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For the year ended December 31, 2007

PRODUCTION ENHANCEMENT GROUP, INC.



TSX:WIS

**Production Enhancement Group, Inc.
Consolidated Financial Statements
For the years ended
December 31, 2007 and 2006
(Stated in United States dollars)**

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Management's Report

To the Shareholders of Production Enhancement Group, Inc. ("PEG" or the "Company"):

Management of the Company ("Management") is responsible for the preparation of the financial statements in accordance with Canadian generally accepted accounting principles and for ensuring that all other financial and operating information presented in this report is consistent with those financial statements. Management maintains a system of internal controls that is designed to ensure all assets are safeguarded efficiently and to facilitate the preparation of reliable and timely financial information.

The Board of Directors of the Company (the "Board") and Management have established corporate governance practices that are consistent with guidelines set out in the report issued by the Toronto Stock Exchange committee on Corporate Governance in Canada.

The Audit Committee of the Board (the "Audit Committee"), comprised of three members considered to be "outside and unrelated" directors, has reviewed the consolidated financial statements with Management and the independent auditors appointed by the shareholders of the Company (the "Auditors").

The Auditors have examined the financial statements in order to express their opinion. The Board is responsible for ensuring that Management fulfills its responsibilities for financial reporting and internal control. The Audit committee has reviewed these financial statements with Management and the Auditors and has reported to the Board. The Board has approved the financial statements.

(signed "Don B. Cobb")
Don B. Cobb, CEO

(signed "Douglas Parker")
Douglas Parker, CFO, Corporate Secretary

March 31, 2008

Auditors' Report

To the Shareholders of
Production Enhancement Group, Inc.

We have audited the consolidated balance sheets of **Production Enhancement Group, Inc.** as at December 31, 2007 and 2006 and the consolidated statements of loss, comprehensive loss and retained earnings (deficit) and cash flows for the years then ended. These financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

March 14, 2008

(signed) "Deloitte & Touche LLP"
Chartered Accountants

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

	December 31, 2007	December 31, 2006
ASSETS		
Current		
Cash	\$ 1,686,643	\$ 1,065,645
Restricted cash (Note 10 (a))	3,238,318	-
Accounts receivable	7,571,773	5,493,853
Inventory	339,910	165,220
Prepaid expenses	1,322,974	870,031
Assets held for sale (Note 5)	3,808,927	-
	17,968,545	7,594,749
Deferred charges (Note 7)	-	2,434,145
Equipment & lease deposits	444,126	1,166,695
Assets held for sale (Note 5)	240,588	-
Property and equipment (Note 5)	33,875,755	19,501,575
Intangible assets (Note 6)	802,204	188,580
Prepaid expense-long term portion	77,465	-
Future income taxes (Note 17)	-	714,732
Goodwill	1,344,748	418,012
	\$ 54,753,431	\$ 32,018,488
Liabilities and Shareholders' Equity		
Current		
Accounts payable and accrued liabilities	\$ 6,750,600	\$ 3,881,948
Accrued liabilities discontinued operations	212,057	-
Dividend payable (Note 11 (c))	39,902	-
Notes payable (Note 9)	812,609	424,271
Current maturities of long term debt	1,546,875	3,412,008
Reclassification of long-term debt (Note 10 (a))	45,478,679	-
	54,840,722	7,718,227
Long term debt (Note 10 (b))	-	10,438,736
Accrued liabilities	-	1,000,000
	54,840,722	19,156,963
Going Concern (Note 2)		
Commitments and contingencies (Note 13 & 18)		
Shareholders' Equity		
Share capital (Note 11 (a))	22,356,051	17,178,516
Contributed surplus (Note 11 (b))	3,719,837	1,727,565
Retained earnings (deficit)	(26,163,179)	(6,044,556)
	(87,291)	12,861,525
	\$ 54,753,431	\$ 32,018,488

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

Approved by the Board

(signed "Don B. Cobb")
Don B. Cobb, CEO

(signed "C. Lal Narang")
C. Lal Narang, Director

Production Enhancement Group, Inc.
Consolidated Statements of Loss,
Comprehensive Loss and Retained Earnings (Deficit)
(Stated in United States dollars)
Years Ended December 31,

	2007	2006
Revenue	\$ 31,507,611	\$ 21,035,307
Expenses		
Cost of services	20,077,839	12,192,324
Selling, general and administrative	13,298,078	10,053,867
Interest and financing costs	7,248,752	1,329,427
Amortization of property, equipment and intangibles	4,954,924	2,105,522
Loss on disposal of assets	359,523	-
Restructuring charges (Note 15)	1,430,729	-
	47,369,845	25,681,140
Loss before income taxes	(15,862,234)	(4,645,833)
Income tax expense (recovery)	714,732	(405,286)
Net loss from continuing operations	(16,576,966)	(4,240,547)
Discontinued Operations (Note 16), net of tax of \$0		
Loss from operations of WISE Alberta	824,646	-
Loss on discontinued operations of WISE Alberta	2,335,017	-
Net loss and comprehensive loss	(19,736,629)	(4,240,547)
Acquisition adjustment to deficit	-	(2,096,711)
Retained earnings (deficit), beginning of year	(6,044,556)	292,702
Dividends (Note 11 (c))	(381,994)	-
Deficit, end of year	\$ (26,163,179)	\$ (6,044,556)
Loss per share from continuing operations -		
Basic and dilutive	(0.30)	(0.09)
Loss per share from discontinued operations -		
Basic and dilutive	(0.06)	0.00
Loss per share -		
Basic and dilutive	(0.36)	(0.09)
Weighted average number of shares outstanding -		
Basic and dilutive	55,827,957	48,977,421

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

Production Enhancement Group, Inc.
Consolidated Statements of Cash Flows
(Stated in United States dollars)
Years Ended December 31,

