

**Production Enhancement Group, Inc.
Consolidated Financial Statements
For the interim three month period ended
March 31, 2006
(Unaudited - prepared by management)
(Stated in United States dollars)**

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Notice of No Auditor Review of Interim Financial Statements

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited financial statements for the three months ended March 31, 2006.

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

	March 31, 2006	December 31, 2005
	(unaudited)	(audited) (Note 1)
Assets		
Current		
Cash	\$ 516,569	\$ 3,502
Accounts receivable - trade	3,013,824	2,251,059
Accounts receivable - other	24,000	14,828
Inventory and prepaid job cost inventory	177,787	108,151
Prepaid expenses and deposits	243,328	222,394
	<u>3,975,508</u>	<u>2,599,934</u>
Deposits on equipment	1,319,496	855,865
Property and equipment (Note 5)	8,264,834	5,524,447
Intangible assets, net	223,939	-
Future income taxes	580,514	505,400
Goodwill	212,404	-
Deferred costs and other assets (Note 6)	1,210,323	-
	<u>\$ 15,787,018</u>	<u>\$ 9,485,646</u>
Liabilities and Shareholders Equity (Capital Deficiency)		
Current		
Accounts payable and accrued liabilities	\$ 3,462,672	\$ 2,276,254
Factoring payable (Note 7)	721,355	-
Notes payable (Note 7)	8,533,618	995,191
Current maturities of long term debt (Note 7)	1,108,741	941,343
Capitalized lease obligation, current portion (Note 7)	358,596	-
Future income taxes	12,764	-
Interest payable	368,177	-
	<u>14,565,923</u>	<u>4,212,788.</u>
Long term debt, net of current maturities (Note 7)	2,144,686	2,141,384
Capitalized lease obligation, long term portion (Note 7)	708,485	-
Due to affiliate	-	2,333,372
	<u>17,419,094</u>	<u>8,687,544</u>
Shareholders' Equity (Capital Deficiency)		
Share capital (Note 8)	601,096	-
Retained earnings (Deficit)	(2,233,172)	798,102
	<u>(1,632,076)</u>	<u>798,102</u>
	<u>\$ 15,787,018</u>	<u>\$ 9,485,646</u>

Production Enhancement Group, Inc.
Consolidated Statements of Operations and Deficit
(Stated in United States dollars)

For the three months ended	March 31, 2006 (unaudited) Note 1
Revenue	\$ 3,826,407
Expenses	
Cost of services	1,565,907
Direct labor	1,149,156
Selling general and administrative	1,278,145
Amortization of deferred charges	74,395
Amortization of property and equipment and intangibles	315,721
Interest	272,119
	4,655,443
Loss before income taxes	(829,036)
Future income tax recovery	(258,304)
	(570,732)
Net loss for the period	(570,732)
Acquisition adjustment to deficit (Note 3 (a))	(2,460,542)
Retained earnings, beginning of period	798,102
	798,102
Deficit, end of period	\$ (2,233,172)
Loss per share –	
Basic	\$ (0.01)
Diluted	(0.01)
Weighted average number of shares outstanding –	
Basic	38,899,322
Diluted	38,899,322

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

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

For the three months ended	March 31, 2006 (unaudited) Note 1
Cash flows used in from operating activities	
Net loss for the period	\$ (570,732)
Non-cash items	
Amortization of deferred costs	74,395
Amortization of property and equipment and intangibles	315,721
Future tax recovery	(258,304)
	(438,920)
Changes in non-cash working capital:	
Accounts receivable – trade	(40,316)
Accounts receivable - other	(7,814)
Inventory and prepaid job cost inventory	74,677
Prepaid expenses and deposits	67,023
Accounts payable and accrued liabilities	31,464
Interest payable	182,749
	(131,137)
Cash flows from financing activities	
Deferred costs and other assets	(282,090)
Proceeds of factoring payable	406,374
Repayment of notes payable	(109,756)
Proceeds from long-term debt	290,851
Repayment of long-term debt	(324,707)
Proceeds from capital lease obligations	508,344
Repayment of capital lease obligations	(47,664)
	441,352
Cash flows from (used in) investing activities	
Additions property and equipment and intangibles	(711,400)
Cash acquired from acquisition of A to Z (Note 3(b))	22,264
Cash acquired from acquisition of PET (Note 3(a))	891,988
	202,852
Increase in cash	513,067
Cash, beginning of period	3,502
Cash, end of period	\$ 516,569
Supplemental information	
Interest paid	\$ 77,169

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

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

March 31, 2006

1. Basis of presentation

These interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. Certain information and disclosures normally required to be included in the notes to annual financial statements have been condensed or omitted. Since the determination of many assets, liabilities, revenues and expenses is dependent upon future events, the preparation of these financial statements requires the use of estimates and assumptions. In the opinion of management, these financial statements have been prepared within reasonable limits of materiality.

