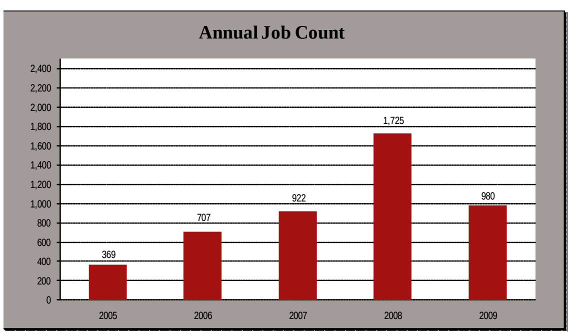
CANYON
Services Group Inc.

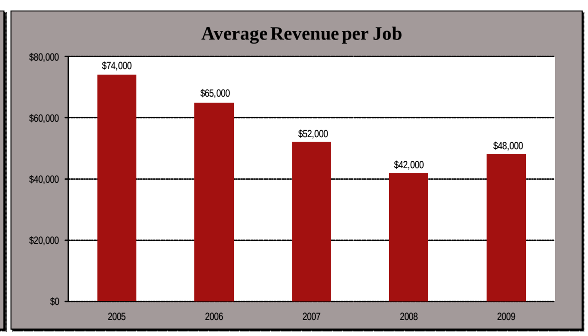
Annual Report 2009

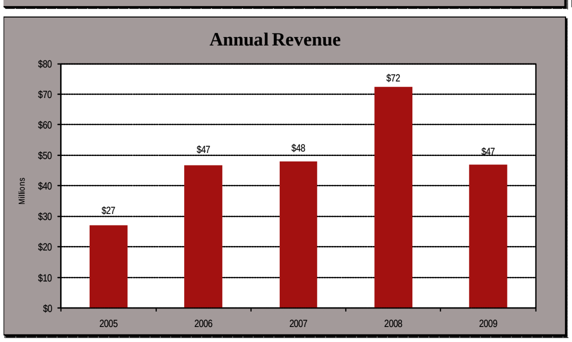
Highlights

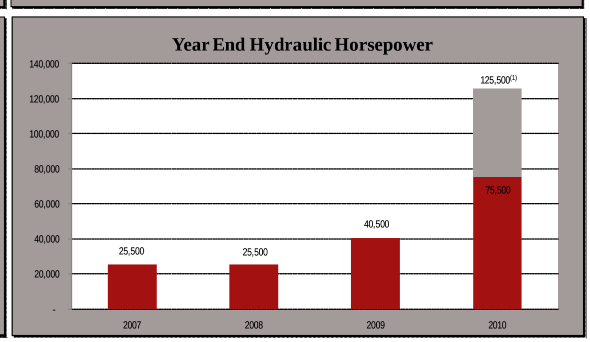
(thousands, except for per share results)	Three Months Ended December 31, 2009	Three Months Ended December 31, 2008	Year Ended December 31, 2009	Year Ended December 31, 2008
Revenues	$ 13,972	$ 29,007	$ 46,932	$ 72,371
EBITDA before stock options expense - Note [1]	1,367	7,636	247	9,797
Net earnings (loss)	(1,876)	4,276	(11,059)	(2,029)
Earnings (loss) per share - diluted	(0.05)	0.19	(0.42)	(0.09)
Funds provided by continuing operatings	1,253	7,299	(389)	8,217
Capital expenditures	16,029	1,282	16,610	3,765
Shares outstanding, end of period	47,162	22,149	47,162	22,149

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









Note (1): An additional 50,000 hhp was ordered in March 2010 to be delivered by year end

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 2009.

Overall, industry activity levels experienced a sharp year over year decline in 2009 to levels unimaginable a few short years ago. The financial crisis witnessed in late 2008 caused a recession in all industries that hit hard in 2009. The oilfield services industry in Canada suffered more than most as the number of wells drilled in Western Canada declined approximately 50% from 16,000 wells in 2008 to 8,000 wells in 2009. Both oil and natural gas prices plummeted in 2009 and the cost of capital rose dramatically, resulting in drastic corresponding cuts to capital programs in the second half of the year. As a result, the general theme for small capitalization oilfield services during 2009 was survival.

Although the economic conditions made 2009 an extremely difficult year, it also represented an exciting time for our company and the successful execution of our corporate strategy. Starting in the fall of 2007, Canyon put in place a corporate strategy to transition our operations and sales focus away from shallow gas in southeast Alberta to deep, tight, sand and shales plays in northwest Alberta and northeast British Columbia. These plays require much more intensive, pumping services to complete the well and often require multi-stage fracturing as part of a horizontal well completion design. Canyon successfully expanded its operations into these plays and with exceptional performance in the field, we continue to capture market share and secure long-term projects with well capitalized customers exploring for and developing plays targeting Montney natural gas and Cardium oil. To-date in the first few months of 2010, our work in these deeper resource type plays represents over 70% of Canyon's revenue vs. 35% in 2008 and we expect this trend to continue over the remainder of 2010 and into 2011. One of the most critical elements of implementing our strategy to move into the deeper, multistage areas of the basin was to expand our hydraulic division. In October 2009, Canyon raised $50 million of equity capital from institutional investors. With the proceeds of that offering, Canyon embarked on a capital expansion program that will add 50,000 hhp and high-rate blenders to our fleet of hydraulic pumping equipment. This expansion, which will be completed in Q2 2010, will help secure our presence in the deep segments of the basin and allow us to capture additional market share as we are able to commit equipment to large, long-term projects.

Canyon's technical and sales staff remains very optimistic about the growing potential for our Grand Canyon light weight proppant ("LWP™") technology. The long-term production results from wells stimulated with LWP™ show both a material increase in production and significant reduction in overall completion costs when compared to traditional fracturing methods. To-date, the Grand Canyon technology has mostly been deployed in dry, shallow reservoirs in south Alberta, however, Canyon continues to collaborate with our customers and proppant suppliers to expand the reservoir targets for this technology. The light weight proppant in a partial monolayer provides for better fracture geometry and allows the use of produced water and slick water as the basis for the fracturing fluid and when combined with the recent improvements in high temperature resiliency of our LWP™ we drastically expanded the potential of this technology. Canyon expects that our LWP™ technology will be beneficial to many different oil and natural gas reservoirs throughout the Western Canadian Sedimentary Basin.

As the first quarter of 2010 is coming to an end and we look out for the remainder of 2010 and into 2011, it appears that industry conditions will remain quite robust compared to 2009. Our customers are expanding their capital programs and remain focused on pressure pumping intensive resource plays. Canyon will continue to implement its strategy of measured growth in the deep basin of northwest Alberta and northeast British Columbia to benefit from our customers' increased activity in shale and tight sand natural gas plays. To achieve more exposure to oil shales, we also expect to open an operating base in southeast Saskatchewan to service the Bakken oil shales and we will continue to expand our operating presence in the Cardium oil plays. As always, and regardless of industry conditions our ultimate goal is to provide a return for our shareholders by providing high quality, value enhancing services to our growing list of esteemed customers. Our management and staff have proven their ability to operate efficiently and have never lost their focus on the bottom line and as we expand we will ensure that Canyon is seeking to operate as cost-effective as possible and remains ready to respond to changing industry conditions. Canyon's employees and management thank you for your support.

On behalf of the Board of Directors,

Bradley P. D. Fedora
President & Chief Executive Officer

Overview of Divisions

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 – At year-end 2009 Canyon offered 40,000 hhp and five complete suites of hydraulic fracturing equipment, including CO_2 and nitrogen support services for foam fracturing applications. By Q2 2010, once our capital program initiated in November 2009 is complete Canyon will have 75,000 hhp and seven complete fracturing spreads capable of fracturing any well type in the Western Canadian Sedimentary Basin. 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.

HIGH-RATE NITROGEN FRACTURING DIVISION

With four custom-designed high-rate nitrogen equipment spreads and coiled tubing units, this 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, a process of adding light-weight proppant to a nitrogen gas stream. Our Grand Canyon process 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 both conventional and mast style coiled tubing units and offers a full range of coiled-tubing sizes for a variety of operations. 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.

