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PRODUCTION ENHANCEMENT GROUP, INC.

TSX:WIS

**Production Enhancement Group, Inc.  
Interim Consolidated Financial  
Statements**  
For the three months ended  
March 31, 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 months ended March 31, 2008 and 2007.

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

	March 31, 2008	December 31, 2007
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 707,271	\$ 1,686,643
Restricted cash (Note 8)	446,391	3,238,318
Accounts receivable	8,837,896	7,571,773
Inventory (Note 4)	500,476	339,910
Prepaid expenses	1,078,291	1,322,974
Assets held for sale	-	3,808,927
	11,570,325	17,968,545
Equipment & lease deposits	441,303	444,126
Assets held for sale (Note 5)	240,588	240,588
Property and equipment (Note 5)	35,207,745	33,875,755
Intangible assets	752,131	802,204
Prepaid expense-long term portion	111,413	77,465
Goodwill	1,344,748	1,344,748
	49,668,253	\$ 54,753,431
<b>Liabilities and Shareholders' Equity</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 5,466,588	\$ 6,750,600
Accrued liabilities discontinued operations	17,777	212,057
Dividend payable (Note 9 (c))	43,353	39,902
Notes payable (Note 7)	466,733	812,609
Current maturities of long term debt	1,546,875	1,546,875
Reclassification of long-term debt (Note 8)	46,373,283	45,478,679
	53,914,609	54,840,722
<b>Shareholders' Equity</b>		
Share capital (Note 9 (a))	22,477,095	22,356,051
Contributed surplus (Note 9 (b))	3,820,918	3,719,837
Retained earnings (deficit)	(30,544,369)	(26,163,179)
	(4,246,356)	(87,291)
	\$ 49,668,253	\$ 54,753,431

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

**Production Enhancement Group, Inc.**  
**Consolidated Statements of Loss,**  
**Comprehensive Loss and Retained Earnings (Deficit)**  
**(Stated in United States dollars)**  
**(Unaudited)**  
**Three Months Ended March 31,**

	<u>2008</u>	<u>2007</u>
<b>Revenue</b>	<b>\$ 8,116,713</b>	<b>\$ 7,832,175</b>
<b>Expenses</b>		
Cost of services	6,254,556	4,143,723
Selling, general and administrative	2,576,806	2,942,773
Interest and financing costs	1,908,959	506,108
Amortization of property, equipment and intangibles	1,353,089	769,393
Loss on disposal of assets	158,253	-
	<u>12,251,663</u>	<u>8,361,997</u>
<b>Loss before income taxes</b>	<b>(4,134,950)</b>	<b>(529,822)</b>
<b>Income tax expense</b>	<b>-</b>	<b>-</b>
<b>Net loss from continuing operations</b>	<b>(4,134,950)</b>	<b>(529,822)</b>
<b>Discontinued Operations (Note 14), net of tax of \$0</b>		
Loss on discontinued operations of WISE Alberta	121,743	-
<b>Net loss and comprehensive loss</b>	<b>(4,256,693)</b>	<b>(529,822)</b>
<b>Retained earnings (deficit), beginning of period</b>	<b>(26,163,179)</b>	<b>(6,044,556)</b>
Dividends (Note 9 (c))	(124,497)	(28,493)
<b>Deficit, end of period</b>	<b>\$ (30,544,369)</b>	<b>\$ (6,602,871)</b>
<b>Loss per share from continuing operations -</b>		
<b>Basic and dilutive</b>	<b>(0.07)</b>	<b>(0.01)</b>
<b>Loss per share from discontinued operations -</b>		
<b>Basic and dilutive</b>	<b>(0.00)</b>	<b>0.00</b>
<b>Loss per share -</b>		
<b>Basic and dilutive</b>	<b>(0.07)</b>	<b>(0.01)</b>
<b>Weighted average number of shares outstanding -</b>		
<b>Basic and dilutive</b>	<b>57,757,114</b>	<b>55,012,335</b>

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)**  
**Three Months Ended March 31,**

