

Production Enhancement Group, Inc.
TSX: WIS



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

THINK MODULAR
THINK MULTIFUNCTIONAL®



PRODUCTION ENHANCEMENT GROUP, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED DECEMBER 31, 2007

March 31, 2008

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

The following Annual Management Discussion and Analysis ("MD&A") of financial results of Production Enhancement Group, Inc. ("PEG," or the "Company") for the three and twelve months ended December 31, 2007, should be read in conjunction with the audited annual consolidated financial statements and related notes and is based on information available to March 31, 2008. This discussion should not be considered all-inclusive, as it excludes changes that may occur in general economic, political and environmental conditions. Additional information is also available on the Company's website (www.productionenhancement.com) and all previous public filings are available through SEDAR (www.sedar.com). The audited consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). Notes referred to herein relate to the December 31, 2007 consolidated financial statements.

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

CAUTION REGARDING FORWARD LOOKING STATEMENTS

Information which is contained in this MD&A 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 relate 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 the Company's 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 the Company's most recently filed Annual Information Form ("AIF").

Consequently, all of the forward-looking information contained in this MD&A 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 MD&A 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 MEASURES

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

OVERVIEW OF BUSINESS

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 coiled tubing (“CT”), 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 WISE Alberta transaction, which closed on April 27, 2007, was intended to provide CT services to western Canada. In April 2007, the Company signed joint venture agreements with Al Qahtani Maritime & Oil Field Services Company (“Al Qahtani”) for potential operations initially in Saudi Arabia and thereafter in other parts of the Middle East, and with Grupo Creatica, S.A. de C.V. (“Grupo Creatica”), to market, sell and support well intervention systems and services in Mexico. The Company has allowed its joint venture agreements with Al Qahtani and Grupo Creatica to expire on their own terms because the parties were unable to reach mutually agreeable terms under which to implement the joint ventures. The Company believes that WISE Well Intervention Services can market internationally and will explore alternative avenues to penetrate international markets at the appropriate time. WWIT was incorporated on August 9, 2007 to commercialize the Company’s proprietary technology, but it has not had any significant operations to date. In January 2008, the Company announced that it had closed some of its field offices, including its Canadian operations that were headquartered in Brooks, Alberta. This was done in an effort to streamline operations, improve cash flow and reduce costs. The Canadian operations are presented in the accompanying 2007 consolidated financial statements as discontinued operations.

SELECTED FINANCIAL INFORMATION ^{(1), (2)}

(Stated in USD)

The following is a summary of selected financial information of the Company.

	Three months ended			Twelve months ended		
	December 31		%	December 31		%
	2007	2006		2007	2006 ⁽³⁾	
Revenue ⁽¹⁾	8,307,203	6,850,175	21%	31,507,611	21,035,307	50%
EBITDAS ⁽²⁾	(678,870)	385,352	-276%	(1,255,668)	144,570	-969%
Loss before income taxes	(6,678,647)	(1,084,490)	-516%	(15,862,234)	(4,645,833)	-241%
Net loss from continuing operations	(7,393,379)	(1,363,751)	-442%	(16,576,966)	(4,240,547)	-291%
Loss from discontinued operations	(3,159,663)	-		(3,159,663)	-	
Loss per share from continuing operations (basic and diluted)	(0.13)	(0.02)	-555%	(0.30)	(0.09)	-233%
Loss per share from discontinued operations (basic and diluted)	(0.06)	-		(0.06)	-	
Total assets	54,753,431	32,018,488	71%	54,753,431	32,018,488	71%
Notes and reclassification of Long term debt	47,838,163	14,275,015	235%	47,838,163	14,275,015	235%
Number of common shares outstanding:						
Weighted average - basic and diluted	56,403,874	54,655,632	3%	55,827,957	48,977,421	14%

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

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

(3) The Company became a reporting issuer on March 29, 2006, being the date of receipt for its initial public offering prospectus.

FOURTH QUARTER HIGHLIGHTS

The Company's 2007 fourth quarter revenue increased 21% compared to the 2006 fourth quarter. EBITDAS for the 2007 fourth quarter was a loss of USD (678,870) compared to earnings of USD 385,352 for the fourth quarter of 2006. The net loss before income tax and before discontinued operations increased to USD (6,678,647) from USD (1,084,490) net loss in the fourth quarter of 2006. The net loss from continuing operations increased to USD (7,393,379) from USD (1,363,751) net loss in the fourth quarter of 2006. Net loss per share from continuing operations was USD (0.13) for the 2007 fourth quarter compared to the 2006 fourth quarter loss per share of USD (0.02), although average shares outstanding increased 3%.

The Company's 2007 annual revenue increased 50% compared to 2006 annual revenue. The 2007 annual EBITDAS was a loss of USD (1,255,668) compared to earnings of USD 144,570 for 2006 annual EBITDAS. The 2007 annual net loss before income tax and before discontinued operations increased to USD (15,862,234) from USD (4,645,833) annual 2006 net loss. The 2007 annual net loss from continuing operations increased to USD (16,576,966) from USD (4,240,547) annual 2006 net loss. The 2007 annual net loss per share from continuing operations was USD (0.30), compared to the annual 2006 loss per share of USD (0.09), although average shares outstanding increased 14%.

The Company undertook a detailed review of its organizational structure in the fourth quarter of 2007 and initiated significant organizational changes and operational improvements to address shortfalls that the Board of Directors ("Board") deemed unacceptable. These changes were aimed at achieving significant reductions in cost of sales and general operating expenses.

