



CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011



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To the Shareholders of Canyon Services Group Inc.

We have audited the accompanying consolidated financial statements of Canyon Services Group Inc., which comprise the consolidated balance sheets as at December 31, 2012 and December 31, 2011, the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Canyon Services Group Inc. as at December 31, 2012 and December 31, 2011, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Chartered Accountants
March 7, 2013
Calgary, Canada

CANYON SERVICES GROUP INC.

Consolidated Balance Sheets

000's of dollars		December 31,	December 31,
	Note	2012	2011
Assets			
Current assets:			
Cash and cash equivalents		\$22,584	\$42,481
Trade and other receivables	4	63,980	87,288
Inventories		14,203	16,253
Prepayments		1,290	3,231
Current tax assets		4,022	-
Total current assets		106,079	149,253
Non-current assets:			
Property and equipment	9	299,716	257,670
Intangible assets	10	318	407
Total non-current assets		300,034	258,077
Total Assets:		\$406,113	\$407,330
Liabilities and Equity			
Current liabilities:			
Trade and other payables	11	\$38,402	\$60,933
Loans and borrowings	12	2,138	1,555
Dividend payable		9,294	3,816
Current tax liabilities		-	15,940
Total current liabilities		49,834	82,244
Non-current liabilities:			
Loans and borrowings	12	3,475	3,530
Deferred tax liabilities	13	15,029	7,489
Total non-current liabilities		18,504	11,019
Equity			
Share capital	14	187,173	183,224
Contributed surplus		8,350	6,084
Retained earnings (deficit)		142,252	124,759
Total equity		337,775	314,067
Total liabilities and equity		\$406,113	\$407,330

The notes are an integral part of these consolidated financial statements.

Raymond P. Antony

Bradley P. D. Fedora

CANYON SERVICES GROUP INC.

Consolidated Statements of Comprehensive Income

For the year ended December 31

000's of dollars, except per share amounts	Note	2012	2011
Revenue		\$353,119	\$372,096
Cost of services	5	(255,843)	(218,084)
Gross profit		97,276	154,012
Administrative expenses	6, 7	(23,088)	(23,602)
Results from operating activities		74,188	130,410
Finance costs		(747)	(487)
Profit before income tax		73,441	129,923
Income tax expense			
Current tax	8	(11,492)	(28,440)
Deferred tax	13	(7,540)	(6,213)
		(19,032)	(34,653)
Profit and comprehensive income		\$54,409	\$95,270
Earnings per share			
Basic		\$0.89	\$1.57
Diluted		\$0.87	\$1.53

The notes are an integral part of these consolidated financial statements.

CANYON SERVICES GROUP INC.

Consolidated Statements of Changes in Equity

000's of dollars	Share Capital	Warrants	Contributed Surplus	Retained Earnings	Total Equity
Balance at December 31, 2010	\$181,683	\$191	\$4,042	\$36,351	\$222,267
Profit and comprehensive income for the year				95,270	95,270
Transactions with owners, recorded directly in equity:					
Issue on exercise of stock options	756				756
Issue on exercise of warrants	100				100
Reclassification on exercise of stock options and incentive-based units	494		(494)		-
Reclassification on exercise of warrants	191	(191)			-
Share-based payment transactions			2,536		2,536
Dividends				(6,862)	(6,862)
Balance at December 31, 2011	\$183,224	\$-	\$6,084	\$124,759	\$314,067
Profit and comprehensive income for the year				54,409	54,409
Transactions with owners, recorded directly in equity:					
Issue on exercise of stock options	1,088				1,088
Issue on exercise of warrants	1,700				1,700
Reclassification on exercise of stock options and incentive-based units	449		(449)		-
Reclassification on exercise of warrants	712		(712)		-
Share-based payment transactions			3,427		3,427
Dividends				(36,916)	(36,916)
Balance at December 31, 2012	\$187,173	\$-	\$8,350	\$142,252	\$337,775

The notes are an integral part of these consolidated financial statements.

CANYON SERVICES GROUP INC.

Consolidated Statement of Cash Flows

For the year ended December 31

000's of dollars	Note	2012	2011
Cash flows from operating activities:			
Profit and comprehensive income for the year		\$54,409	\$95,270
Adjustments for:			
Depreciation and amortization	5, 6	30,023	22,377
Share based payment transactions		1,086	3,880
Loss on sale of property and equipment		179	131
Finance costs		747	487
Income tax expense	8, 13	19,032	34,653
		105,476	156,798
Change in inventories		2,050	(8,193)
Change in trade and other receivables		23,308	(41,004)
Change in prepayments		1,941	(1,369)
Change in trade and other payables		(12,662)	25,462
Cash generated from operating activities		120,113	131,694
Interest paid		(747)	(487)
Income tax paid		(31,454)	(26,662)
Net cash from operating activities		87,912	104,545
Cash flows from investing activities:			
Proceeds from sale of property and equipment		538	264
Acquisition of property and equipment	9, 10	(69,940)	(101,293)
Change in trade and other payables		(7,526)	4,209
Net cash used in investing activities		(76,928)	(96,820)
Cash flows from financing activities:			
Proceeds from exercise of share options and warrants		2,788	856
Repayment of borrowings		(13)	(95)
Payment of finance lease liabilities		(2,218)	(1,187)
Dividends paid	14	(31,438)	(6,065)
Net cash from (used in) financing activities		(30,881)	(6,491)
Net increase (decrease) in cash and cash equivalents		(19,897)	1,234
Cash and cash equivalents at January 1		42,481	41,247
Cash and cash equivalents at December 31		\$22,584	\$42,481