	2008	2007
<b>Net loss from continuing operations</b>	\$ (4,134,950)	\$ (529,822)
<b>Cash flows from operating activities</b>		
Non cash items		
Non cash financing costs	136,851	137,903
Amortization of property, equipment and intangibles	1,353,089	769,393
Stock based compensation	101,081	179,955
Loss on disposal of asset	158,253	-
Prepaid Expense - long-term portion	(33,948)	-
	<u>(2,419,624)</u>	557,429
Changes in non cash working capital items (Note 6 (a))	(3,655,448)	(1,104,911)
Cash flows from continuing operating activities	<u>(6,075,072)</u>	<u>(547,482)</u>
<b>Net income (loss) from discontinued operations (Note 14)</b>	(121,743)	-
Changes in non-cash working capital from discontinued operations (Note 6 (b))	(126,332)	-
Cash flows from discontinued operations	<u>(248,075)</u>	-
<b>Cash flows from financing activities</b>		
Proceeds preferred stock offering-net of costs	-	4,461,763
Deferred charges paid	-	(269,223)
Dividends Paid	(2)	-
Repayment of notes payable	-	(180,971)
Proceeds from long-term debt	-	6,411,763
Repayment of long term debt	-	(500,000)
Repayment of capital lease obligations	-	(6,472)
	<u>(2)</u>	<u>9,916,860</u>
<b>Cash flows from continuing investing activities</b>		
Restricted cash (Note 8)	2,791,927	-
Acquisition of Wireline, net of cash acquired and costs	-	(6,874,392)
Additions property and equipment	(1,048,150)	(1,380,551)
Proceeds from disposal of assets	3,600,000	-
	<u>5,343,777</u>	<u>(8,254,943)</u>
<b>Increase in cash</b>	(979,372)	1,114,435
Cash, beginning of period	1,686,643	1,065,645
<b>Cash, end of period</b>	<u>\$ 707,271</u>	<u>\$ 2,180,080</u>
<b>Supplemental information</b>		
Interest paid	\$ 3,554,524	\$ 319,331
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 months ended March 31, 2008 and 2007**  
**Unaudited**  
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**1. Nature of Business**

Production Enhancement Group, Inc. (the "Company") 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 oilfield 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 and Mississippi 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 14). 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 months ended March 31, 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 current balance owing on its long term debt facility (Note 8) and a net loss of \$4,256,693 for the three months ended March 31, 2008. The Company was in breach of its debt covenants with its lender at March 31, 2008. The lender has agreed to waive said violations and has entered into negotiations with the Company to amend the loan agreements. The Company has reclassified all such long-term debt as current until such time as the amendment is finalized. The Company believes such amendment will be finalized in the second quarter of 2008. The Company may be in breach of its debt covenants in the future and this may affect its ability to borrow additional funds and/or the operations of the Company should the lender call the note.

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 March 31, 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 13.

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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 12.

**4. 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 March 31, 2008 and December 31, 2007.

<b>Category</b>	<b>March 31, 2008</b>	<b>December 31, 2007</b>
Tubing and Chains	\$ 125,292	\$ 194,240
Chemicals	303,049	145,670
Wire	8,188	-
Tools	63,947	-
	<b>\$ 500,476</b>	<b>\$ 339,910</b>

The following table represents the recognized expense by classification as at March 31, 2008 and 2007.

<b>Category</b>	<b>March 31, 2008</b>	<b>March 31, 2007</b>
Tubing and Chains	\$ 196,027	\$ 122,743
Chemicals	159,634	161,860
Wire	5,783	-
	<b>\$ 361,444</b>	<b>\$ 284,603</b>

Inventories are pledged as securities for the Company's long term debt (Note 8). For the three months ended March 31, 2008 there was no write down of inventories to net realizable value required.

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**5. Property and Equipment**

	March 31, 2008			December 31, 2007		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Software and equipment	\$ 1,438,610	\$ 765,919	\$ 672,691	\$ 1,404,121	\$ 574,156	\$ 829,965
Equipment	31,529,513	6,379,794	25,149,719	29,009,546	5,434,879	23,574,667
Furniture and fixtures	288,998	92,604	196,393	299,000	85,952	213,048
Vehicles	2,023,117	998,110	1,025,007	2,104,672	916,761	1,187,911
Leasehold improvements	101,576	17,508	84,069	85,617	15,898	69,719
Assets under construction	8,079,866	-	8,079,866	8,000,445	-	8,000,445
	<u>\$ 43,461,680</u>	<u>\$ 8,253,935</u>	<u>\$ 35,207,745</u>	<u>\$ 40,903,401</u>	<u>\$ 7,027,646</u>	<u>\$ 33,875,755</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.

