

**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.**

### **ANNUAL INFORMATION FORM**

*For the Year Ended December 31, 2008*

**March 31, 2009**

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## SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

Certain statements in this Annual Information Form 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 Annual Information Form. 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 Annual Information Form 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 Annual Information Form 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 Annual Information Form and in our "Management's Discussion and Analysis" 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 FINANCIAL MEASURE

This annual information form 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 and meet its financing requirements.

## CONVENTIONS

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 and all numbers are in United States dollars unless otherwise detailed as “CAD” for Canadian dollars.

## GLOSSARY

In this annual information form, the capitalized terms set forth below have the following meanings:

“**1314235**” means 1314235 Alberta Ltd, an Alberta corporation which owns one hundred percent (100%) of WISE Alberta;

“**ABCA**” means the *Business Corporations Act* (Alberta), as amended from time to time;

“**Al-Qahtani**” means Al-Qahtani Marine & Oilfield Services Co., a Saudi Arabia company;

“**A to Z**” means A to Z Pressure Pump Services, LLC, a Louisiana limited liability company;

“**A to Z Acquisition Agreement**” means the Agreement and Plan of Exchange between the Company, A to Z and the shareholders of A to Z dated November 24, 2005;

“**BNE**” means Belize National Energy Limited, a Belize company;

“**Board**” means the board of directors of the Company;

“**Class B Shares**” means class B convertible non-voting shares in the share capital of the Company;

“**Class C Shares**” means class C convertible non-voting shares in the share capital of the Company;

“**Common Shares**” means common shares in the share capital of the Company;

“**Company**” or “**PEG**” means Production Enhancement Group, Inc., a corporation incorporated under the *Business Corporations Act* (Alberta);

“**CT**” means coiled tubing;

“**CT Unit**” means a coiled tubing based well intervention unit;

“**GAAP**” means generally accepted accounting principles;

“**Grupo**” means Grupo Creatica, S.A. de C.V., a Mexican company;

“**Grupo Term Sheet**” means the term sheet entered into on December 29, 2006 between the Company and Grupo;

“**JV Company**” means Abdul Hadi Al Qahtani WISE Co. Ltd., a Saudi Arabia company;

“**Joint Venture Agreement**” means the joint venture agreement dated February 28, 2007 between PEG and Al-Qahtani;

“**LLC**” means limited liability company;

“**Master Service Agreement**” means a contract between the Company and a customer outlining the terms and conditions under which services will be performed;

“**Memorandum of Understanding**” means the memorandum of understanding dated November 23, 2006 between the Company and Al-Qahtani;

“**Nitrogen Agreement**” means the agreement dated October 27, 2006 between the Company and Nitro-Lift Technologies, LLC;

“**Offer**” means the offer to purchase all of the issued and outstanding Common Shares by Quest;

“**PET**” means Production Enhancement Technology, LLC, a Louisiana limited liability company;

“**PET Acquisition Agreement**” means the Agreement and Plan of Exchange between the Company, PET and the shareholders of PET dated November 24, 2005;

“**PETI**” means P.E.T. International, Inc.;

“**Preferred Shares**” means preferred shares in the share capital of the Company;

“**Quest**” means Quest Energy Services (Canada) Ltd., an Alberta corporation;

“**Series A Preferred Share**” means Series A 8% cumulative non-voting convertible preferred shares in the share capital of the Company;

“**TSX**” means the Toronto Stock Exchange;

“**US**” or “**United States**” means the United States of America;

“**US Securities Act**” means the United States Securities Act of 1933;

“**WISE**®” is an acronym for Well Intervention Systems and Equipment®, which the Company also utilizes as a trademark in conjunction with its products and services;

“**WISE**® **CT Units**” means collectively, the WISE® II CT Units and the WISE® III CT Units;

“**WISE**® **II CT Unit**” means a trailer mounted onshore coiled tubing based well intervention unit that incorporates the Company’s proprietary WISE Technologies;

“**WISE**® **III CT Unit**” means a small-footprint, skid-mounted, offshore, coiled tubing-based well intervention unit that incorporates the Company’s proprietary WISE Technologies;

“**WISE**® **Technologies**” means the Company’s proprietary coiled tubing based technologies including all present and future patents, patent applications and other intangible property rights;

“**WSL**” means Wireline Specialists of Louisiana, Inc., which was acquired by the Company on March 5, 2007;

“**WWIS**” means WISE Well Intervention Services, Inc., a Nevada corporation, formerly P.E.T. International, Inc.;

“**WWIT**” means WISE Well Intervention Technologies, Inc., a Texas corporation;

“**WISE Alberta**” means WISE Well Intervention Services, Inc., an Alberta corporation (formerly Dyna Star Energy Services Ltd., which was acquired by the Company on April 27, 2007).

## CORPORATE STRUCTURE

### Incorporation

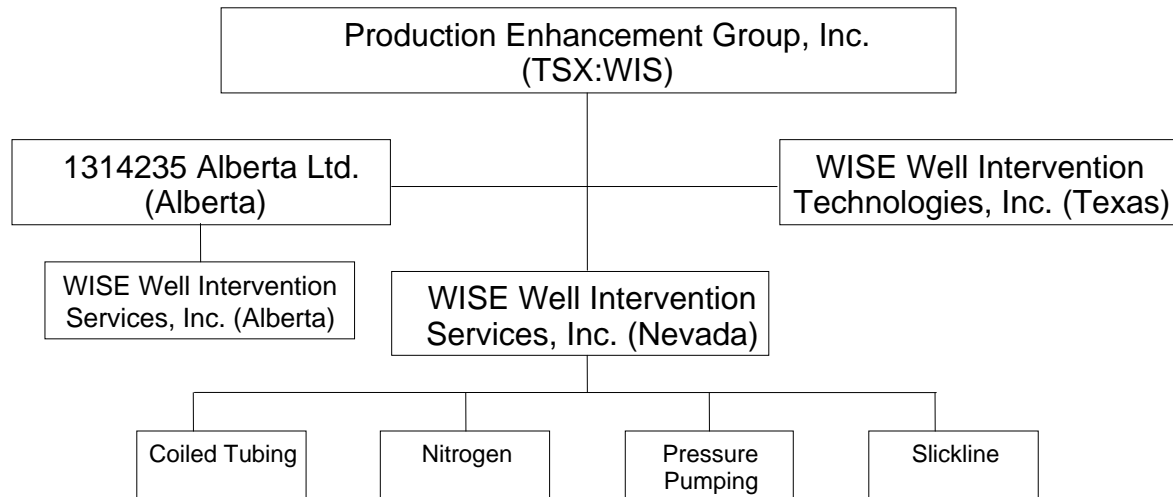
Production Enhancement Group, Inc. was incorporated under the ABCA on November 21, 2005. On November 28, 2005, the Company filed an amendment to its articles of incorporation to amend the provisions of its Class B Shares. On February 28, 2007, the Company filed an amendment to its articles of incorporation to create the first series of Preferred Shares of the Company designated as “Series A – 8% Cumulative, Non-voting, Convertible Preferred Shares”.

The Company’s head office is located at 919 Milam, Suite 2020, Houston, Texas 77002 and its registered and records office is located at 1000 Canterra Tower, 400 – 3rd Avenue S.W., Calgary, Alberta, T2P 4H2.

The Company and its wholly owned subsidiaries, WWIS, WWIT and 1314235, which in turn owns one hundred percent (100%) of WISE Alberta, provide oil and natural gas well services. WWIS provides specialized coiled tubing, 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, an indirect wholly owned subsidiary of Al-Qahtani, of a majority interest in the Company, the Company would reinstate the Joint Venture Agreement and the WISE™ technology license agreements. The Joint Venture Agreement establishes the Saudi JV Company to 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 BNE. WWIS commenced operations in Belize in May, 2008; however, these services were subsequently discontinued in December 2008. The purchase of WISE Alberta closed on April 27, 2007 and its operations were terminated in December 2007. WISE Alberta provided coiled tubing services to western Canada. WWIT was incorporated on August 9, 2007 to commercialize the Company’s proprietary technology in foreign markets, but it 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.

### INTERCORPORATE RELATIONSHIPS

The following organizational chart describes the current corporate structure of the Company and its three wholly owned subsidiaries, WWIS, 1314235 and WWIT. This chart also outlines the four operational divisions of WWIS, which include the Coiled Tubing Division, Nitrogen Services Division, Pressure Pumping Services Division and Slickline Services Division and WISE Alberta.



## GENERAL DEVELOPMENTS OF THE BUSINESS

### History

The following is a description of the general development of the business of the Company since its incorporation.

#### 2005

On November 21, 2005, the Company was incorporated under the laws of Alberta.

On November 21, 2005, the Company acquired PETI.

On November 29, 2005 and December 22, 2005, the Company issued an aggregate of 1,784,331 Class B Shares on a private placement basis for net proceeds of approximately USD 2,082,845. The net proceeds of those private placements were used to acquire additional equipment and for working capital purposes.

#### 2006

On January 1, 2006, the Company acquired PET and A to Z.

On April 19, 2006, the Company closed its initial public offering of Common Shares and the Company's Common Shares began trading on the TSX.

On October 27, 2006, the Company signed the Nitrogen Agreement giving the Company the exclusive worldwide rights to site-generated nitrogen units for coiled tubing applications. The agreement, which was to be effective for five years, called for the Company to purchase a minimum of 20 units, with an initial order for two units. The Company made a deposit in the amount of USD 500,000 toward the purchase of two nitrogen units and there was a balance due of USD 500,000 on 50% completion and a further balance of USD 500,000

upon delivery and acceptance. As at December 31, 2006, there was a balance of USD 1,000,000. The initial equipment was delivered in November 2007.

On November 23, 2006 the Company announced the execution of the Memorandum of Understanding to form a joint venture to exploit the Company's patented WISE<sup>®</sup> multifunction coil tubing well intervention systems on an exclusive basis in the Middle East, beginning in Saudi Arabia with future expansion opportunities throughout the region.

On December 29, 2006, the Company announced that it had signed the Grupo Term Sheet to form a joint venture to deploy the Company's patented WISE<sup>®</sup> multifunction coil tubing well intervention systems on an exclusive basis in Mexico. The joint venture company was to market, sell, and support well intervention systems and services under the Company's trademarked WISE<sup>®</sup> brand.

2007

On February 2, 2007, PETI was renamed "WISE Well Intervention Services, Inc.", and PET and A to Z were merged into WWIS to become operating divisions of this entity as the Coiled Tubing and Nitrogen Services Divisions and Pressure Pumping Services Division, respectively.

Effective March 5, 2007, WWIS acquired WSL. On the same day WSL was merged into WWIS, where the continuing operations of that former entity constitute the Slickline Services Division. This acquisition was partly financed by the Preferred Share issuance.

On April 16, 2007, the Company signed a contract establishing a joint venture with Al-Qahtani. The JV Company, was formed to market PEG's patented WISE multifunction coil tubing technology on an exclusive basis in the Middle East, beginning in Saudi Arabia and with future expansion opportunities throughout the region. All sales, operations, and support were to be conducted under PEG's trademarked WISE<sup>®</sup> brand name. The joint venture, 60% owned by Al-Qahtani and 40% owned by PEG, was to begin constructing three WISE multifunction well intervention units to be deployed offshore, upon finalization of the marketing and business plan and formal organization of the joint venture entity. This joint venture was purported to be terminated by the prior management of the Company but has since been reinstated (see below).

On April 19, 2007, the Company signed an agreement with Grupo to form a joint venture to deploy the Company's patented WISE<sup>™</sup> multifunction coil tubing well intervention systems on an exclusive basis in Mexico. This joint venture was later allowed to expire on its own terms (see below).