	2007	2006
Net loss from continuing operations	\$ (16,576,966)	\$ (4,240,547)
Cash flows from operating activities		
Non cash items		
Non cash financing costs	2,878,914	238,386
Amortization of property, equipment and intangibles	4,954,924	1,867,136
Stock based compensation	433,223	1,349,187
Consulting services paid via issue of shares	-	66,500
Non cash interest on bridge notes	-	189,201
Loss on disposal of asset	359,523	1,229
Restructuring costs	38,762	-
Future tax recovery	714,732	(405,286)
Prepaid Expense - long-term portion	(77,465)	-
	<u>(7,274,353)</u>	<u>(934,194)</u>
Changes in non cash working capital items (Note 8 (a))	940,343	(3,204,966)
Cash flow (used in) from continuing operating activities	<u>(6,334,010)</u>	<u>(4,139,160)</u>
Net income (loss) from discontinued operations (Note 16)	(3,159,663)	-
Non cash items		
Amortization of property, equipment and intangibles	220,037	-
Loss on disposal of asset	1,958,143	-
	<u>(981,483)</u>	<u>-</u>
Changes in non-cash working capital from discontinued operations (Note 8 (b))	(61,726)	-
Cash flows from discontinued operations	<u>(1,043,209)</u>	<u>-</u>
Cash flows from financing activities		
Proceeds from IPO-net of costs	-	16,100,103
Proceeds preferred stock offering-net of costs	4,540,154	-
Deferred charges paid	(2,658,924)	(704,931)
Dividends Paid	(14)	-
Repayment of notes payable	-	(857,950)
Proceeds from long-term debt	62,987,148	15,934,718
Repayment of long term debt	(28,307,691)	(5,662,678)
Due to affiliate	-	(2,333,372)
	<u>36,560,673</u>	<u>22,475,890</u>
Cash flows from continuing investing activities		
Restricted cash (Note 10 (a))	(3,238,318)	-
Acquisition of Wireline, net of cash acquired and costs (Note 4 (a))	(6,077,857)	-
Acquisition of DynaStar, net of cash acquired and costs (Note 4 (b))	(1,857,827)	-
Repayment of acquisition notes	-	(3,944,642)
Additions property and equipment	(18,109,432)	(13,564,220)
Proceeds from disposal of assets	743,626	234,275
Additions in intangibles	(22,648)	-
	<u>(28,562,456)</u>	<u>(17,274,587)</u>
Increase in cash	620,998	1,062,143

Production Enhancement Group, Inc.
Consolidated Statements of Cash Flows
(Stated in United States dollars)
Years Ended December 31,

Cash, beginning of year	1,065,645	3,502
Cash, end of year	\$ 1,686,643	\$ 1,065,645

Supplemental information

Interest paid	\$ 2,461,056	\$ 302,355
Taxes paid	-	-

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

Production Enhancement Group, Inc.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2007 and 2006
(Stated in United States Dollars)

1. Nature of Business

The Company and its wholly owned subsidiaries, WISE Well Intervention Services, Inc., a Nevada corporation ("WWIS"), WISE Well Intervention Technologies, Inc. ("WWIT"), a Texas corporation and 1314235 Alberta Ltd, which in turn owns one hundred percent (100%) of WISE Well Intervention Services, Inc, an Alberta corporation (formerly Dyna Star Energy Services Ltd.)("WISE Alberta"), provide oilfield and natural gas well services. WWIS provides specialized coiled tubing, pressure pumping, nitrogen, downhole tools and wireline services to oil and gas producers and operators in Texas, Louisiana and Mississippi and in the inland and offshore waters of the Gulf of Mexico. The purchase of WISE Alberta closed on April 27, 2007 and its operations were terminated in December 2007 (Note 16). 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.

2. Significant Accounting Policies

Basis of presentation

These consolidated financial statements have been prepared by Management in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). Since the determination of many assets, liabilities, revenues and expenses is dependent upon future events, the preparation of these financial statements requires the use of estimates and assumptions. In the opinion of Management, these financial statements have been prepared within reasonable limits of materiality.

The Company's financial statements for the year ended December 31, 2007 have been prepared on a going concern basis which contemplates the realization of assets and settlement of liabilities in the normal course of operations. The Company reported a significant working capital deficit due to the current balance owing on its long term debt facility (Note 10 (a)) and a net loss of \$19,736,629 for the year ended December 31, 2007. The Company was in breach of its debt covenants with its Lender at December 31, 2007. The lender has agreed to waive said violations and has entered into negotiations with the Company to amend the loan agreements. The Company has reclassified all such long-term debt as current until such time as the amendment is finalized. The Company believes such amendment will be finalized 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.

All amounts are stated in United States dollars, unless otherwise noted by CAD for Canadian dollars.

Certain reclassifications have been made to previous presentations to conform to the December 31, 2007 financial statements.

Consolidation

These consolidated financial statements include the accounts of Production Enhancement Group, Inc. and its wholly owned subsidiaries. The consolidated statements of loss, comprehensive loss and retained earnings (deficit) and cash flows for the year ended December 31, 2007 include the accounts and cash flows of the two 2007 acquisitions from their respective date of acquisition.

Cash and cash equivalents

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. The carrying amounts reported in the balance sheet for cash and cash equivalents are valued at cost, which approximates their fair value. Restricted cash has been presented as a current asset as it represents funds held in reserve to pay short term interest payments.

Production Enhancement Group, Inc.
Notes to the Consolidated Financial Statements
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Comprehensive income and equity

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

Financial Instruments

Effective January 1, 2007, the Company adopted CICA Handbook Section 3855, *Financial Instruments – Recognition and Measurement* which establishes standards for recognizing and measuring financial instruments, which include financial assets, financial liabilities, derivatives and embedded derivatives. Under these recommendations, all financial instruments are to be recorded initially at fair value. In subsequent periods, all financial instruments are re-measured based on the classification adopted for the financial instrument: held-to-maturity, loans and receivables, held for trading, available-for-sale or other liability.

As a result of adopting these new recommendations as of January 1, 2007, the Company had no changes to its existing financial assets and liabilities, no changes to Retained Earnings, beginning of year and no Accumulated Other Comprehensive Income, except for a reclassification of transaction costs for an amount of \$2,434,145 previously shown separately on the balance sheet as Deferred Charges to the carrying amount of its related debt.

Financial Assets

Held for trading

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

Held-to-maturity

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

Loans and receivables

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

Production Enhancement Group, Inc.
Notes to the Consolidated Financial Statements
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Available-for-sale

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

Financial Liabilities

Held for trading

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

Other liabilities

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

The Company has classified its financial instruments as follows:

Financial instrument classification	As classified by the Company
• Assets or liabilities held-for-trading	• Cash and restricted cash
• Loans and receivables	• Accounts receivable
• Available for Sale	• Assets held for sale
• Other financial liabilities	• Accounts payable and accrued liabilities • Dividend payable • Notes payable • Long term debt

Hedges

Effective January 1, 2007, the Company adopted CICA Handbook Section 3865, *Hedges* which establishes standards for when and how hedge accounting may be applied. Consistent with financial instruments, it requires that all derivatives, including those designated as hedges, be measured at fair value. Changes in the fair value of a derivative which hedges the Company's exposure to changes in the fair value of an asset or liability, a fair value hedge, are recognized in net income together with those of the respective offsetting hedged item. Changes in the fair value of a derivative which effectively hedges the Company's exposure to changing cash flows, a cash flow hedge, are accumulated in other comprehensive income until the transaction being hedged affects net income. The Company has no hedges outstanding as at December 31, 2007 and 2006.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange in effect at the balance sheet date. Non-monetary assets and liabilities are translated at historical exchange rates. Revenue and expenses are translated at the average rate of exchange during the year.

Production Enhancement Group, Inc.
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Financial statements of integrated foreign subsidiaries are translated using the temporal method. Under this method, monetary assets and liabilities are translated into US Dollars at the exchange rate in effect at the balance sheet date. Non-monetary assets are translated at historical exchange rates. Revenue and expenses are translated at average exchange rates for the period since acquisition, except amortization, which is translated on the same basis as the related asset. Translation gains and losses are included in net income.

