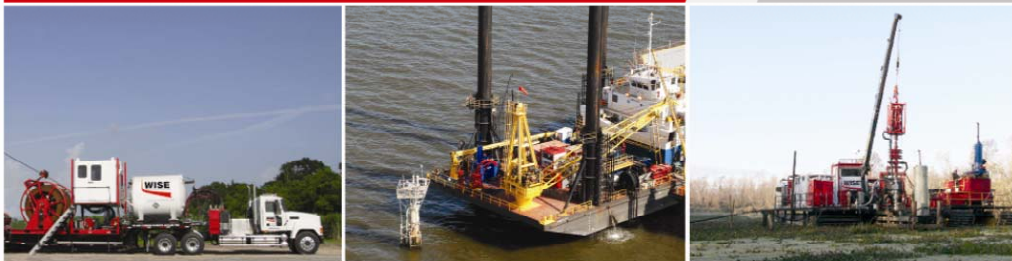


Production Enhancement Group, Inc.
TSX: WIS



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, 2007

March 31, 2008

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CAUTION REGARDING FORWARD LOOKING STATEMENTS

Information which is contained in this document contains estimates and assumptions which Management is required to make concerning future events, and may constitute forward-looking statements under applicable securities laws. Forward-looking statements include plans, expectations, estimates, forecasts and other comments that are not statements of fact. The words “believe”, “expect”, “plan”, “intend”, “estimate”, “will”, “could”, “may”, “anticipate”, “outlook” and similar expressions and statements relating to matters that are not historical facts including, but not limited to, information as to future capital expenditures, including the amount and nature thereof; expansion and other development trends of the oil and gas industry, improvement in day rates, business strategy, as well as the expansion and growth of Production Enhancement Group, Inc. (“PEG,” or “Company”) business and operations, including its market share and other such matters.

By their very nature, such forward-looking statements require the Company to make assumptions, and involve inherent risks and uncertainties, both general and specific. There is significant risk that express or implied projections contained in such statements will not materialize or will not be accurate. A number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward-looking statements. Such differences may be caused by factors, many of which are beyond the Company’s control, which include, but are not limited to, the level of operations carried on by PEG’s customers, oil and gas prices, weather conditions in offshore and land markets including natural disasters, availability of capital, access to current or future financing arrangements, manufacturing cycles of new equipment, the effects of competition in the markets in which the Company operates, difficulty in continuing to develop, produce and commercialize technologically advanced services, availability of human resources and the Company’s success in anticipating and managing the foregoing risks. The preceding list is not comprehensive, and as such, investors and others who rely on these statements should consider the above factors as well as the uncertainties they represent and the risk they entail. Additional information regarding the risks and uncertainties significant to the Company are provided in this annual information form.

Consequently, all of the forward-looking information contained in this annual information form is qualified by these cautionary statements and there can be no assurance that the actual results or developments anticipated by the Company will be realized or, even if substantially realized, that they will have the expected consequences in relation to or effects on the Company or its business operations. Readers are cautioned not to place undue reliance on this forward-looking information, which is given as of the date it is expressed in this annual information form or otherwise, and the Company undertakes no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise, except as required by law.

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 Alberta Ltd**”, is 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;

“**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;

“**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 Term Sheet**” means the term sheet entered into on December 29, 2006 between the Company and Grupo Creativa, S.A. de C.V.;

“**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 Maritime & Oil Field Services Co.;

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

“**PEG**” means Production Enhancement Group, Inc., an Alberta corporation;

“**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;

“**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;

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

“**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;

“**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**” was formerly Dyna Star Energy Services Ltd., which was acquired by the Company on April 27, 2007.

