

PRODUCTION ENHANCEMENT GROUP, INC.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE MONTHS ENDED MARCH 31, 2007**

MAY 15, 2007

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

The following Management Discussion and Analysis ("MD&A") of financial results of Production Enhancement Group, Inc. (the "Corporation" or "Company") should be read in conjunction with our audited Annual Consolidated Financial Statements and related notes and the MD&A in the Company's Annual Report for the period ended December 31, 2006 and is based on information available to May 11, 2007. This discussion should not be considered all-inclusive, as it excludes changes that may occur in general economic, political and environmental conditions. Additional information is also available on the Company's website (www.productionenhancement.com) and all previous public filings are available through SEDAR (www.sedar.com). The financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

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

CAUTION REGARDING FORWARD LOOKING STATEMENTS

Information which is contained in this MD&A contains estimates and assumptions which management is required to make concerning future events, and may constitute forward-looking statements under applicable securities laws. Forward-looking statements include plans, expectations, estimates, forecasts and other comments that are not statements of fact. The words "believe", "expect", "plan", "intend", "estimate", "will", "could", "may", "anticipate", "outlook" and similar expressions and statements relating to matters that are not historical facts including, but not limited to, information as to future capital expenditures, including the amount and nature thereof; expansion and other development trends of the oil and gas industry, improvement in day rates, business strategy, as well as the expansion and growth of the Company's business and operations, including its market share and other such matters.

By their very nature, such forward-looking statements require us to make assumptions and involve inherent risks and uncertainties, both general and specific. There is significant risk that express or implied projections contained in such statements will not materialize or will not be accurate. A number of factors could cause actual future results, conditions, actions or event to differ materially from the targets, expectations, estimates or intentions expressed in the forward-looking statements. Such differences may be caused by factors, many of which are beyond the Company's control, which include, but are not limited to, the level of operations carried on by our customers; oil and gas prices, weather conditions in offshore and land markets including natural disasters; availability of capital, including access to current or future financing arrangements; manufacturing cycles of new equipment, the effects of competition in the markets in which the Company operates, difficulty in continuing to develop, produce and commercialize technologically advanced services, availability of human resources and the Company's success in anticipating and managing the foregoing risks. The preceding list is not comprehensive, and as such, investors and others who rely on these statements should consider the above factors as well as the uncertainties they represent and the risk they entail. Additional information regarding the risks and uncertainties significant to the Company are provided in the Company's Annual Information Form (AIF).

Consequently, all of the forward-looking information contained in this MD&A is qualified by these cautionary statements and there can be no assurance that the actual results or developments anticipated by the Company will be realized or, even if substantially realized, that they will have the expected consequences to or effects on the Company or its business operations. Readers are cautioned not to place undue reliance on this forward-looking information, which is given as of the date it is expressed in this MD&A or otherwise, and the Company undertakes no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise, except as required by law.

NON-GAAP MEASURES

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

OVERVIEW OF BUSINESS

The Company and its wholly owned subsidiaries, Wise Well Intervention Services, Inc. (“WWIS”) and 1314235 Alberta Ltd, which in turn owns one hundred per cent (100%) of Dyna Star Energy Services Ltd., provide oilfield and natural gas well services. WWIS provides specialized coiled tubing, pressure pumping, and wireline services to oil and gas producers and operators in Texas, Louisiana, and Mississippi and in the offshore waters of the Gulf of Mexico. Dyna Star Energy Services Ltd., which was acquired April 27, 2007, provides coil tubing services to western Canada. In anticipation of providing these services internationally, in April 2007, the Company signed a joint venture agreement with Al Qahtani Maritime & Oil Field Services Company to begin operations in Saudi Arabia with future expansion opportunities throughout the Middle East and a joint venture agreement with Grupo Creativa, S.A. de C.V. to market, sell and support well intervention systems and services in Mexico.