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 on depleted 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, 2009

This management discussion and analysis (MD&A) is dated March 9, 2010, 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, 2009 and December 31, 2008. Additional information relating to the Company, including the Company's Annual Information Form for the year ended December 31, 2009, 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 FOURTH QUARTER AND YEAR 2009

The 2009 year was a difficult year for the energy services industry. Oil and natural gas industry activity levels were significantly impacted by natural gas prices and by recent global economic events. The average 2009 WTI oil prices and Nymex natural gas prices declined approximately 53% and 38% respectively from 2008 levels. In response, Canyon's customers reined in exploration and development budgets for 2009, as they carefully managed cash flows and credit facilities over the course of the year. As a result, the key indicators for utilization of stimulation equipment, well licensing activity and drilling rig utilization, significantly trailed prior year's levels. Well licenses issued and drilling rig utilization rates in 2009 were 46% and 39% lower respectively than in 2008. The reduction in industry-wide activity throughout the year significantly impacted Canyon's revenues which declined 35% to $47 million in 2009 from $72 million in 2008. However, despite the lower annual revenues, Canyon succeeded in implementing its strategy to expand into the deeper segments of the WCSB, adding to the Company's portfolio of large, horizontal, multi-stage fracs in the Montney. This resulted in increases of 23% and 43% respectively in the average revenue per job in the Hydraulic Fracturing Division for the three and twelve months ended December 31, 2009, over the comparable 2008 periods.

To capitalize on the Company's success penetrating the deeper segments of the market, Canyon completed a $50 million equity financing and commenced a $45 million capital program in the fourth quarter to increase the hydraulic horse power pumping capacity of its equipment fleet, tripling its capacity to 75,000 hydraulic horsepower by the end of second quarter 2010.

The fourth quarter of 2009 has shown signs of a modest recovery that continues to gather strength as we progress through the first quarter of 2010. In Q4 2009, WTI oil prices have increased by 29% over Q4 2008 and by 12% over the previous quarter, Q3 2009. The Nymex natural gas spot price increased by 43% over the previous quarter, Q3 2009, and has shown further improvement in Q1 2010. The recent positive trend in commodity prices, along with increased access to capital by exploration and development companies, has translated into expanded exploration and production budgets resulting in much improved activity levels across the well stimulation industry, with well licenses issued and drilling rig utilization rates for Q4 2009 higher by 98% and 57% respectively over the previous Q3 2009. Although the drilling rig utilization rate averaged 33% in Q4 2009, the rate was about 53% in the first week of January 2010 and has grown steadily to 70% by the mid-point of Q1 2010.

In Q4 2009, Canyon recorded revenues of $14 million, an increase of 187% over Q3 2009 when industry activity was at an historic low. Importantly, the fourth quarter experienced activity levels improving slowly each month, leading to the month of December being the strongest month for revenues recorded since February 2009. This was achieved in a month when industry activity usually slows for the holiday season.

The operating and financial highlights for the three and twelve months ended December 31, 2009 may be summarized as follows:

Operating and Financial Highlights

- On October 28, 2009, Canyon issued 10,000,000 common shares at $2.00 per common share pursuant to a bought deal prospectus offering, concurrent with an offering of 15,000,000 common shares at $2.00 per common share pursuant to a private placement, resulting in the total issuance of 25,000,000 common shares for gross proceeds of $50 million and net proceeds after fees and expenses of approximately $47 million.
- In connection with the private placement with limited partnerships comprising ARC Energy Fund 6, Mr. Douglas Freel, Senior Vice-President of ARC Financial Corp. was appointed to the Canyon board of directors effective as of October 28, 2009.
- With these proceeds, Canyon's fracturing equipment fleet will increase to a capacity of 75,000 hydraulic horsepower to allow the Company to continue its focus on larger, high-rate treatments in northeast British Columbia, northwestern Alberta and in Saskatchewan. The $45 million capital program is scheduled to be completed in Q2 2010. As at December 31, 2009, $16 million of this program has been spent.
- Canyon's continued penetration into the deeper segments of the market resulted in the Hydraulic Fracturing Division contributing 59% of consolidated revenues, or $28 million, compared to 41%, or $30 million, in 2008 and the average revenue per job within this division increasing by 23% in 2009 over 2008.
- The consolidated average revenue per job for all divisions increased by 15% to $48,044 in 2009 from $41,955 in 2008.
- In Q4 2009, Canyon completed 291 jobs compared to 611 jobs completed in Q4 2008, while for the 2009 year total jobs completed decreased to 980 from 1,725 in 2008 due to the significant reduction in industry activity in response to weak commodity prices and recent global economic events.
- EBITDA before stock option expense of $1.4 million in Q4 2009 improved considerably from the negative $2.1 recorded in Q3 2009. However, EBITDA before stock option expense in Q4 2009 declined significantly from the $7.6 million earned in Q4 2008 due to weaker demand across the industry for well stimulation services. This has resulted in a loss before income taxes of $1.9 million in Q4 2009 compared to income before income taxes of $4.3 million in Q4 2008.
- Annual 2009 EBITDA before stock option expense was $0.2 million compared to $9.8 million for 2008, while the loss before income taxes was $11.1 million in 2009 compared to a loss before income taxes of $2.4 million in 2008.
- As at December 31, 2009, the Company's available cash and credit facilities total $49 million to fund the remaining $29 million of expenditures under the capital program.

2010 OUTLOOK

Exploration and production companies have increasingly changed their focus to the exploration and development of unconventional resource plays that hold both oil and natural gas. Many of these shales and tight sand plays holding natural gas (Montney, Horn River, etc) were previously uneconomic due to a lack of technology required for the effective drilling and completion of wells into these reservoirs. Horizontal drilling technology combined with multistage fracturing programs have made the development of these plays economic at prices lower than those required for the development of conventional oil & natural gas reservoirs. E&P companies have also started to apply these horizontal drilling and multistage fracturing techniques to conventional resources such as shallow and deep oil plays such as

Viking oil in Eastern Alberta and Cardium oil in Western Alberta. These natural gas and oil plays will continue to be the highlight of Western Canadian activity and correspondingly we believe that demand for multistage fracturing programs will continue to grow, as they have become integral to completion programs for a variety of oil and natural gas bearing reservoirs. This focus on fracturing has caused a dramatic increase in the demand for pressure pumping services as the number and size of fractures per well have increased significantly. Hydraulic horsepower deployed per well has increased to as high as 20,000 – 45,000 in deep horizontal wells in tight gas and shale plays such as the Montney or Horn River. The equipment is also on location for much longer as the completion programs have evolved to multi-stage programs that may require several days to complete. This change in completion methods has resulted in much improved utilizations and job sizes to-date in 2010 and these trends are expected to continue for the remainder of 2010 and also for 2011.

The improvement in commodity prices late in 2009 and the expansion of 2010 exploration and development budgets has resulted in higher activity across the well stimulation business. Drilling rig utilization climbed from 53% from the first of January to 70% in late Q1 2010, after averaging only 25% for the 2009 year. In addition, with strengthening oil prices and more stable natural gas prices, investors have returned to the energy industry, evidenced by the number of equity issuances in late 2009 and in early 2010, providing exploration and development companies with the financial flexibility to increase capital programs. As a result, industry analysts are forecasting a meaningful increase in industry activity for 2010 with a well count in the range of 11,000 to 14,000 compared to less than 9,500 in 2009.

Canyon expects significantly improved financial and operating results in 2010, compared to 2009. The previously announced $45 million capital program is well underway and on schedule to add 50,000 hydraulic horsepower of pumping capacity to its fleet, as well as related equipment including high rate blenders and sand handling equipment. Following completion of the capital program in Q2 2010, Canyon's fracturing equipment fleet will increase to 75,000 hydraulic horsepower. In conjunction with this capital expansion, Canyon has been steadily adding qualified personnel required to meet the demands of drastically increased activity levels and revenues experienced to-date in 2010 and expected for the remainder of the year and 2011. Canyon will be ideally positioned to execute its plans to expand its market share in multistage hydraulic fracturing services throughout Alberta and northeast British Columbia. Canyon also expects to expand its operating presence to service the Bakken and Shaunavon oil plays in Saskatchewan. We will also continue to focus on deploying its Grand Canyon LWP™ technology as it has proven to be effective in improving the economic return of oil and natural gas reservoirs. Given the positive outlook for pressure pumping, and Canyon's expanding market share, Canyon will be expanding its previously announced capital budget in the first half of 2010.