Production Enhancement Group, Inc. (the "Company") became a Reporting Issuer on March 29, 2006, being the date of receipt of the prospectus. Quarterly financial information has not been provided for 2005 as the Company did not prepare such information.

The acquisition of Production Enhancement Technology, LLC ("PET") by the Company has been accounted for as a capital transaction using the reverse take over accounting rules for transactions that do not constitute business combinations for accounting purposes. The acquisition of A to Z Pressure Pump Services, LLC ("A to Z") by the Company has been accounted for using the purchase method.

The audited consolidated balance sheet of the Company as at December 31, 2005 is based on the audited balance sheet of PET with an adjustment for future taxes of \$505,400. Prior to the reverse takeover, PET was not taxable as it was a limited liability company, but will be taxable under the new corporate structure in the future and therefore the audited financial statements have been adjusted to reflect the future tax benefit.

2. Seasonality of operations

The Company's operations are carried out in the United States. Incremental weather can have a significant impact on the Company's ability to provide well intervention services in the affected areas. For example hurricanes typically affect the Company's business 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. Weather can also affect operations on land due to delays in projects, delays and increased costs of mobilization and other factors.

3. Acquisitions

(a) On January 1, 2006, the Company acquired all of the outstanding limited liability units of PET, a company that provides special coil tubing plus well intervention services, through the eventual issuance of 904,506 Common shares, 8,140,553 of Class C non-voting convertible common shares and the issuance of \$5,411,990 of notes payable. The amount due to affiliate of \$2,358,008 reflected on the balance sheet of PET at January 1, 2006 will be netted against the note issued by the Company and therefore, the net amount due is \$3,053,982. The acquisition of PET has been accounted for as a capital transaction using the reverse take over accounting rules for transactions that do not constitute business combinations for accounting purposes. As a result, the amount of share capital, contributed surplus and deficit of the Company at the time of the transaction was eliminated. As at March 31, 2006, 649,070 Common shares and 5,841,636 Class C shares had been issued.

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Consolidated Notes to Financial Statements
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March 31, 2006

3. Acquisitions - continued

In April 2006, \$4,529,840 of the notes payable were paid. The remainder of the consideration will be paid on approval of the final purchase price by both parties. The Company has sent a draft of the final purchase price to PET for their approval and expects that the settlement will occur by May 2006. The draft final purchase price has been used to determine the purchase price equation but is still subject to adjustment. Acquisition costs are estimated to be \$403,424 but are still subject to adjustment.

In making the acquisition, the Company is deemed to have acquired the following net assets:

Cash	\$ 891,988
Other current assets	22,543
Current liabilities	<u>1,987,678</u>
	(1,073,147)
Deposits	444,280
Property and equipment	286,923
Deferred costs	1,338,807
Intangible assets	<u>1</u>
	<u>\$ 996,864</u>
Purchase price – notes payable (net)	\$3,053,982
acquisition costs	403,424
shares	-
adjustments to retained earnings	<u>(2,460,542)</u>
	<u>\$ 996,864</u>

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

The unaudited consolidated statement of operations and deficit include the results of PET from the date of acquisition.

- (b) On January 1, 2006, the Company purchased all outstanding limited liability units of A to Z for total estimated consideration of \$1,531,686 consisting of 471,448 common shares with a fair value of \$601,096, \$770,032 of notes payable and \$160,558 of transaction costs but are still subject to adjustment. A to Z provides pressure pumping and related well intervention services to oil and gas producers and operators.