The Company began to feel the positive impact of its reorganization in the fourth quarter of 2007 with sequential quarterly improvement in revenue in all product lines and corresponding improvement in gross profit. The Company has been reorganized to focus its business exclusively on delivering high quality oil and gas well intervention services in the United States, where growth continues and has closed its Canadian operations due to the continued depressed Canadian natural gas markets. The Company has recorded a one-time restructuring charge in the fourth quarter of 2007 of USD 1,430,729 which excludes the associated costs of shutting down the Company's Canadian operations.

In April 2007, the Company entered the western Canada oilfield services market with its purchase of all of the shares of WISE Well Intervention Services, Inc., an Alberta corporation (formerly Dyna Star Energy Services Ltd.) ("WISE Alberta"), a private company that provided CT and nitrogen well intervention services in Alberta (for additional information, refer to the "ACQUISITIONS" section of this report). In January 2008, the Company announced that it had closed some of its field offices, including its Canadian operations due to the continued depressed Canadian natural gas markets. The Canadian operations are presented in the Company's 2007 consolidated financial statements as discontinued operations. The loss from operations of discontinued operations for the twelve months ended December 31, 2007 was USD 824,646. The cost of shutting down the Company's Canadian operations was USD 2,335,017 and was an additional charge to discontinued operations in the fourth quarter of 2007.

PEG's immediate focus continues to be on cost management and improved fleet utilization. The Company has postponed spending on new technology until the latter half of 2008 or early 2009, saving approximately USD 0.5 million quarterly from previously planned spending levels. The Company has reduced corporate and divisional overhead expense by approximately USD 1.0 million annually. As a result of the restructuring of its organization to improve cash flow and profitability, the Company expects annual savings estimated at USD 5.9 to USD 6.4 million. The majority of savings will come from personnel reductions and field office closings, as the structure of the Company has been flattened by removing several upper and middle management positions.

The Company continues to redeploy its equipment to maximize fleet utilization and is increasing its focus on meeting the stringent vendor qualification requirements of major oil and gas producers. Although the Company suffered reduced utilization of its equipment in the third quarter of 2007, it is experiencing renewed demand growth for its services and equipment as strong oil and gas demand encourages the Company's customers to extract more production from existing wells.

The Company has also strengthened its corporate and operations management with the appointment of Don B. Cobb as Chief Executive Officer ("CEO") and a Director of PEG on December 24, 2007. Mr. Cobb joined the Company on October 1, 2007 as President and Chief Operating Officer of its operating subsidiary, WWIS. Mr. Cobb has domestic and international oil and gas services experience spanning 33 years, and most recently was Executive Vice President of Boots and Coots Services in charge of all international operations. Prior to that, he served in significant operational roles with Baker Hughes. The Company announced the departure of its previous CEO in October 2007.

The Company expanded its services offerings by launching two new product lines in the fourth quarter of 2007: the Nitrogen Services Division and the WISE Tools Division. The Nitrogen Services Division initially included trailer mounted nitrogen generation units for land operations and one skid-type nitrogen generation unit for offshore work. In early 2008, the Company sold the 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 Texas and Louisiana field locations. The WISE Tools Division, which provides downhole CT motors, remedial tools and bottom-hole assemblies, is expected to generate revenues in its own right as well as increase CT revenues through additional utilization and pull-through business. This strategic expansion of services was in response to requests by the Company's customers for those services, and growing demand for these services is expected to contribute to higher revenue for the Company going forward. During the fourth quarter of 2007, the Nitrogen Services Division and the WISE Tools Division had revenue of USD 356,713 and USD 80,121, respectively.

PEG had cash and restricted cash of USD 4.9 million as at December 31, 2007, compared to USD 1.1 million as at December 31, 2006. The increase in the cash reserve was due to proceeds from the new senior credit facility. Included is a requirement by the lender to maintain a restricted cash balance equal to six months interest payments, totalling approximately USD 3.2 million. The restricted cash was used to pay the fourth quarter of 2007 interest payment due to the lender. The Company expects to use this reserve to pay interest in early 2008. Net cash flows from operating activities before changes in non-cash working capital was USD (4.3) million and USD (7.3) million for the three and twelve months ended December 31, 2007, respectively, compared to USD 22,799 and USD (0.9) million for the three and twelve months ended December 31, 2006, respectively.

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 current senior indebtedness and provides USD 40 million in expansion financing for additional capital expenditures and working capital. For additional information, refer to the "FINANCING ACTIVITIES" section of this report.

RESULTS OF OPERATIONS

Consolidated revenue for the three months ended December 31, 2007 and 2006 was USD 8,307,203 and USD 6,850,175 respectively. The Company experienced improved overall market conditions for the quarter particularly in the Gulf Coast area, which had been negatively affected by weather in the third quarter of 2007.

- Coiled Tubing Division revenue for the fourth quarter of 2007 was USD 4.3 million, a 23% decrease over the 2006 fourth quarter revenue of USD 5.6 million. The current year quarterly decrease over the corresponding quarterly period in 2006 was primarily attributable to lower utilization in the field.
- Pumping Division revenue for the fourth quarter of 2007 was USD 2.4 million, a 71% increase over 2006 fourth quarter revenue of USD 1.4 million. The increase was largely attributable to the reorganizational changes that occurred during the third quarter of 2007. Operating management was changed and the pressure pumping sales force was restructured, including redirecting a portion of the sales force and operational personnel to primary cementing pumping services.
- The Wireline Services Division, which was acquired on March 5, 2007, contributed USD 1.9 million of revenue during the fourth quarter of 2007. The division recovered from last quarter's weather disruptions in the Gulf of Mexico, which significantly impacted fleet utilization in the third quarter of 2007 because the division's fleet is comprised mostly of skid-mounted offshore equipment.
- WISE Alberta, a Canadian coiled tubing operation that was acquired on April 27, 2007, was classified in the fourth quarter of 2007 as discontinued operations due to the Company's decision to close the Canadian operations and the Brooks, Alberta field office.
- The new Nitrogen Services Division and WISE Tools Division contributed USD 356,713 and USD 80,121 to revenue, respectively, in the fourth quarter of 2007. Both divisions began operating in the fourth quarter.

