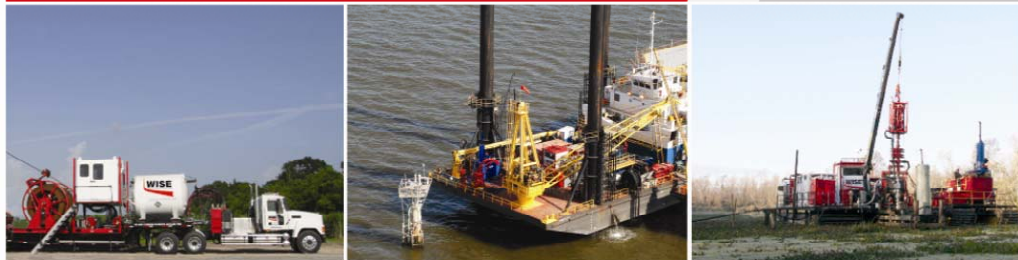


**Production Enhancement Group, Inc.**  
TSX: WIS



WISE® Well Intervention Systems:  
Faster, Safer, Economical  
Offshore, Onshore, In-Between

**THINK MODULAR**  
**THINK MULTIFUNCTIONAL®**



**PRODUCTION ENHANCEMENT GROUP, INC.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

***FOR THE YEAR ENDED DECEMBER 31, 2008***

**March 31, 2009**

## MANAGEMENTS' DISCUSSION AND ANALYSIS ("MD&A")

The following Annual Management Discussion and Analysis ("MD&A") of financial results of Production Enhancement Group, Inc. ("PEG," or the "Company") for the three and twelve months ended December 31, 2008, should be read in conjunction with the audited annual consolidated financial statements and related notes and is based on information available to March 31, 2009. This discussion should not be considered all-inclusive, as it excludes changes that may occur in general economic, political and environmental conditions. Additional information is also available on the Company's website ([www.productionenhancement.com](http://www.productionenhancement.com)) and all previous public filings are available through SEDAR ([www.sedar.com](http://www.sedar.com)) including a copy of the Company's latest Annual Information Form. The audited consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Notes referred to herein relate to the December 31, 2008 consolidated financial statements.

The Company has adopted the United States dollar ("USD") as its reporting currency as the vast majority of current operations are located in the United States. All numbers are in United States dollars unless otherwise detailed as "CAD" for Canadian dollars.

### ***SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS***

Certain statements in this MD&A are forward-looking statements or information, (collectively "forward-looking statements,") within the meaning of applicable Canadian Securities legislation. The Company is hereby providing cautionary statements identifying important factors that could cause the Company's actual results to differ materially from those projected in forward-looking statements made in this MD&A. Any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions or future events or performance (often, but not always, through the use of words or phrases such as "will likely result," "are expected to," "will continue," "is anticipated," "estimated," "intend," "plan," "projection," "could," "vision," "goals," "objective" and "outlook") are not historical facts and may be forward-looking statements and may involve estimates, assumptions and uncertainties which could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements. In particular, but not all inclusive, the 2009 joint venture projects internationally, the Company's acquisition strategy, the anticipated effects on PEG's liquidity and financial position due to the current macroeconomic environment, cost reductions, negotiations with its lenders, the Company's assessment of its financial instruments and capital risk management including credit risk, market risk and liquidity risk, credit facility borrowing, oil and gas price fluctuations on the impact to our utilization levels, our plans and forecasts for strategic expansion and our plans to capture value through business opportunities are forward-looking statements.

Although the Company believes that the expectations reflected by the forward-looking statements presented in this MD&A are reasonable, our forward-looking statements have been based on assumptions and factors concerning future events that may prove to be inaccurate. Those assumptions and factors are based on information currently available to us about ourselves and the businesses in which we operate. Information used in developing forward-looking statements has been acquired from various sources including third party consultants, suppliers, regulators and other sources. In some instances, material assumptions are disclosed elsewhere in this MD&A in respect of forward-looking statements. We caution the reader that the following list of assumptions is not exhaustive. The material factors and assumptions used to develop the forward-looking statements include but are not limited to:

- no significant adverse changes to energy markets, competitive conditions, the supply and demand for crude oil and natural gas or the political, economic and social stability of the jurisdictions in which we operate;
- no significant delays that may result from the inability of suppliers to meet their commitments, lack of regulatory approvals or other governmental actions, harsh weather or other calamitous event;
- no significant disruption of our operations such as may result from harsh weather, natural disaster, accident, civil unrest or other calamitous event;
- no significant unexpected technological or commercial difficulties that adversely affect our services;
- continuing availability of economical capital resources; demand for our products and our cost of operations;

- no significant adverse legislative and regulatory changes, in particular changes to the legislation and regulation governing fiscal regimes and environmental issues; environmental risks and liability under provincial/state, federal or other jurisdictions;
- stability of general domestic and global economic, market and business conditions; and
- no significant increase in our cost structures.

Because actual results or outcomes could differ materially from those expressed in any forward-looking statements, investors should not place undue reliance on any such forward-looking statements. By their nature, forward-looking statements involve numerous assumptions, inherent risks and uncertainties, both general and specific, which contribute to the possibility that the predicted outcomes will not occur. The risks, uncertainties and other factors, many of which are beyond our control, that could influence actual results include, but are not limited to:

- crude oil and natural gas prices;
- the level of operations carried on by PEG's customers;
- the effects of competition in the markets in which the Company operates;
- the economic conditions of the markets in which PEG conducts business;
- difficulty in continuing to develop, produce and commercialize technologically advanced services;
- the availability and cost of labor, material and equipment to efficiently, effectively and safely undertake our projects;
- the costs to operate equipment in an efficient, reliable and safe manner;
- potential actions of governments, regulatory authorities and other stakeholders in the jurisdictions where the Company has operations;
- prevailing climatic conditions in the Company's operating locations;
- regulations to deal with climate change issues;
- changes to government fiscal policies;
- changes in workforce demographics; and
- the cost and availability of capital, including access to capital markets at acceptable rates.

These and other factors are discussed throughout this MD&A and in our Annual Information Form, available on SEDAR at [www.sedar.com](http://www.sedar.com).

Further, any forward-looking statement speaks only as of the date on which such statement is made, and, except as required by applicable securities laws, the Company undertakes no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for management to predict all of such factors and to assess in advance the impact of each such factor on the Company's business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

## *NON-GAAP MEASURES*

This MD&A contains the term Earnings Before Interest, Taxes, Depreciation and Amortization and Stock Based Compensation (“EBITDAS”) which should not be considered an alternative to, or more meaningful than “net income” or “cash flow from operating activities” as determined in accordance with Canadian GAAP as an indicator of the Company’s financial performance. This term does not have any standardized meaning as prescribed by Canadian GAAP and therefore, the Company’s determination of EBITDAS may not be comparable to that reported by other companies. However, the Company calculates EBITDAS consistently for each reporting period. EBITDAS is calculated from the consolidated statements of operations and retained earnings (deficit) as gross margin less selling, general and administrative expenses, excluding stock based compensation. The Company evaluates its performance based on EBITDAS. The Company considers EBITDAS to be a key measure as it demonstrates the Company’s ability to generate the cash necessary to fund future capital investments.

## **OVERVIEW 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., a Texas corporation (“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 oil and natural gas well services. WWIS provides specialized coiled tubing (“CT”), pressure pumping, nitrogen, and slickline services to oil and gas producers and operators in Texas, Louisiana, Mississippi and the inland and offshore waters of the Gulf of Mexico. In June 2008, the Company announced that concurrent with the successful completion of the acquisition by Quest Energy Services (Canada) Ltd. (“Quest”), an indirect wholly owned subsidiary of Al-Qahtani Marine & Oilfield Services Co. of Saudi Arabia (“Al-Qahtani”), the Company would reinstate the Joint Venture and the WISE™ technology license agreements. The Joint Venture Agreement establishes a Saudi company to be named Abdul Hadi Al Qahtani WISE Co. Ltd. (the “JV Company”). It will carry out the joint venture business and the production and delivery by PEG of mobile WISE™ units to service both offshore and onshore facilities. In April, 2008, the Company was awarded a one-year (plus) contract to provide primary and secondary cementing as well as stimulation services to Belize Natural Energy Limited (“BNE”). WWIS commenced operations in Belize in May, 2008; however, these services were subsequently discontinued in December 2008 primarily due to declining oil and gas prices. The WISE Alberta transaction, which closed on April 27, 2007, was intended to provide CT services to western Canada. WWIT was incorporated on August 9, 2007 to commercialize the Company’s proprietary technology, but has not had any significant operations to date. In January 2008, the Company announced that it had closed some of its field offices, including its Canadian operations that were headquartered in Brooks, Alberta. This was done in an effort to streamline operations, improve cash flow and reduce costs. The Canadian operations are presented in the accompanying 2008 and 2007 consolidated financial statements as discontinued operations.

**SELECTED ANNUAL FINANCIAL INFORMATION** <sup>(1), (2), (3)</sup>

	Three months ended December 31,			Twelve Months Ended December 31,			2006
	2008	2007	% Change	2008	2007	% Change	
Revenue <sup>(1)</sup>	7,292,044	8,710,132	-16%	32,996,871	31,507,611	5%	21,035,307
EBITDAS <sup>(2)</sup>	(1,449,218)	(2,604,700)	44%	(5,153,693)	(2,831,397)	-82%	144,570
ADJ EBITDAS <sup>(3)</sup>	(1,484,163)	(2,604,700)	43%	(2,969,994)	(2,831,397)	-5%	144,570
Loss before income taxes	(10,759,447)	(7,164,256)	-50%	(29,513,678)	(15,827,811)	-86%	(4,645,833)
Net loss from continuing operations	(10,817,934)	(7,913,411)	-37%	(29,676,174)	(16,576,966)	-79%	(4,240,547)
Net loss from discontinued operations	(24,054)	(2,639,631)	99%	(174,256)	(3,159,663)	94%	-
Loss per share from continuing operations <sup>(4)</sup>	(0.10)	(0.14)	29%	(0.34)	(0.30)	-13%	(0.09)
Loss per share from discontinued operations <sup>(4)</sup>	0.00	(0.05)	100%	(0.00)	(0.06)	100%	-
Total assets	42,860,060	54,753,431	-22%	42,860,060	54,753,431	-22%	32,018,488
Notes and debt	38,188,750	47,838,163	-20%	38,188,750	47,838,163	-20%	14,275,015
Number of common shares outstanding:							
Weighted average (basic and diluted)	107,901,283	56,403,874	91%	86,583,018	55,827,957	55%	48,977,421

- (1) WISE Alberta was classified as loss from discontinued operations in the financial statements.
- (2) EBITDAS means earnings from continuing operations before interest, taxes, depreciation and amortization and stock based compensation. Readers are cautioned that EBITDAS is generally regarded as an indirect measure of operating cash flow and, as such, the Company believes it is a significant indicator of success of public companies, and is particularly relevant to readers within the investment community. These measures do not have any standardized meaning prescribed by Canadian GAAP and may not be comparable to similar measures presented by other companies; however, PEG is consistent in its calculation of EBITDAS for each reporting period.
- (3) For purposes of calculating the Company's financial covenants, EBITDAS does not include the Company's expenses associated with the Quest Offer (purchase of common shares of the Corporation by Quest Energy Services (Canada) Ltd.) in the amount of \$(34,945) and \$2,183,699 for the three and twelve months ended December 31, 2008.
- (4) Basic and diluted shares.

