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FOR THE PERIOD ENDED SEPT. 30, 2007



PRODUCTION ENHANCEMENT GROUP, INC.

TSX:WIS

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

For the interim three and nine month periods  
ended September 30, 2007 and 2006  
(Unaudited – prepared by management)  
(Stated in United States dollars)

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### Notice of No Auditor Review of Interim 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 financial statements for the three and nine months ended September 30, 2007.

**Production Enhancement Group, Inc.**  
**Consolidated Balance Sheet**  
**(Stated in United States dollars)**

	<b>September 30, 2007</b>	<b>December 31, 2006</b>
	<b>(unaudited)</b>	
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 11,672,452	\$ 1,065,645
Restricted cash	3,238,318	-
Accounts receivable	6,052,497	5,493,853
Inventory	492,260	165,220
Prepaid expenses	374,196	870,031
	<b>21,829,723</b>	<b>7,594,749</b>
Deferred charges (Note 9)	-	2,434,145
Equipment deposits	492,944	1,166,695
Property and equipment (Note 7)	36,371,889	19,501,575
Intangible assets (Note 8)	852,277	188,580
Future income taxes	714,732	714,732
Goodwill	882,771	418,012
	<b>\$ 61,144,336</b>	<b>\$ 32,018,488</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 3,565,082	\$ 3,881,948
Dividend payable (Note 12 (c))	263,046	-
Notes payable	126,023	424,271
Due to shareholder (Note 5 (b))	83,898	-
Current maturities of long term debt	-	3,412,008
	<b>4,038,049</b>	<b>7,718,227</b>
Long term debt (Note 11)	46,886,728	10,438,736
Accrued liabilities	-	1,000,000
	<b>50,924,777</b>	<b>19,156,963</b>
<b>Shareholders' Equity</b>		
Share capital (Note 12 (a))	22,013,724	17,178,516
Contributed surplus (Note 12 (b))	3,697,024	1,727,565
Retained earnings (deficit)	(15,491,189)	(6,044,556)
	<b>10,219,559</b>	<b>12,861,525</b>
	<b>\$ 61,144,336</b>	<b>\$ 32,018,488</b>

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

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

	For the Three Months Ended, September 30,		For the Nine Months Ended, September 30,	
	2007 (unaudited)	2006 (unaudited)	2007 (unaudited)	2006 (unaudited)
<b>Revenue</b>	\$ 6,598,486	\$ 5,780,183	\$ 23,200,408	\$ 14,185,132
<b>Expenses</b>				
Cost of services	5,594,737	3,418,568	14,856,131	8,500,908
Selling, general and administrative	3,188,162	2,768,877	9,354,675	6,918,485
Amortization of deferred charges	2,405,067	132,882	2,741,999	221,133
Amortization of property, equipment and intangibles	1,216,040	447,094	3,081,982	1,199,552
Interest	1,493,278	276,392	2,349,208	905,100
	<u>13,897,284</u>	<u>7,043,813</u>	<u>32,383,995</u>	<u>17,745,178</u>
<b>Loss before income taxes</b>	(7,298,798)	(1,263,630)	(9,183,587)	(3,560,046)
<b>Future income tax recovery</b>	-	-	-	(684,547)
<b>Net loss and comprehensive loss for the period</b>	(7,298,798)	(1,263,630)	(9,183,587)	(2,875,499)
Acquisition adjustment to deficit	-	(166,067)	-	(2,602,111)
<b>Retained earnings, beginning of period</b>	(8,057,564)	(3,249,811)	(6,044,556)	798,102
Dividends accrued (Note 12(c))	\$ (134,827)	-	(263,046)	-
<b>Deficit, end of period</b>	<u>\$ (15,491,189)</u>	<u>\$ (4,679,508)</u>	<u>\$ (15,491,189)</u>	<u>\$ (4,679,508)</u>
<b>Loss per share –</b>				
Basic & diluted	(0.13)	(0.02)	(0.16)	(0.05)
<b>Weighted average number of shares outstanding –</b>				
Basic & diluted	56,317,375	52,869,716	55,838,654	52,296,779

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

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

	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2007	2006	2007	2006
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
<b>Net income (loss) before non cash operating items</b>	\$ (7,298,798)	\$ (1,263,631)	\$ (9,183,587)	\$ (2,875,500)
<b>Cash flows from operating activities</b>				
Non cash items				
Amortization deferred costs	2,404,962	132,882	2,741,999	221,133
Amortization of property, equipment and intangibles	1,216,145	447,094	3,081,982	1,199,552
Stock based compensation	47,282	465,645	410,410	1,303,818
Gain/Loss on disposal of asset	-	1,229	-	1,229
Conversion of note & bridge notes to common shares	-	-	-	1,204,000
Warrants issued to lenders	-	3,764	-	1,559,049
Future tax recovery	-	-	-	(684,547)
	(3,630,409)	(213,017)	(2,949,196)	1,928,734
Changes in non cash working capital items (Note 10)	922,869	(1,199,675)	124,554	(353,954)
Cash flow from operating activities	(2,707,540)	(1,412,692)	(2,824,642)	1,574,780
<b>Cash flows from financing activities</b>				
Proceeds from IPO-net of costs	-	(10,825)	-	14,612,983
Proceeds preferred stock offering-net of costs	(519,846)	-	4,480,154	-
Deferred charges	(1,919,175)	(27,209)	(2,854,468)	(1,728,903)
Proceeds of factoring payable	-	-	-	(314,981)
Repayment of acquisition notes	-	-	-	(4,232,142)
Repayment of notes payable	(172,508)	(882,150)	(326,134)	(4,178,203)
Proceeds from long-term debt	53,315,126	2,189,900	62,987,148	12,483,223
Repayment of long term debt	(25,997,135)	(500,000)	(27,307,691)	(4,078,134)
Proceeds from capital lease obligations	-	-	-	508,344
Repayment of capital lease obligations	4,949	(5,604)	(21,025)	(1,082,730)
	24,711,411	764,112	36,957,984	11,989,457
<b>Cash flows from investing activities</b>				
Acquisition of Wireline, net of cash acquired (Note 5 (a))	(1,135,438)	-	(5,959,817)	-
Acquisition of DynaStar, net of cash acquired (Note 5(b))	171,052	-	(1,722,589)	-
Additions property and equipment - net of disposals	(6,327,609)	(2,857,360)	(12,583,164)	(10,419,965)
Additions in intangibles	(22,647)	-	(22,647)	-
Increase in equipment deposits	-	(427,214)	-	(427,214)
Cash acquired from acquisitions	-	(166,067)	-	238,506
	(7,314,642)	(3,450,641)	(20,288,217)	(10,608,673)
<b>Increase (decrease) in cash and restricted cash</b>	14,689,229	(4,099,221)	13,845,125	2,955,564
Cash, beginning of period	221,541	7,058,287	1,065,645	3,502
<b>Cash and restricted cash, end of period</b>	<b>\$ 14,910,770</b>	<b>\$ 2,959,066</b>	<b>\$ 14,910,770</b>	<b>\$ 2,959,066</b>
<b>Supplemental information</b>				
Interest paid	\$ 1,739,675	\$ 225,186	\$ 2,455,736	\$ 302,355
Taxes paid	-	-	-	-

