital expenditures program. The capital program was part of our strategy to expand into the deeper segment of the basin and support our growth in the conventional fluid fracturing division. As many of the reservoirs in the northern Western Canadian Sedimentary Basin are fractured with CO_2 based fluids, Canyon expanded its CO_2 storage and trucking capacity out of our Grande Prairie field office.

2008 was also highlighted with continued development and success of our Grand Canyon fracturing technology. The technology was deployed for several customers, including two consecutive 160 well projects in southern Alberta, targeting shallow gas. The results from these wells showed both a material increase in production and significant reduction in overall completion costs when compared to traditional fracturing methods. Canyon also expanded the applicability of this technology to other parts of the Western Canadian Sedimentary Basin. Traditionally, the Grand Canyon technology was focused on dry, shallow reservoirs in southeast Alberta, however, Canyon has recently deployed the technology in the Bakken oil shales in southeast Saskatchewan. The light weight proppant in a partial monolayer provides for better fracture geometry and allows the use of produced water as the basis for the fracturing fluid. Initial results from the Bakken fracs show higher production and lower rates of produced water associated with the oil production. Canyon expects that this technology will be applicable in many different oil and natural gas reservoirs throughout the Western Canadian Sedimentary Basin and we will also continue work with our proppant suppliers to maximize the potential of this technology.

As the first quarter of 2009 is coming to an end and we look out for the remainder of 2009, it appears that the industry will be facing some significant challenges. Well counts have been reduced as our customers wait for higher commodity prices, and a reduced cost of capital. Canyon will weather this storm by focusing on providing high quality, value added services and by maintaining efficient operations. Thanks to all of the hard work of dedicated employees and management, Canyon has significantly reduced our debt to ensure flexibility during hard times. We will continue to focus on cost cutting initiatives to reflect current economic conditions and to ensure that we are in a position to prosper when more robust industry conditions return. Canyon's employees and management thank you for your support.

On behalf of the Board of Directors,

Bradley Fedora
President

Operations Review

TECHNOLOGY-DRIVEN PROPRIETARY

Grand Canyon Process – Fracturing with Light-Weight Proppant

Canyon had developed a patented fracturing process that allows us to perform fracture stimulations with light weight deformable proppants (LWP™):

- Partial monolayer frac geometry provides higher fracture conductivity for significantly higher production rates
- Applicable to a wide range of reservoirs
- Less formation damage as a result of less fracture fluids and gels
- Process employs nitrogen gas, foams and aqueous based fluids as carrier agents
- More than 675 wells or 3,000 production horizons stimulated
- Well suited for environmentally sensitive areas as nitrogen or produced water can be used instead of potable water

The Grand Canyon Process

The Grand Canyon process and equipment were engineered to provide proprietary well stimulation solutions for fracturing challenges faced by customers in the development of conventional and unconventional resources. These reservoirs, such as shales bearing natural gas and or oil, coals, shallow sands and other low-pressure and water-sensitive formations, blanket regions of the WCSB. Canyon developed the Grand Canyon process to introduce a deformable, light-weight proppant (LWP™) into a pure nitrogen gas, fluid or foam stream. The absence of traditional fracturing fluids and chemicals eliminates much of the damage to the reservoir and the addition of LWP in a partial monolayer allows for superior fracture geometry providing a high-conductivity frac.

Grand Canyon treatments bring many production and economic benefits, and have resulted in previously uneconomic reservoirs becoming commercially viable. Canyon has stimulated in excess of 3,000 production horizons in over 675 wells using the Grand 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 treatment 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.

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.

Overview of Divisions

HIGH-RATE NITROGEN FRACTURING DIVISION

With four custom-designed high-rate 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. This is the process of adding light-weight proppant to a nitrogen gas stream, and is proving to be unmatched 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 also 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 Western Canadian Sedimentary Basin. The large diameter 3.25" tubing reduces friction pressures and allows Canyon to effectively stimulate reservoirs which could not be treated effectively with smaller coil. Canyon's unique mast designs allow fast rig-ups and the ability to service slantwells. 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 complete suites of hydraulic fracturing equipment, including CO_2 and nitrogen support services for foam fracturing applications. Canyon's proprietary fracturing fluid systems are specifically tailored to minimize reservoir damage and offer unmatched cost and performance benefits to operators.

Foam Fracturing – CO_2 and N_2 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 the stimulation of shale gas reservoirs.

CHEMICAL STIMULATION AND REMEDIAL CEMENTING DIVISION

Chemical Stimulation – With four custom-designed equipment spreads, this division provides acid treatments utilizing proprietary chemical systems to treat oil and natural gas wells. Canyon takes advantage of the many years of technical experience its engineering and laboratory staff offer to develop unique and exceptional chemical systems. Compatibility problems commonly associated with chemical stimulation are all but eliminated, producing reliable and effective results in all well conditions.

Cementing – To further service our customers' needs, two of these units are fitted with automatic density controlled re-circulating cement mixing equipment to provide remedial cementing. This service compliments the stimulation service line as often "cement squeezes" need to be performed depleted on zones before a new horizon can be completed in an existing well bore. Canyon has developed a complete line of cementing materials specifically designed to provide the proper slurry properties to perform at the varying temperatures, depths and pressures.

Management's Discussion and Analysis

YEAR ENDED DECEMBER 31 2008

This management discussion and analysis (MD&A) is dated February 26, 2009, and should be read in conjunction with the Consolidated Financial Statements and Notes of Canyon Services Group Inc. ("Canyon" or the "Company") as at and for the years ended December 31, 2008, December 31, 2007, December 31, 2006, December 31, 2005 and for the period from incorporation on April 8, 2004 to December 31, 2004. Additional information relating to the Company, including the Company's Annual Information Form for the year ended December 31, 2008, is available on SEDAR at www.sedar.com.

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

OVERVIEW OF THE YEAR 2008

Canyon has defied the trends of the industry and has increased revenues and cash flows significantly in the past 18 months. Since mid-2006, the Western Canadian well stimulation services industry has experienced a slow down as lower natural gas prices reduced E&P companies' drilling activities. More recently, since summer 2008, oil and natural gas prices have declined further amid global financial market crisis. Nevertheless, during these periods of reduced activity across the well stimulation services industry, Canyon has dramatically grown in both market share and revenues, attributable to new fracturing methods, including the patented Grand Canyon process, a re-vamped sales team, a modern and technologically-advanced equipment fleet and new operating bases in Grande Prairie and Medicine Hat.

The operating and financial highlights for the fourth quarter and year ended December 31, 2008 may be summarized as follows:

Operating and Financial Highlights

- In Q4 2008, revenues and jobs reached record levels, increasing by 47% to $29.0 million and by 55% to 611 respectively, compared to Q4 2007. Q4 2008 revenues were 40% higher than the previous quarterly record achieved in Q3 2008.

- For the 2008 year, Canyon's job count almost doubled to 1,724 from 922 in 2007, while revenues increased by 51% to $72.4 million from $48.1 million in the prior year. Revenues were not proportionate to the increase in jobs due a different job mix in 2008 and due to price pressure that commenced in late 2006, the effect of lower demand by E&P companies for well stimulation services in response to lower natural gas prices.

- Canyon completed its third major shallow gas project with its Grand Canyon technology. In Q3 and Q4 2008, 165 wells were fractured using our fluid free, light weight proppant technology. Based on the production uplift and completion cost savings of this technology, our customer (an intermediate sized operator) has awarded an additional project for the adjacent area estimated to commence in mid-2009.

- As at December 31, 2008, the Company's available credit facilities totaled $18.1 million.

- In Q4 2008, Canyon generated EBITDA before stock based compensation expense (see Non-GAAP Measures) of $7.6 million compared to $3.3 million in the prior year's quarter.

- For the 2008 year, EBITDA before stock based compensation expense was $9.8 million, a significant increase over the $0.6 million recorded in 2007.

- In Q4 2008, Canyon generated income before income taxes of $4.3 million, a significant improvement over the income before income taxes of $198 thousand in Q4 2007. For the year ended December 31, 2008, the loss before income taxes was $2.4 million, compared to the loss before income taxes of $11.9 million in 2007.

- An expanded market share resulted in significantly increased job counts across all divisions, with the Conventional Fracturing Division accounting for a significant proportion of the increase.

- In June 2008, Canyon commenced remedial cementing, thereby increasing the utilization of equipment in the Chemical Stimulation and Remedial Services Division. In Q4 2008, this division completed 115 jobs.

- A new operating base was opened in Medicine Hat allowing Canyon to better service customers with operations in Southeast Alberta and Southeast Saskatchewan.

- In June 2008, Canyon completed a reorganization of its debt facilities by replacing a portion of its short-term debt with a long-term facility, resulting in an estimated annual reduction of $2.1 million in debt service costs (loan principal and interest) and an increase in available credit to fund operating activities.

- Canyon added to its CO2 transportation and infrastructure in Q3 and Q4 2008 resulting in $3.8 million of capital expenditures. The addition of this equipment has enabled Canyon to better serve its customers from its Grande Prairie operating base and significantly reduce third party equipment costs.

2009 OUTLOOK

2009 will be a difficult year for all of those involved in the energy business. Oil and natural gas industry activity levels have been and will continue to be significantly impacted by recent global economic events. Commodity prices have declined sharply since the summer of 2008. WTI oil prices and Nymex natural gas prices have fallen approximately 74% and 70% respectively from their highs reached in the summer of 2008, with the overall decline in demand caused by the reduction in economic activity world wide. The depressed commodity prices, which immediately caused a reduction in availability of both equity and debt capital, have caused our customers to significantly rein in exploration and development budgets for 2009, as they carefully manage cash flows and credit facilities. Current industry estimates range from 10,000 to 13,500 wells to be drilled in 2009. This represents an approximate 40% decline in overall industry activity compared to 2008. If commodity prices remain at current levels management anticipates that there will be additional downward pressure on job counts and pricing over the remainder of 2009.