The notes are an integral part of these consolidated financial statements.

CANYON SERVICES GROUP INC.

Notes to the consolidated financial statements

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1. Reporting Entity:

Canyon Services Group Inc. (the "Company") is a company domiciled in Canada. The Company is a publicly-traded company listed on the Toronto Stock Exchange under symbol 'FRC'. These consolidated financial statements include the accounts of Canyon Services Group Inc. and its wholly-owned subsidiaries, Canyon Technical Services Ltd. and Canyon Technical Services Inc.

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.

2. Basis of preparation:

(a) Statement of compliance:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of March 7, 2013, the date the Board of Directors approved the statements.

(b) Basis of measurement:

The consolidated financial statements have been prepared on the historical cost basis except for the following material item in the consolidated balance sheet:

- (i) Liabilities for cash-settled share-based payment arrangements are measured at fair value.

(c) Functional and presentation currency:

These consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Company. All financial information presented in Canadian dollars has been rounded to the nearest thousand, except where indicated.

(d) Use of estimates and judgments:

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and judgments used are based on management's experience

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and the assumptions used are believed to be reasonable given the circumstances that exist at the time the consolidated financial statements are prepared.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Key Sources of Estimation Uncertainty

The following are key estimates and their assumptions made by management affecting the measurement of balances and transactions in these consolidated financial statements.

Revenue Recognition

The Company recognizes revenue based on the completion of planned programs of services and adjusted for required changes as agreed to by the customer.

Estimates of Collectability of Accounts Receivable

The Company's management regularly reviews outstanding accounts receivable and follows up with customers when settlement has not occurred on a timely basis. A provision for doubtful accounts of \$176 has been established as at December 31, 2012 (December 31, 2011 - \$909) 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 component that is consumed in conducting each period's operations. Estimates affecting management's assessment of the most appropriate depreciation rate and method of calculation for any particular asset component include the productive life of the asset, its salvage value, equipment utilization rates, planned maintenance programs and technological change.

Revisions to accounting estimates are recognized in the period in which estimates are revised and in any future periods affected. Management believes that its assessment and choice of estimates used in calculating depreciation are reasonable; however, there is no certainty that the depreciation expense provided will correctly measure the actual reduction in value of asset components used in operations over time.

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Non-Financial Assets

Where impairment indicators exist, or annually for goodwill, the recoverable amount of the asset or cash-generating units ("CGU" or "CGUs") is determined using the greater of fair value less costs to sell or value-in-use. Value-in-use calculations require assumptions for discount rates and estimations of the timing for events or circumstances that will affect future cash flows. Fair value less costs to sell requires management to make estimates of fair value using market conditions for similar assets as well as estimations for costs to sell taking into account dismantling and transportation costs.

Every reporting period, management assesses the carrying value of non-financial assets for indications of impairment. When an indication of impairment is present, the asset is written down to its estimated recoverable amount. No indications of impairment existed in the years ended December 31, 2012 and 2011.

The assessment of impairment indicators is subjective and considers the various internal and external factors such as the financial performance of individual CGUs, market capitalization and industry trends. In addition, the impairment assessment is impacted by how management determines the composition of CGUs. Management has grouped assets into CGUs based on several factors with a primary focus on assets whose cash flows are interdependent. This assessment is subject to management estimate and interpretation.

Provisions and Contingencies

The Company is required to estimate the amount of provisions and contingencies based on the estimated future outcome of the event.

Share-Based Payments

The Company's estimate of share-based payment compensation is dependent upon estimates of historic volatility and forfeiture rates.

Deferred Income Taxes

The deferred tax liability is based on estimates as to the timing of the reversal of temporary differences, substantively enacted tax rates and the likelihood of assets being realized.

Critical Judgments in Applying Accounting Policies

The following are critical judgements that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

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Non-Financial Assets

The Company's assets are aggregated into cash-generating units for the purpose of calculating impairment. CGUs are based on management's judgements and assessment of the CGU's ability to generate independent cash inflows. Judgments are also required to assess when impairment indicators exist and impairment testing is required.

Provisions and Contingencies

The Company is required to exercise judgment in assessing whether the criterion for recognition of a provision or a contingency has been met. The Company considers whether a present obligation exists, probability of loss and can a reliable estimate be formulated.