On April 27, 2007, the Company entered the western Canada oilfield services market with its acquisition of WISE Alberta, a private company that provided coiled tubing and nitrogen well intervention services in Alberta. Subsequent events led to the Company's exit from the Canadian market.

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

On June 25, 2007, the Company announced that PEG and Grupo had agreed to allow their joint venture agreement, announced on April 19, 2007, to expire of its own terms. The parties were unable to agree upon the best approach to the marketplace within the time period set by the joint venture agreement and mutually determined to allow the joint venture agreement to expire without consequences to either party. The Company

continues to believe that PEG's WISE well intervention systems can play a key role as Mexico focuses on restoring production from mature fields, and may eventually explore alternative avenues to penetrate the Mexican market.

On August 9, 2007, WWIT was incorporated to commercialize the Company's proprietary technology, but it has not had any significant operations to date.

On August 31, 2007, the Company entered into a debt facility from a major energy lending institution to provide a senior credit facility of USD 70 million. This new senior facility refinanced the existing senior indebtedness and provided USD 40 million in expansion financing for additional capital expenditures and working capital.

On October 1, 2007, the Company announced the appointment of Don B. Cobb as President and Chief Operating Officer of WWIS, PEG's operating subsidiary. Mr. Cobb's responsibilities included directing and administering the operating divisions of WISE (Coiled Tubing, Nitrogen, Pressure Pumping and Slickline Services) and assisting PEG's President and CEO in the development and execution of corporate strategies and strategic objectives. Mr. Cobb had previous domestic and international oil and gas services experience including Executive Vice President of Boots and Coots Services and with Baker Hughes Incorporated in various capacities.

On October 9, 2007, the Company announced that the Board had terminated the employment of Philip C. Crawford as Chief Executive Officer of PEG. Mr. Crawford retained his position as Chairman of the Board. The Board appointed a committee of independent directors to oversee the search for a new CEO. Jaime B. Crawford, President of PEG, assumed responsibility for leadership of the Company on an interim basis.

On October 30, 2007, the Company announced that Philip C. Crawford had resigned his positions as a Director and as Chairman of the Board in order to pursue other business interests in his role as Chairman and CEO of IIBEX Holdings, Inc., a merchant banking firm.

On December 10, 2007, the Company announced that PEG had terminated its joint venture agreement with Al-Qahtani, announced on April 16, 2007, inasmuch as the parties were unable to reach mutually agreeable terms under which to implement the joint venture. This joint venture has since been reinstated (see below).

On December 11, 2007, the Company announced that to improve cash flow and profitability it had restructured its organization to focus exclusively on delivering high quality oil and gas well intervention services. The Company redeployed its equipment to improve fleet utilization and has created two new product lines: the Nitrogen Services Division and the WISE Tools Division. The Nitrogen Services Division includes trailer-mounted nitrogen-generation units for land operations and skid-mounted nitrogen-generation units for offshore work. The WISE Tools Division includes downhole drilling motors, mills and bits, and other downhole assemblies and is intended to generate earnings through increasing utilization of the Company's coiled tubing units.

On December 24, 2007, the Company announced that it had concluded its search for a new Chief Executive Officer. Don Cobb, then President and COO of WWIS, the Company's principal operating subsidiary, was appointed CEO and a director of PEG. In addition, the Board appointed a new Canadian director, Dean K. Zipse of Alberta, Calgary.

## 2008

On January 25, 2008, the Company announced further actions taken in the restructuring of its organization to improve cash flow and profitability, resulting in annual savings estimated at USD 3.2 million to USD 3.7

million. Some of PEG's field offices have been closed, including its Canadian operations, which were headquartered in Brooks, Alberta. The Company recorded a one-time restructuring charge in the fourth quarter of 2007 of USD 1.4 million, which excludes the associated costs of shutting down the Company's Canadian operations. The cost of shutting down the Company's Canadian operations was USD 2.3 million which was an additional charge to discontinued operations in the fourth quarter of 2007. PEG geared its operations to focus exclusively on delivering high quality oil and gas well intervention services in the United States.

In early 2008, the Company sold three high-volume (trailer-mounted) site-generated nitrogen units that were purchased in October 2007 for land operations. The three units were built for the Canadian land market, and did not perform optimally in the Texas and Louisiana field locations.

On February 8, 2008, the Compensation Committee of the Board granted the CEO an additional 500,000 stock options. The President was granted an additional 500,000 stock options issued effective March 1, 2008. Both of these stock option grants were priced at CAD 0.62 for a 5 year term.

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 USD 250,000 payable by March 31, 2008 and entered into negotiations with the Company to amend the terms of the loan agreements. These terms were finalized in connection with the acquisition of a majority interest in the Company by Quest outlined below. 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.

Furthermore, the interest payment due to the lender for the fourth quarter of 2007 was paid from the restricted cash Debt Service Reserve Account ("DSRA") in the first quarter of 2008. The Company used the DSRA account to pay the first quarter of 2008 interest payable.

The dividend for the fourth quarterly period was issued as in kind Preferred Shares totalling 302,609 shares with an additional cash portion totalling CAD 2.78 payable on March 1, 2008.

On March 5, 2008, the number of Common Shares issuable pursuant to the acquisition of WSL were adjusted per the WSL acquisition agreement. The repricing of Common Shares was based on the value of the volume weighted average closing price during twenty consecutive trading days that preceded the first anniversary of the closing date of March 5, 2007. The adjusted Common Shares of 4,321,507 were based on the repricing of the original 1,234,739 Common Shares from USD 1.72 (CAD 2.00) to USD 0.3828 (CAD 0.3828) per share. Following this issuance, the total Common Shares issued pursuant to the WSL transaction is 5,556,246.

On March 14, 2008, the Company announced that it was currently involved in ongoing discussions with third parties in an effort to maximize shareholder value. The Board had formed a special committee to review alternatives and to make a recommendation to the Board as a whole.

On March 17, 2008, the Company announced that the TSX conditionally approved for listing an additional 4,321,507 Common Shares to be issued in accordance with a post-closing adjustment of the purchase price in connection with the acquisition of WSL.

On April 9, 2008, the Company announced award of its first non North American contract, of any type, for any of its product or service offerings. WWIS was awarded a one-year (plus) contract to provide primary and secondary cementing, as well as, stimulation services to BNE. WWIS commenced operations in Belize in May 2008; however, these services were subsequently discontinued in December 2008.

On April 18, 2008, the Company and Quest, an indirect wholly owned subsidiary of Al-Qahtani announced entering into a definitive agreement under which Quest agreed to make an offer to purchase all the outstanding

Common Shares of PEG for CAD \$0.65 per share. The Offer was conditional upon, among other things, there having been validly deposited under the Offer and not withdrawn at least 51% of the outstanding Common Shares calculated on a diluted basis. Upon the purchase by Quest of such number of Common Shares as represents at least a majority of the then outstanding Common Shares, Quest was entitled to designate all of the members of the board of directors of PEG. PEG has also since agreed to reinstate the joint venture and the WISE™ technology license agreements. Al-Qahtani and PEG are working together to finalize the funding arrangements for the joint venture that are in the mutual best interests of the parties. Quest is otherwise carrying on the other businesses of PEG and its subsidiaries, including WWIS, largely as such businesses are currently being conducted.

On May 15, 2008, the Company announced it was in breach of its debt covenants with its lender at March 31, 2008. The Lender has agreed to waive said breaches and has entered into negotiations with the Company to amend the terms of the loan agreements, which loan agreements include a note purchase agreement (the “Note Purchase Agreement”). The Company reclassified USD 46.3 million such long-term debt as current until such time as the amendment was finalized. The Company reached an agreement with its the Lender in which an amendment to the original Note Purchase Agreement was made and a waiver was received for all covenant violations subject to the closing of the Offer by Quest. The Lender also consented to the change of control of the Company upon completion of the Offer by Quest upon the closing of the Offer (the “Closing Date”).

The Company paid the Lender a restructuring fee of USD 4.0 million, with USD 2 million of such fee paid on the Closing Date of the Offer on June 6, 2008 and the remaining USD 2 million being due and payable upon the earlier of (a) the date the obligations owing under the Note Purchase Agreement are repaid or prepaid in full, and (b) the maturity date for the remaining aggregate outstanding principal amount of the obligations under the Note Purchase Agreement, which is amended to one year from the Closing Date.

Further, upon the Closing Date, the Company paid to the Lender USD 15 million towards the current outstanding debt which such payment causing a release of all security against the accounts receivable of the Company and the terms of the existing warrants held by the Lender (the “Lender Warrants”) were amended to (a) fix the exercise price for the Lender Warrants at CAD \$0.65 per share, (b) reduce the number of the Common Shares to be issued on the exercise of the Lender Warrants to 3,000,000 from 8,236,436, (c) extend the term for the exercise of the Lender Warrants to the period of four years following the Closing Date, and (d) provide that if the Company is taken private, the Lender will have certain rights to have the Company redeem the Lender Warrants. The maturity date for the remaining aggregate outstanding principal amount of the obligations under the amended Note Purchase Agreement was modified to be one year from the Closing Date to June 6, 2009 with the ability, at the option of the Company, to extend the maturity date for six months with an interest rate increase of 2% and the grant by the Company of an additional 500,000 warrants exercisable at CAD \$0.65 and the Lender agreed to modify certain financial covenants.

On May 15, 2008, the Company announced it had reached a settlement with the former owners of its acquisition of WSL, which was acquired on March 5, 2007, in connection with the earn-out provision of the acquisition agreement pursuant to which an additional 461,538 Common Shares were issued to the former owners of WSL in the second quarter of 2008.

On June 3, 2008, the Company and Quest jointly announced that Quest had been successful under its previously announced Offer. A total of 49,904,093 Common Shares of PEG representing 72.7% of the outstanding Common Shares (or 56.4% calculated on a diluted basis) were validly deposited under the Offer which expired at 4:00 pm (Mountain Standard Time) on June 3, 2008. With the conditions to the Offer having been satisfied or agreed to be waived by Quest, Quest advised that it would take up and pay for the shares tendered under the Offer on June 6, 2008. The Offer was not extended and Quest has no current intention to purchase the remaining outstanding Common Shares of PEG, which continue to trade on the TSX.

On June 6, 2008, the Company and Quest announced the successful completion of the acquisition by Quest of 51,046,166 Common Shares of PEG. In connection with the closing of the Offer, PEG issued an additional 32,946,861 Common Shares to Quest at an issue price of CAD\$0.65 a share. In total, Quest as a result then owned 83,993,027 Common Shares representing approximately 82.7% of the issued and outstanding Common Shares (72.3% on a fully diluted basis).

On June 6, 2008, the Company and Quest announced that Don Cobb, Chief Executive Officer of PEG and President of PEG's wholly-owned subsidiary, Wise Well Intervention Services, Inc., and Jamie Crawford, President of PEG, would remain as Directors of PEG, as would existing Board member Dean Zipse. Omar Rashid, President and Chief Executive Officer of Quest, John Paterson, Treasurer and Chief Financial Officer of Quest, and Brad Pierce joined the Board.

On July 14, 2008, the Company announced the hiring of Joseph P. Lahey as Chief Executive Officer and Director of PEG effective immediately. Mr. Lahey's role will encompass setting the strategic direction of PEG as well as managing and executing this strategy. Mr. Lahey has 35 years industry experience, 20 years as Chief Executive Officer in publicly traded companies with global operations. Jaime B. Crawford will assume the leadership role as President of WWIS, the Company's principal operating subsidiary, as well will be a Director of PEG. The Company announced the Board had accepted the resignation of Don B. Cobb as Chief Executive Officer of PEG.

