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PRODUCTION ENHANCEMENT GROUP, INC.

TSX:WIS

**Production Enhancement Group, Inc.
Interim Consolidated Financial
Statements**

For the three and six months ended
June 30, 2008 and 2007
(Unaudited – prepared by management)
(Stated in United States dollars)

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Notice of No Auditor Review of Interim Consolidated Financial Statements

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited consolidated financial statements for the three and six months ended June 30, 2008 and 2007.

Production Enhancement Group, Inc.
Consolidated Balance Sheets
(Stated in United States dollars)
(Unaudited)

	June 30, 2008	December 31, 2007
ASSETS		
Current		
Cash	\$ 2,152,787	\$ 1,686,643
Restricted cash	-	3,238,318
Accounts receivable	9,108,783	7,571,773
Inventory (Note 6)	621,717	339,910
Prepaid expenses	891,654	1,322,974
Assets held for sale	-	3,808,927
	12,774,941	17,968,545
Equipment & lease deposits	460,001	444,126
Assets held for sale (Note 7)	240,588	240,588
Property and equipment (Note 7)	35,036,274	33,875,755
Intangible assets	702,057	802,204
Prepaid expense-long term portion	119,628	77,465
Goodwill	1,644,748	1,344,748
	\$ 50,978,237	\$ 54,753,431
Liabilities and Shareholders' Equity		
Current		
Accounts payable and accrued liabilities	\$ 6,428,763	\$ 6,750,600
Accrued liabilities discontinued operations	-	212,057
Dividend payable	-	39,902
Notes payable (Note 9)	274,728	812,609
Current maturities of long term debt	-	1,546,875
Debt (Note 10)	36,103,821	-
Reclassification of long-term debt	-	45,478,679
	42,807,312	54,840,722
Shareholders' Equity		
Share capital (Note 11 (a))	43,560,109	22,356,051
Contributed surplus (Note 11 (b))	4,295,748	3,719,837
Retained earnings (deficit)	(39,684,932)	(26,163,179)
	8,170,925	(87,291)
	\$ 50,978,237	\$ 54,753,431
The accompanying notes are an integral part of the unaudited interim consolidated financial statements.		
Approved by the Board		
(signed "Joseph P. Lahey") Joseph P. Lahey, CEO		(signed "K. Dean Zipse") K. Dean Zipse, Director

Production Enhancement Group, Inc.
Consolidated Statements of Loss,
Comprehensive Loss and Retained Earnings (Deficit)
(Stated in United States dollars)
(Unaudited)

	For the Three Months Ended,		For the Six Months Ended,	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Revenue	\$ 10,073,460	\$ 8,624,817	\$ 18,190,173	\$ 16,456,992
Expenses				
Cost of services	7,090,172	4,884,290	13,344,728	9,028,013
Selling, general and administrative	4,627,442	3,170,279	7,204,248	6,113,052
Interest and financing costs	6,135,498	683,451	8,044,457	1,189,559
Amortization of property, equipment and intangibles	1,506,932	1,036,671	2,860,021	1,806,064
Loss on disposal of assets	19,442	-	177,695	-
Restructuring cost recovery (Note 14)	(338,737)	-	(338,737)	-
	19,040,749	9,774,691	31,292,412	18,136,688
Loss before income taxes	(8,967,289)	(1,149,874)	(13,102,239)	(1,679,696)
Income tax expense	77,267	-	77,267	-
Net loss from continuing operations	(9,044,556)	(1,149,874)	(13,179,506)	(1,679,696)
Discontinued Operations (Note 17), net of tax of \$0				
Loss from operations of WISE Alberta	-	(205,093)	-	(205,093)
Loss on discontinued operations of WISE Alberta	(36,321)	-	(158,064)	-
Net loss and comprehensive loss	(9,080,877)	(1,354,967)	(13,337,570)	(1,884,789)
Retained earnings (deficit), beginning of period	(30,544,369)	(6,602,871)	(26,163,179)	(6,044,556)
Dividends	(59,686)	(99,726)	(184,183)	(128,219)
Deficit, end of period	\$ (39,684,932)	\$ (8,057,564)	\$ (39,684,932)	\$ (8,057,564)
Loss per share from continuing operations -				
Basic and dilutive	(0.12)	(0.02)	(0.19)	(0.03)
Loss per share from discontinued operations -				
Basic and dilutive	0.00	0.00	0.00	0.00
Loss per share -				
Basic and dilutive	(0.12)	(0.02)	(0.18)	(0.03)
Weighted average number of shares outstanding -				
Basic and dilutive	73,338,300	56,185,200	69,869,214	56,541,903
The accompanying notes are an integral part of the unaudited interim consolidated financial statements.				

