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Fundamental Research Corp.

Investment Analysis for Intelligent Investors

August 13, 2009

Enterprise Oilfield Group (TSX: E) Q1 2009 Update – Results Below Expectations

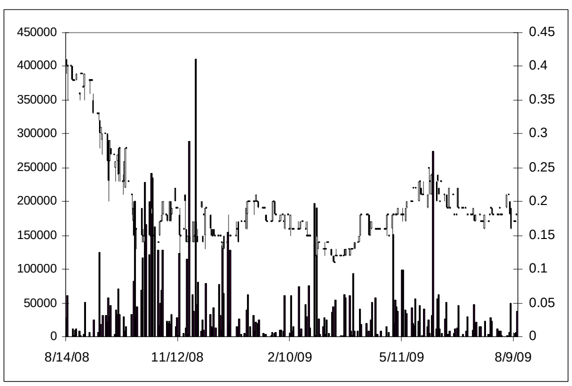
Sector/Industry: Oilfield Services/Utility Infrastructure

http://www.enterpriseoil.ca

Market Data (as of August 13, 2009)

Current Price	$0.18
Fair Value	**$0.46 (↓)**
Rating*	**BUY**
Risk*	**3 (Average)**
52 Week Range	$0.11 - $0.41
Shares O/S	42,191,700
Market Cap	$7.59 MM
Current Yield	N/A
P/E	N/A
P/B	0.48x
YoY Return	-55.0%
YoY TSX	-19.0%

*See back of report for rating and risk definitions



Q1 2009 Highlights:

- In Q1 2009, Enterprise posted revenues of $8.97 million, compared to $12.66 million in Q1 2008, and below our expectations due to lower industry activities and lower service prices.
- Gross margins were also below expectations and dropped to 18.6% in Q1 2009, from 34.5% in Q1 2008, primarily due to lower prices received by the company.
- As a result, Enterprise reported a net loss of $0.05 million (EPS: -$0.00) in Q1 2009, compared to net income of $1.86 million (EPS: $0.05) in Q1 2008.
- Drilling activities continued to decline in Q2 2009. However, we believe the improving economic conditions will present upside potential for the oil and gas industry in Alberta towards the end of 2009.
- In addition, although we think the effect of the extension of the 2 incentive programs by the Alberta government will not substantially boost drilling activities in 2009, the government is currently reviewing the competitiveness of its oil and gas industry with results due by fall 2009. They have expressed their intentions to change the current royalty regime to revive the industry. A favourable outcome from the review, we believe, will present further upside to the province's oil and gas industry.
- We reiterate our BUY rating on the company but lower our fair value from $0.65 per share to $0.46 per share.

Key Financial Data (FYE - Dec 31) (US$)	2007 (15 mo)	2008	2009E	2010E
Revenue	47,296,907	39,761,681	30,220,274	34,766,195
Net Income	928,589	(12,269,241)	(774,001)	469,132
EPS	0.03	(0.30)	(0.02)	0.01
Cash	509,909	607,286	518,893	1,005,083
Working Capital	(37,144)	1,108,800	2,006,233	3,794,704
Total Assets	42,642,726	29,761,754	28,497,080	27,813,780
Debts/Assets	30.6%	40.3%	40.5%	37.0%

Enterprise Oilfield Group Inc. provides small diameter pipeline construction and directional drilling services in central and northern Alberta's oilfields and utility infrastructure sector. The company's utility infrastructure business reduces the company's exposure to the cyclical oil and gas industry, and provides installation of underground power, telecommunications and natural gas lines to utility and telecommunication companies.

Drilling Activity Declines Further in Alberta

In light of the current economic slowdown, and low natural gas prices, drilling rig utilization in Alberta continued to decline in Q2 2009, compared to Q2 2008. YTD drilling utilization was only 19% compared to about 36% during the same period in 2008. However, as discussed in our previous report, since the company is putting more effort in generating revenues from its infrastructure business, we continue to believe this will help the company overcome the harsh industry conditions and perform better than other oilfield services companies. We are hopeful that rig utilization will improve for the balance of the year as oil prices have recently improved to over US$70/bbl, in association with signs that global economic conditions have improved.