On July 14, 2008, the Company announced the successful completion of the remaining private placement in connection with the closing of the Offer. PEG issued an additional 6,275,592 Common Shares to Quest and certain employees of PEG including Jaime Crawford who purchased 500,000 Common Shares at an issue price of CAD\$0.65 a share. In total, Quest now owns 89,698,619 Common Shares representing approximately 83.1% of the issued and outstanding Common Shares (73.5% on a fully diluted basis).

On November 10, 2008, the Company announced the funding of its 40% of the initial capital contribution for the joint venture with Al-Qahtani. This joint venture will exploit PEG's technology and expertise on an exclusive basis in the Middle East, beginning in Saudi Arabia with future expansion opportunities throughout the region. In the April 18, 2008 press release, the Company announced that concurrent with the successful completion of the acquisition by Quest, an indirect wholly owned subsidiary of Al-Qahtani, of Common Shares, the Company would reinstate the Joint Venture Agreement and the WISE™ technology license agreements. The Joint Venture Agreement establishes 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. It also grants to the JV Company an exclusive paid up license for the use of the WISE™ technology by the JV Company for the duration and purposes of the joint venture. The Joint Venture Agreement provides for the exclusive marketing and sale 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. The JV Company is owned 60% by Al-Qahtani and 40% by WWIS.

On November 12, 2008, the Company announced that as part of its 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 the Company's 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.

On November 14, 2008, the Company announced that third quarter operations were impeded by three hurricanes and a tropical storm in the Gulf of Mexico. 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. At the close of the third quarter more than 100 platforms were still shut-in and slightly more than half the production restored. The high winds and heavy rain also caused wide spread suspension of inland operations. In many instances, the Company was unable to perform planned well service due to suspended production conditions. The lower equipment utilization created by these natural disasters had a negative impact on the Company's financial performance. The Company also moved its corporate office to downtown Houston. The new office at 919 Milam St., Suite 2020, Houston TX, 77002 USA is well positioned among the headquarters of many major domestic and international exploration and production companies and helps signify management's growth and competitive orientation.

On December 1, 2008, the Company announced that it had entered into a \$7.5 million accounts receivable facility ("Facility") to be used for working capital and general business purposes with Amegy Bank National Association ("Amegy"). The initial funding commitment is for US\$7.5 million, with the ability to expand the Facility upon the attainment of certain financial performance criteria and additional approval by Amegy. This Facility provides working capital to meet PEG's sales growth to ensure that the Company will have the financial flexibility to meet the needs as the business expands.

On December 2, 2008, the Company announced the appointment of Mark W. DeRouen as Executive Vice President of Operations of WWIS. Mr. DeRouen's responsibilities will include directing and administering the operating and sales divisions of WISE (Coil Tubing, Nitrogen, Pressure Pumping and Slickline services) and assisting in the development and execution of corporate strategies and strategic objectives. Mr. DeRouen has domestic and international oil and gas services experience spanning 25 years. Most recently, he was Founder and President of 5D Consulting, Inc. which supplied coil tubing drilling engineering, project managers and well site supervision personnel to the oil and gas industry. Prior to this, Mark was Vice President of Coil Tubing, Pumping and Stimulation for Superior Energy Services, Inc. He also spent several years with Schlumberger in African operations and managing coil tubing drilling services in the United States and the Gulf of Mexico, OSCA and ARCO.

## 2009

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

On February 23, 2009, the Company announced the retirement of Jaime B. Crawford as Executive Vice President of Technology of WWIS. Mr. Crawford retained his position on the Board and will provide consulting services to the Company on further technology initiatives over the next year.

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 demanded 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 March 2008, 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 is in discussions with its Lender with respect to its debt covenants and the outcome of these discussions may or may not be favorable.

## CHANGE OF CONTROL

As discussed under Corporate Structure above, on June 6, 2008, Quest, an indirect wholly owned subsidiary of Al-Qahtani, 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 USD \$21 million. On July 15, 2008 Quest finalized their take-up of shares with an additional 5,705,592 Common Shares being issued. In addition, the Company's credit facility with its lender was 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 AND PRIVATE PLACEMENT

### **Wireline Specialists of Louisiana, Inc.**

On March 5, 2007, the Company purchased all of the shares of WSL. The Company assumed and refinanced WSL's existing debt of USD\$2,920,428 and paid net consideration to the selling shareholders of USD\$3,078,355 in cash, transaction costs of USD\$118,040 and an initial 1,234,739 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 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 WSL Purchase 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 WSL Purchase 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.

### **Dyna Star Energy Services Ltd.**

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 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 Common 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 Common 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.

### **Private Placement of Units**

All of the 7,278,409 Preferred Shares were converted to Common Shares during the second quarter 2008 prior to the completion of the 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 was 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 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 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.

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.

## NARRATIVE DESCRIPTION OF THE BUSINESS

### General

The Company and its wholly owned subsidiaries, WWIS, 1314235 and WWIT, 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, an indirect wholly owned subsidiary of Al-Qahtani, the Company would reinstate the Joint Venture Agreement and the WISE™ technology license agreements. The Joint Venture Agreement established 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 BNE. WWIS commenced operations in Belize in May, 2008; however, these services were subsequently discontinued in December 2008. 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.

### Revenues Generated by Categories of Principal Services

The following categories of principal services accounted for more than 15% of the Company’s total consolidated revenues from third parties for the applicable period. Nitrogen Services does not appear in 2008 and 2007 as revenues were less than 15%.

Service	Year Ended December 31, 2008	Year Ended December 31, 2007	Year Ended December 31, 2006
Coiled Tubing	USD\$16,842,551	USD\$19,023,202	USD\$14,456,571
Pressure Pumping	USD\$9,009,349	USD\$6,603,022	USD\$7,017,307
Slickline	USD\$5,954,155	USD\$5,610,555	-

### Coiled Tubing

Coiled tubing is an energy services technology that utilizes a continuous length of small diameter pipe, usually steel, that is ductile enough to be coiled onto a large reel (13 to 14 feet in diameter), yet strong enough to withstand extreme pressure loadings. The length of tubing on a typical coiled tubing unit varies depending on the diameter of the tubing and the size of the service reel, but lengths of 10,000 to 15,000 feet are common. The continuous coiled tubing is used to transmit an inert gas (nitrogen) or a variety of fluids (e.g. water, acids, chemicals or slurries) through the tubing to clean out blockages in oil and gas wells or treat specific problems or conditions within the well bore (e.g. paraffin accumulation or scaling). Coiled tubing is also used to convey various downhole tools to the site of a mechanical problem in the well bore and to energize the tool to conduct a variety of downhole operations (e.g. drilling, jetting, etc.). Coiled tubing is particularly effective in conveying tools in highly deviated well bores (e.g. “horizontal” wells) where a simple wireline deployed tool would be ineffective and with its greater tensile strength, coiled tubing can also be used for “fishing” (extracting debris or a dropped tool from the well bore).

Advances in coiled tubing design have improved its capabilities and made it an attractive well intervention option. Coiled tubing surface equipment units are self contained, hydraulically powered workover units that provide time and cost savings when compared to using a conventional workover rig. Because coiled tubing is non-jointed, coiled tubing has the advantage of being able to run at higher speeds into or out of a well, and has the ability to circulate fluid through the tubing while it is being inserted into or withdrawn from a well. That allows work on a pressurized well without having to “kill” the well, sacrificing production and risking damage to the reservoir. These advantages drive the preference for coiled tubing use over the more conventional approaches to well intervention or drilling. Some of the major advantages that coiled units offer are summarized below (from Offshore Magazine, “Well Intervention”, March 2003 and Offshore Magazine, “Well Intervention”, September 2003):

- Faster running speeds into and out of a well since the operator does not have to stop to connect or disconnect each joint of pipe;
- Reduced rig up and trip times;
- Ability to continually circulate fluid through the pipe while the tubing is being lowered into and out of the hole;
- Localized delivery of downhole fluids, increasing production tubing life and preventing contamination of acid from tubing scale;
- Ability to work on live wells;
- Ability to perform many “wireline” services in highly deviated and horizontal well bores;
- Safer and more effective operations in under balanced conditions;
- Minimal well shut in time;
- Smaller environmental footprint; and
- More effective at positioning tools in horizontal wells.

While coiled tubing is used primarily for completion and well intervention in oil and gas producing wells, there is also a demand for similar intervention in saltwater disposal wells, which accept water produced along with oil and gas. Typically, a single saltwater disposal well services many producing wells; downtime on a single saltwater disposal can halt production on numerous (a dozen or more) oil and gas wells. In addition to oil and gas well applications, there are also specialized applications in servicing disposal injection wells in industrial plants (refineries, chemical plants) and in removing blockages in pipelines, flowlines and in pipes within industrial plants. These markets are fragmented and difficult to assess, but the Company intends to market to and service a portion of this market where it otherwise operates.

### **Pressure Pumping Services**

To the extent pressure pumping services are delivered in conjunction with coiled tubing services, the technical advances in coiled tubing technology discussed above have expanded the market for pressure pumping services. The market for pressure pumping services in well intervention application has benefited from the aging of productive oil and gas fields and from the desire by producers to increase production from all available sources as oil and gas commodity prices have increased.

The Company provides a variety of pressure pumping services to operators of oil and gas wells during both the drilling and completion of new wells and during the production phase of an oil or gas well. These include:

- **Acidizing** – Sandstone acidizing, the process of pumping an acid solution into a geological formation to increase oil and gas flow characteristics, is required in many wells to optimize production. It is often the most efficient way to increase production in wells that require stimulation, and the Company believes that it has particular expertise in the application of complex acid technologies.

- **Cementing** – The Company provides cementing services (pumping of cement behind the casing to complete or recomplete a producing well) on land and on inland waters and offshore. It specializes in remedial cementing services, such as cement packers, and in primary cementing capabilities.
- **Chemical Application** – The Company delivers chemical stimulation programs to optimize well production, working with scientists and chemical providers to formulate chemical packages that Management believes deliver superior performance (measured by post treatment well production rates).
- **Sand Control** – The Company offers an entire package for sand control needs (techniques for cleaning and control of sand accumulation in the wellbore) in conjunction with third party providers of completion tools, wireline and thru-tubing services, including the design and execution of cement packers and gravel packing services.
- **Pipeline Cleanouts** – The Company provides the pipeline industry with chemical technology and thermal fluid technology for removing pipeline and flow line blockages. The Company's thermal fluid unit is a flameless heating unit that utilizes waste heat from the engine's hydraulic system, radiator, and the final stage engine exhaust to heat fluids from ambient temperature to 300°F (150°C), depending on desired rates and type of treating fluid. The thermal fluid unit is capable of dissolving paraffin plugs in pipelines and flowlines by utilizing a combination of heat and chemical packages. The Company also offers gel pig packages and chemical component treatments to solve an array of pipeline cleanout problems.

### Nitrogen Services

Nitrogen has long been used for well intervention operations (and for a wide variety of pipeline and industrial applications) because it is essentially inert and does not react with oil and gas or treatment chemicals, does not promote corrosion (oxidation) of well tubulars and components, and does not present a fire or explosion hazard. In the past, virtually all nitrogen used for well intervention has been conveyed to the wellsite in liquid (cryogenic) form and gasified as it is used. At a temperature of -346° F, nitrogen is a liquid; when gasified, it expands by a factor of 686. For many simple jobs, such as a one-day well cleanout, liquid nitrogen is practical, and WISE multifunction coiled tubing systems incorporate liquid nitrogen tanks. For longer jobs requiring replenishment of the nitrogen supply, or for offshore or remote land locations, liquid nitrogen is often not readily available or prohibitively expensive. The Company has established a site-generated nitrogen services division that uses proven membrane-separation technology to produce nitrogen from the atmosphere in volumes and at pressures sufficient for most intervention applications. This division will support our coiled tubing operations when appropriate, but also provides standalone services. A good example of the latter is lifting residual water from gas wells that have been stimulated using slickwater fracturing. The Company's site-generated nitrogen units can accomplish that at a much lower cost than conventional methods, such as downhole pumps. Site-generated nitrogen services also have application in processing plants (refineries, petrochemicals, and gas-processing) and pipelines, where nitrogen is used for drying, inerting, blanketing, and fluid displacement.