Production Enhancement Group, Inc.
Consolidated Statements of Cash Flows
(Stated in United States dollars)
(Unaudited)

	For the Three Months Ended,		For the Six Months Ended,	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Net loss from continuing operations	\$ (9,044,556)	\$ (1,149,874)	\$ (13,179,506)	\$ (1,679,696)
Cash flows from operating activities				
Non cash items				
Non cash financing costs	400,302	199,134	537,153	337,037
Amortization of property, equipment and intangibles	1,506,932	1,096,444	2,860,021	1,865,837
Stock based compensation	154,529	183,173	255,610	363,128
Loss on disposal of asset	19,442	-	177,695	-
Prepaid Expense - long-term portion	(8,215)	-	(42,163)	-
Deposits	(18,863)	-	(16,609)	-
	(6,990,429)	328,877	(9,407,799)	886,306
Changes in non cash working capital items (Note 8 (a))	39,402,079	2,519,949	36,579,374	1,234,066
Cash flows from continuing operating activities	32,411,650	2,848,826	27,171,575	2,120,372
Net income (loss) from discontinued operations (Note 17)	(36,321)	(205,093)	(158,064)	(205,093)
Deposits	165	-	734	-
	(36,156)	(205,093)	(157,330)	(205,093)
Changes in non-cash working capital from discontinued operations (Note 8 (b))	(12,933)	(156,512)	(164,673)	(156,512)
Cash flows from discontinued operations	(49,089)	(361,605)	(322,003)	(361,605)
Cash flows from financing activities				
Proceeds preferred stock offering-net of costs	-	538,237	-	5,000,000
Proceeds from Quest takeover-net of costs	20,511,555	-	20,511,555	-
Deferred charges paid	-	(666,070)	-	(935,293)
Dividends Paid	(103,039)	-	(103,041)	-
Proceeds from long-term debt	3,000,000	3,260,259	3,000,000	9,672,022
Repayment of long term debt	(52,085,999)	(810,556)	(52,085,999)	(1,310,556)
Repayment of capital lease obligations	-	(19,502)	-	(25,974)
	(28,677,483)	2,302,368	(28,677,485)	12,400,199
Cash flows from continuing investing				
Restricted cash	446,391	-	3,238,318	-
Acquisition of Wireline, net of cash acquired and costs	-	20,517	-	(6,853,874)
Acquisition of DynaStar, net of cash acquired and costs	-	(1,893,641)	-	(1,893,641)
Additions property and equipment	(2,685,953)	(4,875,004)	(4,544,261)	(6,255,555)
Proceeds from disposal of assets	-	-	3,600,000	-
	(2,239,562)	(6,748,128)	2,294,057	(15,003,070)
Increase in cash	1,445,516	(1,958,539)	466,144	(844,104)
Cash, beginning of period	707,271	2,180,080	1,686,643	1,065,645
Cash, end of period	\$ 2,152,787	\$ 221,541	\$ 2,152,787	\$ 221,541
Supplemental information				
Interest paid	\$ 4,011,766	\$ 396,730	\$ 7,566,290	\$ 716,061
Taxes paid	-	-	-	-

The accompanying notes are an integral part of the unaudited interim consolidated financial statements.

Production Enhancement Group, Inc.
Notes to the Interim Consolidated Financial Statements
For the three and six months ended June 30, 2008 and 2007
Unaudited
(Stated in United States Dollars)

1. Nature of Business

Production Enhancement Group, Inc. (the "Company" or "PEG") and its wholly owned subsidiaries, WISE Well Intervention Services, Inc., a Nevada corporation ("WWIS"), WISE Well Intervention Technologies, Inc. ("WWIT"), a Texas corporation and 1314235 Alberta Ltd, which in turn owns one hundred percent (100%) of WISE Well Intervention Services, Inc, an Alberta corporation (formerly Dyna Star Energy Services Ltd.)("WISE Alberta"), provide oil and natural gas well services. WWIS provides specialized coiled tubing, pressure pumping, nitrogen, downhole tools and wireline services to oil and gas producers and operators in Texas, Louisiana, Mississippi and Belize and in the inland and offshore waters of the Gulf of Mexico. WISE Alberta provided coiled tubing services to western Canada and its operations were terminated in December 2007 (Note 17). WWIT was incorporated on August 9, 2007 to commercialize the Company's proprietary technology, but it has not had any significant operations to date.

2. Basis of Presentation

These interim unaudited consolidated financial statements were prepared using accounting policies consistent with those used in preparation of the audited consolidated financial statements for the years ended December 31, 2007 and 2006. These interim unaudited consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). Certain information and disclosures normally required to be included in the notes to annual financial statements have been condensed or omitted. Since the determination of many assets, liabilities, revenues and expenses is dependent upon future events, the preparation of these financial statements requires the use of estimates and assumptions. In the opinion of management, these financial statements have been prepared within reasonable limits of materiality.

The Company's unaudited consolidated financial statements for the three and six months ended June 30, 2008 have been prepared on a going concern basis which contemplates the realization of assets and settlement of liabilities in the normal course of operations. The Company reported a significant working capital deficit due to the restructuring of its long term credit facility (Note 10) and a net loss of \$9,080,877 and \$13,337,570 for the three and six months ended June 30, 2008.