Deferred Income Taxes

Judgments are made by management to determine the likelihood of whether deferred income tax assets at the end of the reporting period will be realized from future taxable earnings.

3. Significant accounting policies:

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

(a) Foreign currency:

Transactions in foreign currencies are translated to the respective functional currency at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on translation are recognized in profit or loss.

(b) Financial instruments:

(i) Non-Derivative Financial Assets:

The Company initially recognizes trade and other receivables and deposits on the date that they originate. All other financial assets are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

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The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the balance sheet when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company has the following non-derivative financial assets:

Financial Assets at Fair Value Through Profit or Loss

A financial asset is classified at fair value through profit or loss ("FVTPL") if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy. Attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

Financial assets designated at fair value through profit or loss comprise of interest rate swaps and forward exchange contracts. The Company records cash at FVTPL. The Company did not hold any other financial assets designated at fair value through profit or loss as at December 31, 2012, and December 31, 2011.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less.

Loans and Receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and Receivables Comprise Trade and Other Receivables.

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(ii) Non-Derivative Financial Liabilities:

Liabilities (including liabilities designated at fair value through profit or loss) are recognized on the date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the consolidated balance sheet when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company has the following non-derivative financial liabilities: loans and borrowings, dividend payable and trade and other payables.

These financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost.

(iii) Share capital:

Common shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

(c) Property and equipment:

(i) Recognition and measurement:

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, and borrowing costs on qualifying assets.

Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and are recognized net within other income in profit or loss.

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(ii) Subsequent costs:

The cost of replacing a part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment (repair and maintenance) are recognized in profit or loss as incurred.

(iii) Depreciation:

Depreciation is calculated over the depreciable amount, which is the cost of an asset less its residual value. Management bases the estimate of the useful life and salvage value of property and equipment on expected utilization, technological change and effectiveness of maintenance programs. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Depreciation is recognized in profit or loss either on a straight-line or declining balance basis over the estimated useful lives of each component of an item of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land is not depreciated.

Depreciation is calculated as follows:

Field equipment	2 to 10 years	straight line
Automotive	15 to 25%	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

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

(d) Intangible assets:

(i) Research and development:

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalized includes the cost of materials,

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direct labour, overhead costs that are directly attributable to preparing the asset for its intended use, and borrowing costs on qualifying assets. Other development expenditure is recognized in profit and loss as incurred.

Capitalized development expenditure is measured at cost less accumulated amortization and accumulated impairment losses.

(ii) Other intangible assets:

Other intangible assets include intellectual properties with respect to proprietary light weight proppant and a license to perform a patented stimulation technique in both horizontal and vertical wellbores that were acquired by the Company and have finite useful lives and are measured at cost less accumulated amortization and accumulated impairment losses.

(iii) Subsequent expenditure:

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures, including expenditures on internally generated goodwill and brands, is recognized in profit or loss as incurred.

(iv) Amortization:

Amortization is calculated over the cost of the asset less its residual value.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. The estimated useful life for the current and comparative year is as follows:

Intellectual property with respect to light weight proppant	15 years straight line
License for patented stimulation technique	3 years straight line

Amortization methods, useful lives and residual values are reviewed at each financial period-end and adjusted if appropriate.

(e) Leased assets:

Leases where the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

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Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Other leases are operating leases and the leased assets are not recognized in the Company's consolidated balance sheet. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

(f) Inventories:

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is determined using the weighted average cost method, and includes expenditures incurred in acquiring the inventories, and other costs incurred in bringing them to their existing location and condition.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(g) Impairment:

(i) Financial assets (including receivables):

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

The Company considers evidence of impairment for receivables at a specific asset level. All individually significant receivables are assessed for specific impairment. Evidence of impairment may include changes in well-bore, equipment or treating conditions and the customers' ability to pay for the services provided by the Company.

In assessing collective impairment the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be

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recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(ii) Non-financial assets:

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU") and reflects the lowest level at which each CGU is monitored for internal reporting purposes.

The Company's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(h) Employee benefits:

(i) Termination benefits:

Termination benefits are recognized as an expense when the Company is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as

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an expense if the Company has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

(ii) Short-term employee benefits:

Short-term employee benefits are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if it is probable that the liability will be payable.

(iii) Share-based payment transactions:

The Company has a Share Purchase Option Plan under which options may be granted to directors, officers, key employees or consultants of the Company. The Company also has a Stock-Based Compensation Plan under which units may be granted to certain directors, officers, key employees and consultants of the Company.

The grant date fair value of awards granted to directors, officers and employees pursuant to the Share Purchase Option Plan, Stock-Based Compensation Plan and Warrants, is recognized as an employee expense, with a corresponding increase in contributed surplus, over the period that the employees unconditionally become entitled to the awards (vesting period). The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. When awards under the Share Purchase Option Plan, Stock-Based Compensation Plan and Warrants are exercised, the proceeds together with the amount recorded in contributed surplus are recorded in share capital.