Assets held for sale related to discontinued operations have been classified as non current assets net of impairment (Note 14).

**6. Changes in Non-cash Working Capital**

**(a) From operations**

	For the Three Months Ended	
	2008	2007
Accounts receivable	\$ (1,335,717)	\$ (1,048,910)
Inventory	83,657	(173,746)
Prepaid expenses and deposits	2,254	314,041
Accounts payable and accrued liabilities	(1,057,680)	(245,183)
Notes payable	(328,257)	-
Interest payable	(1,019,705)	48,887
	<u>\$ (3,655,448)</u>	<u>\$ (1,104,911)</u>

**(b) From discontinued operations**

	For the Three Months Ended	
	2008	2007
Accounts receivable	\$ 69,594	\$ -
Prepaid expenses and deposits	1,029	-
Notes payable	(17,619)	-
Accounts payable and accrued liabilities	14,944	-
Accrued liabilities discontinued operations	(194,280)	-
	<u>\$ (126,332)</u>	<u>\$ -</u>

**7. 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%).

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

	<u>March 31, 2008</u>	<u>December 31, 2007</u>
All remaining US policies	\$ 238,126	\$ 416,720
Umbrella	-	29,887
Workers compensation	219,180	328,770
Canadian policy	9,427	27,046
WL capital lease	-	1,765
A to Z capital lease	-	8,421
	<u>\$ 466,733</u>	<u>\$ 812,609</u>

**8. Long Term Debt**

On August 31, 2007 (the "Closing Date"), the Company entered into a debt facility with a major energy lending institution (the "Lender") 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. 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 debt. The effective interest rate is 14.93%. The facility requires 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 facility requires that six months interest be held in a Debt Service Reserve Account ("DSRA"). This restricted cash has been classified as a current asset. The interest payments due to the Lender for the fourth quarter of 2007 and first quarter 2008 were paid from the restricted cash DSRA account in the first quarter of 2008.

The Company was in breach of its debt covenants with its Lender at March 31, 2008. The Lender has agreed to waive said violations and has entered into negotiations with the Company to amend the terms of the loan agreements. The Company has reclassified all such long-term debt as current until such time as the amendment is finalized. The Company believes such amendment will be finalized in the second quarter of 2008. The Company may be in breach of its debt covenants in the future and this may affect its ability to borrow additional funds and/or the operations of the Company should the Lender call the note.

The Lender also received initial warrants to purchase up to 8,193,249 shares of the Company's Common Shares at an initial exercise price of CAD \$2.00 per share (the "Warrants"). The number of shares is subject to change as a result of any additional issuances of Common Shares, Preferred Shares and Warrants. The fair value of the Warrants was estimated to be \$320,051 using the Black-Scholes model with the following assumptions: expected life of Warrants four years; expected volatility of 39%; risk-free interest rate of 4.18%; and a zero dividend yield. 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 Closing Date 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 Shares 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 Shares 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

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registration rights and anti-dilution provisions customary for this type of instrument. Subject to the closing of the offer by Quest Energy Services (Canada) Ltd. ("Quest"), the warrants will be modified as detailed in Note 16.

On December 4, 2007, the Company issued an additional 43,187 Warrants to the Lender at an initial exercise price of CAD \$2.00 (under the same terms described in the above paragraph). The fair value of the Warrants was estimated to be \$250 using the same assumptions as the original Warrants except the risk-free interest rate was 3.64% and using the accelerated period of the original Warrants. This was done in conjunction with the Company's amendment of the terms of the Warrants with holders of the Company's 6,666,667 shares of Series A 8% preferred stock ("Preferred Shares") and the 5,000,000 associated Warrants.

As a result of the repricing of the Common Shares issued pursuant to the Wireline acquisition and dividends issued as in kind Preferred Shares, the Company expects to issue an additional 501,811 Warrants to the Lender in the second quarter of 2008 per the agreement, subject to final review by the Lender.

The facility is secured by all assets of the Company and has a maturity of a term of 5 years.

