Production Enhancement Group, Inc.
Consolidated Financial Statements
For the interim three month period ended June 30, 2006
(Unaudited - prepared by management)
(Stated in United States dollars)

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Notice of No Auditor Review of Interim Financial Statements

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited financial statements for the three months ended June 30, 2006.

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

	June 30, 2006	December 31, 2005
	(unaudited)	(audited) (Note 1)
Assets		
Current		
Cash	$ 7,058,287	$ 3,502
Accounts receivable - trade	3,766,175	2,251,059
Accounts receivable - other	22,000	14,828
Inventory and prepaid job cost inventory	302,550	108,151
Prepaid expenses and deposits	1,859,773	1,078,259
	13,008,785	3,455,799
Deposits	19,350	-
Property and equipment, net (Note 5)	14,779,232	5,524,447
Intangible assets, net	212,153	-
Future income taxes	1,189,947	505,400
Goodwill	418,012	-
Deferred costs, net (Note 6)	2,560,573	-
	$ 32,188,052	$ 9,485,646
Liabilities and Shareholders Equity (Capital Deficiency)		
Current		
Accounts payable and accrued liabilities	$ 5,808,454	$ 2,276,254
Notes payable (Note 7)	1,226,624	995,191
Current maturities of long term debt (Note 7)	2,000,000	941,343
Future income taxes	12,764	-
Capitalized lease obligation, current portion (Note 7)	37,619	-
Interest payable	142,991	-
	9,228,452	4,212,788.
Long term debt, net of current maturities (Note 7)	8,002,472	2,141,384
Future income taxes	183,190	-
Due to affiliate	-	2,333,372
	17,414,114	8,687,544
Shareholders' Equity (Capital Deficiency)		
Share capital (Note 8)	17,185,577	-
Contributed surplus	838,172	-
Retained earnings (Deficit)	(3,249,811)	798,102
	14,773,938	798,102
	$ 32,188,052	$ 9,485,646

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

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

	For the Three Months Ended June 30, 2006 (unaudited) Note 1	For the Six Months Ended June 30, 2006 (unaudited) Note 1
Revenue	$ 4,578,542	$ 8,404,949
Expenses		
Cost of services	2,761,120	5,082,339
Selling general and administrative	2,477,620	4,149,609
Amortization of deferred charges	101,999	176,394
Amortization of property and equipment and intangibles	348,594	664,315
Interest	356,589	628,708
	6,045,922	10,701,365
Loss before income taxes	(1,467,380)	(2,296,416)
Future income tax recovery	(426,243)	(684,547)
Net loss for the period	(1,041,137)	(1,611,869)
Acquisition adjustment to deficit (Note 3 (a))	24,498	(2,436,044)
Retained earnings, beginning of period	(2,233,172)	798,102
Deficit, end of period	$ (3,249,811)	$ (3,249,811)
Loss per share –		
Basic	$ (0.02)	$ (0.04)
Diluted	(0.02)	(0.04)
Weighted average number of shares outstanding –		
Basic	49,269,095	44,112,854
Diluted	49,269,095	44,112,854

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

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

	For the Three Months Ended June 30, 2006 (unaudited) Note 1	For the Six Months Ended June 30, 2006 (unaudited) Note 1
Cash flows used in from operating activities		
Net loss for the period	$ (1,041,137)	$ (1,611,869)
Non-cash items		
Amortization of deferred costs	101,999	176,394
Amortization of property and equipment and intangibles	348,594	664,314
Non-cash compensation expense	459,794	459,794
Future tax recovery	(426,243)	(684,547)
	(556,993)	(995,914)
Changes in non-cash working capital:		
Accounts receivable – trade	(752,351)	(792,667)
Accounts receivable – other	2,000	(5,814)
Inventory and prepaid job cost inventory	(124,763)	(50,086)
Prepaid expenses and deposits	(316,299)	(249,276)
Accounts payable and accrued liabilities	1,255,657	1,287,121
Interest payable	(35,985)	146,764
	(528,734)	(659,871)
Cash flows from financing activities		
Proceeds from initial public offering	16,100,103	16,100,103
Deferred costs and other assets	(962,236)	(1,244,326)
Repayment of factoring payable	(721,355)	(314,981)
Repayment of notes payable	(6,214,438)	(6,324,194)
Proceeds from long-term debt	10,002,472	10,293,323
Repayment of long-term debt	(3,253,427)	(3,578,134)
Proceeds from capital lease obligations	-	508,344
Payments of capital lease obligations	(1,029,462)	(1,077,126)
	13,921,657	14,363,009
Cash flows used in investing activities		
Additions property and equipment and intangibles	(6,851,205)	(7,562,605)
Cash acquired from acquisition of A to Z (Note 3(b))	-	22,264
Cash acquired from acquisition of PET (Note 3(a))	-	891,988
	(6,851,205)	(6,648,353)
Increase in cash	**6,541,718**	**7,054,785**
Cash, beginning of period	**516,569**	**3,502**
Cash, end of period	**$ 7,058,287**	**$ 7,058,287**