CORPORATE STRUCTURE

Incorporation

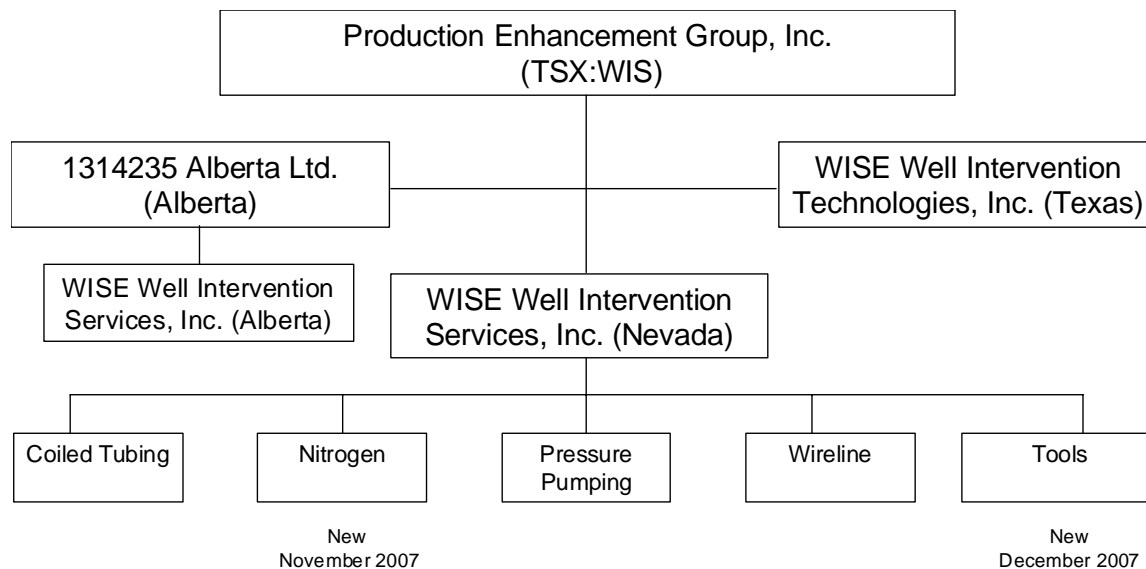
Production Enhancement Group, Inc. (the “Company”), was incorporated under the *Business Corporations Act* (Alberta) (the “ABCA”) on November 21, 2005. On November 28, 2005, the Company filed an amendment of its articles of incorporation to amend the provisions of its Class B Shares. On February 28, 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 17225 El Camino Real, Suite 250, Houston, Texas 77058 2768 and its registered and records office is located at 3300, 421 – 7th Avenue S.W., Calgary, Alberta, T2P 4K9.

The Company and its wholly owned subsidiaries, WISE Well Intervention Services, Inc., a Nevada corporation (“WWIS”), WISE Well Intervention Technologies, Inc., a Texas corporation (“WWIT”) and 1314235 Alberta Ltd, which in turn owns one hundred percent (100%) of WISE Well Intervention Services, Inc, an Alberta corporation (formerly Dyna Star Energy Services Ltd.)(“WISE Alberta”), provide oilfield and natural gas well services. WWIS provides specialized coiled tubing, pressure pumping, nitrogen, downhole tools and wireline services to oil and gas producers and operators in Texas, Louisiana, Mississippi, and the inland and offshore waters of the Gulf of Mexico. 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.

INTERCORPORATE RELATIONSHIPS

The following organizational chart describes the current corporate structure of the Company and its three wholly owned subsidiaries, WWIS, 1314235 Alberta Ltd., and WWIT. This chart also outlines the five operational divisions of WWIS, which include the Coiled Tubing Division, Nitrogen Services Division, Pressure Pumping Services Division, Wireline Services Division and Tools Division and WISE Well Intervention Services, Inc., an Alberta corporation (formerly Dyna Star Energy Services Ltd.)(“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[®] 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[®] 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[®] 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 Wireline Specialists of Louisiana, Inc. ("WSL"). On the same day WSL was merged into WWIS, where the continuing operations of that former entity constitute the Wireline 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 Maritime & Oil Field Services Co. The joint venture company, named Abdul Hadi Al Qahtani WISE Co., Ltd., 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® brand name. The joint venture, 60% owned by Al Qahtani Maritime 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 later allowed to expire on its own terms (see below).

On April 19, 2007, the Company signed an agreement with Grupo Creatica, S.A. de C.V., ("Grupo Creatica") to form a joint venture to deploy the Company's patented WISE™ multifunction coil tubing well intervention systems on an exclusive basis in Mexico. 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 Well Intervention Services, Inc., an Alberta corporation (formerly Dyna Star Energy Services Ltd.) ("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 Stock 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 United States Securities Act of 1933 (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 Creatica, S.A. de C.V., a Mexican company, 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 Wireline Services) and assisting PEG's President and CEO in the development and execution of corporate strategies and strategic objectives. Mr. Cobb has domestic and international oil and gas services experience spanning 33 years. Most recently he was Executive Vice President of Boots and Coots Services in charge of all international operations including South America, Africa, the Middle East and Central Asia. He also spent 22 years with Baker Hughes Incorporated in various capacities in well intervention services with annual revenue responsibilities ranging from USD 20 million to USD 300 million. Jaime Crawford remained as President of PEG.

On October 9, 2007, the Company announced that the Board of Directors of the Company 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 of the Company 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 allowed its joint venture agreement with Al Qahtani Maritime & Oil Field Services Co. (“Al Qahtani”), announced on April 16, 2007, to expire of its own terms, inasmuch as the parties were unable to reach mutually agreeable terms under which to implement the joint venture (refer to press release dated December 10, 2007). The Company believes that WISE Well Intervention Services can play a key role in the Middle East and will explore alternative avenues to penetrate that market at the appropriate time.