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

2008	\$	1,546,875
2009		6,187,500
2010		6,187,500
2011		6,187,500
2012		30,148,378
		<u>50,257,753</u>
Warrants		273,610
Transaction costs		2,063,985
		<u>47,920,158</u>
Less Current portion		1,546,875
Balance	\$	<u><u>46,373,283</u></u>

## 9. 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.

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(2) Common shares and warrants issued and outstanding:

	<u>Number of Shares</u>	<u>Amount</u>
<b>Common Shares</b>		
<b>Balance, December 31, 2007</b>	<b>56,617,376</b>	<b>\$ 17,213,519</b>
Additional shares issued pursuant to Wireline agreement	4,321,507	-
<b>Balance, March 31, 2008</b>	<b>60,938,883</b>	<b>17,213,519</b>
<b>Preferred Stock</b>		
<b>Balance, December 31, 2007</b>	<b>6,975,800</b>	<b>2,526,618</b>
Paid in kind dividends	302,609	121,044
<b>Balance, March 31, 2008</b>	<b>7,278,409</b>	<b>2,647,662</b>
<b>Warrants</b>		
<b>Balance, December 31, 2007</b>	<b>14,006,019</b>	<b>2,615,914</b>
<b>Balance, March 31, 2008</b>	<b>14,006,019</b> <sup>1</sup>	<b>2,615,914</b>
<b>Total</b>		<b>\$ 22,477,095</b>

<sup>1</sup> An additional 501,811 Warrants to be issued in the second quarter of 2008 pursuant to Note 8, subject to Lender review

(b) Contributed Surplus

<b>Balance, December 31, 2007</b>	<b>\$ 3,719,837</b>
Employee options	82,068
Board of Director options	16,672
Advisory Board options	2,341
<b>Balance, March 31, 2008</b>	<b>\$ 3,820,918</b>

(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 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.

The Preferred Shares 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 dividends for the first four quarterly periods have been issued as in kind Preferred Shares totaling 911,743 shares with an additional cash portion totaling CAD \$17.26. 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 TSX exceeds CAD \$1.74 for a period of 10 consecutive trading days on which an average of 10,000 Common Shares have traded. Total dividends for the three months ended March 31, 2008 were \$124,497 and dividends payable at March 31, 2008 were \$43,353.

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Each whole Warrant entitles the holder to purchase one Common Share at a price per share of CAD \$1.24 expiring March 4, 2012. 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 Broker 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 Broker 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%.

On December 4, 2007, the Company amended the terms of the Warrants to include a cashless exercise option and grant one (1) additional Warrant for each ten (10) existing Warrants held for all accepting holders. The Company granted "piggyback" registration rights to these holders in the event the Company were to file a registration statement under the US Securities Act of 1933 under certain circumstances. The cashless exercise option allows 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). An additional 436,250 Warrants were issued in the fourth quarter of 2007 with the same terms as the existing Warrants except the risk-free interest rate was 3.69%, including the cashless exercise option.

There were three warrant holders who did not accept these terms. These holders represent 637,500 Warrant shares, or 12.7% of the original 5,000,000 Warrants.

(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. The amendment was not approved by the shareholders; shareholder approval was not required as no re-pricing of options held by insiders was undertaken, and the TSX did not require shareholder approval in relation to the institution of a cashless exercise feature where there was a full deduction of the number of underlying securities from the plan reserve. Under the terms of the Plan and subsequent amendments to the Plan, the Company has reserved 10% of the issued and 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 270,000 have been cancelled, thus, 350,000 net stock option holders were repriced to CAD \$0.62.

The expense for the three month period and the comparative period was determined from 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 months ended March 31, 2008, \$101,081 (2007- \$179,955) was recognized as compensation expense in

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the consolidated statements of loss with a corresponding increase in contributed surplus. As at March 31, 2008, 1,366,250 stock options were exercisable and the weighted average years to expiration were 4.01 years. The fair value of options granted during the period that were outstanding at March 31, 2008 was approximately \$103,326 or \$0.08 per option.