Although the industry is experiencing a downturn, the pressure pumping services is one of the bright spots in the oilfield services sector. Exploration and production companies are focusing on tight gas and resource plays such as the Horn River, Montney and Bakken shales. These plays are typically drilled horizontally and are completed with several large fractures, significantly increasing overall demands for pressure pumping services on a per well basis. These types of plays will continue to be the highlight of Western Canadian activity. We believe that operators will be relying on fracturing technologies to maximize production and striving to perform more fracs per well, which will help to offset the decline in the overall well count expected for the next 6 – 18 months.

Canyon has continued to expand its customer list and has experienced significant growth in its conventional fracturing division. To-date in 2009 our revenues are approximately 10% ahead of the same period in 2008. Canyon expects our ongoing market penetration, combined with an industry focus on fracturing technology, should make up for much of the overall decline in industry activity. Canyon continues to demonstrate the benefits of our patented technologies and how our Grand Canyon fracturing technologies improve the economic return of a variety of oil and natural gas reservoirs. Currently, Canyon is forecasting revenues and cash flows only slightly lower then 2008.

Canyon is cautiously predicting rising commodity prices in the second half of 2009 once the economy stabilizes and the production declines from reduced investments for oil and gas become evident. Once this occurs, confidence and increased activity will return to the basin for the winter of 2009 and 2010 and oilfield services utilization will increase dramatically and operating margins will improve. For the remainder of 2009, in response to near-term lower anticipated industry activity and job pricing, Canyon will be taking a defensive stance by actively managing operating and administrative expenses. The company will be implementing a cost reduction program in the near future and will continue its focus on operating with an efficient and cost effective infrastructure.

QUARTERLY COMPARATIVE STATEMENTS OF OPERATIONS

Quarter Ended	December 31, 2008 (unaudited)	December 31, 2007 (unaudited)
Revenues	$29,006,991	$19,706,099
Expenses		
Operating	19,246,032	14,905,484
Selling, general and administrative	2,695,520	1,744,925
Interest on long-term debt	307,916	402,573
Other interest	29,775	50,930
Depreciation and amortization	2,382,322	2,404,446
Income before income taxes	4,345,426	197,741
Income taxes-current	-	1,228
Income taxes-future	69,550	197,514
	69,550	198,742
Net income (loss)	$4,275,876	$(1,001)
EBITDA before stock option expense (1)	$7,636,357	$3,271,642
Income (loss) per share:		
Basic	$0.19	($0.00)
Diluted	$0.19	($0.00)

Note (1): See Non-GAAP Measures.

Revenues

In Q4 2008, each of Canyon's service divisions, High Rate Nitrogen Fracturing, Conventional Fracturing, and Chemical Stimulation and Remedial Services, achieved significant increases in activity levels as the total number of jobs completed by Canyon increased by 55% to 611 from 395 in the prior year's quarter, while revenues increased by 47% to $29.0 million from $19.7 million over the same periods. Revenue per job declined by 6% to $47,513 in Q4 2008 from $50,388 for the prior year's comparable quarter, mostly due to a higher proportion of jobs in the lower-priced Chemical Stimulation and Remedial Services Division.

Operating Expenses

Operating expenses increased by 29% to $19.2 million in Q4 2008 from $14.9 million in Q4 2007. This increase is less than the 55% increase in the Q4 2008 job count compared to Q4 2007, because of a significant fixed operating cost structure.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased to $2.7 million in Q4 2008 from $1.7 million in Q4 2007 due to higher selling costs, operating costs associated with both the Medicine Hat base which opened in July 2008 and Grande Prairie which opened in January 2008, and an increase in non-cash stock-based compensation expense. In Q4 2008, non-cash stock-based compensation expense increased to $0.6 million from $0.2 million in Q4 2007, due to one-time charges resulting from modifications to and cancellation of stock options.

EBITDA (See Non-GAAP Measures)

In Q4 2008, EBITDA (before stock option expense) has increased significantly to $7.6 million from $3.3 million in Q4 2007, due to the significant increase in job activity and revenues. The Q4 2008 amount of $7.6 million consists of income before income taxes of $4.3 million, plus depreciation and amortization of $2.4 million, plus Interest on long-term debt of $0.3 million, plus other interest of $0.0 million, plus stock option expense of $0.6 million. The comparable Q4 2007 amount of $3.3 million consists of income before income taxes of $0.2 million, plus depreciation and amortization of $2.4 million, plus interest on long-term debt of $0.4 million, plus other interest of $0.1 million, plus stock option expense of $0.2 million.

Interest Expense

Interest on long-term debt and other interest was $0.3 million for Q4 2008, compared to $0.5 million for Q4 2007. The decrease is mostly due to lower debt levels and interest rates in Q4 2008.

Depreciation Expense

Depreciation expense was recorded at $2.4 million in Q4 2008, unchanged from the $2.4 million recorded in Q4 2007.

Income Tax Expense

At the expected combined income tax rate of 29.5%, income before income taxes for Q4 2008 of $4.5 million would have resulted in income tax expense of approximately $1.3 million compared to the actual provision of $0.1 million. The future income tax expense was increased by $0.2 million as a result of the effect of stock based compensation and other non-deductible expenses, and decreased by $1.4 million as result of a reduction of the future income tax valuation allowance.

Net Income (Loss) and Income (Loss) per Share

Net income totaled $4.3 million for Q4 2008, a significant improvement over the net loss of one thousand dollars in Q4 2007, primarily due to the 47% increase in revenues in the current quarter.

For the quarter ended December 31, 2008, basic and diluted Income per share was $0.19, compared to Loss per share of ($0.00) recorded in Q4 2007.

2008 YEAR-TO-DATE COMPARATIVE STATEMENTS OF OPERATIONS

Year Ended	December 31, 2008 (Unaudited)	December 31, 2007 (Unaudited)
Revenues	$72,371,527	$48,069,958
Expenses		
Operating	55,256,260	41,477,067
Selling, general and administrative	8,487,009	6,847,650
Interest on long-term debt	1,413,411	1,339,747
Other interest	166,737	214,569
Depreciation and amortization	9,403,178	10,115,212
Loss before income taxes	(2,355,068)	(11,924,287)
Income taxes-current (recovery)	-	(812,935)
Income taxes-future (reduction)	(326,177)	(2,354,477)
	(326,177)	(3,167,412)
Net loss	($2,028,891)	($8,756,875)
EBITDA before stock option expense(1)	$9,796,865	$579,053
Loss per share:		
Basic	($0.09)	($0.40)
Diluted	($0.09)	($0.40)

Note (1): See Non-GAAP Measures.

Revenues

For the year ended December 31, 2008, each of Canyon's operating divisions achieved significant increases in activity levels with the Conventional Fracturing Division accounting for a significant proportion of the increase. The total job count increased by 87% to 1,724 jobs completed compared to 922 jobs in the year ended December 31, 2007. For the 2008 year, Revenues increased by 51% to $72.4 million over $48.1 in 2007. This increase was not in proportion to the 87% increase in the job count due to an increase in contribution of lower priced cementing and acidizing jobs and overall price pressure in the high rate nitrogen market. As a result, the average revenue per job declined by 19% to $42,139 in 2008 from $52,305 in 2007.

Operating Expenses

Operating expenses for the year ended December 31, 2008 increased by 33% to $55.3 million from $41.5 million due to the increased job activity. The 33% increase in operating costs is less than the 87% increase in jobs due to the large fixed operating cost component of the fracturing and stimulation business. Canyon's current level of fixed operating costs which increased by 2% in 2008 compared to 2007, will support a much higher level of activity, with the result that, when the industry returns to more normal activity levels, Canyon will incur fixed costs at a proportionately lesser rate for the additional job activity, as the necessary operating infrastructure is mostly in place.

Selling, General and Administrative Expenses

Selling, general and administrative expenses have increased to $8.5 million for the year ended December 31, 2008 from $6.8 million for the prior year. The increase is mostly due to the expansion in the Company's scope of operations including the opening of new operating bases in Grande Prairie and Medicine Hat and an increase in the sales force. In addition, SG&A includes non-cash stock option expense of $1.2 million for the 2008 year compared to $0.8 million in the comparable 2007 year. The increase in stock option expense is due to one-time charges resulting from modifications to and cancellation of stock options. Management expects that SG&A will grow at a proportionately lesser rate as the Company's operating activities continue to expand, as much of the back-office infrastructure necessary to support expanded operational activities is in place.

EBITDA (See NON-GAAP MEASURES)

The increased job activity and revenues has resulted in EBITDA before stock option expense for the year ended December 31, 2008 of $9.8 million, a significant improvement over the $0.6 million of EBITDA before stock option expenses recorded in the year ended December 31, 2007. The 2008 amount of $9.8 million consists of loss before income taxes of ($2.4) million, plus depreciation and amortization of $9.4 million, plus interest on long-term debt of $1.4 million, plus other interest of $0.2 million, plus stock option expense $1.2 million. The comparable 2007 amount of $0.6 million consists of loss before income taxes of ($11.9) million, plus depreciation and amortization of $10.1 million, plus interest on long-term debt of $1.4 million, other interest of $0.2 million and stock option expense of $0.8 million.

Interest Expense

Interest on long-term debt and other interest amounted to $1.6 million for the year ended December 31, 2008, unchanged from the prior year amount.

Depreciation Expense

Depreciation expense has decreased to $9.4 million for the year ended December 31, 2008 from $10.1 million for the prior year. Effective October 1, 2007 in consultation with suppliers and operations management, Canyon increased its estimate for salvage value used in the calculation of depreciation on fracturing equipment which is amortized over ten years on a straight line basis. Previously, salvage values had been estimated to be insignificant. This change impacted the depreciation expense in 2008 by approximately $1.1 million compared to 2007. This reduction in depreciation expense was partially offset by additional depreciation in 2008 attributable to the Grande Prairie facility which became operational in January 2008, and additional depreciation attributable to equipment added in the second half of 2008.