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. Assets were redeployed to maximize fleet utilization, and a renewed focus on technical quality, with increased attention to health, safety and environment, was undertaken to improve access to major oil and gas producers. The Company has taken action in reducing expenses for an estimated USD 2.7 million in annual savings to-date while improving its capacity to continue growing revenue, and has added two new product lines in response to customer demand. The Company flattened the organization by removing several upper and middle management positions and right-sized its corporate team in conformity with the Company’s improved operational focus. Internal engineering and design activities were radically downsized, and key product line managers were changed out to facilitate efficient operations and deliver technical quality. In addition, human resources activities were centralized, and field sales and marketing reporting responsibilities were redirected from operations to business development. The Board concluded its search for a CEO and the Company has endeavoured to focus its efforts on leading an executive sales and marketing team created to concentrate on strategic clients and future expansion opportunities. The Company has been redeploying 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. The division is expected 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. Mr. Cobb’s role encompasses setting the strategic direction of PEG as well as managing and executing this strategy.

In addition, the Board appointed a new Canadian director, K. Dean Zipse of Calgary, Alberta. Mr. Zipse has extensive oilfield services experience in both in the United States and Canada and has been actively involved in the development and marketing of new technologies for the energy industry. Mr. Zipse currently serves as VP Sales and Marketing of Flexpipe Systems and has held key roles at Tesco Corporation. He was also a founding partner in what is now Wellco Energy Services Trust.

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.

This, along with actions announced on December 11, 2007, is expected to result in total estimated annual savings of USD 5.9 million to USD 6.4 million. At the same time PEG has been improving its growth capacity, adding two new product lines in the fourth quarter of 2007 and growing its fleet of well intervention equipment in response to customer demand. The additional cost savings originate primarily from personnel reductions as the structure of the Company has been flattened by removing several upper and middle management positions and the corporate team has been structured for improved operational focus. As part of this effort, Chester J. Jachimiec, Executive Vice President, left the Company. 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 has geared its operations to focus exclusively on delivering high quality oil and gas well intervention services in the United States, where growth continues. The Company has been continuing to redeploy its equipment to maximize fleet utilization. The Company has continued its focus on technical quality and health, safety and environment in an effort to improve access to major oil and gas producers.

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 has agreed to waive said violations for an additional interest fee of USD 250,000 payable by March 31, 2008 and has entered into negotiations with the Company to amend the terms of the loan agreements. The Company has reclassified all such long-term debt as current until such time as the amendment is finalized. The Company believes such amendment will be finalized by May 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.

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. It is anticipated that the Company will use 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 totaling 302,609 shares with an additional cash portion totaling 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 is 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. At present there are no formal offers before the Company.

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

ACQUISITIONS AND PRIVATE PLACEMENT

Wireline Specialists of Louisiana, Inc. (“WSL”)

On March 5, 2007, the Company purchased all of the shares of Wireline Specialists of Louisiana, Inc. (“WSL”). The Company assumed and refinanced WSL’s existing debt of 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 PEG Common Shares subject to repricing at the first anniversary date. A portion of the cash requirements was financed by the sale of 6,666,667 units (“Units”) consisting of one Series A Preferred Share and three-quarters of a warrant for Common Shares. The remainder of the proceeds necessary to refinance the assumed indebtedness and pay the selling shareholders of WSL was provided by a USD 4 million increase in term loans provided by a major international financial institution. An additional payment of up to USD 450,000 and 780,463 Common Shares would have been required after April 30, 2007 if certain conditions had been met. The Company believes there will be no further payout under the contingent earnout provision in the original transaction. The Common Shares issued to selling shareholders are subject to a 2-year holding period and were originally valued at the greater of CAD 2.00 per share (subject to an adjustment provision) or CAD 1.05, the actual share price at the time of closing.

The acquisition was accounted for using the purchase method with the results of operations of WSL being included in the Company’s 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 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 the twenty consecutive trading days that preceded the first anniversary of the closing date of March 5, 2007. The additional 4,321,507 Common Shares issued 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. This issuance of the additional Common Shares was approved by the TSX. Following this issuance, the total Common Shares issued pursuant to the WSL transaction is 5,556,246.

Dyna Star Energy Services Ltd. (“WISE Alberta”)

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. (“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. The Company assumed and refinanced WISE Alberta’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 USD 135,248 and 427,004 PEG Common Shares. The proceeds necessary to refinance the assumed indebtedness and pay the selling shareholders of Dyna Star Energy Services Ltd. were provided through an additional term loan from a major international financial institution. The final purchase price settlement has been finalized and the 427,004 shares were issued to the seller in the fourth quarter of 2007.

The acquisition was accounted for using the purchase method with the results of operations of WISE Alberta being included in the consolidated financial statements beginning May 1, 2007. The Company shares were valued at

CAD 1.26, such value being the volume weighted average trading day price of the Company's stock five days before and after the date of November 16, 2006.

Private Placement of Units

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 USD 5 million. Each Unit is comprised of one Series A Preferred Share and three quarters of one Common Share purchase warrant (each a "Warrant"). The fair value of the Warrants was estimated to be USD 2,099,038 using the Black-Scholes model with the following assumptions: expected life of Warrants five years; expected volatility of 50%; risk-free interest rate of 4.0%; and a zero dividend yield. A corresponding amount of the equity raised has been allocated to Warrants. Proceeds of the offering were used to close the acquisition of WSL, as announced by the Company on September 22, 2006, and the acquisition of Dyna Star Energy Services Ltd., as announced on November 16, 2006. Remaining funds were used to finance a portion of the Company's capital expenditures.

