

**Production Enhancement Group, Inc.
Interim Consolidated Financial
Statements**

For the interim three month period
Ending March 31, 2007 and 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, 2007.

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

	March 31, 2007	December 31, 2006
	(unaudited)	
Assets		
Current		
Cash and cash equivalents	\$ 2,180,080	\$ 1,065,645
Accounts receivable	8,062,669	5,493,853
Inventory	523,272	165,220
Prepaid expenses	597,398	870,031
	<u>11,363,419</u>	<u>7,594,749</u>
Deferred charges (Note 9)	88,983	2,434,145
Equipment deposits	1,032,787	1,166,695
Property and equipment (Note 7)	26,273,646	19,501,575
Intangible assets (Note 8)	1,152,024	188,580
Future income taxes	714,732	714,732
Other Assets	23,189	-
Goodwill	939,574	418,012
	<u>\$ 41,588,354</u>	<u>\$ 32,018,488</u>
Liabilities and Shareholders' Equity		
Current		
Accounts payable and accrued liabilities	\$ 3,293,870	\$ 3,881,948
Dividend payable (Note 12 (c))	28,493	-
Notes payable	293,387	424,271
Due to Shareholder	1,589,021	-
Current maturities of long term debt (Note 11)	5,676,472	3,412,008
	<u>10,881,243</u>	<u>7,718,227</u>
Long term debt (Note 11)	12,602,540	10,438,736
Accrued liabilities (Note 11)	-	1,000,000
	<u>23,483,783</u>	<u>19,156,963</u>
Shareholders' Equity		
Share capital (Note 12 (a))	22,799,923	17,178,516
Contributed surplus (Note 12 (b))	1,907,519	1,727,565
Retained earnings (deficit)	(6,602,871)	(6,044,556)
	<u>18,104,571</u>	<u>12,861,525</u>
	<u>\$ 41,588,354</u>	<u>\$ 32,018,488</u>

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

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

For the three months ended	March 31, 2007 (unaudited)	March 31, 2006 (unaudited)
Revenue	\$ 7,832,175	\$ 3,826,407
Expenses		
Cost of services	4,143,723	2,715,063
Selling general and administrative	2,942,773	1,278,145
Amortization	907,296	390,116
Interest	368,205	272,119
	8,361,997	4,655,443
Income (loss) before income taxes	(529,822)	(829,036)
Future income tax recovery	-	(258,304)
Net income (loss) for the period	(529,822)	(570,732)
Acquisition adjustment to deficit	-	(2,460,542)
Retained earnings, beginning of period	(6,044,556)	798,102
Dividends accrued	(28,493)	-
Retained earnings (deficit), end of period	\$ (6,602,871)	\$ (2,233,172)
Earnings (loss) per share		
Basic and diluted	\$ (.01)	\$ (0.01)
Weighted average number of shares outstanding		
Basic and diluted	55,012,335	38,899,322

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

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

For the Three Months Ended,	March 31, 2007 (unaudited)	March 31, 2006 (unaudited)
Net income (loss) before non cash operating items	\$ (529,822)	\$ (570,732)
Cash flows from operating activities		
Non cash items		
Amortization deferred costs	137,903	74,395
Amortization of property, equipment and intangibles	769,393	315,721
Stock based compensation	179,955	
Future tax recovery	-	(258,304)
	<u>557,429</u>	<u>(438,920)</u>
Changes in non cash working capital items (Note 10)	(3,134,408)	307,783
Cash flow from operating activities	<u>(2,576,979)</u>	<u>(131,137)</u>
Cash flows from financing activities		
Proceeds from preferred stock offering	5,000,000	-
Deferred charges	(807,460)	(282,090)
Notes acquired in Wireline acquisition, net of amount paid	1,615,379	-
Proceeds of factoring payable	-	406,374
Repayment of notes payable	(180,971)	(109,756)
Proceeds from long-term debt	6,411,763	290,851
Repayment of long term debt	(500,000)	(324,707)
Proceeds from capital lease obligations	-	508,344
Repayment of capital lease obligations	(6,472)	(47,664)
	<u>11,532,239</u>	<u>441,352</u>
Cash flows from investing activities		
Acquisition of Wireline, net of cash acquired	(6,460,274)	-
Additions property and equipment and intangibles	(1,380,551)	(711,400)
Cash acquired from acquisitions	-	914,252
	<u>(7,840,825)</u>	<u>202,852</u>
Increase (decrease) in cash and cash equivalents	1,114,435	513,067
Cash and cash equivalents, beginning of year	<u>1,065,645</u>	<u>3,502</u>
Cash and cash equivalents, end of period	\$ 2,180,080	\$ 516,569
Supplemental information		
Interest paid	\$ 319,331	\$ 77,169
Taxes paid	\$ -	\$ -

