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Investment Analysis for Intelligent Investors

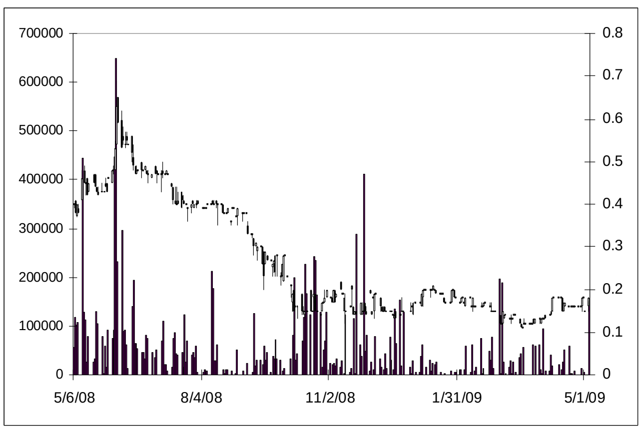
Enterprise Oilfield Group (TSX: E) Update – 2008 Revenues Slightly Ahead of Expectations

Sector/Industry: Oilfield Services/Utility Infrastructure **http://www.enterpriseoil.ca**

Market Data (as of May 6, 2009)

Current Price	$0.18
Fair Value	**$0.65 (↓)**
Rating*	**BUY**
Risk*	**3 (Average)**
52 Week Range	$0.11 - $0.69
Shares O/S	42.30 MM
Market Cap	$7.61 MM
Current Yield	N/A
P/E	N/A
P/B	0.48x
YoY Return	-55.0%
YoY TSX	-30.8%

*See back of report for rating and risk definitions



2008 Highlights:

- In 2008, the company posted revenues of $39.76 million, slightly above our forecast of $38.51 million.
- Gross margins improved to 25.3% in 2008 (12 months), from 23.8% for the 15 months ended December 2007, but fell below our expectation of 27.6% as a result of lower gross margins of 20.5% posted in Q4 2008.
- In Q4 2008, the company wrote down the entire $15 million goodwill recognized on its business acquisitions due to the global financial crisis and weakening outlook for the oilfield services industry. We note this is a non-cash, one-time event that does not affect the company's ongoing operations. Our valuation model accounts for a loss carry forward of about $0.93 million as a result of the goodwill impairment.
- Enterprise incurred a net loss of $12.27 million (EPS: -$0.30). Without the goodwill impairment, we estimate the company would have reported net income of $1.08 million (EPS: $0.03), but below our forecast of net income of $1.79 million (EPS: $0.04).
- We think 2009 is a challenging year for Enterprise due to low oilfield activities. However, the increase in public spending may offset the decline in the company's oil and gas pipeline construction businesses, as the company increases its focus on its infrastructure installation businesses. The company has also initiated various cost cutting measures.
- We reiterate our BUY rating on the company but lower our fair value estimate from $0.75 per share to $0.65 per share.

Key Financial Data (FYE - Dec 31)				
(US$)	**2007 (15 mo)**	**2008**	**2009E**	**2010E**
Revenue	47,296,907	39,761,681	32,211,915	37,022,402
Net Income	928,589	(12,269,241)	777,100	1,831,221
EPS	0.03	(0.30)	0.02	0.04
Cash	509,909	607,286	2,338,979	4,047,285
Working Capital	(37,144)	1,108,800	5,023,794	8,034,379
Total Assets	42,642,726	29,761,754	28,367,819	29,046,608
Debts/Assets	30.6%	40.3%	34.7%	29.6%

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.