Asset retirement obligation

The Company recognizes asset retirement obligations in the period in which they are incurred if a reasonable estimate of fair value can be determined. The associated asset retirement costs before salvage values are capitalized as part of the carrying amount of the capital asset. The liability is accreted over the estimated time period until settlement of the obligation and the asset is amortized over the estimated useful life of the asset. As at December 31, 2007 and 2006, the estimated value of any asset retirement obligation that the Company has is nominal. Accordingly, no provision has been made for any asset retirement obligations.

Future Income Taxes

The Company uses the liability method of accounting for income taxes. Under this method, future tax assets and liabilities are measured using substantially enacted tax rates and laws that will be in effect when the differences are expected to reverse. Future tax assets and unused tax losses are recognized to the extent that they are more likely than not to be realized.

Impairment of long-lived assets

Long-lived assets, which include property and equipment, are reviewed for impairment or when events or circumstances indicate that the carrying amount of an asset may not be recoverable. The Company's policy is to record an impairment loss when it is determined that the carrying amount of the asset exceeds the sum of the expected undiscounted future cash flows resulting from use of the asset and its eventual disposition. Impairment losses are measured as the amount by which the carrying amount of the asset exceeds its fair value and is recognized as an expense in the period of impairment.

Inventory

Inventories are valued at the lower of cost or market. Cost is determined by the weighted average cost method. Inventory is composed of chemicals and coil tubing.

Capital assets

Property and equipment are recorded at cost. Property and equipment that are still undergoing development and has not been placed in service are classified as assets under construction and are not amortized. Amortization, for financial statement purposes, is provided by the straight-line method over the estimated useful lives of the assets as follows:

Asset	Years
Software and equipment	2-3
Equipment	5-12
Furniture and fixtures	3-7
Vehicles	3-7
Leasehold improvements	7-39

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Leases

Leases are classified at their inception as either operating or capital leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Transaction costs

Transaction costs will be capitalized to the cost of financial assets and liabilities classified as other than held for trading. As a result of this new policy, deferred financing costs related to the long-term debt have been reclassified against long-term debt. These transaction costs are amortized on an effective interest basis over the life of the related debt.

Goodwill

Goodwill represents the excess of cost over the fair value of net assets acquired and is not amortized. The recorded amount of goodwill is tested for impairment based on expected future cash flows to which the goodwill is attributable, at least annually at year end, or whenever events or circumstances indicate a possible impairment, to ensure that the fair value is greater than, or equal to, book value. Any impairment in the value of goodwill is charged in the period when impairment is determined.

Intangible assets

Intangible assets consist of patents and the customer base from acquisitions. Intangible assets are recorded at cost less accumulated amortization. Amortization is computed on a straight-line basis over the estimated useful life of five years.

Customer base	5 years
Covenant not to compete	5 years

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

Per share amounts

The loss per share is calculated using the weighted average number of common shares outstanding during the year. Diluted per share amounts reflect the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted to common shares. The treasury stock method is used to determine the dilutive effect of stock options and other dilutive instruments.

Revenue recognition

The Company's services are generally sold based upon purchase orders or contracts with the customer that include fixed or determinable prices based upon daily, hourly or job rates. Customer contract terms do not include provisions for significant post-service delivery obligations. Revenue is recognized when services are rendered and only when collectability is reasonably assured. Revenue collected in advance of rendering the service is deferred to the future period in which the service is rendered.

Stock-based compensation

The Company has a stock option plan as described in Note 11 (d). The Company follows the fair value method of accounting using the Black-Scholes option pricing model. Compensation expense for stock options is recognized using the fair value when the stock options are granted and is amortized over the option's vesting period.

Production Enhancement Group, Inc.
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Use of Estimates

The preparation of financial statements in accordance with Canadian GAAP requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts or revenue and expenses during the reporting period. The most significant of these estimates are related to allowance for doubtful accounts, amortization of property and equipment, valuation of assets, accruals for contingent payments on long term debt (Note 10), future income tax and stock compensation. Actual results could differ significantly from these estimates. Certain items recognized in the consolidated financial statements are subject to measurement uncertainty as they are based on Management's estimate using current information and judgment. The effect on the consolidated financial statements of changes in such estimates in future years could be significant.

The allowance for doubtful accounts represents the Company's best estimate of probable losses that may result from the inability of its customers to make required payments to the Company for services rendered. The Company continually monitors its accounts receivable items and uses judgment to assess the collectability of specific accounts and based on this assessment an allowance is maintained for those accounts deemed to be uncollectible.

Accounting Changes

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

The impact that the adoption of this standard will have on the Company's financial statements will depend on the nature of future accounting changes. The required additional disclosure on Recent Accounting Pronouncements is disclosed in Note 3.

3. Recent Accounting Pronouncements

Recent accounting pronouncements issued and not yet effective:

Capital Disclosures

CICA Handbook Section 1535, *Capital Disclosures*, requires disclosure of an entity's objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital and whether the entity has complied with any capital requirements and, if it has not complied, the consequences of such non-compliance. This standard is effective for the Company for interim and annual financial statements beginning on January 1, 2008. The Company is currently evaluating the impact of the adoption of this new standard on its consolidated financial statements. The Company does not expect that the adoption of this new standard will have a material impact on its consolidated financial statements.

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Inventories

CICA Handbook Section 3031, *Inventories*, replaces the existing Section 3030 and contains requirements on measurement and disclosure of inventories to converge with International Financial Reporting Standards. Section 3031 is effective for the Company for interim and annual financial statements beginning on January 1, 2008. The Company is currently evaluating the impact of the adoption of this new standard on its consolidated financial statements. The Company does not expect that the adoption of this new standard will have a material impact on its consolidated financial statements.

Financial Instruments Disclosures

CICA Handbook Section 3862, *Financial Instruments – Disclosures*, increases the disclosures currently required that will enable users to evaluate the significance of financial instruments for an entity's financial position and performance, including disclosures about fair value. In addition, disclosure is required of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about liquidity risk and market risk. The quantitative disclosures must also include a sensitivity analysis for each type of market risk to which an entity is exposed, showing how net income and other comprehensive income would have been affected by reasonably possible changes in the relevant risk variable. This standard is effective for the Company for interim and annual financial statements beginning on January 1, 2008. The Company has not yet determined the impact that the adoption of this change will have on the disclosure in its financial statements.

Financial Instruments Presentation

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

Goodwill and Intangible Assets

In February 2008, the Canadian Institute of Chartered Accountants (“CICA”) issued Section 3064, *Goodwill and Intangible Assets*, replacing Section 3062, *Goodwill and other intangible assets* and Section 3450, *Research and Development Costs*. Various changes have been made to other sections of the CICA Handbook for consistency purposes. The new standard will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2008. Accordingly, the Company will adopt the new standards for its fiscal year beginning January 1, 2009. It establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The Company is currently evaluating the impact of the adoption of this new standard on its consolidated financial statements. The Company does not expect that the adoption of this new standard will have a material impact on its consolidated financial statements.

