



PRODUCTION ENHANCEMENT GROUP, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FORM 51-102F1

FOR THE YEAR ENDED DECEMBER 31, 2005

April 18, 2006

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

The accompanying Management Discussion and Analysis dated April 18, 2006 focuses on key statistics from the audited consolidated financial statements for Production Enhancement Group, Inc. ("PEGI" or "The Company") for the years ended December 31, 2005 and 2004, which have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") and pertains to known risks and uncertainties relating to the oilfield services industry. This discussion should not be considered all-inclusive, as it excludes changes that may occur in general economic, political and environmental conditions. This discussion and analysis of the financial condition and results of operations for the year ended December 31, 2005 should be read in conjunction with the audited consolidated financial statements and related notes and material contained in other parts of the annual report. Notes referred to herein relate to these financial 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. Although such expectations are viewed as reasonable by the Company, no assurance can be given that such expectations will be realized. Such forward-looking statements are subject to risks and uncertainties and may be based on assumptions that may cause actual results to differ materially from those implied herein, and therefore are expressly qualified in their entirety by this cautionary statement.

The Company has adopted the United States dollar as its reporting currency as all operations are located in the United States.

OVERVIEW OF BUSINESS

The Company was incorporated on November 21, 2005. On the date of its incorporation, the Company acquired P.E.T. International, Inc. ("PETI"). On November 29, 2005 and December 22, 2005, the Company issued an aggregate of 1,784,331 Class B Shares on a private placement basis for net proceeds of approximately U.S.\$2,082,845. The net proceeds of the Private Placement were used to acquire additional equipment and for working capital purposes. The business activities of the Company and its wholly owned subsidiary (PETI) in 2005 and 2004 were concentrated in targeting acquisitions, raising funds and pursuing a public listing in Canada. Effective as of January 1, 2006, the Company acquired Production Enhancement Technology, LLC ("PET") and A to Z Pressure Pump Services, LLC ("A to Z") for cash and stock.

On March 29, 2006, the Company received approval for filing an Initial Public Offering prospectus which qualifies the distribution (the "Offering") of a minimum of 7,000,000 units ("Units") and a maximum of 8,000,000 Units of Production Enhancement Group, Inc. ("PEGI" or the "Company") at a price of Canadian \$2.00 per Unit (the "Offering Price"). Each Unit consists of one common share in the capital of the Company (a "Common Share") and one-half of one Common Share purchase warrant (a "Warrant"). The Offering has an over-allotment option of 2,000,000 Units.

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

Years ended December 31	2005	2004
Net income (loss)	\$ (972,217)	\$ (128,027)
Net income (loss) per share (basic and diluted)	\$ (0.03)	\$ (0.00)
Total assets	\$ 2,984,542	\$ 357,451
Secured debt	\$ 1,425,000	\$ 200,000
Number of common shares outstanding:		
Weighted average for the year	30,225,877	30,078,984
As at December 31	31,863,315	30,078,984

- (1) Selected financial information includes the results of the Company and its wholly owned subsidiary P.E.T. International, Inc.
- (2) 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 and 2004 as the Company did not prepare such information.

REVIEW OF OPERATIONS

The corporate reorganization of PEGI and PETI dated November 21, 2005 has been accounted for using the continuity of interests method and accordingly, the consolidated accounts of PEGI and PETI have been reflected at their historical amounts. Consequently, the results of PEGI for the period of January 1, 2005 to November 21, 2005 and the period ended December 31, 2004 are the results of PETI. PEGI has a limited operating history and has incurred losses since inception due to the absence of revenues while incurring developmental, acquisition and financing expenses. General and administrative expenses were \$651,310 for the year ended December 31, 2005 and \$123,772 for the period ending December 31, 2004. These amounts consist primarily of salaries and costs associated with various financing activities, the acquisitions of PET and A to Z (closed effective January 1, 2006) and general corporate expenditures.

