

PRODUCTION ENHANCEMENT GROUP, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE SIX MONTHS ENDED JUNE 30, 2006

August 14, 2006

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

The accompanying Management Discussion and Analysis dated August 14, 2006 focuses on key statistics from the unaudited consolidated financial statements for Production Enhancement Group, Inc. ("PEGI" or "the Company") for the three and six months ended June 30, 2006, which have been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") and pertains to known risks and uncertainties relating to the oilfield services industry. This discussion should not be considered all-inclusive, as it excludes changes that may occur in general economic, political and environmental conditions. This discussion and analysis of the financial condition and results of operations for the three and six months ended June 30, 2006 should be read in conjunction with the Company's December 31, 2005 audited consolidated financial statements and related notes and MD&A with the interim financial statements and the MD&A for the first quarter ended March 31, 2006. 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). Notes referred to herein relate to the June 30, 2006 financial statements.

The Company has adopted the United States dollar as its reporting currency as all current operations are located in the United States and all numbers are United States dollar unless otherwise detailed.

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. Although such expectations are viewed as reasonable by the Company, no assurance can be given that such expectations will be realized. Such forward-looking statements are subject to risks and uncertainties and may be based on assumptions that may cause actual results to differ materially from those implied herein, and therefore are expressly qualified in their entirety by this cautionary statement.

Forward-looking statements may be influenced among other things, by the following assumptions, uncertainties and other factors: the level of operations carried on by our customers; oil and gas prices; weather; availability of capital; manufacturing cycles of new equipment and availability of human resources. The preceding list is not comprehensive, and as such, investors and others who rely on these statements should consider other uncertainties and events.

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.

OVERVIEW OF BUSINESS

The Company was incorporated in Alberta, Canada on November 21, 2005. On the date of its incorporation, the Company acquired P.E.T. International, Inc. ("PETI"). The business activities of the Company and its wholly-owned subsidiary (PETI) in 2005 were concentrated in targeting acquisitions, raising funds and pursuing a public listing in Canada. Effective as of January 1, 2006, the Company acquired related company Production Enhancement Technology, LLC ("PET") and A to Z Pressure Pump Services, LLC ("A to Z") for cash and stock. Both acquired companies are primarily engaged in the well servicing business. Unless otherwise required by the context, the term "company" as used herein refers to Production Enhancement Group, Inc. and its consolidated subsidiaries.

The following is a description of PET and A to Z, which were both acquired by the Company on January 1, 2006:

PET

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

As of June 30, 2006, PET has designed, manufactured, tested and deployed (on land in Louisiana, Texas and Mississippi and in the offshore market of the Gulf of Mexico) four WISE™ II CT Units and three WISE™ III CT Units. Two additional WISE™ II CT Units are currently being manufactured for delivery to the Company in July and August, at a total cost of approximately \$2.4 million, which will be funded out of the initial public offering proceeds and the capital expenditure facility the Company has arranged.

A to Z

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

Organized in 2003, A to Z operates four pressure pump units and one thermal unit in both onshore oil and gas fields in Louisiana and in the offshore waters of the Gulf of Mexico as of June 30, 2006. A to Z is also in the process of purchasing two single pump trucks and additional support equipment (at a total cost of \$5,499,065 of which approximately \$2,565,362 has been funded) expected to be received in the third quarter of 2006. The balance of the funds required to acquire the pumping trucks will be funded out of the initial public offering proceeds and the capital expenditure facility the Company has arranged. The Company will utilize its WISE™ and Well Intervention Services and Equipment™ trademarks in connection with its pressure pumping equipment, but the equipment is being acquired from third parties and thus will not be proprietary to the Company in the same manner as the patented WISE™ CT Units.