International Financial Reporting Standards

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

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

4. Acquisitions

(a) On March 5, 2007, the Company purchased all of the shares of Wireline Specialists of Louisiana, Inc. ("WSL"). The Company assumed and refinanced WSL's existing debt of \$2,920,428 and paid net consideration to the selling shareholders of \$3,078,355 in cash, transaction costs of \$118,040 and an initial 1,234,739 PEG common shares ("Common Shares") subject to repricing at the first anniversary date. An additional payment of up to \$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 consolidated financial statements beginning March 1, 2007. The Company 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.

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

Net assets acquired:	
Cash	\$ 38,966 *
Non-cash working capital	1,063,125
Capital assets and deposits	4,582,696
Intangibles	765,745
Goodwill	926,736
Capital Lease	(18,541)
Long-term debt	(2,920,428) *
	<u>\$ 4,438,299</u>
Consideration:	
Common shares issued at closing, net of costs	\$ 1,241,904
Cash	3,196,395 *
	<u>\$ 4,438,299</u>
* Net cash affect of acquisition	<u>\$ (6,077,857)</u>

On March 5, 2008, the number of Common Shares issuable pursuant to the acquisition of WSL were adjusted per the Wireline Agreement. The repricing of Common Shares was based on the value of the volume weighted average closing price during the twenty consecutive trading days that preceded the first anniversary of the closing date of March 5, 2007. An additional 4,321,507 Common Shares issued in March 2008 were based on the repricing of the original 1,234,739 Common Shares from \$1.72 (CAD \$2.00) to \$0.3828 (CAD \$0.3828) per share.

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(b) On April 27, 2007, the Company entered the western Canada oilfield services market with its purchase of all of the shares of Dyna Star Energy Services Ltd. ("Dyna Star"), a private company that provided coiled tubing and nitrogen services in Alberta. The Company assumed and refinanced Dyna Star's existing debt of CAD \$1,275,096 (USD \$1,155,083) and paid net consideration to the selling shareholders of CAD \$230,000 (USD \$208,352) cash, transaction costs of \$135,248 and 427,004 PEG Common Shares. The proceeds necessary to refinance the assumed indebtedness and pay the selling shareholders of Dyna Star were provided through an additional term loan from a major international financial institution. The final purchase price settlement has been finalized and the 427,004 shares were issued to the sellers in fourth quarter 2007.

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

The purchase allocations are as follows:

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

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(c) On January 1, 2006, the Company acquired all of the outstanding limited liability units of Production Enhancement Technologies, LLC (“PET”) a company that provided special coil tubing plus well intervention services. The deemed purchase price of \$21,117,380 was settled by a combination of the issuance of 914,076 Common Shares, 8,226,699 of Class C non-voting convertible Common Shares and the issuance of \$5,411,990 of notes payable and the payment of cash in the amount of \$166,067. No value was ascribed to the shares as the transaction was accounted for at carrying values. As a part of the transaction, the members of PET assumed long term debt of \$2,358,008. The acquisition of PET has been accounted for as a capital transaction using the reverse take over accounting rules for transactions that do not constitute business combinations for accounting purposes, therefore, the following net assets are those of Production Enhancement Group, Inc. As a result, the amount of share capital, contributed surplus and deficit of the Company at the time of the transaction was eliminated.

The following assets were deemed acquired in the acquisition:

Cash	\$	891,988
Other current assets		22,543
Accounts payable and accrued expenses		(562,678)
Bridge notes payable		<u>(1,425,000)</u>
Net working capital (deficiency)		(1,073,147)
Deposits		444,280
Future tax asset		505,400
Property and equipment		286,923
Other assets – share issue costs on initial public offering		1,338,807
Intangible assets		<u>1</u>
	<u>\$</u>	<u>1,502,264</u>
Purchase price – cash and notes payable (net of liabilities not assumed)	\$	3,220,049
Acquisition costs		378,926
Excess of purchase costs over fair values of identifiable assets acquired		<u>(2,096,711)</u>
	<u>\$</u>	<u>1,502,264</u>

By agreement, all shares issued were subject to a two year hold period ending January 1, 2008.

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(d) On January 1, 2006, the Company purchased all outstanding limited liability units of A to Z Pressure Pump Services, LLC ("A to Z") for total estimated consideration of \$1,716,674 consisting of 545,301 Common Shares with a fair value of \$695,260, \$890,660 of notes payable and \$130,754 of transaction costs. A to Z provided pressure pumping and related well intervention services to oil and gas producers and operators.

This acquisition was accounted for using the purchase method, whereby the net assets of A to Z have been recorded by the Company at their fair market value. As of December 31, 2006, the Company had issued 545,301 Common Shares.

The fair value of the net assets acquired is as follows:

Cash	\$	22,264
Other current assets		952,885
Current liabilities		(1,266,280)
Net working capital (deficiency)		(291,131)
Property and equipment		2,046,000
Intangible asset		235,724
Goodwill		418,012
Future tax liability:		
Current portion		(12,764)
Long term		(183,190)
Long-term liabilities		(495,977)
	\$	<u>1,716,674</u>
Purchase price		
Notes payable	\$	890,660
Shares		695,260
Acquisition costs		130,754
	\$	<u>1,716,674</u>

By agreement all shares issued were subject to a two year hold period ending January 1, 2008.

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5. Property and Equipment

	December 31, 2007			December 31, 2006		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Software and equipment	\$ 1,404,121	\$ 574,156	\$ 829,965	\$ 839,858	\$ 102,599	\$ 737,259
Equipment	29,009,546	5,434,879	23,574,667	17,528,253	2,947,253	14,581,000
Furniture and fixtures	299,000	85,952	213,048	196,424	35,220	161,204
Vehicles	2,104,672	916,761	1,187,911	987,841	386,627	601,214
Leasehold improvements	85,617	15,898	69,719	63,644	12,144	51,500
Assets under construction	8,000,445	-	8,000,445	3,369,398	-	3,369,398
	<u>\$ 40,903,401</u>	<u>\$ 7,027,646</u>	<u>\$ 33,875,755</u>	<u>\$ 22,985,418</u>	<u>\$ 3,483,843</u>	<u>\$ 19,501,575</u>

Assets under construction consist of units currently being constructed by the Company. These assets are not amortized until they become operational and are moved to the appropriate class of asset above.

Amortization of property, equipment and intangibles includes an impairment of assets of \$378,538.

Assets held for sale have been reclassified as current assets net of any impairment. In early 2008, the Company sold three high volume (trailer mounted) self generation nitrogen units that were purchased in October 2007 for land operations, but were not economical for the U.S. market. The units were built for the Canadian land market, but did not work optimally in the Texas and Louisiana field locations.

Assets held for sale related to discontinued operations have been classified as non current assets net of impairment (Note 16).