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

**Production Enhancement Group, Inc.**  
**Notes to the Consolidated Financial Statements**  
**For the three and nine months ended September 30, 2007 and 2006**  
**Unaudited**  
**(Stated in United States Dollars)**

**1. Nature of Business**

The Company and its wholly owned subsidiaries, Wise Well Intervention Services, Inc., a Nevada corporation ("WWIS"), WISE Well Intervention Technologies, Inc. ("WWIT") 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 oilfield and natural gas well services. WWIS provides specialized coiled tubing, pressure pumping, nitrogen, and wireline services to oil and gas producers and operators in Texas, Louisiana, and Mississippi and in the offshore waters of the Gulf of Mexico. The WISE Alberta transaction closed on April 27, 2007 and provides coiled tubing services to western Canada. In anticipation of providing these services internationally, in April 2007, the Company signed a joint venture agreement with Al Qahtani Maritime & Oil Field Services Company to begin operations in Saudi Arabia with future expansion opportunities throughout the Middle East. WWIT was incorporated recently to commercialize the Company's proprietary technology in foreign markets, although it has not had any significant operations to date. The company is currently re-evaluating the joint venture arrangement.

**2. Basis of Presentation**

These interim financial statements were prepared using accounting policies consistent with those used in the preparation of the audited consolidated financial statements for the year ended December 31, 2006. These interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. 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.

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 September 30, 2007 financial statements.

**3. Significant Accounting Policies**

In addition to the accounting policies discussed in the annual consolidated financial statements dated December 31, 2006, the Company adopted the following new accounting policies during the period and they should be read in conjunction with that report.

a) Financial Instruments

Effective January 1, 2007, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants Handbook Section 1530, Comprehensive Income, Section 3855 and 3861, Financial Instruments, and Section 3865, Hedges.

These changes in accounting policy have been adopted retroactively without restatement.

These recommendations establish standards for recognizing and measuring financial instruments, which include financial assets, financial liabilities, derivatives and embedded derivatives. Under these recommendations, all financial instruments are to be recorded initially at fair value. In subsequent periods, all financial instruments are re-measured based on the classification adopted for the financial instrument: held-to-maturity, loans and receivables, held for trading, available-for-sale or other liability.

**Production Enhancement Group, Inc.**  
**Notes to the Consolidated Financial Statements**  
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**Financial Assets**

Held for trading

Financial assets that are held with the intention of generating profits in the near term and derivative contracts that are financial assets, except for a derivative that is a designated and effective hedging instrument, are classified as held for trading. In addition, any other financial assets can be designated by the Company upon initial recognition as held for trading. These instruments are subsequently re-measured at fair value with the change in the fair value recognized in net income during the period.

Held-to-maturity

Financial assets that have a fixed maturity date and which the Company has a positive intention and the ability to hold to maturity are classified as held-to-maturity, which are subsequently re-measured at amortized cost using the effective interest rate method.

Loans and receivables

Loans and receivables are non-derivative financial assets resulting from the delivery of cash or other assets in return for a promise to repay on a specified date, or on demand, usually with interest. Loans and receivables are subsequently re-measured at amortized cost using the effective interest rate method.

Available-for-sale

Available-for-sale assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. Financial assets classified as available-for-sale are subsequently re-measured at fair value with the changes in fair value recorded in other comprehensive income.

**Financial Liabilities**

Held for trading

Financial liabilities that are held with the intention of generating profits in the near term and derivative contracts that are financial liabilities, except for a derivative that is a designated and effective hedging instrument, are classified as held for trading. In addition, any other financial liabilities can be designated by the Company upon initial recognition as held for trading. These instruments are subsequently re-measured at fair value with the change in the fair value recognized in net income during the period.

Other liabilities

Non-derivative financial liabilities that have not been designated as held for trading are classified as other liabilities, which are subsequently re-measured at amortized cost using the effective interest rate method.

**Production Enhancement Group, Inc.**  
**Notes to the Consolidated Financial Statements**  
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The Company has classified its financial instruments as follows:

<u>Financial Instrument</u>	<u>Classification</u>
Cash and cash equivalents	Held for trading
Accounts receivable	Loans and receivable
Accounts payable and accrued liabilities	Other liabilities
Dividend payable	Other liabilities
Notes payable	Other liabilities
Due to Shareholder	Other liabilities
Long term Debt	Other liabilities
Accrued liabilities	Other liabilities

CICA Handbook Section 3865, Hedges, replaces CICA Handbook Accounting Guideline 13, Hedging Relationships, which establishes standards for when and how hedge accounting may be applied. Consistent with financial instruments, it requires that all derivatives, including those designated as hedges, be measured at fair value. Changes in the fair value of a derivative which hedges the Company's exposure to changes in the fair value of an asset or liability, a fair value hedge, are recognized in net income together with those of the respective offsetting hedged item. Changes in the fair value of a derivative which effectively hedges the Company's exposure to changing cash flows, a cash flow hedge, are accumulated in other comprehensive income until the transaction being hedged affects net income.