All amounts are stated in United States dollars, unless otherwise noted by CAD for Canadian dollars.

Certain reclassifications have been made to previous presentations to conform to the June 30, 2008 financial statements.

3. Changes in Accounting Policies

As at January 1, 2008, the Company adopted four new Handbook sections issued by the Canadian Institute of Chartered Accountants ("CICA").

(a) Capital Disclosures

CICA Handbook Section 1535, *Capital Disclosures*, requires disclosure of an entity's objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital and whether the entity has complied with any capital requirements and, if it has not complied, the consequences of such non-compliance. The Company has determined that the only impact is the disclosure contained in Note 16.

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(b) Inventories

CICA Handbook Section 3031, *Inventories*, replaces the existing Section 3030 and contains requirements on measurement and disclosure of inventories to converge with International Financial Reporting Standards. This standard establishes guidance on the determination of costs and its subsequent recognition as an expense, including any write down to net realizable value and subsequent reversal of impairment to original cost. It also provides guidance on the cost formulas that are used to assign costs to inventories. The Company has determined that there is no material impact on its consolidated financial statements as the existing policies were in compliance with the revised standard.

(c) Financial Instruments Disclosures and Presentation

CICA Handbook Section 3862, *Financial Instruments – Disclosures* and CICA Handbook Section 3863, *Financial Instruments – Presentation*, increase the disclosures currently required that will enable users to evaluate the significance of financial instruments for an entity's financial position and performance, including disclosures about fair value. In addition, disclosure is required of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about liquidity risk and market risk. The quantitative disclosures must also include a sensitivity analysis for each type of market risk to which an entity is exposed, showing how net income and other comprehensive income would have been affected by reasonably possible changes in the relevant risk variable. The only significant effect on the Company's consolidated financial statements is the incremental disclosures in Note 15.

4. Change of Control

On April 18, 2008, Quest Energy Services (Canada) Ltd. ("Quest") offered to purchase all of the issued and outstanding common shares of the company including common shares issuable upon the exercise of stock options and warrants and on the conversion of the preferred shares (Note 11 (c)) for CAD \$0.65 per share ("the Offer"). The Board of Directors of PEG engaged a third party consultant to prepare a fairness opinion in relation to Quest's Offer and unanimously recommended acceptance of the Offer based on the opinion received. On June 6, 2008, Quest an indirect wholly owned subsidiary of Al-Qahtani Marine & Oilfield Services Co. ("Al-Qahtani") of Saudi Arabia successfully completed its acquisition of 51,046,166 common shares of the Company. In connection with the closing of Quest's Offer, the Company issued an additional 32,946,861 common shares to Quest at an issue price of CAD \$0.65 per share. Net proceeds were US \$21 million. Quest now owns 83,993,027 common shares of the Company representing approximately 82.7% of the issued and outstanding common shares of the Company. In addition, the Company's credit facility with its lender was required to be restructured upon closing of the Offer (Note 10).

The Company has recorded costs in the quarter associated with the takeover that include retention bonuses for key employees payable in December, 2008 and an employment contract payout to the former Chief Executive Officer.

5. Acquisition

On March 5, 2007, the Company purchased all of the shares of Wireline Specialists of Louisiana, Inc. ("WSL"). The Company assumed and refinanced WSL's existing debt of \$2,920,428 and paid net consideration to the selling shareholders of \$3,078,355 in cash, transaction costs of \$118,040 and an initial 1,234,739 PEG common shares ("Common Shares") subject to repricing at the first anniversary date. The acquisition was accounted for using the purchase method with the results of operations of WSL being included in the consolidated financial statements beginning March 1, 2007. The Company Common Shares were valued at CAD \$1.29, such value being the volume weighted average trading day price of the Company's stock five days before and after the date of September 22, 2006.

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On March 5, 2008, the number of Common Shares issuable pursuant to the acquisition of WSL was adjusted per the Wireline Agreement. The repricing of Common Shares was based on the value of the volume weighted average closing price during the twenty consecutive trading days that preceded the first anniversary of the closing date of March 5, 2007. An additional 4,321,507 Common Shares issued in March 2008 were based on the repricing of the original 1,234,739 Common Shares from \$1.72 (CAD \$2.00) to \$0.3828 (CAD \$0.3828) per share.

On May 9, 2008, the Company reached a settlement with the former owners of WSL in connection with the earn-out provision of the Wireline Agreement pursuant to which an additional 461,538 Common Shares were issued to the former owners of Wireline. The shares were valued at CAD \$0.65.