6. Intangible Assets

	December 31, 2007	December 31, 2006
Patent	\$ 22,649	\$ 1
Customer Base	901,469	235,724
Less: Amortization	<u>(205,247)</u>	<u>(47,145)</u>
	<u>718,871</u>	<u>188,580</u>
Covenant not to compete	100,000	-
Less: Amortization	<u>(16,667)</u>	<u>-</u>
	<u>83,333</u>	<u>-</u>
	<u>\$ 802,204</u>	<u>\$ 188,580</u>

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

7. Deferred charges

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

Deferred charges consisted of debt financing related costs.

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8. Changes in non-cash working capital

(a) From operations

	For the Year Ended December 31,	
	2007	2006
Accounts receivable	\$ (667,883)	\$ (2,224,212)
Inventory	(36,565)	(165,220)
Prepaid expenses and deposits	(425,918)	(539,486)
Accounts payable and accrued liabilities	(163,564)	(1,992,653)
Note payable	312,550	(570,450)
Current portion of long term liability	-	2,470,665
Interest payable	1,921,723	(183,610)
	<u>\$ 940,343</u>	<u>\$ (3,204,966)</u>

(b) From discontinued operations

	For the Year Ended December 31,	
	2007	2006
Accounts receivable	\$ (33,068)	\$ -
Inventory	54,353	-
Prepaid expenses and deposits	(33,776)	-
Note payable	27,046	-
Accounts payable and accrued liabilities	(288,338)	-
Accrued liabilities discontinued operations	212,057	-
	<u>\$ (61,726)</u>	<u>\$ -</u>

9. Notes Payable

Notes payable represents several notes on the Company's insurance policies and the short-term balance of the capital leases. The workers compensation policy is held by the insurance company and no interest is charged. The policy required a \$100,458 deposit and 11 payments of \$36,530. The Company's umbrella insurance policy is financed for 10 months at 9.25% interest (effective rate – 9.64%) after a down payment of \$40,466. The remaining policies for US operations required a down payment of \$144,163 and ten monthly payments at 7% interest (2006 – 8.5%). The effective interest rate on this note is 7.22% (2006 – 8.83%). The Canadian operations insurance is financed for ten months and required a down payment of CAD \$9,268 and has an interest rate of 10% interest (effective rate - 10.46%).

With the acquisition of A to Z, the Company acquired a capital lease on an acid dock facility. The lease calls for 27 payments at interest of 9.97% (effective rate – 10.44%). The lease will be paid in full in March 2008. As a result of the Wireline acquisition the Company acquired a capital lease on a vehicle. The balance on the lease at acquisition was \$18,541. The lease calls for interest of 11.27% (effective rate – 11.87%) and payments of \$1,782 plus applicable taxes and fees per month. The capital lease will be paid in full in February 2008.

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The following table represents the details of the note payable balance at December 31, 2007 and 2006.

	<u>2007</u>	<u>2006</u>
All remaining US policies	\$ 416,720	\$ 424,271
Umbrella	29,887	-
Workers compensation	328,770	-
Canadian policy	27,046	-
WL capital lease	1,765	-
A to Z capital lease	8,421	-
	<u>\$ 812,609</u>	<u>\$ 424,271</u>

10. Long Term Debt

(a) On August 31, 2007 (“the Closing Date”), the Company entered into a debt facility with a major energy lending institution (the “Lender”) to provide a senior credit facility of \$70 million. This new senior facility refinanced the pre-existing senior indebtedness and provided \$40 million in expansion financing for additional capital expenditures and working capital. Borrowings under the facility bear interest at 14%, with the Company having the ability to pay 3% in kind. Payment in kind will result in an increase to the debt. The effective interest rate is 14.93%. The facility requires the payment of interest only until December 31, 2008, at which time the principal will begin to be amortized on a quarterly basis over an 8 year straight-line amortization schedule. The notes will mature on August 31, 2012 but may be prepaid under certain circumstances during their term upon payment of additional prepayment fees.

The facility requires that six months interest be held in a Debt Service Reserve Account (“DSRA”). This restricted cash has been classified as a current asset. The interest payment due to the Lender for the fourth quarter of 2007 was paid from the restricted cash DSRA account 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 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 \$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.

The Lender also received initial warrants to purchase up to 8,193,249 shares of the Company’s Common Shares at an initial exercise price of CAD \$2.00 per share (the “Warrants”). The number of shares is subject to change as a result of any additional issuances of Common Shares, Preferred Shares and Warrants. The fair value of the Warrants was estimated to be \$320,051 using the Black-Scholes model with the following assumptions: expected life of Warrants four years; expected volatility of 39%; risk-free interest rate of 4.18%; and a zero dividend yield. The initial exercise price of the Warrants will be adjusted in the future to the average of the then market price at the reset date (based on a 60-trading day volume weighted average calculation) and CAD \$0.64 (the market price on the Closing Date based on a five day volume weighted average trading price), provided that such reset price will not be less than CAD \$0.64/share nor more than CAD \$2.00/share. The reset date will be the earlier of (i) February 28, 2009 or (ii) a change of control, liquidation, merger, or other similar event of the Company. The holder of the Warrants has agreed not to sell short any Common Shares

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of the Company while the Warrants are outstanding. The term of the Warrants is four years, but the Company also has the right to require the Warrants to be exercised if the market price of the Common Shares reaches two times (2.0x) the then effective exercise price based on a 60-trading day volume weighted average calculation at such time. The Warrants also have the benefit of certain registration rights and anti-dilution provisions customary for this type of instrument.

On December 4, 2007, the Company announced that it issued an additional 43,187 Warrants to the Lender at an initial exercise price of CAD \$2.00 (under the same terms described in the above paragraph). The fair value of the Warrants was estimated to be \$250 using the same assumptions as the original Warrants and using the accelerated period of the original Warrants. This was done in conjunction with the Company's amendment of the terms of the Warrants with holders of the Company's 6,666,667 shares of Series A 8% Preferred Stock ("Preferred Shares") and the 5,000,000 associated Warrants (having an exercise price of CAD \$1.24 per Common Share and an expiry date of March 5, 2012) to include a cashless exercise option and grant one (1) additional Warrant for each ten (10) existing Warrants held. This resulted in an additional 436,250 Warrants with the same terms as the existing Warrants, including the cashless exercise option.

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.

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

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

2008	\$	1,546,875
2009		6,187,500
2010		6,187,500
2011		6,187,500
2012		29,390,625
		49,500,000
Warrants		293,630
Transaction costs		2,180,816
		47,025,554
Less Current portion		1,546,875
Balance	\$	45,478,679

(b) On May 2, 2006, the Company entered into a debt facility from a major international financial institution to provide a senior credit facility of \$25 million, comprised of a working capital line of credit of \$5 million, an initial term loan of \$10 million and a capital expenditure line of \$10 million. The Senior Credit Terms provided for an interest rate on each of the components of 3.5% over 3-month LIBOR, a five year amortization on the term loan and capital expenditure line. The facility was secured by all assets of the Company. This debt facility was paid by the new facility in August 2007.