### Slickline Services

Slickline services uses a thin, bare wire to convey tools into a well for a variety of purposes, including installing and retrieving a variety of completion components, such as gas-lift valves, safety valves, injection valves, and side-pocket accessories, for conducting temperature and pressure surveys, for perforating, and for a number of remedial operations, such as paraffin cutting, fishing objects out of the well, bailing sand out of the well, and swabbing (creating a partial vacuum in the well bore to stimulate flow). The Company offers slickline services both on and offshore. In general, slickline operations are less expensive than coiled tubing operations, and whenever possible, slickline will be the first choice for performing many redial operations.

Slickline, however, has several major limitations compared with coiled tubing: 1) slickline cannot push components into the well, so it is ineffective in high-angle and horizontal wells; 2) slickline cannot be used to pump or circulate fluids down into the well; 3) slickline does not permit rotating components, such as mills, at the bottom of the string; and 4) slickline does not have the strength of coiled tubing for fishing operations.

### **Competitive Conditions**

According to the Intervention and Coiled Tubing Association (“ICoTA”), the coiled tubing industry continues to be one of the fastest growing segments of the oilfield services sector, and for good reason. Coiled Tubing (“CT”) growth has been driven by attractive economics, continual advances in technology, and utilization of CT to perform an ever-growing list of field operations. Coiled tubing today is a global, multi billion dollar industry in the mainstream of energy extraction technology. The potential advantages associated with CT are typically driven by the fact that a workover rig (and associated cost) is not required, the rapid CT trip speed in and out of the well, and that CT operations are designed to be performed with pressure on the well. Eliminating the requirement to kill the well can be a significant factor in the decision to utilize CT for a particular field operation, as it reduces the risk of formation damage. CT first established its niche in the marketplace as a cost-effective well cleanout tool. In recent years, these conventional wellbore cleanouts and acid stimulation jobs accounted for more than three quarters of total CT revenue. However, CT use has continued to expand as it is adopted for use in additional field operations. Most recently, CT fracturing and drilling applications have emerged as two of the fastest growth areas. Revenue from these two CT applications has grown from almost zero 10 years ago, to approximately 15 percent in more recent times.

According to the ICoTA, the CT market is dominated by three large service companies, who control approximately 60% of the CT total marketplace. The market is also serviced by numerous smaller CT service providers. On a regional basis, there are typically more than 30 providers of CT in the International marketplace. Canada is serviced by more than 35 CT providers, and the U.S. by more than 25 companies.

In a published report by the ICoTA, as at January 22, 2009, the global fleet of CT Units has more than doubled over the last decade to approximately 1,704 units. According to the ICoTA report, as at January 2009, there were 456 units operating in the US, an 8% increase over 2008. At present, the International market accounts for the bulk of the currently available CT fleet with more than 829 units. Canada and the US are estimated to contribute an additional 419 and 456 units, respectively.

While the Company believes that over 80% of all gas and oil wells are producing from depths of 15,000 feet or less, the trend among the major coiled tubing companies appears to be a greater focus on the deeper wells, which have much higher downhole pressure and require larger diameter coiled tubing and much more expensive equipment (and day rates). The Company’s target market is the shallow to intermediate depth well (wells less than 15,000 feet deep) market, which the Company believes is currently underserved and has fewer large competitors. The Company believes its specialized WISE<sup>®</sup> CT equipment and services, along with its complementary pressure pumping, nitrogen, and slickline services, is well suited to serve this segment.

In a published report by Spears & Associates (“Spears”), “Drilling and Production Outlook December 2008”, for 2009, Spears projects that US spot oil prices will average about \$57.25/bbl, down over 40% from the 2008 average. US spot gas prices are projected to average \$6.75/mmbtu in 2009, down 20% for the year. On a monthly basis spot gas prices could go down to \$5/mmbtu during the spring. Drilling activity is now projected to drop 15% in the US market in 2009, averaging 1,603 active units for the year. From peak (September 2008) to trough (April 2009) a 24% decline is expected. Measuring activity may become increasingly difficult as the year progresses as some operators drill wells but defer their completion and hook-up in order to save costs. The unexpected depth and duration of the global credit freeze, the deteriorating US and global economic outlook, and the sharp drop in oil and gas prices lead Spear’s to conclude that North American drilling activity

will drop sharply in the next few weeks and that rig count outside North America will begin to weaken by the latter half of 2009. While the massive market intervention by governments around the world in recent weeks may be beginning to show signs of re-starting the flow of credit, economic activity has weakened as businesses and consumers have reduced spending in the midst of all the uncertainty. It now appears that the next several quarters will see the US and many other countries in a recession of unknown extent and duration. The petroleum industry is being buffeted on two fronts: lack of access to credit will force some operators to reduce their planned drilling expenditures so that they can operate within their cash flow while at the same time expectations for lower economic activity, and the attendant decline in oil and gas demand, has pushed the price of oil and gas down (further reducing operators' cash flow).

### **Intangible Properties**

The Company holds US and Canadian patents on its multifunction technology. The US patent covering two functions (e.g. coiled tubing and nitrogen) with a single power source was granted on March 9, 2004 and will expire on April 22, 2022. The US patent covering three functions having a single power source was granted on May 30, 2006 and will also expire on April 22, 2022. The Canadian patent covering two functions was issued on July 18, 2006 and will expire on September 24, 2024. In addition, the Company has four US patents and numerous international patents pending.

Intellectual Property acquired as a result of the acquisition of WISE Alberta include the patent for Process for Increasing Flow Capacity of Gas Wells, which was awarded on April 25, 2006 and will expire on July 31, 2022 and an international application has been filed for patent of Device and Method For Cleaning Wells.

#### *WISE<sup>®</sup> Technologies*

“WISE<sup>®</sup>” is a registered trademark of the Company and is an acronym for “Well Intervention Systems and Equipment<sup>™</sup>”, which the Company also utilizes as a trademark in conjunction with its products and services (including its pressure pumping and wireline services). The “WISE<sup>®</sup> Technologies” referred to herein consist of the Company's patented architecture for combining and integrating several coiled tubing based well intervention applications on a single trailer unit for land based operations or a 3 skid package for offshore operations. The term “WISE<sup>®</sup> Technologies” encompasses the Company's multifunction WISE<sup>®</sup> CT Units and all related patents, copyrights, trademarks, designs, drawings, specifications, improvements, knowhow, financial and business models, processes and systems, as well as extensions to the patents as newer applications are conceived. To date, the Company's WISE<sup>®</sup> Technologies have focused exclusively on CT-based applications.

#### *Proprietary Aspects of Company's WISE<sup>®</sup> Units*

The Company's patents cover the entire architecture and design concept of combining and integrating several CT- based well intervention applications (such as a CT Unit, a nitrogen system and a fluid pump) on a single trailer or platform, controlled by a single control system, powered by a single power source and actuated through a single set of hydraulics. It is the totality of this patented design that allows the Company to produce a unit of equipment that Management believes has a uniquely small footprint and is uniquely light in weight for the multiple capabilities involved. The Company believes that its patents effectively block a competitor from developing a unit of equipment with comparable operating characteristics, footprint and weight because to attempt to do so with more than one control system, more than one power source and more than one set of hydraulics would be to increase the size, weight, complexity and component cost of the unit.

The Company's patented multifunctional WISE<sup>®</sup> land CT Unit combines coiled tubing and nitrogen systems on a single trailer for use on land, which Management believes minimizes transportation requirements (e.g.

two or more semi tractors versus one semi tractor used by the Company), deployment costs and onsite footprint. The Company's patented multifunctional WISE<sup>®</sup> offshore CT Unit combines coiled tubing, a nitrogen system and a fluid pump on skids primarily for use on offshore platforms, liftboats, and amphibious vehicles, which Management believes minimizes expensive marine transportation requirements (e.g. larger or multiple supply vessels or a more expensive jack-up vessel, versus one supply boat for the Company), deployment costs and greatly reducing the weight and onsite footprint for the platform operator. The Company's patented approach, which is based on the integration of multiple components with a single power source, control system and hydraulics, allows for the extension of the WISE<sup>®</sup> Technologies design concept to include the addition or substitution of different well intervention equipment components into an integrated WISE<sup>®</sup> unit.

#### *Operating Advantages Inherent in the WISE<sup>®</sup> Technologies*

Management believes that using the WISE<sup>®</sup> Technologies to deliver several integrated well intervention applications (commonly referred to as "production enhancement" or "workover" applications) via a multifunction unit allows the Company to eliminate redundant costs and solve expensive logistical issues related to the onsite servicing of an oil, natural gas, or disposal well. Such issues include transportation of multiple trailers or skids, space limitations, weight limitations, crew size, total job time and safety issues. With a WISE<sup>®</sup> Unit, coiled tubing operations are observed and managed from a single, enclosed control cabin, which Management believes increases operational coordination and precision, as well as personnel safety. The comprehensive control console enables a single operator to monitor and control all aspects of a coiled tubing well intervention project (generally competitors use two or more operators to control a job, communicating via headsets and attempting to coordinate their activities at two or more control panels). Electrical, hydraulic and high-pressure hose connections are integrated into the WISE<sup>®</sup> CT Units, which Management believes substantially reduces both rig up and rig down time and the attendant safety risks to crews and equipment (generally our competition must rig up and maintain (and then rig down) electrical, hydraulic and high pressure hose connections between different pieces of equipment on the job site, increasing the potential for crew injuries and equipment failures). The Company typically bills for its field services on a competitive basis, but passes on to the customer the cost savings from the reduced transportation charges, reduced rig up and rig down time and similar logistical cost savings. Management also believes that the customer receives the economic benefit of accelerating its oil and gas production due to the Company's reduced total time to complete the job on location.

WISE<sup>®</sup> Units have been operating in the field, including in the demanding offshore environment for several years. The current WISE<sup>®</sup> CT Units are designed specifically to operate on oil and gas wells up to 15,000 feet in depth, which the Company estimates represent over 80% of producing oil and gas wells in North America and globally. The Company's WISE<sup>®</sup> CT Units can be configured to do virtually any CT application (e.g. sand washouts, fluid lifting, chemical treating, acidizing, and cementing) needed in the field. Because of the small footprint, reduced weight and other operating characteristics of the Company's WISE<sup>®</sup> CT Units, there are many situations where Management believes these units are the most cost effective alternative for servicing a platform or well site, especially offshore where deck space is at a substantial premium and crane lifting capacities and other parameters dictate what type of equipment can be placed directly on the platform for well intervention work.

As an example of the WISE<sup>®</sup> Technologies' versatility and the unique benefits of a small footprint and reduced weight, the Company has conducted jobs in coastal marshes using a modular WISE<sup>®</sup> CT Unit deployed on a rented amphibious vehicle. Due to its lightweight and compact configuration, the WISE<sup>®</sup> system is the only coiled tubing/nitrogen/fluid pump combination known to Management that can be used on available amphibious crawlers. The Company was able to service wells in shallow inland waters that were inaccessible by other means due to silting up of the original access canals over the years and in the aftermath of hurricanes.