Income Tax Expense

At the expected combined income tax rate of 29.5%, loss before income taxes for the Year ended December 31, 2008 of $2.4 million would have resulted in income tax recovery of approximately ($0.7) million compared to the actual provision for a future income tax recovery of ($0.3) million. The future income tax recovery was reduced by $0.4 million as a result of the effect of stock based compensation and other non-deductible expenses.

Net Loss and Loss per Share

Net loss totaled ($2.0) million for the year ended December 31, 2008, lower than the net loss of ($8.8) million for the comparable 2007 year, primarily due to higher activity levels and revenues and in the period.

Basic and diluted loss per share for the year ended December 31, 2008 was ($0.09), an improvement over the basic and diluted loss per share of ($0.40) in 2007.

Summary of Quarterly Results

($,000 except per share amounts-unaudited)

(1)		Revenues		EBITDA before stock option expense (2)		Net Income (loss)
2008	Q4	$29,007		$7,636		$4,276
	Q3	$20,719		$4,135		$1,243
	Q2	$4,191		($3,643)		($6,564)
	Q1	$18,454		$1,669		($984)
2007	Q4	$19,706		$3,272		($1)
	Q3	$11,102		($494)		($2,851)
	Q2	$3,041		($3,946)		($5,073)
	Q1	$14,220		$1,748		($832)

Note (1): The Company's business is seasonal in nature with the periods of greatest activity being in the first and fourth quarters. Please see below for further discussion, "Seasonality" under "RISK FACTORS AND RISK MANAGEMENT."

Note (2): See Non-GAAP Measure

The well completion and stimulation business is seasonal in nature with significantly reduced activity in Q2 of each year due to road bans resulting from the annual spring break-up. In addition, the business is cyclical as a result of industry activity levels that are highly correlated to commodity prices. Accordingly, the resulting downward pressure in industry activity levels and prices have led to net losses in certain quarters which are expected to be profitable in times of increased activity, namely, Q1 2008, Q1 2007, Q3 2007 and Q4 2007. Over the latter half of 2008, Canyon has enjoyed a significant increase in job activity and revenues resulting in EBITDA before stock option expense of $7.6 million and net income of $4.3 million in Q4 2008 and EBITDA before stock option expense of $4.1 million and net income of $1.2 million in Q3 2008.

LIQUIDITY AND CAPITAL RESOURCES

Equity

There were no common shares issued by the Company during the year ended December 31, 2008.

Working Capital and Cash Requirements

Funds generated by the Company's operating activities amounted to $7.3 million for the quarter ended December 31, 2008, compared to $2.8 million recorded in the comparable quarter of 2007. For the year ended December 31, 2008, funds generated by the Company's operating activities amounted to $8.2 million, compared to negative $0.2 million recorded in the 2007 year. The 2007 comparative amount included a one-time current income tax recovery of $0.8 million as a result of applying operating losses to prior periods' taxable income. The increase in Canyon's job count across all service divisions accounts for the significant improvement in funds generated from operations for the three and twelve months ended December 31, 2008 compared to the comparable 2007 periods.

As at December 31, 2008, Canyon had a working capital balance of $4.5 million, compared to $4.6 million as at December 31, 2007. In 2008 Canyon replaced the short-term capital lease and previous mortgage with a longer-term mortgage on the Company's land and buildings, as discussed below under Debt Facilities. The Company's working capital position exceeds the level required to manage timing differences between cash collections and cash payments.

The Company continually monitors individual customer trade receivables, taking into account numerous factors including industry conditions, payment history and financial condition in assessing credit risk. The Company establishes an allowance for doubtful accounts for specifically identifiable customer balances which are assessed to have credit risk exposure. As at December 31, 2008, the Company provided an allowance of $0.3 million for doubtful receivables.

Debt Facilities

On May 26, 2008, Canyon entered into a credit agreement (the "Agreement") with its lender to update and restate the existing Extendible Facility and Operating Facility, and to add an $11.4 million non-revolving extendible term facility (the "Term Facility"). Under the Agreement, the Term Facility bears interest at the bank's prime lending rate plus 0.75 percent and is repayable by way of blended monthly principal and interest payments of $78,419, based on a 20 year amortization period. The Term Facility matures on May 26, 2010 ("Term Maturity Date") and can be extended at the lender's option for a further period of two years from the then current Term Maturity Date. Security for the Term Facility is a mortgage over the Company's land and buildings and a general security agreement over all of the Company's assets. The full amount of $11.4 million has been drawn under this facility and was used to repay the long-term capital lease ($5.5 million) and the previous mortgage on certain of the Company's land and buildings in Red Deer ($0.5 million). The balance of $5.4 million was used to reduce the Operating Facility and is available to the company for capital expenditures and working capital.

As described in Critical Accounting Estimates below and in note 1 (c) to the consolidated financial statements for the three and twelve months ended December 31, 2008, Canyon adopted the new CICA requirements relating to financial instruments. In accordance with these requirements, the Term Facility as at December 31, 2008 is presented net of $0.26 million of unamortized finance costs related to the restructuring of the Company's debt facilities. These financing costs will be amortized over the term of the debt and charged to interest expense using the effective interest rate method.

The Extendible Facility is a revolving extendible credit facility up to a maximum amount of $20 million and bears interest, payable monthly, at the bank's prime lending rate plus 0.5 percent. The Extendible Facility is subject to renewal on May 25, 2009 at which time it can be extended at the lender's option for 364 days. If the Extendible Facility is not extended, all amounts outstanding are repayable in 16 consecutive quarterly installments, commencing on the last day of the third month following the then maturity date, with the first fifteen of such installments being one-twentieth of the amount outstanding on the maturity date and the sixteenth of such installments being for the balance outstanding. Security for the Extendible Facility is a general security agreement over all of the Company's assets. As at December 31, 2008, $6.5 million ($17.0 million as at December 31, 2007) was drawn under this facility.

The Operating Facility is a demand revolving facility up to a maximum amount of $5.0 million and bears interest, payable monthly, at the bank's prime lending rate plus 0.5 percent and is secured by a general security agreement over all of the Company's assets. As at December 31, 2008, the net amount drawn on this facility was $0.4 million comprising a $2.9 million balance, less a cash balance of $2.5 million, to fund short-term differences in the timing of cash collections and payments to vendors.

As at December 31, 2008, Canyon's net debt including current and long-term portions, was $12.2 million (current liabilities of $13.5 million, plus long-term debt of $16.8 million, less current assets of $18.1 million) compared to $16.7 million as at December 31, 2007. The decrease in net debt during the year ended December 31, 2008 primarily relates to funds generated from operations of $8.2 million less capital expenditures of $3.8 million in the year.

As at December 31, 2008, the Company's available credit facilities under its debt facilities total $18.1 million ($13.5 million under the Extendible Facility, $2.1 million under the Operating Facility and a cash balance of $2.5 million).

The balance of the debt facilities comprises automotive equipment loans totaling $0.5 million at December 31, 2008 ($0.6 million at December 31, 2007).

Capital Management

The Company's objectives when managing its capital structure are to maintain a balance between debt and capitalization so as to maintain investor, creditor and market confidence and to sustain future development of the business. Debt includes operating facility less cash, plus current portion of obligations under capital lease, plus current portion of long-term debt, plus obligations under capital lease, plus long-term debt. Capitalization is calculated as the debt, as described above, and shareholders' equity less intangible assets. The Company may be required to adjust its capital structure from time to time as a result of expansion activities.

The debt to capitalization ratios were as follows:

(Stated in dollars, except ratios)	December 31, 2008	December 31, 2007
Debt	$18,394,371	$24,677,545
Shareholders' equity (net of intangible assets)	87,466,003	88,309,127
Capitalization	$105,860,374	$112,986,672
Debt to capitalization ratio	0.17	0.22

The Company also manages its capital structure to ensure compliance with the following financial covenants specified in the credit facilities:

- The Company is required to maintain a working capital ratio of not less than 1.25 to 1.00, calculated as at the end of each fiscal quarter;

- The company is required to maintain a ratio of total debt to total tangible net worth of not greater than 2.0 to 1.0, calculated as at the end of each fiscal quarter;

- As at the end of each fiscal quarter, the total outstanding balances under the Operating Facility and the Extendible Facility cannot exceed 50% of the net book value of property and equipment net of real estate assets;

- The Company's EBITDA (see NON-GAAP MEASURES) before stock option expense cannot be less than 1.25 to 1.00, calculated on an annual basis on December 31 of each year.

As of December 31, 2008, the Company is in compliance with each of the above financial covenants.

The Company believes that it has access to sufficient capital through internally generated cash flows and available credit facilities to meet its obligations associated with financial liabilities and capital expenditures.

Contractual Obligations

As at December 31, 2008, Canyon's contractual obligations are summarized as follows:

	Total	Next 12 months	1 - 3 years	4 - 5 years	After 5 years
Operating facility	$2,915,780	$2,915,780	$ -	$ -	$ -
Long-term debt	17,948,410	1,166,906	3,589,053	4,072,465	9,119,986
Operating leases and office space	1,505,475	485,261	675,549	344,665	-
Total contractual obligations	22,369,665	4,567,947	4,264,602	4,417,130	9,119,986

Capital Expenditures

Canyon's total capital expenditures for the 2008 year were $3.8 million for tractors, trailers and storage tanks to increase our capacity to pump CO2 in fracturing services. This equipment will reduce operating costs, particularly third party hauling costs and was financed by funds generated from operations and available debt facilities. As at December 31, 2008, Canyon's available aggregate credit facilities under its debt facilities total $18.1 million, as discussed above.

Outstanding Share, Warrant and Option Data

The following table summarizes Canyon's capitalization at December 31, 2008 and December 31, 2007.