In addition, the Company issued a warrant to the financial institution to acquire 1,100,000 Common Shares at an exercise price of C\$2.00 (US \$1.75 at date of issuance) per share for a term of five years. The fair value of the warrants was estimated to be \$851,686 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. This amount was recorded as deferred financing cost with a corresponding increase in share capital. The warrant value was reclassified to Contributed Surplus upon extinguishment of the debt.

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

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

The following table represents the long term activity on the senior debt facilities:

Balance, December 31, 2006	\$ 13,820,543
Increases to previous facility	13,487,148
Payments to old facility	(27,307,691)
Increases to new facility	49,500,000
Reclassification of transaction costs	(2,474,446)
Balance, December 31, 2007	<u>\$ 47,025,554</u>

11. Equity instruments

(a) Share Capital

(1) Authorized:

- Unlimited number of common voting shares.
- Unlimited number of Class B common convertible voting shares, convertible to common shares upon completion of initial public offering.
- Unlimited number of Class C convertible non-voting common shares, convertible at the option of the holder, upon 75 days prior notice to the Company, on the basis of one common share for each Class C share.
- Unlimited number of non-voting preferred shares issuable in series at terms as determined by the Board, retractable by the Company.

(2) Common shares and warrants issued and outstanding:

	<u>Number of Shares</u>	<u>Amount</u>
Common Shares		
Balance, December 31, 2005	3,007,899	\$ -
Share exchange for Class C shares	(3,000,000)	-
Shares issued for acquisition of PET	914,076	-
Shares issued for acquisition of A to Z	545,301	695,260
Class B share conversion on final receipt of IPO	1,784,331	-
Shares issued to convert bridge notes	1,038,731	1,326,701
Shares issued on conversion of warrants	2,014,689	-
Shares issued to third parties consultants for services	52,821	66,500
Shares issued at IPO, net of issuance costs	10,000,000	13,531,006
Balance, December 31, 2006	16,357,848	15,619,467
Acquisition of Wireline, net of issuance costs	1,234,739 ¹	1,241,904
Acquisition of Dyna Star, net of issuance costs	427,004	352,148
Conversion of Preferred Stock	300,001	-
Conversion of Class C Shares	38,297,784	-
Balance, December 31, 2007	56,617,376	17,213,519

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Class C Shares

Balance, December 31, 2005	27,071,085	-
Share exchange of common shares	3,000,000	-
Shares issued for acquisition of PET	8,226,699	-
Balance, December 31, 2006	38,297,784	-
Conversion to Common Shares	(38,297,784)	-
Balance, December 31, 2007	-	-
	56,617,376	17,213,519

Preferred Stock

Balance, December 31, 2006	-	-
Conversion to Common Shares	(300,001)	-
Preferred share offering, net of issuance costs	6,666,667	2,184,541
Paid in kind dividends	609,134 ²	342,077
Balance, December 31, 2007	6,975,800	2,526,618

Warrants

Balance, December 31, 2005	2,193,133	-
Warrants issued with conversion of bridge notes	(2,014,689)	-
Warrants issued pursuant to IPO	5,000,000	703,599
Warrants issued to lender (Note 10 (b))	1,100,000	851,686
Warrants issued to lender	10,000	3,764
Cancellation	(11)	-
Balance, December 31, 2006	6,288,433	1,559,049
Warrants issued on preferred stock (Note 11 (c))	5,436,250	2,123,938
Warrants issued to agent (Note 11 (c))	333,333	171,675
Warrants issued to lender (Note 10 (a))	8,236,436 ³	320,301
Expiration of warrants	(6,288,433)	(1,559,049)
Balance, December 31, 2007	14,006,019	2,615,914
Total		\$ 22,356,051

¹ An additional 4,321,507 Common shares were issued in March 2008 pursuant to Note 4 (a)

² An additional 302,609 Preferred shares were issued in March 2008 pursuant to Note 11 (c)

³ An additional 501,811 Warrants to be issued in April 2008 pursuant to Note 10 (a), subject to Lender review

(b) Contributed Surplus

Balance, December 31, 2005	\$ -
Employee options	1,073,388
Board of Director options	264,038
Advisory Board options	11,761
Agent options	378,378
Balance, December 31, 2006	1,727,565
Employee options	274,692
Board of Director options	145,320
Advisory Board options	13,211
Expired warrants	1,559,049
Balance, December 31, 2007	\$ 3,719,837

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(c) Preferred Stock

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

The Preferred Shares pay quarterly cumulative dividends at a rate of 8% per year of the amount invested. The Company has the right to pay all or a portion of the first four quarterly dividends in kind in additional Preferred Shares at the equivalent Common Share value at the time of payment. Each Preferred Share is convertible at the option of the holder into one PEG Common Share. The dividends for the first four quarterly periods have been issued as in kind Preferred Shares totaling 911,743 shares with an additional cash portion totaling CAD \$17.26. The Company may force conversion of the Preferred Shares upon 30 days' notice if the average closing price of the Common Shares of the Company on the TSX exceeds CAD \$1.74 for a period of 10 consecutive trading days on which an average of 10,000 Common Shares have traded. Total dividends for the year were \$381,994 and dividends payable at December 31, 2007 were \$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 Warrant") equivalent to 5% of the number of Preferred Shares issued pursuant to the offering. Each Broker Warrant entitles the holder to purchase one Common Share at a price per share of CAD \$0.87 for a period of five years following the date of issuance. The Company can accelerate the expiration of the Broker Warrants in the event that the simple average trading price for a 30 consecutive trading day period is equal to or greater than CAD \$1.74. The fair value of the Broker Warrants of \$171,675 has been recorded as a share issue cost and they were calculated from the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 4.0 %; expected life of five years; no annual dividends paid; and expected volatility of 50%.

On December 4, 2007, the Company announced that following negotiations with the holders of its 6,666,667 Series A Preferred Shares and the 5,000,000 associated Warrants for all accepting holders, the Company had amended the terms of the Warrants to include a cashless exercise option and grant one (1) additional Warrant for each ten (10) existing Warrants held. The Company granted "piggyback" registration rights to these holders in the event the Company were to file a registration statement under the US Securities Act of 1933 under certain circumstances. The cashless exercise option allows a holder of a Warrant to elect to exchange the Warrant for a number of Common Shares equal to the difference between the value of the Common Shares at the time of exercise and the original Warrant exercise price per Common Share (which remains at CAD \$1.24 per Common Share). An additional 436,250 Warrants were issued in the fourth quarter of 2007, and they have the exact same terms as the existing Warrants, including the cashless exercise option.

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.