The Preferred Shares pay quarterly cumulative dividends at a rate of 8% per year of the amount invested. The Company has the right to pay all or a portion of the first four quarterly dividends in kind in additional Preferred Shares at the equivalent Common Share value at the time of payment. Each Preferred Share is convertible at the option of the holder into one PEG Common Share. The dividends for the first four quarterly periods have been issued as in kind Preferred Shares totaling 911,743 shares with an additional cash portion totaling 17.26. The Company may force conversion of the Preferred Shares upon 30 days' notice if the average closing price of the Common Shares of the Company on the TSX exceeds CAD 1.74 for a period of 10 consecutive trading days on which an average of 10,000 Common Shares have traded. Total dividends for 2007 were USD 381,994 and dividends payable at December 31, 2007 were USD 39,902.

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 Warrants") 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 USD 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 (having an exercise price of CAD 1.24 per Common Share and an expiry date of March 5, 2012), for all accepting holders, the Company had amended the terms of the Warrants to include a cashless exercise option and grant one (1) additional Warrant for each ten (10) existing Warrants held. The Company granted "piggyback" registration rights to these holders in the event the Company were to file a registration statement under the US Securities Act of 1933 under certain circumstances. The cashless exercise option allows a holder of a Warrant to elect to exchange the Warrant for a number of Common Shares equal to the difference between the value of the Common Shares at the time of exercise and the original Warrant exercise price per Common Share (which remains at CAD 1.24 per Common Share). An additional 436,250 Warrants were issued in the fourth quarter of 2007, and 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.

Under the note purchase agreement dated August 31, 2007 with the Company's senior lender, the Company issued in the fourth quarter of 2007, an additional 43,187 warrants to such lender at an initial exercise price of CAD 2.00 (the terms of which are described in detail in the Company's press release of September 4, 2007).

NARRATIVE DESCRIPTION OF THE BUSINESS

General

The Company and its wholly owned subsidiaries, WWIS, 1314235 Alberta Ltd, and WWIT, provide oilfield and natural gas well services. WWIS provides specialized coiled tubing, pressure pumping, nitrogen, downhole tools and wireline services to oil and gas producers and operators in Texas, Louisiana, Mississippi, and the inland and offshore waters of the Gulf of Mexico. 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, but it has not had any significant operations to date.

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 and Tools do not appear in 2007 as revenues were less than 15%. These divisions were added in late 2007.

Service	Year Ended December 31, 2007	Year Ended December 31, 2006	Year Ended December 31, 2005
Coiled Tubing	USD 18,952,097	USD 14,456,571	-
Pressure Pumping	USD 7,291,770	USD 7,017,307	-
Wireline	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. Management believes that there are approximately 10,000 plants in the US with natural gas or disposal wells, and a high proportion of the refineries and chemical plants are located on the US Gulf Coast. The Company currently serves a number of plants directly and as a subcontractor through environmental and plant turnaround contractors. This is a small part of the Company’s business to date, but one that it believes it can grow with its small footprint WISE® Technologies, as space utilization within a plant jobsite is generally a concern for the plant manager.

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 2007 added 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. The Company intends to begin marketing to these industry segments to further expand market opportunities.

Wireline Services

Wireline 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 wireline services both on and offshore through a fleet of 7 wireline trucks and 21 offshore units. In general, wireline operations are less expensive than coiled tubing operations, and whenever possible, wireline will be the first choice for performing many redial operations. Wireline, however, has several major limitations compared with coiled tubing: 1) wireline cannot push components into the well, so it is ineffective in high-angle and horizontal wells; 2) wireline cannot be used to pump or circulate fluids down into the well; 3) wireline does not permit rotating components, such as mills, at the bottom of the string; and 4) wireline does not have the strength of coiled tubing for fishing operations.

Downhole Tools

Most coiled-tubing intervention involves the use of specialized tools run on the end of the work string. Where rotation is required, such as milling or under-reaming operations, hydraulically powered, positive-displacement motors are used to turn bits. Fishing operations require spears, external-slip connectors, hammers, and jars. Other specialty tools include screen subs to filter well fluids and back-pressure valves. In the past, the Company rented all of these tools from third parties. At the end of 2007, the Company established its Tools Division to capture the substantial revenues formerly lost as rental costs and to control the quality, reliability, and availability of downhole coiled tubing tools for its intervention operations. The Tools Division operates out of a shop at the Lafayette, Louisiana, facility and provides complete tool services, including inspection, refurbishing, testing, and inventory. The shop has a dynamometer for testing positive-displacement motors and a make-up/break-out machine, which is used to make up bottomhole assemblies to exact specifications. Few other well-intervention companies offer comparable downhole tool capabilities in the Company's primary market region.