	Share Options	Option Price	Weighted Average Exercise Price		Share Options	Option Price	Weighted Average Exercise Price
<b>Outstanding, December 31, 2007</b>	<b>4,555,000</b>	<b>C\$2.00</b>	<b>C\$2.00</b>	<b>December 31, 2006</b>	<b>4,542,500</b>	<b>C\$2.00</b>	<b>C\$2.00</b>
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	(125,000)	-	-
Cancelled	(225,000)	C\$2.00	C\$2.00	Cancelled	-	-	-
<b>Outstanding, March 31, 2008</b>	<b>5,455,000</b>	<b>C\$1.19</b>	<b>C\$1.19</b>	<b>March 31, 2007</b>	<b>5,042,500</b>	<b>C\$2.00</b>	<b>C\$2.00</b>
<b>Exercisable at March 31, 2008</b>	<b>1,129,166</b>	<b>C\$2.00</b>	<b>C\$2.00</b>	<b>March 31, 2007</b>	<b>150,000</b>	<b>C\$2.00</b>	<b>C\$2.00</b>
<b>Exercisable at March 31, 2008</b>	<b>237,084</b>	<b>C\$0.62</b>	<b>C\$0.62</b>	<b>March 31, 2007</b>	<b>-</b>	<b>C\$0.62</b>	<b>C\$0.62</b>

The following table summarizes information about the stock options outstanding at March 31, 2008:

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
1,350,000	\$2.00	\$2.00	3.05	945,833	\$2.00
100,000	\$2.00	\$2.00	3.17	58,333	\$2.00
130,000	\$2.00	\$2.00	3.55	54,167	\$2.00
20,000	\$2.00	\$2.00	3.71	8,333	\$2.00
25,000	\$2.00	\$2.00	3.90	12,500	\$2.00
150,000	\$2.00	\$2.00	3.99	50,000	\$2.00
150,000	\$2.00	\$2.00	4.14	-	\$2.00
1,925,000	\$2.00	\$2.00	3.64	1,129,166	\$2.00
140,000	\$0.62	\$0.62	3.05	81,667	\$0.62
10,000	\$0.62	\$0.62	3.17	5,833	\$0.62
25,000	\$0.62	\$0.62	3.42	12,500	\$0.62
45,000	\$0.62	\$0.62	3.71	18,750	\$0.62
35,000	\$0.62	\$0.62	3.90	11,667	\$0.62
20,000	\$0.62	\$0.62	3.99	6,667	\$0.62
75,000	\$0.62	\$0.62	4.14	-	\$0.62
1,150,000	\$0.62	\$0.62	4.43	100,000	\$0.62
500,000	\$0.62	\$0.62	4.50	-	\$0.62
185,000	\$0.62	\$0.62	4.59	-	\$0.62
10,000	\$0.62	\$0.62	4.62	-	\$0.62
20,000	\$0.62	\$0.62	4.72	-	\$0.62
315,000	\$0.62	\$0.62	4.80	-	\$0.62
500,000	\$0.62	\$0.62	4.85	-	\$0.62
500,000	\$0.62	\$0.62	4.91	-	\$0.62
3,530,000	\$0.62	\$0.62	4.19	237,084	\$0.62
<b>Total</b>	<b>5,455,000</b>			<b>1,366,250</b>	

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**10. Related Party Transactions**

- (a) The Company previously entered into a consulting agreement in which a family member of a senior executive was paid \$12,000 during the three months ended March 31, 2008 (2007 - \$12,000) for advisory board services. This agreement has been cancelled effective April 1, 2008 and no future payments are expected.
- (b) Equipment purchases and equipment repairs of \$668,517 were recorded during the three months ended March 31, 2008 (2007 - \$382,897) to two companies controlled by a director. All transactions are competitive with arms-length third party charges. There was an outstanding balance at March 31, 2008 of \$312,490 (2007 - \$240,703).
- (c) The Company leases real property from a company controlled by a board member of the Company. For the three months ended March 31, 2008, \$64,500 (2007 - \$54,500) was recorded in lease payments.

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

**11. Commitments**

- (a) As at March 31, 2008, the Company has made deposits and progress payments in the amount of \$8,923,830 toward the purchase of equipment to be delivered in the second and third quarters of 2008. The total progress payments and balance due on delivery is estimated to be \$14,462,437 and will be funded by the debt 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 \$78,535. The leases are structured as operating leases. As at March 31, 2008, the total deposits on operating leases is \$391,085. The Company has also entered into several lease agreements for the rental of real property. As a result of the closing of several district locations, the Company has negotiated releases from two of its real property lease agreements. The Rosharon facility will require a reletting fee of \$73,000 with a release date of April 30, 2008. The Yoakum facility will require no reletting fee and a release date of April 30, 2008.