Supplemental information		
Interest paid	$ 225,186	$ 302,355

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

1. Basis of presentation

These interim financial statements were prepared using accounting policies consistent with those used in the preparation of the audited consolidated financial statements for the year ended December 31, 2005. These interim consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. Certain information and disclosures normally required to be included in the notes to annual financial statements have been condensed or omitted. Since the determination of many assets, liabilities, revenues and expenses is dependent upon future events, the preparation of these financial statements requires the use of estimates and assumptions. In the opinion of management, these financial statements have been prepared within reasonable limits of materiality.

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

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

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

Certain reclassifications have been made to previous presentations to conform to the June 30, 2006 financial statements.

2. Seasonality of operations

The Company’s operations are carried out in the United States. Incremental weather can have a significant impact on the Company’s ability to provide well intervention services in the affected areas. For example hurricanes typically affect the Company’s business as crews and equipment are forced to evacuate manned platforms from the time the storms enter the Gulf of Mexico until they make landfall, disrupting revenues and adding costs of storm preparation and the potential risk of damage to equipment or injuries. Weather can also affect operations on land due to delays in projects, delays and increased costs of mobilization and other factors.

3. Acquisitions

(a) On January 1, 2006, the Company acquired of all of the outstanding limited liability units of PET, a company that provides special coil tubing plus well intervention services, through the eventual issuance of 904,506 Common Shares, 8,140,553 of Class C non-voting convertible common shares and the issuance of $4,529,840 of notes payable and the payment of cash in the amount of $813,943. The acquisition of PET has been accounted for as a capital transaction using the reverse take over

accounting rules for transactions that do not constitute business combinations for accounting purposes. As a result, the amount of share capital, contributed surplus and deficit of the Company at the time of the transaction was eliminated. As at June 30, 2006, 649,070 Common shares and 5,841,636 Class C shares had been issued.

The notes payable were paid in April 2006. The remainder of the consideration will be paid upon approval of the final purchase price by both parties. Acquisition cost was decreased by $24,498 during the three month period ended June 30, 2006 to reflect the final acquisition cost of $378,926 for this transaction.

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

Cash	$ 891,988
Other current assets	22,543
Current liabilities	(1,987,678)
	(1,073,147)
Deposits	444,280
Property and equipment	286,923
Deferred costs	1,338,807
Intangible assets	1
	$ 996,864
Purchase price – notes payable (net)	$ 3,053,982
acquisition costs	378,926
shares	-
adjustments to retained earnings	(2,436,044)
	$ 996,864

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

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

(b) On January 1, 2006, the Company purchased all outstanding limited liability units of A to Z for total estimated consideration of $1,716,674 consisting of 545,301 common shares with a fair value of $695,260, $890,660 of notes payable and $130,754 of transaction costs. A to Z provides pressure pumping and related well intervention services to oil and gas producers and operators.

The agreement allows for additional consideration if Earnings before income taxes, depreciation and amortization (“EBITDA”) exceed certain levels in fiscal 2006 with a maximum payout of $820,000. Any additional consideration will be paid in cash and shares and will be accounted for upon final resolution.

This acquisition has been accounted for using the purchase method, whereby the net assets of A to Z have been recorded by the Company at their fair market value. Acquisition costs were $130,754 but are still subject to adjustment. As at June 30, 2006, the Company had issued 545,301 common shares.