The WISE<sup>®</sup> system, mounted on the amphibious crawler, can traverse both shallow water and land. Management believes this makes it an ideal alternative for marshes, wetlands or other environmentally sensitive areas.

#### *WISE<sup>®</sup> Patents – Status and Future Plans*

The Company holds US and Canadian patents on its WISE II Coiled Tubing Unit, a trailer-mounted onshore well intervention unit that combines two intervention functions plus a crane driven by a single power source. In addition, the Company holds a US patent that covers a process for increasing flow capacity of gas wells. The Company also holds a US patent for its WISE<sup>®</sup> III CT Unit, which combines three intervention capabilities driven by a single power source. This patent protects a wide variety of configurations of a single unit performing coiled tubing, nitrogen, and fluid pumping functions.

The Company has also filed international patent applications under the Patent Cooperation Treaty (“PCT”). The PCT is a treaty that provides a mechanism by which an applicant can file a single international patent application that streamlines the process for filing patent applications in any of the over 180 countries that have adopted the PCT. This first stage is called the “international phase”. The second stage, or “national phase”, follows selection of those jurisdictions in which the applicant wishes to pursue a patent to conclusion. The Company is pursuing national phase patent filings in countries where the Company deems it necessary to support its intended joint venture activities.

The Company may from time to time file additional patent applications. The Company believes that the patenting of its technology in select jurisdictions outside of the US and Canada is a key component of its proposed joint venture activities and in building a strong enterprise value for the Company long term.

#### **Cycles**

The business of exploring for and producing oil and gas resources is cyclical, and the business of delivering well intervention services to oil and gas operators is influenced by these cycles. The Company is primarily focused on delivering intervention services to enhance production in existing, producing oil and gas wells, and thus is less affected by the cycles encountered in the exploration and development portion of the oil and gas industry (e.g. drilling and completion services). The Company believes that the market for its well intervention services is primarily driven by the volume of consumption of oil and gas supplies, and that this market is less subject to swings based on oil and gas commodity prices (unless the commodity price were to decline to a point where wells are shut in by the producers rather than worked over to enhance their production).

#### **Economic Dependence**

Since the Company believes that the market for its well intervention services is primarily driven by the volume of consumption of oil and gas supplies, significant declines in economic activity that reduce consumption of oil and gas resources will have an impact on the Company’s business. High commodity prices that reduce overall consumption may also affect the demand for the Company’s services, although periods of high prices are usually indicative of higher demand for production enhancement services to boost the efficiency and extend the life of even marginal wells.

#### **Changes to Contracts**

The Company generally delivers its services to a variety of customers under the terms of Master Service Agreements, which provide the terms and conditions for the delivery of and payment for services, but which do not guarantee that the customer will call for any specific amount of work under the contract. As a result, the

Company is not subject to any significant risk of cancellation of long-term contracts for work. This may change as the Company becomes more exposed to long-term contracts in international operations.

### **Environmental Protection**

See “Risk Factors” below.

### **Employees**

As at December 31, 2008, the Company had a total of 157 full-time employees, 21 at corporate headquarters and 136 in the field.

### **Foreign Operations**

Substantially all of the Company’s operations and related assets are located in the United States, specifically in the Gulf Coast states of Texas, Louisiana and Mississippi. All of the Company’s operations are performed in this region and in the inland and offshore waters in the Gulf of Mexico. Although the Company is entirely dependent on its operations in the US, it is committed to expanding its geographical base.

The Company closed its field office in Brooks, Alberta in February 2008 and let the joint venture agreements in Mexico and Saudi Arabia expire on their own terms in 2007 (see “General Developments of the Business” above).

In June 2008, the Company announced that concurrent with the successful completion of the acquisition by Quest, an indirect wholly owned subsidiary of Al-Qahtani, the Company would reinstate the Joint Venture Agreement.

WWIS commenced operations in Belize in May, 2008; however, these services were subsequently discontinued in December 2008.

## **RISK FACTORS**

### **Risks Related to the Company and Its Business**

#### *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 coiled tubing 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 the Company's technology. Nevertheless, the Company expects that new competitors will enter its market in the future. The Company plans to protect our technology by defending its 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<sup>®</sup> 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 US 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 the Company's 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 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. The Company is in discussions with its Lender with respect to its debt covenants and the outcome of these discussions may or may not be favorable.

### 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.

### 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 US 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.

## DIVIDENDS

The Company has not paid dividends on its Common Shares for the year ended December 31, 2008 and does not expect to pay any dividends in the foreseeable future, other than the preferred dividends required to be paid on its Series A Preferred Shares, the first four quarterly installments were paid in kind (in additional shares of Series A Preferred Shares at the then effective Common Share market price). All Preferred Shares were converted to Common Shares prior to the completion of the Offer. Any future payments of dividends will depend upon the financial condition, capital requirements and earnings of the Company as well as other factors it may deem relevant.

## DESCRIPTION OF SHARE CAPITAL

### General

The Company is authorized to issue an unlimited number of Common Shares, Class B Shares, Class C Shares and Preferred Shares.

### Common Shares

Holders of Common Shares are entitled to receive notice of and to attend at meetings of holders of Common Shares and to one vote for each Common Share held on all votes taken at such meetings. The holders of Common Shares are entitled to receive such dividends as the Company's directors may from time to time declare. In the event of the winding-up or dissolution of the Company, whether voluntary or involuntary or for the purpose of a reorganization or otherwise or upon any distribution of capital, the holders of Common Shares are entitled to the surplus assets of the Company and generally will be entitled to enjoy all of the rights attaching to shares of the Company.

### Class B Shares

Holders of Class B Shares are entitled to all of the same rights and privileges as holders of Common Shares with respect to voting, entitlement to dividends and to distribution in the event of the winding-up or dissolution of the Company. All of the outstanding Class B Shares were converted into Common Shares upon the completion of the initial public offering. The Company does not expect to issue any additional Class B Shares in the future.

## Class C Shares

Holders of Class C Shares are entitled to all of the same rights and privileges as holders of Common Shares with respect to entitlement to dividends and to distribution in the event of the winding-up or dissolution of the Company, but are not entitled to vote such shares at meetings of the shareholders of the Company (except as otherwise specifically provided by law). Holders of Class C Shares shall be entitled, upon 75 days written notice to the Company, to convert such Class C Shares into Common Shares on the basis of one Common Share for each Class C Share. All of the outstanding Class C Shares were converted to Common Shares on May 14, 2007. The Company does not expect to issue any additional Class C Shares in the future.

## Preferred Shares

The Preferred Shares may at any time and from time to time be issued in one or more series, each series to consist of such number of shares as may, before the issue thereof, be determined by resolution of the Board. Subject to the provisions of the ABCA, the Board may by resolution fix from time to time before the issue thereof the designation, rights, privileges, restrictions and conditions attaching to each series of Preferred Shares. Except as otherwise specifically provided by law and except as may be otherwise specifically provided in the provisions attaching to any series of Preferred Shares, the holders of Preferred Shares are not entitled to receive notice of or to attend or to vote at any meeting of shareholders.

The Company authorized a series of Preferred Shares entitled the “Series A 8% Cumulative, Non-voting Convertible Preferred Share”. The Preferred Shares paid quarterly cumulative dividends at a rate of 8% per year of the amount invested. The Company has the right to pay all or a portion of the first four quarterly dividends in kind in additional Preferred Shares at the equivalent Common Share value at the time of payment. Each Preferred Share is convertible at the option of the holder into one Common Share. The dividends for the first four quarterly periods have been issued as in kind Preferred Shares. All Preferred Shares were converted to Common Shares prior to the completion of the Offer.

## MARKET FOR SECURITIES

The outstanding Common Shares are traded on the TSX under the trading symbol “WIS”. The following table sets forth the price range and trading volume of the Common Shares as reported by the TSX for the periods indicated (\$ are CAD).

	<u>High (\$)</u>	<u>Low (\$)</u>	<u>Volume (000's)</u>
<b><u>2008</u></b>			
<b><i>January</i></b> .....	<b><i>0.50</i></b>	<b><i>0.20</i></b>	<b><i>306</i></b>
<b><i>February</i></b> .....	<b><i>0.45</i></b>	<b><i>0.30</i></b>	<b><i>250</i></b>
<b><i>March</i></b> .....	<b><i>0.62</i></b>	<b><i>0.38</i></b>	<b><i>357</i></b>
<b><i>April</i></b> .....	<b><i>0.65</i></b>	<b><i>0.37</i></b>	<b><i>4,125</i></b>
<b><i>May</i></b> .....	<b><i>0.65</i></b>	<b><i>0.63</i></b>	<b><i>653</i></b>
<b><i>June</i></b> .....	<b><i>0.65</i></b>	<b><i>0.50</i></b>	<b><i>124</i></b>
<b><i>July</i></b> .....	<b><i>0.62</i></b>	<b><i>0.61</i></b>	<b><i>128</i></b>

	<i>High (\$)</i>	<i>Low (\$)</i>	<i>Volume (000's)</i>
<i>August</i> .....	<i>0.70</i>	<i>0.61</i>	<i>71</i>
<i>September</i> .....	<i>0.67</i>	<i>0.40</i>	<i>121</i>
<i>October</i> .....	<i>0.40</i>	<i>0.30</i>	<i>73</i>
<i>November</i> .....	<i>0.40</i>	<i>0.25</i>	<i>357</i>
<i>December</i> .....	<i>0.38</i>	<i>0.11</i>	<i>886</i>
<b><u>2009</u></b>			
<i>January</i> .....	<i>0.25</i>	<i>0.12</i>	<i>86</i>
<i>February</i> .....	<i>0.33</i>	<i>0.13</i>	<i>55</i>
<i>March</i> <sup>(1)</sup> .....	<i>0.15</i>	<i>0.08</i>	<i>139</i>

(1) March 2009 price and volume based on March 1-March 30, 2008 actual trading period.

### PRIOR SALES

As at March 31, 2008, there were 7,278,409 Preferred Shares issued and outstanding. This included the fourth quarterly period dividend issued as in kind Preferred Shares totalling 302,609 shares payable on March 1, 2008 and 290,027 shares for the third quarterly period dividend issued and paid on December 1, 2007.

On March 5, 2008, the number of Common Shares issuable pursuant to the acquisition of WSL were adjusted per the WSL acquisition agreement. The repricing of Common Shares was based on the value of the volume weighted average closing price during twenty consecutive trading days that preceded the first anniversary of the closing date of March 5, 2007. The adjusted Common Shares of 4,321,507 were based on the repricing of the original 1,234,739 Common Shares from USD\$1.72 (CAD\$2.00) to USD\$0.3828 (CAD\$0.3828) per share. Following this issuance, the total Common Shares issued pursuant to the WSL transaction is 5,556,246.

On May 6, 2008, the Company reached an agreement with its Lender in which an amendment to the original Note Purchase Agreement, upon the closing of the Offer, was made to the terms of the existing warrants held by the Lender (the "Lender Warrants") to (a) fix the exercise price for the Lender Warrants at CAD \$0.65 per share, (b) reduce the number of the Common Shares to be issued on the exercise of the Lender Warrants to 3,000,000 from 8,236,436, (c) extend the term for the exercise of the Lender Warrants to the period of four years following the Closing Date, and (d) provide that if the Company is taken private, the Lender will have certain rights to have the Company redeem the Lender Warrants.

On May 9, 2008, the Company reached a settlement with the former owners of its acquisition of WSL which was acquired on March 5, 2007, in connection with the earn-out provision of the acquisition agreement pursuant to which an additional 461,538 Common Shares were issued to the former owners of WSL in the second quarter of 2008.