Consolidated revenue for the twelve months ended December 31, 2007 and 2006 were USD 31,507,611, and USD 21,035,307, respectively.

- Coiled Tubing Division revenue for the 2007 fiscal year was USD 19.0 million, an increase of 31%, compared to revenue of USD 14.5 million for the twelve months ended December 31, 2006. The increase was primarily attributable to price improvement, higher demand for WISE® multifunctional units, increased unit count and the Company's expansion of its operations into such areas as south Texas and the Barnett Shale in north Texas.

- Pumping Division revenue for the 2007 fiscal year was USD 7.3 million, an increase of 4%, compared to revenue of USD 7.0 million for the twelve months ended December 31, 2006. The increase was largely attributable to the reorganization in the third quarter of 2007 of the Pumping Division management and sales force.
- The Wireline Services Division, which was acquired on March 5, 2007, contributed USD 5.6 million total revenue during the twelve months of 2007.
- WISE Alberta, a Canadian coiled tubing operation that was acquired on April 27, 2007, was classified in the fourth quarter of 2007 as discontinued operations due to the Company's decision to close the Canadian operations and the Brooks, Alberta field office.
- The new Nitrogen Services Division and WISE Tools Division contributed USD 356,713 and USD 80,121 to revenue during the twelve months of 2007, respectively. Both divisions began operating in the fourth quarter.

Cost of services for the three months ended December 31, 2007 and 2006 was USD 5,221,708 and USD 3,691,416, respectively.

- Cost of services for the Coiled Tubing Division increased to USD 3,004,225 in the fourth quarter of 2007 from USD 2,772,624 in the fourth quarter of 2006. Gross margin for the Coiled Tubing Division was 29% and 51% for the three months ended December 31, 2007 and 2006, respectively. Coiled Tubing Division gross margin declined primarily due to increased labor cost for experienced field operations personnel and direct consumables cost such as fuel and steel for CT. Other contributing factors included high-level equipment refurbishment programs and sub-rental costs.
- Cost of services for the Pumping Division increased to USD 1,434,702 in fourth quarter of 2007 from USD 1,091,279 in fourth quarter of 2006. Gross margin for the Pumping Division was 41% and 24% for the three months ended December 31, 2007 and 2006, respectively.

Cost of services for the twelve months ended December 31, 2007 and 2006 was USD 20,077,839 and USD 12,192,324, respectively.

- Cost of services for the Coiled Tubing Division increased to USD 11,491,500 in the twelve months of 2007 from USD 8,626,231 in the twelve months of 2006. Gross margin for the Coiled Tubing Division was 39% and 40% for the twelve months ended December 31, 2007 and 2006, respectively. Coiled Tubing Division margin was a result of utilization of equipment for the respective period, favorable cost from sub-rental equipment and upgrading the equipment fleet.
- Cost of services for the Pumping Division increased to USD 4,870,894 in the twelve months of 2007 from USD 4,004,665 in the twelve month of 2006 primarily due to increased materials costs for primary cementing, acidizing and gravel packing jobs. Gross margin for the Pumping Division was 33% and 43% for the twelve months ended December 31, 2007 and 2006, respectively, as lower fleet utilization affected margins.

Selling, general and administrative expenses for the three months ended December 31, 2007 and 2006 was USD 3,943,403 and USD 3,135,382, respectively. Selling, general and administrative expenses for the twelve months ended December 31, 2007 and 2006 was USD 13,298,078, and USD 10,053,867, respectively. These amounts consist primarily of salaries and costs associated with various operating activities, finance, acquisition, and general corporate expenditures. The fourth quarter of 2007 included an estimated provision for a net settlement in relation to arbitration in which the Company is a defendant, brought by two former officers of a subsidiary. The arbitration was brought as a wrongful termination matter and the Company has also filed a counterclaim relating to the arbitration. The Company alleges that the related party transactions noted in "Related Party Transactions" Note (f) were not at fair value. Excluded from selling, general and administrative expenses was the USD 1.4 million restructuring charge that was recorded in the fourth quarter of 2007. The Company has reduced corporate and divisional overhead expense by approximately USD 1.0 million annually, beginning in 2008, and immediate focus continues to be on cost management.

EBITDAS for the three months ended December 31, 2007 and 2006 was USD (678,870) and USD 385,352, respectively. The decline from the fourth quarter last year was primarily attributable to lower utilization of equipment. The Company was reorganized in the fourth quarter of 2007 and is expected to benefit EBITDAS beginning in early 2008. EBITDAS excludes one-time charges recorded in the fourth quarter of 2007 including the restructuring charge of USD 1.4 million and USD 359,523 loss on disposal of assets.

EBITDAS for the twelve months ended December 31, 2007 and 2006 was USD (1,255,668) and USD 144,570, respectively. The decline from the prior year is primarily attributable to the lower fleet utilization in the third quarter of 2007 caused by project delays associated with storm activity in the Gulf of Mexico. EBITDAS excludes one-time charges recorded in the fourth quarter of 2007 including the restructuring charge of USD 1.4 million and USD 359,523 loss on disposal of assets.