## FOURTH QUARTER HIGHLIGHTS

The Company's fourth quarter 2008 revenue decreased 16% compared to the fourth quarter of 2007. EBITDAS for the fourth quarter 2008 was a loss of (\$1,449,000) compared to an EBITDAS loss of (\$2,605,000) for the fourth quarter of 2007. The fourth quarter 2008 net loss from continuing operations dropped to (\$10,818,000) from the (\$7,913,000) net loss in the fourth quarter of 2007. The current quarter net loss from discontinued operations was (\$24,000) compared to a loss of (\$2,640,000) in the fourth quarter of 2007. Net loss per share from continuing operations was (\$0.10) for the fourth quarter of 2008 versus the (\$0.14) loss per share in the fourth quarter of 2007. The weighted average shares outstanding increased 91% in the current quarter compared to the fourth quarter of 2007.

Fourth quarter operations continued to be impeded by the impact of the three hurricanes and a tropical storm in the Gulf of Mexico experienced in the third quarter of 2008. The two strongest storms, Hurricanes Gustav and Ike, each came ashore with sustained winds of 110 mph and heavy rains, and Hurricane Ike pushed a 20 ft. wall of water across Galveston, Texas. While Company personnel and assets incurred only minor damage from the storms; damage to infrastructure of the Company's client base was substantial. In September, the US Mineral Management Service reported that more than 700 offshore production platforms or drilling rigs had been evacuated and production of 1,300 mb/d of oil and 7.3 bcf/d of natural gas was shut-in. Reports, which are constantly changing, are that production in many areas of the Gulf will take until the end of the year before being restored, and in some cases, may never be restored. The lower equipment utilization created by these natural disasters had a negative impact on the Company's financial performance.

The Company ceased all operations in Belize in December 2008 and all equipment and personnel have been returned to the United States.

The Company performed impairment testing of our long-lived assets, goodwill and intangibles of all our reporting units and determined that an impairment charge existed in the amount of \$5,287,000. This was primarily a result of a decline in service pricing, the continuing decline of oil and natural gas prices and the deterioration of the credit markets which are having a negative impact on the Company's financial performance.

The Company has funded its 40% initial capital contribution for the joint venture with Al-Qahtani Marine & Oilfield Services Co. of Saudi Arabia in the amount of \$216,059. The Joint Venture Agreement establishes a Saudi company to be named Abdul Hadi Al Qahtani WISE Co Ltd to carry out the joint venture business and the production and delivery by PEG of mobile WISETM units to service both offshore and onshore facilities

The Company has entered into a \$7.5 million accounts receivable facility ("Facility") to be used for working capital and general business purposes with a major banking institution ("Bank"). This Facility provides working capital to meet our sales growth to ensure that the Company will have the financial flexibility to meet the needs as the business expands. However the current deterioration of the credit markets may affect the ability to borrow additional funds and this, if it occurs, will have an adverse impact to the Company.

In response to a decline in service pricing, the continuing decline of oil and natural gas prices and the deterioration of the credit markets which are having a negative impact on the Company's financial performance in 2009, the Company has cut personnel, suspended 401k matching and lowered salaries/wages from field to top management in the first quarter of 2009. The Company has reduced fixed costs by approximately \$400,000 per month through these actions.

The Company will not be able to meet the first quarter 2009 principal and interest payments due to the Lender by March 31, 2009 and will be in breach of its debt covenants. In addition, the liquidity situation of the Company is marginal. The Lender has been advised of this situation and the Company and Lender are in discussions to amend the terms of the loan agreements. The Company believes such amendment will be finalized by the end of the second quarter of 2009. However, such discussions are preliminary at this time and no agreement on terms has been reached to date.

PEG had cash and restricted cash of \$1,529,000 at December 31, 2008 compared to \$4,925,000 as at December 31, 2007.

## **RESULTS OF OPERATIONS FOR THREE MONTHS ENDED DECEMBER 31, 2008**

Consolidated revenues for the three months ended December 31, 2008 and 2007 were \$7,292,000 and \$8,710,000 respectively. The Company experienced continued lower utilization due to the impact still being felt by the hurricanes in the third quarter of 2008.

- Coiled Tubing Division revenues for the fourth quarter of 2008 were \$4,118,000, a 5% decrease from the 2007 fourth quarter revenues of \$4,328,000. The current quarter decrease compared to the same period in 2007 was primarily attributable to lower onshore and offshore equipment utilization caused by the hurricane related well service delays.
- Pumping Division revenues for the fourth quarter of 2008 were \$1,966,000, a 12% decrease over the 2007 fourth quarter revenue of \$2,224,000. This decrease was primarily due to lower offshore utilization due to the adverse impact of the hurricanes. The Company is also being impacted by pricing pressure due to the decline in oil and gas prices.
- The Slickline Services Division revenues for the fourth quarter of 2008 were \$859,000, a 55% decrease from fourth quarter 2007 revenue of \$1,888,000 due to the hurricane related activity.
- The Nitrogen Services Division contributed \$350,000 in revenues during the fourth quarter of 2008, a 29% increase from fourth quarter 2007 revenue of \$271,000.

Cost of services for the three months ended December 31, 2008 and 2007 were \$5,622,000 and \$5,774,000 respectively.

- Coiled Tubing Division cost of services increased to \$3,073,000 in the fourth quarter of 2008 from \$2,709,000 in the fourth quarter of 2007. The gross margin for the Coiled Tubing Division was 25% and 37% for the three months ended December 31, 2008 and 2007 respectively. The Coiled Tubing Division gross margin declined primarily due to lower equipment utilization, in part due to Hurricanes Gustav and Ike, continued increased labor cost for experienced technical personnel and increased high-level equipment refurbishment programs.
- The cost of services for the Pumping Division increased to \$1,537,000 in the fourth quarter of 2008 from \$1,435,000 in the fourth quarter of 2007, an increase of 7%. The gross margin for the Pumping Division was 22% and 35% for the three months ended December 31, 2008 and 2007 respectively.
- The Slickline Services Division cost of services decreased to \$803,000 in the fourth quarter of 2008 from \$1,420,000 in the same quarter of 2007, a decrease of 43%. The gross margin for the Slickline Services Division was 6% for the three months ended December 31, 2008 and 25% for the three months ended December 31, 2007.
- The Nitrogen Services Division cost of services decreased slightly to \$209,000 in the fourth quarter of 2008 from \$210,000 in the same quarter of 2007. The gross margin for the Nitrogen Services Division was 40% for the three months ended December 31, 2008 and 22% for the three months ended December 31, 2007.

Selling, general and administrative (SG&A) expenses for the three months ended December 31, 2008 and 2007 were \$3,570,000 and \$4,133,000 respectively. These amounts consist primarily of salaries and costs associated with various operating activities, finance, acquisition cost and general corporate expenditures. SG&A excludes one-time restructuring charges such as the fourth quarter of 2007 restructuring charge of \$1.4 million. Management continues to focus on cost management.

EBITDAS for the three months ended December 31, 2008 and 2007 were (\$1,449,000) and (\$2,605,000), respectively. The improvement from the fourth quarter last year was primarily attributable to the restructuring charge recorded in 2007. EBITDAS excludes \$123,000 and \$355,000 loss on disposal of assets for the three months ended December 31, 2008 and 2007 respectively.

The Company's interest expense and amortization costs, net of loss on disposal of assets, for the three months ended December 31, 2008 and 2007 were \$9,022,000 and \$4,537,000 respectively. Increased expenses were primarily due to the impairment of long-lived assets and goodwill. The Company performed impairment testing of our long-lived assets, goodwill and intangibles of all our reporting units and determined that an impairment charge existed in the amount of \$5,287,000, which includes \$20,000 associated with discontinued operations. This was primarily a result of a decline in service pricing, the continuing decline of oil and natural gas prices and the deterioration of the credit markets which are having a negative impact on the Company's financial performance.

The Company recorded net losses before taxes and before discontinued operations for the three months ended December 31, 2008 and 2007 of (\$10,759,000) and (\$7,164,000) respectively. The increase in net loss from the prior year is primarily due to year end impairment losses on long-lived assets and goodwill.

In December 2007, the Company terminated the operations of its Canadian subsidiary WISE Alberta. The closing of these operations was completed in the first quarter of 2008. The assets and liabilities have been reclassified as discontinued operations and the Company's Canadian operations for the 2008 and 2007 period are reported as loss from operations of discontinued operations (as discussed in Note 20 to the consolidated financial statements for the year ended December 31, 2008).

## **RESULTS OF OPERATIONS FOR YEAR ENDED DECEMBER 31, 2008**

Consolidated revenues for the twelve months ended December 31, 2008 and 2007 were \$32,997,000 and \$31,508,000 respectively.

- Coiled Tubing Division revenues for the fiscal year of 2008 were \$16,843,000, an 11% decrease from the same period revenues in 2007 of \$19,023,000. This decrease in the twelve month period was primarily attributable to lower equipment utilization, in part due to the third quarter Hurricanes Gustav and Ike.
- Pumping Division revenues for the fiscal year of 2008 were \$9,009,000 a 36% increase over the same period revenues in 2007 of \$6,603,000. The increase was primarily attributable to the Belize operations which started May 2008.

- The Slickline Services Division contributed revenues of \$5,954,000 in the fiscal year of 2008, a 6% increase compared to \$5,611,000 in revenues generated during the same period in 2007. This service offering was acquired effective March 1, 2007 and revenues in the twelve month period of 2007 include ten months of activity compared to twelve months in the 2008 period.
- The Nitrogen Services Division contributed \$1,191,000 in revenue during the fiscal year of 2008, a 340% increase compared to \$271,000 in revenues generated during the same period in 2007. This service offering was operational in October 2007 and revenues in the twelve month period of 2007 include three months of activity compared to twelve months in the 2008 period.
- WISE Alberta, a Canadian coiled tubing business that was acquired on April 27, 2007, was classified in the fourth quarter of 2007 as discontinued operations due to the Company's decision to close the Canadian operations and the Brooks, Alberta field office.

Cost of services for the twelve months ended December 31, 2008 and 2007 were \$25,364,000 and \$20,078,000, respectively.