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

2008	\$	1,131,162
2009		1,266,947
2010		657,075
2011		243,278
2012		71,219
	<b>\$</b>	<b><u>3,369,681</u></b>

**12. Financial Instruments and Risk Management**

The Company's activities expose it to a variety of financial risks of 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 many different 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. Three (December 2007 – one) customers accounted for 38% (December 2007 – 11%) of the outstanding receivable balance at March 31, 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 March 31, 2008.

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

	<b>March 31, 2008</b>		<b>December 31, 2007</b>	
	<b>% of</b>		<b>% of</b>	
	<b>Accounts</b>	<b>Outstanding</b>	<b>Accounts</b>	<b>Outstanding</b>
	<b>receivable</b>	<b>balance</b>	<b>receivable</b>	<b>balance</b>
Customer A	<b>20%</b>	<b>\$ 1,700,243</b>	11%	\$ 723,152
Customer B	<b>14%</b>	<b>1,208,789</b>	0%	-
Customer C	<b>4%</b>	<b>339,204</b>	0%	-
<b>Total</b>	<b>38%</b>	<b>\$ 3,248,236</b>	<b>11%</b>	<b>\$ 723,152</b>

For the three months ended March 31, 2008 approximately 27% (2007- 15%) of the revenues were earned from two customers.

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 March 31, 2008:

Total accounts receivable	\$ 9,400,686
Less: Allowance for doubtful accounts	(562,790)
<b>Total accounts receivable, net</b>	<b><u>\$ 8,837,896</u></b>

Of which:

Not overdue; under 30 days	\$ 3,036,888
Past due for more than one day but not more than three months	4,288,257
Past due for more than three months but not more than six months	1,212,570
Past due for more than six months but not more than one year	428,676
Past due for more than one year	434,295
Less: Allowance for doubtful accounts	(562,790)
<b>Total accounts receivable, net</b>	<b><u>\$ 8,837,896</u></b>

The Company reviews its accounts receivable for indicators of impairment on a quarterly basis and has recorded an allowance for doubtful accounts provision of \$562,790 (2007 – \$624,670). This impairment is mostly the result of customers who have filed bankruptcy or who are experiencing financial difficulties.

At March 31, 2008, a significant portion of the Company's unrestricted 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 investments. 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 because of changes in market prices. 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 March 31, 2008, the Company had a net monetary obligation of \$57,138 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 \$2,500. 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. The Company 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 debt facility or to issue additional equity instruments. The Company maintains an insurance program to minimize exposure to 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 (Note 8) as the Company is currently in violation of debt covenants, there is a risk that the Company may not be able to meet its obligations as they come due (Note 2).

**13. 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. The Company defines its capital as shareholders' equity and long-term 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 reclassified from long term debt to short term debt (Note 8) due to the breach of debt covenants. 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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The following table illustrates the Company's total capital and its financial ratios as at March 31, 2008 and December 31, 2007:

	<b>Objectives</b>	<b>March 31, 2008</b>	<b>December 31, 2007</b>
Long-term debt, including current portion		\$ 47,920,158	\$ 47,025,554
Shareholders' equity		(4,246,356)	(87,291)
Total Capital		<u>\$ 43,673,802</u>	<u>\$ 46,938,263</u>
Total debt principal and interest expense payments		\$ 1,772,108	\$ 6,474,503
Total EBITDAS		<u>\$ (613,569)</u>	<u>\$ (1,255,668)</u>
Total Interest to EBITDAS	Not less than 1.0 to 1.0	<u>(2.89)</u>	<u>(5.16)</u>
Current Assets		\$ 11,570,325	\$ 17,968,545
Current Liabilities		53,914,609	54,840,722
Less: Reclassification of long term debt		(46,373,283)	(45,478,679)
Adjusted current liabilities		<u>\$ 7,541,326</u>	<u>\$ 9,362,043</u>
Total Working Capital	Not less than 1.0 to 1.0	<u>1.53</u>	<u>1.92</u>

The Company is also subject to financial covenants within its credit facility agreement, which are measured on a quarterly basis. One such covenant requires our Lender to maintain 9.9% of fully diluted shares issued in the form of Warrants. Therefore, as additional capital is raised or shares issued, the number of Warrants issued to the Lender must also increase. Furthermore, the Company has reached an agreement with its senior Lender in which an amendment to the original note purchase agreement (the "Note Purchase Agreement") will be made and a waiver will be received for all covenant violations subject to the closing of the offer made by Quest (Note 16).