SELECTED FINANCIAL INFORMATION ^{(1), (2), (3)}

(Stated in USD)

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

	Q1 2007	Q1 2006 ⁽²⁾	% Change
Revenue	7,832,175	3,826,407	105%
EBITDAS ⁽¹⁾	925,633	(166,801)	655%
Income (loss) before income taxes	(529,822)	(829,036)	(36%)
Net income (loss)	(529,822)	(570,732)	(7%)
Net income (loss) per share (basic and diluted)	(0.01)	(0.01)	-
Total assets	41,588,354	15,787,018	163%
Notes and Long term debt	18,572,399	12,854,126	44%
Number of common shares outstanding ⁽³⁾ :			
Weighted average - basic and diluted	55,012,335	38,899,322	41%

- (1) EBITDAS means earnings from continuing operations before interest, taxes, amortization, and stock based compensation. Readers are cautioned that EBITDAS is generally regarded as an indirect measure of operating cash flow and, as such, the Company believes it is a significant indicator of success of public companies, and is particularly relevant to readers within the investment community. These measures do not have any standardized meaning prescribed by GAAP and may not be comparable to similar measures presented by other companies; however, PEG is consistent in its calculation of EBITDAS for each reporting period.
- (2) The Company became a reporting issuer on March 29, 2006, being the date of receipt for its initial public offering prospectus.
- (3) Includes both Common Shares and Class C non-voting Shares (which, except for voting privileges, have the same rights as, and are convertible into, the Common Shares).

FIRST QUARTER HIGHLIGHTS

The Corporation's 2007 first quarter revenue increased 105% compared to the 2006 first quarter. EBITDAS for the 2007 first quarter increased 655% and net loss before income tax benefit decreased 36% as compared to the 2006 first quarter. Earnings per share remained the same compared to the 2006 first quarter, although average shares outstanding increased 41%.

On February 2, 2007, the wholly owned subsidiaries A to Z Pressure Pump, LLC ("A to Z") and Production Enhancement Technology, LLC ("PET") were merged into P. E. T., International, Inc. ("PETI"). The name of the entity was changed to Wise Well Intervention Services, Inc.

The Corporation closed an offering of 6,666,667 share capital units on March 5, 2007. Each unit is comprised of one Series A 8% Cumulative, Non-voting Convertible Preferred Share and three quarters of one Common share purchase warrant. Net proceeds realized were \$4,462,000.

In addition, on March 5, 2007, the Corporation completed its acquisition of Wireline Specialists of Louisiana, Inc. ("WSL") which expands the Company's market coverage in Texas and Louisiana and service lines. WSL became an operating division of Wise Well Intervention Services, Inc. In conjunction with this acquisition, the Corporation expanded its senior debt facility to \$14 million.

RESULTS OF OPERATIONS

Three Months Ended March 31, 2007 Compared to the Three Months Ended March 31, 2006

Consolidated revenues for the three months ended March 31, 2007 and 2006 were USD 7,832,175 and USD 3,826,407 respectively. Coiled tubing division revenues increased 161% in the 2007 first quarter compared to the 2006 first quarter. The improvement over the first quarter of last year is primarily attributable to a currently high level of utilization and the acquisition by the division of three more units subsequent to the first quarter of 2006. Utilization was still depressed in the first quarter of 2006 due to the continuing effects of hurricanes Katrina and Rita. Additionally, the division increased its day rates over what had formerly been charged in the first quarter of 2006. During the first quarter of 2007, the division took delivery of four new injector heads and two coiled tubing reels that are capable of performing deeper jobs and storing more pipe and which generate higher day rates for services. Pumping division revenues increased 4% in the 2007 first quarter compared to the 2006 first quarter and were largely attributable to the recovery from the hurricanes and additional capital equipment. The new wireline services division contributed USD 555,000 total revenues during the month of March 2007.

EBITDAS for the three months ended March 31, 2007 and 2006 were USD 925,633 and USD (166,801), respectively. The 655% improvement over the first quarter of last year is primarily attributable to full utilization for the quarter of the three new units at coiled tubing division and increased day rates. The 2005 numbers and first quarter 2006 shown later in this report reflect the expenditure levels of a private corporation, which did not include expenses such as stock exchange, increased accounting, legal, insurance and other associated fees normally incurred within a public reporting environment. As the size of the Company increases and the reporting requirements expand, the salaried employees required to manage the Company has increased significantly. The majority of the planned senior management team is now in place, as well as the corporate divisions required to manage and operate a publicly-held corporation and costs should remain relatively stable in the future and, therefore, decline as a percentage of revenue.