Challenging Industry Conditions - Oil and Gas Industry Expected to Remain Weak Throughout 2009

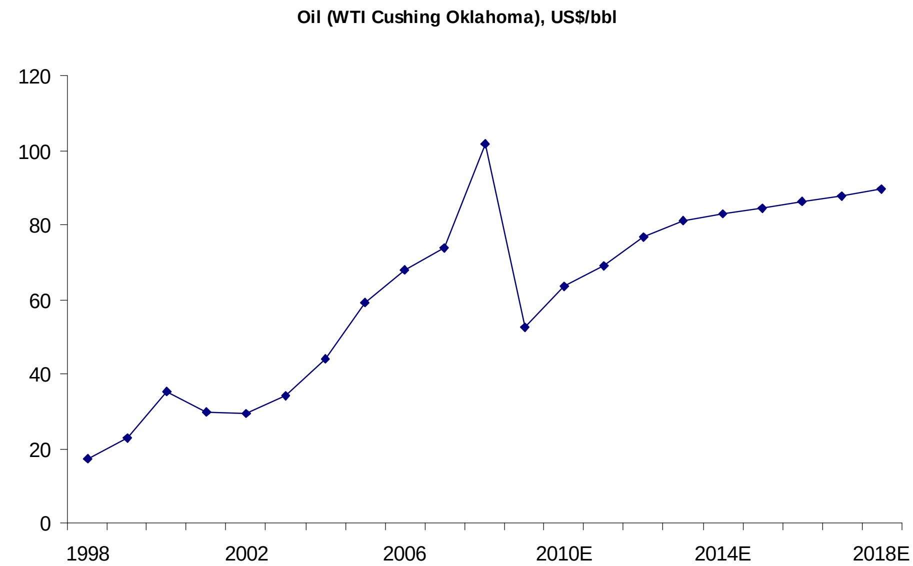
Drilling Activity Reduced Significantly YTD in Alberta: We believe the current economic crisis is likely to pose a very challenging year for the company in 2009. The slowdown in the U.S. and global economies has already been reflected in the significant drop in oil and gas prices, as well as in short term demand for oil and gas. This becomes very evident in Alberta, as YTD drilling rig utilization in the province is at a multiple year low of 33.2% in Q1 2009, compared to 52.9% in Q1 2007. This is negative for the company's pipeline construction and other related oilfield services, considering the winter season (Q1 and Q4) accounts for most of drilling activities in Alberta. We expect drilling activity in Alberta will likely remain weak through the rest of 2009, and below the 2008 levels (rig utilization in 2008 was 35.9%). At this time, we think the effect of the recent incentives to revive drilling by the Alberta government (i.e., the new transitional rates and the reduced royalties for conventional wells to as low as 5%) will only be marginal.

Alberta Rigs	Q1		Q2		Q3		Q4		YTD	
	AVG	Utilization	AVG	Utilization	AVG	Utilization	AVG	Utilization	AVG	Utilization
2009 Available	612		621						612	
2009 Drilling	203	33.2%	44	7.1%					203	33.2%
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

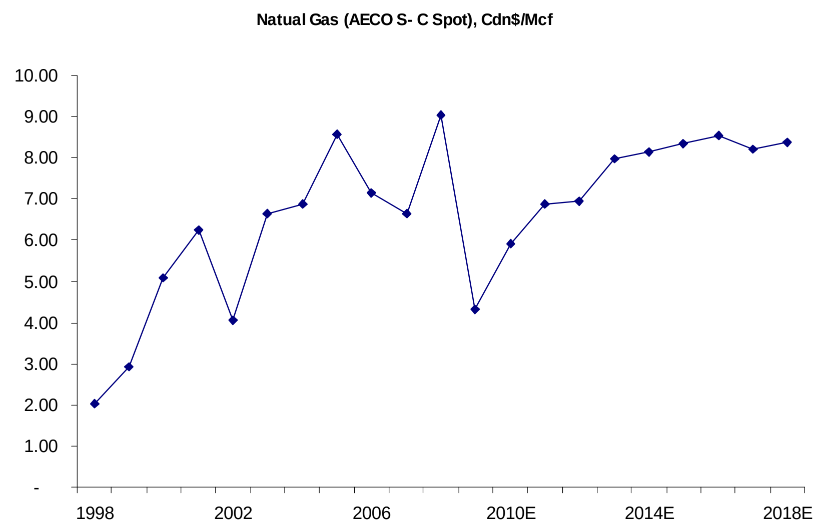
On a positive note, based on our discussion with management, the company's pipeline construction business covers installation of pipelines for existing producing/non-producing wells, which we think mitigates somewhat the negative effects of the reduction in drilling of new wells. Management also informed us that the company has increased its focuses on its infrastructure business. In addition to the installation of underground power, telecommunication and natural gas lines, the company now provides construction of water, culvert and drainage lines. This, we believe, utilizes the company's expertise from construction of oil and gas pipelines, and will help the company better weather the challenging environment in 2009.