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(d) Stock option plan

On November 24, 2005, the Board approved a stock option plan (the "Plan") for the purpose of developing the interest of directors, officers, employees, and consultants in the growth of the Company. The Board amended the Plan on September 6, 2007 to include a new cashless exercise feature. The amendment was not approved by the shareholders; shareholder approval was not required as no re-pricing of options held by insiders was undertaken, and the TSX did not require shareholder approval in relation to the institution of a cashless exercise feature where there was a full deduction of the number of underlying securities from the plan reserve. Under the terms of the Plan and subsequent amendments to the Plan, the Company has reserved 10% of the issued and outstanding shares as the maximum stock options that can be granted. When granted, options have a five year term. The exercise price of the options is determined by the Board and will not be less than the market price of the Common Shares at the grant date. The Board will determine the vesting terms at the time of grant. The Company also repriced the existing non-officers' and non-insiders' stock option holders with original vesting date to CAD \$0.62 from CAD \$2.00 to better reflect the market condition and pricing and to retain key employees. There were 620,000 options repriced of which 185,000 were cancelled, thus, 435,000 net stock option holders were repriced to CAD \$0.62. The impact of the repriced options resulted in an increase to stock option compensation expense of \$62,553.

The expense for the twelve month period and the comparative period was determined from the Black-Scholes option pricing model with the following assumptions: risk-free interest rates ranging from 4.0 to 4.5%; expected life of five years; no annual dividends paid; and expected volatility of 50%.

Compensation expense for stock options is recognized using the fair value when the stock options are granted and is amortized over the options vesting period. During the year ended December 31, 2007, \$443,223 was recognized as compensation expense in the consolidated statement of operations with a corresponding increase in contributed surplus. As at December 31, 2007, 1,157,500 stock options were exercisable and the weighted average years to expiration were 4.11 years. The fair value of options granted during the year that were outstanding at December 31, 2007 was approximately \$484,135 or \$0.19 per option.

	Share Options	Option Price	Weighted Average Exercise Price
Outstanding, December 31, 2005	-	-	-
Granted	5,722,500	C\$2.00	C\$2.00
Exercised	-	-	-
Cancelled	(1,180,000)	C\$2.00	C\$2.00
Outstanding, December 31, 2006	4,542,500	C\$2.00	C\$2.00
Granted	1,495,000	C\$2.00	C\$2.00
Granted	2,070,000	C\$0.62	C\$0.62
Exercised	-	-	-
Forfeited	(1,000,000)	C\$2.00	C\$2.00
Cancelled	(2,552,500)	C\$2.00	C\$2.00
Outstanding, December 31, 2007	4,555,000	C\$2.00	C\$2.00
Exercisable at December 31, 2007	1,035,417	C\$2.00	C\$2.00
Exercisable at December 31, 2007	122,083	C\$0.62	C\$0.62

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The following table summarizes information about the stock options outstanding at December 31, 2007:

Options Outstanding	Option Price CAD	Wtd Avg Exercise Price CAD	Wtd. Avg. Remaining Contractual Life (years)	Options Currently Exercisable	Wtd. Avg. Exercise Price of Options Currently Exercisable CAD
1,450,000	\$2.00	\$2.00	3.30	925,000	\$2.00
100,000	\$2.00	\$2.00	3.42	50,000	\$2.00
25,000	\$2.00	\$2.00	3.59	10,417	\$2.00
130,000	\$2.00	\$2.00	3.80	43,333	\$2.00
20,000	\$2.00	\$2.00	3.96	6,667	\$2.00
25,000	\$2.00	\$2.00	4.15	-	\$2.00
150,000	\$2.00	\$2.00	4.24	-	\$2.00
100,000	\$2.00	\$2.00	4.32	-	\$2.00
150,000	\$2.00	\$2.00	4.39	-	\$2.00
2,150,000	\$2.00	\$2.00	4.11	1,035,417	\$2.00
150,000	\$0.62	\$0.62	3.30	75,000	\$0.62
10,000	\$0.62	\$0.62	3.42	5,000	\$0.62
25,000	\$0.62	\$0.62	3.67	10,417	\$0.62
95,000	\$0.62	\$0.62	3.96	31,667	\$0.62
35,000	\$0.62	\$0.62	4.15	-	\$0.62
45,000	\$0.62	\$0.62	4.24	-	\$0.62
75,000	\$0.62	\$0.62	4.39	-	\$0.62
1,230,000	\$0.62	\$0.62	4.68	-	\$0.62
500,000	\$0.62	\$0.62	4.75	-	\$0.62
210,000	\$0.62	\$0.62	4.84	-	\$0.62
10,000	\$0.62	\$0.62	4.87	-	\$0.62
20,000	\$0.62	\$0.62	4.97	-	\$0.62
2,405,000	\$0.62	\$0.62	4.11	122,083	\$0.62
Total	<u>4,555,000</u>			<u>1,157,500</u>	

(e) Escrowed Shares

On May 14, 2007, the Class C Non-voting Common Stock of PEG was converted to Common Stock 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 US securities law purposes, PEG no longer has the status of a "foreign private issuer" under the US Securities Act of 1933 (the "US Securities Act") and Regulation S thereunder, and PEG is now deemed a "domestic issuer" in the United States.

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12. 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 year ended December 31, 2007 these legal fees totaled \$415,331 (2006 - \$357,217). There was an outstanding balance for legal fees at December 31, 2007 in the amount of \$38,427 (2006 - \$799). The acquisition related legal fees included in these total legal fees were \$261,404 for the year ended December 31, 2007 (2006 - \$357,217).
- (b) The Company previously entered into a consulting agreement in which a family member of a senior executive was paid \$48,000 during the year ended December 31, 2007 (2006 - \$48,425) for advisory board services.
- (c) Equipment purchases, equipment rental and equipment repairs of \$2,528,470 were recorded during the year ended December 31, 2007 (2006 - \$3,405,028) 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 \$29,143 (2006 - \$306,278).
- (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 \$250,000 license for the operation of a global support center for the WISE® Coil Tubing ("CT") Units in the field, a user contract at \$1,500 per month per CT Unit, a per Coil Tubing ("CT") Unit installation fee of \$75,000 and customization costs based on established rates per hour. This agreement is effective upon the closing of the offering for an initial period of three years. The 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 \$1,006,873 were recorded during the year ended December 31, 2007 (2006 - \$364,474) to a company controlled by a former director and officer of the Company. A balance of \$8,735 remained outstanding at December 31, 2007 (2006 - \$364,474). 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 leased several real properties from companies controlled by board members or former officers of the Company. For the year ended December 31, 2007 \$273,000 (2006 - \$125,537) was recorded in lease payments.
- (f) The Company purchased chemicals for resale totaling \$77,119 from a company that is beneficially owned by two former officers of a subsidiary during the year ended December 31, 2007 (2006- \$288,748). 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 year 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 12 (f) in "Related Party Transactions" are recorded at agreed to exchange amounts which reflect fair values.

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13. Commitments

- (a) As at December 31, 2007, the Company has made deposits in the amount of \$7,185,681 toward the purchase of equipment to be delivered in the first three quarters of 2008. The total progress payments and balance due on delivery is estimated to be \$13,989,203 and will be funded by the debt facility with our major energy lending institution.
- (b) The Company has entered into several lease agreements with major fleet leasing companies for the lease of vehicles. The terms of the leases vary from 12 to 72 months and the monthly lease payments total \$73,545. The leases are structured as operating leases. As at December 31, 2007 the total deposits on operating leases is \$374,649. The Company also entered into several lease agreements for the rental of real property during 2007.