Competitive Conditions

According to a report commissioned by the US Department of Energy in June, 2005, the use of coil tubing continues to grow at an average rate of 10% a year, from a base of USD 1 billion of global revenue in 2003, even while other oil and gas services experience declines. Coupled with continuously improving technology, the coil tubing market represents a strong growth sector. It is used primarily for well intervention. However, while coil tubing drilling represents only 15% of the revenue of the coil tubing service industry, it is growing even faster than the well intervention market for coil tubing.

In a published report by the Intervention and Coiled Tubing Association ("ICoTA"), as at January 31, 2007, the global fleet of CT Units has more than doubled over the last decade to approximately 1,535 units. According to the ICoTA report, as at January 2007, there were 297 units operating in the US. In the Company's primary US markets, there were 181 active CT Units at the beginning of 2007. The ICoTA report reveals that over the past decade, US demand for CT Units has grown at an average rate of 8% per year. According to the ICoTA report, as of January 31, 2007, there were 31 companies operating coiled tubing services in the US. Globally, three companies, (Dowell Schlumberger Inc., BJ Services Company, and Halliburton Company) represented approximately 40% of the US coiled tubing market at that time and BJ CoilTech is the largest coiled tubing services company with 48 CT Units operating in the US.

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[®] CT equipment and services, along with its complementary pressure pumping, nitrogen, and wireline services, is well suited to serve this segment. The Company believes that the

estimated 10,000 chemical plants in the US that include gas storage and disposal injection wells is a market that is underserved and is an ideal candidate for the small footprint of WISE® land units. The Company will initially focus on servicing these plants in the US Gulf Coast region.

New Products

Nitrogen is widely used for stimulating and treating oil and gas wells, often in conjunction with coiled tubing. Site-generated nitrogen units use proven membrane-separation technology to extract nitrogen gas from the atmosphere at the well-site, thereby eliminating the need to transport liquid nitrogen to the well-site in pressurized tanks and then use specialized equipment to convert the liquid to gas.

The specially engineered units deliver the purity, volumes, and pressures needed for most jobs performed by WWIS. Site-generated nitrogen offers significant benefits, especially offshore and in remote areas, where liquid nitrogen is unavailable or is prohibitively expensive to transport, and for projects requiring very large nitrogen volumes for extended periods. WISE site-generated nitrogen units will also be used for oil and gas production and industrial applications where our coiled tubing equipment is not involved.

The Company is purchasing nitrogen generating skid models from Pacific Consolidated Industries (PCI). The future PCI units are skid mounted and can be deployed on either land or offshore. The units are scheduled for completion in the third quarter of 2008.

Intangible Properties

The Company holds US and Canadian patents on its multifunction technology. The patent covering two functions (e.g. coiled tubing and nitrogen) with a single power source was granted on May 9, 2004 and will expire on April 22, 2022. The patent covering three functions having a single power source was granted on May 30, 2006 and will expire on May 1, 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 November 4, 2022 and an international application has been filed for patent of Device and Method For Cleaning Wells.

WISE® Technologies

“WISE®” is a registered trademark of the Company and is an acronym for “Well Intervention Systems and Equipment®”, which the Company also utilizes as a trademark in conjunction with all of its products and services (including its pressure pumping and wireline services). The “WISE® 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® Technologies” encompasses the Company’s multifunction WISE® 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® Technologies have focused exclusively on CT-based applications.

Proprietary Aspects of Company’s WISE® 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[®] 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[®] 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[®] Technologies design concept to include the addition or substitution of different well intervention equipment components into an integrated WISE[®] unit.

Operating Advantages Inherent in the WISE[®] Technologies

Management believes that using the WISE[®] 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[®] 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[®] 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[®] Units have been operating in the field, including in the demanding offshore environment for several years. The current WISE[®] 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. However, there are many wells in excess of 15,000 feet and the Company is in the process of building a new unit in an effort to move into these markets. The Company's WISE[®] 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[®] 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[®] 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[®] CT Unit deployed on a rented amphibious vehicle. Due to its lightweight and compact configuration, the WISE[®] 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 Katrina and Rita. The WISE[®] 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[®] 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 patent that covers a process for increasing flow capacity of gas wells. The Company also holds a US patent for its WISE[®] 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 applied for international patent protection under the Patent Cooperation Treaty ("PCT"). The PCT is a treaty that provides a mechanism by which an applicant can file a single patent application that is equivalent to a regular patent filing in an adopting country (this is termed the "international phase"). There are currently over 180 countries that have adopted the PCT. 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, 2007, the Company had a total of 188 full-time employees, 17 at corporate headquarters and 171 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 (see press releases).