Cost of services were USD 4.1 million and USD 2.7 million, respectively, for the three months ended March 31, 2007 and 2006. Cost of services for coiled tubing increased from USD 1.7 million in first quarter 2006 to USD 2.9 million in first quarter 2007. Gross margins for coiled tubing were 46% and 20% for the three months ended March 31, 2007 and 2006, respectively. Margins have improved as the cost of sub-rentals and repairs has decreased as a percentage of sales due to upgrading the equipment fleet. Cost of services for the pumping division increased from USD .8 million in first quarter 2006 to USD .9 million in first quarter 2007. Gross margins were 52% and 57% for the three months ended March 31, 2007 and 2006.

Selling, general and administrative expenses were USD 2,939,009 and USD 1,278,145, respectively, for the three months ended March 31, 2007 and 2006. These amounts consist primarily of salaries and costs associated with various operating activities, finance, acquisition, and general corporate expenditures.

The Company's interest expense and amortization costs were USD 1,109,164 and USD 662,235 for the three months ended March 31, 2007, and 2006 respectively. Interest amounts for 2007 are associated with the senior term facility, capital expenditure facility and working capital facility which consolidated all prior debt of the subsidiaries. Amortization increased due to increases in capital assets and the costs of financing which had been capitalized prior to the closing of the new debt facility on May 2, 2006.

The Company recorded net losses before future tax recovery of USD 526,058 and USD 829,036 respectively, for the three months ended March 31, 2007 and 2006. The decrease in net loss from the prior year is primarily the result of the additional revenues generated by the equipment additions

The Company had cash and cash equivalents of USD 2,180,080 as at March 31, 2007 and USD 516,569 at March 31, 2006. Net cash provided (used) by operating activities before changes in non-cash working capital was USD 557,429 and USD (438,920) for the three months ended March 31, 2007 and 2006. The positive cash flow for the current quarter demonstrates the Company's ability to cover its increased interest expense.

Cash flows from (used in) investing activities were USD (7,840,825) and USD 202,852 respectively, for the three ended March 31, 2007 and 2006. The Company undertook an aggressive capital asset expansion plan that began in the second quarter of 2006 and continues into the first quarter of 2007. The majority of the capital expenditures relate to costs associated with the manufacture of coiled tubing units and pressure pumping equipment. As discussed below, the Company acquired a wireline services company in March 2007 that owned equipment with a fair market value of over USD 6 million.

Cash flows provided by financing activities were USD 11,532,239 and USD 441,352, respectively for the three months ended March 31, 2007 and 2006. These cash flows in the first quarter of 2007 are primarily the result of borrowings under the Company's capital expenditure and revolver lines.

Acquisitions

On March 5, 2007, the Company purchased all of the shares of Wireline Specialists of Louisiana, Inc. ("WSL"). The Company assumed and refinanced WSL's existing debt of approximately \$2.1 million and paid net consideration to the selling shareholders of approximately \$3 million 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. 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.

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 CAD 1.5 million and paid net consideration to the selling shareholders of approximately CAD 230,000 cash, and up to approximately 450,000 Company 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.

Both acquisitions have been accounted for using the purchase method with the results of operations of WLS and Dyna Star 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 CAD 1.10 for the purchase of WLS and CAD .98 for the purchase of Dyna Star.

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 WLS and Dyna Star. The preliminary purchase allocations are as follows:

	Wireline Specialists of La., Inc.	Dyna Star Energy Services Ltd	Total
Net assets acquired:			
Cash	26,001	-	26,001
Non-cash working capital	100,094	(791,261)	(691,167)
Capital assets and deposits	6,178,222	2,721,150	8,908,635
Intangibles	991,759	115,483	1,107,242
Goodwill	521,562	214,172	726,471

Long-term debt	(1,872,578)	(1,489,655)	(3,362,233)
	<hr/>	<hr/>	<hr/>
	5,945,060	769,889	6,714,949
Consideration:			
Common shares issued at closing	1,159,644	-	1,159,644
Cash	3,078,355	231,000	3,308,355
Potential cash earn-out	450,000		450,000
Potential stock earn-out	1,139,021	538,889	1,677,910
Total consideration	<hr/>	<hr/>	<hr/>
	5,945,060	769,889	6,714,949

Financing Activities

The Corporation's primary sources of financing are bank debt and equity issuances. In March 2007, the Corporation amended its loan agreement increasing the senior term loan to USD 14 million and amended the agreement again in April 2007 to a total of USD 25 million, maintaining all other terms and conditions to the existing facility.