On April 19, 2006, the Company completed its Initial Public Offering (the "IPO") and its common shares were listed on the Toronto Stock Exchange (the "TSX") raising gross proceeds of CDN\$20.0 million at an issue price of CDN \$2.00 (USD \$1.75 as of issue date) per unit ("Unit"). Net proceeds to the Company were CDN\$18.4 million (USD\$16.1 million). Each Unit consisted of one common share ("Common Share") and one-half of one warrant ("Warrant"). Each whole Warrant entitles the holder to purchase a Common Share at an exercise price of CDN \$3.00 (USD \$2.69 as at June 30, 2006) until April 19, 2007 provided that if the average closing price of the Common Shares on the TSX is equal to or greater than CDN \$4.00 (USD \$3.59 as at June 30, 2006) for any period of thirty consecutive days that the TSX is open for trading (the "Trading Period"), then subject to the terms and conditions of the warrant indenture, the Company will have the option to accelerate the expiration date of the Warrants to the date which is thirty days following the last day of the Trading Period. The offering was fully subscribed for 10,000,000 Common Shares and 5,000,000 Warrants. The trading symbol for the Company's Common Shares is "WIS" and the trading symbol for the Company's Warrants is "WIS.WT", both of which trade on the TSX.

SELECTED FINANCIAL INFORMATION ^{(1), (2), (3)}
(stated in USD \$)

	Three months ended June 30, 2006	Six months ended June 30, 2006
Revenue	\$4,578,542	\$8,404,949
EBITDAS ⁽¹⁾	(200,404)	(367,205)
Loss before income taxes	(1,467,380)	(2,296,416)
Net income (loss)	(1,041,137)	(1,611,869)
Net income (loss) per share (basic and diluted)	\$ (0.02)	\$ (0.04)
Total assets	\$ 32,188,052	\$31,667,644
Debt	\$ 11,266,715	\$11,266,715
Number of common shares outstanding ⁽³⁾ :		
Weighted average - basic and diluted	49,269,095	44,112,854
As at December 31, 2005	38,899,322	

(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.

- (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 as 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 the Common Shares).

RESULTS OF OPERATIONS

The corporate reorganization of PEGI and PETI dated November 21, 2005 has been accounted for using the continuity of interests method and accordingly, the consolidated accounts of PEGI and PETI have been reflected at their historical amounts. The acquisition of PET by PEGI has been accounted for as a capital transaction using the reverse take over accounting rules for transactions that do not constitute business combinations for accounting purposes. The acquisition of A to Z by PEGI has been accounted for using the purchase method of accounting for business combinations.

Revenues for the three and six months ended June 30, 2006 were \$4,578,542 and \$8,404,949, respectively. Unit utilization is continuing to increase as activity in the offshore Gulf of Mexico market continues to improve following the adverse impact of Hurricanes Rita and Katrina in late 2005 and the first half of 2006.

EBITDAS for the three and six months ended June 30, 2006 were losses of \$200,404 and \$367,205 respectively. The 20% decline is primarily attributable to increased corporate overhead costs for the parent company.

Cost of services were \$2,761,120 and \$5,082,339, respectively, for the three and six months ended June 30, 2006. As mentioned, rental costs decreased for the second quarter as the Company purchased assets previously being rented after completion of the IPO. These savings were offset by an increase in personnel and related costs, resulting in a 1% increase in gross margin to 40% for the second quarter and 40% for the six month period.

Selling, general and administrative expenses were \$2,477,620 and \$4,149,609 respectively, for the three and six months ended June 30, 2006. These amounts consist primarily of salaries and costs associated with various operating activities and general corporate expenditures. The Company continued to ramp up spending by approximately \$150,000 for the second quarter to hire additional sales and management personnel. In addition, the Company recognized \$459,794 in compensation expense during the second quarter relating to the issuance of stock options, the majority of which were granted at the conclusion of the IPO.

PEGI's interest expense and amortization costs were \$807,182 and \$1,469,417 for the three and six months ended June 30, 2006, respectively. Interest amounts are associated with the debt assumed with the acquisitions of PET and A to Z, Bridge Notes issued in December 2004, March 2005 and June 2005 and debt owed to the owners of acquired companies. This debt was restructured in May 2006 by a new 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.

PEGI recorded net losses of \$1,041,137 and \$1,611,869, respectively, for the three and six months ended June 30, 2006. The increase in net loss is primarily the result of accounting for stock based compensation.

PEGI had cash and cash equivalents of \$7,058,287 as of June 30, 2006. Net cash used in operating activities was \$528,734 and \$659,871 for the three and six months ended June 30, 2006. This cash burn is primarily attributable to the continued slowdown in offshore activity due to the lingering effects of the hurricanes from the fall of 2005.

Cash flows used in investing activities were \$6,851,205 and \$6,648,353, respectively, for the three and six months ended June 30, 2006. The Company undertook an aggressive capital asset expansion plan in the second quarter. The majority of the capital expenditures relate to costs associated with the manufacture of coil tubing units and pressure pumping equipment.