QUARTERLY COMPARATIVE STATEMENTS OF OPERATIONS

Quarter Ended	December 31, 2009	December 31, 2008
	(unaudited)	(unaudited)
Revenues	$13,972,096	$29,006,991
Expenses		
Operating	10,712,005	19,246,032
Selling, general and administrative	1,892,690	2,124,602
Stock-based compensation expense	560,775	570,918
Interest on long-term debt	361,792	307,916
Other interest	6,705	29,775
Depreciation and amortization	2,314,524	2,382,322
Income (loss) before income taxes	(1,876,395)	4,345,426
Income taxes-current	-	-
Income taxes-future	-	69,550
	-	69,550
Net comprehensive income (loss)	$(1,876,395)	$4,275,876
EBITDA before stock option expense (1)	$1,367,401	$7,636,357
Income (loss) per share:		
Basic	$(0.05)	$0.19
Diluted	$(0.05)	$0.19

Note (1): See Non-GAAP Measures.

Revenues

Consolidated revenues for Q4 2009 declined to $14.0 million compared to the record $29.0 million earned in Q4 2009 as a result of the unprecedented decrease in industry-wide demand by E&P companies for well stimulation services throughout 2009. However, the improvement in industry-wide activity levels late in Q4 2009 resulted in the month of December being the strongest month for revenues recorded since February 2009. The job count in Q4 2009 was 291 compare to 611 for Q4 2008.

Operating Expenses

Operating expenses in Q4 2009 were $10.7 million, or 77% of revenues, compared to $19.2 million, or 66% of revenues, for the comparable quarter of 2008. Operating costs include a significant fixed component comprising salaries and wages for field and support staff, insurance, licenses and registrations for the equipment fleet, safety, laboratory, communications, and operating base costs. These fixed costs were managed by Canyon throughout 2009 with cost cutting measures introduced in late March 2009, including staff reductions, wage rollbacks and suspension of certain benefits.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased to $1.9 million in Q4 2009 from $2.1 million in Q4 2008 due to wage rollbacks and suspension of certain benefits introduced in late March 2009 in response to industry conditions.

Stock-Based Compensation Expense

Stock-based compensation expense represents the value assigned to the granting of options and incentive-based units under the Company's Share Purchase Option Plan and Stock Based Compensation Plan respectively, using the Black-Scholes model. For Q4 2009, $0.2 million (2008 - $0.6 million) was charged to expenses and included in contributed surplus in respect of these two plans. In addition, obligations for payments under the Company's Deferred Share Unit Plan are accrued as stock-based compensation expense over the vesting period. The accrued liability increases or decreases with fluctuations in the price of the Company's common shares, with a corresponding increase or decrease in the stock-based compensation expense. This expense totaled $0.4 million for Q4 2009 (2008 - $nil) and included in accounts payable and accrued liabilities.

EBITDA (See Non-GAAP Measures)

In Q4 2009, the significant reduction in industry activity that existed for most of 2009 has resulted in EBITDA before stock based compensation expense of $1.4 million, significantly lower than the amount of $7.6 million recorded in Q4 2008. The Q4 2009 EBITDA before stock based compensation expense of $1.4 million consists of loss before income taxes of $(1.9) million, plus depreciation and amortization of $2.3 million, plus interest on long-term debt and other interest of $0.4 million, plus stock-based compensation expense of $0.6 million. The comparable Q4 2008 EBITDA before stock based compensation expense 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 and other interest of $0.3 million, plus stock-based compensation expense of $0.6 million.

Interest Expense

Interest on long-term debt and other interest was $0.4 million for Q4 2009, compared to $0.3 million for Q4 2008. Q4 2009 includes $0.3 million in deferred financing costs charged to expense upon full repayment of the Term Facility from proceeds of the equity financing. Therefore, actual interest paid in Q4 2009 was $0.1 million compared to $0.3 million in Q4 2008. The decrease is due to lower debt levels following repayment of $20 million in debt following completion of the equity financing in October 2009.

Depreciation Expense

Depreciation expense was recorded at $2.3 million in Q4 2009, largely unchanged from the $2.4 million recorded in Q4 2008.

Income Tax Expense

At the expected combined income tax rate of 29.0%, the loss before income taxes for Q4 2009 of $(1.9) million would have resulted in an expected income tax recovery of approximately $(0.5) million compared to the actual recovery of nil. The expected future income tax recovery was reduced by $0.4 million as a result of the effect of stock based compensation, other non-deductible expenses and future tax rate differences, and reduced by $0.1 million as a result of the effect of a future income tax valuation allowance.

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

Net income (loss) and comprehensive income (loss) totaled $(1.9) million for Q4 2009, compared to $4.3 million in Q4 2008. The decrease in income is due to the significant decrease in demand by exploration and production companies for well stimulation services in response to downward natural gas prices.

For the quarter ended December 31, 2009, basic and diluted income (loss) per share was $(0.05), compared to basic and diluted income per share of $0.19 recorded in Q4 2008.

2009 YEAR-TO-DATE COMPARATIVE STATEMENTS OF OPERATIONS

Year Ended	December 31, 2009	December 31, 2008
Revenues	$46,932,062	$72,371,527
Expenses		
Operating	40,038,477	55,256,260
Selling, general and administrative	6,646,589	7,318,402
Stock-based compensation expense	1,282,568	1,168,607
Interest on long-term debt	826,009	1,413,411
Other interest	63,843	166,737
Depreciation and amortization	9,203,459	9,403,178
Loss before income taxes	(11,128,883)	(2,355,068)
Income taxes-future reduction	(69,550)	(326,177)
Comprehensive loss	$(11,059,333)	$(2,028,891)
EBITDA before stock option expense(1) (unaudited)	$246,996	$9,796,865
Loss per share:		
Basic	$ (0.42)	$ (0.09)
Diluted	$ (0.42)	$ (0.09)

Note (1): See Non-GAAP Measures.

Revenues

For the year ended December 31, 2009, consolidated average revenue per job increased by 15% to $48,044 from $41,955 in 2008 due to Canyon's increasing penetration into the deeper segment of the market by completing larger, multi-stage fracs in northeast British Columbia. However, the significant drop in the industry-wide demand for well stimulation services resulted in a lower job count and revenues in the current year compared to the 2008 period. For the year ended December 31, 2009, the job count declined to 980 jobs completed compared to 1,725 in 2008.

Operating Expenses

Operating expenses for the year ended December 31, 2009 decreased by 28% to $40.0 million from $55.3 million in 2008 due to the lower job count. The 28% decrease in operating costs does not match the 35% decrease in revenues due to the fixed component which includes salaries and wages for field and support staff, insurance, licenses and registrations for the equipment fleet, safety, laboratory, communications, and operating base costs. However, in late March 2009, to mitigate the impact of fixed operating costs in an environment of reduced industry activity, Canyon introduced significant cost-cutting measures resulting in a 23% reduction in the fixed component of operating costs in the second half of 2009 compared to the second half of 2008. Canyon's current level of fixed operating costs 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 decreased by 9% to $6.6 million in 2009 from $7.3 million in 2008, largely due to cost cutting measures introduced in late March 2009, principally a wage rollback across the company. 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.

Stock-Based Compensation Expense

Stock-based compensation expense represents the value assigned to the granting of options and incentive-based units under the Company's Share Purchase Option Plan and Stock Based Compensation Plan respectively, using the Black-Scholes model. For 2009, $0.9 million (2008 - $1.2 million) was charged to expenses and included in contributed surplus. In addition, obligations for payments under the Company's Deferred Share Unit Plan are accrued as stock-based compensation expense over the vesting period. The accrued liability increases or decreases with fluctuations in the price of the Company's common shares, with a corresponding increase or decrease in the stock-based compensation expense. This expense totaled $0.4 million for 2009 (2008 - $nil) and included in accounts payable and accrued liabilities.