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 Don Cobb, CEO, Jaime Crawford, President and co-founder and Douglas 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 coiled tubing services and businesses overall are relatively low considering that coiled tubing equipment costs begin at about USD 1 million, making it possible for new competitors to enter the market. However, the Company and its subsidiaries have obtained and are in the process of obtaining patents for its technology that would bar competitors from developing certain equipment that infringes on the key, patented aspects of our technology. Nevertheless, the Company expects that new competitors will enter our market in the future. The Company plans to protect our technology by defending our proprietary rights of ownership and seeking additional patents for specific aspects of its technology, but there is no guarantee that such additional patents will be issued.

Many of PEG's existing and potential competitors have long operating histories in the coiled tubing and well services markets, greater name recognition, larger consumer bases and significantly greater financial, technical and marketing resources than the Company do. Some of PEG's competitors may also be able to provide customers with additional benefits at lower overall costs in an effort to increase market share. The Company cannot be sure that it will be able to match cost reductions that may be implemented by its competitors. PEG's competitors and other companies may form strategic relationships with each other to compete with the Company. These relationships may take the form of strategic alliances, joint marketing agreements, licenses or other contractual

arrangements, which arrangements may increase the Company's competitors' ability to address customer needs with their product and service offerings. The Company believes that there is likely to be consolidation in its prospective markets, which could lead to increased price competition and other forms of competition that could cause its business to suffer.

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

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

Vulnerability to Market Changes

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

Equipment and Technology Risks

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

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

Risks Related to the Company's Acquisition Strategy

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

Acquisitions involve a number of additional risks, including failure of the acquired businesses to achieve expected results, diversion of Management's attention and resources to acquisitions, failure to retain key customers or

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

Need for Additional Financing

The Company's acquisition strategy and equipment deployment strategy will require substantial capital. The Company intends to finance future acquisitions with cash flows from operations, through issuances of Common Shares, and through borrowings under credit facilities or advances under equipment lease facilities. The Company is exploring various lending alternatives to support such future acquisitions. Equipment credit facilities or leasing alternatives are being explored to assist in the financing of additional WISE® units for internal growth and in conjunction with intended acquisitions. There can be no assurance that the Company will obtain these credit or leasing facilities on terms acceptable to the Company or that the Company will enter into any credit or leasing facility at all. In the event that the Company does not obtain a credit facility acceptable to the Company, it is possible that the Company's acquisition strategies or equipment deployment plans could be adversely affected.

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

Most of the Company's Assets are located outside of Canada

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

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

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

Although activity levels in production and development sectors of the oil and gas industry are less immediately affected by changing prices and as a result, are less volatile than the exploration sector, producers generally react to declining oil and gas prices by reducing expenditures. This has in the past adversely affected, and may in the

future adversely affect, the Company's industry. The Company is unable to predict future oil and gas prices or the level of oil and gas industry activity. A prolonged low level of activity in the oil and gas industry will adversely affect the demand for PEG's products and services and PEG's financial condition and results of operations.

The oilfield services industry is highly competitive

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

Dependence on Suppliers

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

Credit Risk

A substantial portion of the Company's accounts receivable are with customers involved in the oil and natural gas industry whose revenues may be impacted by fluctuations in commodity prices. Although collection of these receivables could be influenced by economic factors affecting this industry, Management considers the risk of a significant loss to be remote at this time. The Company does not have significant exposure to any individual customer other than five major independent oil and natural gas companies that accounted for approximately 36.5% of the revenue for the year ended December 31, 2007. The largest of these customers accounted for approximately 10.6% of revenues for the year, and 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 storm activity in the region. As seen during the 2005 and 2007 hurricane season in the Gulf of Mexico, weather can have a significant impact on demand for well intervention services in the area affected. The Company believes the combination of two very strong storms in 2005 (Rita and Katrina) in the same area was an unusual occurrence. Although there were no hurricanes in the Gulf of Mexico in 2006, hurricanes affect the Company's business most years as crews and equipment are forced to evacuate manned platforms from the time the storms enter the Gulf of Mexico until they make landfall, disrupting revenues and adding costs of storm preparation and the potential risk of damage to equipment or injuries. In 2007, numerous tropical storms in the Gulf of Mexico impacted results. 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 are expected to 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 terrorists 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

The Company was in breach of its debt covenants with its lender at December 31, 2007. The lender has agreed to waive said violations for an additional interest fee of USD 250,000 payable by March 31, 2008 and has entered into negotiations with the Company to amend the terms of the loan agreements. The Company has reclassified all such long-term debt as current until such time as the amendment is finalized. The Company believes such amendment will be finalized by May 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.

DIVIDENDS

The Company has not paid dividends on its Common Shares for the year ended December 31, 2007 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). 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 will pay quarterly cumulative dividends at a rate of 8% per year of the amount invested. The Company has the right to pay all or a portion of the first four quarterly dividends in kind in additional Preferred Shares at the equivalent Common Share value at the time of payment. Each Preferred Share is convertible at the option of the holder into one Common Share. The dividends for the first four quarterly periods have been issued as in kind Preferred Shares totaling 911,743 shares with an additional cash portion payment totaling CAD 17.26. The Company may force conversion of the Preferred Shares upon 30 days’ notice if the average closing price of the Common Shares of the Company on the TSX exceeds CAD 1.74 for a period of 10 consecutive trading days on which an average of 10,000 Common Shares have traded.