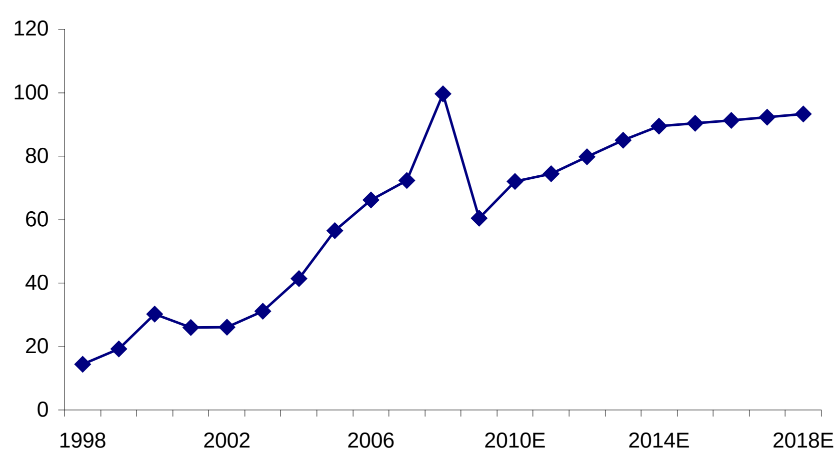
Alberta Rigs	Q1		Q2		Q3		Q4		YTD	
	AVG	Utilization	AVG	Utilization	AVG	Utilization	AVG	Utilization	AVG	Utilization
2009 Available	612		616		600				612	
2009 Drilling	203	33.2%	42	6.9%	77	12.9%			116	19.0%
2008 Available	683		689		644		619		659	
2008 Drilling	362	52.9%	90	13.0%	250	38.8%	245	39.6%	237	35.9%
2007 Available	663		723		708		704		700	
2007 Drilling	391	58.9%	97	13.3%	239	33.8%	238	33.8%	241	34.5%
2006 Available	580		643		624		641		622	
2006 Drilling	522	89.9%	233	36.2%	384	61.5%	348	54.3%	372	59.7%

Source: CAODC, FRC

Outlook on Oil and Gas Industry

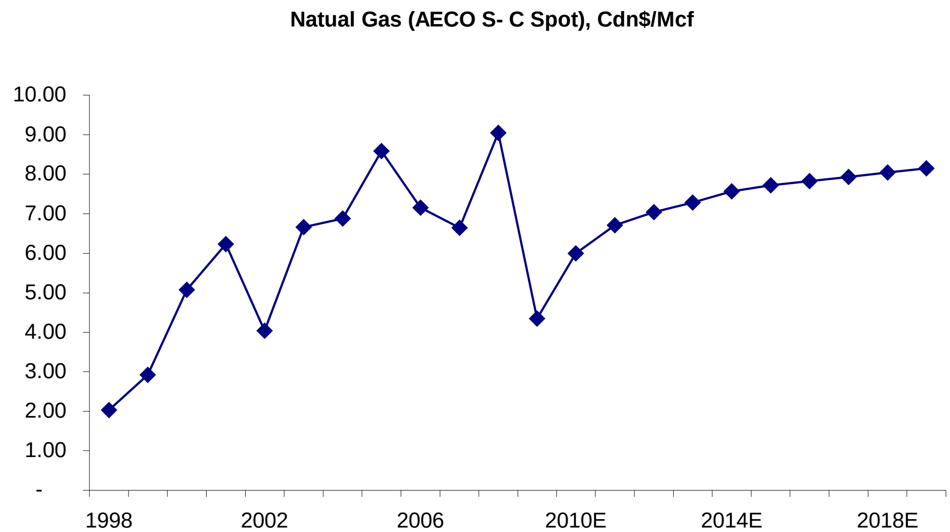
The following chart shows oil price forecasts through 2018. Based on consensus forecasts, WTI is expected to stay close to US$60.47/bbl in 2009, compared to an average of US$99.57/bbl in 2008, and start to recover in 2010, and stay above US$85/bbl during 2013 – 2018.