EBITDA (See NON-GAAP MEASURES)

In the year ended December 31, 2009, EBITDA before stock-based compensation expense was $0.2 million, significantly lower than the $9.8 million of EBITDA before stock based compensation expense recorded in 2008. The decrease is due to the lower job count and revenues in 2009 as previously discussed. The 2009 EBITDA before stock based compensation expense of $0.2 million consists of loss before income taxes of $(11.1) million, plus depreciation and amortization of $9.2 million, plus interest on long-term debt and other interest of $0.9 million, plus stock-based compensation expense $1.3 million, less future income tax reduction of $0.1 million. The comparable 2008 EBITDA before stock based compensation expense of $9.8 million consists of loss before income taxes of $(2.0) million, plus depreciation and amortization of $9.4 million, plus interest on long-term debt and other interest of $1.6 million and stock based compensation expense of $1.2 million less future income tax reduction of $0.4 million.

Interest Expense

Interest on long-term debt and other interest decreased to $0.9 million in 2009 compared to $1.6 million for the year ended December 31, 2008. Included in the 2009 interest expense is $0.3 million in deferred financing costs which was charged to expense upon full repayment of the Term Facility in November 2009 from proceeds of the equity financing. The decreased interest expense in the current year is due to lower debt levels.

Depreciation Expense

Depreciation expense was $9.2 million for the year ended December 31, 2009, largely unchanged from the $9.4 million recorded in 2008.

Income Tax Expense

At the expected combined income tax rate of 29%, loss before income taxes for the year ended December 31, 2009 of ($11.1) million would have resulted in income tax recovery of approximately ($3.2) million compared to the actual provision for a future income tax recovery of ($0.1) million. The future income tax recovery was reduced by $0.7 million as a result of the effect of stock based compensation, other non-deductible expenses and future tax rate differences, and reduced by $2.4 million as a result of the effect of a future income tax valuation allowance.

Comprehensive Loss and Loss per Share

Net loss totaled ($11.1) million for the year ended December 31, 2009, higher than the net loss of ($2.0) million for the comparable 2008 year, primarily due to lower activity levels and revenues in the current year caused by a significant reduction in demand by exploration and development companies for well stimulation services as a result of weak natural gas prices and global economic uncertainty.

Basic and diluted loss per share for the year ended December 31, 2009 was ($0.42), compared to the basic and diluted loss per share of ($0.09) in 2008.

Summary of Quarterly Results

($,000 except per share amounts-unaudited)

		Revenues(1)	EBITDA before stock-based compensation expense (2)	Net Comprehensive Income (loss)	Basic Income (Loss) per Share	Diluted Income (Loss) per Share
2009	Q4	$13,972	$1,367	$(1,876)	$(0.05)	$(0.05)
	Q3	$4,873	$(2,134)	$(4,738)	$(0.21)	$(0.21)
	Q2	$4,011	$(3,003)	$(5,389)	$(0.24)	$(0.24)
	Q1	$24,076	$4,017	$944	$0.04	$0.04
2008	Q4	$29,007	$7,636	$4,276	$0.19	$0.19
	Q3	$20,719	$4,135	$1,243	$0.06	$0.06
	Q2	$4,191	$(3,643)	$(6,564)	$(0.30)	$(0.30)
	Q1	$18,454	$1,669	$(984)	$(0.04)	$(0.04)

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 Measures

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, Q3 2009 and Q4 2009. Over the latter half of 2008, Canyon enjoyed a significant increase in job activity and revenues resulting in EBITDA before stock-based compensation 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. In Q3 2009, the Company was severely impacted by the dramatic decrease in industry-wide demand for well stimulation services as E&P companies curtailed drilling expenditures in response to low natural gas prices. As a result, Canyon recorded revenues of $4.9 million and EBITDA before stock option expense of negative $(2.1) million and a net loss of $(4.7) million in Q3 2009 which is normally a profitable quarter. In Q4 2009, a gradual recovery in industry activity resulted in positive EBITDA before stock option expense of $1.4 million and a net loss of $1.9 million.

LIQUIDITY AND CAPITAL RESOURCES

Equity

On October 28, 2009, Canyon issued 10,000,000 common shares at $2.00 per common share pursuant to a bought deal prospectus offering (the "Offering"), and 15,000,000 common shares at $2.00 per common share pursuant to a concurrent private placement ("Concurrent Private Placement") with limited partnerships comprising ARC Energy Fund 6, for aggregate gross proceeds of $50 million. The net proceeds of the Offering and the Concurrent Private Placement of $47 million, were used to temporarily reduce bank indebtedness and to fund a $45 million capital program which commenced in Q4 2009. Approximately $16 million was incurred at December 31, 2009, and $29 million will be spent in the first half of 2010.

In addition, there were 11,000 common shares and 13,500 common shares issued by the Company during the three and twelve months ended December 31, 2009 respectively to employees and officers upon exercise of options.

Working Capital and Cash Requirements

Funds generated by the Company's operating activities amounted to $1.3 million for the quarter ended December 31, 2009, compared to $7.3 million recorded in the comparable quarter of 2008. Reduced demand across the industry, as previously discussed, accounted for the lower funds generated from operations in Q4 2009. For the year ended December 31, 2009, funds generated by the Company's operating activities amounted to negative ($0.4) million, compared to $8.2 million recorded in 2008. Again, the 2009 results have been impacted by the significant curtailment in drilling activity by E&P companies in response to lower natural gas pricing.

As at December 31, 2009, Canyon had a working capital balance of $17.4 million compared to $4.5 million as at December 31, 2008. The Company's working capital position and available operating credit facilities exceed the level required to manage timing differences between cash collections and cash payments.

The Company continually monitors individual customer trade receivables, taking into account numerous factors including industry conditions, payment history and financial condition in assessing credit risk. The Company establishes an allowance for doubtful accounts for specifically identifiable customer balances which are assessed to have credit risk exposure. As at December 31, 2009, 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 amend the existing Extendible Facility and Operating Facility, and to add a non-revolving extendible term facility (the "Term Facility"). On May 25, 2009, the Agreement was renewed by the Company's lender with no changes to the available credit facilities. Pursuant to the renewal, interest rates were increased by 75 basis points resulting in the rates described below. On December 7, 2009, the Agreement was amended to repay the Term Facility and to increase the Extendible Facility by a corresponding amount as described below.

On December 10, 2009, the outstanding balance of $10.7 million under the Term Facility was repaid in full from proceeds of the equity financing. Interest was calculated under the Term Facility at the bank's prime lending rate plus 1.50 percent and was repayable by way of blended monthly principal and interest payments of $78,419, based on a 20 year amortization period. Security for the Term Facility was a mortgage over the Company's land and buildings and a general security agreement over all of the Company's assets.

On December 7, 2009, in conjunction with the repayment of the Term Facility, the amount available under the Extendible Facility was increased by $11 million to $31 million. The Extendible Facility is a revolving extendible credit facility up to a maximum amount of $31 million and bears interest, payable monthly, at the bank's prime lending rate plus 1.25 percent. The Extendible Facility is subject to renewal on May 24, 2010 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 over two years as to seven quarterly installments of one-twentieth of the amount outstanding and the eighth installment 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, 2009, nil is drawn on the Extendible Facility ($6.5 million as at December 31, 2008).

In accordance with the Company's accounting policy on financial instruments, the finance costs incurred to obtain bank financing are netted against related debt and amortized using the effective interest rate method. Upon repayment of the Term Facility in December 2009, unamortized finance costs of $0.3 million were included in interest expense.

The net proceeds of the equity financing eliminated Canyon's net debt as at December 31, 2009, resulting in a positive amount of $17.4 million (current assets of $25.6 million, less current liabilities of $8.2 million and less long-term debt of $0.1 million). 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).

As at December 31, 2009, the Company's available credit facilities under its debt facilities total $48.7 million ($31.0 million under the Extendible Facility, $5.0 million under the Operating Facility and a cash balance of $12.7 million), and is more than sufficient to fund the remaining balance of the capital program, which is estimated to cost $29 million in 2010. Please refer to "Capital Expenditures" below.

The balance of the debt facilities comprises automotive equipment loans totaling $0.3 million at December 31, 2009 ($0.5 million at December 31, 2008).