	Outstanding Number as at	
	December 31, 2008	December 31, 2007
Common Shares	22,148,533	22,148,533
Warrants	550,000	550,000
Options	965,334	1,933,332

In the three months ended December 31, 2008, no warrants were issued to directors, officers and employees, 33,000 share options were granted to employees, no share options were exercised by directors, officers and employees and 66,333 share options were forfeited and 915,000 share options were cancelled by directors, officers and employees. For the year ended December 31, 2008, no warrants were issued to an employee or an officer, 182,000 share options were granted to directors, officers and employees, no share options were exercised by directors, officers and employees and 234,998 share options were forfeited and 915,000 options were cancelled by directors, officers and employees. The cancellation of these options resulted in the recording of additional stock compensation expense of $190,406 using the fair value method.

On February 21, 2008, 85,500 options held by certain non-executive employees, with exercise prices ranging from $10.31 to $13.76, were repriced at $3.23 to reflect the current economic conditions, resulting in the recording of additional stock compensation expense of $28,871. Further, on December 4, 2008, all options held by non-executive employees, with exercise prices ranging from $1.34 to $5.48, were repriced at $1.20 to reflect current economic conditions. As a result of this modification to the option terms, additional stock compensation expense will be recorded using the fair value method over the remaining vesting period, and $106,957 has been recorded for the year ended December 31, 2008.

Financial Instruments

There are no significant financial instruments as at December 31, 2008.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements as at December 31, 2008, other than the operating leases described above.

NON-GAAP MEASURES

The Company's Consolidated Financial Statements are prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") and are reported in Canadian currency.

The term "EBITDA" is used in this document to refer to Earnings from continuing operations before interest, taxes, depreciation and amortization. EBITDA before stock compensation expense is also used in this document. EBITDA is not a term recognized under Canadian GAAP and does not have a standardized meaning prescribed by GAAP. While management of the Company believes that EBITDA is commonly used, and is a useful measure for readers in evaluating financial performance of the Company, the Company's method of calculating EBITDA may differ from, and therefore, not be comparable to similar measures provided by other reporting issuers.

The following table provides a reconciliation of net income (loss) under GAAP as disclosed in the consolidated statements of operations to EBITDA before stock compensation expense.

	Three months ended December 31		Years ended December 31	
	2008	2007	2008	2007
EBITDA before stock compensation expense	$7,636,357	$3,271,642	$9,796,865	$579,053
Add (Deduct):				
Depreciation and amortization	(2,382,322)	(2,404,446)	(9,403,178)	(10,115,212)
Interest on long-term debt	(307,916)	(402,573)	(1,413,411)	(1,339,747)
Other interest	(29,775)	(50,930)	(166,737)	(214,569)
Stock-based compensation	(570,918)	(215,952)	(1,168,607)	(833,812)
Income taxes	(69,550)	(198,742)	326,177	3,167,412
Net income (loss)	$4,275,876	$(1,001)	$(2,028,891)	$(8,756,875)

CRITICAL ACCOUNTING ESTIMATES

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. The Company considers the following to be its critical accounting policies and estimates:

Revenue Recognition – Accounts Receivable

The Company recognizes revenue when services are provided and collectability is reasonably assured. The Company's services are sold based upon orders or contracts with customers that include agreed upon rates for equipment, tools, services, supplies consumed and travel time. There are no post-service delivery obligations. All revenues recorded are based on actual invoices issued to customers.

Company management regularly reviews outstanding accounts receivables and follows up with customers when settlement has not occurred on a timely basis. A bad debt allowance of $0.3 million has been established as at December 31, 2008 based on management's assessment of the Company's accounts receivable collection history. This assessment of collectability involves significant judgment and frequently involves material dollar amounts. As such, the Company's operating results could be affected if bad debts in excess of the allowance are actually experienced.

Depreciation of Property and Equipment

Depreciation is calculated using varying methods and is intended to reflect the historical value of the underlying asset that is consumed in conducting each period's operations. Estimates affecting management's assessment of the most appropriate depreciation rate and method of calculation for any particular class of asset include the productive life of the asset, its salvage value, equipment utilization rates, planned maintenance programs and technological change.

Commencing with Q4 2007, Canyon reassessed a salvage value estimate for fracturing equipment in computing the depreciation charge. Management believes that its assessment and choice of estimates used in calculating depreciation are reasonable and consistent with our competitors; however there is no certainty that the depreciation expense provided will correctly measure the actual reduction in value of assets used in operations over time. There have been no changes to the estimated useful lives of the Company's property and equipment deployed in continuing operations since the inception of these operations.

Intangible Assets

Intangible assets consist of certain intellectual property for proprietary light weight proppant. On a periodic basis, management assesses the carrying value of intangible assets for indications of impairment. When an indication of impairment is present, the asset is written down to its estimated fair value. The value of intangible assets was assessed for impairment. No write-down is required.

Long-lived Assets

On a periodic basis, management assesses the carrying value of long-lived assets for indications of impairment. When an indication of impairment is present, the asset is written down to its estimated fair value. The value of long-lived assets was assessed for impairment. No write-down is required.

Income Taxes

The Company follows the liability method of accounting for future income taxes, under which future income tax assets and liabilities are determined based on temporary differences between the accounting basis and the tax basis of the Company's assets and liabilities. Income tax rates used and statutes followed are those currently enacted (or substantively enacted) that are expected to apply when these differences reverse. Income tax expense is the sum of the Company's provision for current income taxes and the difference between opening and ending balances of the future income tax assets and liabilities.

CHANGES IN ACCOUNTING POLICY

On January 1, 2008, the Company adopted the new Section 3862, "Financial Instruments-Disclosures", of the Canadian Institute of Chartered Accountants' handbook and the new Section 3863, "Financial Instruments-Presentation", of the Canadian Institute of Chartered Accountants' handbook. These new sections, effective for years beginning on or after October 1, 2007, replace Section 3861, "Financial Instruments-Disclosures and Presentation", and increase emphasis on disclosure of the risks arising from financial instruments and how the entity manages such exposure.

Section 3862 describes the required disclosure for the assessment of the significance of financial instruments to an entity's financial position and performance, as well as the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks.

Section 3863 establishes standards for presentation of the financial instruments and non-financial derivatives. It carries forward the presentation related requirements of Section 3861.

On adoption of the new standards, the Company elected to recognize, as separate assets and liabilities, only for those embedded derivatives in hybrid instruments issued, acquired or substantially modified after January 1, 2003. The Company did not identify any material embedded derivatives, which required separate recognition and measurement.

The new standards require a new statement of comprehensive income, which is comprised of net earnings and other comprehensive income which may report the changes in fair value in, derivatives designated as cash flow hedges and available-for-sale investments and foreign currency translation. The Company had no “other comprehensive income or loss” transactions during the three and twelve months ended December 31, 2008 and no opening or closing balances for the accumulated other comprehensive income or loss.

On January 1, 2008 the Company adopted the new Section 1535, "Capital Disclosures", of the Canadian Institute of Chartered Accountants' handbook. This new section, effective for years beginning on or after October 1, 2007, establishes standards for disclosing information about an entity's capital and how it is managed. The new accounting standard addresses only disclosures and has no impact on the Company's financial results. The impact of adopting this section is disclosed in note 11 to the Consolidated Financial Statements for the three and twelve months ended December 31, 2008.

On January 1, 2008 the Company adopted the new Section 3031, "Inventories", of the Canadian Institute of Chartered Accountants' handbook. This new section, effective for years beginning on or after January 1, 2008, replaces Section 3030 of the same title. The new section provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories. There has been no impact on the Company's financial position, operations or cash flows related to the implementation of this section.

There were no other new accounting standards enacted that would affect the Company’s Consolidated Financial Statements nor did the Company change any of its existing accounting policies from those used in 2007.

INTERNATIONAL FINANCIAL REPORTING STANDARDS UPDATE

The Canadian Accounting Standards Board has confirmed that Canadian publicly accountable profit-oriented enterprises will be required to adopt International Financial Reporting Standards (IFRS) for years beginning on or after January 1, 2011. IFRS will replace Canadian generally accepted accounting principles. As a result, the Company must report its results of operations, together with comparatives for the year ended December 31, 2010, in accordance with IFRS beginning January 1, 2011.

The Company has commenced a comprehensive process to analyze the differences between IFRS and Canyon’s existing Canadian generally accepted accounting principles, and to assess the impact of various alternatives under IFRS. The matters being addressed include identifying the expected changes in accounting policy, selecting the IFRS policies, changes in note disclosure, quantifying the disclosures required for the comparative 2010 year, and determining the effect of conversion to IFRS on Canyon’s material business agreements. In addition, the Company’s internal controls over financial reporting will include systems and processes to address the changes resulting from applying the new accounting standards. Disclosure controls and procedures will also be updated as the IFRS conversion process proceeds. At this time the impact on Canyon’s consolidated financial statements is not reasonably determined.

Overall responsibility for the successful implementation of the Company’s conversion plan lies with Canyon’s senior financial management who report to and are overseen by the Company’s Audit Committee of the Board of Directors. Canyon has commenced training key employees and will continue throughout the conversion process. In addition, regular reporting is provided to the Company’s senior executive management and to the Audit Committee.

RELATED PARTY TRANSACTIONS

In 2008, the Company did not enter into any related party transactions. The 2007 related party transactions are described in the notes to the consolidated financial statements for the year ended December 31, 2008 and include the acquisition of certain intellectual property from a private company which was one-third owned by a senior employee of the Company. In 2007, the newly-appointed President subscribed for common shares of the Company and received warrants as more fully described in the notes to the consolidated financial statements for the year ended December 31, 2008.

RISK FACTORS AND RISK MANAGEMENT

Readers of the Company's interim report should carefully consider the risks described under the heading "Risk Factors" in the Company's Annual Information Form. In addition, readers should also consider the following principal risks.