The fair value of the amount payable to directors, officers and employees in respect of Share Appreciation Rights, which are settled in cash, is recognized as an expense with a corresponding increase in liabilities, over the period that the directors, officers and employees unconditionally become entitled to payment. The liability is re-measured at each reporting date and at settlement date and is recorded in trade and other payables. Any changes in the fair value of the liability are recognized as personnel expense in profit or loss.

(i) **Non-employee benefits:**

Share-based payment arrangements for non-employees comprising Warrants in which the Company receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Company.

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(j) Provisions:

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance cost.

(k) Revenue:

The Company's services are generally 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. Revenue is recognized when there is persuasive evidence that an arrangement exists, the service has been provided, the rate is fixed and determinable, and the collection of the amounts billed to the customer is reasonably assured. The Company considers persuasive evidence to exist when a formal contract is signed or customer acceptance is obtained. There are no post-service delivery obligations.

(l) Finance income and finance costs:

Finance income comprises interest income on funds invested. Interest income is recognized as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through profit or loss, and impairment losses recognized on financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

(m) Income tax:

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

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Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(n) Earnings per share:

The Company presents basic and diluted earnings per share (EPS) data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted EPS is based on the weighted average number of common shares issued and outstanding during the year, adjusted by the total of the additional common shares that would have been issued assuming exercise of all warrants and awards under the Share Purchase Option Plan and Stock-Based Compensation Plan with exercise prices at or below the average market price for the year, offset by the reduction in common shares that would be purchased with the exercise proceeds.

(o) New standards and interpretations not yet adopted:

A new standard not yet effective for the year ended December 31, 2012, has not been applied in preparing these consolidated financial statements.

IFRS 9 Financial Instruments

In November 2009 the IASB issued IFRS 9 *Financial Instruments* (IFRS 9 (2009)), and in October 2010 the IASB published amendments to IFRS 9 (IFRS 9 (2010)).

IFRS 9 (2009) replaces the guidance in IAS 39 *Financial Instruments: Recognition and Measurement*, on the classification and measurement of financial assets. The Standard eliminates the existing IAS 39 categories of loans and receivables.

Financial assets will be classified into one of two categories on initial recognition:

- financial assets measured at amortized cost; or
- financial assets measured at fair value.

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The Company intends to adopt IFRS 9 (2010) in its financial statements for the annual period beginning on January 1, 2015. The Company does not expect IFRS 9 (2010) to have a material impact on the financial statements. The classification and measurement of the Company's financial assets is not expected to change under IFRS 9 (2010) because of the nature of the Company's operations and the types of financial assets that it holds.

4. Financial Risk Management Overview

The Company has exposure to the following risks:

- a) Credit risk
- b) Liquidity risk
- c) Market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, and processes for measuring and managing risk and the Company's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Company has not changed its policy for managing and mitigating financial risk during the year ended December 31, 2012.

(a) Credit risk

Trade and Other Receivables

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. During the year ended December 31, 2012, no single customer accounted for more than 14% of the Company's revenue (year ended December 31, 2011: 14%). In 2012, three customers each accounted for more than 10% of consolidated revenue. As at December 31, 2012, five customers accounted for 51% (December 31, 2011 – five customers accounted for 52%) of the Company's accounts receivable while five customers account for 50% (December 31, 2011 – five customers account for 38%) of the revenue.

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, 2012 before the allowance for doubtful accounts of \$176 (December 31, 2011: \$909) is aged as follows:

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000's of dollars	December 31, 2012	December 31, 2011
Current (0-30 days from invoice date)	\$21,277	\$43,721
31-60 days past due	23,749	29,360
Over 60 days past due	19,130	15,116
Sub-total	64,156	88,197
Less: Allowance for doubtful accounts	(176)	(909)
Total	\$63,980	\$87,288

The Company estimates that the carry value of financial assets within trade and other receivables approximate their fair value.

The Company held cash and cash equivalents of \$22.6 million as at December 31, 2012 (December 31, 2011: \$42.5 million), which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with major bank and financial institution counterparties.

Investments

The Company limits its exposure to credit risk by investing only in liquid debt securities and only major bank and financial institution counterparties. Management does not expect any counterparty to fail to meet its obligations.