- Cost of services for the Coiled Tubing Division increased to \$13,376,000 during the twelve months of 2008 from \$10,814,000 in the same period of 2007, an increase of 24%. The gross margin for the Coiled Tubing Division was 21% and 43% for the twelve months ended December 31, 2008 and 2007 respectively. The Division gross margin declined primarily due to lower equipment utilization, in part caused by the Hurricanes Gustav and Ike, increased labor cost for experienced technical personnel and increased high-level equipment refurbishment programs.
- Cost of services for the Pumping Division increased to \$6,913,000 during the twelve months of 2008 from \$4,871,000 in same period of 2007, an increase of 42%. The gross margin for the Pumping Division was 23% and 26% for the twelve months ended December 31, 2008 and 2007 respectively.
- Cost of services for the Slickline Services Division increased to \$4,147,000 in the twelve months of 2008 from \$4,187,000 in the same period of 2007, a decrease of 1%. The gross margin for the Slickline Services Division was 30% for the twelve months ended December 31, 2008 and 25% for the same period ended December 31, 2007.
- Cost of services for Nitrogen Services Division was \$928,000 with a gross margin of 22% during the twelve months of 2008 from \$206,000 with a gross margin of 24% in same period of 2007.

SG&A expenses for the twelve months ended December 31, 2008 and 2007 were \$14,079,000 and \$13,264,000 respectively. These amounts consist primarily of salaries and costs associated with various operating activities, finance, acquisition cost, and general corporate expenditures. The Company has restructured corporate and divisional overhead expense and continues to focus on cost management; however, these benefits were offset in the twelve months of 2008 by \$2,184,000 of SG&A expense related to one time costs of the Quest Offer. SG&A excludes one-time restructuring charges of \$1.4 million in 2007 and a recovery of \$0.5 million in 2008.

EBITDAS for the twelve months ended December 31, 2008 and 2007 were (\$5,154,000) and (\$2,831,000) respectively. The decline from the twelve months last year was primarily attributable to lower utilization of the Company's equipment, in part due to Hurricanes Gustav and Ike, higher labor cost for technical personnel and one-time transactions costs associated with the Quest Offer. EBITDAS excludes \$407,000 and \$360,000 loss on disposal of assets for the twelve months ended December 31, 2008 and 2007, respectively.

The Company's interest expense and amortization costs, net of loss on disposal of assets and impairments, for the twelve months ended December 31, 2008 and 2007 were \$23,568,000 and \$12,563,000 respectively. The twelve months 2008 interest expense includes a one time \$4 million charge associated with a partial prepayment of \$15 million applied to the outstanding senior credit facility. These funds were partial proceeds from equity issued to Quest that formed part of the acquisition transaction. Additionally, interest expense was higher due to increases in debt to fund capital assets and higher financing cost. The Company performed impairment testing of our long-lived assets, goodwill and intangibles of all our reporting units and determined that an impairment charge existed in the amount of \$5,287,000 for 2008, which includes \$20,000 associated with discontinued operations. This was primarily a result of a decline in service pricing, the continuing decline of oil and natural gas prices and the deterioration of the credit markets which are having a negative impact on the Company's financial performance.

The Company recorded earnings before taxes and before discontinued operations for the twelve months ended December 31, 2008 and 2007 of (\$29,514,000) and (\$15,828,000), respectively. The increase in net loss from the prior year is primarily the result of lower CT equipment utilization, in part due to Hurricanes Gustav and Ike, higher labor cost for technical personnel, and one time costs related to the Company's credit facility restructure and the Quest Offer.

Net cash provided (used in) by operating activities before changes in non-cash working capital was (\$15,645,000) and (\$7,274,000) for the twelve months ended December 31, 2008 and 2007, respectively.

Cash flow provided (used in) by financing activities was \$12,310,000 and \$36,561,000 for the twelve months ended December 31, 2008 and 2007, respectively. Activity in the twelve months included proceeds from the sale of common shares to Quest for a net amount of \$24,148,000 and \$3,000,000 from increasing long term debt. These cash inflows were offset by the retirement of long term debt of \$15,000,000. The cash flow in the same period of 2007 is primarily the result of net proceeds from a preferred stock offering of \$4,540,000 and net long-term borrowings of \$34,679,000 to fund the Company's capital expenditures.

Cash flow from (used in) continuing investing activities was (\$388,000) and (\$28,562,000) for the twelve months ended December 31, 2008 and 2007, respectively. The Company undertook an aggressive capital asset expansion plan that began in the third quarter of 2006 and will continue through the second quarter of 2009. The majority of the capital expenditures relate to costs associated with the manufacture of CT units, nitrogen units and pressure pumping equipment. During the twelve months of 2008, cash flow was increased \$3,600,000 from proceeds on the sale of two nitrogen units and \$3,138,000 provided from restricted cash used to fund operating costs and interest payments due to the lender. Additionally, the Company invested \$6,910,000 in capital equipment. During the same period of 2007, the Company invested \$7,936,000 in the acquisition of Wireline Specialists of Louisiana Inc. and Dyna Star Energy Services Ltd. and invested \$18,109,000 in capital equipment.

Economic and industry factors have become unsettled as energy commodity prices have decreased and the U.S government copes with banking industry and associated credit market liquidity problems, and infrastructure recovery from Hurricanes Gustav and Ike continues. Company management cannot accurately predict the long-term impact these important influences will have upon operations.

## **CHANGE OF CONTROL**

On April 18, 2008, Quest offered to purchase all of the issued and outstanding common shares of the Company including common shares issuable upon the exercise of stock options and warrants and on the conversion of the preferred shares for CAD \$0.65 per share ("Offer"). The Board of Directors ("Board") of PEG engaged a third party consultant to prepare a fairness opinion in relation to the Offer and unanimously recommended acceptance of the Offer based on the opinion received. On June 6, 2008, Quest, an indirect wholly owned subsidiary of Al-Qahtani of Saudi Arabia, successfully completed its acquisition of 51,046,166 common shares of the Company. In connection with the closing of the Offer, the Company issued an additional 32,946,861 common shares to Quest at an issue price of CAD \$0.65 per share. Net proceeds were \$21 million. On July 15, 2008 Quest finalized their take-up of shares with an additional 5,705,592 shares being issued. Quest now owns 89,698,619 common shares of the Company representing approximately 83.1% of the issued and outstanding common shares of the Company. In addition, the Company's credit facility with its lender was required to be restructured upon closing of the Offer.

The Company has recorded costs for the year ended December 31, 2008 associated with the change of control that include retention bonuses for key employees paid in December, 2008 and employment contract payouts to three former executives.

## **ACQUISITIONS**

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

On March 5, 2008, the number of common shares issuable pursuant to the acquisition of WSL was adjusted per the Wireline agreement. The repricing of common shares was based on the value of the volume weighted average closing price during the twenty consecutive trading days that preceded the first anniversary of the closing date of March 5, 2007. An additional 4,321,507 common

shares issued in March 2008 were based on the repricing of the original 1,234,739 common shares from \$1.72 (CAD \$2.00) to \$0.3828 (CAD \$0.3828) per share.

On May 9, 2008, the Company reached a settlement with the former owners of WSL in connection with the earn-out provision of the Wireline agreement pursuant to which an additional 461,538 common shares were issued to the former owners of WSL. The shares were valued at CAD \$0.65. The final purchase allocations are as follows:

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

On April 27, 2007, the Company entered the western Canada oilfield services market with its purchase of all of the shares of Dyna Star Energy Services Ltd. ("Dyna Star"), a private company that provided coiled tubing and nitrogen services in Alberta. The Company assumed and refinanced Dyna Star's existing debt of CAD \$1,275,096 (USD \$1,155,083) and paid net consideration to the selling shareholders of CAD \$230,000 (USD \$208,352) cash, transaction costs of \$135,238 and 427,004 PEG common shares. 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 were issued to the sellers 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 final purchase allocations are as follows:

Net assets acquired:	
Liabilities	\$ (359,154) *
Non-cash working capital	(225,231)
Capital assets and deposits	2,435,206
Long-term debt	(1,155,083) *
	<u>\$ 695,738</u>
Consideration:	
Common shares issued at closing, net of costs	\$ 352,148
Cash	343,590 *
	<u>\$ 695,738</u>
* Net cash effect of acquisition	<u>\$ (1,857,827)</u>

## FINANCING ACTIVITIES

The Company's primary sources of financing are bank debt, accounts receivable facility and equity issuances. As a result of the Offer (Note 4 of the consolidated financial statements for the year ended December 31, 2008), the Company's credit facility has been restructured. The Company has made a principal payment of \$15 million and the maturity date of the aggregate outstanding principal amount of the debt is now June 6, 2009. The Company has the option to extend the maturity date for six months with an interest rate increase of 2% and the grant by the Company of an additional 500,000 warrants at CAD \$0.65. The lender has also amended the terms to permit pre-payment of the remaining principal balance of the obligations at no penalty. The Company has incurred a \$4 million restructuring fee, with \$2 million of such being paid at the closing of the restructuring and the remaining \$2 million due and payable upon the earlier of (a) the date the obligations owing under the agreement are paid or prepaid in full, or (b) the maturity date for the remaining aggregate outstanding principal amount of the obligations under the agreement as amended, being June 6, 2009. The restructured facility is for a total of \$40 million and borrowings under the facility bear interest at 14%, with the Company having the ability to pay 3% in kind. Payment in kind will result in an increase to the principal balance due. The effective interest rate is 14.93%. The facility is secured by all assets of the Company except the Company's accounts receivable. The Company will not be able to meet the first quarter 2009 principal and interest payments due to the Lender by March 31, 2009 and will be in breach of its debt covenants. In addition, the liquidity situation of the Company is marginal. The Lender has been advised of this situation and the Company and Lender are in discussions to amend the terms of the loan agreements. The Company believes such amendment will be finalized by the end of the second quarter of 2009. However, such discussions are preliminary at this time and no agreement on terms has been reached to date. 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 Company had originally entered into this credit facility with a major energy lending institution (the "Lender") on August 31, 2007 to provide a senior credit facility of \$70 million. This senior facility refinanced the pre-existing senior indebtedness and provided \$40 million in expansion financing for additional capital expenditures and working capital.

As a result of the Offer (Note 4 of the consolidated financial statements for the year ended December 31, 2008), the 8,236,436 warrants issued to the Lender in 2007 were cancelled and new warrants ("New Warrants") were issued to purchase up to 3,000,000 Common Shares at a fixed rate of CAD \$0.65 with a term of four years. The fair value of the New Warrants was estimated to be \$591,760 using the Black-Scholes model with the following assumptions: expected life of New Warrants four years; expected volatility of 41%; risk-free interest rate of 3.22%; and a zero dividend yield. If the Company is not publicly traded for a period of one month or more, each holder will have the option on a semi-annual basis, beginning on June 1, 2009, and continuing on each June 1 and December 1 thereafter, to put the New Warrants to the Company at a redemption price determined by (a) calculating the number of common shares for which the New Warrants are then exercisable (the "Put Shares"), which shall not include the New Warrant shares that are then outstanding, and (b) calculating an equity valuation for the Company equal to (i) the Company's trailing six months EBITDA for the period immediately ended prior to the put times twelve, minus (ii) the Company's aggregate outstanding indebtedness (net of any unrestricted cash or liquid investments) and the liquidation preference of all outstanding preferred shares of the Company, if any, and (c) calculating the redemption price for each Put Share which shall be an amount equal to the equity valuation of the Company divided by the number of all outstanding common shares of the Company, including all Put Shares and all common shares issuable upon the conversion of other outstanding securities of the Company on a fully diluted basis as if such common shares were outstanding at the time of such calculation. The unamortized value of the original warrants has been recorded as a financing cost in the current period.