Oil (WTI Cushing Oklahoma), US$/bbl



Source: Sproule, EIA, GLJ and FRC

As for natural gas, AECO is below $5/Mcf, and based on consensus forecasts, is expected to stay near $4.62/Mcf in 2009. AECO prices are expected start to recovering in 2010, as consumption increases in the commercial and industrial sectors as a result of the anticipated economic recovery. In the long run, AECO is expected to stay above $7.50/Mcf through 2014 – 2018.



Source: Sproule and GLJ

In its 2009 annual energy outlook, the EIA continues to forecast a supply deficit for natural gas in North America through 2030 as shown in the table below, which we think will benefit Canadian gas producers. However, we note estimated natural gas reserves in the U.S. rose to 2,074 Tcf at year end 2008, from 1,532 Tcf in 2006, according to a Potential Gas Committee's recent report. The increase primarily comes from shale gas, which accounted for 616 Tcf of the new estimate. This may put downward pressure on gas prices. On the other hand, the shift towards renewable and clean fuels may increase demand for natural gas, since it is cleaner than coal and oil (in terms of CO_2 emissions). Natural gas, thus, may become the preferred energy choice in the short and mid term as it takes considerable time to achieve an energy mix from the renewable energy sources advocated by the current administration in the U.S.

Natural Gas - Supply and Demand (in Tcf)	**2006**	**2010**	**2015**	**2020**	**2025**	**2030**	**CAGR (2006 - 30)**
OECD North America Total							
Production	16.6	27.7	27.9	29.0	31.1	31.9	2.65%
Demand	27.2	28.4	29.4	30.8	32.8	33.3	0.81%
Deficit	**-10.6**	**-0.7**	**-1.5**	**-1.8**	**-1.7**	**-1.4**	
World Total							
Production	103.8	114.5	126.7	136.8	146.1	152.7	1.56%
Demand	104.4	114.4	126.5	136.8	146.0	152.5	1.53%
Deficit	**-0.6**	**0.1**	**0.2**	**0.0**	**0.1**	**0.2**	

Source: EIA

Extension of Drilling Incentives

As discussed in our previous report, Alberta introduced new drilling incentive programs in March 2009, originally with an expiry date in March 2010. The expiry date of the two programs (summarized in the lists below) has been extended to March 2011 in light of current industry conditions.

- Reduced royalties for junior oil and gas companies on new conventional oil and gas wells to 5%, or less, up to a certain amount of production from an average royalty rate of 15% to 25%, depending on the project.
- Provide smaller companies with a drilling royalty credit for new qualifying wells of $200 per metre on a sliding scale based on their production levels from 2008.

Although this development is positive for the province's oil and gas industry, we think it will not increase drilling activities substantially due to its short term horizon and because it only targets certain qualified wells. However, the Alberta government expressed its intention to change the province's fiscal regime to revive its oil and gas industry, and it is currently reviewing the overall competitiveness of the oil and gas industry in Alberta. This review is expected to be completed by fall 2009. This, we believe, may provide upside potential to Alberta's oil and gas industry in the long run. Note that the government of British Columbia has recently issued new royalty and regulatory incentives with the goal of enhancing its oil and gas industry. We think this will also direct the Alberta government to revise its fiscal regime in favor of its oil and gas industry.

Improvement in Infrastructure Project Activity

The number of infrastructure and pipeline projects in Alberta increased to 317 and 32, respectively, in June 2009, from 290 and 30 in February 2009. The increase in the number of projects is a good sign that the economy is recovering. Note the total value of the province's major projects decreased to $239.0 billion compared to $262.0 billion from our previous update, which is primarily due to a drop in oil sands projects from $156.7 billion in February 2009, to $136.1 billion in June 2009.

	Inventory of Major Alberta Projects Summary, June 2009		
	Project Sector	**Number of Projects**	**Value of Projects($Million)**
1	Oilsands	41	$136,138.30
2	**Infrastructure**	**317**	**$19,922.00**
3	Power	55	$19,170.00
4	Institutional	217	$12,616.20
5	Commercial/Retail	85	$11,211.30
6	**Pipelines**	**32**	**$9,368.40**
7	Tourism/Recreation	120	$9,141.20
8	Residential	96	$6,555.10
9	Residential	15	$5,295.50
10	Mining	5	$4,612.00
11	Biofuels	16	$1,872.00
12	Oil & Gas	10	$1,239.50
13	Telecommunications	1	$700.0
14	Manufacturing	4	$667.50
15	Other Industrial	10	$313.70
16	Petrochemicals	3	$120.00
17	Agriculture & Related	4	$63.90
	Total	**1,031**	**$239,007.30**