CICA Handbook Section 1530, Comprehensive Income, establishes new measurements of earnings in the financial statements. Other comprehensive income consists of changes to unrealized gains and losses on available-for-sale financial assets, changes to unrealized gains and losses on the effective portion of cash flow hedges and changes to foreign currency translation adjustments of self-sustaining foreign operations during the period. Comprehensive income measures net earnings for the period plus other comprehensive income. Amounts reported as other comprehensive income are accumulated in a separate component of shareholders' equity as Accumulated Other Comprehensive Income.

As a result of adopting these new recommendations as of January 1, 2007, the Company had no changes to its existing financial assets and liabilities, no changes to Retained Earnings, beginning of year and no Accumulated Other Comprehensive Income, except for a reclassification of transaction costs for an amount of \$2,613,272 previously shown separately on the balance sheet as Deferred Charges to the carrying amount of its related debt.

b) Accounting Changes

Effective January 1, 2007, the Company has adopted the new recommendations of the Canadian Institute of Chartered Accountants' Handbook Section 1506, Accounting Changes. Under these new recommendations, voluntary changes in accounting policy are permitted only when they result in the financial statements providing reliable and more relevant information, requires changes in accounting policy to be applied retrospectively unless doing so is impracticable, requires prior period errors to be corrected retrospectively and requires enhanced disclosures about the effects of changes in accounting policies, estimates and errors on the financial statements. These recommendations also require the disclosure of new primary sources of generally accepted accounting principles that have been issued but not yet effective.

**Production Enhancement Group, Inc.**  
**Notes to the Consolidated Financial Statements**  
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The impact that the adoption of this section will have on the Company's financial statements will depend on the nature of future accounting changes and the required additional disclosure on Recent Accounting Pronouncements is disclosed in Note 6.

c) Cash Flow Statements

Effective January 1, 2007, the Company has adopted the new recommendations of the Canadian Institute of Chartered Accountants' Handbook Section 1540, Cash Flow Statements, which has been amended to include disclosure of the extent to which cash distributions are non-discretionary. These requirements apply to all cash distributions on financial instruments classified as equity that are determined in accordance with a contractual agreement or relevant constating document. The Company does not expect the adoption of this standard to have a material impact on disclosure in its financial statements.

**4. Seasonality of Operations**

The Company's operations are carried out in the United States and Canada. Incremental weather can have a significant impact on the Company's ability to provide well intervention services in the affected areas. For example hurricanes typically affect the Company's business as crews and equipment are forced to evacuate manned platforms from the time the storms enter the Gulf of Mexico until they make landfall, disrupting revenues and adding costs of storm preparation and the potential risk of damage to equipment or injuries. Weather can also affect operations on land due to delays in projects, delays and increased costs of mobilization and other factors.

**5. Acquisitions**

(a) 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 approximately \$2.1 million and paid net consideration to the selling shareholders of approximately \$3 million in cash and 1.2 million PEG common shares ("Common Shares"). A portion of the cash requirements was financed by the sale of 6,666,667 units ("Units") consisting of one Series A Preferred Share and three-quarters of a warrant for Common Shares as further described in Note 12(c). The remainder of the proceeds necessary to refinance the assumed indebtedness and pay the selling shareholders of WSL was provided by a \$4 million increase in term loans provided by a major international financial institution. An additional payment of up to \$450,000 and 780,463 common shares would have been required after April 30, 2007 if certain provisions were met. Although a final settlement of any amounts payable or shares to be issued has not been concluded as of this date, the Company believes there will be no further payout under the contingent earnout provision in the original transaction. The shares issued to selling shareholders will be subject to a 2-year holding period and will be valued at the greater of CAD \$2.00 per share (subject to an adjustment provision) or the actual share price at the time of closing. If the Common Shares have not traded at or above CAD \$2.00 during any 20 consecutive trading days that precede the first anniversary of the Closing Date, then there will be an adjustment equal to the number of Common Shares valued at the volume weighted average closing price during the 20 consecutive trading days that precede the first anniversary of the Closing 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 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.

The purchase price allocations may be subject to change as the Company awaits information that could impact the allocations among the assets and liabilities of WSL. The preliminary purchase allocations are as follows:

**Production Enhancement Group, Inc.**  
**Notes to the Consolidated Financial Statements**  
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**Unaudited**  
**(Stated in United States Dollars)**

Net assets acquired:	
Cash	\$ 38,966 *
Non-cash working capital	1,117,396
Capital assets and deposits	4,983,880
Intangibles	765,745
Goodwill	464,759
Capital Lease	(12,018)
Long-term debt	<u>(2,920,428) *</u>
	<u>\$ 4,438,299</u>

Consideration:	
Common shares issued at closing	\$ 1,359,944
Cash	<u>3,078,355 *</u>
	<u>\$ 4,438,299</u>

\* Net cash effect of acquisition (5,959,817)

(b) On April 27, 2007, the Company entered the western Canada oilfield services market with its acquisition of Dyna Star Energy Services Ltd. ("Dyna Star"), a private company that provides coiled tubing and nitrogen services in Alberta. The Company assumed and refinanced Dyna Star's existing debt of approximately CAD \$1.5 million and paid net consideration to the selling shareholders of approximately CAD \$230,000 (USD \$208,352) cash, and 427,004 PEG common shares. A portion of the carrying value of the shareholder loans in the amount of CAD \$100,000 was reclassified to "due to shareholder" and will be paid in the fourth quarter of 2007. The proceeds necessary to refinance the assumed indebtedness and pay the selling shareholders of Dyna Star were provided through an additional term loan from a major international financial institution. The final purchase price settlement has been finalized and the 427,004 shares will be issued to the seller in fourth quarter 2007.