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 long-term debt, 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, 2009	December 31, 2008
Debt (net of cash)	$ -	$18,394,371
Shareholders' equity (net of intangible assets)	124,524,838	87,466,003
Capitalization	$124,524,838	$105,860,374
Debt to capitalization ratio	-	0.17

The Company 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. Tangible net worth is defined as shareholders' equity excluding intangibles and goodwill;

- 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 ratio of income (loss) before income taxes, plus depreciation and amortization, plus interest on long-term debt and other interest, plus stock-based compensation expense to total debt is calculated on an annual basis on December 31 of each year. On December 31, 2009, the ratio cannot be less than 0.04 to 1.00, while on each subsequent December 31, the ratio cannot be less than 1.25 to 1.00.

As of December 31, 2009, the Company is in compliance with each of the above financial covenants and fully expects to be in compliance as of December 31, 2010.

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, 2009, Canyon's contractual obligations are summarized as follows:

	Total	Next 12 months	1 - 3 years	4 - 5 years	After 5 years
Operating facility	$ -	$ -	$ -	$ -	$ -
Long-term debt	288,242	172,061	116,181	-	-
Operating leases and office space	1,888,442	876,315	903,377	108,750	-
Capital Expenditure Commitments	22,749,722	22,749,722	-	-	-
Total contractual obligations	$24,926,406	$23,798,098	$1,019,558	$108,750	$ -

Please refer to note 10(a) in the notes to the consolidated financial statements for the year ended December 31, 2009.

Capital Expenditures

Canyon's previously announced $45 million capital program that commenced in November 2009 is well underway and on schedule to add 50,000 hydraulic horsepower of pumping capacity to its equipment fleet, as well as related equipment including high rate blenders, chemical vans and sand handling equipment. The capital program is scheduled for completion in Q2 2010 and will result in the capacity of Canyon's fracturing equipment fleet increasing to 75,000 hydraulic horsepower. Canyon's total capital expenditures for 2009 were $16.6 million, of which $15.9 million related to the capital program and the balance of $0.7 for miscellaneous equipment and leasehold improvements. The remaining $29 million of the capital program, of which $22.7 million is committed as of December 31, 2009, will be spent in the first half of 2010 and will be financed by funds generated from operations and available debt facilities. As at December 31, 2009, Canyon's available aggregate credit facilities under its debt facilities total $48.7 million, as discussed above. Please refer to note 10(b) in the notes to the consolidated financial statements for the year ended December 31, 2009.

Outstanding Share, Warrant and Option Data

The following table summarizes Canyon's capitalization at December 31, 2009 and December 31, 2008.

	Outstanding Number as at	
	December 31, 2009	December 31, 2008
Common Shares	47,162,033	22,148,533
Warrants	550,000	550,000
Options	1,746,667	965,334

On October 28, 2009, 10,000,000 common shares of Canyon were issued at $2.00 per common share pursuant to a bought deal prospectus offering (the "Offering"), and 15,000,000 common shares of Canyon were issued at $2.00 per common share pursuant to a concurrent private placement ("Concurrent Private Placement") with limited partnerships comprising ARC Energy Fund 6, for aggregate gross proceeds of $50 million and net proceed of approximately $47 million.

In the three months ended December 31, 2009, no warrants were issued to directors, officers and employees, 100,000 share options were granted to employees and officers at a price of $2.15 per option, 11,000 share options were exercised by directors, officers and employees and 111,833 share options were forfeited. During the year ended December 31, 2009, the Company granted 1,044,000 options (2008 - 182,000) to officers and employees at exercise prices ranging from $0.78 to $2.15 (2008 - $1.34 to $4.50). During the year ended December 31, 2009, employees and officers exercised 13,500 options (2008 - nil) at prices ranging from $0.96 to $1.20, while 249,167 options were forfeited (2008 - 234,998). In March 2009, the expiry date on 135,000 options held by certain non-executive employees was extended, resulting in the recording of additional stock-based compensation expense of $20,875.

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 these modifications to the option terms, additional stock compensation expense has been recorded using the fair value method over the remaining vesting period, and $118,848 has been recorded for the year ended December 31, 2009 (2008 - $106,957).

FINANCIAL INSTRUMENTS

Fair Values

The carrying values of accounts receivable, income taxes receivable, bank indebtedness, accounts payable and accrued liabilities, distributions payable, income taxes payable and obligations under capital leases approximate their fair value due to the relatively short periods to maturity of the instruments. Long-term debt utilizes a combination of short term fixed rates through the use of 30 to 90 day Banker' Acceptance and floating rates and accordingly its fair market value approximates its carrying value.

Interest Rate Risk

The Company manages its interest rate risk on borrowings by utilizing a combination of short-term fixed rates through the use of 30 to 90 day Banker's Acceptance rates and floating rates on debt. For the year ended December 31, 2009, virtually all debt was floating rates.

Foreign Currency Risk

The Company mitigates its foreign currency risk by purchasing foreign currencies to the extent it deems necessary to offset foreign currency obligations at any given time.

Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements as at December 31, 2009, 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-based 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 comprehensive income (loss) under GAAP as disclosed in the consolidated statements of operations to EBITDA before stock compensation expense.

	Three months ended December 31 (Unaudited)		Years ended December 31 (Unaudited)	
	2009	2008	2009	2008
EBITDA before stock compensation expense	$1,367,401	$7,636,357	$246,996	$9,796,865
Add (Deduct):				
Depreciation and amortization	(2,314,524)	(2,382,322)	(9,203,459)	(9,403,178)
Interest on long-term debt	(361,792)	(307,916)	(826,009)	(1,413,411)
Other interest	(6,705)	(29,775)	(63,843)	(166,737)
Stock-based compensation	(560,775)	(570,918)	(1,282,568)	(1,168,607)
Income taxes	-	(69,550)	69,550	326,177
Net comprehensive income (loss)	$(1,876,395)	$4,275,876	$(11,059,333)	$(2,028,891)

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. Please refer to the notes to the consolidated financial statements for the year ended December 31, 2009 for a description of the accounting policies of the Company. The Company considers the following to be its critical accounting policies and estimates:

Revenue Recognition – Estimates of Collectability of 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, 2009 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 assessed to determine if a write down to its estimated fair value is required. The value of intangible assets was assessed for impairment. No write-down was 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 was required.

Income Taxes

The Company follows the asset and 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, 2009 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 9 to the Consolidated Financial Statements for the year ended December 31, 2009.

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 2008.

INTERNATIONAL FINANCIAL REPORTING STANDARDS UPDATE

Canadian publicly accountable profit-oriented enterprises will be required to adopt International Financial Reporting Standards (IFRS) for financial periods beginning on or after January 1, 2011. IFRS will replace Canadian generally accepted accounting principles (“GAAP”). As a result, the Company must report its results of operations in accordance with IFRS beginning January 1, 2011 and restate, for comparative purposes, amounts reported for the year ended December 31, 2010, including the opening balance sheet as at January 1, 2010. The Company expects the conversion to IFRS will impact accounting, financial reporting, internal controls over financial reporting, taxes and IT systems and procedures.

The Company has commenced the process to transition from current Canadian GAAP to IFRS. 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. In addition, regular reporting is provided to the Company’s senior executive management and to the Audit Committee. Key personnel within the finance, accounting and operations functions, supplemented by external consultants, are assisting in the conversion process. Training has also commenced through external IFRS courses and workshops.

To date, Canyon has completed a high level assessment which has identified the key areas where the implementation of IFRS is likely to have a significant impact on the financial statements of the Company. IFRS 1, “First Time Adoption of International Financial Reporting Standards” establishes the requirements for preparing financial statements using IFRS for the first time. In general, IFRS 1 requires that the IFRS accounting policies selected be applied to the financial statements retrospectively. However, IFRS 1 offers elective exemptions that can avoid the otherwise required full retrospective application of IFRS. The most significant of these elective exemptions for Canyon to consider are:

- *Property and equipment:* In valuing property and equipment at the date of the transition to IFRS, Canyon has the choice of using fair value or recalculating the net book value using IFRS accounting policies.

- *Share-based payments:* IFRS 1 allows Canyon to not account for share-based transactions retrospectively for stock options granted and vested prior to the IFRS transition date.

At this time, Canyon has identified key differences between Canadian GAAP and IFRS that will likely impact the financial statements, which include the following:

- *Property and equipment:* Since component accounting will be strictly applied under IFRS, Canyon is presently segmenting major equipment units into individual components with appropriate asset lives and residual values, in accordance with IFRS requirements. IFRS requires breaking down material property and equipment assets into components and amortizing each one separately.