(b) Liquidity risk

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

The following table of financial obligations shows the timing of cash outflows relative to trade and other payables, loans and borrowings, dividend payable and current tax liabilities as at December 31, 2012:

000's of dollars	Total	Next 12 months	1-3 years	4-5 years	After 5 years
Trade and other payables	\$38,402	\$38,402	\$ -	\$ -	\$ -
Loans and borrowings	5,613	2,138	3,354	121	-
Dividend payable	9,294	9,294	-	-	-
	\$53,309	\$49,834	\$3,354	\$121	\$ -

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

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potential impact of extreme circumstances that cannot reasonably be predicted. In addition, the Company maintains the following lines of credit:

- \$15 million Operating Facility that can be drawn for the Company's general day-to-day operating requirements. Interest would be payable at the rate of prime plus 0.5% to 1.5%, dependent on certain financial ratios of the Company (December 31, 2011: prime plus 125 basis points).
- \$45 million Revolving Facility that can be drawn down to meet long-term financing needs. Interest on this facility would be payable at a rate of prime plus 0.5% to 1.5%, dependent on certain financial ratios of the Company (December 31, 2011: prime plus 125 basis points).

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

Currency Risk

The Company is exposed to currency risk on purchases that are denominated in United States Dollars (USD).

At this time, the Company does not buy and sell derivatives such as forward exchange contracts to manage currency risk as the Company's exposure to USD fluctuations is not significant.

The Company keeps foreign currency exposure to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term requirements.

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 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.

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The debt to capitalization ratios were as follows:

000's of dollars, except ratios	December 31, 2012	December 31, 2011
Debt, net of cash	-	-
Shareholders' equity (net of intangible assets)	\$337,457	\$313,660
Capitalization	\$337,457	\$313,660
Debt to Capitalization ratio	-	-

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

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

The Company is required to maintain a ratio of funded debt to profit (loss) before income tax, plus depreciation and amortization, plus finance costs, plus share-based payment transactions that does not exceed 3.0 to 1.0, calculated as at the end of each fiscal quarter.

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

The Company's ratio of profit (loss) before income taxes, plus depreciation and amortization, finance costs, plus share-based payment transactions to total debt service obligations is calculated on an annual basis on December 31 of each year, and cannot be less than 1.25 to 1.00.

As at December 31, 2012, the Company is in compliance with each of the above financial covenants.

5. Cost of Services:

Cost of services for the year ended December 31, 2012 is detailed as follows:

000's of dollars	Year Ended December 31,	
	2012	2011
Employee benefits expense	\$69,079	\$57,091
Depreciation of equipment	28,693	21,148
Operating expense	158,071	139,845
	\$255,843	\$218,084

During the year ended December 31, 2012, inventories recognized as cost of services amounted to \$85,883 (2011: \$79,285).

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6. Administrative Expenses:

Administrative expenses for the year ended December 31, 2012 are detailed as follows:

000's of dollars	Year Ended December 31	
	2012	2011
Employee benefits expense	\$12,244	\$11,453
Depreciation of equipment	1,242	1,140
Amortization of intangibles	89	89
Share – based payment transactions	3,384	3,880
Other administration expenses	6,129	7,040
	<u>\$23,088</u>	<u>\$23,602</u>

7. Compensation of Key Management Personnel:

000's of dollars	Year Ended December 31	
	2012	2011
Salaries, other benefits and directors fees	\$3,227	\$2,755
Share-based payments	1,595	2,355
	<u>\$4,822</u>	<u>\$5,110</u>

Key management personnel are comprised of the Company's directors and executive officers.

8. Income Tax Expense:

The Company's consolidated effective tax rate for the year ended December 31, 2012 was 25.9% (year ended December 31, 2011: 26.7%).

000's of dollars	2012	2011
Current tax expense:		
Current year	\$11,492	\$28,440
	<u>11,492</u>	<u>28,440</u>
Deferred tax expense:		
Origination and reversal of temporary differences	7,540	6,283
Change in unrecognized deductible temporary differences	-	(70)
	<u>7,540</u>	<u>6,213</u>
Total income tax expense	<u>\$19,032</u>	<u>\$34,653</u>

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Reconciliation of Effective Tax Rate

000's of dollars	2012	2012	2011	2011
Profit and comprehensive income for the year		\$54,409		\$95,270
Total income tax expense		19,032		34,653
Profit excluding income tax		73,441		129,923
Income tax using the Company's domestic tax rate	25.0%	18,360	26.5%	34,430
Reduction in tax rate	-	-	(0.2%)	(315)
Non-deductible expenses	1.2%	913	0.5%	708
Under (over) provided in prior periods	(0.3%)	(241)	(0.1%)	(170)
	25.9%	\$19,032	26.7%	\$34,653

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9. Property and equipment:

000's of dollars	Land	Office, Shop & Yard	Field Equipment	Automotive	Office Equipment & Leaseholds	Total
Cost:						
Balance at January 1, 2011	\$5,670	\$10,645	\$161,858	\$41,454	\$3,927	\$223,554
Additions:						
Owned	3,376	3,452	72,213	21,251	902	101,194
Finance leases	-	-	-	3,685	177	3,862
Disposals	-	-	-	(850)	-	(850)
Balance at Dec 31, 2011	\$9,046	\$14,097	\$234,071	\$65,540	\$5,006	\$327,760
Additions:						
Owned	294	6,929	47,613	14,605	499	69,940
Finance leases	-	-	-	2,662	96	2,758
Disposals	-	-	-	(1,483)	(36)	(1,519)
Balance at Dec 31, 2012	\$9,340	\$21,026	\$281,684	\$81,324	\$5,565	\$398,939
Depreciation:						
Balance at January 1, 2011	\$ -	\$1,751	\$32,267	\$12,294	\$1,944	\$48,256
Depreciation for the year	-	503	14,642	6,505	638	22,288
Disposals	-	-	-	(402)	(52)	(454)
Balance at Dec 31, 2011	\$ -	\$2,254	\$46,909	\$18,397	\$2,530	\$70,090
Depreciation for the year	-	669	19,484	9,079	702	29,934
Disposals	-	-	-	(772)	(29)	(801)
Balance at Dec 31, 2012	\$ -	\$2,923	\$66,393	\$26,704	\$3,203	\$99,223
Carrying amounts:						
At December 31, 2011	9,046	11,843	187,162	47,143	2,476	257,670
At December 31, 2012	9,340	18,103	215,291	54,620	2,362	299,716

Property and Equipment Under Construction

As at December 31, 2012, costs incurred on field and automotive equipment and facilities under construction totaled \$48,945 (2011: \$37,565).

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Change in Estimates

During the year, the Company reviewed expected usage of certain items of property and equipment. Management revised estimates and underlying assumptions on certain equipment. One of the components of fracturing equipment, which management previously expected to dispose of after five years of use, is now expected to last two years from the date of purchase, another that was expected to last fifteen years is now expected to last ten years and one of the components that had a salvage value of twenty percent now has a salvage value of thirty percent. The effect of these changes on depreciation expense, recognized in cost of sales, in current and future periods is as follows:

000's of dollars	2012	2013	2014	2015	2016
Increase in depreciation expense	\$657	\$728	\$196	\$(27)	\$12

Leased equipment

Property and equipment includes leased assets as the Company leases equipment under a number of finance lease agreements. The leased equipment secures lease obligations (see note 12). As at December 31, 2012, the net carrying amount of the leased equipment was \$5,509 (December 31, 2011: \$5,320).

10. Intangible Assets:

For the year ended December 31, 2012, the Company incurred \$NIL in intangible assets (2011: \$99). Intangible assets comprise intellectual properties with respect to proprietary light weight proppant (carrying value of \$174 as at December 31, 2012; carrying value of \$194 as at December 31, 2011) and a license to perform a patented stimulation technique in both horizontal and vertical wellbores (carrying value of \$144 as at December 31, 2012; \$213 as at December 31, 2011). As at December 31, 2012, the remaining amortization of the intangible assets is over 2 to 9 years.

11. Trade and other payables:

000's of dollars	December 31, 2012	December 31, 2011
Trade payables	\$25,541	\$44,552
Accrued expenses	8,980	10,159
Deferred share unit obligation	3,881	6,222
	\$38,402	\$60,933

The Company estimates that the carrying value of the trade and other payables approximate their fair value.

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12. Loans and borrowings:

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortized cost.

000's of dollars	Nominal Interest Rate	Year of Maturity	December 31	
			2012	2011
Current Liabilities:				
Secured equipment loans	5%	2013	\$8	\$21
Finance lease liabilities	6.0-9.3%	2013-2017	2,130	1,534
			\$2,138	\$1,555
Non-current liabilities:				
Finance lease liabilities	6.0-9.3%	2014-2017	\$3,475	3,530
			\$3,475	\$3,530

Effective May 31, 2012, the Company renewed its bank credit facilities, extending the term by a further year to May 31, 2015. The renewed facilities comprise an Operating Facility and a Revolving Facility.

The Operating Facility is a three year committed revolving facility up to a maximum of \$15 million, and bears interest, payable monthly, at the bank's prime lending rate plus 0.5% to 1.5%, dependent on certain financial ratios of the Company. As at December 31, 2012, December 31, 2011, no amounts were drawn on the Operating Facility.

The Revolving Facility is a three year committed revolving facility up to a maximum of \$45 million, and bears interest, payable monthly, at the bank's prime lending rate plus 0.5% to 1.5%, dependent on certain financial ratios of the Company. As at December 31, 2012 and December 31, 2011, no amounts were drawn on the Revolving Facility.

Security for the Operating Facility and the Revolving Facility is provided by a general security over all of the Company's assets.

The Company is bound by certain financial covenants as described in Note 4 and non-financial covenants. The Company was in compliance with the terms of the lending agreements as at December 31, 2012 and December 31, 2011.