The acquisition was accounted for using the purchase method with the results of operations of Dyna Star being included in the consolidated financial statements beginning May 1, 2007. The Company shares were valued at CAD \$1.26, such value being the volume weighted average trading day price of the Company's stock five days before and after the date of November 16, 2006.

The purchase allocations are as follows:

Net assets acquired:	
Liabilities	\$ (359,154) *
Non-cash working capital	(92,105)
Capital assets and deposits	2,302,080
Long-term debt	<u>(1,155,083) *</u>
	<u>\$ 695,738</u>

Consideration:	
Common shares issued at closing	\$ 487,386
Cash	<u>208,352 *</u>
	<u>\$ 695,738</u>

\* Net cash effect of acquisition (1,722,589)

**Production Enhancement Group, Inc.**  
**Notes to the Consolidated Financial Statements**  
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**Unaudited**  
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**6. Recent Accounting Pronouncements**

Recent accounting pronouncements issued and not yet effective:

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. This standard is effective for the Company for interim and annual financial statements beginning on January 1, 2008. The Company has not yet determined the impact that the adoption of this change on the disclosure in its financial statements.

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. Section 3031 is effective for the Company for interim and annual financial statements beginning on January 1, 2008. The Company has not yet determined the impact that the adoption of this change will have on the disclosure in its financial statements.

Financial Instruments Disclosures

CICA Handbook Section 3862, Financial Instruments – Disclosures, increases 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. This standard is effective for the Company for interim and annual financial statements beginning on January 1, 2008. The Company has not yet determined the impact that the adoption of this change will have on the disclosure in its financial statements.

Financial Instruments Presentation

CICA Handbook Section 3863, Financial Instruments – Presentation, replaces the existing requirements on presentation of financial instruments which have been carried forward unchanged to this new section. This standard is effective for the Company for interim and annual financial statements beginning on January 1, 2008. The Company does not expect the adoption of this standard to have a material impact on presentation in its financial statements.

International Financial Reporting Standards

The CICA plans to converge Canadian Generally Accepted Accounting Principles with International Financial Reporting Standards (IFRS) over a transition period expected to end in 2011. The impact of the transition to IFRS on the Company's financial statements has not yet been determined.

**Production Enhancement Group, Inc.**  
**Notes to the Consolidated Financial Statements**  
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**Unaudited**  
**(Stated in United States Dollars)**

**7. Property and Equipment**

	September 30, 2007			December 31, 2006		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Software and equipment	\$ 1,724,752	\$ 357,104	\$ 1,367,648	\$ 839,858	\$ 102,599	\$ 737,259
Equipment	32,159,517	5,424,833	26,734,684	17,528,253	2,947,253	14,581,000
Furniture and fixtures	328,873	63,946	264,927	196,424	35,220	161,204
Vehicles	1,606,626	517,459	1,089,167	987,841	386,627	601,214
Leasehold improvements	77,457	17,029	60,428	63,644	12,144	51,500
Assets under construction	6,855,036	-	6,855,036	3,369,398	-	3,369,398
	<u>\$ 42,752,259</u>	<u>\$ 6,380,370</u>	<u>\$ 36,371,889</u>	<u>\$ 22,985,418</u>	<u>\$ 3,483,843</u>	<u>\$ 19,501,575</u>

Assets under construction consist of 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.

**8. Intangible Assets**

	September 30, 2007	December 31, 2006
Patent	\$ 22,649	\$ 1
Customer Base	901,469	235,724
Less: Amortization	(160,174)	(45,145)
	<u>763,944</u>	<u>188,580</u>
Covenant not to compete	100,000	-
Less: Amortization	(11,667)	-
	<u>88,333</u>	<u>-</u>
	<u>\$ 852,277</u>	<u>\$ 188,580</u>

Intangible assets are reviewed annually with respect to their useful lives, or more frequently, if events or changes in circumstances indicate that the assets might be impaired.

**9. Deferred charges**

	September 30, 2007	December 31, 2006
Loan fees and legal fees	\$ -	\$ 859,771
Contingent lending fee (Note 11)	-	1,000,000
Warrants issued to lender	-	851,686
Acquisition costs	-	77,331
Less: Amortization	-	(354,643)
	<u>\$ -</u>	<u>\$ 2,434,145</u>

Deferred charges consist of debt financing related costs.

**Production Enhancement Group, Inc.**  
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**10. Changes in non-cash working capital**

	For the Three Months Ended, September 30,		For the Nine Months Ended September 30,	
	2007	2006	2007	2006
Accounts receivable – trade	\$ 1,752,271	\$ (1,071,939)	\$ 833,660	\$ (1,864,606)
Accounts receivable - other	(32,197)	-	(7,140)	(5,814)
Inventory and prepaid job cost inventory	227,572	58,621	33,927	8,535
Prepaid expenses and deposits	896,041	201,997	1,076,607	(47,279)
Accounts payable and accrued liabilities	(3,702,276)	(281,758)	(1,706,196)	1,515,042
Working capital from WL Acquisition	2,029,497	-	-	-
Vendor financing	-	(128,042)	-	(128,042)
Interest payable	(248,040)	21,446	(106,304)	168,210
	<u>\$ 922,869</u>	<u>\$ (1,199,675)</u>	<u>\$ 124,554</u>	<u>\$ (353,954)</u>

**11. Long Term Debt**

On August 31, 2007, the Company entered into a debt facility with a major energy lending institution to provide a senior credit facility of \$70 million. This new senior facility refinances the current senior indebtedness and provides \$40 million in expansion financing for additional capital expenditures and working capital. Borrowings under the facility bear interest at 14%, with the Company having the ability to pay 3% in kind. The facility will require the payment of interest only until December 31, 2008, at which time the principal will begin to be amortized on a quarterly basis over an 8 year straight-line amortization schedule. The notes will mature on August 31, 2012 but may be prepaid under certain circumstances during their term upon payment of additional prepayment fees.