- *Impairment of property and equipment:* Impairment calculations will be performed at the cash generating unit level and will be based on discounted cash flows rather than undiscounted cash flows as under Canadian GAAP. As a result, impairment charges under IFRS may be more frequent.

- *Share-based payments:* Under IFRS, share-based awards that vest in installments must be accounted for as though each installment is a separate award. The fair value is required to be measured separately for each installment and is recognized over the vesting period of each installment. This will result in the front-loading of compensation expense.

- *Lease Accounting:* IFRS provides certain indicators beyond those explicitly addressed under Canadian GAAP that may lead to the conclusion that an operating lease is a capital or finance lease.

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, management has not yet finalized the Company's accounting policies under IFRS and as such is unable to determine the financial impact of adopting IFRS on the financial statements. In addition, anticipated changes to IFRS arising after the date of this MD&A could also impact the financial statements after transition to IFRS.

RELATED PARTY TRANSACTIONS

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. Effective February, 2009, the number of units granted was modified to 600,000 and the base values were modified to between $1.25 and $2.00 per unit in response to market conditions. 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 based on their intrinsic value. In the three and twelve months ended December 31, 2009, the Company recorded compensation costs of $173,743 (2008-nil) and $351,834 (2008 - nil) respectively related to the outstanding deferred share units, and this obligation is reflected in accounts payable and accrued liabilities.

Concurrent with the closing of the Concurrent Private Placement, Canyon entered into an Investment Rights Agreement with ARC Financial Corp. ("ARC"). Please refer to "Liquidity and Capital Resources" above. Pursuant to the Investment Rights Agreement, ARC has nominated one representative as a director of Canyon for so long as ARC owns or exercises control or direction over 15% or more of the outstanding common shares of Canyon. ARC also has the right to nominate one additional director of Canyon, to be acceptable to the President of Canyon and approved by the board of directors of Canyon, and such additional director shall not be a director, officer or employee of ARC unless otherwise agreed by the board of directors of Canyon.

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 for the year ended December 31, 2009. In addition, readers should also consider the following principal risks.

Industry Conditions

The demand, pricing and terms for oilfield services in the Company's service areas largely depend upon the level of exploration and development activity for 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. Any loss of key personnel could adversely affect the Company's business. To support the new service line offerings, the Company has 194 full time staff at December 31, 2009 compared to 241 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. Canyon commenced a $45 million capital program in November 2009 to add about 50,000 hydraulic horsepower of pumping capacity to its equipment fleet, as well as related equipment including high rate blenders, chemical vans and sand handling equipment. Following completion of the $45 million capital program in Q2 2010, Canyon's fracturing equipment fleet will increase to 75,000 hydraulic horsepower, providing Canyon with a significant fleet of custom-designed equipment and related parts to support its multiple customers.

Credit Risk

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

Interest Rate Risk

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

Dependence on Suppliers

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

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

Dependence on Major Customers

The Company has a customer base of more than 60 exploration and production entities, ranging from large multinational public entities to small private companies. Notwithstanding the Company's significant customer base, three customers account for 61% of the Company's accounts receivable as at December 31, 2009, and 52% of the Company's revenue for the twelve months ended December 31, 2009. 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.

In 2009, the Alberta Government revised its royalty program and issued amendments which favour the oil and natural gas industry. However there is a risk that future amendments could have a non-favourable impact on the Corporation, 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 Company will be of the recent changes in the Alberta royalty regime.

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, 2009 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 December 31, 2009.

The Certifying Officers of Canyon are responsible for establishing and maintaining adequate internal control and financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. 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, 2009 in all material respects. There are no material weaknesses in the Company's internal controls over financial reporting as of December 31, 2009.

There have been no changes in the Company's internal controls over financial reporting during the three and twelve months period ending December 31, 2009 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 Accounting 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.

Bradley P.D. Fedora
President and Chief Executive Officer

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

March 9, 2010

Auditor's Report to the Shareholders

We have audited the consolidated balance sheets of Canyon Services Group Inc. as at December 31, 2009 and 2008 and the consolidated statements of operations and comprehensive loss 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, 2009 and 2008 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
March 9, 2010

Consolidated Balance Sheets

	December 31,2009	December 31, 2008
ASSETS		
Current		
Cash and cash equivalents	$ 12,723,643	$ 2,469,819
Accounts receivable	7,034,561	8,138,522
Inventory	4,939,272	6,181,698
Prepaid expenses and deposits	903,815	953,957
Income taxes recoverable	23,834	355,660
	25,625,125	18,099,656
Property and equipment (note 2)	107,198,824	99,771,103
Intangible assets (note 3)	235,104	227,095
	$ 133,059,053	$ 118,097,854
LIABILITIES		
Current		
Operating facility (note 4)	$ -	$ 2,915,780
Accounts payable and accrued liabilities	8,010,869	9,471,016
Current portion of long-term debt (note 4)	172,061	1,166,906
	8,182,930	13,553,702
Long-term debt (note 4)	116,181	16,781,504
Future income taxes (note 6)	-	69,550
	8,299,111	30,404,756
SHAREHOLDERS' EQUITY		
Share capital (note 5)	135,161,415	87,988,904
Warrants (note 5)	286,344	257,125
Contributed surplus (note 5)	3,364,496	2,440,049
Deficit	(14,052,313)	(2,992,980)
	124,759,942	87,693,098
	$ 133,059,053	$ 118,097,854

Commitments (note 10)
Contingency (note 11)

See accompanying notes to the consolidated financial statements

On behalf of the Board:

Signed: "Raymond P. Antony"

Signed: "Bradley P. D. Fedora"

Consolidated Statements of Deficit

		Year Ended December 31,2009		Year Ended December 31,2008
Deficit, beginning of year	$	(2,992,980)	$	(964,089)
Net comprehensive loss		(11,059,333)		(2,028,891)
Deficit, end of year	$	(14,052,313)	$	(2,992,980)

See accompanying notes to the consolidated financial statements

Consolidated Statements of Operations and Comprehensive Loss

		Year Ended December 31,2009		Year Ended December 31,2008
Revenues	$	46,932,062	$	72,371,527
Expenses				
Operating		40,038,477		55,256,260
Selling, general and administrative		6,646,589		7,318,402
Stock-based compensation expense (note 5)		1,282,568		1,168,607
Interest on long-term debt		826,009		1,413,411
Other interest		63,843		166,737
Depreciation and amortization		9,203,459		9,403,178
Loss before income taxes		(11,128,883)		(2,355,068)
Future tax reduction (note 6)		(69,550)		(326,177)
Net comprehensive loss	$	(11,059,333)	$	(2,028,891)
Loss per share (note 7):				
Basic	$	(0.42)	$	(0.09)
Diluted	$	(0.42)	$	(0.09)

See accompanying notes to the consolidated financial statements

Consolidated Statements of Cash Flows

	Year Ended December 31,2009	Year Ended December 31,2008
Operating activities		
Net comprehensive loss	$ (11,059,333)	$ (2,028,891)
Add (deduct) non-cash operating items:		
Depreciation and amortization	9,203,459	9,403,178
Deferred financing costs	254,192	-
Future tax reduction	(69,550)	(326,177)
Stock-based compensation (note 5)	1,282,568	1,168,607
	(388,664)	8,216,717
Changes in other current assets and liabilities:		
Restricted cash	-	323,160
Accounts receivable	1,103,961	634,715
Inventory	1,242,426	155,624
Prepaid expenses and deposits	50,142	(116,946)
Accounts payable and accrued liabilities	(3,456,674)	542,277
Income taxes recoverable	331,826	646,407
	(1,116,983)	10,401,954
Financing activities		
Advances (repayments) on operating facility	(2,915,780)	2,574,131
Advances on long-term debt	-	11,143,754
Repayment of obligations under capital lease	-	(6,493,109)
Repayment of long-term debt	(17,914,360)	(11,375,599)
Issuance of common shares	47,166,224	-
	26,336,084	(4,150,823)
Investing activities		
Property and equipment additions	(16,609,970)	(3,764,510)
Change in accounts payable related to property and equipment additions	1,644,693	(354,270)
	(14,965,277)	(4,118,780)
Change in cash and cash equivalents	10,253,824	2,132,351
Cash, beginning of year	2,469,819	337,468
Cash, end of year	$ 12,723,643	$ 2,469,819
Supplemental information:		
Interest paid	$ 635,660	$ 1,417,219

See accompanying notes to the consolidated financial statements

Notes to the Consolidated Financial Statements
Years Ended December 31, 2009 and 2008

1) Significant accounting policies:

a) *Basis of presentation:*

These financial statements include the accounts of Canyon Services Group Inc. and 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.