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

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

1. Nature of Business

Production Enhancement Group, Inc. (the "Company") was incorporated on November 21, 2005 under the Business Corporations Act (Alberta) and became a Reporting Issuer on March 29, 2006, being the date of receipt of the prospectus. The Company provides a variety of services to the oil and natural gas industry and currently operates primarily in the United States of America.

2. Basis of Presentation

These interim financial statements were prepared using accounting policies consistent with those used in the preparation of the audited consolidated financial statements for the year ended December 31, 2006. 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.

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

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

3. 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.

4. Acquisition

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 approximately \$2.1 million and paid net consideration to the selling shareholders of approximately \$3 million in cash and 1.2 million PEG common shares ("Common Shares"). A portion of the cash requirements was financed by the sale of 6,666,667 units ("Units") consisting of one Series A Preferred Share and three-quarters of a warrant for Common Shares as further described in Note 12(c). The remainder of the proceeds necessary to refinance the assumed indebtedness and pay the selling shareholders of WSL was provided by a \$4 million increase in term loans provided by a major international financial institution. An additional payment of up to \$450,000 and 780,463 Common Shares may be required after April 30, 2007 if certain provisions are met.

The acquisition was accounted for using the purchase method with the results of operations of WSL being included in the consolidated financial statements from the date of acquisition. The Company shares were valued at the closing price of its stock on the date of acquisition, which was C\$ 1.10.

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:

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4. Acquisition (cont'd)

Net assets acquired:	
Cash	\$ 26,001
Non-cash working capital	100,094
Capital assets and deposits	6,178,222
Intangibles	991,759
Goodwill	521,562
Long-term debt	(1,872,578)
	<u>\$ 5,945,060</u>

Consideration:	
Common shares issued at closing	\$ 1,159,644
Cash	3,078,355
Potential cash earn-out	450,000
Potential stock earn-out	1,139,021
	<u>\$ 5,945,060</u>

5. Significant Accounting Policies

In addition to the accounting policies discussed in the annual consolidated financial statements dated December 31, 2006, the Company adopted the following new accounting policies during the period and they should be read in conjunction with that report.

a) Financial Instruments

Effective January 1, 2007, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants Handbook Section 1530, Comprehensive Income, Section 3855, Financial Instruments, and Section 3865, Hedges.

These changes in accounting policy have been adopted retroactively without restatement.

These recommendations establish standards for recognizing and measuring financial instruments, which include financial assets, financial liabilities, derivatives and embedded derivatives. Under these recommendations, all financial instruments are to be recorded initially at fair value. In subsequent periods, all financial instruments are re-measured based on the classification adopted for the financial instrument: held-to-maturity, loans and receivables, held for trading, available-for-sale or other liability.

Financial assets

Held for trading

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

Held-to-maturity

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

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5. Significant Accounting Policies (cont'd)

Loans and receivables

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

Available-for-sale

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

Financial liabilities

Held for trading

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

Other liabilities

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

The Company has classified its financial instruments as follows:

<u>Financial Instrument</u>	<u>Classification</u>
Cash and cash equivalents	Held for trading
Accounts receivable	Loans and receivable
Accounts payable and accrued liabilities	Other liabilities
Dividend payable	Other liabilities
Notes payable	Other liabilities
Due to Shareholder	Other liabilities
Long term Debt	Other liabilities
Accrued liabilities	Other liabilities

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5. Significant Accounting Policies (cont'd)

CICA Handbook Section 3865, Hedges, replaces CICA Handbook Accounting Guideline 13, Hedging Relationships, which establishes standards for when and how hedge accounting may be applied. Consistent with financial instruments, it requires that all derivatives, including those designated as hedges, be measured at fair value. Changes in the fair value of a derivative which hedges the Company's exposure to changes in the fair value of an asset or liability, a fair value hedge, are recognized in net income together with those of the respective offsetting hedged item. Changes in the fair value of a derivative which effectively hedges the Company's exposure to changing cash flows, a cash flow hedge, are accumulated in other comprehensive income until the transaction being hedged affects net income.