The Company's interest expense and amortization costs for the three months ended December 31, 2007 and 2006 were USD 4,030,487 and USD 1,109,164, respectively. Interest expense and amortization costs for the twelve months ended December 31, 2007 and 2006 were USD 12,203,676 and USD 3,434,949, respectively. Interest amounts for 2007 are associated with the senior term facility, capital expenditure facility, and working capital facility, which consolidated all prior debt of the subsidiaries and a USD 516,011 prepayment fee paid on the previous debt facility in the third quarter of 2007. Amortization increased due to increases in capital assets and the costs of financing, which had been capitalized prior to the closing of the new debt facility, and deferred financing costs of USD 2,259,391 recorded in the third quarter of 2007.

The Company recorded net losses before taxes and before discontinued operations for the three months ended December 31, 2007 and 2006 of USD (6,678,647) and USD (1,084,490), respectively. Net losses before taxes and before discontinued operations for the twelve months ended December 31, 2007 and 2006 was USD (15,862,234), and USD (4,645,833), respectively. The increase in net loss from the prior year is primarily the result of lower equipment utilization and the reorganization of the Company.

During the fourth quarter of 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. The costs associated with the restructuring are detailed in Note 15 to the annual consolidated financial statements.

In December 2007, the Company terminated the operation of its Canadian subsidiary WISE Alberta. The closing of these operations is expected to be completed by March 31, 2008. The assets and liabilities have been reclassified as discontinued operations and the Company's Canadian operations for the 2007 period are reported as loss from operations of discontinued operations (as discussed in Note 16 to the annual consolidated financial statements).

The Company had cash and restricted cash of USD 4,924,961 as at December 31, 2007 and USD 1,065,645 at December 31, 2006. The increase in the cash reserve was due to proceeds from the new senior credit facility. Included is a requirement by the Lender to maintain a restricted cash balance equal to six months interest payments, totalling approximately USD 3.2 million. The restricted cash was used to pay the fourth quarter of 2007 interest payment due to the Lender. The Company expects to use this reserve to pay interest in early 2008.

Net cash provided (used) by operating activities before changes in non-cash working capital was USD (4,325,157) and USD 22,799 for the three months ended December 31, 2007 and 2006, respectively. Net cash provided (used) by operating activities before changes in non-cash working capital was USD (7,274,353) and USD (934,194) for the twelve months ended December 31, 2007 and 2006, respectively.

Cash flow from (used in) continuing investing activities was USD (8,274,239) and USD (2,721,272) respectively, for the three months ended December 31, 2007 and 2006, respectively. Cash flow from (used in) investing activities was USD (28,562,456) and USD (17,274,587) for the twelve months ended December 31, 2007 and 2006, respectively. The Company undertook an aggressive capital asset expansion plan that began in the third quarter of 2006 and continued through the third quarter of 2007. The majority of the capital expenditures relate to costs associated with the manufacture of CT units, nitrogen units and pressure pumping equipment. The fourth quarter of 2007 reflects the USD 3.2 million restricted cash Debt Service Reserve Account ("DSRA") account use for the interest payments due to the Lender (refer to "Financing Activities" below). Also, as discussed below, the Company acquired a wireline services company that owned equipment with a fair market value of over USD 6 million in March 2007.

Cash flow provided by financing activities was USD (397,311) and USD 2,013,602 for the three months ended December 31, 2007 and 2006, respectively. Cash flow provided by financing activities was USD 36,560,673 and USD 22,475,890 for the twelve months ended December 31, 2007 and 2006, respectively. The cash flows for the twelve months ended December 31, 2007 are primarily the result of borrowings in 2007 for the Company's capital expenditures.

ACQUISITIONS

On March 5, 2007, the Company purchased all of the shares of Wireline Specialists of Louisiana, Inc. ("WSL"). The Company assumed and refinanced WSL's existing debt of 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 ("Common Shares") subject to repricing at the first anniversary date. 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 hold 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.

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. 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 Toronto Stock Exchange ("TSX"). Following this issuance, the total Common Shares issued pursuant to the WSL transaction will be 5,556,246.

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 sellers in 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.

The Dyna Star 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>

FINANCING ACTIVITIES

The Corporation's primary sources of financing are bank debt and equity issuances. On August 31, 2007 ("the Closing Date") the Company entered into a debt facility with the Lender to provide a senior credit facility of USD 70 million. This new senior facility refinanced the pre-existing senior indebtedness and provided USD 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 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 cash 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 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.

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 or Warrants. 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 holders of the Warrants have agreed not to sell short any Common Shares of the Company while the Warrants are outstanding. The term of the Warrants is four years, but the Company also has the right to require the Warrants to be exercised if the market price of the Common Stock 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 had 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). 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 WSL 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.

The Company repaid its prior senior debt obligations with the previous Lender and incurred a USD 516,011 prepayment fee.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

As at December 31, 2007, the Company has made deposits in the amount of USD 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 USD 13,989,203 and will be funded by the debt facility with our major energy lending institution.

The Company has entered into several lease agreements with major fleet leasing companies for the lease of vehicles. The term of the leases vary from 12 to 72 months and the monthly lease payments total USD 73,545. The leases are structured as operating leases. As at December 31, 2007 the total deposits on operating leases is USD 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 (in USD):

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
	\$	<u>3,501,723</u>

RESTRUCTURING COSTS

The Company has 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 of the termination of the Company's CEO on October 9, 2007 and based on the employment contract in place at the date of termination, the Company entered an agreement with the former CEO that called for his resignation as the Chairman of the Board of Directors and as a Board Member, and includes a continual base salary, 401k eligibility, health and life insurance benefits and car allowance until November 4, 2008, paid semi-monthly on the normal payroll cycle. In addition, accrued vacation for 2007 was paid in the fourth quarter of 2007.