Price Forecast: The following chart shows oil price forecasts through 2018. Based on consensus forecasts, WTI Cushing oil prices are expected to stay close to US$50/bbl in 2009 (compared to an average of US$99.57/bbl in 2008 according to the EIA), start to recover in 2010, and stay above US$80/bbl during 2013 – 2018. However, oil currently trades close to US$60/bbl as global economies start showing promising signs of improvement. We think this may provide upside potential to the oil and gas industry towards the end of the year.



Source: Sproule, EIA and FRC

In terms of natural gas, AECO Gas prices are expected stay below $5/Mcf during 2009, start to recover in 2010, and stay above $8/Mcf during 2014 - 2018. In the long term, we are positive on the Canadian gas industry as U.S. gas supply is forecasted to be in deficit through 2030, according to the EIA, which is likely to result in increased demand for imports from Canada in the long run. The following chart shows gas prices through 2018.



Source: Sproule

Increase in Public Infrastructure Spending

According to Statistics Canada, public sector investments in non-residential construction and machinery and equipment in Canada are expected to increase 9.5% in 2009 (due to stimulus packages). This, we believe, will benefit Enterprise, particularly because the company is increasing its focus on infrastructure projects. In the long run, we remain positive on the infrastructure sector in Alberta. As shown in the table below, although the value of Alberta's major projects decreased to $262 billion in Februay 2009, compared to $279 billion in November 2008, the decrease is primarily due to the decline in oil sands porjects from $172 billion to $157 billion. The value of infrasturtue and pipeline projects remained relatively strong at the end of February 2009.

Inventory of Major Projects in Alberta, February 2009			
	Sector	**Number of Porjects**	**Value of Projects ($ million)**
1	Oilsands	44	$156,725.0
2	**Infrastructure**	**290**	**$20,046.5**
3	Institutional	220	$13,784.1
4	Power	47	$12,678.5
5	**Pipelines**	**30**	**$11,106.3**
6	Tourism/Recreation	110	$10,710.6
7	Commercial/Retail	77	$10,186.6
8	Oil & Gas	10	$7,882.0
9	Residential	113	$6,842.0
10	Commercial/Retail and Residential	15	$5,538.5
11	Mining	6	$2,847.6
12	Biofuels	17	$2,009.0
13	Chemicals & Petrochemicals	5	$420.0
15	Manufacturing	5	$692.5
14	Other Industrial	10	$193.8
16	Agriculture & Related	5	$72.9

Source: albertacanada.com

Revenues Slightly Exceed Expectation

In 2008, the company posted revenues of $39.76 million, compared to $42.56 million for the 12 months ended December 2007, and slightly higher than our expectation of $38.51 million. In Q4 2008, the company posted revenues of $11.67 million, as compared to $10.55 million in the 3 months ended December 2007. The decline in revenues in 2008 was primarily due to significantly lower revenues of $12.66 million posted in Q1 2008, versus $18.84 million in the 3 months ended March 2007, as a result of lower industry activity. However, we note that the company has been able to increase revenues in the last 9 months of 2008.

In addition, Enterprise revised its segmented reporting policy from two segments, namely pipeline construction and directional drilling services, to a single core business, because the company can no longer identify its activities by segment. Also assets and resources are integrated and utilized as a whole to provide customer services.