On March 5, 2007, the Corporation closed its offering of Preferred Stock. (See Share Capital)

Contractual Obligations

On January 15, 2007 PETI signed a lease for housing for personnel stationed at the Cleburne location. The lease requires monthly minimum lease payments of USD 1,100 through June 30, 2008.

Liquidity and Capital Resources

Working Capital

(USD \$ thousands)	As at March 31, 2007	As at December 31, 2006
Current assets	11,363,419	7,594,749
Current liabilities	10,881,243	7,718,227
Working capital	<hr/>	<hr/>
	482,176	(123,478)

The increase in working capital was largely a result of the USD 2.6 million increase in accounts receivable, which was offset by the USD 2.2 million increase in current maturities of long-term debt.

The Company is funding its capital and operating needs with funds from the senior term, capital expenditure and working capital facility entered into in May 2006 and with the net proceeds from the Company's IPO and Preferred Share offering. Liquidity risk arises from our ability to meet general funding needs and manage the assets, liabilities and capital structure of the Company. Liquidity risk is managed to maintain sufficient liquid financial resources to fund obligations as they become due in the most cost effective manner. Our liquidity needs are met through a variety of sources, including: cash generated from operations, short-term borrowings against our credit facilities, and long-term borrowings against our capital expenditure line. Our primary uses of funds are operational expenses, capital expenditures, and interest and principal payments on credit facilities.

As discussed above, the Company has a USD 30 million total credit facility consisting of a USD 5 million revolving credit facility, a USD 15 million term loan and a USD 10 million capital expenditure facility. The interest rate on the total facility is 3.5% over LIBOR. At March 31, 2007, the Company had approximately USD 6.2 million of unfunded capacity under the capital expenditure facility and approximately USD 4 million available under the revolver. We expect that our ability to generate adequate cash flow from operations in the short-term and the long-term and, when needed, to maintain financial capacity and flexibility to provide for planned growth remains substantially unchanged since December 31, 2006.

We anticipate that acquisitions of complementary companies, assets and product lines will continue to play an important role in our business strategy. The Company purchased a private wireline services company with service locations in Texas and Louisiana in the first quarter of 2007 and a private coiled tubing services company in Canada in April 2007. Transactions such as this can be effected quickly and may occur at any time. These acquisitions were financed through issuances of our equity, as discussed below, and expansion of our senior debt facility. Future acquisitions and capital expenditures may be funded through possible private placements and subordinated debt financing. The extent to which we will be able or are willing to use our common shares to make acquisitions will depend on its market value from time to time and the willingness of potential sellers to accept it as full or partial payment.

Share Capital

Shares issued and outstanding as of March 31, 2007 are as follows:

Common Shares	Number of Shares	Amount (USD)
Balance, December 31, 2006	16,357,848	15,619,467
Shares issued for WLS acquisition	1,234,741	1,159,644
Fair value of warrants expired issued for financing		3,764
Balance, March 31, 2007	<u>17,592,589</u>	<u>16,782,875</u>
Class C Shares		
Balance, December 31, 2006	38,297,784	-
Balance, March 31, 2007	<u>38,297,784</u>	-
	<u>55,890,373</u>	<u>16,779,111</u>
Preferred Shares		
Balance, December 31, 2006	-	-
Preferred share offering	6,666,667	2,191,050
Balance, March 31, 2007	<u>6,666,667</u>	<u>2,191,050</u>
Warrants		
	Number of Warrants	Amount (USD)
Balance, December 31, 2006	6,288,433	1,559,049
Warrants issued pursuant to preferred offering	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	<u>11,433,333</u>	<u>USD 3,825,998</u>
Total share capital		<u>USD 22,799,923</u>

On March 5, 2007, the Company completed a private placement of 6,666,667 units (each a “Unit”) priced at CAD 0.87 per Unit, for a total value of up to CAD 5.8 million. Each Unit comprises one Series A 8% Cumulative, Non-voting Convertible Preferred Share and three quarters of one Common Share purchase warrant. Proceeds of the offering were used to close the acquisition of WSL described above (see Liquidity and Capital Resources).