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).

	High (\$)	Low (\$)	Volume (000’s)
<u>2006</u>			
April ⁽¹⁾	2.25	1.75	800
May	1.90	1.50	532
June	1.62	1.04	329
July	1.59	1.14	690
August	1.90	1.40	291
September.....	1.45	1.19	98
October.....	1.40	0.97	227
November	1.35	1.10	190
December.....	1.27	0.91	277

	High (\$)	Low (\$)	Volume (000's)
<u>2007</u>			
January	1.19	0.86	201
February	1.24	0.97	227
March	1.10	0.86	172
April	1.00	0.80	520
May	0.95	0.74	316
June	0.85	0.72	258
July	0.85	0.72	1007
August	0.79	0.56	85
September	0.65	0.50	139
October	0.58	0.305	478
November	0.52	0.255	403
December	0.50	0.30	232
<u>2008</u>			
January	0.50	0.20	306
February	0.45	0.30	250
March ⁽²⁾	0.62	0.38	302

(1) The Common Shares commenced trading on the TSX on April 19, 2006.

(2) March 2008 price and volume based on March 1-March 28, 2008 actual trading period.

PRIOR SALES

On March 5, 2007 the Company closed its offering of 6,666,667 Units priced at CAD 0.87 per Unit, for CAD 5.8 million. Gross proceeds were USD 5 million. Each Unit was comprised of one Series A Preferred Share and three quarters of one Common Share purchase Warrant.

On December 4, 2007, the Company amended the terms of the Warrants to include a cashless exercise option and grant one (1) additional Warrant for each ten (10) existing Warrants held. The Company issued an additional 436,250 Warrants in December 2007 which 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 and represent 637,500 Warrant shares, or 12.7% of the original 5,000,000 Warrants.

Under the note purchase agreement dated August 31, 2007 with the Company's senior lender, the Company issued initial Warrants to purchase up to 8,193,249 shares of the Company's Common Stock at an initial exercise price of

CAD 2.00 per share. In December 2007, the Company issued an additional 43,187 Warrants to such lender at an initial exercise price of CAD 2.00 per share.

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 totaling 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.

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
Don B. Cobb Houston, Texas	Chief Executive Officer of the Company	Chief Executive Officer of PEG since December 2007; President and Chief Operating Officer of WWIS since October 2007; various executive management positions with Boots & Coots Services from 1998 to 2007 including Executive Vice President and Divisional President; various management capacities in well servicing with Baker Hughes from 1976 to 1998.
Jaime B. Crawford Houston, Texas	President of the Company	President, Director and co-founder of PET since 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.
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 seven 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 before June 30, 2008.

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
Don B. Cobb Houston, Texas	Director, Chief Executive Officer of the Company	Chief Executive Officer of PEG since December 2007; President and Chief Operating Officer of WWIS since October 2007; various executive management positions with Boots & Coots Services from 1998 to 2007 including Executive Vice President and Divisional President; various management capacities in well servicing with Baker Hughes from 1976 to 1998.	December 24, 2007
Jaime B. Crawford Houston, Texas	Director, President of the Company	President, Director and co-founder of PET since 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
Chester J. Jachimiec Houston, Texas	Director of the Company	Executive Vice President of the Company from 2004 to February 2008; Secretary and Director of PET and A to Z since December, 2005; President of IIBEX Holdings, Inc. and its predecessors since June 2005; President of SPI Petroleum LLC and its predecessors from 2001 to 2005; Senior Vice President of Encompass Service Corporation and its predecessors from 1996 to 2001.	November 21, 2005
Edward R. Lamb ⁽²⁾ Lafayette, Louisiana	Director of the Company	Chief Executive Officer, co-founder and a Director of PET since 2002; President of Tong Specialty since 2003; President of Lamb Services, Inc. since 1988.	November 24, 2005
Clifford E. McFarland ⁽¹⁾⁽²⁾⁽³⁾ Houston, Texas	Director of the Company	Co-founder, Director and Vice President of IIBEX Ltd. from 2003 to 2005; Founder and President of McFarland, Grossman & Company, Inc., since 1992; Director of Teletouch Communications Inc. and	November 24, 2005