Revenue forecast: In light of the weak industry outlook for 2009, we lower our revenue forecast to $32.21 million in 2009, from $40.03 million. In 2010, we forecast a resumption of growth for both the oil and gas, and infrastructure sector in Alberta, and forecast revenues of $37.02 million.

Margins

Gross Margins Below Expectation: Although gross margins (shown in the table below) improved to 25.3% in 2008 (12 months), compared to 23.8% for the 15 months ended December 2007, gross margins in 2008 were below our expectation of 27.6%. This is primarily because Enterprise posted gross margins of only 20.5% in Q4 2008, compared to 23.1% in the 3 months ended December 2007. Based on our discussion with management, the drop in gross margins in Q4 was due to a non recurring event. We think this may also be partially attributable to the deterioration in the oil and gas industry conditions during the last quarter of 2008.

Margins	2007 (15 mo)	2008	2009E	2010E
Gross margins	23.8%	25.3%	25.0%	25.0%
EBITDA margin	10.5%	12.0%	11.3%	12.5%
EBIT margin	4.8%	5.5%	3.5%	7.2%
EBT margin	2.9%	-34.2%	2.4%	6.3%
Net margin	2.0%	-30.9%	2.4%	4.9%

In response to the challenging year, the company will aim to improve margins by cost cutting, utilizing efficient equipment (the company has purchased $0.58 million in new equipment and sold $0.54 million of old equipment during 2008), hiring quality staff, aiming for excellent customer service, and increasing markets in civic related construction and matainance services (such as installation of water lines as discussed above). In term of cost cutting, Enterprise has identified underperforming assets and streamlined operations, including having downsized the Wainwright location (which is expected to save the company $1 million in costs in the near term) and initiated wage freezes throughout the entire company. In addition, based on our discussion with management, direct costs to provide the company's services have come down since the beginning of 2009. For example, labor costs have come down.

At this time, we remain cautious and forecast gross margins of 25% for 2009, down from 30%. In 2010, although we expect gross margins to improve, we have continued to use 25% in our model, until we see the company's efforts transfer to actual improvements in margins.

EBT and Net Margin Affected by Goodwill Impairment: As shown in the table above, EBITDA and EBIT margins both improved in 2008, over the 15 months ended December 2007 (despite being below our expectations of 14.8% for EBITDA and 8.2% for EBIT, as a result of the lower gross margins as discussed above). However, the EBT margin was -34.2% because of a $15 million goodwill write down. Enterprise determined that the goodwill recognized on its business acquisitions was fully impaired as a result of the global financial crisis, and weakening outlook for the oilfield service industry.

We note the goodwill impairment is a one-time non-cash charge that does not affect the company's operation. Without the goodwill impairment, the company would have been profitable with EBT, and Net Income, of $1.52 million, and $1.08 million, respectively for 2008, but still below our estimates of EBT of $2.76 million, and net income of $1.76 million. The following table shows what margins would be without the impairment loss, compared with our previous forecasts. We note, despite being below expectations, the fact that the company would have been profitable without the goodwill writedown in a challenging 2008, was a positive sign that shows the strength in the company's businesses. Our valuation model accounts for a loss carry forward of about $0.93 million as a result of the goodwill impairment as a reduction of future income tax.