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

2008	\$	1,255,133
2009		1,128,616
2010		688,885
2011		231,345
2012		107,744
2013		30,000
2014		30,000
2015		30,000
	\$	3,501,723

14. Financial Instruments

Fair values

The carrying amounts of cash, restricted cash, accounts receivable, inventory, prepaid expense, accounts payable, accrued liabilities, dividends payable, notes payable, and short term debt approximate their fair values, given they are short term in nature. The carrying amount of long-term debt approximates its fair value.

Concentrations of credit risk

Concentrations of credit risk with respect to accounts receivable, which are typically unsecured, are generally limited due to the large base of customers and the dispersion across many different geographic areas. One (2006 – two) customer accounted for 11% (2006 – 25%) of the outstanding receivable balance at December 31, 2007. The Company believes there is no unusual exposure associated with the collection of these receivables. No other single customer accounted for more than 10% (2006 - 25%) of consolidated receivables at December 31, 2007. The Company performs regular credit assessments of its customers and provides allowances for potentially uncollectible accounts receivable.

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The following table demonstrates the outstanding customer balances for December 31, 2007 and December 31, 2006:

	2007		2006	
	% of Accounts receivable	Outstanding balance	% of Accounts receivable	Outstanding balance
Customer A	11%	723,152	0%	-
Customer B	0%	-	12%	649,834
Customer C	0%	-	13%	729,916
Total	11%	723,152	25%	1,379,750

For the year ended December 31, 2007 approximately 14% (2006, 10.5%) of the revenues were earned from one customer.

Credit risk management

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

At December 31, 2007 a significant portion of the Company's unrestricted cash was held at one financial institution.

Interest rate

As the Company's long term debt (Note 10) bears interest at fixed rates, the Company is not exposed to significant interest rate risk.

Foreign Currency Risk

The Company incurs certain administrative costs in Canadian dollars and as such the Company has exposure to foreign currency rate fluctuation risk with regard to these expenses. At December 31, 2007, the Company had a net working capital of \$(161,566) denominated in Canadian dollars. In addition, the Company shares are listed on a Canadian Exchange and as such the Company's equity financing are subject to foreign currency rate fluctuations. As these risks relate to the Canadian dollar, Management does not believe these risks will have a significant impact on the Company's future operations.

15. Restructuring Costs

During 2007, the Company restructured its organization to focus exclusively on delivering high quality oil and gas well intervention services in the United States and overseas. As a result the Company incurred a restructuring charge of \$1,430,729 which consisted of employee severance and terminations, lease termination costs, moving costs, capital asset write-down and professional fees. Employee termination costs include severance and benefits for certain employees. Lease terminations include the lease payments due that the Company will continue to incur without economic benefit. As at December 31, 2007 unpaid amounts included in accounts payable and accrued liabilities were \$1,250,006 (2006 – nil).

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16. Discontinued Operations

As a result of the Company's decision to restructure its operations and the continued depressed Canadian oilfield market, the Board of Directors voted on November 5, 2007 to discontinue its operations in the western Canadian oilfield services market. The results of operation of the Canadian operations have been reported within discontinued operations of the accompanying financial statements and no changes have been made to prior period statements as these operations originated in 2007. During 2007 the Company reported \$824,646 loss from operations and a \$2,335,017 loss on disposal from discontinued operations of which \$2,090,070 represents the impairment of equipment. The Company recorded a liability for future costs associated with these discontinued operations of \$212,057 at December 31, 2007.

Lease Terminations	\$	85,025
Employee severance		112,768
Shipping		47,154
Asset impairment/disposal		2,090,070
	\$	<u>2,335,017</u>

17. Future Income Taxes

Future income taxes reflect the net tax effects of temporary timing differences between recognition of items such as amortization, for financial reporting purposes and the deductibility for income tax purposes. As at December 31, 2007 the Company and its subsidiaries have incurred cumulative non-capital losses for income tax purposes of approximately \$6,582,000 related to US entities and \$1,342,000 related to Canadian entities, which are available to reduce taxable income in future years. If not utilized, these losses will expire between 2024 to 2026. Due to the uncertainty of utilization, only a portion of the future income tax benefit of these losses has been recognized in the financial statements.

(a) Principal components of the future tax asset are:

	<u>2007</u>	<u>2006</u>
Accrued liability	\$ -	\$ 380,000
Property, plant, and equipment	(2,343,629)	(677,000)
Intangible assets	376,000	160,000
Non-capital losses	7,924,114	1,370,000
Deferred financing costs	1,388,716	205,732
	<u>7,345,201</u>	<u>1,438,732</u>
Valuation allowance	(7,345,201)	(724,000)
Future tax asset	<u>\$ -</u>	<u>\$ 714,732</u>

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(b) Rate Reconciliation

The effective tax rate of income tax varies from the statutory rate as follows:

	<u>2007</u>	<u>2006</u>
Combined statutory rate	38.21%	38.21%
Loss before taxes from continuing operations	\$ (15,862,234)	\$ (4,645,833)
Computed tax (benefit)	(6,061,000)	(1,775,173)
Increase (decrease) resulting from:		
Stock based compensation	166,000	515,524
Non-deductible expenses	152,000	120,838
Valuation allowance	6,466,673	879,939
Other reconciling items	(8,941)	(146,414)
Future income tax expense (recovery)	<u>\$ 714,732</u>	<u>\$ (405,285)</u>

The future tax asset is calculated based on Management's best estimates of available tax pool balances and non-capital loss balances available. In calculating the current provision, Management has made certain estimates and taken certain filing positions based on current and proposed legislation. Tax provision calculations are based on substantively enacted taxation rates and projected profitability. As such, by its nature, the tax provision is subject to measurement uncertainty. Tax filings made by the Company are subject to review and confirmation by the relevant taxation authorities. Such review and reassessment may result in changes to the available tax pools. Adjustments, if any, will be reflected in the period of adjustment. At the end of the period, subject to the confirmation by taxation authorities, the Company has \$17.2 million of tax losses expiring at varying dates between 2024 and 2027.

18. Contingencies

The Company is a defendant in several lawsuits arising from the normal course of business. Defense of these suits is in the preliminary stages and while no probable outcome can be determined at this time, Management believes the Company will be successful in defending the claims. Accordingly, no estimated loss provision has been made in the accompanying financial statements.

The Company is a defendant in arbitration brought by two former officers of a subsidiary. The arbitration was brought as a wrongful termination matter and the Company has filed a counterclaim relating to the arbitration. The Company alleges that the related party transactions noted in "Related Party Transactions," Note 12 (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 (Note 4) 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 accompanying financial statements.

19. Subsequent Events

On February 8, 2008, the Compensation Committee of the Board of Directors 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.