The purchase allocations are as follows:

Net assets acquired:		
Cash	\$	38,966 *
Non-cash working capital		1,063,125
Capital assets and deposits		4,582,696
Intangibles		765,745
Goodwill		1,226,736
Capital Lease		(18,541)
Long-term debt		(2,920,428) *
	\$	<u>4,738,299</u>
Consideration:		
Common shares issued at closing, net of costs	\$	1,541,904
Cash		3,196,395 *
	\$	<u>4,738,299</u>
* Net cash affect of acquisition	\$	<u>(6,077,857)</u>

6. Inventory

Inventories are valued at the lower of cost or net realizable value. Cost is determined by the weighted average cost method. Inventory is composed of coil tubing and chains, chemicals, wire and tools. The following table represents the carrying amount of inventory by classification as at June 30, 2008 and December 31, 2007.

Category	June 30, 2008	December 31, 2007
Tubing and Chains	\$ 429,196	\$ 194,240
Chemicals	137,061	145,670
Wire	13,289	-
Tools	42,171	-
	<u>\$ 621,717</u>	<u>\$ 339,910</u>

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The following table represents the recognized expense by classification for the three and six months ended June 30, 2008 and 2007.

Category	Three Months Ended,		Six Months Ended,	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Tubing & Chain	\$ 243,922	\$ 282,250	\$ 439,938	\$ 478,067
Chemical	184,861	119,708	344,496	290,732
Wire	8,952	4,768	14,735	4,768
Tools	34,013	-	34,013	-
Chemical	89,138	-	89,138	-
	\$ 560,886	\$ 406,726	\$ 922,320	\$ 773,567

Inventories are pledged as securities for the Company's credit facility (Note 10). For the three and six months ended June 30, 2008 there was no write down of inventories to net realizable value required.

7. Property and Equipment

	June 30, 2008			December 31, 2007		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Software and equipment	\$ 1,451,090	\$ 949,097	\$ 501,993	\$ 1,404,121	\$ 574,156	\$ 829,965
Equipment	31,939,131	7,388,736	24,550,395	29,009,546	5,434,879	23,574,667
Furniture and fixtures	340,535	109,275	231,260	299,000	85,952	213,048
Vehicles	2,229,687	1,098,703	1,130,984	2,104,672	916,761	1,187,911
Leasehold improvements	120,088	22,701	97,387	85,617	15,898	69,719
Assets under construction	8,524,255	-	8,524,255	8,000,445	-	8,000,445
	\$ 44,604,786	\$ 9,568,512	\$ 35,036,274	\$ 40,903,401	\$ 7,027,646	\$ 33,875,755

Assets under construction consist of coil tubing and nitrogen units currently being constructed by the Company. These assets are not amortized until they become operational and are moved to the appropriate class of asset above.

Assets held for sale related to discontinued operations have been classified as non current assets net of impairment (Note 17).

8. Changes in Non-Cash Working Capital

(a) From Operations

	For the Three Months Ended,		For the Six Months Ended,	
	June 30 2008	June 30, 2007	June 30 2008	June 30, 2007
Accounts receivable	\$ (277,189)	\$ 238,210	\$ (1,612,906)	\$ (810,700)
Inventory	(121,241)	4,619	(281,807)	(169,127)
Prepaid expenses	150,537	(94,436)	394,760	219,605
Accounts payable and accrued liabilities	2,639,259	2,287,820	2,416,576	2,042,636
Notes payable	(182,578)	(9,113)	(510,835)	(190,084)
Current portion of long term liability	(1,546,875)	-	(1,546,875)	-
Debt	38,632,874	-	38,632,874	-
Interest payable	107,292	92,849	(912,413)	141,736
	\$ 39,402,079	\$ 2,519,949	\$ 36,579,374	\$ 1,234,066

Production Enhancement Group, Inc.
Notes to the Interim Consolidated Financial Statements
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(b) From Discontinued Operations

	For the Three Months Ended,		For the Six Months Ended,	
	June 30 2008	June 30, 2007	June 30 2008	June 30, 2007
Accounts receivable	\$ 6,302	\$ (82,854)	\$ 75,896	\$ (82,854)
Inventory	-	(24,518)	-	(24,518)
Prepaid expenses	36,100	(39,039)	36,560	(39,039)
Accounts payable and accrued liabilities	(28,131)	(46,559)	(38,026)	(46,559)
Accrued liabilities discontinued operations	(17,777)	-	(212,057)	-
Notes payable	(9,427)	36,458	(27,046)	36,458
	\$ (12,933)	\$ (156,512)	\$ (164,673)	\$ (156,512)

9. Notes Payable

Notes payable represents several notes on the Company's insurance policies and the short term portion of capital leases. All of the policies required a down payment and offer monthly payments from ten to eleven months. Interest rates range from 7% to 10% (effective rates - 7.22% to 10.46%).

The following table represents the details of the notes payable balance at June 30, 2008 and December 31, 2007.