PEGI's interest expense, amortization of debt issuance costs and financing expenses were \$173,673, \$135,114 and \$12,120, respectively, for the year ended December 31, 2005. These amounts are associated with the Bridge Notes issued pursuant to the December 2004, March 2005 and June 2005 offerings. Interest expense and amortization of debt issuance costs were immaterial for the period ended December 31, 2004.

PEGI recorded net losses of \$972,217 for the year ended December 31, 2005 and \$128,027 for the period ended December 31, 2004.

PEGI had cash and cash equivalents of \$891,988 and \$142,545 as of December 31, 2005 and December 31, 2004, respectively. It should be noted that on November 29, 2005 and on December 23, 2005, PEGI received combined net proceeds (after fees and expenses) from its Private Placement of Class B Shares of \$2,082,845.

Net cash used in operating activities was \$621,840 and \$35,237 for the year ended December 31, 2005 and the period ended December 31, 2004, respectively. This increase is primarily due to an increase in salaries and costs associated with various financing activities and the acquisitions of PET and A to Z.

Cash flows used in investing activities were \$731,203 and \$NIL during the year ended December 31, 2005 and the period ended December 31, 2004, respectively. The increase is primarily due to deferred expenses associated with the Offering, the acquisitions of PET and A to Z, deposits on equipment and debt issuance costs.

Cash flows provided by financing activities were \$2,102,486 and \$177,782 for the year ended December 31, 2005 and the period ended December 31, 2004, respectively. These cash flows reflect the combined net proceeds from the December 2004 and March and June 2005 Bridge Note offerings (after fees and expenses) and from the Company's Private Placement of Class B Shares.

Financing Activities

During the year ended December 31, 2005 and for the period ending December 31, 2004 the following financing activities were incurred.

- PETI completed the offer and sale of 300 units in December 2004 (the "December 2004 Offering"), 1,100 units in March 2005 (the "March 2005 Offering"), and 25 units in June 2005 (the "June 2005 Offering"), in each case at a price of \$1,000 per unit. At December 31, 2004, \$100,000 due from an investor for units had not been collected in respect of the December 2004 Offering and was received by PETI in January, 2005.

Each unit sold in the December 2004 Offering consisted of a (i) 14% Bridge Note with all principal and interest payable on the earlier of (A) one year following the date of issuance of such Bridge Note, or (B) the date of an initial public transaction involving PETI or a listed company into which PETI would merge (the "Initial Public Transaction"), and (ii) a Bridge Warrant entitling the holder thereof to purchase up to \$4,000 of common shares of PETI following the Initial Public Transaction at an exercise price of \$0.01 per share. However, the maturity of the December 2004 Bridge Notes has been extended to five days following the closing of the Offering.

Each unit sold in the March 2005 Offering consisted of a (i) 14% Bridge Note with all principal and interest payable on the earlier of (A) 50% of the principal amount outstanding and interest accrued and earned on the principal amounts to date, payable at the date of an Initial Public Transaction with the balance payable one year from the Initial Public Transaction, or (B) 18 months from the date of issuance of such Bridge Note and (ii) a Bridge Warrant to purchase up to \$2,000 of common shares of PETI at an exercise price of \$0.01 per share during the first 60 days following an Initial Public Transaction.

Each unit sold in the June 2005 Offering consisted of a (i) 14% Bridge Note with all principal and interest payable on the earlier of (A) 12 months from the date of the Initial Public Transaction or (B) 18 months from the date of the issuance of the Bridge Note, and (ii) a Bridge Warrant to purchase up to \$1,000 of common shares of PETI, at an exercise price of \$0.01 per share during the first 60 days following the Initial Public Transaction. All of the Bridge Notes are secured by PETI's intellectual property, including the WISE™ Technologies.

In addition to a \$30,000 engagement and marketing fee, the Company also agreed to pay an agent commission of \$88,750 for arranging the March and June Offerings. The commission was 8% on the first \$1 million and 7% on amounts raised in excess of \$1 million. One-half of the commission was due on closing and the remainder will be paid after the close of the IPO.