The Company did not pay its principal and interest payment due December 31, 2008 until January 13, 2009 due to the negotiations in establishing an accounts receivable factoring facility.

The Company was in breach of its debt covenants with its Lender at December 31, 2007. The Lender agreed to waive said violations for an additional interest fee of \$250,000 paid on April 18, 2008. The Company was in negotiations with the Lender to amend the terms of the loan agreement which such loan was amended May 6, 2008. The Company reclassified all such long-term debt as current until such time as the amendment was finalized.

The Company has entered into a \$7.5 million accounts receivable facility ("Facility") to be used for working capital and general business purposes with a major banking institution ("Bank"). This Facility provides working capital to meet our sales growth to ensure that the Company will have the financial flexibility to meet the needs as the business expands. However, the current deterioration of the credit markets may affect the ability to borrow additional funds and this, if it occurs, will have an adverse impact to the Company.

The initial funding commitment is for \$7.5 million, with the ability to expand the Facility upon the attainment of certain financial performance criteria and additional approval by the Bank. Borrowings under the Facility bear interest at prime rate plus the Bank applicable rate (approximately 10.6%), with the Company having increased interest costs should collections not be made within 90 days of the borrowing date of the accounts receivable. The Facility will advance 80% of the gross amount of eligible accounts receivable. The borrowing under the Facility will be subject to a fixed discount fee plus a variable discount fee equal to prime rate plus 1% with a minimum of 6%.

### Financial Instruments and Risk Management

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

(a) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk arises primarily from its accounts receivables, which are typically unsecured. The objective of managing counterparty credit risk is to prevent losses relating to financial assets. This risk is generally limited due to the large base of customers and the dispersion across various geographic areas. The Company performs regular credit assessments of its customers and provides allowances for potentially uncollectible accounts receivable. The amounts disclosed in the balance sheet are net of these allowances for bad debt. Accounts receivables are considered for impairment on a case-by-case basis when they are past due or when objective evidence is received that a customer will default. Bad debt expense is recorded within selling, general and administrative expense. Three (December 2007 – two) customers accounted for 24% (December 2007 – 12%) of the outstanding receivable balance at December 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 December 31, 2008.

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

	December 31, 2008		December 31, 2007	
	% of Accounts receivable	Outstanding balance	% of Accounts receivable	Outstanding balance
Customer A	9%	\$ 519,130	11%	\$ 723,152
Customer B	8%	444,003	0%	-
Customer C	7%	405,595	1%	58,709
<b>Total</b>	<b>24%</b>	<b>\$ 1,368,728</b>	<b>12%</b>	<b>\$ 781,861</b>

For the year ended December 31, 2008 approximately 13% (2007- 14%) of the revenues were earned from one customer. No other customer accounted for more than 10% of revenue for the years ended December 31, 2008 and 2007.

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

The following table represents the details of the Company's aging of its receivables and the related allowance for doubtful accounts as at December 31, 2008:

Total accounts receivable	\$ 7,817,307
Less: Allowance for doubtful accounts	(873,489)
<b>Total accounts receivable, net</b>	<b><u>\$ 6,943,818</u></b>
Of which:	
Not overdue; under 30 days	\$ 3,463,321
Past due for more than one day but not more than three months	1,885,638
Past due for more than three months but not more than six months	1,379,581
Past due for more than six months but not more than one year	495,001
Past due for more than one year	593,766
Less: Allowance for doubtful accounts	(873,489)
<b>Total accounts receivable, net</b>	<b><u>\$ 6,943,818</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 \$873,489 (2007 – \$624,671). This impairment is primarily the result of customers who have filed bankruptcy or who are experiencing financial difficulties.

At December 31, 2008, a significant portion of the Company's cash was held at one financial institution.

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

(b) Market risk

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

(i) Interest rate risk

The Company's debt bears interest at a fixed rate and its accounts receivable facility is subject to the prime 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 December 31, 2008, the Company had a net cash position of \$1,578 denominated in Canadian dollars. In addition, the Company shares are listed on a Canadian Exchange and as such the Company's equity financing are subject to foreign currency rate fluctuations. As these risks relate to the Canadian dollar, management does not believe these risks will have a significant impact on the Company's future operations. A \$0.01 increase in the Canadian / US exchange rate would reduce the cash flow of the Company by less than \$1,000. The Company considers this risk to be limited and therefore does not hedge its foreign exchange risk.

(c) Liquidity risk

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

## Capital Risk Management

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

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

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

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

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

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

The following tables illustrate the Company's total capital and its financial ratios as at December 31, 2008 and December 31, 2007.

	Objective	December 31, 2008	December 31, 2007
Debt, including current portion		\$ 37,493,291	\$ 47,025,554
Shareholders' equity		(3,806,014)	(87,291)
Total Capital		<u>\$ 33,687,277</u>	<u>\$ 46,938,263</u>
Current Assets		\$ 10,667,518	\$ 17,968,545
Current Liabilities		46,666,074	54,840,722
Less: Exclusion of debt and debt accruals		(39,493,291)	(45,478,679)
Adjusted current liabilities		<u>\$ 7,172,783</u>	<u>\$ 9,362,043</u>
Total Working Capital	Not less than 1.0 to 1.0	<u>1.49</u>	<u>1.92</u>

	Objective	Twelve Months Ended December 31, 2008	Twelve Months Ended December 31, 2007
Net earnings (loss)		\$ (29,850,430)	\$ (19,736,629)
Plus:			
Interest expense, net of income		10,287,787	4,369,829
Income Tax		162,496	749,155
Amortization		12,894,279	7,833,839
Stock options expense		791,531	433,223
Loss on discontinued operations		153,841	3,159,663
Loss on disposal of assets		406,803	359,523
EBITDAS		<u>\$ (5,153,693)</u>	<u>\$ (2,831,397)</u>
<sup>1</sup> Total debt principal and interest expense payments		\$ 4,863,088	\$ 6,474,503
<sup>2</sup> Total Adjusted EBITDAS		<u>\$ (2,969,994)</u>	<u>\$ (2,831,397)</u>
Total Interest to EBITDAS	Not less than 1.0 to 1.0	<u>(1.64)</u>	<u>(2.29)</u>

<sup>1</sup> The Company's costs associated with the Quest Offer and the restructuring of the debt are excluded.

<sup>2</sup> For purposes of the Company's financial covenants, EBITDAS does not include the Company's expenses associated with the Quest Offer in the amount of \$2,183,699 for year ended December 31, 2008.

The Company is also subject to financial covenants within its credit facility agreement which are measured on a quarterly basis. The Company was in compliance with its financial covenants as at December 31, 2008.

As a result of the Quest Offer and the restructuring of the debt, the Company moved into a more liquid position. However, as a result of the hurricanes that affected the Gulf Coast area during the year, the continuing decline in the price of oil and natural gas and the financial distress in the credit markets, revenue was down significantly during the year ending 2008 and the Company has not met its objectives for the year ended December 31, 2008.

## **CONTRACTUAL OBLIGATIONS AND COMMITMENTS**

As at December 31, 2008, the Company has made deposits and progress payments in the amount of \$2,146,064 toward the purchase of equipment to be delivered in 2009. The total progress payments and balance due on delivery is estimated to be \$2,704,003 and has been funded by the credit facility with the Lender. On March 5, 2009 the Company advised the manufacturer of its nitrogen units that the defects being experienced in the units have not been cured. Accordingly, the Company considers the manufacturing agreement terminated and demands a full refund of all monies paid for units delivered and currently being constructed totalling \$6,201,019. The Company has advised the manufacturer that it will seek restitution legally if the demand is not satisfied.

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 \$82,181. The leases are structured as operating leases. As at December 31, 2008, the total deposits on operating leases were \$406,861. The Company has also entered into several lease agreements for the rental of real property.

The following table represents the future payments required by all of the Company's equipment and real property lease agreements as at December 31, 2008:

2009	\$	1,472,157
2010		986,937
2011		420,701
2012		272,863
2013		121,577
	\$	<u>3,274,235</u>

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

The Company's corporate office lease agreement requires a \$100,000 letter of credit. The Company has secured this letter of credit with a certificate of deposit (CD). This CD is listed as restricted cash in the accompanying financial statements.

## **RESTRUCTURING COSTS**

The Company has recognized a restructuring cost recovery of \$500,811 for the year ended December 31, 2008. The Company was able to negotiate releases from two of its real property lease agreements that had been included in the 2007 restructuring estimate and the estimate reported for the CEO termination in October 2007 was adjusted to actual cost during the year ended December 31, 2008. In addition, the cost of moving the corporate offices and the environmental clean-up of one of our facilities were both negotiated down from our original estimates.

During 2007, the Company restructured its organization to focus exclusively on delivering high quality oil and gas well intervention services in the United States and overseas. As a result the Company incurred a restructuring charge of \$1,430,729 which consisted of employee severance and terminations, lease termination costs, moving costs, capital asset write-down and professional fees.

Employee termination costs include severance and benefits for certain employees. Lease terminations include the lease payments due that the Company will continue to incur without economic benefit.

## DISCONTINUED OPERATIONS

As a result of the Company's decision to restructure its operations and the continued depressed Canadian oil and gas market, the Board voted on November 5, 2007 to discontinue its operations in the western Canadian oilfield services market. The results of operation of the Canadian operations have been reported within discontinued operations of the accompanying financial statements. During the twelve months ending December 31, 2008, the Company reported a \$174,256 loss (2007 – losses of (\$3,159,663) from discontinued operations. The Company has recorded a liability for future costs associated with these discontinued operations of nil at December 31, 2008 (\$212,057 - December 31, 2007).

## EQUIPMENT LOSS

During the fourth quarter of 2007, the Company experienced an extraordinary loss of one of its CT units. The equipment was involved in a single vehicle accident that resulted in a total loss of the unit. The loss recorded represents the net book value of the asset less the insurance payments for the unit, the truck and the trailer and is reported as loss on disposal of assets in the Company's consolidated financial statements. The portions of the unit that were salvageable were reclassified as assets under construction until such time as they were repaired and placed in service.

## 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 consolidated financial statements.

The Company is a defendant in arbitration proceedings brought by three former key employees of the Company associated with the Change of Control (see Note 4 of the consolidated financial statements for the year ended December 31, 2008) provisions in their employment agreements. The Company intends to vigorously defend each claim and has asserted, or shall assert, counterclaims that the Company has to protect the rights of the Company. The Company has made a provision based on management's estimate of the potential liability.