On June 3, 2008, the Company and Quest jointly announced that Quest had been successful under its previously announced offer to purchase the outstanding Common Shares of PEG for CAD \$0.65 per share. A total of 49,904,093 Common Shares representing 72.7% of the outstanding Common Shares (or 56.4%

calculated on a diluted basis as of today's date) were validly deposited under the Offer which expired at 4:00 pm (Mountain Standard Time) on June 3, 2008. With the conditions to the Offer having been satisfied or agreed to be waived by Quest, Quest advised that it would take up and pay for the shares tendered under the Offer on June 6, 2008.

On June 6, 2008, the Company and Quest announced the successful completion of the acquisition by Quest of 51,046,166 Common Shares. In connection with the closing of Quest's offer, PEG issued an additional 32,946,861 Common Shares to Quest at an issue price of CAD\$0.65 a share. In total, Quest as a result owned 83,993,027 Common Shares representing approximately 82.7% of the issued and outstanding Common Shares of PEG (72.3% on a fully diluted basis).

On July 15, 2008, the Company successfully completed the remaining private placement in connection with the closing of the Offer. PEG issued an additional 6,275,592 Common Shares to Quest and certain employees of PEG including Jaime Crawford who purchased 500,000 shares at an issue price of CAD\$0.65 a share. In total, Quest now owns 89,698,619 Common Shares representing approximately 83.1% of the issued and outstanding Common Shares (73.5% on a fully diluted basis).

## EXECUTIVE OFFICERS AND DIRECTORS

### Executive Officers

The following table provides the names and municipalities of residence of the Company's executive officers as well as their positions with the Company and principal occupations for the previous five years.

Name and Municipality of Residence	Position Held	Principal Occupation in the Past Five Years
Joseph P. Lahey Houston, Texas	Chairman, Director and Chief Executive Officer of the Company	Chairman and Chief Executive Officer of the Company since July 14, 2008; President of WWIS since December 2008; Prior thereto Managing Director of Lahey & Partners LLC since October 2005. Prior thereto Chief Executive Officer and President of Corpro Companies Inc. since March 2004. Prior thereto Chairman, President and Chief Executive Officer of Pluris Capital Advisors, Inc.
R. Douglas Parker, CPA Houston, Texas	Chief Financial Officer of the Company and Corporate Secretary	Chief Financial Officer of the Company since May 2007 and Chief Financial Officer of the Company until June 2006; Corporate Secretary of the Company since January 2008; Chief Financial Officer of WWIS since 2004; Chief Financial Officer and Assistant Secretary of PET and A to Z since December, 2005; Chief Financial Officer of IIBEX Holdings, Inc. and its predecessors since 2004; Chief Financial Officer and Chief Operating Officer of Tribute Direct, Inc. and EPCglobal, Inc. (on a consulting contract basis) from 2003 to 2004; President and Chief Executive Officer of Pliant Technologies, Inc. in 2003; Chief Financial Officer of Talent Tree, Inc. from 1995 to 2002.

## Directors

The Company has a Board of Directors currently consisting of eight individuals. The directors are elected by the Company, at the direction of shareholders by ordinary resolution, and hold office until the next annual meeting of the Company, which will be held in 2009 within the required time period.

The following table provides the names and municipalities of residence of the Company's directors as well as their offices held with the Company, the date they were first appointed to the Company's Board and their principal occupation for the previous five years.

Name and Municipality of Residence	Current Positions and Offices Held	Principal Occupation in the Past Five Years	Director Since
Joseph P. Lahey Houston, Texas	Chairman, Director and Chief Executive Officer of the Company	Chairman and Chief Executive Officer of the Company since July 14, 2008; President of WWIS since December 2008; Prior thereto Managing Director of Lahey & Partners LLC since October 2005. Prior thereto Chief Executive Officer and President of Corpro Companies Inc. since March 2004. Prior thereto Chairman, President and Chief Executive Officer of Pluris Capital Advisors, Inc.	July 14, 2008
Jaime B. Crawford Houston, Texas	Director	Executive Vice President of Technology of the Company until his retirement in December 2008; President, Director and co-founder of PET from 2002; President and Director of A to Z since December, 2005; President of WWIS since 2004; Vice President of Production Services at AMBAR Production Services from 1996 to 2002; Inventor of WISE patented multifunction coiled tubing technology.	November 24, 2005
John Paterson Dammam, Saudi Arabia	Director	Group Financial Controller, Abdulhadi A. Al-Qahtani & Sons Group since February, 2000	June 6, 2008
Omar Rashid Dammam, Saudi Arabia	Director	General Manager, Al-Qahtani Marine & Oilfield Services Co. since December 2006. Prior thereto Petroleum Engineer Saudi Arabian Oil Co.	June 6, 2008
Brad Pierce Calgary, Alberta Canada	Director	Partner, Borden Ladner Gervais LLP	June 6, 2008
James G. Cameron <sup>(1)(2)(3)</sup> Marietta, Georgia	Director	Independent Consultant since April , 2006. Prior thereto President of Omega Management & Investment, L.L.C., consultants to acquiring companies in the midstream oil industry	August 14, 2008

Name and Municipality of Residence	Current Positions and Offices Held	Principal Occupation in the Past Five Years	Director Since
Esam Trabulsi <sup>(1)(2)(3)</sup> New York, New York	Director	Chief Executive Officer, EMT & Associates, energy consulting and project development company	August 14, 2008
William C. Pettigrew <sup>(1)(2)(3)</sup> Vancouver, B.C. Canada	Director	Chief Financial Officer of AMI Resources Inc. and Midasco Capital Corp.	August 14, 2008

Notes:

- (1) Member of Audit Committee.
- (2) Member of the Compensation Committee.
- (3) Member of the Corporate Governance Committee.

All of the Company's directors' terms of office will expire at the earliest of their resignation, the close of the next annual shareholder meeting called for the election of directors, or on such other date as they may be removed according to the ABCA.

As at March 31, 2009, the directors and executive officers of the Company as a group beneficially owned, directly or indirectly, or exercised control or direction over 91,019,204 Common Shares, representing 84.4% of the issued and outstanding Common Shares.

*Corporate Cease Trade Orders or Bankruptcies*

None of those persons who are directors or executive officers of the Company is, or has been within the past ten years, a director, chief executive officer or chief financial officer of any company, including the Company, that while such person was acting in that capacity, was the subject of a cease trade or similar order or an order that denied the company access to any exemption under securities legislation, for a period of more than 30 consecutive days, or after such persons ceased to be a director, chief executive officer or chief financial officer of the company, was the subject of a cease trade or similar order or an order that denied the company access to any exemption under securities legislation, for a period of more than 30 consecutive days, which resulted from an event that occurred while acting in such capacity.

None of those persons who are directors or executive officers or a shareholder holding a sufficient number of Common Shares affect materially the control of the Company is, or has been within the past ten years, a director or executive officer of any company, including the Company, that, while such person was acting in that capacity, or within a year of that person ceasing to act in that capacity became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets or became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold his assets.

*Penalties or Sanctions*

None of those persons who are directors or executive officers of the Company have been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority or been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable shareholder in deciding whether to vote for a proposed director.

## **Conflicts of Interest**

Investors should be aware that some of the directors and officers of the Company are directors and officers of other private and public companies. Some of these private and public companies may, from time to time, be involved in business transactions or banking relationships which may create situations in which conflict may arise. Any such conflicts shall be resolved in accordance with the procedures and requirements of the relevant provisions of the *ABCA*, including the duty of such directors and officers to act honestly and in good faith with a view to the best interests of the Company. See “Interests of Management and Others in Material Transactions”.

## **Audit Committee**

### *Composition of the Audit Committee*

The Board has an Audit Committee. The members of the Audit Committee are Messrs. Pettigrew, Cameron and Trabulsi. The Chairman of the Audit Committee is Mr. Pettigrew, an independent director. Each of Messrs. Pettigrew, Cameron and Trabulsi are considered “independent” and all members are “financially literate” (as such terms are defined in National Instrument 52-110 (“NI 52-110”)).

### *Audit Committee Charter*

The Company’s board of directors have adopted a Charter for the Audit Committee which sets out the Committee’s mandate, organization, powers and responsibilities. The complete Charter is attached as Schedule “A” to this Annual Information Form.

### *Relevant Education and Experience*

The education and experience of each of the present Audit Committee members as well as those as at the most recently completed financial year that is relevant to the performance of his responsibilities as an audit committee member is as follows:

#### William C. Pettigrew

Mr. Pettigrew is the Chief Financial Officer of AMI Resources Inc. and Midasco Capital Corporation.

#### Esam Trabulsi

Mr. Trabulsi is the Chief Executive Officer of EMT & Associates, an energy consulting and project development company.

#### James G. Cameron

Mr. Cameron is an independent consultant since April, 2006. Prior thereto, he was President of Omega Management & Investment, L.L.C., consultants to acquiring companies in the midstream oil industry.

### *Audit Committee Oversight*

Since the commencement of the Company’s most recently completed financial year, the recommendations of the Audit Committee to nominate or compensate external auditors have been adopted by the Company’s Board.

***Pre-Approval Policies and Procedures***

The Audit Committee has adopted specific policies and procedures for the engagement of non-audit services as described in the Charter.

***External Auditor Service Fees***

The fees paid to the Company’s external auditor in each of the last three fiscal years are as follows:

<b>Financial Year Ending</b>	<b>Audit Fees <sup>(1)</sup></b>	<b>Audit-Related Fees<sup>(2)</sup></b>	<b>Tax Fees <sup>(3)</sup></b>	<b>All Other Fees<sup>(4)</sup></b>
December 31, 2008	USD 92,190	USD 34,895	USD 109,653	USD 41,350
December 31, 2007	USD 61,518	USD 15,639	USD 20,276	USD 65,588

**Notes:**

- (1) The aggregate fees billed and paid by the Company’s auditor for audit fees.
- (2) The aggregate fees billed and paid for assurance and related services by the Company’s auditor that are reasonably related to the performance of the audit or review of the Company’s financial statements and are not disclosed in the “Audit Fees” column.
- (3) The aggregate fees billed and paid for professional services rendered by the Company’s auditor for tax compliance, tax advice, and tax planning.
- (4) Other fees relate to fees from acquisitions and the review of the quarterly statements.

As at December 31, 2008 the accrued fees for the Company’s auditor for audit fees and tax fees were USD 82,500 and USD 47,000, respectively.

**LEGAL PROCEEDINGS**

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.

**INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

Other than as disclosed below, there are no material interests, direct or indirect, of directors, senior officers, any shareholders who beneficially own, directly or indirectly, more than 10% of the Company’s outstanding Common Shares (on a fully diluted basis), or any known associates or affiliates of such persons, in any transaction within the last three years or in any proposed transaction which has materially affected or will materially affect the Company:

2006 Related Party Transactions

- (a) Legal fees related to the Company's initial public offering and subsequent transactional activities were charged by McCarthy Tétrault LLP, the law firm at which the former Corporate Secretary is a partner. For the twelve months ended December 31, 2006 these legal fees totalled USD 357,217 and there was an outstanding balance at December 31, 2006 of USD 799.
- (b) The Company previously entered into an advisory board chairman and consulting agreement pursuant to which James R. Crawford, a family member of a senior executive was paid USD 48,425 during the twelve month period ended December 31, 2006.
- (c) There was a Manufacturing Agreement between PETI and Lamb Services, Inc. ("LSI") dated December 14, 2004, whereby PETI must cause its WISE<sup>®</sup> CT Units to be constructed by LSI. LSI is owned by Edward R. Lamb, a controlling shareholder and director of the Company. Equipment purchases, equipment rental and equipment repairs of USD 3,405,028 were recorded during the twelve-month period ended December 31, 2006 to LSI. The rentals were based on usage and all transactions were competitive with arms-length third party charges. There was an outstanding balance at December 31, 2006 of USD 306,278.
- (d) There was an Outsourcing MIS Agreement between PETI and BAMEL, Inc. ("BAMEL") dated December 14, 2004 whereby the Company is outsourcing certain software and system technology development and support functions to BAMEL, a company controlled by Mr. Philip C. Crawford, an indirect controlling shareholder and the former director, President and Chief Executive Officer of the Company. On December 14, 2004, WWIS signed an agreement with BAMEL (now, EpiCentrix LLC), a software supplier controlled by a former director and officer of the Company, to purchase a USD 250,000 license for the operation of a global support center for the WISE<sup>®</sup> CT Units in the field, a user contract at USD 1,500 per month per CT Unit, a per CT Unit installation fee of USD 75,000 and customization costs based on established rates per hour. This agreement became effective upon the closing of the Company's initial public offering for an initial period of three years. The agreement was expanded in 2006 to include other outsourcing services. Computer consulting and services totalling USD 364,474 were recorded during the twelve-month period ending December 31, 2006 to this company. There was an outstanding balance at December 31, 2006 of USD 364,474.
- (e) The Company leased real property for its facility in Lafayette, Louisiana, from Strategic Endeavors LLC, a company controlled by Edward R. Lamb, a controlling shareholder and director of the Company. For the twelve months ended December 31, 2006, USD 125,537 was recorded and a balance of USD 7,039 remained at December 31, 2006.

#### 2007 Related Party Transactions

- (a) Legal fees related to the Company's acquisitions, financings and general corporate matters are charged by the law firm at which the former Corporate Secretary is a partner. For the twelve months ended December 31, 2007 these legal fees totaled USD 415,331. There was an outstanding balance for legal fees at December 31, 2007 in the amount of USD 38,427. The acquisition related legal fees included in these total legal fees were USD 261,404 for the twelve months ended December 31, 2007.

- (b) The Company previously entered into a consulting agreement in which a family member of a senior executive was paid USD 48,000 during the twelve month period ended December 31, 2007 for advisory board services.
- (c) Equipment purchases, equipment rental and equipment repairs of USD 2,528,470 were recorded during the twelve month period ended December 31, 2007 to two companies controlled by a director. The rentals are based on usage and all transactions are competitive with arms-length third party charges. There was an outstanding balance at December 31, 2007 of USD 29,143.
- (d) On December 14, 2004, WWIS signed an agreement with a software supplier controlled by a former director and officer of the Company to purchase a USD 250,000 license for the operation of a global support center for the WISE® Coil Tubing (“CT”) Units in the field, a user contract at USD 1,500 per month per CT Unit, a per Coil Tubing (“CT”) Unit installation fee of USD 75,000 and customization costs based on established rates per hour. This agreement is effective upon the closing of the offering for an initial period of three years.

The software license has not been placed in service as of December 31, 2007 and the Company has determined the value has been impaired and has expensed the cost of the software in 2007. Computer consulting and services totalling USD 1,006,873 were recorded during the twelve month period ending December 31, 2007 to a company controlled by a former director and officer of the Company. A balance of USD 8,735 remained outstanding at December 31, 2007. This agreement was terminated on October 1, 2007 and no further costs related to the agreement are expected. The Company will be entitled to utilize the software and the license royalty-free.

- (e) The Company leases several real properties from companies controlled by board members or former officers of the Company. For the twelve month period ending December 31, 2007, USD 273,000 was recorded in lease payments.
- (f) The Company purchased chemicals for resale totalling USD 77,119 from a company that is beneficially owned by two former officers of a subsidiary during the twelve month period ending December 31, 2007. No future purchases are contemplated from this source.
- (g) As a result of the acquisition of WISE Alberta in May 2007, the Company has recorded costs of CAD 16,293 for the twelve months ended December 31, 2007 to a company owned by a former WISE Alberta officer.
- (h) Effective as of September 1, 2007 the Company terminated its exclusive Manufacturing Agreement and its Second Contract for Construction of Integrated Membrane Nitrogen Generators made with a company controlled by a director.

#### 2008 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 totaled \$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 except Note (f) in “2007 Related Party Transactions” are recorded at agreed to exchange amounts that represent fair value.

### **PROMOTERS**

Mr. James Crawford may be considered to be the promoter of the Company in that he took the initiative in co-founding WISE® and organizing the business of the Company.

### **TRANSFER AGENTS AND REGISTRARS**

The registrar and transfer agent for the Company’s Common Shares is Olympia Trust Company at its principal office in Calgary, Alberta.

### **MATERIAL CONTRACTS**

On August 31, 2007, the Company entered into a debt facility from a major energy lending institution to provide a senior credit facility of USD \$70 million. This new senior facility refinanced the existing senior indebtedness and provided USD \$40 million in expansion financing for additional capital expenditures and working capital. The note purchase agreement dated August 31, 2007 is filed on SEDAR in compliance with Canada’s National Instrument 51-102, Continuous Disclosure Obligations. On May 6, 2008, the Company reached an agreement with the Lender in which an amendment to the original Note Purchase Agreement would be made and a waiver would be received for all covenant violations subject to the closing of the Offer by Quest for all of the Company’s issued and outstanding Common Shares. The Lender would also consent to the change of control of the Company upon completion of the Offer. Upon closing of the Offer, the Company paid the Lender a restructuring fee of USD \$4.0 million, with USD \$2 million of such fee being due and payable on the Closing Date and the remaining USD \$2 million being due and payable upon the earlier of (a) the date the obligations owing under the Note Purchase Agreement are repaid or prepaid in full, and (b) the maturity date for the remaining aggregate outstanding principal amount of the obligations under the Note Purchase Agreement, which is amended to one year from the Closing Date. Further, upon the Closing Date, the Company will pay to the Lender USD \$15 million towards the current outstanding debt which such payment causing a release of all security against the accounts receivable of the Company. On the Closing Date, the Company amended the terms of the existing warrants held by the Lender (the “Lender Warrants”) to (a) fix the exercise price for the Lender Warrants at CAD \$0.65 per share, (b) reduce the number of the Common Shares to be issued on the exercise of the Lender Warrants to 3,000,000 from 8,236,436, (c) extend the term for the exercise of the Lender Warrants to the period of four years following the Closing Date, and (d) provide that if the Company is taken private, the Lender will have certain rights to have the Company redeem the Lender Warrants. The maturity date for the remaining aggregate outstanding principal amount of the obligations under the amended Note Purchase Agreement shall be modified to be one year from the Closing Date with the ability, at the option of the Company, to extend the maturity date for six months with an interest rate increase

of 2% and the grant by the Company of an additional 500,000 warrants exercisable at CAD \$0.65. Also the Lender and the Company have agreed to modify the financial covenants.

On June 6, 2008, the Company and Quest announced the successful completion of the acquisition by Quest of 51,046,166 Common Shares. In connection with the closing of Quest's offer, PEG issued an additional 32,946,861 Common Shares to Quest at an issue price of CAD\$0.65 a share. In total, Quest now owns 83,993,027 Common Shares representing approximately 82.7% of the issued and outstanding Common Shares of PEG (72.3% on a fully diluted basis). On July 15, 2008, the Company completed the successful completion of the remaining private placement in connection with the closing of the Offer. PEG issued an additional 6,275,592 Common Shares to Quest and certain employees of PEG including Jaime Crawford who purchased 500,000 shares at an issue price of CAD\$0.65 a share. In total, Quest now owns 89,698,619 Common Shares representing approximately 83.1% of the issued and outstanding Common Shares (73.5% on a fully diluted basis). The acquisition agreement and related documents is filed on SEDAR in compliance with Canada's National Instrument 51-102, Continuous Disclosure Obligations.

### INTERESTS OF EXPERTS

Pannell Kerr Forster of Texas, P.C. ("PKF of Texas") are the Company's auditors and as such have prepared an opinion with respect to the Company's consolidated financial statements as at and for the fiscal year-ended December 31, 2008. Pannell Kerr Forster of Texas, P.C. is independent in accordance with the Rules of Professional Conduct as outlined by the Institute of Chartered Accountants of Alberta. The principals of Pannell Kerr Forster of Texas, P.C., individually or as a group, neither own nor expect to receive any of the Company's securities, directly or indirectly. Deloitte & Touche LLP ("Deloitte"), Chartered Accountants, was the Company's auditor for fiscal year ending December 31, 2007 and prepared or certified certain statements and reports during the fiscal year ending December 31, 2007. BDO Dunwoody, LLP ("BDO") was the Company's auditor for fiscal year ending December 31, 2005 and prepared or certified certain statements and reports during the fiscal year ending December 31, 2006. Deloitte and BDO are independent in accordance with the Rules of Professional Conduct as outlined by the Institute of Chartered Accountants of Alberta. The principals of Deloitte and BDO, individually or as a group, neither own nor expect to receive any of the Company's securities, directly or indirectly.

### ADDITIONAL INFORMATION

Additional information is available on the System for Electronic Document Analysis and Retrieval (SEDAR) at [www.sedar.com](http://www.sedar.com) and on our website at [www.productionenhancement.com](http://www.productionenhancement.com).

Additional information including directors' and officers' remuneration and indebtedness, principal holders of the issuer's securities, options to purchase securities and securities authorized for issuance under equity compensation plans, if applicable, is contained in our information circular in respect of the annual and special meeting of shareholders to be held in 2009 within the required time period. Additional financial information is provided in our comparative financial statements and management's discussion and analysis for our most recently completed financial year ended December 31, 2008.

For additional copies of this annual information form please contact:

Production Enhancement Group, Inc.  
919 Milam, Suite 2020  
Houston, Texas  
77002

## SCHEDULE “A”- AUDIT COMMITTEE CHARTER

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### **I. The Board of Directors’ Mandate for the Audit Committee**

1. *The Board of Directors* (“Board”) has responsibility for the stewardship of Production Enhancement Group, Inc. (the “Company”). To discharge that responsibility, the Board is obligated by the Canada Business Corporations Act to supervise the management of the business and affairs of the Company. The Board’s supervisory function involves Board oversight or monitoring of all significant aspects of the management of the Company’s business and affairs.

Public financial reporting and disclosure by the Company are fundamental to the Company’s business and affairs and to its status as a publicly listed enterprise. The objective of the Board’s monitoring of the Company’s financial reporting and disclosure is to gain reasonable assurance of the following:

- (a) that the Company complies with all applicable laws, regulations, rules, policies and other requirement of governments, regulatory agencies and stock exchanges relating to financial reporting and disclosure;
- (b) that the accounting principles, significant judgements and disclosures which underlie or are incorporated in the Company’s financial statements are appropriate in the prevailing circumstances;
- (c) that the Company’s quarterly and annual financial statements are accurate within a reasonable level of materiality and present fairly the Company’s financial position and performance in accordance with generally accepted accounting principles; and
- (d) that appropriate information concerning the financial position and performance of the Company is disseminated to the public in a timely manner in accordance with corporate and securities law and with stock exchange regulations.

The Board is of the view that monitoring of the Company’s financial reporting and disclosure policies and procedures cannot be reliably met unless the following activities (“the Fundamental Activities”) are, in all material respects, conducted effectively:

- (i) the Company’s accounting functions are performed in accordance with a system of internal financial controls designed to capture and record properly and accurately all of the Company’s financial transactions;
- (ii) the internal financial controls are regularly assessed for effectiveness and efficiency;
- (iii) the Company’s quarterly and annual financial statements are properly prepared by Management to comply with GAAP;
- (iv) the Company’s quarterly and annual financial statements are reported on by an external auditor appointed by the shareholders of the Company.