- PEGI entered into an amended agency agreement where the agent will use its best efforts to apply to list the common shares to be distributed in an initial Public Transaction on the Toronto Stock Exchange (the "TSX") at Canadian \$2.00 (US \$1.72) per Unit, to raise a minimum of 7,000,000 and a maximum of 8,000,000 Units. Gross proceeds to the Company will be Canadian \$14,000,000 (US \$12,040,000) and Canadian \$16,000,000 (US \$13,760,000) respectively. Each Unit consists 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 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 indenture, 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 agreement provides that the Agent will be paid a fee of 7.0% of the gross proceeds of the sales of the IPO. The Agent will also receive an option to acquire common shares equal to 10% of the total number of Units distributed at an exercise price of Canadian \$2.00 (US \$1.72) per common share for a period of up to 12 months from the closing date. The Company will apply to list the common shares to be distributed pursuant to this Offering on the TSX. Listing of the common shares will be subject to the Company fulfilling all of the TSX listing requirements. In addition the TSX will impose certain escrow conditions on the total issued shares. The Company has also granted the Agent an option to sell up to 2,000,000 additional Units at a price equal to the offering (Canadian dollars \$4,000,000 (US \$3,400,000)). On March 27, 2006 the Company filed its prospectus with the regulatory authorities.
- On February 15, 2006, the Company entered into a non-binding term sheet ("Senior Credit Terms") 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 Senior Credit Terms provide for a warrant to be issued to the financial institution to acquire 1,100,000 common shares at an exercise price of Canadian \$2.00 (US \$1.72) per share (along with put and call provisions for repurchase of the common shares or warrants at a premium of up to Canadian \$2.12 (US \$1.82) per common share or warrant on the occurrence of certain future events, including the expiration of three years (four years in the case of the call), sale of the Company or refinancing of the facility through another institution). The warrants will have a term of five years. The facility is secured by all assets of the Company for a term of 5 years.
- On December 22, 2005, the Company completed a private placement of Class B convertible common voting shares, raising net proceeds of Canadian \$2,440,982 (US \$2,082,845). 1,784,331 shares at a price of Canadian \$1.50 (US \$1.27) were issued. The Agent was paid a fee of 7.0% of the gross proceeds of the sale of the private placement and received options to acquire 178,433 Class B shares at an exercise price of Canadian \$1.50 (US \$1.27) until December 21, 2006.
- 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 lessor will receive a one-year warrant for 10,000 shares of common stock exercisable at the IPO price. The lessor has the option to require the Company to repay the financing following an IPO or major financing of the Company. The lease term is 60 months with the monthly payments for months 1 through 3 at \$10,711 and thereafter \$11,641. The lease is guaranteed by the Company and PET.

If the lessor brings in an additional \$2.6M of third party long term lease financing acceptable to the Company, the lessor could earn another 25,000 warrants (or a prorated portion of the same for a lower funding level). Finally, if the lessor brings in a third party leasing company willing to take out the initial \$508,344 and fund it on a long-term basis acceptable to the Company, the lessor could earn another 15,000 warrants. Thus a maximum of 50,000 warrants could be earned, but only 10,000 are committed by the Company. It is unknown whether the lessor will be successful in bringing any additional lease financing prior to any senior facility financing, and once in place, the additional warrants would be terminated.

Contractual Obligations

On October 1, 2005, PETI signed a lease for premises. The lease calls for payments of \$1,145 per month over the term of the lease, which expires September 30, 2010. In January 2006, PETI also signed a lease for premises requiring monthly minimum lease payments of \$6,000 over the term of the lease, which expires January 2011. This lease can be extended an additional 5 years at \$6,900 per month. These leases also require PETI to pay its share of monthly operating costs.

On March 14, 2006, the Company signed a lease for premises. The lease calls for payments of \$9,830 per month from May 1, 2006 to October 31, 2006 and \$10,680 per month from November 1, 2006 forward over the term of the lease expiring October 31, 2009. This lease provides two three year options to renew. This lease also requires the Company to pay their share of monthly operating costs.