## LIQUIDITY AND CAPITAL RESOURCES

*Working Capital:*

(USD)	As at December 31, 2008	As at December 31, 2007
Current assets	10,667,518	17,968,545
Current liabilities	46,666,074	54,840,722
Working Capital (Deficit)	<u>(35,998,556)</u>	<u>(36,872,177)</u>

The Company is subject to financial covenants within its credit facility agreement which are measured on a quarterly basis. The Company was in compliance with its financial covenants as at December 31, 2008. As a result of the Quest Offer and the restructuring of the debt, the Company moved into a more liquid position. However, as a result of the hurricanes that affected the Gulf Coast area during the year, the continuing decline in the price of oil and natural gas and the financial distress in the credit markets, revenue was down significantly during the year ending 2008 and has impacted the Company's liquidity going forward. The Company, due to sales decline and pricing pressure, will not be able to meet the first quarter 2009 principal and interest payments due to the Lender by March 31, 2009 and will be in breach of its debt covenants. In addition, the liquidity situation of the Company is marginal. The Lender has been advised of this situation and the Company and Lender are in discussions to amend the terms of the loan agreements. The Company believes such amendment will be finalized by the end of the second quarter of 2009. However, such discussions are preliminary at this time and no agreement on terms has been reached to date. 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. Working capital at December 31, 2008 increased \$874,000 due primarily to cost control measures implemented by the Company due to lower sales. Current assets decreased as assets held for sale were disposed and restricted cash was utilized to fund operations and pay interest expense on debt obligations. Current liabilities include the balance of the debt outstanding of \$38,935,498 at December 31, 2008 as this is payable in June, 2009.

The Principal repayments required on the senior debt facility are as follows:

2008	\$	1,250,000	Payment was not made until January 13, 2009
2009		<u>37,685,498</u>	
		<b>38,935,498</b>	
Warrants		507,927	
Transaction costs		<u>934,280</u>	
Balance	\$	<u><b>37,493,291</b></u>	

The Company is funding its capital and operating needs with funds from its senior term facility, accounts receivable facility and with the net proceeds from the Company's Common Stock and Preferred Share equity offerings. Liquidity risk arises from PEG's ability to meet general funding needs and managing the assets, liabilities and capital structure of the Company. Liquidity risk is managed to maintain sufficient liquid financial resources to fund obligations as they become due in the most cost effective manner. The Company's liquidity needs are met through a variety of sources, including: cash generated from operations and the accounts receivable facility. The Company's primary uses of funds are operational expenses, capital expenditures, and interest and principal payments on credit facilities.

The recent and unprecedented disruption in the current credit markets has had a significant adverse impact on a number of financial institutions. At this point in time, our liquidity has been impacted by the current credit environment as we have seen a number of clients reduce their spending levels due to the lack of credit availability. Refinancing the existing debt with our Lender by June 6, 2009 has been impacted. We will continue to closely monitor our liquidity and the overall health of the credit markets. However, we cannot predict with any certainty the impact of any further disruption in the credit environment.

## SHARE CAPITAL

	<u>Number of Shares</u>	<u>Amount</u>
<b>Common Shares</b>		
<b>Balance, December 31, 2006</b>	<b>16,357,848</b>	<b>\$ 15,619,467</b>
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, December 31, 2007</b>	<b>56,617,376</b>	<b>17,213,519</b>
Additional shares issued pursuant to Wireline agreement	4,321,507	-
Shares issued for Wireline earnout settlement	461,538	300,000
Conversion of Preferred Stock	7,278,409	2,637,660
Shares issued to Quest, net of costs of \$488,445	32,946,861	20,511,555
Quest share take-up	5,705,592	3,636,688
Employee share take-up	570,000	363,313
<b>Balance, December 31, 2008</b>	<b>107,901,283</b>	<b>44,662,735</b>
<b>Class C Shares</b>		
<b>Balance, December 31, 2006</b>	38,297,784	-
Conversion to Common Shares	(38,297,784)	-
<b>Balance, December 31, 2007</b>	-	-
	<b>107,901,283</b>	<b>44,662,735</b>
<b>Preferred Stock</b>		
<b>Balance, December 31, 2006</b>	-	-
Preferred share offering, net of issuance costs	6,666,667	2,184,541
Paid in kind dividends	609,134	342,077
Conversion to Common Shares	(300,001)	-
<b>Balance, December 31, 2007</b>	<b>6,975,800</b>	<b>2,526,618</b>
Paid in kind dividends	302,609	111,042
Conversion to Common Shares	(7,278,409)	(2,637,660)
<b>Balance, December 31, 2008</b>	-	-
<b>Warrants</b>		
<b>Balance, December 31, 2006</b>	<b>6,288,433</b>	<b>1,559,049</b>
Warrants issued on preferred stock	5,436,250	2,123,938
Warrants issued to agent	333,333	171,675
Warrants issued to lender	8,236,436	320,301
Expiration of warrants	(6,288,433)	(1,559,049)
<b>Balance, December 31, 2007</b>	<b>14,006,019</b>	<b>2,615,914</b>
Lender warrants cancelled	(8,236,436)	(320,301)
Warrants issued to lender	3,000,000	591,760
<b>Balance, December 31, 2008</b>	<b>8,769,583</b>	<b>2,887,373</b>
<b>Total</b>		<b>\$ 47,550,108</b>

## Contributed Surplus:

<b>Balance, December 31, 2006</b>	<b>\$ 1,727,565</b>
Employee options	274,692
Board of Director options	145,320
Advisory Board options	13,211
Expired warrants	1,559,049
<b>Balance, December 31, 2007</b>	<b>3,719,837</b>
Employee options	470,505
Board of Director options	318,430
Advisory Board options	2,596
Cancelled warrants	320,301
<b>Balance, December 31, 2008</b>	<b><u>\$ 4,831,669</u></b>

## Preferred Stock

All of the 7,278,409 preferred shares were converted to common shares during the second quarter 2008 prior to the completion of the Quest Offer. Each preferred share was converted to one common share.

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 \$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 paid quarterly cumulative dividends at a rate of 8% per year of the amount invested. The Company had 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 was 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 totalling 911,743 shares with an additional cash portion totalling CAD \$17.26.

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 announced that following negotiations with the holders of its 6,666,667 Series A preferred shares and the 5,000,000 associated Warrants for all accepting holders, the Company had 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. 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, and they have the exact same terms as the existing Warrants, including the cashless exercise option. The fair value of these warrants was estimated to be \$24,900.

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

### **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 repricing 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. In 2007 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 185,000 were cancelled, thus, 435,000 net stock option holders were repriced to CAD \$0.62. The impact of the repriced options resulted in an increase to stock option compensation expense of \$62,553. As of the reporting date, the total number of options outstanding is 7,316,000.

The expense for the Plan for the twelve month period and the comparative period was determined using the Black-Scholes option pricing model with the following assumptions: risk-free interest rates ranging from 2.73% to 3.47%; 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 year ended December 31, 2008, \$791,531 (2007 - \$433,223) was recognized as compensation expense in the consolidated statements of loss with a corresponding increase in contributed surplus. As at December 31, 2008, 2,253,494 stock options were exercisable and the weighted average years to expiration were 4.33 years. The fair value of options granted during the year that were outstanding at December 31, 2008 was \$1,362,675 or \$0.23 per option.

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

<b>Options Outstanding</b>	<b>Option Price CAD</b>	<b>Wtd. Avg. Remaining Contractual Life (years)</b>	<b>Options Currently Exercisable</b>	<b>Wtd. Avg. Exercise Price of Options Currently Exercisable CAD</b>
110,000	\$0.62	2.30	91,669	\$0.62
10,000	\$0.62	2.42	8,331	\$0.62
10,000	\$0.62	2.67	7,498	\$0.62
45,000	\$0.62	2.97	29,995	\$0.62
35,000	\$0.62	3.16	20,414	\$0.62
20,000	\$0.62	3.24	11,668	\$0.62
75,000	\$0.62	3.39	37,497	\$0.62
635,000	\$0.62	3.68	410,420	\$0.62
500,000	\$0.62	3.75	500,000	\$0.62
55,000	\$0.62	3.85	18,333	\$0.62
10,000	\$0.62	3.87	3,336	\$0.62
10,000	\$0.62	3.98	3,333	\$0.62
85,000	\$0.62	4.05	-	\$0.62
500,000	\$0.62	4.11	500,000	\$0.62
500,000	\$0.62	4.17	500,000	\$0.62
<b>2,600,000</b>	<b>\$0.62</b>	<b>3.82</b>	<b>2,142,494</b>	<b>\$0.62</b>
500,000	\$0.65	4.54	-	\$0.65
1,201,000	\$0.65	4.54	111,000	\$0.65
2,025,000	\$0.65	4.62	-	\$0.65
100,000	\$0.65	4.63	-	\$0.65
100,000	\$0.65	4.71	-	\$0.65
790,000	\$0.65	4.87	-	\$0.65
<b>4,716,000</b>	<b>\$0.65</b>	<b>4.54</b>	<b>111,000</b>	<b>\$0.65</b>
<b>Total</b>	<b><u>7,316,000</u></b>	<b>3.86</b>	<b><u>2,253,494</u></b>	

## RELATED PARTY TRANSACTIONS

- (a) The Company reinstated the consulting agreement in which \$48,817 was recorded for consulting services to a family member of a senior executive during the year ended December 31, 2008 (2007 - \$48,000). There was an outstanding balance of consulting fees as at December 31, 2008 of \$228 (2007 - nil).
- (b) Legal fees relating to general corporate matters are charged by the law firm at which a director is a partner. For the year ended December 31, 2008 these legal fees totalled \$62,021 (2007 - nil). There were \$4,036 in outstanding legal fees as at December 31, 2008 (2007 - nil).
- (c) The Company entered into a consulting agreement with a company owned by a senior executive in the fourth quarter of 2008. Consulting services of \$70,930 were recorded for the year ended December 31, 2008 (2007 - nil) and there was a balance owing as at December 31, 2008 of \$20,886 (2007 - nil).

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

## SUMMARY OF QUARTERLY RESULTS <sup>(1), (2), (3)</sup>

Stated in USD

	2008				2007			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue <sup>(1)</sup>	7,292,044	7,514,654	10,073,460	8,116,713	8,710,132	6,340,487	8,624,817	7,832,175
EBITDAS <sup>(2)</sup>	(1,449,218)	(1,940,019)	(1,150,887)	(613,569)	(2,604,700)	(1,901,548)	749,218	925,633
ADJ EBITDAS <sup>(3)</sup>	(1,484,163)	(1,502,613)	630,351	(613,569)	(2,604,700)	(1,901,548)	749,218	925,633
Loss before income taxes before discontinued operations	(10,759,447)	(5,651,992)	(8,967,289)	(4,134,950)	(7,164,256)	(6,983,859)	(1,149,874)	(529,822)
Net loss from continuing operations	(10,817,934)	(5,678,734)	(9,044,556)	(4,134,950)	(7,913,411)	(6,983,859)	(1,149,874)	(529,822)
Loss from discontinued operations	(24,054)	7,862	(36,321)	(121,743)	(2,639,631)	(314,939)	(205,093)	-
Loss per share from continuing operations <sup>(4)</sup>	(0.10)	(0.05)	(0.12)	(0.07)	(0.14)	(0.12)	(0.02)	(0.01)
Loss per share from discontinued operations <sup>(4)</sup>	0.00	0.00	0.00	(0.00)	(0.05)	(0.01)	(0.00)	-
Total assets	42,860,060	49,689,693	50,978,237	49,668,253	54,753,431	61,144,336	45,408,916	41,588,354
Notes and debt	38,188,750	36,976,381	36,378,549	48,386,891	47,838,163	47,096,649	22,198,677	18,572,399
Basic and dilutive shares	107,901,283	106,878,089	73,338,300	57,757,114	56,403,874	56,317,375	56,185,200	55,012,335

(1) Revenue, EBITDAS and operating loss for WISE Alberta was reversed in Q4 2007 and classified as loss from operations of discontinued operations in the financial statements.