#### **14. Discontinued Operations**

As a result of the Company's decision to restructure its operations and the continued depressed Canadian oilfield 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 no changes have been made to prior period statements as these operations originated in the second quarter of 2007. During the three months ended March 31, 2008 the Company reported a \$121,743 loss from discontinued operations. The Company has recorded a liability for future costs associated with these discontinued operations of \$17,777 at March 31, 2008.

#### **15. 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.

The Company is a defendant in arbitration brought by two former officers of a subsidiary. The arbitration was brought as a wrongful termination matter and the Company has filed a counterclaim relating to the arbitration. The Company alleges that the related party transactions were not at fair value. The Company has entered into confidential settlement negotiations and has made a provision based on management's estimate of the settlement.

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The acquisition of A to Z Pressure Pump Services, LLC in 2006 contained an earn-out provision based on certain criteria. The Company has determined that none of the provisions of the acquisition were met and therefore, no earn-out is due to the former owners. However, the former owners are disputing the Company's position and the matter is currently being reviewed by outside counsel. Management believes the Company's position is accurate and therefore, no estimated provision for additional earn-out has been included in the accompanying financial statements.

**16. Subsequent Events**

On April 18, 2008, the Company and Quest, an indirect wholly owned subsidiary of Al Qahtani Marine & Oilfield Services Co. of Saudi Arabia ("Al Qahtani"), have entered into a definitive agreement under which Quest has agreed to make an offer to purchase all the outstanding Common Shares of the Company for CDN \$0.65 per share (the "Offer"). The Offer is conditional upon, among other things, there having been validly deposited under the Offer and not withdrawn at least 51% of the outstanding Common Shares calculated on a diluted basis. Under the terms of the agreement, Quest has commenced a cash tender offer to acquire 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 Preferred Shares which are tendered to the Offer, for CAD \$0.65 per share. The Offer has been made only for the Common Shares and has not been made for any options, Warrants, Series A Preferred Shares or other rights to acquire such securities. Additionally, Quest has agreed to deposit \$2.5 million to the Company in order to offset some of the Company's expenses in connection with the Offer which upon completion of the offer Quest will contribute as equity. The deposit was received on May 9, 2008. 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 later in the other Gulf Cooperation countries, Yemen, Iraq and their respective territorial waters.

The Company has reached a settlement with the former owners of its acquisition of Wireline Specialists of Louisiana, Inc. ("Wireline"), which was acquired on March 5, 2007, in connection with the earn-out provision of the acquisition agreement pursuant to which an additional 461,538 common shares were issued to the former owners of Wireline in the second quarter of 2008.

The Company has reached an agreement with its Lender in which an amendment to the original Note Purchase Agreement will be made and a waiver will be received for all covenant violations subject to the closing of the Offer by Quest for all of the Company's issued and outstanding common shares. The Lender will also consent to the change of control of the Company upon completion of the Offer. Subject to closing of the Offer (the "Closing Date"), the Company will pay the Lender a restructuring fee of \$4.0 million, with \$2.0 million of such fee being due and payable on the Closing Date and the remaining \$2.0 million being due and payable upon the earlier of (a) the date the obligations owing under the Note Purchase Agreement are repaid or prepaid in full, and (b) the maturity date for the remaining aggregate outstanding principal amount of the obligations under the Note Purchase Agreement, which is amended to one year from the Closing Date. Further, upon the Closing Date, the Company will pay to the Lender \$15.0 million towards the current outstanding debt which such payment causing a release of all security against the accounts receivable of the Company. Upon the Closing Date, the Company will furthermore amend the terms of the existing Warrants held by the Lender to (a) fix the exercise price for the Warrants at CAD \$0.65 per share, (b) reduce the number of the PEG common shares to be issued on the exercise of the Warrants to 3,000,000 from 8,236,436, (c) extend the term for the exercise of the Warrants to the period of four years following the Closing Date, and (d) provide that if the Company is taken private, the Lender will have certain rights to have the Company redeem the Warrants. The maturity date for the remaining aggregate outstanding principal amount of the obligations under the amended Note Purchase Agreement shall be modified to be one year from the Closing Date with the ability, at the option of the Company, 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 exercisable at CAD \$0.65. Also the Lender and the Company have agreed, subject to the Offer closing, to modify the financial covenants.