Cash flows provided by financing activities were \$13,921,657 and \$14,363,009, respectively for the three and six months ended June 30, 2006. These cash flows primarily reflect proceeds realized from the initial public offering offset by costs associated with the offering.

Financing Activities

During the six months ended June 30, 2006 the following financing activities occurred:

- On February 15, 2006, the Company entered into a non-binding term sheet ("Senior Credit Terms") from a major international financial institution to provide a senior credit facility of \$25 million, comprised of a working capital line of credit of \$5 million, an initial term loan of \$10 million and a capital expenditure line of \$10 million. The Senior Credit Terms

provide for an interest rate on each on the components of 3.5% over 3-month LIBOR, a five year amortization on the term loan and capital expenditure line. In addition, the Senior Credit Terms provide for a warrant to be issued to the financial institution to acquire 1,100,000 common shares at an exercise price of Canadian \$2.00 per share. The warrants have a term of five years. The facility is secured by all assets of the Company for a term of 5 years. This facility closed on May 2, 2006. With the acquisitions, the Company acquired notes payable of \$7,396,118, debt of \$3,253,427 factoring obligation of \$721,355 and capitalized lease obligations of \$1,067,081 all of which were paid off on May 2, 2006 with the facility described above. Total financing costs associated with the credit facility were \$635,000. In addition, the Company is required to pay a lending fee equal to (i) if the lender makes its election prior to or on the third anniversary of the closing date, USD \$2,920,000 less the greater of the current market value of 1,100,000 Common Shares of the Company or USD \$1,920,000, or (ii) if the lender makes its election after the third anniversary of the closing date, an amount equal to USD \$3,920,000 less the current market value of 1,100,000 shares of the Company or USD \$1,920,000. The result of the above formulas is the lender will receive a total compensation (value received from warrants and contingent lending fee) equal to \$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.

- On March 15, 2006, the Company obtained \$508,344 of short-term interim financing in the form of a sale/leaseback of certain equipment acquired subsequent to year end and the financing of additional equipment in the form of a lease. The lessor received a one-year warrant for 10,000 shares of common stock exercisable at the IPO price of CDN \$2.00 per share. The financing was repaid in May 2006 as part of the senior term facility described above and the lender retained its warrant.
- On April 19, 2006, the Company completed its IPO. See "Overview of Business". At that time, \$1,137,500 in bridge notes converted to Common Shares.

Contractual Obligations

In January 2006, PETI signed a lease for premises requiring monthly minimum lease payments of \$6,000 over the term of the lease, which expires January 2011. This lease can be extended an additional five years at a rental rate of \$6,900 per month. This lease also requires PETI to pay its share of monthly operating costs.

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

PETI renewed its lease on its corporate apartment in Houston, TX in June 2006. Payments are \$1,500 per month plus utilities for a term of one year.

In January 2006, PETI entered into a plan of exchange with the holders of Bridge Warrants whereby the holders agreed to exchange their Bridge Warrants for Common Shares of PEGI. As a result of accepting the plan of exchange, all of the Bridge Warrants were converted into 2,014,700 Common Shares at a deemed price of CDN\$2.00 (USD\$1.70). The plan of exchange offered the holders of Bridge Notes the option to receive, as payment for all or any portion of the outstanding principal and accrued interest, on their Bridge Notes, Common Shares of PEGI at a price per Common Share equal to CDN \$1.50 (USD\$1.27) per share. On January 20, 2006, PETI received confirmation that the Bridge Note holders had opted to convert \$1,137,500 of principal and \$189,201 of accrued interest (at April 19, 2006) into Common Shares. 1,038,731 Common Shares were issued on April 19, 2006 in exchange upon conversion of Bridge Notes.

Liquidity and Capital Resources

PEGI is funding its capital and operating needs with funds from the new senior term, capital expenditure and working capital facility entered into in May 2006 and with the net proceeds from the Company's IPO. 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 \$25 million total credit facility consisting of a \$5 million revolving credit facility, a \$10 million term loan and a \$10 million capital expenditure facility. 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, 2005.