(2) EBITDAS means earnings from continuing operations before interest, taxes, amortization, and stock based compensation. Readers are cautioned that EBITDAS is generally regarded as an indirect measure of operating cash flow and, as such, the Company believes it is a significant indicator of success of public companies, and is particularly relevant to readers within the investment community. Funds from operations are obtained from the consolidated statements of cash flows and are the subtotal before the first "change in non-cash working capital." These measures do not have any standardized meaning prescribed by Canadian GAAP and may not be comparable to similar measures presented by other companies; however, the Company is consistent in its calculation of EBITDAS and funds from operations for each reporting period.

(3) For purposes of calculating the Company's financial covenants, EBITDAS does not include the Company's expenses associated with the Quest Offer.

(4) Basic and diluted shares.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company's consolidated financial statements have been prepared in accordance with Canadian GAAP and significant accounting policies utilized by the Company are described in Note 2 of the Company's consolidated financial statements. Management believes the accounting principles selected are appropriate under the circumstances and the Audit Committee of the Company has approved the policies selected.

Under Canadian GAAP, the Company is required to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The estimates and assumptions utilized are based on past experience and other information available to management at the time the estimate or assumption is made. The estimates and assumptions used by management are constantly evaluated for relevance under the circumstances and if circumstances on which the estimates or assumptions were based change, the impact is included in the results of operations for the period in which the change occurs. Management believes the estimates, judgments and assumptions involved in its financial reporting are reasonable.

The following accounting policies require management's more significant judgments and estimates in the preparation of the Company's consolidated financial statements, and as such, are considered to be critical.

Allowance for Doubtful Accounts Receivable The Company periodically reviews its accounts receivable on an individual and overall customer basis. This process consists of a review of historical collection experience, current aging status of the customer accounts and other factors. Based on its review of these factors, it establishes or adjusts allowances for specific customers. This process involves a high degree of judgment and estimation. Accordingly, the Company's results of operations can be affected by adjustments to the allowance due to actual write-offs that differ from estimated amounts.

Property and Equipment Property and equipment are recorded at cost less accumulated amortization. Amortization is computed based upon the Company's amortization policies. The amortization policies selected are intended to amortize the related property and equipment over their useful life. The use of different assumptions with regard to the useful life could result in different carrying values for these assets as well as for amortization expense.

Impairment of Long-lived Assets Long-lived assets are reviewed for impairment annually. An impairment loss is recognized when the carrying amount of a long-lived asset exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposition. Estimates of undiscounted future net cash flows are calculated using estimated future revenues, operating expenses and other costs. These estimates are subject to risk and uncertainties, and it is possible that changes in estimates could occur which may affect the expected recoverability of the Company's long-lived assets. Based on Management's expectations for continued demand for the Company's services and the current oil and gas price and credit environments, the assumptions utilized to determine the future recoverability of long-lived assets resulted in an impairment charge of \$3,622,000 as at December 31, 2008 that the carrying value of the long-lived assets would not be recoverable in the future.

Goodwill and Intangible Impairment The carrying value of goodwill and intangibles on acquisitions is compared to its fair value at least annually to determine if a permanent impairment exists, at which time the impairment would be recorded as a charge to earnings. Goodwill and intangibles were first recorded by the Company in 2006. Valuations are inherently subjective and necessarily involve judgments and estimates regarding future cash flows and other operational variables. Based on Management's expectations for continued demand for the Company's services and the current oil and gas price and credit environments, the assumptions utilized to test for impairment resulted in an impairment charge of \$1,645,000 for goodwill and \$20,000 for intangibles as at December 31, 2008 that the carrying value of the goodwill and intangibles on acquisitions was impaired.

Investment in Joint Venture The Company will account for its investment in the joint venture using the equity method of accounting because the investment gives it the ability to exercise significant influence, but no control, over the investee. Significant influence is generally deemed to exist where there is an ownership interest in the investee of between 20% and 50%, although other factors such as the degree of ultimate control, representation on the investee's Board of Directors or similar oversight body are considered in determining whether the equity method of accounting is appropriate. The Company will report its proportional share of the investment's net income or loss in its consolidated statements of loss, comprehensive loss.

*Income Taxes* The Company follows the liability method of accounting for income taxes. Under this method, the Company records future income taxes for the effect of any difference between the accounting and income tax basis of an asset or liability, using the substantively enacted tax rates. Valuation allowances are established to reduce future tax assets when it is more likely than not that some portion or all of the future tax asset will not be realized. Estimates of future taxable income and the continuation of ongoing prudent tax planning arrangements have been considered in assessing the utilization of available tax losses. Changes in circumstances and assumptions may require changes to the valuation allowances associated with the Company's future tax assets.

*Stock-based Compensation* Stock-based compensation is calculated using the fair value method based upon the Black-Scholes model. In order to establish fair value, the Company uses estimates and assumptions to determine the risk-free interest rate, expected term, anticipated volatility and anticipated distribution yield. The use of different assumptions could result in different book values for stock-based compensation.

## ACCOUNTING POLICIES

The Accounting Standards Board ("AcSB") of the Canadian Institute of Chartered Accountants ("CICA") continually amends and improves certain standards or guidelines contained in the CICA Handbook. The Company monitors these changes as they are proposed and will make changes to its accounting policies and disclosures as necessary. The significant accounting policies are the same as those set out in the most recent annual consolidated financial statements, other than the following new accounting standards issued by the CICA. These accounting policies were adopted on a prospective basis on January 1, 2008, with no restatement of prior period financial statements. The new standards and accounting policy changes are as follows:

*Capital Disclosures (CICA Handbook Section 1535)* This standard 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 17 of the consolidated financial statements for the year ended December 31, 2008.

*Inventories (CICA Handbook Section 3031)* This section 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.

*Financial Instruments-Disclosure (CICA Handbook Section 3862) and Financial Instruments Presentation (CICA Handbook Section 3863)* These standards increase the disclosures 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 net income and other comprehensive income would have been affected by reasonable possible changes in the relevant risk variable. The only significant effect on the Company's consolidated financial statements is the incremental disclosures in Note 16 of the consolidated financial statements for the year ended December 31, 2008.

*Goodwill and Intangible Assets (CICA Handbook Section 3064)* This standards will replace the existing Goodwill and Intangible Asset standard effective for years beginning on or after January 1, 2009. The new standard revises the requirement for recognition, measurement, presentation and disclosure of intangible assets. The Company does not expect that the adoption of this new standard will have a material impact on its consolidated financial statements.

*International Financial Reporting Standards ("IFRS")* On February 13, 2008, the Canadian Accounting Standards Board confirmed that publicly accountable profit-oriented enterprises will be required to use International Financial Reporting Standards ("IFRS") in interim and audited financial statements for fiscal years beginning on or after January 1, 2011. Over the next three years Canadian GAAP will be modified to converge with IFRS.

The Company's financial executives and senior accounting staff are familiarizing themselves with the new IFRS principles and requirements through formalized training and industry focus groups. An evaluation of IFRS conversion requirements that pertain to the Company will be conducted throughout 2009, which will then lead to the development of an implementation plan to transition the Company's financial reporting process, including internal controls and information systems to IFRS. During this evaluation, IFRS early adoption provisions will be investigated and the Company will evaluate whether early adoption is feasible. The evaluation will also allow the Company to be in a position to estimate the initial financial impact of the transition to IFRS so key stakeholders and users of the financial information can begin to understand the overall consequences of this process.

## **DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING**

The Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") are responsible for establishing and maintaining the Company's disclosure controls and procedures. They are assisted in this responsibility by the Company's senior management team. Disclosure controls and procedures have been designed to ensure that information required to be disclosed by the Company is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure. An evaluation of the design and operating effectiveness of the Company's disclosure controls and procedures as at December 31, 2008 was performed under the supervision of the CEO and CFO and with the participation of the Company's senior management. The evaluation was performed in accordance with the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") control framework adopted by the Company and the requirements of National Instrument 52-109 of the Canadian Securities Administrators, *Certification of Disclosure in Issuers' Annual and Interim Filings*. The CEO and CFO have concluded, as of the date of this MD&A that the Company's disclosure controls and procedures have been designed and are operating effectively to provide reasonable assurance that material information related to the Company is made known to them by others within the Company.

It should be noted that while the Company's CEO and CFO believe that disclosure controls and procedures provide a reasonable level of assurance and that they are effective, they do not expect that the disclosure controls and procedures would prevent all errors or fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. There have been no changes to disclosure controls and procedures that occurred over the most recent interim period that have materially affected or are likely to materially affect internal control over financial reporting.

The CEO and CFO of the Company are responsible for designing internal controls over financial reporting or causing them to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. An evaluation of the design effectiveness of the Company's internal controls over financial reporting as at December 31, 2008 was performed under the supervision of the CEO and CFO and with participation of the Company's senior management in accordance with the COSO framework and National Instrument 52-109. The CEO and CFO have concluded, as of the date of this MD&A, that the Company's internal controls over financial reporting have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

As required, the Company records complex and non-routine transactions. These sometimes are extremely technical in nature and require an in-depth understanding of Canadian GAAP. To address this risk, the Company consults with its third party expert advisors as needed in connection with the recording and reporting of complex and non-routine transactions. Management does not expect that the internal controls over financial reporting would prevent all errors or fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. There have been no changes in internal control over financial reporting that occurred over the most recent interim period that have materially affected or are likely to materially affect internal control over financial reporting.

## EXPANSION /GROWTH

Using the combined infrastructures of its Coiled Tubing, Pressure Pumping, Slickline Services and Nitrogen Services, the Company intends to continue its development and growth in Louisiana, Texas and Mississippi, and expand, as appropriate, into such markets as Arkansas, Oklahoma, New Mexico, Alabama and Florida. The Company may also expand operations into the Appalachian Mountains, the Rocky Mountains and the western United States through the possible acquisitions of existing well intervention service companies already operating in those regions. The proven efficiencies and successful use of the Company's patented multifunctional technology also opens additional international business opportunities the Company may pursue. The closing of additional acquisitions will depend on, among other factors, both an increase in the Company's existing credit facilities and the raising of additional equity or other capital (including subordinated debt facilities and/or subordinated notes to be offered to sellers for a portion of their purchase consideration).

On January 25, 2008, the Company announced (refer to press release dated January 25, 2008) that it closed some of its field offices, including its Canadian operations which were headquartered in Brooks, Alberta. This was done in an effort to streamline operations, improve cash flow and reduce costs. The Canadian operations are presented in the accompanying 2008 consolidated financial statements as discontinued operations.