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

As a result of adopting these new recommendations as of January 1, 2007, the Company had no changes to its existing financial assets and liabilities, no changes to Retained Earnings, beginning of year and no Accumulated Other Comprehensive Income, except for a reclassification of transaction costs for an amount of \$2,453,293 previously shown separately on the balance sheet as Deferred Charges to the carrying amount of its related debt.

b) Accounting Changes

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

The impact that the adoption of this section will have on the Company's financial statements will depend on the nature of future accounting changes and the required additional disclosure on Recent Accounting Pronouncements is disclosed in Note 6.

c) Cash Flow Statements

Effective January 1, 2007, the Company has adopted the new recommendations of the Canadian Institute of Chartered Accountants' Handbook Section 1540, Cash Flow Statements, which has been amended to include disclosure of the extent to which cash distributions are non-discretionary. These requirements apply to all cash distributions on financial instruments classified as equity that are determined in accordance with a contractual agreement or relevant constating document. The Company does not expect the adoption of this standard to have a material impact on disclosure in its financial statements.

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6. Recent Accounting Pronouncements

Recent accounting pronouncements issued and not yet effective:

Capital Disclosures

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

Financial Instruments Disclosures

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

Financial Instruments Presentation

CICA Handbook Section 3863, Financial Instruments – Presentation, replaces the existing requirements on presentation of financial instruments which have been carried forward unchanged to this new 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.

International Financial Reporting Standards

The CICA plans to converge Canadian Generally Accepted Accounting Principles 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 is not yet determinable.

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7. Property and Equipment

	March 31, 2007			December 31, 2006		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Software and equipment	\$ 1,005,510	\$ 135,912	\$ 869,598	\$ 839,858	\$ 102,599	\$ 737,259
Equipment	25,873,170	5,768,687	20,104,483	17,528,253	2,947,253	14,581,000
Furniture and fixtures	319,164	146,760	172,404	196,424	35,220	161,204
Vehicles	2,224,303	939,253	1,285,050	987,841	386,627	601,214
Leasehold improvements	77,941	14,227	63,714	63,644	12,144	51,500
Assets under construction	3,778,397	-	3,778,397	3,369,398	-	3,369,398
	\$ 33,278,485	\$ 7,004,839	\$ 26,273,646	\$ 22,985,418	\$ 3,483,843	\$ 19,501,575

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

8. Intangible Assets

	March 31, 2007	December 31, 2006
Patent	\$ 1	\$ 1
Customer Base	1,127,483	235,724
Less: Amortization	(73,793)	(45,145)
	1,053,690	188,580
Covenant not to compete	100,000	-
Less: Amortization	(1,166)	-
	98,334	-
	\$ 1,152,024	\$ 188,580

9. Deferred charges

	March 31, 2007	December 31, 2006
Loan fees and legal fees	\$ 50,000	\$ 859,771
Contingent lending fee (Note 11)	-	1,000,000
Warrants issued to lender	-	851,686
Acquisition costs (Note 17)	38,983	77,331
Less: Amortization	-	(354,643)
	\$ 88,983	\$ 2,434,145

Deferred charges consist of debt financing related costs. The current year loan fees relate to debt financing that has not closed

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10. Changes in non-cash working capital

	<u>March 31, 2007</u>	March 31, 2006
Current		
Assets	(908,615)	93,570
Liabilities	(196,296)	214,213
From Wireline acquisitions	(2,029,497)	-
	<u>\$ (3,134,408)</u>	<u>\$ 307,783</u>

11. Long Term Debt

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 of the components of 3.5% over 3-month LIBOR, a five year amortization on the term loan and capital expenditure line. Payments of \$794,118 and accrued interest are due each quarter on the initial term loan. Draws against the capital expenditure line through March 31, 2007 total \$6,229,833, with interest payments due quarterly. This line will convert to a term loan in July 2007 and quarterly principal payments will begin in the amount of \$500,000. Draws against the working capital line of credit through March 31, 2007 total \$1,000,000. Interest is accrued monthly and paid quarterly.

At the time of closing in 2006, the Company issued a warrant to the financial institution to acquire 1,100,000 common shares at an exercise price of C\$2.00 (US \$1.75 at date of issuance) per share for a term of five years. The fair value of the warrants was estimated to be \$851,686 using the Black-Scholes model with the following assumptions: expected life of warrants five years; expected volatility of 50%; risk-free interest rate of 4.0%; and a zero dividend yield. This amount has been recorded as deferred financing cost with a corresponding increase in share capital.