Use of IPO Proceeds

The USD\$16.1 million in net proceeds from the Company's IPO, should provide sufficient capital for PEGI to operate and implement its current business plan for the next two years unless service activities increase at a pace that requires additional working capital or investment in equipment, or in the event one or more acquisitions are made that require greater capital.

Share Capital

Shares issued and outstanding as of June 30, 2006 are as follows:

Common shares	Number of Shares	Amount
Balance, December 31, 2005	3,007,899	\$ -
Share exchange for Class C shares	(3,000,000)	-
Shares issued for acquisition of PET	649,070	-
Shares issued for acquisition of A to Z	545,301	695,260
Class B share conversion on final receipt of IPO	1,784,331	-
Conversion of bridge notes and warrants	3,053,420	1,326,701
Third party shares	52,821	66,500
Shares issued at IPO, net of costs	10,000,000	13,541,831
Balance, June 30, 2006	<u>16,092,842</u>	<u>15,630,292</u>
Class B Shares		
Balance December 31, 2005	1,784,331	-
Conversion to common shares on final receipt of IPO	(1,784,331)	-
Balance June 30, 2006	<u>-</u>	<u>-</u>
Class C Shares		
Balance December 31, 2005	27,071,085	-
Share exchange of common shares	3,000,000	-
Shares issued for acquisition of PET	5,841,636	-
Balance June 30, 2006	<u>35,912,721</u>	<u>-</u>
	<u>52,005,563</u>	<u>\$15,630,292</u>
Warrants		
	Number of Warrants	Amount
Balance, December 31, 2005	2,193,133	\$ -
Warrants exercised with conversion of Bridge notes	(2,014,700)	-
Warrants issued pursuant to IPO	5,000,000	703,599
Warrants issued to lender	1,100,000	851,686
Balance, June 30, 2006	<u>6,278,433</u>	<u>\$1,555,285</u>
Total share capital		<u>\$ 17,185,577</u>

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

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. On February 13, 2006, the Board approved the granting of 4,175,000 stock options plus an additional 130,000 subject to the completion of the IPO, at a price of Canadian \$2.00 (US \$1.72), vesting over a period of one to three years. The options were granted after the completion of the IPO. The Board approved an additional grant of 795,000 on June 1, 2006. As at the reporting date the number granted had decreased to 4,455,000.

On December 22, 2005, the Company completed a private placement of Class B convertible common voting shares, raising net proceeds of CDN \$2,440,982 (USD \$2,082,845). 1,784,331 shares at a price of Canadian \$1.50 (US \$1.27) were issued. The Agent was paid a fee of 7.0% of the gross proceeds of the sale of the private placement and received options to acquire 178,433 Class B shares at an exercise price of Canadian \$1.50 (US \$1.27) until December 21, 2006. A director subscribed for 100,000 class B shares. All outstanding Class B shares were converted to Common Shares upon completion of the IPO in April, 2006.

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 CDN \$3.00 until April 19, 2007. The Agent also received an option to acquire 1,000,000 Common Shares at a price of Canadian \$2.00 per Common Share for a period of up to 12 months from the closing date of the IPO.

RELATED PARTY TRANSACTIONS

The Company was involved in related party transactions for legal fees related to the Company's initial IPO charged by the law firm at which the Corporate Secretary is a partner for the six months ended June 30, 2006 totalled \$321,127. There is no balance due to the firm as of June 30, 2006.

COMMITMENTS

The Company acquired all of the outstanding limited liability units of PET through the eventual issuance of 914,076 Common Shares, 8,226,699 Class C non-voting convertible shares, the issuance of \$4,529,840 in principal amount of notes payable and the payment of cash in the amount of \$813,943. As at June 30, 2006, 649,070 Common Shares and 5,841,636 Class C shares had been issued. The Company sent a draft of the final purchase price to PET for their approval and expect that the settlement will occur by August, 2006. The draft of the final purchase price has been used in the financials and is still subject to adjustment. \$4,529,840 in principal of the notes payable along with \$142,721 in accrued interest were paid in April, 2006 and \$440,250 in cash was paid in July, 2006. The Company will issue the balance of the Common Shares and the Class C non-voting shares upon receipt of all necessary approvals.