Business Risks

The demand, pricing and terms for oilfield services in the Company's service areas largely depend upon the level of exploration and development activity for both oil and natural gas. Oil and natural gas industry conditions are influenced by numerous factors over which Canyon has no control, including: oil and natural gas prices, expectations about future oil and natural gas prices, 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 oils and natural gas reservoirs; and weather conditions. As a result, the level of activity in the oil and natural gas exploration and production industry is volatile. A material decline in oil or natural gas prices or industry activity could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows. Conversely, during periods of high commodity prices, when customers' cash flows increase, the demand for Canyon's services can also increase.

Seasonality

There is greater demand for oilfield services provided by the Company in western Canada in the winter season when the occurrence of freezing permits the movement and operation of heavy equipment. Consequently, oilfield services activities tend to increase in the fall and peak in the winter months of November through March. The volatility in the weather can therefore create unpredictability in activity and utilization rates, which could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

Intangible Property

In delivering services to its customers, Canyon has developed proprietary technology and know-how. To maintain its competitive position, the Company undertakes to protect its intellectual property by applying for patent protection. There are currently two patents pending on the Company's Grand Canyon process.

Competition

Canyon's market is highly competitive. Management considers Canyon as the dominant player in nitrogen fracturing utilizing the Grand Canyon process. However, Canyon does not presently hold a dominant market position with respect to its other service offerings.

Reliance on Personnel

The success of the Company is dependent on attracting and retaining skilled personnel. To support the new service line offerings, the Company has 241 full time staff at September 30, 2008 compared to 171 at the beginning of the year.

Equipment

Canyon's ability to increase its operations and provide reliable service to customers is dependent upon the availability of reliable equipment and spare parts. With the completion of the capital expenditure program that commenced in

2006, Canyon now has available for service a significant fleet of custom-designed equipment and related parts to support all of its service lines.

Credit Risk

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

Interest Rate Risk

The Company manages its interest rate risk through a combination of fixed and floating rate borrowings.

Dependence on Suppliers

The ability of the Company to compete and grow will be dependent on the Company having access, at a reasonable cost and in a timely manner, to equipment, parts and components.

The Company's ability to provide services to its customers is also dependent upon the availability at reasonable prices of raw materials which the Company purchases from various suppliers, most of whom are located in Canada. Alternate suppliers exist for all raw materials.

Dependence on Major Customers

The Company has a customer base of more than 60 E&P entities, ranging from large multinational public entities to small private companies. Notwithstanding the Company's significant customer base, 56% of the Company's revenue for the twelve months ended December 31, 2008 was earned from four large customers. The Company 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. The Company continuously makes efforts to expand its customer base.

Vulnerability to Market Changes

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

Government Regulation

The Company's operations are subject to a variety of Canadian federal, provincial and local laws, regulations and guidelines, including laws and regulations relating to health and safety, the conduct of operations, the protection of the environment and the manufacture, management, transportation, storage and disposal of certain materials used in the Company's operations. Management believes that the Company is in compliance with such laws, regulations and guidelines.

In Alberta, the Crown royalty rates on conventional oil and natural gas fluctuate, depending on when a well was drilled, well depth, well production volume and the price of oil and natural gas. On October 25, 2007, the Alberta provincial government introduced a new royalty regime which became effective on January 1, 2009 and is applicable to all existing conventional oil and natural gas wells in Alberta. The new royalty regime assesses the applicable royalty rate on a well by well basis using a sliding scale which takes into account the price of oil and/or natural gas and the well's production volumes.

On November 19, 2008 and November 24, 2008 the Alberta provincial government announced details of an optional five-year transitional royalty program that applies to conventional oil and natural gas wells drilled to measured depths between 1,000 to 3,500 meters between November 19, 2008 and January 1, 2014. For each well, the producer can make a one time election to produce the well under the transitional royalty program or the new royalty regime. As of January 1, 2014, all production subject to the transitional program will revert to the new royalty regime.

Subsequent to these changes to the royalty structure, the Alberta provincial government has launched a study of the competitiveness of Alberta's conventional oil and gas business. Terms of reference haven't been made public at this time, but various media sources have indicated that the royalty regime may be subject to further review.

These changes to the Alberta royalty regime, as well as the potential for future corresponding changes in the royalty regimes applicable in other provinces, have created uncertainty surrounding the ability to accurately estimate future royalties, resulting in additional volatility and uncertainty in the oil and gas market. At the current time it is not possible to predict what the impact on the Corporation will be.

Environmental Liability

The Company is subject to various environmental laws and regulations enacted in the jurisdictions in which it operates which govern the manufacture, processing, importation, transportation, handling and disposal of certain materials used in the Company's operations. The Company has established procedures to address compliance with current environmental laws and regulations and monitors its practices concerning the handling of environmentally hazardous materials.

DISCLOSURE CONTROLS

The Company's Chief Executive Officer and Chief Financial Officer (the "Certifying Officers") are responsible for establishing and maintaining disclosure controls and procedures (the "Procedures") which provide reasonable assurance that information required to be disclosed by the Company under provincial or territorial securities legislation (the "Required Filings") is reported within time periods specified. Without limitation, the Procedures are designed to ensure that material information relating to the Company is accumulated and communicated to management, including its Certifying Officers, as appropriate to allow for timely decisions regarding the Required Filings.

The Certifying Officers have evaluated, or caused to be evaluated under supervision, the effectiveness of the Company's Procedures on a regular basis throughout the year and have concluded that the Procedures in place as of December 31, 2008 covered by the Required Filings are effective in providing reasonable assurance that material information relating to the Company is accumulated and communicated to management and reported within time periods specified.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

The design of the Company's internal controls over financial reporting has been updated as of the date of this Management's Discussion and Analysis. As with many companies of a similar size, the Company has control deficiencies within the accounting and finance department over segregation of duties. None of the segregation of duty control deficiencies has resulted in a misstatement of the financial statements. Management oversees all material transactions and related accounting records on a daily basis and reviews the financial statements in detail on a monthly basis. In addition, the Audit Committee reviews on a quarterly basis the financial statements and key risks of the Company and queries management about significant transactions. In the event that complex and non-routine transactions arise, the Company consults with third party advisors as needed in connection with the recording and reporting of such transactions.

The Certifying Officers have evaluated, or caused to be evaluated under supervision, the effectiveness of the Company's internal controls over financial reporting and have concluded that the internal controls over financial reporting are effective as of December 31, 2008. There are no material weaknesses in the Company's internal controls over financial reporting as of December 31, 2008.

There have been no changes in the Company's internal controls over financial reporting during the three and twelve months period ending December 31, 2008 that have materially affected, or are reasonably likely to affect, Canyon's internal controls over financial reporting.

FORWARD-LOOKING STATEMENTS

This document contains certain forward-looking information and statements within the meaning of applicable securities laws. The use of any of the words "expect", "anticipate", "continue", "estimate", "guidance", "objective", "ongoing", "may", "will", "project", "should", "believe", "plans", "intends", "budget", "strategy" and similar expressions are intended to identify forward-looking information or statements. In particular, but without limiting the foregoing, this document contains forward-looking information and statements pertaining to the following: future oil and natural gas prices; future results from operations; future liquidity and financial capacity and financial resources; future costs, expenses and royalty rates; future interest costs; future capital expenditures; future capital structure and expansion; the making and timing of future regulatory filings; and the Company's ongoing relationship with major customers.

The forward-looking information and statements contained in this document reflect several material factors and expectations and assumptions of the Company including, without limitation: that the Company will continue to conduct its operations in a manner consistent with past operations; the general continuance of current or, where applicable, assumed industry conditions; the continuance of existing (and in certain circumstances, the implementation of proposed) tax, royalty and regulatory regimes; certain commodity price and other cost assumptions; the continued availability of adequate debt and/or equity financing and cash flow to funds its capital and operating requirements as needed; and the extent of its liabilities. The Company believes the material factors, expectations and assumptions reflected in the forward-looking information and statements are reasonable but no assurance can be given that these factors, expectations and assumptions will prove to be correct.

The forward-looking information and statements included in this document are not guarantees of future performance and should not be unduly relied upon. Such information and statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information or statements including, without limitation: changes in commodity prices; changes in the demand for or supply of the Company's services; unanticipated operating results; changes in tax or environmental laws, royalty rates or other regulatory matters; changes in the development plans of third parties; increased debt levels or debt service requirements; limited, unfavourable or a lack of access to capital markets; increased costs; a lack of adequate insurance coverage; the impact of competitors; reliance on industry partners; 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.

Management's Report to the Shareholders

The management of Canyon Services Group Inc. is responsible for the preparation of the financial statements and for the consistency therewith of all other financial and operating data presented in this annual report. The financial statements have been prepared in accordance with the accounting policies summarized in the Account Policies note. The financial statements are in accordance with Canadian generally accepted accounting principles appropriate in the circumstances and have been prepared within acceptable limits of materiality. The financial information contained elsewhere in the annual report has been reviewed to ensure consistency with that in the financial statements. Management maintains a system of internal accounting controls in order to provide reasonable assurance as to the financial statements. Management maintains a system of internal accounting controls in order to provide reasonable assurance as to the reliability of the financial records and the safeguarding of assets. External auditors have examined the financial statements and have expressed their opinion on the statements. The Audit Committee of the Board of Directors, which is comprised of three independent directors, has discussed the financial statements with management and the external auditors. The financial statements have been approved by the Board of Directors on the recommendation of the Audit Committee.