The Company's activities are conducted in the oilfield services industry and are focused on providing specialized fracturing and chemical stimulation services to companies exploring for and developing petroleum and natural gas resources operating in the Western Canadian Sedimentary Basin. These services are designed to enhance oil and natural gas production and maximize recovery from conventional and unconventional reservoirs.

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) *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 was required. The Company adopted this standard on January 1, 2009 and there was no significant impact on these financial statements.

d) *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.

e) *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 could occur which may affect the expected useful lives of the property and equipment.

f) *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.

g) *Future accounting pronouncements:*
International financial reporting standards ("IFRS")

IFRS 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 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. At this time, the impact of the changeover to IFRS is not reasonably measurable.

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.

h) *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.

i) *Revenue recognition:*
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, services, down-hole tools used, supplies consumed and travel time. There are no post-service delivery obligations.

j) *Measurement 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.

k) *Income taxes:*
The Company follows the asset and 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.

Future income tax assets are recognized to the extent it is more likely than not that they will be realized.

l) *Stock-based compensation:*
Obligations for payments under the Company's Deferred Share Unit Plan are accrued as stock based compensation expense over the vesting period (refer to note 5(f)). Fluctuations in the price of the Company's

common shares change the accrued stock based compensation expense and are recognized when they occur. The deferred share unit obligation is included in accounts payable and accrued liabilities.

The Company has a common share purchase option plan which provides for the issuance of shares to directors and employees and a stock based compensation plan which provides for the issuance of incentive based units to certain directors, officers, key employees and consultants of the Company under terms and conditions described in note 5.

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.

Under the fair value method, the Company recognizes the fair value of incentive based units granted under the stock based compensation plan over the vesting period of these units as a charge to compensation expense and a credit to contributed surplus.

2) Property and equipment:

	December 31,2009		
	Cost	Accumulated Depreciation	Net Book Value
Land	$ 3,850,791	$ -	$ 3,850,791
Field equipment	102,244,303	23,592,869	78,651,434
Automotive	22,900,170	9,307,472	13,592,698
Office, shop and yard	11,172,870	1,307,222	9,865,648
Computers and office equipment	2,654,074	1,553,327	1,100,747
Leasehold improvements	157,207	19,701	137,506
	$ 142,979,415	$ 35,780,591	$ 107,198,824

	December 31, 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

Field equipment in the amount of $15,857,942 (2008 - $940,906), office, shop and yard additions in the amount of $nil (2008 - $141,300), computer and office equipment in the amount of $190,500 (2008 - $nil), have not been depreciated as they were under construction at year end.

3) Intangible assets:

Intangible assets comprise intellectual property with respect to proprietary light weight proppant and were acquired in February 2007 for consideration of 125,000 warrants of the Company. On February 11, 2009, the warrants, with an exercise price of $4.96, were repriced at $1.20 to reflect the current economic conditions, resulting in the recording of additional consideration of $29,219. The carrying value of this property totaling $235,104 as at December 31, 2009 is being amortized using the straight line method over its estimated useful life of 15 years. Amortization in the amount of $21,210 has been recorded for the year ended December 31, 2009 (2008 - $17,160).

4) Operating facility and long-term debt:

	December 31,2009	December 31, 2008
Extendible Facility	$ -	$ 6,500,000
Term Facility	-	10,976,564
Automotive loans payable, secured by certain of automotive assets, requiring monthly payments totalling $17,047 including interest at an implied rate of 5.0% and maturing through August 2012	288,242	471,846
	288,242	17,948,410
Less current portion	172,061	1,166,906
	$ 116,181	$ 16,781,504

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

2010	$ 172,061
2011	96,338
2012	19,843
	$ 288,242

On May 26, 2008, Canyon entered into a credit agreement (the "Agreement") with its lender to change the existing Extendible Facility and Operating Facility, and to add a non-revolving extendible term facility (the "Term Facility"). On May 25, 2009, the Agreement was renewed by the Company's lender with no changes to the available credit facilities. Pursuant to the renewal, interest rates were increased by 75 basis points resulting in the rates described below. On December 7, 2009, the Agreement was amended to repay the Term Facility and to increase the Extendible Facility by a corresponding amount as described below.

On December 7, 2009, in conjunction with the repayment of the Term Facility, the amount available under the Extendible Facility was increased by $11 million to $31 million. The Extendible Facility is a revolving extendible credit facility up to a maximum amount of $31 million and bears interest, payable monthly, at the bank's prime lending rate plus 1.25 percent. The Extendible Facility is subject to renewal on May 24, 2010 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 over two years as to seven quarterly installments of one-twentieth of the amount outstanding and the eighth installment 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, 2009, nil is drawn on the Extendible Facility ($6.5 million as at December 31, 2008).

On December 10, 2009, the outstanding balance of $10.7 million under the Term Facility was repaid in full from proceeds of the bought deal financing (note 5(b)). Interest was calculated under the Term Facility at the bank's prime lending rate plus 1.50 percent and was repayable by way of blended monthly principal and interest payments of $78,419, based on a 20 year amortization period. Security for the Term Facility was a mortgage over the Company's land and buildings and a general security agreement over all of the Company's assets.

In accordance with the Company's accounting policy on financial instruments, the transaction costs incurred to obtain bank financing are netted against related debt and amortized using the effective interest rate method. Upon repayment of the Term Facility on December 10, 2009, unamortized finance costs of $254,192 were included in interest expense.

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 1.25 percent and is secured by a general security agreement over all of the Company's assets. As at December 31, 2009, no amounts were drawn on the Operating Facility ($2.9 million as at December 31, 2008).

5) Share capital:

a) *Authorized:*

Authorized share capital is comprised of 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
Issuance of common shares	25,000,000		50,000,000
Share issuance costs	-		(2,847,576)
Issued on exercise of stock options	13,500		13,800
Reclassification from contributed surplus on exercise of options	-		6,287
Balance, December 31, 2009	47,162,033		135,161,415

On October 28, 2009, the Company completed its previously announced bought deal prospectus offering (the "Offering") and concurrent private placement ("Concurrent Private Placement"). Pursuant to the Offering, 10,000,000 common shares of Canyon were issued at a price of $2.00 per common share and 15,000,000 common shares were issued pursuant to the Concurrent Private Placement at a price of $2.00 per common share for aggregate net proceeds of $47,152,424.

c) *Contributed surplus:*

Balance, December 31, 2007	$	1,271,442
Stock-based compensation expense		1,168,607
Balance, December 31, 2008		2,440,049
Stock-based compensation expense		930,734
Reclassification to share capital on exercise of options		(6,287)
Balance, December 31, 2009	$	3,364,496

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% (2008 -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 generally vest equally over a three year period or, as determined by the Board of Directors, 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, 2009 was $0.42 (2008 - $1.78) based on the date of grant valuation using the Black-Scholes option pricing model. Stock-based compensation of $930,734 (2008 - $1,168,607) has been recorded for the year ended December 31, 2009 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 1.12% to 1.89%, an expected life of 5 years for the options and volatility of 40% to 60% (2008 2.17% to 3.42%, 5, 40% to 60% respectively).

A summary of the status of the Company's stock option plan as at December 31, 2009 and 2008, 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, 2007	1,933,332	$2.01-$13.76	$3.99	1,036,444
Granted	182,000	$1.34-$4.50	$3.26	
Forfeited	(234,998)	$2.01-$13.76	$4.48	
Cancelled	(915,000)	$2.25-$13.76	$4.16	
Outstanding at December 31, 2008	965,334	$2.01-$13.76	$1.31	1,036,444
Granted	1,044,000	$0.78-$2.15	$1.15	
Exercised	(13,500)	$0.96-$1.20	$1.02	
Forfeited	(249,167)	$1.20-$1.20	$1.62	
Outstanding at December 31, 2009	1,746,667	$0.78-$2.15	$1.17	1,573,667

During the year ended December 31, 2009, the Company granted 1,044,000 options (2008 - 182,000) to officers and employees at exercise prices ranging from $0.78 to $2.15 (2008 - $1.34 to $4.50). During the year ended December 31, 2009, employees and officers exercised 13,500 options (2008 - nil) at prices ranging from $0.96 to $1.20, while 249,167 options were forfeited (2008 - 234,998). In March 2009, the expiry date on 135,000 options held by certain non-executive employees was extended, resulting in the recording of additional stock-based compensation expense of $20,785.