The Lender will also receive warrants to purchase up to 8,193,249 shares of the Company's common stock at an initial exercise price of CAD \$2.00 per share (the "Warrants"). The initial exercise price of the Warrants will be adjusted in the future to the average of the then market price at the reset date (based on a 60-trading day volume weighted average calculation) and CAD \$0.64 (the market price on the date of Closing based on a five day volume weighted average trading price), provided that such reset price will not be less than CAD \$0.64/share nor more than CAD \$2.00/share. The reset date will be the earlier of (i) February 28, 2009 or (ii) a change of control, liquidation, merger, or other similar event of the Company. The holder of the Warrants has agreed not to sell short any Common Stock of the Company while the Warrants are outstanding. The term of the Warrants is four years, but the Company also has the right to require the Warrants to be exercised if the market price of the Common Stock reaches two times (2.0x) the then effective exercise price based on a 60-trading day volume weighted average calculation at such time. The Warrants also have the benefit of certain registration rights and anti-dilution provisions customary for this type of instrument.

The facility is secured by all assets of the Company for a term of 5 years.

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Principal repayments required on the debt facility over the next five years are as follows:

2007	\$	-
2008		1,546,875
2009		6,187,500
2010		6,187,500
2011		6,187,500
2012		29,390,625
		<u>49,500,000</u>
Deferred charges		2,613,272
Total Note Payable	\$	<u>46,886,728</u>

The following represents the impact reported for the refinancing of our prior senior facility:

<u>Account</u>	<u>Description</u>	<u>Amount</u>
Interest Expense	Prepayment fee-former lender	\$ 516,011
Amortization Expense	Deferred financing costs	2,259,391
		<u>\$ 2,775,402</u>

## 12. 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 preferred shares issuable in series at terms as determined by the Board.

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(2) Common shares and warrants issued and outstanding:

	<u>Number of Shares</u>	<u>Amount</u>
<b>Common shares</b>		
Balance, December 31, 2006	16,357,848	\$ 15,619,467
Acquisition of Wireline, net of issuance costs	1,234,739	1,241,904
Acquisition of Dyna Star, net of issuance costs	427,004	352,148
Conversion of Preferred Stock	300,001	
Conversion of Class C Shares	38,297,784	-
<b>Balance, September 30, 2007</b>	<u><b>56,617,376</b></u>	<u><b>17,213,519</b></u>
<b>Class C Shares</b>		
Balance December 31, 2006	38,297,784	-
Conversion to Common Shares	<u>(38,297,784)</u>	<u>-</u>
<b>Balance, September 30, 2007</b>	<u><b>-</b></u>	<u><b>-</b></u>
	<u><b>56,617,376</b></u>	<u><b>17,213,519</b></u>
<b>Preferred Stock</b>		
Balance, December 31, 2006	-	-
Conversion to Common Shares	(300,001)	
Preferred share offering, net of issuance costs	<u>6,666,667</u>	<u>2,209,441</u>
<b>Balance, September 30, 2007</b>	<u><b>6,366,666</b></u>	<u><b>2,209,441</b></u>
<b>Warrants</b>		
Balance, December 31, 2006	6,288,433	1,559,049
Warrants issued on preferred stock	5,000,000	2,099,038
Warrants issued to agent	333,333	171,675
Warrants issued to lender	8,193,249	320,051
Expiration of warrants	<u>(6,288,433)</u>	<u>(1,559,049)</u>
<b>Balance, September 30, 2007</b>	<u><b>13,526,582</b></u>	<u><b>2,590,764</b></u>
<b>Total</b>		<u><u><b>\$ 22,013,724</b></u></u>

(b) Contributed Surplus

Balance, December 31, 2006	\$ 1,727,565
Employee options	329,814
Board of Director options	70,208
Advisory Board options	10,388
Expired warrants	1,559,049
<b>Balance, September 30, 2007</b>	<u><u><b>\$ 3,697,024</b></u></u>

(c) Preferred Stock

On March 5, 2007 the Company closed its offering of 6,666,667 units (each a "Unit") priced at CAD \$ 0.87 per Unit, for CAD \$5.8 million. Gross proceeds were US \$5 million. Each Unit is comprised of one Series A 8% Cumulative, Non-voting Convertible Preferred Share (each a "Preferred Share") and three quarters of one Common share purchase warrant (each a "Warrant"). The fair value of the warrants was estimated to be \$2,099,038 using the Black-Scholes model with the following assumptions: expected life of warrants five years; expected volatility of 50%; risk-free interest rate of 4.0%; and a zero dividend yield. A corresponding amount of the equity raised has been allocated to warrants. Proceeds of the offering were used to close the acquisition of Wireline Specialists of Louisiana, as announced by the Company on

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September 22, 2006, and the acquisition of Dyna Star Energy Services Ltd., as announced on November 16, 2006. Remaining funds will be used to finance a portion of the Company's capital expenditures.

The Preferred Shares will pay quarterly cumulative dividends at a rate of 8% per year of the amount invested. The Company has the right to pay all or a portion of the first four quarterly dividends in kind in additional Preferred Shares at the equivalent Common Share value at the time of payment. Each Preferred Share is convertible at the option of the holder into one PEG Common Share. The quarterly dividends for the first and second quarterly periods will be issued as in kind Preferred Shares with a small cash portion. The shares totaling 143,414 for the first quarter of 2007 and 175,693 for the second quarter of 2007 have not been issued nor has the cash portion \$11.55 been paid as at September 30, 2007. The shares were issued October 31, 2007. The Company may force conversion of the Preferred Shares upon 30 days' notice if the average closing price of the Common Shares of the Company on the Toronto Stock Exchange exceeds CAD \$1.74 for a period of 10 consecutive trading days on which an average of 10,000 Common Shares have traded.