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 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 CAD 1.74 for a period of 10 consecutive trading days on which an average of 10,000 Common Shares have traded.

Each whole Warrant shall entitle the holder to purchase one Common Share at a price per share of CAD 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 CAD 2.48.

The exclusive placement agent received a 7% commission and broker warrants equivalent to 5% of the number of Preferred Shares issued pursuant to the offering. Each Broker Warrant entitles the holder to purchase one Common Share at a price per share of CAD 1.08 for a period of five years following the date of issuance.

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, options have a five year term. The exercise price of the options is determined by the Board and will not be less than the market price of the common shares at the grant date. The Board will determine the vesting terms at the time of grant. The Board approved grants during the first quarter of 2007 of 190,000 on February 26, 2007 and 435,000 on March 26, 2007. 95,000 options were cancelled during the first quarter of 2007. As a result of the new grants and forfeitures, as of the reporting date the total number of options outstanding is 5,042,500.

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

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

On April 19, 2006, the Company completed its IPO pursuant to which the Company issued 10,000,000 units. Each Unit consisted of one Common Share and one-half of one Warrant. Each whole Warrant entitles the holder to purchase a Common Share at an exercise price of CAD 3.00 until April 19, 2007. The Agent also received an option to acquire 1,000,000 Common Shares at a price of CAD 2.00 per Common Share for a period of up to 12 months from the closing date of the IPO.

RELATED PARTY TRANSACTIONS

Other than as disclosed below, there are no material interests, direct or indirect, of directors, senior officers, any shareholders who beneficially own, directly or indirectly, more than 10% of the Company's outstanding Common Shares (on a fully diluted basis), or any known associates or affiliates of such persons, in any transaction within the last three years or in any proposed transaction which has materially affected or will materially affect the Company:

- (a) Legal fees related to the Company's transactional activities are charged by the law firm at which the Corporate Secretary is a partner. For the three months ended March 31, 2007 these legal fees totalled USD 144,927 and there was an outstanding balance at March 31, 2007 of USD 118,869.
- (b) The Company previously entered into an advisory board chairman and consulting agreement pursuant to which a family member of two senior executives was paid USD 12,000 during the three month period ended March 31, 2007.
- (c) Equipment purchases, equipment rental and equipment repairs of USD 382,897 were recorded during the three month period ended March 31, 2007 to a company controlled by a director of the Company. 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 USD 240,703.
- (d) Outsourcing MIS Agreement dated December 14, 2004 whereby the Company is outsourcing certain software and system technology development and support functions to a company controlled by a director and officer of the Company. The Company purchased a USD 250,000 license for the operation of a global support center for the WISE™ CT Units in the field, a user contract at USD 1,500 per month per CT Unit, a per CT Unit installation fee of USD 75,000 and customization costs based on established rates per hour. This agreement became effective upon the Closing of the IPO for an initial period of three years. The agreement has been expanded in 2006 to include other outsourcing services. 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. Computer consulting and services totalling USD 263,696 were recorded during the three month period ending March 31, 2007 to this company. There was an outstanding balance at March 31, 2007 of USD 240,703.
- (e) The company leases real property for its facility in Lafayette, Louisiana from a company controlled by a director of the Company. For the three months ended March 31, 2007, USD 64,500 was recorded.
- (f) The Company purchased chemicals for resale totalling USD 77,119 from a company that is beneficially owned by two officers of a subsidiary during the quarter ended March 31, 2007. A balance of USD 75,013 remained at March 31, 2007.
- (g) 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 USD 2,500.
- (h) 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 USD 5,525 at March 31, 2007 and there were no consulting fees paid.
- (i) As a result of the acquisition of WSL in March 2007, the Company paid consulting fees to a shareholder during March 2007 in the amount of USD 10,650.

All of the above related party transactions are recorded at agreed to exchange amounts that represent fair value.

COMMITMENTS & PROPOSED TRANSACTIONS

- (a) The Company has made deposits in the amount of USD 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 USD3,403,339.
- (b) The Company has entered into a master 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 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 USD 290,721.