	June 30, 2008	December 31, 2007
All remaining US policies	\$ 59,531	\$ 416,720
Umbrella	12,199	29,887
Workers compensation	146,120	328,770
Canadian policy	-	27,046
Belize policy	56,878	-
WL capital lease	-	1,765
A to Z capital lease	-	8,421
	\$ 274,728	\$ 812,609

10. Debt

As a result of the Offer (Note 4), the Company's credit facility has been restructured. The Company has made a principal payment of \$15 million and the maturity date of the aggregate outstanding principal amount of the debt is now June 6, 2009. The Company has the option to extend the maturity date for six months with an interest rate increase of 2% and the grant by the Company of an additional 500,000 warrants at CAD \$0.65. The lender has also amended the terms to permit pre-payment of the remaining principal balance of the obligations at no penalty. The Company has incurred a \$4 million restructuring fee, with \$2 million of such being paid at the closing of the restructuring and the remaining \$2 million due and payable upon the earlier of (a) the date the obligations owing under the agreement are paid or prepaid in full, or (b) the maturity date for the remaining aggregate outstanding principal amount of the obligations under the agreement as amended, being June 6, 2009. The restructured facility is for a total of \$40 million and borrowings under the facility bear interest at 14%, with the Company having the ability to pay 3% in kind. Payment in kind will result in an increase to the principal balance due. The effective interest rate is 14.93%. The facility is secured by all assets of the Company except the Company's accounts receivable.

The Company had originally entered into this credit facility with a major energy lending institution (the "Lender") on August 31, 2007 to provide a senior credit facility of \$70 million. This senior facility refinanced the pre-existing senior indebtedness and provided \$40 million in expansion financing for additional capital expenditures and working capital.

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As a result of the Offer (Note 4), the 8,236,436 warrants issued to the Lender in 2007 were cancelled and new warrants ("New Warrants") were issued to purchase up to 3,000,000 Common Shares at a fixed rate of CAD \$0.65 with a term of four years. The fair value of the New Warrants was estimated to be \$591,760 using the Black-Scholes model with the following assumptions: expected life of New Warrants four years; expected volatility of 41%; risk-free interest rate of 3.22%; and a zero dividend yield. The unamortized value of the original warrants has been recorded as a financing cost in the current period.

11. Equity Instruments

(a) Share Capital

(1) Authorized:

- Unlimited number of common voting shares.
- Unlimited number of Class B common convertible voting shares, convertible to common shares upon completion of initial public offering.
- Unlimited number of Class C convertible non-voting common shares, convertible at the option of the holder, upon 75 days prior notice to the Company, on the basis of one common share for each Class C share.
- Unlimited number of non-voting preferred shares issuable in series at terms as determined by the board of directors ("Board"), retractable by the Company.

(2) Common shares and warrants issued and outstanding:

	Number of Shares	Amount
Common Shares		
Balance, December 31, 2007	56,617,376	\$ 17,213,519
Additional shares issued pursuant to Wireline agreement	4,321,507	-
Balance, March 31, 2008	60,938,883	17,213,519
Shares issued for Wireline earnout settlement	461,538	300,000
Conversion of Preferred Stock	7,278,409	2,647,662
Shares issued to Quest, net of costs of \$488,445 (Note 4)	32,946,861	20,511,555
Balance, June 30, 2008	101,625,691	40,672,736
Preferred Stock		
Balance, December 31, 2007	6,975,800	2,526,618
Paid in kind dividends	302,609	121,044
Balance, March 31, 2008	7,278,409	2,647,662
Conversion to Common Shares	(7,278,409)	(2,647,662)
Balance, June 30, 2008	-	0
Warrants		
Balance, December 31, 2007	14,006,019	2,615,914
Balance, March 31, 2008	14,006,019	2,615,914
Lender warrants cancelled	(8,236,436)	(320,301)
Warrants issued to lender (Note 10)	3,000,000	591,760
Balance, June 30, 2008	8,769,583	2,887,373
Total		\$ 43,560,109

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(b) Contributed Surplus

Balance, December 31, 2007	\$ 3,719,837
Employee options	82,068
Board of Director options	16,672
Advisory Board options	2,341
Balance, March 31, 2008	3,820,918
Cancelled warrants	320,301
Employee options	144,421
Board of Director options	9,853
Advisory Board options	255
Balance, June 30, 2008	\$ 4,295,748

(c) Preferred Stock

All Preferred Shares were converted to Common Shares prior to the completion of the Quest Offer (Note 4).

(d) Stock Option Plan

The expense for the Stock Option Plan for the three and six month periods and the comparative periods was determined using the Black-Scholes option pricing model with the following assumptions: risk-free interest rates ranging from 3.0% to 4.0%; expected life of five years; no annual dividends paid; and expected volatility of 50%.

Compensation expense for stock options is recognized using the fair value when the stock options are granted and is amortized over the options' vesting period. During the three and six months ended June 30, 2008, \$154,529 and \$255,610 (2007 - \$183,173 and \$363,128) was recognized as compensation expense in the consolidated statements of loss with a corresponding increase in contributed surplus. As at June 30, 2008, 1,597,086 stock options were exercisable and the weighted average years to expiration were 3.85 years. The fair value of options granted during the three and six month period ending June 30, 2008 that were outstanding at June 30, 2008 was approximately \$117,968 and \$219,643 respectively or \$0.24 and \$0.12 per option respectively.