Dennis J. Weinberger
Chief Executive Officer

Barry O'Brien
Vice President, Finance and Chief Financial Officer

February 26, 2009

Auditor's Report to the Shareholders

We have audited the consolidated balance sheets of Canyon Services Group Inc. as at December 31, 2008 and 2007 and the consolidated statements of operations, retained earnings (deficit) and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Calgary, Canada
February 26, 2009

Consolidated Balance Sheets

	December 31, 2008	December 31, 2007
Assets		
Current		
Cash and cash equivalents	$ 2,469,819	$ 337,468
Restricted cash (note 2)	-	323,160
Accounts receivable	8,138,522	8,773,237
Inventory	6,181,698	6,337,322
Prepaid expenses and deposits	953,957	837,011
Income taxes recoverable	355,660	1,002,067
	18,099,656	17,610,265
Property and equipment (note 3)	99,771,103	105,392,610
Intangible assets (note 4)	227,095	244,255
	$ 118,097,854	$ 123,247,130
Liabilities		
Current		
Operating facility (note 6)	$ 2,915,780	$ 341,649
Accounts payable and accrued liabilities	9,471,016	9,283,008
Current portion of obligations under capital lease (note 5)	-	2,341,586
Current portion of long-term debt (note 6)	1,166,906	1,092,151
	13,553,702	13,058,394
Obligations under capital lease (note 5)	-	4,151,523
Long-term debt (note 6)	16,781,504	17,088,104
Future income taxes (note 8)	69,550	395,727
	30,404,756	34,693,748
Shareholders' Equity		
Share capital (note 7)	87,988,904	87,988,904
Warrants (note 7)	257,125	257,125
Contributed surplus (note 7)	2,440,049	1,271,442
Deficit	(2,992,980)	(964,089)
	87,693,098	88,553,382
	$ 118,097,854	$ 123,247,130

Commitments (note 13)
Contingency (note 14)

See accompanying notes to the consolidated financial statements

On behalf of the Board:

Signed:
Dennis J. Weinberger

Signed:
Raymond P. Antony

Consolidated Statements of Retained Earnings (Deficit)

	Year Ended December 31, 2008	Year Ended December 31, 2007
Retained earnings (deficit), beginning of year	$ (964,089)	$ 7,792,786
Net loss	(2,028,891)	(8,756,875)
Deficit, end of year	$ (2,992,980)	$ (964,089)

See accompanying notes to the consolidated financial statements

Consolidated Statements of Operations

	Year Ended December 31, 2008	Year Ended December 31, 2007
Revenues	$ 72,371,527	$ 48,069,958
Expenses		
Operating	55,256,260	41,477,067
Selling, general and administrative	8,487,009	6,847,650
Interest on long-term debt	1,413,411	1,339,747
Other interest	166,737	214,569
Depreciation and amortization	9,403,178	10,115,212
Loss before income taxes	(2,355,068)	(11,924,287)
Income taxes		
Current (recovery)	-	(812,935)
Future (reduction)	(326,177)	(2,354,477)
	(326,177)	(3,167,412)
Net loss	$ (2,028,891)	$ (8,756,875)
Loss per share:		
Basic	$ (0.09)	$ (0.40)
Diluted	$ (0.09)	$ (0.40)

See accompanying notes to the consolidated financial statements

Consolidated Statements of Cash Flows

	Year Ended December 31, 2008	Year Ended December 31, 2007
Operating activities		
Net loss	$ (2,028,891)	$ (8,756,875)
Add (deduct) non-cash operating items:		
Depreciation and amortization	9,403,178	10,115,212
Future income taxes (reduction)	(326,177)	(2,354,477)
Stock-based compensation (note 7)	1,168,607	833,812
Funds provided by operations	8,216,717	(162,328)
Changes in other current assets and liabilities:		
Restricted cash	323,160	(323,160)
Accounts receivable	634,715	(211,575)
Inventory	155,624	(2,532,900)
Prepaid expenses and deposits	(116,946)	(698,329)
Accounts payable and accrued liabilities	542,277	5,348,809
Income taxes payable	646,407	(388,758)
	10,401,954	1,031,759
Financing activities		
Advances on operating facility	2,574,131	341,649
Advances on long-term debt	11,143,754	11,378,738
Repayment of obligations under capital lease	(6,493,109)	(2,223,409)
Repayment of long-term debt	(11,375,599)	(210,551)
Issuance of common shares	-	1,083,000
	(4,150,823)	10,369,427
Investing activities		
Property and equipment additions	(3,764,510)	(13,702,901)
Change in accounts payable related to property and equipment additions	(354,270)	(195,558)
	(4,118,780)	(13,898,459)
Change in cash	2,132,351	(2,497,273)
Cash, beginning of year	337,468	2,834,741
Cash, end of year	$ 2,469,819	$ 337,468
Supplemental information:		
Interest paid	$ 1,606,232	$ 1,565,549
Income taxes paid (recovered)	$ (646,407)	$ (567,604)

See accompanying notes to the consolidated financial statements

Notes to the Consolidated Financial Statements

1. Significant accounting policies:

a) Basis of presentation:

These financial statements include the accounts of Canyon Services Group Inc. consolidated with the accounts of its wholly-owned subsidiaries, Canyon Technical Services Ltd. and Canyon Technical Services Inc. These consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada and the comparative year has been reclassified to conform to the current financial statement presentation.

On January 1, 2008, the Company adopted two new Canadian accounting standards, Section 3862, "Financial Instruments - Disclosures", of the Canadian Institute of Chartered Accountants' handbook and Section 3863, "Financial Instruments - Presentation", of the Canadian Institute of Chartered Accountants' handbook in connection with the Company's financial instruments. Also, effective January 1, 2008, the Company has adopted Section 1535, "Capital Disclosures", of the Canadian Institute of Chartered Accountants' handbook relating to the Company's capital with a description as to how this is managed. In addition, there is a new standard related to the measurement and disclosure of inventory, Section 3031 "Inventories" of the Canadian Institute of Chartered Accountants' handbook. There was no significant impact on the consolidated financial statements of the Company for the year ended December 31, 2008 of adopting these standards.

The Company's primary focus is on providing highly technical well stimulation solutions to exploration and production companies exploring for and developing petroleum and natural gas resources.

b) Cash and cash equivalents:

The Company considers deposits in banks, certificates of deposit and short-term investments with original maturities of three months or less from the acquisition date as cash and cash equivalents.

c) Financial instruments:

On January 1, 2008 the Company adopted the new Section 3862, "Financial Instruments - Disclosures", of the Canadian Institute of Chartered Accountants' handbook and Section 3863, "Financial Instruments - Presentation", of the Canadian Institute of Chartered Accountants' handbook. These new sections, effective for years beginning on or after October 1, 2007, replace Section 3861, "Financial Instruments - Disclosure and Presentation", and increase emphasis on disclosure of the risks arising from financial instruments and how the entity manages such exposure.

Section 3862 describes the required disclosure for the assessment of the significance of financial instruments to an entity's financial position and performance, as well as the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks.

Section 3863 establishes standards for presentation of the financial instruments and non-financial derivatives. It carries forward the presentation related requirements of Section 3861. The impact of adopting this section is disclosed in notes 6 and 10.

d) Capital disclosures:

On January 1, 2008 the Company adopted the new Section 1535, "Capital Disclosures", of the Canadian Institute of Chartered Accountants' handbook. This new section, effective for years beginning on or after October 1, 2007, establishes standards for disclosing information about an entity's capital and how it is managed. The new accounting standard addresses only disclosures and has no impact on the Company's financial results. The impact of adopting this section is disclosed in note 11.

e) Inventory:

Inventory is primarily comprised of operating supplies and spare parts and is carried at the lower of purchase cost and net realizable value. Inventory is charged to operations as items are sold or consumed at the amount of the average cost of the item.

f) Property and Equipment:

Depreciation is provided for based on the estimated useful lives of the assets, commences when assets are put into service and is calculated in accordance with the following rates:

Field equipment	10 to 15 years	straight line
Automotive	15%	declining balance
Office, shop and yard	5%	declining balance
Computers and office equipment	20 to 30%	declining balance
Leasehold improvements	over the term of the lease	straight line

The estimate of useful life and salvage value of property and equipment is made by management and based on expected utilization, effectiveness of maintenance programs and technological change. Although management believes the estimated useful lives of the Company's property and equipment are reasonable, it is possible that changes in estimates could occur which may affect the expected useful lives of the property and equipment.

g) Long-lived assets:

On a periodic basis, management assesses the carrying value of long-lived assets for indications of impairment. Indications of impairment include items such as an ongoing lack of profitability and significant changes in technology. When an indication of impairment is present, the Company tests for impairment by comparing the carrying value of the asset to its net recoverable amount. If the carrying amount is greater than the net recoverable amount, the asset is written down to its estimated fair value.

h) Future accounting pronouncements:

Goodwill and intangible assets

In February 2008, the CICA issued Section 3064, Goodwill and Intangible Assets. Effective for fiscal years beginning on or after October 1, 2008, this section provides guidance on the recognition, measurement, presentation and disclosure for goodwill and intangible assets, other than the initial recognition of goodwill or intangible assets acquired in a business combination. Retroactive application to prior-period financial statements will be required.

International financial reporting standards

In February 2008, the CICA Accounting Standards Board ("AcSB") confirmed the changeover to IFRS from Canadian GAAP will be required for publicly accountable enterprises for interim and annual financial statements effective for fiscal years beginning on or after January 1, 2011, including comparatives for 2010.

The International Accounting Standards Board ("IASB") has also issued an exposure draft relating to certain amendments and exemptions to IFRS 1. It is anticipated that this exposure draft will not result in an amended IFRS 1 standard until late 2009. The amendment, if implemented, will permit the Company to apply IFRS prospectively.

The changeover to IFRS represents a significant change in accounting standards and the transition from current Canadian GAAP to IFRS will be a significant undertaking that may materially affect the Company's reported financial position and reported results of operations.

In response, the Company will complete a high-level IFRS changeover plan in the first half of 2009 and establish a preliminary timeline for the execution and completion of the conversion project. The changeover plan will prepare a preliminary assessment of the differences between Canadian GAAP and IFRS and the potential effects of IFRS to accounting and reporting processes, information systems, businesses processes and external disclosures. This assessment will provide insight into what are anticipated to be the most significant areas of difference applicable to the Company.