Each whole Warrant entitles the holder to purchase one Common Share at a price per share of CAD \$1.24 for a period of five years following the date of issuance. The Company can accelerate the expiry of the Warrants in the event that the simple average trading price for a 30 consecutive trading day period is equal to or greater than CAD \$2.48.

The exclusive placement agent received a 7% commission and broker warrants (each a "Broker Warrant") equivalent to 5% of the number of Preferred Shares issued pursuant to the offering. Each Broker Warrant entitles the holder to purchase one Common Share at a price per share of CAD \$0.87 for a period of five years following the date of issuance. The Company can accelerate the expiration of the Warrants in the event that the simple average trading price for a 30 consecutive trading day period is equal to or greater than CAD \$1.74. The fair value of the agent warrants of \$171,675 has been recorded as a share issue cost and they were calculated from the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 4.0%; expected life of five years; no annual dividends paid; and expected volatility of 50%.

(d) Stock option plan

On November 24, 2005, the Board approved a stock option plan (the "Plan") for the purpose of developing the interest of directors, officers, employees, and consultants in the growth of the Company. The Board amended the Plan on September 6, 2007 to include a new cashless exercise feature. Under the terms of the Plan and subsequent amendments to the Plan, the Company has reserved 10% of the issued outstanding shares as the maximum stock options that can be granted. When granted, options have a five year term. The exercise price of the options is determined by the Board and will not be less than the market price of the common shares at the grant date. The Board will determine the vesting terms at the time of grant. The Company also repriced the existing non-officers' and non-insiders' stock option holders with original vesting date to CAD \$0.62 from CAD \$2.00 to better reflect the market condition and pricing and to retain key employees. There were 620,000 options repriced of which 35,000 were forfeited, thus, 585,000 net stock option holders were repriced to CAD \$0.62.

The expense for the three and nine month periods and the comparative periods was determined from the Black-Scholes option pricing model with the following assumptions: risk-free interest rates ranging from 4.0 to 4.5%; 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 nine months ended September 30, 2007, \$284,428 and \$547,556 respectively was recognized as compensation expense in the consolidated statement of operations with a corresponding increase

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in contributed surplus. As at September 30, 2007, 1,689,583 stock options were exercisable and the weighted average years to expiration were 4.14 years. The fair value of options granted during the three and nine months ended September 30 2007 that were outstanding at September 30, 2007 was approximately \$329,585 or \$0.25 per option and \$469,018 or \$0.22 per option, respectively.

	Share Options	Option Price	Weighted Average Exercise Price
Outstanding, December 31, 2006	4,542,500	C\$2.00	C\$2.00
Granted	1,275,000	C\$2.00	C\$2.00
Granted	1,330,000	C\$0.62	C\$0.62
Exercised	-	-	-
Cancelled	(1,762,500)	C\$2.00	C\$2.00
<b>Outstanding, September 30, 2007</b>	<b>5,385,000</b>	<b>C\$2.00</b>	<b>C\$2.00</b>
<b>Exercisable at September 30, 2007</b>	<b>1,395,833</b>	<b>C\$2.00</b>	<b>C\$2.00</b>
<b>Exercisable at September 30, 2007</b>	<b>293,750</b>	<b>C\$0.62</b>	<b>C\$0.62</b>

The following table summarizes information about the stock options outstanding at September 30, 2007:

Options Outstanding	Option Price CAD	Wtd Avg Exercise Price CAD	Wtd. Avg. Remaining Contractual Life (years)	Options Currently Exercisable	Wtd. Avg. Exercise Price of Options Currently Exercisable CAD
2,550,000	\$2.00	\$2.00	3.55	1,304,167	\$2.00
200,000	\$2.00	\$2.00	3.67	83,333	\$2.00
25,000	\$2.00	\$2.00	3.84	8,333	\$2.00
130,000	\$2.00	\$2.00	4.05	-	\$2.00
20,000	\$2.00	\$2.00	4.21	-	\$2.00
25,000	\$2.00	\$2.00	4.40	-	\$2.00
150,000	\$2.00	\$2.00	4.49	-	\$2.00
220,000	\$2.00	\$2.00	4.57	-	\$2.00
150,000	\$2.00	\$2.00	4.64	-	\$2.00
3,470,000	\$2.00	\$2.00	4.14	1,395,833	\$2.00
185,000	\$0.62	\$0.62	3.55	77,083	\$0.62
20,000	\$0.62	\$0.62	3.67	8,333	\$0.62
25,000	\$0.62	\$0.62	3.92	8,333	\$0.62
130,000	\$0.62	\$0.62	4.21	-	\$0.62
35,000	\$0.62	\$0.62	4.40	-	\$0.62
85,000	\$0.62	\$0.62	4.49	-	\$0.62
105,000	\$0.62	\$0.62	4.64	-	\$0.62
1,330,000	\$0.62	\$0.62	4.93	200,000	\$0.62
1,915,000	\$0.62	\$0.62	4.14	293,750	\$0.62
<b>Total</b>	<b>5,385,000</b>			<b>1,689,583</b>	

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(e) Escrowed Shares

On May 14, 2007 the Class C Non-voting Common Stock of Production Enhancement Group, Inc. ("PEG" or the "Company") was converted to Common Stock of PEG as mandated by the Toronto Stock Exchange ("TSX") as a condition for obtaining listing approvals at the time of the issuance of the Preferred Stock and the Warrants. Although PEG successfully obtained the approvals, one consequence of this conversion was that for US securities law purposes, PEG no longer has the status of a "foreign private issuer" under the US Securities Act of 1933 (the "US Securities Act") and Regulation S thereunder, and PEG is now deemed a "domestic issuer" in the United States.