As a result of the termination of the Executive Vice President ("EVP") on January 8, 2008 and based on the Employment Contract in place at the date of termination, the Company has entered into an agreement with the former EVP that calls for a continual base salary, 401k eligibility, and health and life insurance benefits until February 7, 2009, paid semi-monthly on the normal payroll cycle. In addition accrued vacation for 2007 will be paid in the first quarter of 2008.

In an effort to streamline operations the Company has closed its Longview, Shreveport, Kingsville, Cleburne and Yoakum facilities in 2007 and will be closing the Rosharon facility in 2008. The Company will also not renew a lease for the current chemical processing facility, which may require a potential environmental cleanup of approximately USD 100,000 which has been reserved.

The Company intends to relocate its corporate offices to a more central location closer to the hub of the Houston oil and gas industry.

The following table represents the details of the restructuring pre-tax costs for 2007 and expected future restructuring costs:

	2007	2008	2009-2015	Total
CEO termination	74,182	217,055	-	291,237
EVP termination	-	269,500	-	269,500
Employee termination	63,842	48,548	-	112,390
Property lease terminations	3,936	280,504	210,000	494,440
Capital Asset write-down	38,762	-	-	38,762
Environmental cleanup	-	100,000	-	100,000
Corporate office move	-	124,400	-	124,400
Total	180,723	1,040,006	210,000	1,430,729

DISCONTINUED OPERATIONS

As a result of the Company's decision to restructure its operations and the continued depressed western Canadian oilfield market, the Company has discontinued its operations in the western Canadian oilfield services market. The results of the Canadian operations have been reported within discontinued operations of the accompanying consolidated financial statements and no changes have been made to prior period statements as these operations originated in 2007. During 2007, the Company reported a USD 824,646 loss from operations of discontinued operations and a USD 2,335,017 loss on disposal from discontinued operations and recorded a liability for future costs associated with these discontinued operations of USD 212,057. The following table sets out the details of the discontinued operations (in USD):

Lease Terminations	85,025
Employee severance	112,767
Shipping	47,154
Asset impairment/disposal	2,090,070
	<u>2,335,017</u>

EQUIPMENT LOSS

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

CONTINGENCIES

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

The Company is a defendant in arbitration 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 (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 Pressure Pump Services, LLC 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.

LIQUIDITY AND CAPITAL RESOURCES

Working Capital

(USD)	As at December 31, 2007	As at December 31, 2006
Current assets	17,968,545	7,594,749
Current liabilities	54,840,722	7,718,227
Working capital	(36,872,177)	(123,478)

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 terms of the loan agreements. The decrease in working capital as at December 31, 2007 was due to the Company reclassifying USD 45.5 million 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 Company has a senior debt facility from a major energy lending institution on August 31, 2007 as previously mentioned (refer to "FINANCING ACTIVITIES").

The Principal repayments required on the senior 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

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

SHARE CAPITAL

	Number of Shares	Amount
Common shares and warrants issued and outstanding:		
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
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	-	-
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	\$ 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

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	<u>1,727,565</u>
Employee options	274,692
Board of Director options	145,320
Advisory Board options	13,211
Expired warrants	1,559,049
Balance, December 31, 2007	<u><u>\$ 3,719,837</u></u>

Class C Shares

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.

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 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.

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 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 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.

Stock option plan

On November 24, 2005, the Board approved a stock option plan (the “Plan”) whereby the Company may grant options to purchase Common Shares to directors, officers, employees, and consultants. The Board amended the Plan on September 6, 2007 to include a new cashless exercise feature. The amendment was not approved by the shareholders; shareholder approval was not required as no repricing of options held by insiders was undertaken, and the TSX did not require shareholder approval in relation to the institution of a cashless exercise feature where there was a full deduction of the number of underlying securities from the plan reserve. Under the terms of the Plan and subsequent amendments to the Plan, the Company has reserved 10% of the issued and outstanding shares as the maximum stock options that can be granted. When granted, options have a five year term. The exercise price of the options is determined by the Board and will not be less than the market price of the Common Shares at the grant date. The Board will determine the vesting terms at the time of grant. The Board approved grants during the fourth quarter of 2007 of 740,000, during which quarter 1,570,000 options were cancelled. The approved grants of 1,550,000 occurred on September 6, 2007 and were priced at CAD 0.62. As a result of the new grants and forfeitures, as of the reporting date the total number of options outstanding is 4,555,000. The Company also repriced the existing non-officers’ and non-insiders’ stock option holders with original vesting dates to CAD 0.62 from CAD 2.00 to better reflect market conditions and to create a more meaningful incentive to retain key employees. There were 620,000 options repriced of which 185,000 were forfeited, 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 USD 62,553. Subsequent to 2007, on February 8, 2008, the Compensation Committee of the Board of Directors granted Don Cobb, CEO, an additional 500,000 stock options. Jaime Crawford, 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 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	4,555,000			1,157,500	

On April 19, 2006, the Company completed its Initial Public Offering (“IPO”) pursuant to which the Company issued 10,000,000 units. Each Unit consisted of one Common Share and one-half of one Warrant. Each whole Warrant entitled the holder to purchase a Common Share at an exercise price of CAD 3.00 until April 19, 2007. The Agent also received an option to acquire 1,000,000 Common Shares at a price of CAD 2.00 per Common Share for a period of up to 12 months from the closing date of the IPO. None of the Warrants or Agent’s options were exercised before they expired on April 18, 2007.