				Weighted Average Exercise Price					Weighted Average Exercise Price
		Share Options	Option Price			Share Options	Option Price		
Outstanding, December 31, 2007		4,555,000	C\$2.00	C\$2.00	December 31, 2006	4,542,500	C\$2.00	C\$2.00	
Granted		1,315,000	C\$0.62	C\$0.62	Granted	625,000	C\$2.00	C\$2.00	
Cancelled		(190,000)	C\$0.62	C\$0.62	Cancelled	-	C\$0.62	C\$0.62	
Cancelled		(225,000)	C\$2.00	C\$2.00	Cancelled	(125,000)	-	-	
Outstanding, March 31, 2008		5,455,000	C\$1.19	C\$1.19	March 31, 2007	5,042,500	C\$2.00	C\$2.00	
Granted		500,000	C\$0.62	C\$0.62	Granted	650,000	C\$2.00	C\$2.00	
Cancelled		(260,000)	C\$0.62	C\$0.62	Cancelled	-	C\$0.62	C\$0.62	
Cancelled		(279,165)	C\$2.00	C\$2.00	Cancelled	(1,297,500)	C\$0.62	C\$0.62	
Outstanding, June 30, 2008		5,415,835	C\$1.12	C\$1.12	June 30, 2007	4,395,000	C\$2.00	C\$2.00	
Exercisable at June 30, 2008		1,333,336	C\$2.00	C\$2.00	June 30, 2007	1,350,000	C\$2.00	C\$2.00	
Exercisable at June 30, 2008		263,750	C\$0.62	C\$0.62	June 30, 2007	-	C\$0.62	C\$0.62	

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The following table summarizes information about the stock options outstanding at June 30, 2008:

	Options Outstanding	Option Price	Wtd Avg Exercise Price	Wtd. Avg. Remaining Contractual Life (years)	Options Currently Exercisable	Wtd. Avg. Exercise Price of Options Currently Exercisable
		CAD	CAD			CAD
	1,183,335	\$2.00	\$2.00	2.80	1,066,669	\$2.00
	100,000	\$2.00	\$2.00	2.92	66,667	\$2.00
	130,000	\$2.00	\$2.00	3.30	65,000	\$2.00
	20,000	\$2.00	\$2.00	3.46	10,000	\$2.00
	12,500	\$2.00	\$2.00	3.65	12,500	\$2.00
	150,000	\$2.00	\$2.00	3.74	62,500	\$2.00
	150,000	\$2.00	\$2.00	3.89	50,000	\$2.00
	1,745,835	\$2.00	\$2.00	3.39	1,333,336	\$2.00
	120,000	\$0.62	\$0.62	2.80	80,000	\$0.62
	10,000	\$0.62	\$0.62	2.92	6,667	\$0.62
	10,000	\$0.62	\$0.62	3.17	6,667	\$0.62
	45,000	\$0.62	\$0.62	3.46	22,500	\$0.62
	35,000	\$0.62	\$0.62	3.65	14,584	\$0.62
	20,000	\$0.62	\$0.62	3.74	8,333	\$0.62
	75,000	\$0.62	\$0.62	3.89	24,999	\$0.62
	905,000	\$0.62	\$0.62	4.18	100,000	\$0.62
	500,000	\$0.62	\$0.62	4.25	-	\$0.62
	135,000	\$0.62	\$0.62	4.34	-	\$0.62
	10,000	\$0.62	\$0.62	4.37	-	\$0.62
	20,000	\$0.62	\$0.62	4.47	-	\$0.62
	285,000	\$0.62	\$0.62	4.55	-	\$0.62
	500,000	\$0.62	\$0.62	4.60	-	\$0.62
	500,000	\$0.62	\$0.62	4.66	-	\$0.62
	3,170,000	\$0.62	\$0.62	3.94	263,750	\$0.62
	250,000	\$0.65	\$0.65	4.82	-	\$0.65
	250,000	\$0.65	\$0.65	4.88	-	\$0.65
	500,000	\$0.65	\$0.65	4.85	-	\$0.65
Total	5,415,835				1,597,086	

12. Related Party Transactions

- (a) The Company previously entered into a consulting agreement in which a family member of a senior executive was paid nil and \$12,000 respectively during the three and six months ended June 30, 2008 (2007 - \$12,000 and \$24,000 respectively) for advisory board services. This agreement has been cancelled effective April 1, 2008.
- (b) Equipment purchases and equipment repairs of \$74,282 and \$796,474 were recorded during the three and six months ended June 30, 2008 respectively (2007 - \$1,698,077 and \$1,958,233 respectively) to two companies controlled by a former director. All transactions are competitive with arms-length third party charges. There was an outstanding balance at June 30, 2008 of \$2,607 (2007 - \$535,982). On June 6, 2008 the director resigned from the Board and no additional related party transactions are expected.