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13. Deferred tax assets and liabilities:

Recognized Deferred Tax Assets and Liabilities

000's of dollars	Assets		Liabilities		Net	
	2012	2011	2012	2011	2012	2011
Property and equipment	\$-	\$ -	\$17,977	\$11,007	\$17,977	\$11,007
Intangible assets	(23)	(12)	-	-	(23)	(12)
Loans and borrowings	(1,401)	(1,266)	-	-	(1,401)	(1,266)
Share-based payment transactions	(970)	(1,555)	-	-	(970)	(1,555)
Share issue costs	(409)	(685)	-	-	(409)	(685)
Tax loss carry-forwards	(145)	-	-	-	(145)	-
	(2,948)	\$(3,518)	\$17,977	\$11,007	\$15,029	\$7,489

Movement in Deferred Tax Balances During the Year

000's of dollars	Balance	Recognized	Balance	Recognized	Balance
	Jan. 1, 2011	in profit or loss	Dec. 31, 2011	in profit or loss	Dec. 31, 2012
Property and equipment	\$4,045	\$6,962	\$11,007	\$6,970	\$17,977
Intangible assets	(2)	(10)	(12)	(11)	(23)
Loans and borrowings	(597)	(669)	(1,266)	(135)	(1,401)
Share-based payment transactions	(1,193)	(362)	(1,555)	585	(970)
Tax loss carry-forwards	-	-	-	(145)	(145)
Share issue costs	(977)	292	(685)	276	(409)
	\$1,276	\$6,213	\$7,489	\$7,540	\$15,029

As at December 31, 2012, deferred tax assets are based on a rate of 25% and total \$2,948 (December 31, 2011: \$3,518). Deferred tax assets mainly comprise amounts deductible for tax purposes in future periods in respect of: (i) amounts resulting from the recording of finance lease obligations; (ii) amounts included in trade and other payables in respect of the Company's Share Appreciation Rights; and (iii) expenses associated with the issuance of common shares in 2009 and 2010. The deferred tax liabilities of \$17,977 as at December 31, 2012 (2011: \$11,007) which are based on a rate of 25% comprise the difference between the carrying amount of property and equipment and the underlying value for tax purposes.

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14. Capital and reserves:

The Company is authorized to issue an unlimited number of no par value common shares.

Share capital, warrants and contributed surplus

000's of shares	Common Shares	
	Year Ended December 31,	
	2012	2011
Common shares issued as at January 1	60,995	60,369
Exercise of share options	426	495
Exercise of warrants	425	84
Conversion of incentive based units	-	47
Common shares issued as at December 31	61,846	60,995

Issuance of common shares

The above includes 213 common shares issued during the year ended December 31, 2012 (2011: 135) as a result of the exercise of vested options arising from the share purchase option plan granted to key management personnel. Options were exercised throughout the year at an average per share price of \$2.57 (2011: \$1.54). All issued shares are fully paid.

Common shares

The holders of common shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

Dividends

During the year ended December 31, 2012, the Company paid total dividends of \$31,438 (2011: \$6,065), or a total of \$0.5125 per common share in payments.

On December 18, 2012, the Company declared a quarterly dividend of \$0.15 per common share payable January 25, 2013.

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15. Share-based payments:

Description of the share-based payment arrangements

As at December 31, 2012 the Company has the following share-based payment arrangements:

(a) Share Purchase Option Plan:

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% 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, 2012 was \$3.48 (2011: \$4.27) based on the date of grant valuation using the Black-Scholes option pricing model. Stock-based compensation of \$2,557 has been recorded for the year ended December 31, 2012 (2011: \$2,198).

A summary of the status of the Company's stock option plan as at December 31, 2012 and December 31, 2011 and changes during the periods then ended is presented below:

000's of options	Options Outstanding	Range of Exercise Price	Weighted Average Exercise Price
Outstanding as at January 1, 2011	2,190	\$ 0.78 – \$11.41	\$ 2.79
Granted	863	\$10.09 – \$15.54	\$12.03
Exercised	(495)	\$ 0.78 – \$ 4.31	\$ 1.54
Forfeited	(107)	\$ 2.43 – \$ 15.11	\$ 7.78
Outstanding as at December 31, 2011	2,451	\$ 0.78 – \$ 15.54	\$ 6.07
Granted	867	\$ 9.29 – \$ 14.35	\$ 12.21
Exercised	(426)	\$ 0.78 – \$ 11.64	\$ 2.57
Forfeited	(229)	\$ 2.43 – \$ 13.86	\$ 10.82
Outstanding as at December 31, 2012	2,663	\$ 0.78 – \$ 15.54	\$ 8.22
Exercisable as at December 31, 2012	1,017	\$ 0.78 – \$ 15.54	\$ 5.03

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For the share options outstanding as at December 31, 2012, the following additional information is provided:

000's of options	Options Outstanding	Range of Exercise Price	Weighted Average Exercise Price
	293	\$0.78 – \$2.15	\$ 1.46
	612	\$2.43 – \$4.20	\$ 2.57
	763	\$4.97 – \$11.66	\$ 9.61
	995	\$11.69 – \$15.54	\$12.63
	2,663	\$0.78 – \$15.54	\$ 5.03

For the share options outstanding as at December 31, 2012, the weighted average remaining contracted life is 3 years.