Future minimum lease payments as of December 31, 2005 are:

Year ending December 31	
2006	\$ 166,077
2007	213,899
2008	213,899
2009	192,539
2010	82,305
	<u>\$ 868,719</u>

On December 22, 2005, PEGI purchased two trucks for \$211,000 that will be used as part of the construction of three coil tubing units expected to be delivered in the first quarter of 2006 at a total cost of \$1,400,000 per unit. On December 23, 2005 PEGI made a deposit of \$428,228 in addition to a \$15,772 deposit made prior to September 30, 2005 (for a total deposit of approximately \$444,000) toward the purchase of pumping units estimated to be delivered in June through September of 2006. The balance due on delivery is estimated to be \$1,120,000.

In January 2006, PETI entered into a plan of exchange with the holders of Bridge Warrants whereby the holders agreed to exchange their Bridge Warrants for Common Shares of PEGI. As a result of accepting the plan of exchange, all of the Bridge Warrants will be converted into 2,014,700 Common Shares at a deemed price of CDN\$2.00 (U.S.\$1.70). The plan of exchange gives the holders of Bridge Notes the option to receive, as payment for all or any portion of the outstanding principal and accrued interest, on their Bridge Notes, Common Shares of PEGI at a price per Common Share equal to CDN \$1.50 (U.S.\$1.27) per share. On January 20, 2006, PETI received confirmation that the Bridge Note holders had opted to convert \$1,137,500 of principal and \$148,505 of accrued interest (at January 20, 2006) into Common Shares. The number of Common Shares to be issued is estimated to be 1,008,632 as at January 20, 2006 (however, such number will increase as interest continues to accrue until actual payment at the Closing of the Offering).

Cash Requirements

PEGI has historically financed its capital needs with funds from note and equity issues, since it was not engaged in a revenue producing operation and was concentrating all of its efforts on development of the business plan and strategy for the Company, the raising of capital and the completion of the PET and A to Z acquisitions.

Use of IPO Proceeds

Assuming the Maximum Offering, the Company will receive Canadian \$14,880,000 (Canadian \$18,600,000 if the Over Allotment Option is exercised in full) of net proceeds from the Offering after deducting the Agent's Fee of Canadian \$1,120,000 (Canadian \$1,400,000 if the Over Allotment Option is exercised in full), but prior to giving effect to the expenses of the Offering, which are estimated to be Canadian \$1,576,865. Assuming the Minimum Offering, the Company will receive net proceeds of Canadian \$13,020,000 after deducting the Agent's Fee of Canadian \$980,000 but prior to giving effect to the expenses of the Offering.

The Company will use the net proceeds of the Offering to pay off the PET Seller Notes and the A to Z Seller Notes (approximately Canadian \$8,500,000), to pay off the remainder of the Bridge Notes not converted into Common Shares by the holders thereof (approximately Canadian \$400,000 inclusive of estimated accrued interest payable thereon) and will use the balance over the next 12 months for equipment purchases (including the purchase of two WISE™ II CT Units and one WISE™ III CT Unit) and general and administrative expenses including working capital needs, as more particularly set out below:

<u>Use of Proceeds</u> (Canadian \$)	<u>Minimum Offering</u>	<u>Maximum Offering</u>
Repayment of PET Seller Notes and A to Z Seller Notes	\$ 8,500,000	\$ 8,500,000
Repayment of Bridge Notes	\$ 400,000	\$ 400,000
Expenses of the Offering	\$ 982,436	\$ 982,436
Estimated equipment expenditures	\$ 2,000,000	\$ 2,000,000
Working capital	\$ 1,137,564	\$ 2,997,564
TOTAL	\$13,020,000	\$14,880,000

The amount and timing of the equipment expenditures will vary depending upon a number of factors, including cash flow from operations, the amount and terms of capital expenditure facilities obtained by the Company (if any), timing of new equipment orders and unexpected expenses. Pending utilization of the net proceeds of the Offering, we will invest the funds in government backed securities and short term interest bearing instruments.