Source: albertacanada.com

Revenues below Expectations

In Q1 2009, Enterprise posted revenues of $8.97 million, compared to $12.66 million in Q1 2008, and below our expectations. The YOY decline in revenues is considerably higher than our previous estimate, primarily due to less than expected oilfield service projects as a result of decreased capital expenditures given the low oil and gas price environment. This has decreased our outlook on the company for the year as winter season (Q1 and Q4) normally accounts for a large portion of revenues for Enterprise. Although management has informed us that oilfield activity has seen an improvement in Q3 2009, we have lowered our revenue forecast to $30.22 million in 2009, from $32.21 million in our previous report. In 2010, we forecast revenues of $34.77 million, compared to $37.02 million in our previous report.

Gross Margins Dropped in Q1 2009

Gross margins in Q1 2009 were 18.6%, compared to 34.5 % in Q1 2008, and well below our forecast of 25% for 2009. The decline in gross margins was primarily due to lower service prices as a result of low oil and gas prices. As stated in our previous report, the company is trying to improve gross margins from measures such as reducing direct costs through the utilization of more effective equipment, and a reduction of wages by using in-house staff verses more expensive subcontractors. In fact, direct costs decreased to $7.31 million in Q1 2009, from $8.29 million in Q1 2008. However, the sharp decline in revenues has resulted in the overall decline in gross margin. For the balance of the year, although we believe gross margins will improve from the low levels observed in Q1 2009, as the company continues to reduce direct costs, we lower our gross margin forecast from 25% to 21.2% in 2009, and from 25% to 23% in 2010. The following table shows margins in Q1 2009 along with our forecasts.

Margins	2007 (15 mo)	2008	2009E	2010E	Q1 2009	Q1 2008
Gross margins	23.8%	25.3%	21.2%	23.0%	18.6%	34.5%
EBITDA margin	10.5%	12.0%	4.6%	8.6%	4.6%	25.3%
EBIT margin	4.8%	5.5%	-1.5%	2.5%	-0.7%	20.5%
EBT margin	2.9%	-34.2%	-2.6%	1.3%	-0.9%	19.6%
Net margin	2.0%	-30.9%	-2.6%	1.3%	-0.6%	14.7%

* 2007 margins are for 15 months ended December 2007

Reduced EPS Forecast

The company reported a net loss of $0.05 million (EPS: -$0.00) in Q1 2009, compared to net income of $1.86 million (EPS: $0.05) in Q1 2008. Given the changes discussed above, we forecast **a net loss of $0.77 million (EPS: -$0.02) in 2009, compared to our previous estimate of net income of $0.77 million (EPS: $0.02). In 2010, we reduce our net income forecast to $0.47 million (EPS: $0.01) versus our previous forecast of $1.83 million (EPS: $0.04).**

Cash Flows and Capital Structure

In Q1 2009, the company spent $0.04 million, and $0.30 million, in operating and investing activities, respectively. The company financed its cash outflows from incurring $0.65 million in short term bank debt and $0.50 million in long term debt. Based on a capital expenditure estimate of $1 million in 2009 (based on management guidance), we believe current cash and cash flows from operations will be sufficient to fund capital expenditures and working capital for the balance of 2009.

Valuation

Based on the revisions discussed above, our revised DCF model gave a fair value estimate of $0.74 per share, down from $0.96 per share in our previous report.