	Previous Forecasts	Margins without Goodwill Impairment
Gross margins	27.6%	**25.3%**
EBITDA margin	14.8%	**12.0%**
EBIT margin	8.2%	**5.5%**
EBT margin	7.2%	**3.8%**
Net margin	4.7%	**2.7%**

Earning Forecast

The company posted a net loss of $12.27 million (EPS: -$0.30) in 2008, primarily due to the $15 million impairment, compared to net income of $0.93 million (EPS: $0.03) in 15 months ended December 2007, and forecast of $1.79 million (EPS: $0.04) in 2008. Without the impairment, we estimate net income would have been $1.08 million. Given the changes discussed above, **our forecast for net income is $0.77 million (EPS: $0.02) in 2009, compared to our previous estimate of net income of $2.47 million (EPS: $0.06). In 2010, we forecast net income of $1.83 million (EPS: $0.04) as the economy recovers and industry conditions pick up.**

Cash Flow and Capital Structure

In 2008, the company generated $1.85 million from operations, and spent $0.04 million in net investing activities ($0.58 million on new equipment and $0.54 million old equipment sold during 2008). Enterprise also paid down $3.38 million in vendor and long-term debt during 2008. Based on a capital expenditure estimate of $0.50 million in 2008, we believe cash flows from operations will be sufficient to fund capital expenditures and working capital in 2009.

Valuation

Based on our discussion above, our revised DCF model gave a fair value estimate of $0.96 per share, down from $1.15 per share in our initiating report.

Enterprise Oilfield Group - DCF Valuation (C$)	**2009E**	**2010E**	**2011E**	**2012E**	**2013E**	**2014E**	**2015E**	**2016E**	**2017E**	**2018E**	**Terminal**
Net Income	777,100	1,831,221	3,016,523	3,486,845	4,127,947	4,484,811	4,841,986	5,201,941	5,475,039	5,747,425	6,020,511
Non Cash Charges	3,286,824	2,114,960	1,755,132	1,579,411	1,428,292	1,298,329	1,186,561	1,090,441	1,007,778	936,688	875,551
Funds from Operations	4,063,924	3,946,181	4,771,655	5,066,257	5,556,239	5,783,140	6,028,547	6,292,383	6,482,818	6,684,113	6,896,062
Investment in W/C	(180,294)	(490,907)	(515,452)	(541,225)	(568,286)	(596,701)	(626,536)	(657,862)	(690,755)	(725,293)	(761,558)
Cash From Operations	3,883,630	3,455,274	4,256,202	4,525,032	4,987,953	5,186,439	5,402,011	5,634,520	5,792,062	5,958,820	6,134,504
Capex	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000
Free Cash Flow	3,383,630	2,955,274	3,756,202	4,025,032	4,487,953	4,686,439	4,902,011	5,134,520	5,292,062	5,458,820	5,634,504
PV	3,137,407	2,446,627	2,776,521	2,656,460	2,644,625	2,465,704	2,302,789	2,153,583	1,981,841	1,825,259	20,933,361

Discount Rate	12%
Terminal Growth	3%
Firm PV	45,324,176
Cash (Beg. of Year)	607,286
LT Debt (Beg. Of Year)	5,456,596
PV Equity	40,474,866
Shares O/S	42,301,700
DCF Value/Share	**0.96**

Industry multiples for the oil and gas equipment and services industries have improved slightly since our previous report. Based on an industry P/E of 11.1x, we value E at $0.20 per share, and $0.40 per share, based on our 2009, and 2010, EPS forecasts, respectively (average $0.34 per share).

Industry - Oil and Gas Equipment and Services	
Industry P/E	11.1
EPS (2009E)	0.02
EPS (2010E)	0.04
Fair Value based on 2009 EPS	0.20
Fair Value based on 2010 EPS	0.48
Average	**0.34**

Source: Capital IQ, Yahoo Finance, FRC

In addition, the following table shows that E continues to trade below industry averages:

	Industry	Enterprise Oilfield Group
EV/Sales	1.1	0.31
EV/EBITDA	5.4	2.62
EV/EBIT	7.3	5.68
P/B	2.1	0.48

Source: Capital IQ, Yahoo Finance, FRC

Conclusion & Rating

The average valuation of our DCF model (which reflects fundamentals and our long term industry outlook) and comparables analysis is $0.65 per share, compared to $0.75 per share in our previous report. Although we expect a challenging 2009 for Enterprise, we think oil and gas industry will recover as early as in Q4 2009 and consequently improve oilfield activities in Alberta. In addition, we think the company's increasing focus on infrastructure projects coupled with an increase in public spending will likely help the company weather better than other oilfield services companies. Based on our revised valuation models, we reiterate our BUY on E and maintain our Risk outlook on the company at 3 (Average).