PEGI believes that the Offering, which is anticipated to provide between US\$9.7 million to US\$14.5 million in net proceeds, will provide sufficient capital for PEGI to operate and implement its current business plan for the next two years unless service activities increase at a pace that requires additional working capital or investment in equipment, or in the event one or more acquisitions are made that require greater capital

RELATED PARTY TRANSACTIONS

The Company was involved in the following related party transactions:

On December 14, 2004, the Company licensed PET to use the rights to the technology offshore in the Gulf of Mexico and onshore Louisiana for no consideration.

During the year ending December 31, 2005, IIBEX charged the Company \$570,000 (2004 \$140,000) for services related to obtaining bridge financing and the processes involved with obtaining agreements related to the acquisitions, the private placement, and the initial public transaction. \$570,000 (2004 \$120,000) has been included in deferred costs and other assets and the remaining \$NIL (2004 \$20,000) has been expensed in the period as part of general administration. In addition, IIBEX charged the Company \$56,327 (2004 \$12,704) for administrative services that were based on an agreed upon allocation and included as part of general administration expenses.

On December 14, 2004, the Company entered into an exclusive manufacturing agreement with Lamb Services, Inc. (“LSI”), an affiliate of the Company controlled by a director and major shareholder, for an initial five year period that will be automatically renewed for successive five year terms unless either party gives notice of termination within the time period specified in the agreement, for the manufacture of CT units at a price of \$1,200,000 per unit plus the cost of tools and changes to specifications of the unit. The agreement allows the Company to request LSI to manufacture CT units for its account, by informing LSI in writing and LSI must respond as to whether the request can be met within the agreed timetable of no more than five months. If LSI is unable to meet the commitment, the Company may take the order to a different manufacturer. The Company owns all of the patents, designs and specifications for the units. If LSI commits to manufacturing the unit and can not meet the five month timetable, the price per unit is reduced by \$5,000 for each week delivery is delayed. The Company has requested that 3 CT units be manufactured that are expected to be delivered during the second quarter of 2006.

On December 14, 2004, the Company signed an agreement with a software supplier, being a corporation controlled by a director and officer of the Company, to purchase a \$250,000 license for the operation of a global support center for its CT units in the field, a user contract at \$1,500 per month per CT unit, a per CT unit installation fee of \$75,000 and customization costs based on established rates

per hour. This agreement is effective upon closing of the Initial Public Transaction for an initial period of three years. The contract will be automatically renewed for successive one year terms unless either party gives notice of termination within the time period specified in the agreement.

During the year ended December 31, 2005, PET was reimbursed for \$221,182 of salary and payroll costs incurred by PET for their employees directly assisting the Company (2004 \$NIL). These costs are part of general administration expenses.

On July 1, 2005, the Company entered into an advisory board chairman and consulting agreement expiring June 2007, which provides for payments of \$48,000 and \$24,000 for consulting respective for the years ended December 31, 2006 and 2007. The advisory board chairman and members will also be entitled to at least 50,000 stock options for the chairman and 25,000 stock options for members at the time of the Initial Public Transaction, exercisable at Canadian \$2.00 per share and vesting over a two year period.

In August 2005, the Company entered into three referral agent agreements, with advisory board members, whereby the agents will be entitled to 0.5% of any sales revenue generated by their referral and received by the Company. These agreements have an initial one year term and will be automatically renewed for successive one year terms unless either party gives notice of termination within the time period specified in the agreement.

Included in notes payable is \$100,000 due to IIBEX. Interest expense on the note payable amounted to \$14,000 at December 31, 2005, (2004 \$2,646). Total interest accrued at December 31, 2005 is \$16,646, (2004 \$2,646).

Accounts payable to related companies at December 31, 2005 and December 31, 2004 for IIBEX Holdings Inc. was \$NIL and \$162,422 respectively and for PET was \$24,854 and \$NIL respectively:

Legal fees charged by the Corporate Secretary's law firm in the year totaled \$138,722 (2004 \$NIL) and have been included in deferred costs. Included in accounts payable is \$28,176 (2004 \$NIL) payable to that firm.