Enterprise Oilfield Group - DCF Valuation

(C$)	2009E	2010E	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	Terminal
Net Income	(774,001)	469,132	1,235,565	2,589,076	2,673,980	3,757,218	4,090,438	4,423,484	4,667,865	4,908,812	5,147,777
Non Cash Charges	1,837,476	2,254,934	2,223,697	2,174,610	1,532,678	1,388,101	1,263,765	1,156,837	1,064,878	985,794	917,782
Funds from Operations	1,063,475	2,724,066	3,459,262	4,763,687	4,206,659	5,145,320	5,354,203	5,580,321	5,732,743	5,894,606	6,065,559
Investment in W/C	319,706	(490,907)	(515,452)	(541,225)	(568,286)	(596,701)	(626,536)	(657,862)	(690,755)	(725,293)	(761,558)
Cash From Operations	1,383,182	2,233,159	2,943,809	4,222,462	3,638,372	4,548,619	4,727,668	4,922,459	5,041,988	5,169,313	5,304,001
Capex	1,000,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000
Free Cash Flow	383,182	1,733,159	2,443,809	3,722,462	3,138,372	4,048,619	4,227,668	4,422,459	4,541,988	4,669,313	4,804,001
PV	367,238	1,483,076	1,867,130	2,539,331	1,911,506	2,201,710	2,052,750	1,917,259	1,758,106	1,613,742	18,447,674

Discount Rate	12%
Terminal Growth	3%
Firm PV	36,159,522
Cash (Beg. of Year)	607,286
LT Debt (Beg. Of Year)	5,456,596
PV Equity	31,310,212
Shares O/S	42,191,700
DCF Value/Share	**0.74**

Industry multiples for the oil and gas equipment and services industries continue to improve since our previous report. Based on the current industry average P/E of 15.9x (previously 11.1x), we value E at $0.18 per share based on our 2010 EPS forecast. Although industry multiples improved, our valuation dropped from our previous estimate ($0.40 per share based our previous EPS forecast for 2010) primarily because we have lowered our earnings outlook as discussed above.

Industry - Oil and Gas Equipment and Services	
Industry P/E	15.9
EPS (2010E)	0.011
Fair Value based on 2010 EPS	0.176

Source: Capital IQ, Yahoo Finance, FRC

Conclusion & Rating

The average valuation of our DCF model comparables analysis is $0.46 per share, compared to $0.65 per share in our previous report. Although we continue to expect challenging conditions for the balance of 2009, the improving economic landscape, and a favorable outcome from the current royalty review present upside potential to the oil and gas industry in Alberta. Based on our revised valuation models, we reiterate our BUY on Enterprise and maintain our Risk outlook on the company at 3 (Average). However, we lower our fair value opinion from $0.65 to $0.46.

Risks

We believe the following risks, although not exhaustive, can affect the company's performance:

- The company is exposed to commodity prices. Sustained depression in energy prices would cause less drilling activity and hence, less demand for Enterprise's pipeline construction business. This is being offset by the company's increasing focus on providing services for infrastructure projects.
- Current market conditions make it difficult to raise capital, which would delay the company's acquisition plans and hinder its growth. However, we note the company may be able to fund acquisitions through its cash flows from operations (or a combination of cash generated internally and equity financing) as we think opportunities exist for acquisitions of undervalued businesses in light of current market conditions.
- The company is exposed to environmental legislation risks.

APPENDIX

Income Statement - Enterprise Oilfield Group
(in C$)

	2007 (15 mo)	2008	2009E	2010E
Revenue	47,296,907	39,761,681	30,220,274	34,766,195
Direct expenses	36,031,478	29,691,300	23,810,929	26,769,970
Gross margin	**11,265,429**	**10,070,381**	**6,409,345**	**7,996,225**
General and administrative expenses		5,304,425	5,024,332	5,000,000
Stock-based compensation	252,057		-	-
Others	6,067,108			
	6,319,165	**5,304,425**	**5,024,332**	**5,000,000**
EBITDA	**4,946,264**	**4,765,956**	**1,385,013**	**2,996,225**
Amortization	2,660,507	2,571,697	1,837,476	2,123,577
EBIT	**2,285,757**	**2,194,259**	**(452,463)**	**872,648**
Interest on long term debt	549,057	395,669	321,538	403,516
Other income	(344,111)	(30,741)	-	
Goodwill		15,107,935		
Loss on sale of equipment		308,873		
EBT	**1,392,589**	**(13,587,477)**	**(774,001)**	**469,132**
Tax	464,000	(1,318,236)	-	-
Net income	**928,589**	**(12,269,241)**	**(774,001)**	**469,132**

Balance Sheet - Enterprise Oilfield Group
(in C$)