The Company purchased all outstanding limited liability units of A to Z for total estimated consideration of \$1,716,673 consisting of 545,601 Common Shares and the issuance of \$890,560 of notes payable, which were paid with accrued interest of \$33,430. The agreement allows for the purchase consideration to be increased by five times the difference between \$642,000 and 2006 EBITDA to a maximum amount of \$806,000. The contingency will be resolved once the final EBITDA for 2006 is determined. Any additional consideration paid will be accounted for at that time. The estimated maximum amount of additional consideration is \$401,800 in cash and 246,000 Common Shares.

EXPANSION /GROWTH

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

The Company's operations as of the beginning of 2006 consist of six existing WISE™ CT Units, three WISE™ pressure pump units and one WISE™ thermal unit. The Company intends to grow its fleet of operating equipment and added one WISE™ pressure pump in May, one WISE™III unit in June. As of June 30, 2006, The Company has two additional WISE™II units on order with expected delivery in July and August, as previously mentioned, and has ordered six additional WISE™ pressure pump 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 IPO, cash flow from operations, its capital expenditure facility and additional equity financings.

OUTLOOK

The key factors affecting the financial results for the remainder of 2006 are market factors, credit risk, environmental liability, employment retention and weather related risks.

Market Factors

The pricing for crude oil and natural gas remains at historical highs. Both commodities appear to have established sustainable pricing at much higher levels than in the past, causing analysts to predict continued high demand for services throughout 2006. The company's results of operations are highly dependent on the level of capital spending by the energy industry. While recognizing the volatility of commodity pricing, the Company's management remains optimistic regarding continuing high demand for its services.

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, given the cyclical nature of the oil and gas services industry and the inherent risk of unforeseen circumstances, a customer's ability to fulfill its obligations can change suddenly and without notice.

Environmental Liability

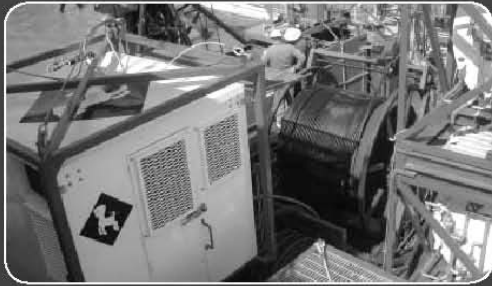
Our business is significantly affected by national and state or provincial laws and other regulations relating to the oil and gas industry and by changes in such laws and the level of enforcement of such laws. We are unable to predict the level of enforcement of existing laws and regulations, how such laws and regulations may be interpreted by enforcement agencies or court rulings, or whether additional laws and regulations will be adopted. We are also unable to predict the effect that any such events may have on us, our business, or our financial condition. In addition, demand for our services is affected by changing taxes, price controls and other laws and regulations relating to the oil and gas industry generally. The adoption of laws and regulations curtailing exploration, development and drilling for oil and gas in our areas of operations for economic, environmental or other policy reasons could also adversely affect our operations by limiting demand for our services. We also have potential environmental liabilities with respect to our offshore and onshore operations. Certain environmental laws provide for joint and several liabilities for remediation of spills and releases of hazardous substances. These environmental statutes may impose liability without regard to negligence or fault. In addition, we may be subject to claims alleging personal injury or property damage as a result of alleged exposure to hazardous substances. We believe that our planned operations will substantially comply with applicable national and state or provincial pollution control and environmental protection laws and regulations with no material adverse effect on financial results. However, such environmental laws are changed frequently. Sanctions for non-compliance may include revocation of permits, corrective action orders, administrative or civil penalties and criminal prosecution. We are unable to predict whether environmental laws will materially adversely affect our future operations and financial results.

Employment Retention

Our ability to remain productive and profitable will depend substantially on our ability to attract, retain and motivate highly 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 presently 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 the Company, 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

The Company's operations are carried out in the United States. Inclement weather can have a significant impact on the Company's ability to provide well intervention services in the effected area. 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. The Company is redesigning its future WISETM CT units to be operable both offshore and on land to mitigate the effects of possible offshore disruptions due to severe hurricanes. 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 may adversely affect the Company as it expands into new geographic markets.



PRODUCTION ENHANCEMENT GROUP, INC.
WISE™ Patented Multifunction Coiled Tubing Units

Head office
17225 El Camino Real, Suite 250
Houston, Texas 77058-2768

Calgary Office
3300, 421 – 7th Avenue S.W.
Calgary, Alberta, T2P 4K9.