SUMMARY OF QUARTERLY RESULTS ^{(1), (2), (3), (4)},**Stated in USD**

	2007		2006			2005
	Q1	Q1	Q2	Q3	Q4	Q4
Revenue	7,832,175	3,826,407	4,578,542	5,780,183	6,850,175	2,523,320
EBITDAS	925,633	(166,801)	(200,404)	58,383	385,352	434,188
(Loss) before Income Taxes	(529,822)	(829,036)	(1,467,380)	(1,263,630)	(1,084,490)	161,464
Net Income (loss)	(529,822)	(570,732)	(1,041,137)	(1,263,630)	(1,363,751)	666,864
Net Income (loss) per share, Basic and fully diluted	(0.01)	(0.01)	(0.02)	(0.02)	(0.02)	0.07
Total Assets	41,588,354	15,787,018	32,188,052	31,630,733	32,943,703	9,103,026
Notes and Long-term Debt	18,572,899	12,854,126	11,266,715	11,940,820	14,275,015	6,411,290
Basic and dilutive shares	55,012,335	38,899,322	49,269,095	52,869,716	54,655,632	9,140,775

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

(2) The Company became a reporting issuer on March 29, 2006, being the date of receipt for its initial public offering prospectus. Quarterly financial information has not been provided for 2005, because the Company did not prepare such information.

(3) Includes both Common Shares and Class C non-voting Shares (which, except for voting privileges, have the same rights as, and are convertible into the Common Shares).

- (4) As the acquisition of the Company and PETI was accounted for using the reverse take over rules of accounting, all December 31, 2005 information is that of PET.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company's consolidated financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") and significant accounting policies utilized by the Company are described in note 3 to the Company's consolidated financial statements. Management believes the accounting principles selected are appropriate under the circumstances and the Audit Committee of the Company has approved the policies selected.

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

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

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

Property and Equipment Property and equipment are recorded at cost less accumulated depreciation. Depreciation is computed based upon the Company's depreciation policies (see note 3 to the consolidated financial statements). The depreciation policies selected are intended to depreciate the related property and equipment over their useful life. The use of different assumptions with regard to the useful life could result in different carrying values for these assets as well as for depreciation expense.

Impairment of Long-lived Assets Long-lived assets are reviewed for impairment annually. An impairment loss is recognized when the carrying amount of a long-lived asset exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposition. Estimates of undiscounted future net cash flows are calculated using estimated future revenues, operating expenses and other costs. These estimates are subject to risk and uncertainties, and it is possible that changes in estimates could occur which may affect the expected recoverability of the Company's long-lived assets. Based on management's expectations for continued demand for the Company's services, the assumptions utilized to determine the future recoverability of long-lived assets resulted in no indication as at December 31, 2006 that the carrying value of the long-lived assets would not be recoverable in the future.

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

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

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

ACCOUNTING POLICIES

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

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

Comprehensive income and its components; and
Accumulated other comprehensive income and its components.

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

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

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

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

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining the Company’s disclosure controls and procedures. They are assisted in this responsibility by the Company’s senior management team. Disclosure controls and procedures have been designed to ensure that information required to be disclosed by the Company is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure. An evaluation of the design and operating effectiveness of the Company’s disclosure controls and procedures as of December 31, 2006 was performed under the supervision of the Chief Executive Officer and Chief Financial Officer and with the participation of the Company’s senior management. The

evaluation was performed in accordance with the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) control framework adopted by the Company and the requirements of Multilateral Instrument 52-109 of the Canadian Securities Administrators, *Certification of Disclosure in Issuers’ Annual and Interim Filings*. The Chief Executive Officer and Chief Financial Officer have concluded, as of the date of this MD&A that the Company’s disclosure controls and procedures have been designed and are operating effectively to provide reasonable assurance that material information related to the Company is made known to them by others within the Company.

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

The Chief Executive Officer and Chief Financial Officer of the Company are responsible for designing internal controls over financial reporting or causing them to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. An evaluation of the design effectiveness of the Company’s internal controls over financial reporting as of December 31, 2006 was performed under the supervisions of the Chief Executive Officer and Chief Financial Officer and with participation of the Company’s senior management in accordance with the COSO framework and Multilateral Instrument 52-109. The Chief Executive Officer and Chief Financial Officer have concluded, as of the date of this MD&A, that the Company’s internal controls over financial reporting have been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

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

EXPANSION /GROWTH

Using the combined infrastructures of PET and A to Z and the new wireline addition, 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 (collectively the “Southern Territory”). The Company also plans to expand its operations in western Canada, the mid continent area and the western United States through the acquisition of well intervention service companies already operating in those regions. Through its recent acquisition of Dyna Star Energy Services Ltd., the Company has acquired a foothold in the western Canadian market, which forms the nucleus of its “Northern Territory” operating division (which is anticipated to include the United States 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. The closing of additional acquisitions will depend on, among other factors, both an increase in the Company’s existing credit facilities and the raising of additional equity or other capital (including subordinated debt facilities and/or subordinated notes to be offered to sellers for a portion of their purchase consideration).