COMMITMENTS

On December 16, 2005, the Company signed three year employment agreements effective either at the close of the acquisitions with PET and A to Z (which is January 1, 2006) with respect to key employees of such entities, or December 1, 2005 with respect to other persons, with a total of ten key employees to pay the employees a base salary for the first year of the contract ranging from \$100,000 to \$200,000 per year together with the right to earn a bonus of up to 50% to 100% of base salary. At the end of the first year, the base salary can be adjusted by amounts deemed appropriate by the Company. The total base salary commitment for the first year on the agreements is \$1,560,000. The agreements indicate that the employees are entitled to various amounts of severance for termination without cause ranging from two weeks to one year, depending on the length of service of the employee at the time of termination. The employment agreements with four officers requires the payment of two times the annual base salary, all bonus entitlements and the vesting of all options and warrants if there is a change in control of the Company.

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 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 granting of 4,175,000 stock options subject to the completion of the IPO, at a price of Canadian \$2.00 (US \$1.72), vesting over a period of one to three years. The options will be issued after the completion of the IPO.

On December 16, 2005, the Company completed the acquisition of PET, effective January 1, 2006, to acquire all the outstanding limited liability units of PET. The purchase price is \$25,000,000 less the amount of long-term liabilities, the current portion of funded indebtedness and obligations to shareholders or their affiliates of PET, at the date of closing and any excluded assets. The purchase price will be subject to adjustment to the extent that PET does not meet the minimum working capital and net worth requirement as outlined in the agreement. The purchase price will be settled with a cash payment limited to 2.5 times 2005 Earnings Before Interest Taxes and Depreciation ("EBITDA"), with the remaining amount settled by the issuance of shares at the deemed price of Canadian \$2.00 (at a deemed foreign exchange conversion rate such that the deemed US price is \$1.70). The payment of both cash and shares are subject to a 25% holdback until the final purchase price is determined. By agreement, all shares issued are subject to a two year hold period ending January 1, 2008. On January 1, 2006, the Company issued promissory notes totaling \$4,529,840, 649,070 common shares and 5,841,636 Class C common shares at a price of Canadian \$2.00 (at a foreign exchange conversion rate such that the deemed US price is US \$1.70) representing 75% of the projected consideration to be paid. The promissory notes are unsecured, bear interest at

10% per annum and are due three days after the initial public transaction closing. The Company sent a draft of the final purchase price to PET for their approval and expect that the settlement will occur by May 2006.

On December 16, 2005 the Company completed the acquisition of A to Z Pressure Pump Services LLC (“A to Z”) to acquire all outstanding limited liability units of A to Z effective January 1, 2006, for a purchase price equal to five times its actual 2005 adjusted EBITDA less the amount of long term debt liabilities and the current portion of funded indebtedness on the balance sheet of A to Z at the date of closing and any excluded assets. The purchase price will be 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 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 purchase price will be settled 51% in shares at the price of shares established in the Initial Public Transaction and 49% in cash. The payment of both cash and shares will be subject to a 25% holdback until the final purchase price is determined. By agreement, all shares issued are subject to a two year hold period ending January 1, 2008. This acquisition will be accounted for using the purchase method, whereby the net assets of A to Z will be 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 expect that the settlement will occur by May 2006. The agreement requires that the Company place common shares in Escrow based on conditions outlined in the agreement. The Company estimates it will be required to place 129,195 shares based on the information regarding A to Z’s EBITDA at closing. When the final purchase price is determined in the second quarter of 2006, these shares will be released either at that time or in March 2007. On January 1, 2006, the Company issued promissory notes totaling \$890,660 and 545,301 common shares at a price of Canadian \$2.00 (at a foreign exchange conversion rate such that the deemed US price is \$1.70) representing, 75% of the projected consideration to be paid. The promissory notes are unsecured, bear interest at 10% per annum and are due 3 days after the initial public transaction closing.