RELATED PARTY TRANSACTIONS

- (a) Legal fees related to the Company's acquisitions, financings and general corporate matters were 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 and for the twelve months ended December 31, 2006 total legal fees were USD 357,217. 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 and USD 357,217 for twelve months ended December 31, 2006.
- (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 and USD 48,425 for the twelve months ended December 31, 2006 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 and USD 3,405,028 for the twelve months ended December 31, 2006 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 and December 31, 2006 of USD 29,143 and USD 306,278, respectively.
- (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® CT Units in the field, a user contract at USD 1,500 per month per WISE CT Unit, a per WISE CT Unit installation fee of USD 75,000 and customization costs based on established rates per hour. This agreement was 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 and USD 364,474 for the twelve months ended December 31, 2006 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 and 2006, USD 273,000 and USD 125,537, respectively 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. Purchases of USD 288,748 were made for the twelve months ended December 31, 2006. 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 "Related Party Transactions" are recorded at agreed to exchange amounts that reflect fair values.

SUMMARY OF QUARTERLY RESULTS ^{(1), (2), (3), (4)}

Stated in USD

	2007				2006			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Revenue	7,832,175	8,769,747	6,598,486	8,307,203	3,826,407	4,578,542	5,780,183	6,850,175
EBITDAS	925,633	611,509	(2,113,940)	(678,870)	(166,801)	(200,404)	58,383	385,352
Loss before income taxes before discontinued operations	(529,822)	(1,354,967)	(7,298,798)	(6,678,647)	(829,036)	(1,467,380)	(1,263,630)	(1,084,490)
Net loss from continuing operations	(529,822)	(1,354,967)	(7,298,798)	(7,393,379)	(570,732)	(1,041,137)	(1,263,630)	(1,363,751)
Loss from discontinued operations				(3,159,663)				
Loss per share from continuing operations, Basic and diluted	(0.01)	(0.02)	(0.13)	(0.13)	(0.01)	(0.02)	(0.02)	(0.02)
Loss per share from discontinued operations, Basic and diluted				(0.06)				
Total Assets	41,588,354	45,408,916	61,144,336	54,753,431	15,787,018	32,188,052	31,630,733	32,018,488
Notes and Long-term Debt	18,572,399	22,198,677	47,096,649	47,838,163	12,854,126	11,266,715	11,940,820	14,275,015
Basic and dilutive shares	55,012,335	56,185,200	56,317,375	56,403,874	38,899,322	49,269,095	52,869,716	54,655,632

- (1) Revenue, EBITDAS and operating loss for WISE Alberta were reversed in Q4 2007 and classified as loss from operations of discontinued operations in the financial statements.
- (2) EBITDAS means earnings from continuing operations before interest, taxes, amortization, and stock based compensation. Readers are cautioned that EBITDAS is generally regarded as an indirect measure of operating cash flow and, as such, the Company believes it is a significant indicator of success of public companies, and is particularly relevant to readers within the investment community. Funds from operations is obtained from the consolidated statements of cash flows and is the subtotal before the first "change in non-cash working capital." These measures do not have any standardized meaning prescribed by Canadian GAAP and may not be comparable to similar measures presented by other companies; however, the Company is consistent in its calculation of EBITDAS and funds from operations for each reporting period.
- (3) The Company became a reporting issuer on March 29, 2006, being the date of receipt for its initial public offering prospectus. Quarterly financial information has not been provided for 2005, because the Company did not prepare such information.
- (4) As the acquisition of the Company and PETI (Wise Well Intervention Services, Inc. formerly known as PET International, Inc.) was accounted for using the reverse take over rules of accounting, all December 31, 2005 information is that of Production Enhancement Technology, LLC.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

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

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

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

Impairment of Long-lived Assets Long-lived assets are reviewed for impairment annually. An impairment loss is recognized when the carrying amount of a long-lived asset exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposition. Estimates of undiscounted future net cash flows are calculated using estimated future revenues, operating expenses and other costs. These estimates are subject to risk and uncertainties, and it is possible that changes in estimates could occur which may affect the expected recoverability of the Company's long-lived assets. Based on Management's expectations for continued demand for the Company's services, the assumptions utilized to determine the future recoverability of long-lived assets resulted in no indication as at December 31, 2007 that the carrying value of the long-lived assets would not be recoverable in the future.

Goodwill and Intangible Impairment The carrying value of goodwill and intangibles on acquisitions is compared to its fair value at least annually to determine if a permanent impairment exists, at which time the impairment would be recorded as a charge to earnings. Goodwill and intangibles were first recorded by the Company in 2006. Valuations are inherently subjective and necessarily involve judgments and estimates regarding future cash flows and other operational variables. Based on Management's expectations for continued demand for the Company's services, the assumptions utilized to test for impairment resulted in no indication as at December 31, 2007 that the carrying value of the goodwill and intangibles on acquisitions was impaired.

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

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

ACCOUNTING POLICIES

The Accounting Standards Board (“AcSB”) of the Canadian Institute of Chartered Accountants (“CICA”) continually amends and improves certain standards or guidelines contained in the CICA Handbook. The Company monitors these changes as they are proposed and will make changes to its accounting policies and disclosures as necessary. The significant accounting policies are the same as those set out in the most recent annual consolidated financial statements, other than the following new accounting standards issued by the CICA. These accounting policies were adopted on a prospective basis on January 1, 2007, with no restatement of prior period financial statements. The new standards and accounting policy changes are as follows:

Comprehensive Income The CICA issued section 1530 of the CICA Handbook, Comprehensive Income. The section is effective for fiscal years beginning on or after October 1, 2006. It describes how to report and disclose comprehensive income and its components. Comprehensive income is the change in the Company’s net assets resulting from transactions, events and circumstances from sources other than the Company’s shareholders. It includes items that would not normally be included in net earnings, such as unrealized gains or losses on available-for-sale investments. The CICA also made changes to section 3250 of the CICA Handbook, Surplus, and reissued section 3251, Equity. The section is also effective for fiscal years beginning on or after October 1, 2006. The changes in how to report and disclose equity and changes in equity are consistent with section 1530, Comprehensive Income. Adopting these sections on January 1, 2007 will require the Company to start reporting the following items in the consolidated financial statements:

- (i) Comprehensive income and its components; and
- (ii) Accumulated other comprehensive income and its components.