On April 16, 2007, the Company signed an agreement with Al Qahtani Maritime & Oil Field Services Co. to form a joint venture to exploit the Company’s patented WISE™ multifunction coil tubing well intervention systems on an exclusive basis in the Middle East, beginning in Saudi Arabia with future expansion opportunities throughout the region. The joint venture, which will be 60% owned by Al Qahtani Maritime and 40% owned by the Company, will immediately begin constructing WISE coiled tubing units capable of working in harsh environments, both onshore and offshore. The units, which will be built in the U.S., will be custom configured for each target location covered by the agreement and will feature the latest WISE patented technology. The joint venture company will be named Al Qahtani WISE Co., Ltd., and will market, sell, and support well intervention systems and services under the trademarked WISE™ brand.

On April 19, 2007, the Company signed an agreement with Grupo Creatica, S.A. de C.V., (“Grupo Creatica”) to form a joint venture to deploy the Company’s patented WISE™ multifunction coil tubing well intervention systems on an exclusive basis in Mexico. The

joint venture company will market, sell, and support well intervention systems and services under the Company's trademarked WISE™ brand. The joint venture, which will be 51% owned by Grupo Creatica and 49% owned by the Company, will begin constructing six WISE coiled tubing units as the first step in a long-range strategy for the Mexico market once the joint venture company is organized. The initial units will be funded by or through Grupo Creatica, with no funding or credit support from the Company. The units will be custom-configured for each target location and will feature the latest WISE patented technology, including site-generated nitrogen capabilities.

The Company's operations as of March 31, 2007 consist of nine existing WISE™ CT Units, five WISE™ pressure pump units and one WISE™ thermal fluid unit. The Company intends to grow its fleet of operating equipment and has ordered two WISE™ dual pressure pumps with expected delivery in May and June, two WISE™ multifunction units in June, and has two self generating nitrogen units on order for June delivery. The Company has plans to order up to twelve additional WISE™ units. 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 preferred share offering, cash flow from operations, and the raising of sub-debt.

RISK FACTORS

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

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

Operating Risk and Insurance

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

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

The Company is dependent on certain key personnel

The Company and its subsidiaries are dependent on the services of several key personnel, including Philip Crawford, Chief Executive Officer and co founder, Chester Jachimiec, Executive Vice President and co founder, and Jaime Crawford, President of PETI and co founder. The loss of services of any of these individuals could impair the Company's ability to complete the domestic and international rollout of our products and services and could have a material adverse effect on the Company's business, financial condition, and results of operations.

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

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

The market for coiled tubing and well services is intensely competitive

The Company's products and services compete with products and services offered by a number of other entities, many of which have long operating histories and are much better capitalized than the Company. The barriers to entry for coiled tubing services and businesses overall are relatively low considering that coiled tubing unit costs begin at about \$1 million, making it possible for new competitors to enter the market. However, the Company and its subsidiaries have obtained and are in the process of obtaining patents for our technology that would bar competitors from developing certain equipment that infringes on the key, patented aspects of our technology. Nevertheless, the Company expects that new competitors will enter our market in the future. The Company plans to protect our technology by defending our proprietary rights of ownership and seeking additional patents for specific aspects of our technology, but there is no guarantee that such additional patents will be issued.

Many of our existing and potential competitors have long operating histories in the coiled tubing and well services markets, greater name recognition, larger consumer bases and significantly greater financial, technical and marketing resources than we do. Some of our competitors may also be able to provide customers with additional benefits at lower overall costs in an effort to increase market share. The Company cannot be sure that it will be able to match cost reductions that may be implemented by our competitors. Our competitors and other companies may form strategic relationships with each other to compete with us. These relationships may take the form of strategic alliances, joint marketing agreements, licenses or other contractual arrangements, which arrangements may increase our competitors' ability to address customer needs with their product and service offerings. The Company believes that there is likely to be consolidation in our prospective markets, which could lead to increased price competition and other forms of competition that could cause our business to suffer.