During the next phase of the project, scheduled to take place in the second half of 2009, the Company will perform an in-depth review of the significant areas of difference, identified during the preliminary assessment, in order to identify all specific Canadian GAAP and IFRS differences and select ongoing IFRS policies. Key areas addressed will also be reviewed to determine any information technology issues, the impact on internal controls over financial reporting and the impact on business activities including the effect, if any, on covenants and compensation arrangements. External advisors may be retained to assist management with the project on an as needed basis. Staff training programs will commence in 2009 and be ongoing as the project unfolds.

The Company will also continue to monitor standards development as issued by the IASB and the AcSB as well as regulatory developments as issued by the Canadian Securities Administrators (CSA), which may affect the timing, nature or disclosure of its adoption of IFRS.

Business combinations
In January 2009, the CICA issued Section 1582, Business Combinations. This section is effective January 1, 2011 and applies prospectively to business combinations for which the acquisition date is on or after the first annual reporting period beginning on or after January 1, 2011 for the Company. Early adoption is permitted. This section replaces Section 1581, Business Combination and harmonizes the Canadian standards with IFRS.

i) Per share amounts:
Basic per share amounts are calculated using the weighted average number of common shares outstanding during the year. Under the treasury stock method, diluted per share amounts are calculated based on the weighted average number of shares issued and outstanding during the year, adjusted by the additional common shares that would have been issued assuming exercise of all stock options with exercise prices at or below the average market price for the year, offset by the reduction in common shares that would be repurchased with the exercise proceeds.

j) Revenue recognition:
The Company recognizes revenue when services are provided and collectibility is reasonably assured. The Company's services are sold based upon orders or contracts with customers that include agreed upon rates for equipment, services, down-hole tools used, supplies consumed and travel time. There are no post-service delivery obligations.

k) Measurement of uncertainty:
The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses. Actual results could differ from these estimates.

l) Income taxes:
The Company follows the liability method of accounting for future income taxes, under which future income tax assets and liabilities are determined based on temporary differences between the accounting basis and the tax basis of the Company's assets and liabilities. Income tax rates used and statutes followed are those currently enacted (or substantively enacted) that are expected to apply when these differences reverse. Income tax expense is the sum of the Company's provision for current income taxes and the difference between opening and ending balances of the future income tax assets and liabilities.

m) Stock-based compensation:
The Company has a common share purchase option plan which provides for the issuance of shares to Directors and Employees under terms and conditions described in note 7.

Under the fair value method, the Company recognizes the fair value of stock option grants over the vesting period of these options as a charge to compensation expense and a credit to contributed surplus. Upon exercise of share purchase options, the associated amount is reclassified from contributed surplus to share capital. Consideration paid by employees upon exercise of share options is credited to share capital.

2. Restricted cash:

In 2007, this cash was paid to a supplier's lawyer in trust and was applied against 2008 purchases of proppant from the supplier. It was restricted as it could only be used to pay the supplier in accordance with a delivery contract. All amounts under this contract were delivered and paid in 2008.

3. Property and equipment:

	2008		
	Cost	Accumulated Depreciation	Net Book Value
Land	$ 3,850,791	$ -	$ 3,850,791
Field equipment	86,013,575	17,510,818	68,502,757
Automotive	22,877,370	6,980,781	15,896,589
Office, shop and yard	11,176,020	866,143	10,309,877
Computers and office equipment	2,338,826	1,227,553	1,111,273
Leasehold improvements	112,863	13,047	99,816
	$ 126,369,445	$ 26,598,342	$ 99,771,103

	2007		
	Cost	Accumulated Depreciation	Net Book Value
Land	$ 3,836,460	$ -	$ 3,836,460
Field equipment	83,978,928	11,602,369	72,376,559
Automotive	21,661,864	4,422,807	7,239,057
Office, shop and yard	10,814,129	403,313	10,410,816
Computers and office equipment	2,266,879	827,415	1,439,464
Leasehold improvements	98,113	7,859	90,254
	$ 122,656,373	$ 17,263,763	$ 105,392,610

Office, shop and yard additions in the amount of $141,300 (2007 - $6,672,000), computer and office equipment in the amount of $nil (2007 - $17,000), field equipment in the amount of $940,906 (2007 - $2,412,000) have not been depreciated as they were under construction at year end.

Field equipment and automotive assets with a cost of $nil as at December 31, 2008 and $20,413,000 as at December 31, 2007 are held under capital lease (note 5). This equipment had accumulated depreciation of $nil at December 31, 2008 (2007 - $5,854,000).

4. Intangible assets:

In February 2007, the Company completed the acquisition of intangible assets for consideration of 125,000 warrants of the Company. The property consists of certain intellectual property from a private company for proprietary light weight proppant. The fair value of this intangible asset totaling $257,125 is being amortized using the straight line method over its estimated useful life of 15 years. Amortization in the amount of $17,160 has been recorded for the year ended December 31, 2008. The private company was one-third owned by a senior employee of the Company.

5. Obligations under capital leases:

		2008	2007
Future minimum payments under capital leases			
	2008	$ -	$ 2,668,129
	2009	-	2,667,612
	2010	-	1,778,408
Total minimum lease payments		-	7,114,149
Amounts representing interest		-	621,040
Present value of net minimum lease payments		-	6,493,109
Less current portion		-	2,341,586
		$ -	$ 4,151,523

The obligations under capital lease were repaid from proceeds of the new facility as outlined in note 6.

6. Operating facility and long-term debt:

	2008	2007
Extendible Facility, see below	$ 6,500,000	$ 17,000,000
Term Facility, see below	10,976,564	-
Automotive loans payable, secured by certain of automotive assets, requiring monthly payments totaling $17,047 including interest at an implied rate of 5.0% and maturing through August 2012	471,846	648,023
Mortgage payable, requiring monthly payments of $8,326 including interest at 6.754%, repayable over a ten year period and maturing in 2014. The mortgage is secured by certain of the land and buildings	-	532,232
	17,948,410	18,180,255
Less current portion	1,166,906	1,092,151
	$ 16,781,504	$ 17,088,104

Principal payments due over the next five years are as follows:

2009	$1,166,906
2010	$12,116,892
2011	$1,396,338
2012	$1,318,274
2013	$1,950,000

On May 26, 2008, Canyon entered into a credit agreement (the “Agreement”) with its lender to update and restate the existing Extendible Facility and Operating Facility, and to add a non-revolving extendible term facility (the “Term Facility”).

Under the Agreement, the Term Facility bears interest at the bank’s prime lending rate plus 0.75 percent and is repayable by way of blended monthly principal and interest payments of $78,419, based on a 20 year amortization period. The Term Facility matures on May 26, 2010 (“Term Maturity Date”) and can be extended at the lender’s option for a further period of two years from the then current Term Maturity Date. Security for the Term Facility is a mortgage over the Company’s land and buildings and a general security agreement over all of the Company’s assets. The full amount of $11.4 million has been drawn under this facility and was used to repay the long-term capital lease ($5.5 million) and the previous mortgage on certain of the Company’s land and buildings in Red Deer ($0.5 million). The balance of $5.4 million was used to reduce the Operating Facility and is available to the company for capital expenditures and working capital.

In accordance with the Company's accounting policy on financial instruments, the finance costs incurred to obtain bank financing are now netted against related debt and amortized using the effective interest rate method. The Term Facility as at December 31, 2008 is presented net of $254,192 of unamortized finance costs related to the restructuring of the Company's debt facilities.

The Extendible Facility is a revolving extendible credit facility up to a maximum amount of $20 million and bears interest, payable monthly, at the bank's prime lending rate plus 0.5 percent. The Extendible Facility is subject to renewal on May 25, 2009 at which time it can be extended at the lender's option for 364 days. If the Extendible Facility is not extended, all amounts outstanding are repayable in 16 consecutive quarterly installments, commencing on the last day of the third month following the then maturity date, with the first fifteen of such installments being one-twentieth of the amount outstanding on the maturity date and the sixteenth of such installments being for the balance outstanding. Security for the Extendible Facility is a general security agreement over all of the Company's assets.

The Operating Facility is a demand revolving facility up to a maximum amount of $5 million and bears interest, payable monthly, at the bank's prime lending rate plus 0.5 percent and is secured by a general security agreement over all of the Company's assets.

Under the Agreement, the Company is required to comply with certain financial covenants: a working capital ratio of not less than 1.25 to 1.00, calculated quarterly, a ratio of total debt to tangible net worth of not greater than 2.0 to 1.0, calculated quarterly, and a debt service covenant of not less than 1.25 to 1.0 calculated on December 31 of each fiscal year. In addition, the total outstanding balances on the Operating Facility and the Extendible Facility cannot exceed 50% of the net book value of property and equipment net of real estate assets. As of December 31, 2008, the Company is in compliance with each of the financial covenants under the Agreement.

7. Share capital:

a) *Authorized:*

Authorized share capital comprises an unlimited number of voting Common Shares without nominal or par value, and an unlimited number of Preferred Shares. The Preferred Shares are issuable in series, with the Company's directors to determine the number of Preferred Shares to comprise a Series and the designation, rights, privileges, restrictions and conditions attaching to each Series, including voting rights (if any), dividend terms and entitlement, and terms and conditions of redemption, purchase and conversion.

b) *Common shares issued:*

	Number	Amount
Balance, December 31, 2008 and 2007	22,148,533	$ 87,988,904

On July 20, 2007, the Company announced the appointment of a new President with duties to commence September 1, 2007. In conjunction with the appointment, the Company issued 280,000 common shares to the new President, on a private placement basis, at $3.60 per share on September 1, 2007. The issue price represented approximately a 10% discount to the July 19, 2007 closing price. The discount of $112,000 has been reflected as stock-based compensation.

c) *Contributed surplus:*

Balance, December 31, 2006	$ 563,730
Stock-based compensation expense	721,812
Reclassification to share capital on exercise of options	(14,100)
Balance, December 31, 2007	1,271,442
Stock-based compensation expense	1,168,607
Balance, December 31, 2008	$ 2,440,049

d) *Stock options:*

The Company's share purchase option plan (the "Plan") is available to Directors and certain employees as determined by the Company's Board of Directors. The Plan allows for the granting of options to purchase Common shares to a maximum number equal to 10% (2007 -10%) of the then issued and outstanding Common Shares of the Company.