ACQUISITIONS

PET

PET provides specialized coiled tubing well intervention services to oil and gas producers and operators in Southeast Texas, Louisiana and Mississippi and in the offshore waters of the Gulf of Mexico. PET was the original developer of the WISE™ Technologies and has constructed and deployed six patented, multifunctional coiled tubing units (four WISE™ II units for onshore use and two WISE™ III units for offshore use).

Since its organization in 2002, PET has designed, manufactured, tested and deployed (on land in Louisiana, Texas and Mississippi and in the offshore market of the Gulf of Mexico) four WISE™ II CT Units and two WISE™ III CT Units. Two additional WISE™ II CT Units and one WISE™ III CT Unit are currently being manufactured for delivery to the Company within 60 days following the Closing Date, at a total cost of approximately \$4.2 million, which will be funded out of the Offering proceeds and the capital expenditure facility the Company is in the process of arranging. In the event the Offering does not close or the capital expenditure facility is not completed, the delivery of this equipment could be jeopardized.

A to Z

A to Z provides pressure pumping and related well intervention services to oil and gas producers and operators in Texas, Louisiana and Mississippi and in the offshore waters of the Gulf of Mexico. A to Z has three pressure pumping units (one unit for onshore use and two units for offshore use) and one thermal unit. On a go forward basis, A to Z’s pressure pumping business will be conducted under the Company’s “WISE™” trademarks and branding strategy even though the equipment used may not be proprietary.

Organized in 2003, A to Z currently operates three pressure pump units and one thermal unit (the WISE™ HOT unit) in both onshore oil and gas fields in Louisiana and in the offshore waters of the Gulf of Mexico. A to Z is in the process of considering leasing an additional offshore pumping unit (at a cost of \$6,000 per month for 48 months with a \$50,000 purchase option) for deployment in the second quarter of 2006, but has not entered into any binding contractual arrangements at this time. A to Z is also in the process of purchasing two single pump trucks (at a total cost of \$1,564,358 of which approximately \$444,000 has been funded) expected to be received in the third quarter of 2006. The balance of the funds required to acquire the pumping trucks will be funded out of the Offering proceeds and the capital expenditure facility the Company is in the process of arranging. In the event the Offering does not close or the capital expenditure facility is not completed, the delivery of this equipment could be jeopardized. The Company will utilize its WISE™ and Well Intervention Services and Equipment™ trademarks in connection with its pressure pumping equipment,

but the equipment is being acquired from third parties and thus will not be proprietary to the Company in the same manner as the patented WISE™ CT Units.

EXPANSION /GROWTH

Using the combined infrastructures of PET and A to Z, the Company intends to continue its development and growth in Southeast Texas, Louisiana and Mississippi, and expand into markets in the balance of Texas, as well as Oklahoma, New Mexico, Alabama and Florida (the “Southern Territory”). The Company also plans to expand its operations into western Canada, the mid continent area and the western United States through the acquisition of well intervention service companies already operating in those regions. The Company intends to enter the western Canadian market through the acquisition of an established energy service company, which would form the nucleus of a “Northern Territory” operating division (which is anticipated to include the U.S. Rockies and upper plains states markets). 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. Although some preliminary identification and development work has been commenced on potential acquisition candidates, there is no specific acquisition transaction pending at this time and there can be no assurances that any acquisition candidates will be acquired by the Company. The closing of additional acquisitions will depend on both an increase in the Company’s debt 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).