Financial Instruments In accordance with this new standard, all financial instruments must initially be recognized at fair value on the balance sheet. The Company has classified each financial instrument into the following categories: held for trading financial assets and financial liabilities, loans or receivables, held to maturity investments, available for sale financial assets, and other financial liabilities. Subsequent measurement of the financial instruments is based on their classification. Unrealized gains and losses on held for trading financial instruments are recognized in earnings. Gains and losses on available for sale financial assets are recognized in other comprehensive income and are transferred to earnings when the instrument is settled. The other categories of financial instruments are recognized at amortized cost using the effective interest rate method. At January 1, 2007, all of the Company’s financial instruments were classified as either held for trading, loans and receivables, and other financial liabilities. Any transaction costs with respect to financial instruments are expensed in the period incurred.

Embedded derivatives are derivatives embedded in a host contract. They are recorded separately from the host contract when their economic characteristics and risks are not clearly and closely related to those of the host contract, the terms of the embedded are the same as those of a freestanding derivative and the combined contract is not classified as held for trading or designated at fair value. At January 1, 2007 and for the twelve months ended December 31, 2007, the Company had no embedded derivatives requiring separate recognition.

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 section. 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.

Hedges (CICA Handbook Section 3865) The new standard specifies the criteria under which hedge accounting can be applied and how hedge accounting can be executed. The Company has not designated any hedging relationships for the twelve months ended December 31, 2007.

Accounting Changes (CICA Handbook Section 1506) The new recommendations permit voluntary changes in accounting policy only if they result in financial statements that provide more reliable and relevant information. Accounting policy changes are applied retrospectively unless it is impractical to determine the period of cumulative impact of the change. Corrections of prior period errors are applied retrospectively and changes in accounting estimates are applied prospectively by including these changes in earnings. The guidance was effective for all changes in accounting policies, changes in accounting estimates and corrections of prior period errors initiated in periods beginning on or after January 1, 2007.

Inventories (CICA Handbook Section 3031) This section replaces the existing Section 3030 and contains requirements on measurement and disclosure of inventories to converge with International Financial Reporting Standards. Section 3031 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 consolidated financial statements.

Capital Disclosures (CICA Handbook Section 1535) This section 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 has not yet determined the impact that the adoption of this change on the disclosure in its financial statements.

Goodwill and Intangible Assets (CICA Handbook Section 3064) This section replaces 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 Section 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.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The CEO and the Chief Financial Officer ("CFO") are responsible for establishing and maintaining the Company's disclosure controls and procedures. They are assisted in this responsibility by the Company's senior management team. Disclosure controls and procedures have been designed to ensure that information required to be disclosed by the Company is accumulated and communicated to Management as appropriate to allow timely decisions regarding required disclosure. An evaluation of the design and operating effectiveness of the Company's disclosure controls and procedures as of December 31, 2007 was performed under the supervision of the CEO and CFO and with the participation of the Company's senior management. The evaluation was performed in accordance with the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") control framework adopted by the Company and the requirements of Multilateral Instrument 52-109 of the Canadian Securities Administrators, *Certification of Disclosure in Issuers' Annual and Interim Filings*. The CEO and CFO have concluded, as of the date of this MD&A that the Company's disclosure controls and procedures have been designed and are operating effectively to provide reasonable assurance that material information related to the Company is made known to them by others within the Company.

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

The CEO and CFO of the Company are responsible for designing internal controls over financial reporting or causing them to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. An evaluation of the design effectiveness of the Company's internal controls over financial reporting as of December 31, 2007 was performed under the supervisions of the CEO and CFO and with participation of the Company's senior management in accordance with the COSO framework and Multilateral Instrument 52-109. The CEO and CFO have concluded, as of the date of this MD&A, that the Company's internal controls over financial reporting have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

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

EXPANSION /GROWTH

In an effort to execute its strategic growth plans, the Company expanded its services offerings and launched two new product lines in the fourth quarter of 2007: the Nitrogen Services Division and the WISE Tools Division. The Nitrogen Services Division included three high- volume (trailer-mounted) site-generated nitrogen units for land operations and one nitrogen skid type unit for offshore service. The WISE Tools Division will include new downhole drilling motors. This strategic expansion of services was due to requests by the Company's customers for these services and increased demand for these services will contribute to higher revenue for the Company. The units are expected to arrive on time and are included in the Company's budget. The CT Unit Nine is also being converted into an offshore unit following a recent road accident which damaged its tractor and trailer. In early 2008, the Company subsequently sold 3 nitrogen units that were purchased in October 2007, but were not economical for the U.S. market. The units were built for the Canadian land market, and did not perform optimally in the Texas and Louisiana field locations.

Using the combined infrastructures of its Coiled Tubing, Pressure Pumping and Wireline Services divisions, the Company intends to continue its development and growth in Texas, Louisiana and Mississippi, and expand into markets in Oklahoma, Arkansas, New Mexico, Alabama and Florida (collectively the "Southern Territory"). The Company also plans to expand its operations in the mid continent area and the western United States through the possible acquisition of well intervention service companies already operating in those regions. To the extent that it is successful in completing additional acquisitions, the Company plans to retain the management teams, technical services and expertise of any acquired entities. Additionally, the Company intends to market its CT and pressure pumping services to the customer bases of the acquired entities as a way to accelerate the growth of the Company in new geographic markets. The closing of additional acquisitions will depend on, among other factors, both an increase in the Company's existing credit facilities and the raising of additional equity or other capital (including subordinated debt facilities and/or subordinated notes to be offered to sellers for a portion of their purchase consideration).