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

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

Vulnerability to Market Changes

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

Equipment and Technology Risks

The ability of the Company to meet customer demands in respect of performance and cost will depend upon continuous improvements in operating equipment. There can be no assurance that the Company will be successful in its efforts in this regard or that it will have

the resources available to meet this continuing demand. Failure by the Company to do so could have a material adverse effect on the Company. No assurances can be given that competitors will not achieve technological advantages over the Company.

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

Risks Related to the Company's Acquisition Strategy

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

Acquisitions involve a number of additional risks, including failure of the acquired businesses to achieve expected results, diversion of management's attention and resources to acquisitions, failure to retain key customers or personnel of the acquired businesses and risks associated with unanticipated events, liabilities or contingencies. Client dissatisfaction or performance problems at a single acquired firm could negatively affect the reputation of the Company. Acquisitions will be accounted for as purchases and may result in substantial annual non cash amortization charges for goodwill and other intangible assets in the Company's statements of operations. If the Company is unable to acquire complementary energy service businesses on reasonable terms or successfully integrate and manage acquired companies, or if performance problems occur at acquired companies, there could be a material adverse effect on the Company.

Need for Additional Financing

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

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

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

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

We are subject to the cyclical nature of the oil and gas industry

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

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

Our industry is highly competitive

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

Dependence on Suppliers

The ability of the Company to compete and grow will be dependent on the Company having access, at a reasonable cost and in a timely manner, to equipment, parts and components. The Company has a Manufacturing Agreement in place with a related party to produce its WISE™ CT Units, which the Company believes contains favourable terms to the Company for cost of construction and delivery schedules. The inability of LSI to construct units under the Manufacturing Agreement for any reason could eliminate what the Company believes to be a competitive advantage in this regard. The Company is seeking to reduce this dependence by securing manufacturing contracts with alternative sources of components and/or manufacturers who can assemble the completed equipment units. Failure of LSI or other suppliers to deliver equipment, parts and components at a reasonable cost and in a timely manner would be detrimental to the Company's ability to maintain existing customers and expand its customer list. No assurances can be given that the Company will be successful in maintaining its required supply of equipment, parts and components. It is also possible that the final costs of the major equipment contemplated by the Company's capital expenditure program may be greater than anticipated by management, and may be greater than funds available to the Company, in which circumstance the Company may curtail or extend the timeframes for completing, its capital expenditure plans. This could have an adverse affect on the financial results of the Company.

Credit Risk

A substantial portion of the Company's accounts receivable are with customers involved in the oil and natural gas industry, whose revenues may be impacted by fluctuations in commodity prices. Although collection of these receivables could be influenced by economic factors affecting this industry, management considers the risk of a significant loss to be remote at this time. The Company does not have significant exposure to any individual customer other than five major independent oil and natural gas companies that accounted for approximately 34.14% of the revenue for the year ended December 31, 2006. The largest of these customers accounted for approximately 10.52% of revenues for the year, and no other customer made up 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 noncompliance 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. Although there were no hurricanes in the Gulf of Mexico in 2006, hurricanes affect the Company's business most years as crews and equipment are forced to evacuate manned platforms from the time the storms enter the Gulf of Mexico until they make landfall, disrupting revenues and adding costs of storm preparation and the potential risk of damage to equipment or injuries. 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. The Company is also designing its new units to be deployable offshore or onshore within a turnaround time of less than a day. This will further reduce the Company's exposure to adverse weather conditions in the offshore markets.

Terrorist Attack

Terrorist activities, anti-terrorist efforts and other armed conflict involving the US may adversely affect the United States and global economies and could prevent us from meeting our financial and other obligations. If any of these events occur, the resulting political instability and societal disruption could reduce overall demand for oil and natural gas, potentially putting downward pressure on demand for our services and causing a reduction in our revenues. Oil and gas related facilities could be direct targets of terrorists attacks, and our operations could be adversely impacted if infrastructure integral to customers' operations is destroyed or damaged. Costs for insurance and other security may increase as a result of these threats, and some insurance coverage may become more difficult to obtain, if available at all.