**13. Related Party Transactions**

- (a) Legal fees related to the Company's acquisitions, financings and general corporate matters are charged by the law firm at which the Corporate Secretary is a partner. For the three and nine months ended September 30, 2007 these legal fees totaled \$93,886 and \$358,754 respectively (the three and nine months ended September, 2006 total legal fees were \$0.00 and \$335,549). There were no outstanding legal fees at September 30, 2007. The acquisition related legal fees included in these total legal fees were \$67,588 and \$258,589 for the three and nine months ended September 30, 2007 (the three and nine months ended September 30, 2006 acquisition related legal fees included in these total legal fees was \$0.00 and \$311,970 respectively).
- (b) The Company previously entered into a consulting agreement in which a family member of two senior executives was paid \$12,000 and \$36,000 during the three and nine month period ended September 30, 2007 (three months ended September 30, 2006 was \$12,000, nine months ended September 30, 2006 was \$36,000) for advisory board services.
- (c) Equipment purchases, equipment rental and equipment repairs of \$11,884 and \$1,720,117 were recorded during the three and nine month period ended September 30, 2007 (\$0.00 and \$2,145,300, respectively, for the three and nine months ended September 30, 2006) to a company controlled by a director. The rentals are based on usage and all transactions are competitive with arms-length third party charges. There was an outstanding balance at September 30, 2007 of \$11,784.
- (d) On December 14, 2004, WISE Well Intervention Services, Inc. signed an agreement with a software supplier controlled by a director and officer of the Company to purchase a \$250,000 license for the operation of a global support center for the WISE® Coil Tubing ("CT") Units in the field, a user contract at \$1,500 per month per CT Unit, a per Coil Tubing ("CT") Unit installation fee of \$75,000 and customization costs based on established rates per hour. This agreement is effective upon the Closing of the Offering for an initial period of three years. The contract will be automatically renewed for successive one year terms unless either party gives notice of termination within the time period specified in the agreement. The software license has not been placed in service as of September 30, 2007; therefore no amortization has been recognized. Computer consulting and services totaling \$350,905 and \$985,178 were recorded during the three and nine month period ending September 30, 2007, and \$424,883 for the three and nine months ended September 30, 2006 to a company controlled by a director and officer of the Company. An overpayment of \$12,959 remained outstanding at September 30, 2007. As at October 1, 2007 this agreement has been terminated and no further costs related to the agreement are expected. The Company will be entitled to utilize the software and the license royalty-free.
- (e) The Company leases real property from a company controlled by a board member. For the three and nine month period ending September 30, 2007, \$64,500 and \$183,500 (\$35,587 and \$89,138 respectively, for the three and nine months ended September 30, 2006) was recorded in lease payments.

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- (f) The Company made payments toward equipment on order to a company controlled by a director. Payments made during the three and nine month periods ending September 30, 2007 total \$250,000. The balance of equipment on order is disclosed in commitments. There were no payments made through the nine months ended September 30, 2006.
- (g) The Company purchased chemicals for resale totaling \$77,119 from a company that is beneficially owned by two former officers of a subsidiary during the three month period ending March 31, 2007. No purchases were made during the three month periods ending June 30, 2007 or September 30, 2007. Purchases of \$226,368 and \$0.00 were made for the three and nine months ended September 30, 2006 respectively. No future purchases are contemplated from this source.
- (h) As a result of the acquisition of WSL in March 2007, the Company rents property from a company owned by three shareholders, one of whom was a former officer. The amount of rents paid for the three and nine month period ending September 30, 2007 is \$7,500 and \$17,500.
- (i) As a result of the acquisition of WSL in March 2007, the Company rented property from and paid consulting fees to a company owned by a shareholder. The balance due for rent of \$5,525 at March 31, 2007 was paid in the second quarter of 2007, and both of these arrangements expired on April 1, 2007.
- (j) As a result of the acquisition of WSL in March 2007, the Company paid consulting fees to a shareholder during the six months ended June 30, 2007 in the amount of \$10,650. This arrangement expired on April 1, 2007.
- (k) As a result of the acquisition of Dyna Star in May 2007, the Company has recorded costs of \$0.00 and \$16,293 for the three and nine months ended September 31, 2007, respectively, to a company owned by a former shareholder of Dyna Star and current officer of WISE.
- (l) Effective as of September 1, 2007 the Company has terminated its exclusive Manufacturing Agreement made with a company controlled by a director.
- (m) Effective as of September 1, 2007 the Company has terminated its Second Contract for Construction of Integrated Membrane Nitrogen Generators made with a company controlled by a director.

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

**14. Commitments**

- (a) As at September 30, 2007, the Company has made deposits in the amount of \$4,534,775 toward the purchase of equipment to be delivered in the fourth quarter of 2007 and the first half of 2008. The total progress payments and balance due on delivery is estimated to be \$13,765,197.
- (b) The Company has entered into a lease agreement with a major fleet leasing company for the lease of vehicles. The term of the lease is 367 days renewable monthly thereafter. The lease is structured as an operating lease and a 30% deposit is required on all vehicles. As at September 30, 2007 the total deposits on operating leases is \$290,721.
- (c) The Company signed an eighteen month lease for the rental of a home for housing out of town crew members during the period ending March 31, 2007. The lease payments are \$1,100 per month and a total of \$3,300 and \$8,800 was paid for the three and nine month periods ending September 30, 2007. This lease was terminated in September 2007.