On April 16, 2007, the Company signed an agreement with Al Qahtani Maritime & Oil Field Services Co. to form a joint venture to exploit the Company's patented WISE® multifunction CT well intervention systems on an exclusive basis in the Middle East, beginning in Saudi Arabia with future expansion opportunities throughout the region (see "CONTRACTUAL OBLIGATIONS AND COMMITMENTS"). However, the Company subsequently announced on December 10, 2007 (refer to press release dated December 10, 2007), that it allowed its joint venture agreement with Al Qahtani to expire of its own terms. The parties were unable to reach mutually agreeable terms under which to implement the joint venture. The Company believes that WISE Well Intervention Services can play a key role in the international market, and will explore alternative avenues to penetrate that market at the appropriate time.

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 CT well intervention systems on an exclusive basis in Mexico. However, the Company subsequently announced the termination of the Mexican joint venture agreement on June 25, 2007 (refer to press release dated June 25, 2007). The Company will continue to actively explore alternative avenues to penetrate the Mexican market.

On January 25, 2008, the Company announced (refer to press release dated January 25, 2008) that it closed some of its field offices, including its Canadian operations which were headquartered in Brooks, Alberta. This was done in an effort to streamline operations, improve cash flow and reduce costs. The Canadian operations are presented in the accompanying 2007 consolidated financial statements as discontinued operations.

The Company operation's equipment inventory currently consists of eleven WISE® CT Units assembled in various onshore and offshore configurations, four additional non-proprietary CT units acquired through WISE Alberta, a capillary unit, three WISE dual pump units, seven WISE single pump units, five conventional bulk cement transport units, one large capacity cement field bin unit, one acid transport unit, one WISE flameless thermal unit, 28 wireline units acquired through WSL, and two dual skid site-generated nitrogen units.

In January 2008, the decision was made to sell the three high volume (trailer mounted) nitrogen units purchased in October 2007, after learning that they were not economical for the U.S. market. The units were initially built for the Canadian land market. During the months of December 2007 and February 2008, in accordance with our continuing growth strategy, the Company has purchased two dual skid nitrogen units for offshore service and will purchase an additional five higher capacity dual skid nitrogen units in the second and third quarters of 2008. The Company has also replaced the damaged operator cabin of coiled tubing "Unit 9" and converted it into a fully functional WISE® offshore unit. In addition, the Company has ordered a new increased capacity design WISE unit for delivery in the third quarter of 2008. The actual number of units purchased or retained and schedule of deployment will depend on demand, utilization rates of existing units, availability of financing, the pace of manufacturing and other variables beyond the Company's control in whole or in part. The Company plans to fund this capital expansion through a combination of cash on hand, cash flow from operations and debt financing.

RISK FACTORS

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

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

Operating Risk and Insurance

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

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

The Company is dependent on certain key personnel

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

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

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

The market for CT and well services is intensely competitive

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

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

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

Vulnerability to Market Changes

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

Equipment and Technology Risks

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

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

Risks Related to the Company's Acquisition Strategy

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

Acquisitions involve a number of additional risks, including failure of the acquired businesses to achieve expected results, diversion of Management's attention and resources to acquisitions, failure to retain key customers or personnel of the acquired businesses and risks associated with unanticipated events, liabilities or contingencies. Client dissatisfaction or performance problems at a single acquired firm could negatively affect the reputation of the Company. Acquisitions will be accounted for as purchases and may result in

substantial annual non cash amortization charges for goodwill and other intangible assets in the Company's statements of operations. If the Company is unable to acquire complementary energy service businesses on reasonable terms or successfully integrate and manage acquired companies, or if performance problems occur at acquired companies, there could be a material adverse effect on the Company.

Need for Additional Financing

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

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

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

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

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

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

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

The oilfield services industry is highly competitive

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

Dependence on Suppliers

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

Credit Risk

A substantial portion of the Company's accounts receivable are with customers involved in the oil and natural gas industry whose revenues may be impacted by fluctuations in commodity prices. Although collection of these receivables could be influenced by economic factors affecting this industry, Management considers the risk of a significant loss to be remote at this time. The Company does not have significant exposure to any individual customer 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 terrorist attacks, and the Company's operations could be adversely impacted if infrastructure integral to customers' operations is destroyed or damaged. Costs for insurance and other security may increase as a result of these threats, and some insurance coverage may become more difficult to obtain, if available at all.

Debt Covenants

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.

SUBSEQUENT EVENTS

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 to 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 to 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. Some of PEG's field offices have been closed, including its Canadian operations which were headquartered in Brooks, Alberta. The Company has recorded a one-time restructuring charge in the fourth quarter of 2007 of USD 1,430,729, which excludes the associated costs of shutting down the Company's Canadian operations. The cost of shutting down the Company's Canadian operations is USD 2,335,017 and is 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 continues to redeploy its equipment to maximize fleet utilization and is focused on meeting the stringent vendor qualification requirements of 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 work optimally in the Texas and Louisiana field locations.

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.

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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 Wireline Agreement. The repricing of Common Shares was based on the value of the volume weighted average closing price during 20 consecutive trading days that preceded the first anniversary of the Closing date of March 5, 2007. The additional 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.

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.

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 of Directors of the Company had formed a special committee to review alternatives and to make a recommendation to the Board of Directors 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.