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- (c) The Company leases real property from a company controlled by a former board member of the Company. For the three and six months ended June 30, 2008, \$64,500 and \$129,000 respectively (2007 - \$54,500 and \$119,000 respectively) was recorded in lease payments. On June 6, 2008 the director resigned from the Board and no additional related party transactions are expected.

All of the above related party transactions are recorded at agreed to exchange amounts which reflect fair values.

13. Commitments

- (a) As at June 30, 2008, the Company has made deposits and progress payments in the amount of \$11,232,378 toward the purchase of equipment to be delivered in the third quarter of 2008. The total progress payments and balance due on delivery is estimated to be \$14,393,554 and will be funded by the credit facility with the Lender.
- (b) The Company has entered into several lease agreements with major fleet leasing companies for the lease of vehicles. The terms of the leases vary from 12 to 72 months and the monthly lease payments total \$78,216. The leases are structured as operating leases. As at June 30, 2008, the total deposits on operating leases is \$392,861. The Company has also entered into several lease agreements for the rental of real property.

The following table represents the future payments required by all of the Company's equipment and real property lease agreements:

2008	\$ 759,481
2009	1,421,516
2010	921,989
2011	415,906
2012	272,272
	<u>\$ 3,791,164</u>

- (c) The Company has agreed to reinstate the joint venture and the WISE™ technology license agreements with Al Qahtani for the purpose of conducting business within Saudi Arabia and in the other Gulf Cooperation countries, including Yemen, Iraq and their respective territorial waters.

14. Restructuring Cost Recovery

The Company has recognized a restructuring cost recovering of \$338,737. The Company was able to negotiate releases from two of its real property lease agreements that had been included in the 2007 restructuring estimate and the estimate reported for the CEO termination in October 2007 was adjusted to actual cost during the period.

15. Financial Instruments and Risk Management

The Company's activities expose it to a variety of financial risks with varying degrees of significance which could affect its ability to achieve its strategic objectives for growth and shareholder return. Risk management is the responsibility of the finance function and material risks are monitored and regularly discussed with the audit committee and the Board. The main financial risks affecting the Company are credit risk, market risk and liquidity risk.

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(a) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk arises primarily from its accounts receivables, which are typically unsecured. The objective of managing counterparty credit risk is to prevent losses relating to financial assets. This risk is generally limited due to the large base of customers and the dispersion across various geographic areas. The Company performs regular credit assessments of its customers and provides allowances for potentially uncollectible accounts receivable. The amounts disclosed in the balance sheet are net of these allowances for bad debt. Accounts receivables are considered for impairment on a case-by-case basis when they are past due or when objective evidence is received that a customer will default. Bad debt expense is recorded within selling, general and administrative expense. Two (December 2007 – two) customers accounted for 25% (December 2007 – 20%) of the outstanding receivable balance at June 30, 2008. The Company believes there is no unusual exposure associated with the collection of these receivables. No other single customer accounted for more than 10% (December 2007 - 10%) of consolidated receivables at June 30, 2008.

The following table demonstrates the outstanding customer balances for June 30, 2008 and December 31, 2007:

	June 30, 2008		December 31, 2007	
	% of Accounts receivable	Outstanding balance	% of Accounts receivable	Outstanding balance
Customer A	15%	\$ 1,257,541	11%	\$ 723,152
Customer B	10%	837,095	9%	600,608
Total	25%	\$ 2,094,636	20%	\$ 1,323,760

For the three and six months ended June 30, 2008 approximately 16% and 14% (2007- 11% and 13%) of the revenues were earned from one customer. No other customer accounted for more than 10% of revenue for the three and six months ended June 30, 2008 and one other customer accounted for 13% and 9% of revenue for the three and six month period ended June 30, 2007.

The Company's products and services are concentrated within the oil and natural gas industries. As a result of this industry focus, the Company's current and future financial performance is largely dependent upon the overall economic conditions within this industry. The Company is not able to predict with certainty the changes in the financial stability of its customers. Any material change in the financial status of any one or group of customers could have a material effect on the Company's results of operations, financial position or cash flows.

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The following table represents the details of the Company's aging of its receivables and the related allowance for doubtful accounts as at June 30, 2008:

Total accounts receivable	\$ 9,651,090
Less: Allowance for doubtful accounts	(542,307)
Total accounts receivable, net	\$ 9,108,783
Of which:	
Not overdue; under 30 days	\$ 4,549,768
Past due for more than one day but not more than three months	2,306,632
Past due for more than three months but not more than six months	1,778,907
Past due for more than six months but not more than one year	515,462
Past due for more than one year	500,321
Less: Allowance for doubtful accounts	(542,307)
Total accounts receivable, net	\$ 9,108,783

The Company reviews its accounts receivable for indicators of impairment on a quarterly basis and has recorded an allowance for doubtful accounts provision of \$542,307 (2007 – \$624,670). This impairment is primarily the result of customers who have filed bankruptcy or who are experiencing financial difficulties.

At June 30, 2008, a significant portion of the Company's cash was held at one financial institution.