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

Cash		$ 22,264
Other current assets		952,885
Current liabilities		(1,266,280)
Net current liabilities		(291,131)
Property and equipment		2,046,000
Intangible asset		235,724
Goodwill		418,012
Future income tax liability – current portion		(12,764)
long term		(183,190)
Long-term liabilities		(495,977)
		$ 1,716,674
Purchase price –	notes payable	$ 890,660
	shares	695,260
	acquisition costs	130,754
		$ 1,716,674

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

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

4. Significant Accounting Policies

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

Revenue Recognition

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

Prepaid Job Costs

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

Intangible assets

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

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

Impairment of long-lived assets

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

Factoring payable

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

Inventory

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

Amortization

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

	Years
Computer software and equipment	3
Equipment	5-15
Furniture and fixtures	3-5
Vehicles	5
Leasehold improvements	5-15

5. Property and Equipment

	June 30, 2006			December 31, 2005		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Software and equipment	$ 555,856	$ 24,857	$ 530,999	$ -	$ -	$ -
Equipment	9,923,316	1,792,521	8,130,795	5,883,137	1,093,174	4,789,963
Furniture and fixtures	271,699	31,582	240,117	32,909	8,807	24,102
Vehicles	4,340,820	732,830	3,607,990	1,236,122	559,119	677,003
Leasehold improvements	63,644	7,613	56,031	36,131	2,752	33,379
Work in process	2,213,300	-	2,213,300	-	-	-
	$ 17,368,635	$ 2,589,403	$ 14,779,232	$ 7,188,299	$ 1,663,852	$ 5,524,447

6. Deferred Costs

	June 30,2006
Deferred financing cost	$ 2,648,824
Less: Amortization	(88,251)
	$ 2,560,573

7. Debt Repayment

The Company acquired with the acquisitions disclosed in Note 3, total notes payable of $7,396,118, long term debt of $3,253,427, factoring payable of $721,355 and capitalized lease obligations of $1,067,081. This debt was paid in full on May 2, 2006 and replaced with the term loan facility as described below. Also, notes payable of $1,137,500 were converted to share capital at the date of the Company's initial public transaction. On May 2, 2006, the Company entered into a debt facility from a major international financial institution to provide a senior credit facility of $25 million, comprised of a working capital line of credit of $5 million, an initial term loan of $10 million and a capital expenditure line of $10 million. The Senior Credit Terms provide for an interest rate on each on the components of 3.5% over 3–month LIBOR, a five year amortization on the term loan and capital expenditure line.

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

The facility is secured by all assets of the Company for a term of 5 years. As at June 30, 2006, the Company paid $635,000 to cover the cost of due diligence.

The Company is required to pay a lending fee equal to (i) if the lender makes an election for the fee to be paid prior to May 2, 2009, an amount equal to $2,920,000 less the greater of the current market value of 1,100,00 common shares of the Company or $1,920,000, or (ii) If the lender makes an election for the fee to be paid after May 2, 2009, an amount equal to $3,920,000 less the greater of the current market value of 1,100,000 common shares of the Company or $1,920,000.

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. Management currently believes that the lender will elect to be paid within the first three years.

8. Equity instruments

(a) Authorized:

Unlimited number of common voting shares

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

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

Unlimited number of preferred shares

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

(b) Common shares and warrants issued and outstanding:

Common shares	**Number of Shares**	**Amount**
Balance, December 31, 2005	3,007,899	$ -
Share exchange for Class C shares	(3,000,000)	-
Shares issued for acquisition of PET(1)	649,070	-
Shares issued for acquisition of A to Z	545,301	695,260
Class B share conversion on final receipt of IPO	1,784,331	-
Shares issued to convert Bridge notes	3,053,420	1,326,701
Shares issued to third parties	52,821	66,500
Shares issued at IPO, net of costs	10,000,000	13,541,831
Balance, June 30, 2006	16,092,842	15,630,292
Class B Shares		
Balance December 31, 2005	1,784,331	-
Conversion to common shares on IPO	(1,784,331)	-
Balance June 30, 2006	-	-
Class C Shares		
Balance December 31, 2005	27,071,085	-
Share exchange of common shares	3,000,000	-
Shares issued for acquisition of PET(1)	5,841,636	-
Balance June 30, 2006	35,912,721	-
	52,005,563	$ 15,630,292

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 (Note 7)	1,100,000	851,686
Balance, June 30, 2006	6,278,433	$1,555,285
Total share capital		$ 17,185,577

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

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

(c) Plan of exchange

In January 2006, the Company entered into a Plan of Exchange with the warrant holders (Note 7) whereby the warrant holders agreed to exchange their warrants related to the issue of notes payable for shares of the Company at the effective conversion rate in the original agreements. As a result of accepting the Plan of Exchange, all of the warrants were converted into 2,014,689 common shares at a price of $2.00 (at a foreign exchange conversion rate such that the deemed US price is $1.70) per share. By accepting this agreement, the maturity date for the certain note offerings was changed to five business days following the closing of the Initial Public Transaction.