The facility is secured by all assets of the Company for a term of 5 years.

The Company is required to pay an additional 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, or (ii) if the lender makes an election for the fee to be paid after May 2, 2009, an amount equal to \$3,920,000 less the greater of the current market value of 1,100,000 common shares of the Company or \$1,920,000.

As such, the fee is \$1,000,000, if the election is made in the first three years and total compensation of \$2,000,000 if the election is made after three years. The fee may be reduced if the share price at the time of election, prior to May 2, 2009 exceeds \$2.65 and after May 2, 2009 exceeds \$3.56. As management currently believes that the lender will elect to be paid within the first three years, the guaranteed amount has been accrued as an accrued liability.

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

Year		
2007	\$	5,676,472
2008		5,176,472
2009		5,176,472
2010		3,702,889
		<u>19,732,305</u>
Less: Current Portion		5,676,472
Less: Deferred charges		1,453,293
Balance	<u>\$</u>	<u>12,602,540</u>

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12. Equity instruments

(a) Share Capital

(1) Authorized:

Unlimited number of common voting shares.

Unlimited number Class B common convertible voting shares, convertible to common shares upon completion of initial public offering.

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

Unlimited number of preferred shares issuable in series at terms as determined by the Board.

(2) Common shares and warrants issued and outstanding:

Common shares	Number of Shares	Amount
Balance, December 31, 2006	16,357,848 \$	15,619,467
Acquisition of Wireline	1,234,741	1,159,644
Fair value of warrants expired-issued for financing		3,764
Balance, March 31, 2007	17,592,589	16,782,875
Class C Shares		
Balance December 31, 2006	38,297,784	-
Balance, March 31, 2007	38,297,784	-
	55,890,373	16,782,875
Preferred Stock		
Balance, December 31, 2006	-	-
Preferred share offering	6,666,667	2,191,050
Balance, March 31, 2007	6,666,667	2,191,050
Warrants		
Balance, December 31, 2006	6,288,433	1,559,049
Warrants issued on preferred stock	5,000,000	2,099,038
Warrants issued to agent	333,333	171,675
Expiration of warrants	(188,433)	(3,764)
Balance, March 31, 2007	11,433,333	3,825,998
Total	\$ 22,799,923	

(b) Contributed Surplus

	Contributed Surplus
Balance, December 31, 2006	\$ 1,727,565
Employee options	118,349
Board of Director options	57,173
Advisory Board options	4,432
Balance, March 31, 2007	\$ 1,907,519

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12. Equity instruments (cont'd)

(c) Preferred Stock

On March 5, 2007 the Company closed its offering of 6,666,667 units (each a "Unit") priced at C\$ 0.87 per Unit, for C\$ 5.8 million. Gross proceeds were US\$ 5 million. Each Unit is comprised of one Series A 8% Cumulative, Non-voting Convertible Preferred Share (each a "Preferred Share") and three quarters of one Common share purchase warrant (each a "Warrant"). The fair value of the warrants was estimated to be \$2,099,038 using the Black-Scholes model with the following assumptions: expected life of warrants five years; expected volatility of 50%; risk-free interest rate of 4.0%; and a zero dividend yield. This amount has been recorded as an issuance cost with a corresponding increase in share capital (warrants). Proceeds of the offering were used to close the acquisition of Wireline Specialists of Louisiana, as announced by the Company on September 22, 2006, and the acquisition of Dyna Star Energy Services, Ltd., as announced on November 16, 2006. Any remaining funds will be used to finance a portion of the Company's capital expenditures.

The Preferred Shares will pay quarterly cumulative dividends at a rate of 8% per year of the amount invested. The Company has the right to pay all or a portion of the first four quarterly dividends in kind in additional Preferred Shares at the equivalent Common Share value at the time of payment. Each Preferred Share is convertible at the option of the holder into one PEG Common Share. 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 Toronto Stock Exchange exceeds C\$ 1.74 for a period of 10 consecutive trading days on which an average of 10,000 Common Shares have traded.

Each whole Warrant entitles the holder to purchase one Common Share at a price per share of C\$ 1.24 for a period of five years following the date of issuance. 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 C\$ 2.48.