The purchase price is subject to adjustment to the extent that the A to Z does not meet the minimum working capital and net worth requirements as defined in the agreement. The agreement allows for the consideration to be increased if A to Z does not meet the maximum Earnings before income taxes, depreciation and amortization ("EBITDA") of \$756,000 at closing. The consideration can be increased by five times the difference between 2005 and 2006 EBITDA to a maximum amount of \$756,000. The contingency will be resolved once the final EBITDA for 2006 is determined. Any additional consideration paid will be accounted for at that time. The estimated maximum amount of additional consideration to be paid is \$399,579 in cash and 244,640 shares valued at the price established in the agreement of \$2.00 CDN (\$1.70 US) based on the draft on the final purchase price.

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Consolidated Notes to Financial Statements
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March 31, 2006

3. Acquisitions - continued

The agreement requires that the Company place the maximum amount of additional shares to be issued of 244,640, in escrow based on conditions outlined in the agreement. When the final purchase price is determined in the second quarter of 2006, these shares will be released in March 2007.

This acquisition has been accounted for using the purchase method, whereby the net assets of A to Z have been recorded by the Company at their fair market value. The Company sent a draft of the final purchase price to A to Z for their approval and expects that the settlement will occur by May 2006. The draft final purchase price has been used to determine the purchase price equation but is still subject to adjustment. Acquisition costs are estimated to be \$160,558 but are still subject to adjustment. As at March 31, 2006, the Company had issued 545,301 common shares. When the final number of shares is agreed upon by both parties, any difference in shares, if any, will be returned to the Company.

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

Cash	\$ 22,264
Other current assets	952,885
Current liabilities	<u>(1,266,280)</u>
Net current liabilities	(291,131)
Property and equipment	2,046,000
Intangible asset	235,724
Goodwill	212,405
Future income tax liability – current portion	(12,764)
long term	(183,190)
Long-term liabilities	<u>(475,358)</u>
	<u>\$ 1,531,686</u>
Purchase price – notes payable	\$ 770,032
shares	601,096
acquisition costs	160,558
	<u>\$ 1,531,686</u>

The unaudited consolidated statement of operations and deficit include the result of A to Z from the date of acquisition.

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

Production Enhancement Group, Inc.
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4. Significant Accounting Policies

In addition to the accounting policies discussed in the annual consolidated financial statements dated December 31, 2005, the Company adopted the following accounting policies during the period due to the acquisitions as disclosed in Note 3 and should be read in conjunction with that report.

Revenue Recognition

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

Prepaid Job Costs

Costs incurred in connection with coil tubing job costs have been capitalized and are being amortized using the straight-line method over the lives of the respective costs (six months).

Intangible assets

Intangible assets are recorded at cost less accumulated amortization. Amortization is provided for over the estimated useful life as follows:

Customer base from A to Z acquisition 5 years straight-line amortization

Impairment of long-lived assets

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

Factoring payable

Sale of receivables that are at full recourse are considered to be a lending arrangement and not recorded as a sale.

Inventory

Inventories are valued at the lower of cost or market. Cost is determined by the first in, first out (FIFO) cost method.

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March 31, 2006

4. Significant Accounting Policies - continued

Amortization

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

	<u>Years</u>
Vehicles	5
Furniture and office equipment	3-5
Shop equipment and machinery	5-15
Coil tubing equipment	5-15
Leasehold improvements	5-15
Assets under capital leases	3-5

5. Property and Equipment

	March 31, 2006			December 31, 2005		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Software and equipment	\$ 114,193	\$ 9,049	\$ 105,144	\$ -	\$ -	\$ -
Equipment	8,490,687	1,548,349	6,942,338	5,883,137	1,093,174	4,789,963
Furniture and fixtures	84,540	21,672	62,868	32,909	8,807	24,102
Vehicles	1,763,717	667,019	1,096,698	1,236,122	559,119	677,003
Leasehold improvements	64,293	6,507	57,786	36,131	2,752	33,379
	\$ 10,517,430	\$ 2,252,596	\$ 8,264,834	\$ 7,188,299	\$ 1,663,852	\$ 5,524,447

6. Deferred Costs and Other Assets

	March 31, 2006
Intellectual property	\$ 1
Deferred costs	
Private and public issue	1,081,756
Debt issuance commissions and fees	202,961
Less: Amortization	(74,395)
	\$ 1,210,323

Production Enhancement Group, Inc.
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7. Debt Repayment