The carrying value of accounts receivable approximates their fair value due to the relatively short periods to maturity on these assets. The maximum exposure to credit risk is represented by the net carrying value of financial assets.

(b) Market risk

Market risk is the risk that the fair value or future cash flows of the Company's financial instruments will fluctuate due to changes in market conditions. The primary financial risks to which the Company is exposed are interest rate risk and foreign currency risk:

(i) Interest rate risk

The Company's long term debt bears interest at a fixed rate; therefore, the Company is not exposed to significant interest rate risk.

(ii) Foreign currency risk

The Company incurs certain administrative costs in Canadian dollars and as such the Company has exposure to foreign currency rate fluctuation risk with regard to these expenses. At June 30, 2008, the Company had a net cash position of \$2,693 denominated in Canadian dollars. In addition, the Company shares are listed on a Canadian Exchange and as such the Company's equity financing are subject to foreign currency rate fluctuations. As these risks relate to the Canadian dollar, management does not believe these risks will have a significant impact on the Company's future operations. A \$0.01 increase in the Canadian / US exchange rate would reduce the cash flow of the Company by less than \$1,000. The Company considers this risk to be limited and therefore does not hedge its foreign exchange risk.

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(c) Liquidity risk

Liquidity risk includes the risk that the Company is not able to meet its financial obligations as they become due or can do so only at excessive cost. Management continuously monitors its operating cash, forecasts and capital expenditure program and adjustments are made as variables change. As these variables change, liquidity risks may require the Company to obtain additions to its credit facility or to issue additional equity instruments. The Company maintains an insurance program to minimize exposure from third party uninsured losses which also assists with reducing the Company's liquidity risk. The Company's objective in managing liquidity is to maintain sufficient and readily available reserves in order to meet its liquidity requirements at any time. Given the balances due in the next twelve months due to the restructure of the long term debt there is a risk that the Company may not be able to meet its obligations as they come due (Note 2).

16. Capital Risk Management

The Company's objective when managing its capital is to safeguard the Company's assets and its ability to continue as a going concern while at the same time maximizing the growth of its business in order to provide an adequate return for shareholders. Management defines its capital as shareholders' equity and debt, including current portion. The Company's financial strategy is formulated and adapted according to market conditions in order to maintain a flexible capital structure that is consistent with the Company's objective. In order to maintain or adjust its capital structure, the Company may refinance its existing debt, raise new debt, repurchase shares for cancellation pursuant to normal course issuer bids, issue new shares, or adjust the amounts of dividends paid in cash or in kind

The Company monitors capital using a number of financial metrics comprised mainly of the following ratios:

- Total debt principal and interest expense payments to Earnings Before Interest, Taxes, Depreciation and Amortization and Stock Options (EBITDAS); and
- Working capital

EBITDAS, a non-GAAP measure which does not have a standardized meaning prescribed by GAAP and therefore may not be comparable to similar measures presented by other issuers, is calculated as the sum of net earnings, plus interest on debt and balance of purchase price, other interest or income, income taxes, amortization of fixed assets, intangibles assets and other long-lived assets and stock option expense.

Total debt principal and interest expense payments to EBITDAS reflects the ability of the Company to meet its financial obligations associated with its debt by generating sufficient operating cash flow. A ratio in excess of 1 measures the ability of the Company to generate sufficient cash to pay its debt requirements.

Working capital is defined as current assets divided by current liabilities less any indebtedness owed to the Lender. Working capital ratio in excess of 1 measures the liquidity of the Company and the ability of the Company to meet its current obligations.

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17. Discontinued Operations

As a result of the Company's decision to restructure its operations and the continued depressed Canadian oil and gas market, the Board voted on November 5, 2007 to discontinue its operations in the western Canadian oilfield services market. The results of operation of the Canadian operations have been reported within discontinued operations of the accompanying financial statements and the June 30, 2007 statements have been restated to reflect the reporting of discontinued operations as these operations originated in the second quarter of 2007. During the three and six months ended June 30, 2008 the Company reported a \$36,321 and \$158,064 loss respectively (2007 – loss of \$205,093) from discontinued operations. The Company has recorded a liability for future costs associated with these discontinued operations of nil at June 30, 2008 (\$212,057 - December 31, 2007).

18. Contingencies

The Company is a defendant in several lawsuits arising from the normal course of business. Defense of these suits is in the preliminary stages and while no probable outcome can be determined at this time, management believes the Company will be successful in defending the claims. Accordingly, no estimated loss provision has been made in the accompanying financial statements.

19. Subsequent Events

The private placement of Common Shares in connection with the closing of Quest's Offer (Note 4) was successfully completed on July 14, 2008. The Company issued an additional 6,275,592 Common Shares to Quest and certain employees of PEG at an issue price of CAD \$0.65 per share. In total, Quest now owns 89,698,619 Common Shares of the Company representing approximately 83.1% of the issued and outstanding Common Shares of the Company (73.5% on a fully diluted basis).