Sanders Morris Harris, Inc. is the exclusive placement agent with respect to the offering and has received a 7% commission and broker warrants (each a "Broker Warrant") equivalent to 5% of the number of Preferred Shares issued pursuant to the offering. Each Broker Warrant entitles the holder to purchase one Common Share at a price per share of C\$ 0.87 for a period of five years following the date of issuance. 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 C\$. \$1.74.

(d) Stock option plan

On November 24, 2005, the Board approved a stock option plan (the "Plan") for the purpose of developing the interest of directors, officers, employees, and consultants in the growth of the Company. 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, 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 expense was determined from the Black-Scholes option pricing model with the following assumptions: risk-free interest rates ranging from 4.0 to 4.5%; expected life of five years; no annual dividends paid; and expected volatility of 50%.

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12. Equity instruments (cont'd)

Compensation expense for stock options is recognized using the fair value when the stock options are granted and is amortized over the options vesting period. During the three months ended March 31, 2007, \$179,955 was recognized as compensation expense in the consolidated statement of operations with a corresponding increase in contributed surplus. As at March 31, 2007, 150,000 stock options were exercisable and the weighted average years to expiration were 4.24 years. The fair value of options granted during the three months ended March 31, 2007, that were outstanding at March 31, 2007 was approximately \$121,167 or \$0.19 per option.

	Share Options	Option Price	Weighted Average Exercise Price
Outstanding, December 31, 2006	4,542,500	C\$2.00	C\$2.00
Granted	625,000	C\$2.00	C\$2.00
Exercised	-	-	-
Cancelled	(125,000)	C\$2.00	C\$2.00
Outstanding, March 31, 2007	5,042,500	C\$2.00	C\$2.00
Exercisable at March 31, 2007	150,000	C\$2.00	C\$2.00

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

Options Outstanding	Option Price	Wtd. Avg Exercise Price	Wtd. Avg. Remaining Contractual Life (years)	Options Currently Exercisable	Wtd Avg. Exercise Price of Options Currently Exercisable
3,120,000	C\$2.00	C\$2.00	4.05	150,000	C\$2.00
765,000	C\$2.00	C\$2.00	4.17	-	-
25,000	C\$2.00	C\$2.00	4.34	-	-
55,000	C\$2.00	C\$2.00	4.42	-	-
240,000	C\$2.00	C\$2.00	4.55	-	-
227,500	C\$2.00	C\$2.00	4.72	-	-
190,000	C\$2.00	C\$2.00	4.91	-	-
420,000	C\$2.00	C\$2.00	4.98	-	-
5,042,500	C\$2.00	C\$2.00	4.24	150,000	C\$2.00

(f) Escrowed Shares

There currently are 1,459,377 common shares and 8,226,699 Class C non-voting convertible shares being held in escrow until January 1, 2008. These shares were issued in conjunction with the PET reverse takeover.

13. Related Party Transactions

Legal fees related to the Company's acquisitions and the maintenance of the corporate minutes are charged by the law firm at which the corporate secretary of the Company is a partner. For the three

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13. Related Party Transactions (cont'd)

months ended March 31, 2007 these legal fees totaled \$144,927 and there was an outstanding balance at March 31, 2007 of \$118,869.

The Company previously entered into a consulting agreement in which a family member of two senior executives was paid \$12,000 during the three month period ended March 31, 2007 for advisory board services.

Equipment purchases, equipment rental and equipment repairs of 382,897 were recorded during the three month period ended March 31, 2007 to a company 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 March 31, 2007 of \$240,703.

On December 14, 2004, WISE Well Intervention Services, Inc. signed an agreement with a software supplier controlled by a director and officer of the Company to purchase a \$250,000 license for the operation of a global support center for the WISE™ CT Units in the field, a user contract at \$1,500 per month per CT Unit, a per Coil Tubing ("CT") Unit installation fee of \$75,000 and customization costs based on established rates per hour. This agreement is effective upon the Closing of the Offering for an initial period of three years. The 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. The software license has not been placed in service as of March 31, 2007; therefore no amortization has been recognized. Computer consulting and services totalling \$263,696 were recorded during the three month period ending March 31, 2007 to a company controlled by a director and officer of the Company. Of this balance \$200,357 remained outstanding at March 31, 2007.

The Company purchases chemicals totalling \$77,119 from a company that is beneficially owned by two officers of a subsidiary during the quarter ending March 31, 2007. A balance of \$75,013 remained at March 31, 2007.