(b) Stock-Based Compensation Plan:

(Number of incentive based units in thousands)

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. Issued incentive based units 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 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, 2012, there were 103 incentive based units granted to directors of the Company. There were NIL incentive based units converted into common shares of the Company by directors during the year ended December 31, 2012 and NIL incentive based units were forfeited. The compensation cost to the Company for the year ended December 31, 2012 was \$870 (2011: \$76). As at December 31, 2012, there were 276 incentive based units outstanding (173 as at December 31, 2011).

(c) Share Appreciation Rights (cash settled):

(Number of units in thousands)

In August, 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 units with base values varying between \$5.00 and \$8.65 per unit. Effective February, 2009, the term was extended, the number of units granted was modified to 600 and the base values were modified to between

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\$1.25 and \$2.00 per unit in response to market conditions. Under the plan, 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 term of the plan is 5 years, expiring on February 14, 2014. The deferred share units vested as to one-third on each of the anniversary dates, February 11, 2010, 2011 and 2012. The deferred share units obligation of \$3,881 as at December 31, 2012 (December 31, 2011: \$6,222) is recorded as a liability in trade and other payables and revalued at each reporting period. In the year ended December 31, 2012, the Company recorded a reduction in compensation costs of \$43 (2011: increase of \$1,344) related to the outstanding deferred share units, and included a cash payment of \$2,298 (2011: NIL) for the exercise of 200,000 deferred share units on April 11, 2012. The deferred share units were exercised at a value equal to the difference between the market price of the Company's common shares and the base value of \$1.25 per unit.

(d) Warrants:

(Number of warrants in thousands)

In connection with the purchase of intangible assets in February 2007, the Company issued 125 warrants. The warrants entitled the holder to purchase common shares of the Company at an exercise price of \$1.20 per share, were exercisable over a three year period and expired in November 2011. On March 3, 2011, 42 warrants were exercised for proceeds of \$50 and on October 18, 2011, 42 warrants were exercised for proceeds of \$50. Upon exercise of the warrants, \$191 was reclassified from warrants to capital stock. As at December 31, 2012 and 2011, there were no warrants outstanding.

Upon acceptance of the Company's offer of employment, the President was granted 425 warrants valued at \$712 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 expired in August 2012. Stock-based compensation has been recorded over the three year vesting period and NIL has been recorded in the year ended December 31, 2012 (2011: NIL). The outstanding 425 warrants were exercised in full in 2012 for proceeds of \$1,700. Upon exercise of the warrants, \$712 was reclassified from contributed surplus to share capital.

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(e) Inputs for measurement of grant date fair values

The grant date fair value of the share based payment plans was measured based on the Black-Scholes formula. Expected volatility is estimated by considering historic average share price volatility. The inputs used in the measurement of the fair values at grant date of the share-based payment plans during the years ended December 31, 2012 and 2011 are the following:

Share Purchase Option Plan	Key management personnel		Senior/other employees	
	2012	2011	2012	2011
Fair value of share options and assumptions:				
Fair value at grant date (weighted average)	\$3.86	\$4.55	\$3.33	\$4.20
Share price at grant date (weighted average)	\$12.73	\$11.64	\$12.00	\$12.13
Exercise price	\$12.73	\$11.64	\$12.00	\$12.13
Expected volatility (weighted average)	54.0%	50.7%	54%	50.4%
Option life (expected weighted average life)	2.5 years	4.0 years	2.5 years	3.3 years
Expected dividends (weighted average)	2.1%	0.9%	4.0%	0.9%
Risk-free interest rate (weighted average)	1.0%	2.4%	1.1%	1.8%
Forfeiture rate	5.3%	5.3%	5.3%	5.3%

16. Leases:

Non-cancellable operating lease rentals are payable as follows:

000's of dollars	December 31	
	2012	2011
Less than one year	\$1,330	\$1,562
Between one and five years	4,636	4,927
More than five years	340	1,412
	\$6,306	\$7,901

The Company leases a number of offices and warehouse facilities under operating leases. The leases typically run for a period of three to seven years, with an option to renew the lease after that date.

CANYON SERVICES GROUP INC.

Notes to the consolidated financial statements

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Finance lease liabilities are payable as follows:

000's of dollars	December 31, 2012			December 31, 2011		
	Future Minimum lease payments	Interest	Present value of minimum lease payments	Future Minimum lease payments	Interest	Present value of minimum lease payments
One Year	\$2,130	\$383	\$2,513	\$1,680	\$360	\$2,039
Two to five years	3,475	316	3,791	3,385	335	3,721
	\$5,605	\$699	\$6,304	\$5,065	\$695	\$5,760

17. Capital commitments:

As at December 31, 2012 the Company has commitments to purchase property and equipment for \$10 million (as at December 31, 2011: \$66 million).