To assist the Board in its monitoring of the Company's financial reporting and disclosure and to conform to applicable corporate and securities law, the Board has established the Audit Committee (the "Committee") of the Board.

2. ***Composition of Committee***

- (a) The Committee shall be appointed annually by the Board and consist of at least three members from among the directors of the Company, each of whom shall be an independent director. Officers of the Company, who are also directors, may not serve as members of the Audit Committee;
- (b) The Board shall designate the Chairman of the Committee;
- (c) In the event of a vacancy arising in the Committee or a loss of independence of any member, the Committee will fill the vacancy within six months or by the following annual shareholders' meeting if sooner.

3. ***Reliance on Experts***

In contributing to the Committee's discharging of its duties under this mandate, each member of the Committee shall be entitled to rely in good faith upon:

- (a) financial statements of the Company represented to him by an officer of the Company or in a written report of the external auditors to present fairly the financial position of the Company in accordance with generally accepted accounting principles; and
- (b) any report of a lawyer, accountant, engineer, appraiser or other person whose profession lends credibility to a statement made by any such person.

4. ***Limitations on Committee's Duties***

In contributing to the Committee's discharging of its duties under Terms of Reference, each member of the Company shall be obliged only to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Nothing in these Terms of Reference is intended, or may be construed, to impose on any member of the Committee a standard of care or diligence that is in any way more onerous or extensive than the standard to which all Board members are subject. The essence of the Committee's duties is monitoring and reviewing to *endeavor to* gain reasonable assurance (but not to ensure) that the Fundamental Activities are being conducted effectively and that the objectives of the Company's financial reporting are being met and to enable the Committee to report thereon to the Board.

**II. Audit Committee Terms of Reference**

The Audit Committee's Terms of Reference outlines how the Committee will satisfy the requirements set forth by the Board in its mandate. Terms of Reference reflect the following:

- Operating Principles;
- Operating Procedures;
- Specific Responsibilities and Duties.

**A. *Operating Principles***

The Committee shall fulfill its responsibilities within the context of the following principles:

**1) *Committee Values***

The Committee expects the management of the Company to operate in compliance with corporate policies; reflecting laws and regulations governing the Company; and to maintain strong financial reporting and control processes.

**2) *Communications***

The Committee and members of the Committee expect to have direct, open and frank communications throughout the year with Management, other Committee Chairmen, the external auditors, and other key Committee advisors or Company staff members as applicable.

**3) *Financial Literacy***

All Audit Committee Members should be sufficiently versed in financial matters to read and understand the Company's financial statements and also to understand the Company's accounting practices and policies and the major judgements involved in preparing the financial statements.

**4) *Annual Audit Committee Work Plan***

The Committee, in consultation with Management and the external auditors, shall develop an annual Audit Committee work plan responsive to the Committee's responsibilities as set out in these Terms of Reference. In addition, the Committee, in consultation with Management and the external auditors, shall participate in a process for review of important financial topics that have the potential to impact the Company's financial disclosure.

The work plan will be focused primarily on the annual and interim financial statements of the Company; however, the Committee may at its sole discretion, or the discretion of the Board, review such other matters as may be necessary to satisfy the Committee's Terms of Reference.

**5) *Meeting Agenda***

Committee meeting agendas shall be the responsibility of the Chairman of the Committee in consultation with Committee members, senior management and the external auditors.

**6) *Committee Expectations and Information Needs***

The Committee shall communicate its expectations to Management and the external auditors with respect to the nature, timing and extent of its information needs. The Committee expects that written materials will be received from Management and the external auditors at a reasonable time in advance of meeting dates.

**7) *External Resources***

To assist the Committee in discharging its responsibilities, the Committee may at its discretion, in addition to the external auditors, at the expense of the Company, retain one or more persons having special expertise, including independent counsel.

8) **In Camera Meetings**

At the discretion of the Committee, the members of the Committee shall meet in private session with the external auditors.

9) **Reporting to the Board**

The Committee, through its Chairman, shall report after each Committee meeting to the Board at the Board's next regular meeting.

10) **Committee Self Assessment**

The Committee shall annually review, discuss and assess its own performance. In addition, the Committee shall periodically review its role and responsibilities.

11) **The External Auditors**

The Committee expects that, in discharging their responsibilities to the shareholders, the external auditors shall report directly to and be accountable to the Board through the Audit Committee. The external auditors shall report all material issues or potentially material issues, either specific to the Company or to the financial reporting environment in general, to the Committee.

**B. *Operating Procedures***

- 1) The Committee shall meet at least four times annually, or more frequently as circumstances dictate. Meetings shall be held at the call of the Chairman, upon the request of two (2) members of the Committee or at the request of the external auditors.
- 2) A quorum shall be a majority of the members.
- 3) Unless the Committee otherwise specifies, the Secretary (or his or her deputy) of the Company shall act as Secretary of all meetings of the Committee.
- 4) In the absence of the Chairman of the Committee, the members shall appoint an acting Chairman.
- 5) A copy of the minutes of each meeting of the Committee shall be provided to each member of the Committee and to each director of the Company in a timely fashion.

**C. *Specific Responsibilities and Duties***

To fulfill its responsibilities and duties, the Committee shall:

**Financial Reporting**

- 1) Review, prior to public release, the Company's annual and quarterly financial statements with Management and the external auditors with a view to gaining reasonable assurance that the statements (i) are accurate within reasonable levels of materiality, (ii) complete, (iii) represent fairly the Company's financial position and performance in accordance with GAAP. The Committee shall report thereon to the Board before such financial statements are approved by the Board;

- 2) Receive from the external auditors reports of their review of the annual and quarterly financial statements;
- 3) Receive from Management a copy of the representation letter provided to the external auditors and receive from Management any additional representations required by the Committee;
- 4) Review, prior to public release, and, if appropriate, recommend approval to the Board, of news releases and reports to shareholders issued by the Company with respect to the Company's annual and quarterly financial statements;
- 5) Review and, if appropriate, recommend approval to the Board of prospectuses, material change disclosures of a financial nature, management discussion and analysis, annual information forms and similar disclosure documents to be issued by the Company; and
- 6) Review and validate procedures for the receipt, retention and resolution of complaints received by the Company from any party regarding accounting, auditing or internal controls. For greater certainty, the Committee's responsibilities in this area will not include complaints about minor operational issues. (Examples of minor operational issues include late payment of invoices, minor disputes over accounts owing or receivable, revenue and expense allocations and other similar items characteristic of the normal daily operations of the accounting department of an oil and gas company.)

#### **Accounting Policies**

- 1) Review with Management and the external auditors the appropriateness of the Company's accounting policies, disclosures, reserves, key estimates and judgements, including changes or variations thereto.
- 2) Obtain reasonable assurance that they are in compliance with GAAP from Management and external auditors and report thereon to the Board;
- 3) Review with Management and the external auditors the apparent degree of conservatism of the Company's underlying accounting policies, key estimates and judgements and provisions along with quality of financial reporting.
- 4) Participate, if requested, in the resolution of disagreements, between Management and the external auditors.
- 5) Review with Management the categorization of flow-through expenditures and the qualification of such expenditures to satisfy the Company's existing obligations.

#### **Risk and Uncertainty**

- 1) Acknowledging that it is the responsibility of the Board, in consultation with Management, to identify the principal business risks facing the Company, determine the Company's tolerance for risk and approve risk management policies, the Committee shall focus on financial risk and gain reasonable assurance that financial risk is being effectively managed or controlled by:
  - (a) reviewing with Management the Company's tolerance for financial risks;

- (b) reviewing with Management its assessment of the significant financial risks facing the Company;
  - (c) reviewing with Management the Company's policies and any proposed changes thereto for managing those significant financial risks;
  - (d) reviewing with Management its plans, processes and programs to manage and control such risks.
- 2) Review policies and compliance therewith that require significant actual or potential liabilities, contingent or otherwise, to be reported to the Board in a timely fashion;
  - 3) Review foreign currency, interest rate and commodity price risk mitigation strategies, including the use of derivative financial instruments;
  - 4) Review the adequacy of insurance coverages maintained by the Company;
  - 5) Review regularly with Management, the external auditors and the Company's legal counsel, any legal claim or other contingency, including tax assessments, that could have a material effect upon the financial position or operating results of the Company and the manner in which these matters have been disclosed in the financial statements.

#### **Financial Controls and Control Deviations**

- 1) Review the plans of the external auditors to gain reasonable assurance that the evaluation and testing of applicable internal financial controls is comprehensive, coordinated and cost-effective;
- 2) Receive regular reports from Management and the external auditors on all significant deviations or indications/detection of fraud and the corrective activity undertaken in respect thereto;
- 3) Institute a procedure that will permit any employee, including management employees, to bring to the attention of the Board, under conditions of confidentiality, concerns relating to financial controls and reporting which are material in scope and which cannot be addressed, in the employee's judgement, through existing reporting structures in the Company;
- 4) Review, and periodically assess the adequacy of controls over financial information disclosed to the public, which is extracted or derived from the Company's financial statements.

#### **Compliance with Laws and Regulations**

- 1) Review regular reports from Management and others (e.g. external auditors) with respect to the Company's compliance with laws and regulations having a material impact on the financial statements including:
  - (a) tax and financial reporting laws and regulations;
  - (b) legal withholding requirements;
  - (c) other laws and regulations which expose directors to liability.
- 2) Review the filing status of the Company's tax returns, flow-through share renunciation filings and those of its subsidiaries.

### **Relationship with External Auditors**

- 1) Recommend to the Board the nomination of the external auditors;
- 2) Approve the remuneration and the terms of engagement of the external auditors as set forth in the Engagement Letter;
- 3) Review the performance of the external auditors annually or more frequently as required;
- 4) Receive annually from the external auditors an acknowledgement in writing that the shareholders, as represented by the Board and the Committee, are their primary client;
- 5) Receive a report annually from the external auditors with respect to their independence, such report to include a disclosure of all engagements (and fees related thereto) for non-audit services by the Company;
- 6) Review with the external auditors the scope of the audit, the areas of special emphasis to be addressed in the audit, and the materiality levels which the external auditors propose to employ;
- 7) Meet with the external auditors in the absence of Management to determine, inter alia, that no management restrictions have been placed on the scope and extent of the audit examinations by the external auditors or the reporting of their findings to the Committee;
- 8) Establish effective communication processes with Management and the Company's external auditors to assist the Committee to monitor objectively the quality and effectiveness of the relationship among the external auditors, Management and the Committee; and
- 9) Establish a reporting relationship between the external auditors and the Committee such that the external auditors can bring directly to the Committee matters that, in the judgement of the external auditors, merit the Committee's attention. In particular, the external auditors will advise the Committee as to disagreements between Management and the external auditors regarding financial reporting and how such disagreements were resolved.

### **Other Responsibilities**

- 1) Approve annually the reasonableness of the expenses of the Chairman of the Board and the Chief Executive Officer;
- 2) After consultation with the Chief Financial Officer and the external auditors, consider at least annually, of the quality and sufficiency of the Company's accounting and financial personnel and other resources;
- 3) Approve in advance non-audit services, including tax advisory and compliance services, provided by the external auditors. However, the Committee can establish a threshold amount for fees for non-audit services to be provided by the external auditors without advance approval of the Committee. The nature of such services and the associated cost will be provided to the Committee at the next following meeting.
- 4) Investigate any matters that, in the Committee's discretion, fall within the Committee's duties;

- 5) Perform such other functions as may from time to time be assigned to the Committee by the Board.
- 6) Review and update the Terms of Reference on a regular basis for approval by the Board; and
- 7) The Committee will review disclosures regarding the organization and duties of the Audit Committee to be included in any public document, including quarterly and annual reports to shareholders, information circulars and annual information forms.