The Company leases real property from a company controlled by a board member. For the three month period ending March 31, 2007, \$64,500 was recorded.

As a result of the acquisition of WSL in March 2007, the Company rents property from a company owned by three shareholders, one of which is also an officer. The amount of rents paid for the first quarter 2007 is \$2,500.

As a result of the acquisition of WSL in March 2007, the Company rents property from and pays consulting fees to a company owned by a shareholder. There was no rent paid for the three month period, however there is a balance due for rent of \$5,525 at March 31, 2007 and there were no consulting fees paid.

As a result of the acquisition of WSL in March 2007, the Company paid consulting fees to a shareholder in the three month period in the amount of \$10,650.

All of the above related party transactions are recorded at agreed to exchange amounts.

14. Commitments

- (a) The Company has made deposits in the amount of \$3,232,691 toward the purchase of equipment to be delivered in the second quarter of 2007. The balance due on delivery is estimated to be \$3,403,339.
- (b) The Company has entered into a lease agreement with a major fleet creditor for the lease of vehicles. The term of the lease is 367 days renewable monthly thereafter. The lease is

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structured as an operating lease and a 30% deposit is required on all vehicles. As at March 31, 2007 the total deposits on operating leases is \$290,721.

14. Commitments (cont'd)

(c) The Company signed an eighteen month lease for the rental of a home for housing out of town crew members. The lease payments are \$1,100.00 per month and a total of \$3,300.00 was paid for the three month period ending March 31, 2007.

15. Financial Instruments

Fair values

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities, dividends payable, notes payable, due to shareholder and long term debt approximate their fair values, given they are short term in nature.

Concentrations of credit risk

Concentrations of credit risk with respect to accounts receivable, which are typically unsecured, are generally limited due to the large base of customers and the dispersion across many different geographic areas. Three (2006 – two) customers accounted for 27% (2006 – 25%) of the outstanding receivable balance at March 31, 2007. The Company believes there is no unusual exposure associated with the collection of these receivables. No other single customer accounted for more than 10% of consolidated receivables at March 31, 2007 or 2006. The Company performs regular credit assessments of its customers and provides allowances for potentially uncollectible accounts receivable.

The following chart demonstrates the outstanding customer balances for March 31, 2007 and March 31, 2006:

	2007		2006		
	% of accounts receivable	Outstanding balance	% of accounts receivable	Outstanding balance	
Customer A	9%	713,703	12%	\$649,834	
Customer B	5%	449,551	13%	729,916	
Customer C	13%	1,055,482	0%		
\$	27%	2,218,736	\$	25%	\$1,379,750

For the three months ended March 31, 2007 approximately 50% (2006 - \$ 10.5%) of the revenues were earned from four customer

Credit risk management

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

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

Interest rate

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The Company is exposed to interest rate related risk on its outstanding debts for which the interest rate charged fluctuates on the Libor rate (Note 11). Management does not consider this risk to be significant.

16. Contingencies

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

17. Subsequent Events

(a) On April 16, 2007 the Company signed a contract establishing a joint venture with Al Qahtani Maritime & Oil Field Services Co. The joint venture company, named Abdul Hadi Al Qahtani WISE Co., Ltd., will market PEG's patented WISE multifunction coil tubing technology on an exclusive basis in the Middle East, beginning in Saudi Arabia with future expansion opportunities throughout the region. All sales, operations, and support will be conducted under PEG's trademarked WISE brand name. The joint venture, 60% owned by Al Qahtani Maritime and 40% owned by PEG, will immediately begin constructing three WISE multifunction well intervention units, which will be deployed offshore. PEG will build the units in the U.S. and will custom-configure them using the latest WISE technology, including site-generated nitrogen capability.

(b) On May 1, 2007 the Company entered the western Canada oilfield services market with its acquisition of Dyna Star Energy Services Ltd. ("Dyna Star"), a private company that provides coiled tubing and nitrogen services in Alberta. The Company assumed and refinanced Dyna Star's existing debt of approximately CDN \$1.5 million and paid net consideration to the selling shareholders of approximately CDN \$230,000 cash, and up to approximately 450,000 PEG common shares, subject to post-closing verifications and adjustments. The proceeds necessary to refinance the assumed indebtedness and pay the selling shareholders of Dyna Star were provided through an additional term loan from GE Energy Financial Services.