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

(d) Initial public offering

On April 19, the Company completed its Initial Public Offering and became listed on the Toronto Stock Exchange (the "TSX") raising CDN$20,000,000 at a CDN $2.00 (US $1.75 at date of issuance) per Unit. Net proceeds to the Company was CDN$18,378,267 (USD$16,100,102). Each Unit consisted of one common share and one-half warrant to purchase a common share at an exercise price of Canadian $3.00 (US $2.69 as at June 30, 2006) for a period of twelve months from the IPO closing date provided that if the average closing price of the common shares on the TSX is equal to or greater than Canadian $4.00 (US $3.59 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, 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 fair value of these warrants was estimated to be $703,599 using

the Black-Scholes model with the following assumptions: expected life of warrant of one year; expected volatility of 50%; risk-free interest rate of 4.0%; and a zero dividend yield.

The Agent also received an option to acquire common shares equal to 10% of the total number of Units distributed at an exercise price of Canadian $2.00 per common share for a period of up to 12 months from the closing date. The fair value of the agent's warrants was estimated to be $378,378 using the Black-Scholes model with the following assumptions: expected life of warrant of one year; expected volatility of 50%; risk-free interest rate of 4.0%; and a zero dividend yield. This amount has been recorded as a share issuance cost with a corresponding increase in contributed surplus.

(e) Stock option plan

On November 24, 2005, the Board approved a stock option plan (the "Plan") for the purpose of developing the interest of directors, officers, employees, and consultants in the growth of the Company. Under the terms of the plan, the Company has reserved 10% of the issued outstanding shares as the maximum stock options that can be granted. When granted, options have a five year term. The exercise price of the options is determined by the Board and will not be less than the market price of the common shares at the grant date. The Board will determine the vesting terms at the time of grant. Compensation expense for stock options is recognized using the fair value when the stock options are granted and is amortized over the option's vesting period.

During the six month period ended June 30, 2006, $459,794 was recognized as compensation expense in the consolidated statement of operations with a corresponding increase in contributed surplus. The expense was determined from the Black-Scholes option model with the following assumptions: risk-free interest rates ranging from 4.0 to 4.5%; expected life of five years; no annual dividends paid, and expected volatility of 50 %. As at June 30, 2006, no stock options were exercisable and the weighted average years to expiration was 4.83 years. The fair value of options granted during the six month period ended June 30, 2006 that were outstanding at June 30, 2006 was approximately $3,305,000.

	Share Options	Weighted Average Exercise Price $
Outstanding, beginning of period	-	
Granted	5,100,000	$1.70
Exercised	-	-
Cancelled	(645,000)	$1.70
Outstanding, end of period	4,455,000	$1.70

9. Related Party Transactions

Legal fees related to the Company's initial public offering charged by the law firm at which the Corporate Secretary is a partner for the six months ended June 30, 2006 totaled $321,127. There was no outstanding balance at June 30, 2006.

The Company previously entered into an advisory board chairman and consulting agreement in which a family member of two senior executives was paid $24,000 during the six month period ended June 30, 2006.

Equipment rental of $137,091 was expensed during the six month period ended June 30, 2006 to a company controlled by a director.

10. Commitments

The Company has made deposits in the amount of $1,572,000 toward the purchase of equipment to be delivered in September and November of 2006. The balance due on delivery is estimated to be $4,164,700.

At June 30, 2006, the Company had made a deposit of $850,000 to a company controlled by a director toward the purchase of a coiled tube unit which is estimated to be delivered in August 2006. Additionally, the Company paid $734,000 in July with the estimated remaining balance of $711,000 to be paid upon delivery. The Company also made a deposit of $105,650 for two large capacity reels. The remaining balance of $105,650 is due upon delivery.

11. Litigation

The Company is a defendant in litigation arising from the normal course of business involving breach of contract. The opinion of management is that this lawsuit is without merit and the Company intends to vigorously defend itself against this claim. Defense of this suit is in the preliminary stages and while no probable outcome can be determined at this time, management believes the Company will be successful in defending this claim. Accordingly, no estimated loss provision has been made in the accompanying financial statements.