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 these modifications to the option terms, additional stock compensation expense has been recorded using the fair value method over the remaining vesting period, and $118,848 has been recorded for the year ended December 31, 2009 (2008 - $106,957).

The range of exercise prices for options outstanding at December 31, 2009 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
$0.78-$0.96	605,000	$0.95	4.18	605,000	$0.95
$0.97-$1.10	264,000	$0.99	1.55	264,000	$0.99
$1.11-$1.20	712,667	$1.20	1.79	704,667	$1.20
$1.21-$2.15	165,000	$2.10	4.83	-	-
	1,746,667	$1.17	3.27	1,573,667	$1.07

e) *Stock based compensation plan:*

On March 31, 2009, the Company's shareholders approved a Stock Based Compensation Plan (the "Plan") to provide certain directors, officers, key employees and consultants of the Company with an opportunity to acquire common shares in lieu of cash bonuses. Under the Plan, the board of directors from time to time may grant incentive based units to participants as compensation in respect of services rendered by the participant for a fiscal year. Each incentive based unit will give the participant the right to receive, on or after the vesting date for such incentive based unit upon exercise, one common share for no further consideration or payment by such participant. The aggregate number of common shares that may be issued pursuant to the exercise of incentive based units awarded under the Plan is 5% of the issued and outstanding common shares of the Company. For the year ended December 31, 2009, 162,500 incentive based units were granted to certain directors of the Company.

f) Deferred share unit plan:

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. Effective February, 2009, the number of units granted was modified to 600,000 and the base values were modified to between $1.25 and $2.00 per unit in response to market conditions. 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 obligation is recorded as a liability and revalued at each reporting period. In the year ended December 31, 2009, the Company recorded compensation costs of $351,834 (2008 - nil) related to the outstanding deferred share units.

g) Warrants:

In connection with the purchase of intangible assets in February 2007, the Company issued 125,000 warrants which are recorded at $286,344 as at December 31, 2009 ($257,125 as at December 31, 2008). At December 31, 2009, all of the warrants were outstanding and 125,000 were exercisable (2008 - 83,333). The warrants were valued upon grant 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. On February 11, 2009, the warrants were repriced at $1.20 to reflect the current economic conditions, resulting in the recording of additional consideration of $29,219.

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 Corporation 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, 2009 (2008: $237,292).

6) 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:

	Year Ended December 31,2009	Year Ended December 31,2008
Income tax rate	29.00%	29.50%
Expected income tax expense	$ (3,227,376)	$ (694,745)
Increase (decrease) in income taxes resulting from:		
Non-deductible expenses	5,804	25,296
Non-deductible stock-based compensation expense	371,945	344,740
Future tax rate differences	336,016	(1,468)
Net increase in future tax valuation allowance	2,444,060	-
Provision for income taxes	$ (69,550)	$ (326,177)

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

	December 31,2009	December 31, 2008
Future income tax assets		
Share issuance costs	$ (817,064)	$ (498,488)
Non-capital loss carry forwards	(555,296)	-
Future income tax liabilities		
Future tax valuation allowance	3,200,181	-
Property and equipment	(1,827,821)	568,038
	$ -	$ 69,550

As at December 31, 2009, non-capital losses forward of $2,109,114 (2008 - nil) are available to reduce future taxable income and expire in 2029.

7) Per share amounts:

	Year Ended December 31,2009	Year Ended December 31,2008
Weighted average common shares outstanding - basic and diluted	26,567,248	22,148,533

The calculation of dilutive loss 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 period. The number of excluded options at December 31, 2009 is 173,000 (2008 - 965,334).

As a result of net losses in 2009 and 2008, all outstanding options were anti-dilutive.

8) Financial instruments and financial risk management:

As at December 31, 2009, the Company's financial instruments are cash and cash equivalents, accounts receivable, operating facility, accounts payable and accrued liabilities and long-term debt. These financial instruments are classified as follows:

Cash and cash equivalents - held for trading
Accounts receivable - loans and receivables
Operating facility - other financial liabilities
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 that include oil and natural gas price fluctuations and the customers' ability to secure appropriate financing. As at December 31, 2009, three customers account for 61% (2008 - three customers account for 44%) of the Company's accounts receivable while three customers account for 52% (2008 - three customers account for 48%) of the revenue.

The Company assesses the credit worthiness of all new customers and reviews the credit worthiness of existing customers periodically. In addition, the Company monitors the amount and age of customer balances on a continual basis. Standard payment terms for the industry are 30-60 days from the invoice date, however industry practice allows for payment up to 90 days after invoice date. The Company's accounts receivable as at December 31, 2009 before the allowance for doubtful accounts of $344,667 (2008 - $268,916) is aged as follows:

	December 31,2009	December 31, 2008
Current (0-30 days from invoice date)	$ 6,641,881	$ 4,831,759
31-60 days past due	119,119	1,918,673
Over 60 days past due	618,228	1,657,006
Total	$ 7,379,228	$ 8,407,438

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 values of long-term debt are not materially different from the carrying amounts since the interest rate is variable and 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, 2009, an increase or decrease in interest expense for each one percent change in interest rates on floating rate debt would be $159 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. In managing liquidity risk, the Company prepares, and monitors on an ongoing basis, annual and quarterly forecasts of cash flows and debt levels. In addition, the Company uses procedures requiring multiple approvals at the senior management and board levels to manage capital expenditure programs.

As at December 31, 2009, the Company had available unused bank credit facilities plus cash of $48.7 million, plus accounts receivable of $7.0 million to meet its financial liabilities. On October 28, 2009, the Company completed an equity financing for gross proceeds of $50 million to fund the Company's capital program, to temporarily reduce bank indebtedness and for general corporate purposes.

9) 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 and cash equivalents, plus current portion of long-term debt, plus long-term debt. Capitalization is calculated as the debt, as described above, and shareholders' equity less intangible assets. The Company 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 31,2009	December 31, 2008
Debt, net of cash	$ -	$ 18,394,371
Shareholders' equity (net of Intangible assets)	124,524,838	87,466,003
Capitalization	$ 124,524,838	$ 105,860,374
Debt to Capitalization ratio	-	0.17

The Company 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. Tangible net worth is defined as shareholders' equity excluding intangibles and goodwill.

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 ratio of income (loss) before income taxes, plus depreciation and amortization, plus interest on long-term debt and other interest, plus stock-based compensation expense to total debt is calculated on an annual basis on December 31 of each year. On December 31, 2009, the ratio cannot be less than 0.04 to 1.00, while on each subsequent December 31, the ratio cannot be less than 1.25 to 1.00.

As of December 31, 2009, the Company is in compliance with each of the above financial covenants.

10) Commitments:

a) *Vehicles and office space:*

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

2010	876,315
2011	569,639
2012	333,738
2013	108,750

b) *Field Equipment:*

As at December 31, 2009, the Company has committed to purchase $22,749,722 of field equipment comprising hydraulic fracturing pumps, and related equipment including high rate blenders, chemical vans and sand handling equipment. Subsequent to December 31, 2009, $7,116,513 of these commitments has been incurred and funded from cash flows from operations and cash on hand.

11) Contingency:

The corporation 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 defense and counterclaim against the corporation and a third party seeking damages in the sum of $1,285,000. Management is of the opinion that its former customer's statement of defense and counterclaim is without merit.

Corporate Information

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Raymond P. Antony
Calgary, Alberta

Bradley P. D. Fedora
Calgary, Alberta

Douglas C. Freel
Calgary, Alberta

Neil MacKenzie
Calgary, Alberta

Dennis J. Weinberger
Cochrane, Alberta

OFFICERS AND KEY PERSONNEL

Bradley P. D. Fedora, President and Chief Executive Officer

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

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Olympia Trust Company

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