Name and Municipality of Residence	Current Positions and Offices Held	Principal Occupation in the Past Five Years	Director Since
C. Lal Narang ⁽¹⁾⁽²⁾⁽³⁾ Calgary, Alberta	Director of the Company	Progressive Concepts Communications, Inc. Chairman of the Board of Directors of Canext Energy Ltd. since 2006; Founding shareholder, director, President, Chief Executive Officer and Chief Financial Officer of its predecessor, Canex Energy Ltd. since 1996; President of Capital Leasing Investment Corp.; Director of Rogers Associate Financial Partners Inc. and CPVC Blackcomb Inc.	November 21, 2005
K. Dean Zipse ⁽¹⁾ Calgary, Alberta	Director of the Company	VP Sales and Marketing, Flexpipe Systems since 2005; Sales Manager – Canada & Europe, Tesco Corporation from 2002 to 2005; Founding partner and held various key roles at Wellco Energy Services Trust from 1994 to 2001.	December 24, 2007

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, 2008, the directors and executive officers of the Company as a group beneficially owned, directly or indirectly, or exercised control or direction over 23,671,663 Common Shares, representing 39% of the issued and outstanding Common Shares including the additional 4,321,507 Common Shares issued pursuant to the Wireline acquisition in March 2008.

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 *Business Corporations Act* (Alberta), 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 of directors has an Audit Committee. The members of the Audit Committee are Messrs. Narang, McFarland and Zipse. The Chairman of the Audit Committee is Mr. Narang, an independent director. Each of Messrs. Narang, McFarland and Zipse are considered “independent” and all members are “financially literate” (as such terms are defined in Multilateral Instrument 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 Circular.

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:

C. Lal Narang

Mr. Narang is Chairman of Canext Energy Ltd. since 2006. He was a founding shareholder and director, President, Chief Executive Officer and Chief Financial Officer of its predecessor, Canex Energy Inc. (since 1996). He also serves as President of Capital Leasing Investment Corp. He also served as a Director of Rogers Associate Financial Partners Inc. and CPVC Blackcomb Inc.

Clifford McFarland

Mr. McFarland is the founder and President of McFarland, Grossman & Company, Inc., since 1992 and was co-founder, Director and Vice President of IIBEX Ltd. He currently serves as a Director for Teletouch Communications Inc. and Progressive Concepts Communications, Inc.

K. Dean Zipse

Mr. Zipse has been the Vice President of Sales and Marketing of Flexpipe Systems since 2005. He was the Sales Manager of Canada & Europe for Tesco Corporation from 2002 to 2005. He was the founding partner and held various key roles at Wellco Energy Services Trust from 1994 to 2001.

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:

Financial Year Ending	Audit Fees ⁽¹⁾	Audit-Related Fees ⁽²⁾	Tax Fees ⁽³⁾	All Other Fees ⁽⁵⁾
December 31, 2007	USD 61,518	USD 15,639	USD 20,276	USD 65,588
December 31, 2006	USD 42,900	USD 7,900	USD 5,600	USD 213,800
December 31, 2005 ⁽⁴⁾	USD 36,800	-	USD 18,700	-

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) As the acquisition of the Company and PETI was accounted for using the reverse takeover rules of accounting, all December 31, 2005 information is that of PET.
- (5) Other fees relate to fees from the initial public offering of the Company, acquisitions and the review of the quarterly statements.

As at December 31, 2007 the accrued fees for the Company's auditor for audit fees and tax fees were USD 80,828 and USD 114,032, 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 financial statements.

The Company is a defendant in arbitration brought by two former officers of a subsidiary. The arbitration was brought as a wrongful termination matter and the Company has filed a counterclaim relating to the arbitration. The Company alleges that the related party transactions noted in "2007 Related Party Transactions," Note (f) were not at fair value. The Company has entered into confidential settlement negotiations and has made a provision based on Management's estimate of the settlement.

Both the acquisition of A to Z in 2006 and the acquisition of WSL in 2007 had earn-out provisions. The Company has determined that none of the provisions of either acquisition were met and therefore, no earn-out is due to the former owners. However, the former owners are both disputing the Company's position and the matter is currently being reviewed by outside counsel. Management believes the Company's position is accurate and therefore, no estimated provision for additional earn-out has been included in the Company's consolidated financial statements.

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[®] 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[®] 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 totaling 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 totaling 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.

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 (NI) 51-102 on Material Contracts.

INTERESTS OF EXPERTS

Deloitte & Touche LLP, Chartered Accountants, 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, 2007 and 2006. Deloitte & Touche LLP is independent in accordance with the Rules of Professional Conduct as outlined by the Institute of Chartered Accountants of Alberta. The principals of Deloitte & Touche LLP, individually or as a group, neither own nor expect to receive any of the Company's securities, directly or indirectly. 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. BDO is independent in accordance with the Rules of Professional Conduct as outlined by the Institute of Chartered Accountants of Alberta. The principals of BDO, individually or as a group, neither own nor expect to receive any of the Company's securities, directly or indirectly.

ADDITIONAL INFORMATION

Additional financial information is available on the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com and on our website at 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 before June 30, 2008. 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, 2007.

For additional copies of this annual information form please contact:

Production Enhancement Group, Inc.
17225 El Camino Real, Suite 250
Houston, Texas
77058-2768

SCHEDULE “A”- AUDIT COMMITTEE CHARTER

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.