The Company acquired with the acquisitions disclosed in Note 3, total notes payable of \$7,396,118, long term debt of \$3,253,427, factoring payable of \$721,355 and capitalized lease obligations of \$1,067,081. This debt was paid in full on May 2, 2006 and replaced with the term loan facility as described below. Also, notes payable of \$1,137,500 were converted to share capital at the date of the Company's initial public transaction. On May 2, 2006, the Company entered into a debt facility from a major international financial institution to provide a senior credit facility of \$25 million, comprised of a working capital line of credit of \$5 million, an initial term loan of \$10 million and a capital expenditure line of \$10 million. The Senior Credit Terms provide for an interest rate on each on the components of 3.5% over 3-month LIBOR, a five year amortization on the term loan and capital expenditure line. In addition, the Company issued a warrant to the financial institution to acquire 1,100,000 common shares at an exercise price of Canadian \$2.00 (US \$1.75) per share for a term of five years. The facility is secured by all assets of the Company for a term of 5 years. As at March 31, 2006, the Company had advanced \$75,000 to cover the cost of due diligence. Subsequent to March 31, 2006, the Company advanced an additional \$50,000 in this regard.

The Company is required to pay a lending fee equal to:

- I. If the lender makes an election for the fee to be paid prior to May 2, 2009, an amount equal to \$2,920,000 less the greater of the current market value of 1,100,000 common shares of the Company or \$1,920,000.
- II. If the lender makes an election for the fee to be paid after May 2, 2009, an amount equal to \$3,929,000 less the greater of the current market value of 1,100,000 common shares of the Company or \$1,920,000.

8. Share Capital

(a) Authorized:

Unlimited number of common voting shares

Unlimited number Class B common convertible voting shares, deemed to be converted at earliest of the following: (i) one business day following the date upon which a receipt for a Prospectus has been obtained from the Alberta Securities Commission (ii) the business day following the date which is four months from the date the Company becomes a reporting issuer or achieves similar status in any province or territory in Canada and (iii) a liquidity event transaction, on the basis of one common share for each class B share. If the conversion time occurs later than November 30, 2006 then the shares are converted on a basis on one and one fifth common share per Class B share

Unlimited number of Class C convertible non-voting common shares, convertible at the option of the holder, upon 75 days prior notice to the Company, on the basis of one common share for each Class C share

Unlimited number of preferred shares

At the time of issuance, the Board of Directors (the "Board") is empowered to set terms regarding the preferred shares.

Production Enhancement Group, Inc.
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March 31, 2006

8. Share Capital - continued

(b) Common shares issued and outstanding:

Common shares	Number of Shares	Amount
Balance, December 31, 2005	3,007,899	\$ -
Share exchange for Class C shares	(3,000,000)	-
Shares issued for acquisition of PET ⁽¹⁾	649,070	-
Shares issued for acquisition of A to Z ⁽²⁾	545,301	601,096
Class B shares conversion on final receipt of IPO	1,784,331	-
	<hr/>	
Balance, March 31, 2006	2,986,601	601,096
 Common shares - Class B		
Balance December 31, 2005	1,784,331	-
Conversion to common shares on final receipt of IPO	(1,784,331)	-
	<hr/>	
Balance March 31, 2006	-	-
 Common shares - Class C		
Balance December 31, 2005	27,071,085	-
Share exchange of common shares	3,000,000	-
Shares issued for acquisition of PET ⁽¹⁾	5,841,636	-
Balance March 31, 2006	<hr/>	
	35,912,721	-
		<hr/>
		\$ 601,096

⁽¹⁾ Additional shares are to be issued as per Note 3 (a).

⁽²⁾ A to Z shares are subject to possible adjustment based on final negotiations as per Note 3 (b). The amount reflects the fair value of the 471,448 shares required to be issued to affect the acquisition.

As a result of the accounting for the acquisition of PET as a capital transaction using the reverse take over rules for transactions that do not constitute a business combination, share capital reflects the number of shares outstanding of the Company as at January 1, 2006 with the share capital amount of PET. Since PET was an LLC prior to the acquisition, there was no share capital resulting in all of the Company's shares outstanding as at January 1, 2006 having no value.

(c) Stock options

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. Under the terms of the plan, the Company has reserved 10% of the issued outstanding shares as the maximum stock options that can be granted. When granted, the Options will have a five year term. The exercise price will be determined by the Board and will

Production Enhancement Group, Inc.
Consolidated Notes to Financial Statements
Unaudited
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March 31, 2006

8. Share Capital - continued

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.