The price of each share purchase option granted is set by the Company's Board of Directors based on the market value of the Company's stock on the date of the grant. Issued share purchase options vest equally over a three year period, and expire on the fifth anniversary date of their issuance.

The per share weighted average fair value of stock options granted during the year ended December 31, 2008 was $1.71 (2007 - $1.79) based on the date of grant valuation using the Black-Scholes option pricing model. Stock-based compensation of $1,168,607 (2007 - $721,812) has been recorded for the year ended December 31, 2008 using the fair value method. Under this method, the expense has been calculated using the Black-Scholes option pricing model based on an average risk-free interest rate of 2.17% to 3.42%, an expected life of 5 years for the options and volatility of 40% to 60%.

A summary of the status of the Company's stock option plan as at December 31, 2008 and 2007, and changes during the years then ended is presented below:

	Options Outstanding	Range of Exercise Price	Weighted Average Exercise Price	Options Exercisable
Outstanding at December 31, 2006	1,685,833	$2.25 - $13.76	$4.10	582,778
Granted	527,500	$2.01 - $5.67	$4.16	
Exercised	(33,333)	$2.25	$2.25	
Forfeited	(246,668)	$3.16 - $13.76	$5.35	
Outstanding at December 31, 2007	1,933,332	$2.01 - $13.76	$3.99	1,036,444
Granted	182,000	$1.34 - $4.50	$3.28	
Forfeited	(234,998)	$2.01 - $13.76	$4.48	
Cancelled	(915,000)	$2.25 - $5.67	$3.52	
Outstanding at December 31, 2008	965,334	$1.20 - $2.25	$1.31	574,278

During the year ended December 31, 2008, the Company granted 182,000 options to officers and directors at exercise prices ranging from $1.34 to $4.50. During the year ended December 31, 2008, 915,000 options held by directors, officers and employees were cancelled, resulting in the recording of stock-based compensation expense of $190,406. On February 21, 2008, 85,500 options held by certain non-executive employees, with exercise prices ranging from $10.31 to $13.76, were repriced at $3.23 to reflect the current economic conditions, resulting in the recording of additional stock compensation expense of $28,871. Further, on December 4, 2008, all options held by non-executive employees, with exercise prices ranging from $1.34 to $5.48, were repriced at $1.20 to reflect current economic conditions. As a result of this modification to the option terms, additional stock compensation expense will be recorded using the fair value method over the remaining vesting period, and $106,957 has been recorded for the year ended December 31, 2008.

The range of exercise prices for options outstanding at December 31, 2008 is as follows:

	Total Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Number	Weighted Average Exercise Price
$1.20-$2.25	965,334	$1.31	2.41	574,278	1.38

e) *Warrants:*

In connection with the purchase of intangible assets in February 2007, the Company issued 125,000 warrants valued at $257,125 using the Black-Scholes method with the following assumptions: risk free interest rate of 4.25%, maximum life of 5 years, expected dividends of nil and expected volatility of 40%. These warrants entitle the holder to purchase common shares of the Company at an exercise price of $4.96 per share, become exercisable over a three year period and expire in November 2011. Subsequent to year end, the Company repriced the warrants to $1.20 per warrant.

Upon acceptance of the Company's offer of employment, the President was granted 425,000 warrants valued at $711,875 using the Black-Scholes method with the following assumptions: risk free interest rate of 4.50%, maximum life of 5 years, expected dividends of nil and expected volatility of 40%. These warrants entitle the holder to purchase common shares of the Company at an exercise price of $4.00 per share, becoming exercisable over a three year period and expire in July 2012. Stock-based compensation will be recorded over the three year vesting period and $237,292 has been recorded for the year ended December 31, 2008 (2007: $79,314).

8. Income taxes:

Income tax expense differs from the amount that would be computed by applying the Federal and Provincial statutory income tax rates. The reasons for the differences are as follows:

	2008	2007
Income tax rate	29.50%	*32.12%*
Expected income tax expense	$(694,745)	$(3,830,081)
Increase (decrease) in income taxes resulting from:		
Non-deductible expenses	25,296	104,230
Non-deductible stock-based compensation expense	344,740	267,820
Future income tax benefit from income tax rate reduction	(1,468)	290,619
Provision for income taxes	$(326,177)	$(3,167,412)

The components of the net future income tax liability are as follows:

	2008	2007
Future income tax assets		
Share issuance costs	$(498,488)	$ (845,252)
Future income tax liabilities		
Property and equipment	568,038	1,240,979
	$69,550	$ 395,727

9. Per share amounts:

	2008	2007
Weighted average common shares outstanding - basic	22,148,533	21,955,505
Effect of stock options	186,438	283,367
Weighted average common shares outstanding - diluted	22,334,971	22,238,872

The calculation of dilutive earnings per share does not include anti-dilutive options. These are options that would not be exercised because their exercise price is higher than the average market value of the shares for the year. Including those options would cause the diluted earnings per share to be overstated. The number of excluded options is 965,334 (2007 - 1,223,332).

10. Financial instruments and financial risk management:

As at December 31, 2008, the Company's financial instruments are cash, accounts receivable, operating facility, accounts payable and accrued liabilities and long-term debt. These financial instruments are classified as follows:

Cash - held for trading
Accounts receivable - loans and receivables
Operating facility - held for trading
Accounts payable and accrued liabilities - other financial liabilities
Long-term debt - other financial liabilities

Credit risk:

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. Two customers account for 23% and 12% respectively (2007 - two customers account for 32% and 11%) of the Company's accounts receivable while two customers account for 32% and 8% respectively (2007 - two customers account for 20% and 11%) of the revenue.

Fair values:

With the exception of long-term debt and capital leases, the fair values of financial instruments included on the consolidated balance sheet approximate their carrying amounts due to the short-term maturity of those instruments. The fair value of long-term debt and capital leases is not materially different from the carrying amounts since the interest rate approximates a market rate of interest.

Interest rate risk:

Interest rate risk is the risk that future cash flow will fluctuate as a result of change in market interest rates. The Company manages its interest rate risk through a combination of fixed and floating rate borrowings. For the year ended December 31, 2008, an increase or decrease in interest expense for each one percent change in interest rates on floating rate debt would have been $239 thousand.

Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due given the cyclical nature of the Company's business. As at December 31, 2008, the Company had available unused bank credit facilities plus cash of $18.1 million (2007: $7.2 million), plus accounts receivable of $8.1 million (2007: $8.8 million) to meet its financial liabilities.

11. Capital management:

The Company's objectives when managing its capital structure are to maintain a balance between debt and capitalization so as to maintain investor, creditor and market confidence and to sustain future development of the business. Debt includes operating facility less cash, plus current portion of obligations under capital lease, plus current portion of long-term debt, plus obligations under capital lease, plus long-term debt. Capitalization is calculated as the debt, as described above, and shareholders' equity less intangible assets. The Company also manages its capital structure to ensure compliance with the financial covenants on its credit facilities. The Company may be required to adjust its capital structure from time to time as a result of expansion activities.

The debt to capitalization ratios were as follows:

(Stated in dollars, except ratios)	December 31, 2008	December 31, 2007
Debt	$ 18,394,371	$ 24,677,545
Shareholders' equity (net of Intangible assets)	87,466,003	88,309,127
Capitalization	$ 105,860,374	$ 112,986,672
Debt to Capitalization ratio	0.17	0.22

12. Related party transactions:

The Company paid an aggregate of $nil (2007- $80,000) to a legal firm of which a former Officer and shareholder of the Company is a partner. These amounts were paid for services provided by the legal firm to the Company and are reflective of normal commercial terms for such services.

13. Commitments:

a) The Company has operating lease commitments for vehicles and office space as follows:

2009	$485,261
2010	$404,596
2011	$270,953
2012	$217,790

b) In July, 2007, the Company established a Deferred Share Unit Plan. Under this Plan, upon acceptance of the Company's offer of employment, the President was granted 800,000 units with base values varying between $5.00 and $8.65 per unit. The term of the plan is 5 years, and at that time the President will receive a cash amount equal to the market value of the Company's shares in excess of the base value of the deferred share units. The deferred share units will be recorded as a liability and revalued at each reporting period. As at December 31, 2007 and 2008, the units were out of the money and as such, no liability has been recorded.

14. Contingency:

The Company has commenced legal action against a customer of the corporation, MD Energy Ltd., seeking payment in the sum of $538,433 for services rendered. The customer has filed a defence and counterclaim against the corporation and a third party seeking damages in the sum of $1,285,000. Management is of the opinion that the statement of defence and counterclaim is without merit.

Corporate Information

DIRECTORS

Stan G. P. Grad – Chairman
Airdrie, Alberta

Raymond P. Antony
Calgary, Alberta

Neil MacKenzie
Calgary, Alberta

Dennis J. Weinberger
Cochrane, Alberta

Bradley P. D. Fedora
Calgary, Alberta

OFFICERS AND KEY PERSONNEL

Dennis J. Weinberger, Chief Executive Officer

Bradley P. D. Fedora, President

Barry J. O'Brien, Vice-President Finance and Chief Financial Officer

A. J. (Joe P.) Peskunowicz, Executive Vice President, Corporate

Todd G. Thue, Chief Operating Officer

Garnet R. Olson, Vice-President, Engineering

Jason C. Weinberger, Vice-President, Operations

Jack V. Ballegooyen, General Counsel

Shareholder Information

Stock Exchange Listing
Toronto Stock Exchange
Common Shares ("FRC")

Transfer Agent and Trustee
Olympia Trust Company

Legal Counsel
Blakes, Cassels & Graydon LLP
Calgary, Alberta

Auditor
KPMG LLP
Calgary, Alberta

Bankers
HSBC Bank Canada
Calgary, Alberta

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