The Company’s operations as of the beginning of 2006 consist of six existing WISE™ CT Units, three WISE™ pressure pump units and one WISE™ thermal unit. The Company intends to grow its fleet of operating equipment to approximately 26 WISE™ units over the 12 months following the Closing. The actual number of units and pace 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, the proceeds of the Initial Public Offering, cash flow from operations, additional equity financings and one or more capital expenditure facilities currently being considered by the Company. Three of the additional WISE™ CT Units are in the latter stages of manufacturing and are projected to be available 30 to 60 days following Closing. A WISE™ Offshore Pump unit and two WISE™ Land Pumps are currently under order and are expected to be available in May and August, 2006, respectively. The opening of additional districts and the acquisition and deployment of additional units could be affected by matters outside of the control of the Company, including the timing of the completion of the Offering, the number of Units sold pursuant thereto, the amount and timing of cash flows from operations, availability and terms of debt financing, availability of component parts and backlogs in manufacturing, and other factors that could delay or reduce implementation of the Company’s capital expenditure plan. In the event sufficient funding of the capital expenditure program is not available from the sources identified above, the Company may have to seek additional sources of capital and/or curtail its capital expenditure program, reducing its proposed scope of operations.

The Company believes it has a competitive advantage by owning the patented WISE™ Technologies and by having the Manufacturing Agreement in place with LSI to manufacture the WISE™ CT Units in a shorter time frame (five months from order) than is generally quoted for non-proprietary CT units produced by the other manufacturers of oilfield equipment (delivery schedules that may range up to 18 months). Notwithstanding the existence of the Manufacturing Agreement, factors beyond the control of LSI may hinder its ability to manufacture units in this time frame (including, without limitation shortages or delays in the receipt of component parts).

DISCLOSURE CONTROLS

An evaluation was performed under the supervision and with participation of the Company's senior management, including the President and Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures as of December 31, 2005. Based on that evaluation, the Company's management concluded that the Company's disclosure controls and procedures were effective as of December 31, 2005.

ACCOUNTING POLICIES

The financial statements of PEGI have been prepared by management in accordance with Canadian generally accepted accounting principles in United States dollars. The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and

accompanying notes. Actual results could differ from those estimates. The financial statements have, in management's opinion, been properly prepared using careful judgment within reasonable limits of materiality.

Fair Values of Financial Assets and Liabilities

The fair values of cash, prepaid expenses and deposits, and accounts payable, notes payable and interest payable included in PEGI's consolidated balance sheets approximate their carrying amount due to the short-term maturity of these instruments.

Interest Rate Risk

PEGI's fixed rate debt is subject to interest rate price risk, as the value will fluctuate as a result of changes in market rates. At December 31, 2005, PEGI had fixed interest rates on 100% of its interest bearing obligations. PEGI estimates that the interest rate approximates the prevailing market rates and the fair value of these debt instruments approximate their carrying values.

Income Taxes

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

BUSINESS RISK

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 one major independent oil and natural gas company that accounted for approximately 14% of the revenue for the year ended December 31, 2005. No other customer accounted for more than 10% of the revenue for this period.

Environmental Liability

Our 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. We are 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. We are also unable to predict the effect that any such events may have on us, our business, or our financial condition. In addition, demand for our 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 our areas of operations for economic, environmental or other policy reasons could also adversely affect our operations by limiting demand for our services. We also have 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, we may be subject to claims alleging personal injury or property damage as a result of alleged exposure to hazardous substances. We believe that our 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. We are unable to predict whether environmental laws will materially adversely affect our future operations and financial results.

Our need to attract and retain skilled workers may impair growth potential and profitability

Our ability to remain productive and profitable will depend substantially on our ability to attract and retain skilled workers. Our ability to expand our operations is in part impacted by our ability to increase our labour 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

our skilled labour force, increases in the wage rates paid by us, or both. If either of these events occurred, our capacity and profitability could be diminished, and our growth potential could be impaired.

Weather Related Risks

As seen during the 2005 Hurricane season in the Gulf of Mexico, weather can have a significant impact on the ability to provide well intervention services in the area affected. The Company believes the combination of two very strong storms (Rita and Katrina) in the same area was an unusual occurrence, and not the norm. However, hurricanes affect the Company's business every year 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. 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.

ADDITIONAL INFORMATION

Additional information relating to the Company can also be found on the SEDAR system at www.sedar.com.



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WISE™ Patented Multifunction Coiled Tubing Units

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