On February 13, 2006, the Board approved the future granting of 4,175,000 stock options subject to the completion of the IPO plus a subsequent 130,000 shares, at a price of Canadian \$2.00 (US \$1.72), vesting over a period of one to three years. The options will be granted after the completion of the IPO. As at the reporting date, the number to be granted had decreased to 3,870,000.

9. Related Party Transactions

Legal fees relate to the Company's initial public offering charged by the law firm at which the Corporate Secretary is a partner for the three months ended March 31, 2006 totaled \$107,978 and have been included in deferred costs. Included in accounts payable at March 31, 2006 is \$136,154 payable to that firm.

10. Commitments

The Company has made deposits in the amount of \$444,280 toward the purchase of pumping units estimated to be delivered in June through September of 2006. An additional deposit of \$410,508 was paid May 12, 2006 towards the final purchase price. The balance due on delivery is estimated to be \$709,500.

The Company has made a deposit of \$850,000 to a company controlled by a director toward the purchase of a coiled tube unit estimated to be delivered in May or June 2006. The balance due is estimated to be \$350,000.

11. Litigation

The Company is a defendant in litigation arising from the normal course of business involving breach of contract. The opinion of management is that this lawsuit is without merit and the Company intends to vigorously defend itself against this claim. Defense of this suit 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 this claim. Accordingly, no estimated loss provision has been made in the accompanying financial statements.

12. Subsequent Events

- (a) On April 19, the Company completed its Initial Public Offering and became listed on the Toronto Stock Exchange (the "TSX") raising CDN\$20,000,000 at a CDN \$2.00 (US \$1.75) per Unit. Net proceeds to the Company was CDN\$18,378,267.26 (USD\$16,100,102.72). Each Unit consisted of one common share and one-half warrant to purchase a common share at an exercise price of Canadian \$3.00 (US \$2.57) for a period of twelve months from the IPO closing

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12. Subsequent Events (continued)

date provided that if the average closing price of the common shares on the TSX is equal to or greater than Canadian \$4.00 (US \$3.43) for any period of thirty consecutive days that the TSX is open for trading (the "Trading Period"), then subject to the terms and conditions of the Warrant, the Company will have the option to accelerate the expiration date of the warrants to the date which is thirty days following the last day of the Trading period.

The Agent also received an option to acquire common shares equal to 10% of the total number of Units distributed at an exercise price of Canadian \$2.00 per common share for a period of up to 12 months from the closing date.

- (b) In May 2006, the Company entered into an agreement to purchase the assets of a tool rental business for \$609,225 with \$91,384 due at signing and the balance in a note payable due on or before June 30, 2006.
- (c) In January 2006, the Company entered into a Plan of Exchange with the warrant holders (Note 7) whereby the warrant holders agreed to exchange their warrants related to the issue of notes payable for shares of the Company at the effective conversion rate in the original agreements. As a result of accepting the Plan of Exchange, all of the warrants will be converted into 2,014,700 common shares at a price of \$2.00 (at a foreign exchange conversion rate such that the deemed US price is \$1.70) per share. By accepting this agreement, the maturity date for the certain note offerings, that were due before or at the Initial Public Transaction date, was changed to five business days following the closing of the Initial Public Transaction.

The Plan of Exchange gave the warrant holders the option to receive, as payment for all or any portion of the outstanding principal and accrued interest, on the notes payable of the Company at \$1.50 (at a deemed foreign exchange conversion rate such that the deemed US price is \$1.27) per share. On January 20, 2006, the Company received confirmation that the promissory note holders had opted to convert \$1,137,500 of debt and accrued interest up to IPO date into common shares of the Company. Based on the total debt and interest unpaid at April 19, 2006 the number of common shares issued was 1,038,731.

- (d) On March 15, 2006, the Company obtained \$508,344 of short-term interim financing in the form of a sale/leaseback of certain equipment acquired subsequent to year end and the financing of additional equipment in the form of a lease. The lesser received a one-year warrant for 10,000 shares of common stock exercisable at the IPO price of \$2.00 CDN. The value of the warrant was determined to be immaterial. The lease term is 60 months with the monthly payments for the first 3 months of \$10,711 and thereafter \$11,641. The lease is guaranteed by the Company and one of its subsidiaries. The full amount outstanding of \$503,313 was repaid as of May 2, 2006.