In April, 2008, the Company announced the award of its first non North American contract. WWIS was awarded a one-year (plus) contract to provide primary and secondary cementing, as well as, stimulation services to BNE. BNE has been involved in an exploratory and developmental drilling campaign in Belize for some time and most of the activity BNE plans for the next two years is exploratory in nature. The Company commenced operations in Belize in May, 2008. The Company ceased all operations in Belize in December 2008 and all equipment and personnel have been returned to the United States.

On June 6, 2008, the Company and Quest, an indirect wholly owned subsidiary of Al-Qahtani, jointly announced (refer to press release dated June 6, 2008) the successful completion of the acquisition of Production Enhancement Group. This relationship with Quest and Al-Qahtani will provide avenues for international expansion opportunities. As part of the acquisition, Al-Qahtani and WWIS entered into a Joint Venture Agreement. The Joint Venture Agreement provided for the exclusive marketing and sale by the joint venture of WWIS's patented coil tubing technology in the Middle East with an initial qualification, marketing and sales effort directly focused on Saudi Aramco, the Saudi national oil firm.

On November 10, 2008, the Company announced (refer to press release dated November 10, 2008) it had funded its 40% initial capital contribution for the joint venture with Al-Qahtani. The Joint Venture Agreement establishes a Saudi company to be named Abdul Hadi Al Qahtani WISE Co Ltd to carry out the joint venture business and the production and delivery by PEG of mobile WISSTM units to service both offshore and onshore facilities.

On November 12, 2008, the Company announced (refer to press release dated November 12, 2008), as part of the Company's expansion plans, a new Shreveport, Louisiana field office was opened. The Shreveport facility is centrally located in the North Louisiana, East Texas and Arkansas oil and natural gas production regions. Operations in this area will support the needs of a wider range of clients and create additional well intervention service opportunities as well as decrease our exposure to future impacts from hurricanes. This area has seen significant growth in drilling count and requires services that PEG can supply in coil tubing, slickline, nitrogen and pumping services.

## RISK FACTORS

### *Obtaining additional capital to fund the Company's operations and finance growth could impair the value of your investment*

The Company's plan to deploy additional equipment is based on the availability of additional capital expenditure facilities or equipment leasing alternatives and the assumptions as to the terms thereof. If the Company expands more rapidly than currently anticipated or if working capital needs exceed current expectations, the Company may need to raise additional capital through public or private equity offerings or debt financings. If the Company cannot raise needed funds on acceptable terms, it may not be able to order and deploy the same level of equipment, develop or enhance its products, take advantage of future opportunities or respond to competitive pressures or unanticipated requirements. To the extent the Company raises additional capital by issuing equity securities, its shareholders may experience substantial dilution. In the event of issuance of the Company's Preferred Shares, the Preferred Shares could be used, under certain circumstances, as a method of discouraging, delaying or preventing a change in control of the Company, which could have the effect of discouraging bids for the Company and thereby prevent shareholders from receiving the maximum value for their shares. A material shortage of capital may require the Company to take steps such as reducing its level of operations, disposing of selected assets or seeking an acquisition partner.

### Operating Risk and Insurance

The Company has an insurance and risk management program in place to protect its assets, operations and employees. The Company also has programs in place to address compliance with current safety and regulatory standards. However, the Company's operations are subject to risks inherent in the oilfield services industry, such as equipment defects, malfunction, failures and natural disasters. In addition, hazards such as unusual or unexpected geological formations, pressures, blowouts, fires or other conditions may be encountered in servicing wells. Although such hazards are primarily the responsibility of the oil and natural gas companies which contract with the Company, these risks and hazards could expose the Company to substantial liability for personal injury, loss of life, business interruption, property damage or destruction, pollution and other environmental damages.

Although the Company has obtained insurance against certain of the risks to which it is exposed which it considers adequate and customary in the oilfield services industry, such insurance is subject to coverage limits and exclusions and may not be available for the risks and hazards to which the Company is exposed. In addition, no assurance can be given that such insurance will be adequate to cover the Company's liabilities or will be generally available in the future or, if available, that premiums will be commercially justifiable. If the Company were to incur substantial liability and such damages were not covered by insurance or were in excess of policy limits, or if the Company were to incur such liability at a time when it is not able to obtain liability insurance, its business, results of operations and financial condition could be materially adversely affected.

### The Company is dependent on certain key personnel

The Company and its subsidiaries are dependent on the services of several key personnel, including Joseph Lahey, CEO and Doug Parker, CFO. The loss of services of any of these individuals could impair the Company's ability to complete the domestic and international rollout of its products and services and could have a material adverse effect on the Company's business, financial condition, and results of operations.

### The rates charged by the Company for its services may decline over time, which would reduce revenues and adversely affect profitability

As the Company's business becomes more competitive, the Company may experience pressure to decrease the fees for its services, which could adversely affect its revenues and gross margin. If the Company is unable to sell its services at profitable prices, or if the Company fails to offer additional services that achieve sufficient profit margins, its revenue growth could slow and our business and financial results could suffer.

### The market for CT and well services is intensely competitive

The Company's products and services compete with products and services offered by a number of other entities, many of which have long operating histories and are much better capitalized than the Company. The barriers to entry for CT services and businesses overall are relatively low considering that CT equipment costs begin at about \$1 million, making it possible for new competitors to enter the market. However, the Company and its subsidiaries have obtained and are in the process of obtaining patents for its technology that would bar competitors from developing certain equipment that infringes on the key, patented aspects of our technology. Nevertheless, the Company expects that new competitors will enter our market in the future. The Company plans to protect our technology by defending our proprietary rights of ownership and seeking additional patents for specific aspects of its technology, but there is no guarantee that such additional patents will be issued.

Many of PEG's existing and potential competitors have long operating histories in the CT and well services markets, greater name recognition, larger consumer bases and significantly greater financial, technical and marketing resources than the Company do. Some of PEG's competitors may also be able to provide customers with additional benefits at lower overall costs in an effort to increase market share. The Company cannot be sure that it will be able to match cost reductions that may be implemented by its competitors. PEG's competitors and other companies may form strategic relationships with each other to compete with the Company. These relationships may take the form of strategic alliances, joint marketing agreements, licenses or other contractual arrangements, which arrangements may increase the Company's competitors' ability to address customer needs with their product and service offerings. The Company believes that there is likely to be consolidation in its prospective markets, which could lead to increased price competition and other forms of competition that could cause its business to suffer.

*Products that the Company uses may contain design or manufacturing defects, which could result in reduced demand for the Company's services and liability claims against the Company*

The Company uses products that are highly complex and may at times contain design or manufacturing errors or failures. The products are deployed in oil and gas fields and on offshore rigs, all of which can be dangerous environments. Defects in the units, whether caused by a design, manufacturing or component failure or error, may result in delayed delivery to customers or reduced or cancelled customer orders. In such a case, the Company's business reputation may be impaired. In addition, these defects may result in liability claims against the Company. Any large product liability suits occurring early in the Company's growth could have a material adverse effect on its business, financial condition, and results of operations.

*Vulnerability to Market Changes*

Fixed costs, including costs associated with operating, leases, labor costs and depreciation will account for a significant portion of the Company's costs and expenses. As a result, reduced productivity resulting from reduced demand, equipment failure, weather or other factors could significantly affect financial results.

*Equipment and Technology Risks*

The ability of the Company to meet customer demands in respect of performance and cost will depend upon continuous improvements in operating equipment. There can be no assurance that the Company will be successful in its efforts in this regard or that it will have the resources available to meet this continuing demand. Failure by the Company to do so could have a material adverse effect on the Company. No assurances can be given that competitors will not achieve technological advantages over the Company.

The Company has obtained patent protection in respect of the WISE® Technologies. In the future, the Company may seek additional patents or other similar protections in respect of particular tools, equipment and technology; however, the Company may not be successful in such efforts. Competitors may also develop similar tools, equipment and technology to those of the Company thereby adversely affecting the Company's competitive advantage in one or more of its businesses. Additionally, there can be no assurance that certain tools, equipment or technology developed by the Company may not be the subject of future patent infringement claims or other similar matters which could result in litigation, the requirement to pay licensing fees or other results that could have a material adverse effect on the business, results of operations and financial condition of the Company.

*Risks Related to the Company's Acquisition Strategy*

As an integral part of its business strategy, the Company will seek to expand by acquiring additional production enhancement related energy service companies. The timing, size and success of the Company's acquisition efforts and the associated capital commitments cannot be predicted. The Company expects to face competition for acquisition candidates, which may limit the number of acquisition opportunities available to the Company and may lead to higher acquisition prices. There can be no assurance that the Company will be able to identify, acquire or profitably manage additional businesses or successfully integrate acquired businesses, if any, into the Company without substantial costs, delays or other operational or financial difficulties.

Acquisitions involve a number of additional risks, including failure of the acquired businesses to achieve expected results, diversion of management's attention and resources to acquisitions, failure to retain key customers or personnel of the acquired businesses and risks associated with unanticipated events, liabilities or contingencies. Client dissatisfaction or performance problems at a single acquired firm could negatively affect the reputation of the Company. Acquisitions will be accounted for as purchases and may result in substantial annual non cash amortization charges for goodwill and other intangible assets in the Company's statements of operations. If the Company is unable to acquire complementary energy service businesses on reasonable terms or successfully integrate and manage acquired companies, or if performance problems occur at acquired companies, there could be a material adverse effect on the Company.

*Need for Additional Financing*

The Company's acquisition strategy and equipment deployment strategy will require substantial capital. The Company intends to finance future acquisitions with cash flows from operations, through issuances of Common Shares, and through borrowings under credit facilities or advances under equipment lease facilities. The Company is exploring various lending alternatives to support such future acquisitions. Equipment credit facilities or leasing alternatives are being explored to assist in the financing of additional WISE® units for internal growth and in conjunction with intended acquisitions. There can be no assurance that the Company will obtain these credit or leasing facilities on terms acceptable to the Company or that the Company will enter into any credit or leasing

facility at all. In the event that the Company does not obtain a credit facility acceptable to the Company, it is possible that the Company's acquisition strategies or equipment deployment plans could be adversely affected.

Reliance on internally generated cash or debt to complete acquisitions could substantially limit the Company's operational and financial flexibility. The extent to which the Company will be able or willing to use equity to consummate acquisitions will depend on its market value from time to time and the willingness of potential sellers to accept it as full or partial payment. The use of Common Shares or other shares for this purpose may result in significant dilution to then existing shareholders. To the extent the Company is unable to use Common Shares or other shares to make future acquisitions, its ability to grow through acquisitions may be limited by the extent to which it is able to raise capital for this purpose through debt or additional equity financings. No assurance can be given that the Company will be able to obtain the necessary capital to finance a successful acquisition program or its other cash needs. If the Company is unable to obtain additional capital on acceptable terms, it may be required to reduce the scope of its presently anticipated expansion.

*All of the Company's Assets are located outside of Canada*

All of the Company's assets are currently located in the United States. The Company does not believe that this fact necessarily poses an increased risk of operation, but the Company is subject to laws, regulations, tax rules and legal proceedings in two distinct jurisdictions, which may pose additional complexities in operating and managing the business.