Risk Analysis

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

- The company is exposed to commodity prices. A 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 the acquisition of fundamentally sound 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	32,211,915	37,022,402
Direct expenses	36,031,478	29,691,300	24,158,937	27,766,802
Gross margin	**11,265,429**	**10,070,381**	**8,052,979**	**9,255,601**
General and administrative expenses		5,304,425	4,404,425	4,624,646
Stock-based compensation	252,057		-	-
Others	6,067,108			
	6,319,165	**5,304,425**	**4,404,425**	**4,624,646**
EBITDA	**4,946,264**	**4,765,956**	**3,648,554**	**4,630,954**
Amortization	2,660,507	2,571,697	2,509,724	1,959,460
EBIT	**2,285,757**	**2,194,259**	**1,138,830**	**2,671,495**
Interest on long term debt	549,057	395,669	361,730	344,105
Other income	(344,111)	(30,741)	-	
Goodwill		15,107,935		
loss on sale of equipment		308,873		
EBT	**1,392,589**	**(13,587,477)**	**777,100**	**2,327,390**
Tax	464,000	(1,318,236)	-	496,169
Net income	**928,589**	**(12,269,241)**	**777,100**	**1,831,221**

Balance Sheet - Enterprise Oilfield Group
(in C$)

	2007 (15 mo)	2008	2009E	2010E
Current assets				
Cash and cash equivalents	509,909	607,286	2,338,979	4,047,285
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**	**14,188,377**	**16,482,126**
Property, plant and equipment	16,557,906	14,805,290	12,921,052	11,559,566
Goodwill	15,107,935	-	-	-
Other intangible assets	1,530,319	1,200,375	1,074,889	976,916
Portfolio investment	102,515	28,000	28,000	28,000
Future income taxes		932,600	155,500	-
	42,642,726	**29,761,754**	**28,367,819**	**29,046,608**
Current liabilities				
Bank overdraft and indebtedness	4,950,988	6,526,900	6,026,900	6,026,900
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**	**9,164,584**	**8,447,747**
Long term debt	4,993,846	2,206,621	2,557,691	2,122,096
Future income taxes	261,645		-	-
Shareholders' equity				
Share capital	24,142,242	24,032,796	24,032,796	24,032,796
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)	(8,466,765)	(6,635,544)
Other comprehensive income	2,515	(54,000)	-	-
	28,006,040	**15,868,444**	**16,645,544**	**18,476,765**
Total liabilities and shareholder's equity	**42,642,726**	**29,761,754**	**28,367,819**	**29,046,608**

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

	2007 (15 mo)	2008	2009E	2010E
Cash from operations				
Net income	928,589	(12,269,241)	777,100	1,831,221
Amortization	2,660,507	2,571,697	2,509,724	1,959,460
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)	777,100	155,500
	4,900,422	4,639,194	4,063,924	3,946,181
Changes in non-cash working capital	(2,796,342)	(2,786,414)	(180,294)	(490,907)
	2,104,080	**1,852,780**	**3,883,630**	**3,455,274**
Financing activities				
Increase in bank indebtedness		1,575,912		
Decrease in vendor debt	(587,267)		-	
Proceeds from long-term financing	10,941,502			
Proceeds from issue of common shares,		160,500		
Share repurchase		(68,516)		
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)**	**(1,651,937)**	**(1,246,968)**
Investing activities				
Deferred financing costs				
Additions to property, plant and equipment	(7,608,253)	(584,444)	(500,000)	(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)**	**(500,000)**	**(500,000)**
Increase (decrease) in cash flow	(4,789,749)	97,377	1,731,693	1,708,306

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.