	2007 (15 mo)	2008	2009E	2010E
Current assets				
Cash and cash equivalents	509,909	607,286	518,893	1,005,083
Accounts receivable	7,320,831	10,916,390	10,588,898	11,118,343
Income taxes refundable	171,212	140,542	140,542	140,542
Inventory	1,006,327	506,830	501,762	526,850
Prepaid expenses	335,772	624,441	618,197	649,106
Future income taxes	-	-	-	-
	9,344,051	**12,795,489**	**12,368,291**	**13,439,925**
Property, plant and equipment	16,557,906	14,805,290	14,059,687	12,542,290
Goodwill	15,107,935	-	-	-
Other intangible assets	1,530,319	1,200,375	1,108,501	1,002,322
Portfolio investment	102,515	28,000	28,000	28,000
Future income taxes		932,600	932,600	801,243
	42,642,726	**29,761,754**	**28,497,080**	**27,813,780**
Current liabilities				
Bank overdraft and indebtedness	4,950,988	6,526,900	7,224,374	7,224,374
Accounts payable and accrued liabilities	1,342,171	1,909,814	1,890,716	1,985,252
Income taxes payable		-	-	-
Current portion of long term debt	3,088,036	3,249,975	1,246,968	435,595
	9,381,195	**11,686,689**	**10,362,058**	**9,645,221**
Long term debt	4,993,846	2,206,621	3,057,691	2,622,096
Future income taxes	261,645		-	-
Shareholders' equity				
Share capital	24,142,242	24,032,796	24,015,684	24,015,684
Warrants	197,609	47,796	47,796	47,796
Contributed surplus	638,298	1,085,717	1,031,717	1,031,717
Retained earnings	3,025,376	(9,243,865)	(10,017,866)	(9,548,734)
Other comprehensive income	2,515	(54,000)	-	-
	28,006,040	**15,868,444**	**15,077,331**	**15,546,463**
Total liabilities and shareholder's equity	**42,642,726**	**29,761,754**	**28,497,080**	**27,813,780**

Cash Flow Statement - Enterprise Oilfield Group
(in C$)

	2007 (15 mo)	2008	2009E	2010E
Cash from operations				
Net income	928,589	(12,269,241)	(774,001)	469,132
Amortization	2,660,507	2,571,697	1,837,476	2,123,577
Goodwill write down		15,107,935		
(Gain) loss on sale of property, plant and equipment	582,624			
Stock-based compensation	252,057	96,175	-	-
Loss on sale of equipment		308,873	-	-
Future income tax (recovery)	476,645	(1,176,245)	-	131,357
	4,900,422	4,639,194	1,063,475	2,724,066
Changes in non-cash working capital	(2,796,342)	(2,786,414)	319,706	(490,907)
	2,104,080	**1,852,780**	**1,383,182**	**2,233,159**
Financing activities				
Increase in bank indebtedness		1,575,912	697,474	
Decrease in vendor debt	(587,267)			
Proceeds from long-term financing	10,941,502		500,000	
Proceeds from issue of common shares,		160,500		
Share repurchase		(68,516)	(17,112)	
Share capital issuance	10,043,066			
Financing costs	(131,818)			
Repayment of long- term debt	(8,752,279)	(3,379,187)	(1,651,937)	(1,246,968)
	11,513,204	**(1,711,291)**	**(471,575)**	**(1,246,968)**
Investing activities				
Deferred financing costs				
Additions to property, plant and equipment	(7,608,253)	(584,444)	(1,000,000)	(500,000)
Proceeds on disposition of property, plant and equipement	1,219,120	540,332		
Acquisition of business	(12,017,900)	-	-	
Purchase of portfolio investment	-		-	
	(18,407,033)	**(44,112)**	**(1,000,000)**	**(500,000)**
Increase (decrease) in cash flow	(4,789,749)	97,377	(88,393)	486,191

Fundamental Research Corp. Equity Rating Scale:
Buy – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk
Hold – Annual expected rate of return is between 5% and 12%
Sell – Annual expected rate of return is below 5% or the expected return is not commensurate with risk
Suspended or Rating N/A— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

Fundamental Research Corp. Risk Rating Scale:
1 (Low Risk) - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

2 (Below Average Risk) - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

3 (Average Risk) - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

4 (Speculative) - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

5 (Highly Speculative) - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues, and may rely on external funding. These stocks are considered highly speculative.