*The Company is subject to the cyclical nature of the oil and gas industry*

The Company's business depends primarily on the level of activity of exploration and production companies in the U.S. and Canada and the willingness of its customers to make capital expenditures and budget for well service operations is critical to its operations. The levels of such expenditures are influenced by oil and gas prices and industry perceptions of future prices, the cost of exploring for, producing and delivering oil and gas, the ability of oil and gas companies to generate capital, the discovery rate of new oil and gas reserves, and local and international political and economic conditions.

Although activity levels in production and development sectors of the oil and gas industry are less immediately affected by changing prices and as a result are less volatile than the exploration sector, producers generally react to declining oil and gas prices by reducing expenditures. This has in the past adversely affected, and may in the future adversely affect the Company's industry. The Company is unable to predict future oil and gas prices or the level of oil and gas industry activity. A prolonged low level of activity in the oil and gas industry will adversely affect the demand for PEG's products and services and PEG's financial condition and results of operations.

*The oilfield services industry is highly competitive*

The Company will be competing in highly competitive areas of the oilfield services industry. The products and services of PEG's industry segment are sold in highly competitive markets, and its revenues and earnings may be affected by the following factors: changes in competitive prices; fluctuations in the level of activity in major markets; general economic conditions; and governmental regulation. The Company will be competing with the oil and gas industry's largest integrated and independent oilfield service providers. We believe that the principal competitive factors in the market areas that the Company serve are price, product and service quality, availability, technical proficiency, demonstrable production enhancement and safety. The Company's operations may be adversely affected if its current competitors or new market entrants introduce new products or services with better features, performance, prices or other characteristics than our products and services. Competitive pressures or other factors also may result in significant price competition that could have a material adverse effect on the Company's results of operations and financial condition.

*Dependence on Suppliers*

The ability of the Company to compete and grow will be dependent on the Company having access, at a reasonable cost and in a timely manner, to equipment, parts and components. No assurances can be given that the Company will be successful in maintaining its required supply of equipment, parts and components. Cost of component parts used in repair and manufacture of the Company's operational equipment or operational consumables such as fuel, coil tubing, wire, liquid nitrogen, and cement and chemicals are subject to increase from increased demand in the domestic marketplace, changes in commodity production capability, and dollar fluctuations for commodities produced overseas and used in the manufacture of consumables or component parts. This could result in a disproportionate increase in our average costs. There is no assurance that increased cost in commodities can be recovered by higher prices to our customers. Higher prices may lessen our competitive advantage. It is also possible that the final costs of the major equipment contemplated by the Company's capital expenditure program may be greater than anticipated by management, and may be greater than funds available to the Company, in which circumstance the Company may curtail or extend the timeframes for completing, its capital expenditure plans. This could have an adverse affect on the financial results of the Company.

### Credit Risk

A substantial portion of the Company's accounts receivable are with customers involved in the oil and natural gas industry whose revenues may be impacted by fluctuations in commodity prices. Although collection of these receivables could be influenced by economic factors affecting this industry, management considers the risk of a significant loss to be remote at this time. The Company does not have significant exposure to any individual customer. Three customers accounted for approximately 24% of outstanding accounts receivables at December 31, 2008. One customer accounted for 13% of revenue during the year ended December 31, 2008, no other customer made up more than 10% of the revenue for this period.

### Environmental Liability

The Company's business is significantly affected by national and state or provincial laws and other regulations relating to the oil and gas industry and by changes in such laws and the level of enforcement of such laws. PEG is unable to predict the level of enforcement of existing laws and regulations, how such laws and regulations may be interpreted by enforcement agencies or court rulings, or whether additional laws and regulations will be adopted. The Company is also unable to predict the effect that any such events may have on it, its business, or its financial condition. In addition, demand for the Company's services is affected by changing taxes, price controls and other laws and regulations relating to the oil and gas industry generally. The adoption of laws and regulations curtailing exploration, development and drilling for oil and gas in the Company's areas of operations for economic, environmental or other policy reasons could also adversely affect its operations by limiting demand for its services. PEG also has potential environmental liabilities with respect to our offshore and onshore operations. Certain environmental laws provide for joint and several liabilities for remediation of spills and releases of hazardous substances. These environmental statutes may impose liability without regard to negligence or fault. In addition, the Company may be subject to claims alleging personal injury or property damage as a result of alleged exposure to hazardous substances. The Company believes that its planned operations will substantially comply with applicable national and state or provincial pollution control and environmental protection laws and regulations with no material adverse effect on financial results. However, such environmental laws are changed frequently. Sanctions for non-compliance may include revocation of permits, corrective action orders, administrative or civil penalties and criminal prosecution. The Company is unable to predict whether environmental laws will materially adversely affect its future operations and financial results.

### The Company's need to attract and retain skilled workers may impair growth potential and profitability

The Company's ability to remain productive and profitable will depend substantially on its ability to attract and retain skilled workers. The Company's ability to expand its operations is in part impacted by its ability to increase its labor force. The demand for skilled oilfield employees is high, and the supply is very limited. A significant increase in the wages paid by competing employers could result in a reduction in the Company's skilled labor force, increases in the wage rates paid by the Company, or both. If either of these events occurred, the Company's capacity and profitability could be diminished, and its growth potential could be impaired.

### Weather Related Risks

The Company has its operations primarily located in the Gulf Coast area and is significantly impacted by seasonal storm activity in the region. As seen during the 2007 and 2008 Gulf of Mexico hurricane seasons, weather can have a significant impact on demand for well intervention services in the area affected. The Company believes that the occurrence of Hurricanes Gustav and Ike within its area of operations was an unusual occurrence. In 2007, numerous tropical storms in the Gulf of Mexico impacted results including Hurricane Humberto which passed through East Texas and Louisiana. The storms can affect the Company's business as crews and equipment are forced to evacuate offshore platforms from the time the storms enter the Gulf of Mexico until they make landfall; disrupting revenues, adding costs of storm preparation, the risk of personal injury and equipment damage. Weather can also affect operations on land due to delays in projects, delays and increased costs of mobilization and other factors. Seasonal weather patterns and weather events common in other areas beyond the Gulf Coast may also adversely affect the Company as it expands into new geographic markets.

### Terrorist Attack

Terrorist activities, anti-terrorist efforts and other armed conflict involving the United States may adversely affect the United States and global economies and could prevent the Company from meeting its financial and other obligations. If any of these events occur, the resulting political instability and societal disruption could reduce overall demand for oil and natural gas, potentially putting downward pressure on demand for the Company's services and causing a reduction in its revenues. Oil and gas related facilities could be direct targets of terrorist attacks, and the Company's operations could be adversely impacted if infrastructure integral to customers' operations is destroyed or damaged. Costs for insurance and other security may increase as a result of these threats, and some insurance coverage may become more difficult to obtain, if available at all.

### Debt Covenants

As a result of the Quest Offer on June 6, 2008, the Company restructured its existing credit facility. The Company has reclassified its outstanding debt as a current liability. The Company was in compliance with the new covenants as amended in June, 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.

### Adverse macroeconomic and business conditions may significantly and negatively affect our results of operations.

Economic conditions in the United States and in foreign markets could substantially affect our revenue and profitability. Economic activity in the United States and throughout the world has undergone a sudden, sharp downturn. Global credit and capital markets have experienced unprecedented volatility and disruption. Business credit and liquidity have tightened in much of the world. Some of our suppliers and customers are facing credit issues and could experience cash flow problems and other financial hardships.

Changes in governmental banking, monetary and fiscal policies to restore liquidity and increase credit availability may not be effective. It is difficult to determine the breadth and duration of the economic and financial market problems and the many ways in which they may affect our suppliers, customers and our business in general. Nonetheless, continuation or further worsening of these difficult financial and macroeconomic conditions could have a significant adverse effect on our results of operations and cash flows.

### Our access to borrowing capacity could be affected by the turmoil and uncertainty impacting credit markets generally.

As a result of current economic conditions, including turmoil and uncertainty in the capital markets, credit markets have tightened significantly such that the ability to obtain new capital has become more challenging and more expensive. In addition, several large financial institutions have either recently failed or been dependent on the assistance of the U.S. federal government to continue to operate as a going concern. Although we believe that the bank participating in our credit facility has adequate capital and resources, we can provide no assurance that the bank will continue to operate as a going concern in the future. If the bank were to fail, it is possible that the borrowing capacity under our credit facility would be reduced. In the event that the availability under our credit facility was reduced significantly, we could be required to obtain capital from alternate sources in order to finance our capital needs. Our options for addressing such capital constraints would include, but not be limited to (1) obtaining commitments from new banks to fund our credit needs, (2) accessing the public capital markets, or (3) delaying certain projects. If it became necessary to access additional capital, it is likely that any such alternatives in the current market would be on terms less favorable than under our existing credit facility terms, which could have a material effect on our consolidated financial position, results of operations and cash flows.

### Foreign Operations

The Company conducts a portion of its business outside the United States, and is subject to risks inherent in such operations, such as: terrorist threats; fluctuations in currency and exchange controls; increases in duties and taxes; and changes in laws and policies governing operations. In addition, in the United States jurisdictions, in which the Company conducts its primary operations, it is subject to various laws and regulations that govern the operation and taxation of its businesses in such jurisdictions and the imposition, application and interpretation of which laws and regulations can prove to be uncertain. The payment of dividends or the making of other cash payments or advances by the Company may be subject to restrictions or exchange controls on the transfer of funds in or out of the United States or result in the imposition of taxes on such payments or advances. While the Company believes that these risks are reasonable, there is no assurance that United States tax authorities will reach the same conclusion. Further, if United States jurisdictions were to change or modify such laws, the Company could suffer adverse tax and financial consequences.

## **SUBSEQUENT EVENTS**

As at February 16, 2009, the Company ceased all operations in Belize and all equipment and personnel have been returned to the United States.

Effective February 5, 2009, Jaime B. Crawford announced his retirement as Executive Vice President of Technology from WISE Well Intervention Services, Inc. Mr. Crawford will retain his position on the Board and will provide consulting services to the Company on further technology initiatives.

On March 5, 2009, the Company advised the manufacturer of its nitrogen units that the defects being experienced in the units have not been cured. Accordingly, the Company considers the manufacturing agreement terminated and demands a full refund of all monies

paid for units delivered and currently being constructed totalling \$6,201,019. The Company has advised the manufacturer that it will seek restitution legally if the demand is not satisfied.

In response to a decline in service pricing, the continuing decline of oil and natural gas prices and the deterioration of the credit markets which are having a negative impact on the Company's financial performance in 2009, the Company has cut personnel, suspended 401k matching, lowered salaries/wages from field to top management in the first quarter of 2009. The Company has reduced fixed costs by approximately \$400,000 per month through the actions.

The Company will not be able to meet the first quarter 2009 principal and interest payments due to the Lender by March 31, 2009 and will be in breach of its debt covenants. In addition, the liquidity situation of the Company is marginal. The Lender has been advised of this situation and the Company and Lender are in discussions to amend the terms of the loan agreements. The Company believes such amendment will be finalized by the end of the second quarter of 2009. However, such discussions are preliminary at this time and no agreement on terms has been reached to date.