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- (d) On April 16, 2007, the Company signed a contract establishing a joint venture with Al Qahtani Maritime & Oil Field Services Co. The joint venture company, named Abdul Hadi Al Qahtani WISE Co., Ltd., will market PEG's patented WISE multifunction coil tubing technology on an exclusive basis in the Middle East, beginning in Saudi Arabia with future expansion opportunities throughout the region. All sales, operations, and support will be conducted under PEG's trademarked WISE brand name. The joint venture, 60% owned by Al Qahtani Maritime and 40% owned by PEG, will begin constructing three WISE multifunction well intervention units, which are expected to be deployed offshore upon finalization of the marketing and business plan and formal organization of the joint venture entity. PEG will build the units in the U.S. and will custom-configure them using the latest WISE technology, including site-generated nitrogen capability. There has been no activity on this joint venture as at November 14, 2007 and the Company is currently re-evaluating the joint venture arrangement.
- (e) On April 19, 2007, the Company signed an agreement with Grupo Creatica, S.A. de C.V., ("Grupo Creatica") to form a joint venture to deploy the Company's patented WISE™ multifunction coil tubing well intervention systems on an exclusive basis in Mexico. However, the company subsequently announced the termination of the Mexican joint venture agreement on June 25, 2007 which had expired on its own terms (refer to press release dated June 25, 2007).
- (f) On April 19, 2007, the Company signed the first modification and ratification of its lease agreement for its headquarters location in Houston, Texas to extend the lease by an additional six months beginning May 1, 2007 and expiring on April 30, 2010. Beginning on May 1, 2007, the annual rental costs relating to this office space is \$178,121 and is payable in monthly installments of \$14,843 during the lease term.
- (g) The Company has signed a 36 month lease for facilities in Longview, Texas. The lease payments are \$3,500.00 per month. A total of \$5,250.00 was paid in the third quarter of 2007.
- (h) The Company has signed a six month lease on a corporate apartment in Lafayette, LA. The monthly lease payments are \$2,398.95 and a total of \$2,398.95 was paid in the three month period ending September 31, 2007.
- (i) The Company has signed a six month lease on a lab facility in Lafayette, LA. The monthly lease payments are \$1,000 per month beginning October 1, 2007.
- (j) As of the result of the termination of the CEO on October 9, 2007 and based on the Employment Contract in place at the date of termination, the Company has entered an agreement with the former CEO that calls for his resignation as the Chairman of the Board of Directors and as a Board Member, a continual base salary, 401k eligibility, health and life insurance benefits and car allowance until November 4, 2008, paid semi-monthly on the normal payroll cycle. In addition accrued vacation for 2007 will be paid in fourth quarter of 2007. On October 30, 2007, the Company announced the resignation of the former CEO as the Chairman of the Board of Directors and as a Board member.

## **15. Financial Instruments**

### Fair values

The carrying amounts of cash, accounts receivable, accounts payable, accrued liabilities, dividends payable, notes payable, due to shareholder and short term debt approximate their fair values, given they are short term in nature.

### Concentrations of credit risk

Concentrations of credit risk with respect to accounts receivable, which are typically unsecured, are generally limited due to the large base of customers and the dispersion across many different

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geographic areas. One (2006 – none) customer accounted for 10% (2006 – 0%) of the outstanding receivable balance at September 30, 2007. The Company believes there is no unusual exposure associated with the collection of these receivables. No other single customer accounted for more than 10% of consolidated receivables at September 30, 2007 or 2006. The Company performs regular credit assessments of its customers and provides allowances for potentially uncollectible accounts receivable.

The following chart demonstrates the outstanding customer balances for September 30, 2007 and September 30, 2006:

	2007		2006	
	% of accounts receivable	Outstanding balance	% of accounts receivable	Outstanding balance
Customer A	10%	\$ 546,658	0%	\$ 0
Total	10%	\$ 546,658	0%	\$ 0

For the three months ended September 30, 2007 approximately 8% (2006, 0%) of the revenues were earned from one customer.

Credit risk management

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.

At September 30, 2007 a significant portion of the Company's cash was held at one financial institution.

Interest rate

The Company is exposed to an interest rate of 14% based on the recent refinancing of its long term debt. Management does not consider this risk to be significant.

**16. 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.

**17. Subsequent Events**

On October 1, 2007, the Company appointed a Chief Operating Officer of WISE Well Intervention Services, Inc. The COO responsibilities will include directing and administering the operating divisions of WISE (Coiled Tubing, Pressure Pumping, Nitrogen, and Wireline Services) and assisting the Company's President and CEO in the development and execution of corporate strategies and strategic objectives.

On October 9, 2007, the Board of Directors of the Company terminated the employment of the Chief Executive Officer. The Board has appointed a committee of independent directors to oversee the search for a new CEO. The President of the Company will assume responsibility for leadership of the

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Company. On October 30, 2007 the former CEO resigned his positions as Director and Chairman of the Board of the Company.

On October 31, 2007, additional Preferred Shares were issued as payment in kind dividends for June 1, 2007 and September 1, 2007. A total of 143,414 and 175,693 were issued for June 1, 2007 and September 1, 2007 respectively. The cash dividend due in the amount of \$11.55 for the fractional shares will be paid in the fourth quarter of 2007.

In November 2007, the Company will amend the terms of the Preferred Share Warrants to include a cashless exercise option and grant one (1) additional Warrant for each ten (10) existing Warrants held. The Company will also grant "piggyback" registration rights to these holders in the event the Company were to file a registration statement under the United States Securities Act of 1933 under certain circumstances. The cashless exercise option will allow a holder of a Warrant to elect to exchange the Warrant for a number of Common Shares equal to the difference between the value of the Common Shares at the time of exercise and the original Warrant exercise price per Common Share (which remains at CAD \$1.24 per Common Share). The additional Warrants will have the exact same terms as the existing Warrants, including the cashless exercise option. The registration rights would allow an electing holder to register some or all of its Common Shares for sale in a registered public offering filed by the Company under certain defined circumstances if the Common Shares receivable upon conversion of the Preferred Shares or receivable upon exercise of the Warrants were otherwise restricted from resale under United States securities regulations at such time.

The repricing of the existing non-officers' and non-insiders' stock option is dependent on final review and approval from the Toronto Stock Exchange which was obtained on October 2, 2007.