Fundamental Research Corp.

Investment Analysis for Intelligent Investors

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Enterprise Oilfield Group (TSX: E) Q2 2009 Update – Revenues inline with Expectations – FINAL REPORT

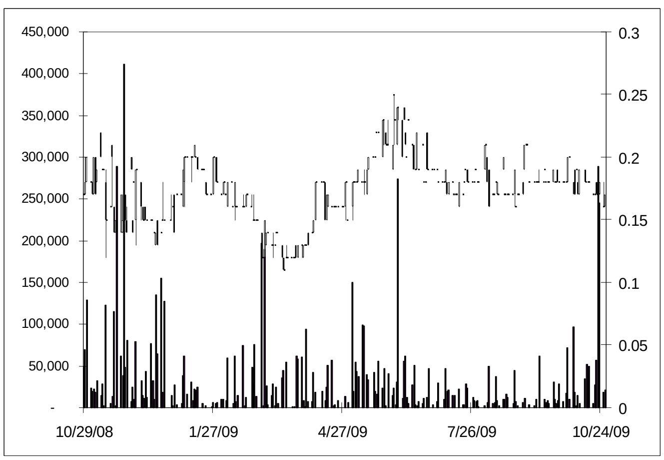
Sector/Industry: Oilfield Services/Utility Infrastructure

www.enterpriseoil.ca

Market Data (as of October 30, 2009)

Current Price	$0.165
Fair Value	**$0.36 (↓)**
Rating*	**BUY**
Risk*	**3 (Average)**
52 Week Range	$0.11 - $0.25
Shares O/S	42.18 MM
Market Cap	$6.96 MM
Current Yield	N/A
P/E	N/A
P/B	0.47x
YoY Return	-8.3%
YoY TSX	10.7%

*See back of report for rating and risk definitions



Q2 2009 Highlights:

- In Q2 2009, Enterprise posted revenues of $4.95 million, compared to $6.75 million in Q2 2008. Revenues for the first 6 months of 2009 were $13.92 million, compared to $19.41 million in the same period in 2008. YOY decline in revenues was inline with expectations and was primarily due to lower oilfield activities given the current industry conditions.
- Gross margins were slightly below expectations and were 13.6% for the first 6 months of 2009, compared to 24.7% in the same period in 2008. We note the company continues to focus on providing excellent customer service and reducing costs to weather the current industry downturn.
- We continue to believe that Enterprise will outperform other oilfield service companies in Alberta due to the diversification of its businesses. The company's operation in Peace River has contributed revenues YTD, and may present upside potential from the new customers in the area.
- The company reported a net loss of $1.17 million (EPS: -$0.03) in Q2 2009, compared to a net loss of $1.12 million (EPS: -$0.03) in Q2 2008. For the first 6 months ended June 2009, Enterprise posted a net loss of $1.23 million (EPS: -$0.03), compared to net income of $0.74 million (EPS: $0.02) in the same period in 2008.
- Subsequent to the Q2 filing, the company announced that it has been awarded three new projects for a total value of $4 million. The company believes that further projects can be anticipated from the same client.

Key Financial Data (FYE - Dec 31) (US$)	2007 (15 mo)	2008	2009E	2010E
Revenue	47,296,907	39,761,681	30,037,946	34,556,439
Net Income	928,589	(12,269,241)	(1,247,039)	423,618
EPS	0.03	(0.30)	(0.03)	0.01
Cash	509,909	607,286	21,915	9,303
Working Capital	(37,144)	1,108,800	175,596	1,896,398
Total Assets	42,642,726	29,761,754	28,442,231	27,282,284
Debts/Assets	30.6%	40.3%	41.2%	36.8%

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.

PLEASE READ THE IMPORTANT DISCLOSURES AT THE BACK OF THIS REPORT

Revenues Inline With Expectations

In Q2 2009, Enterprise posted revenues of $4.95 million, down from $6.75 million in Q2 2008. For the first 6 months of 2009, the company reported revenues of $13.92 million, compared to $19.41 million in the same period in 2008. YOY decline in revenues was inline with our expectations and was primarily due to lower oilfield projects available given the current industry conditions. **We have not made significant revisions, and forecast revenues of $30.04 million in 2009, and $34.56 million in 2010, respectively, compared to $30.22 million in 2009, and $34.77 million in 2010 in our previous report.** At this time, we continue to believe that Enterprise will outperform the oilfield service industry in Alberta because of the diversification in its businesses:

- The company recently initiated transportation infrastructure services. This is in addition to the already diversified products and services the company has to offer from its existing pipeline construction and utility infrastructure businesses. As discussed in our previous report, the company continues its marketing strategies for more civic related infrastructure projects.
- As discussed in our initiating report, the company commenced an operation center in the Peace River area in 2008, where the company targets to provide year round infrastructure and facilities maintenance services. This started contributing to revenues in early 2009. Importantly, the facility has presented a marketing opportunity for the company to showcase its pipeline construction and other oilfield services to prospective customers in this area. We believe Peace River has good potential for the company's pipeline services due to significant heavy oil production in the area.

Gross Margins Slightly Below Expectation

Gross margins in Q2 2009 were 4.6%, compared to 6.3% in Q2 2008. Gross margins in the first 6 months in 2009 were 13.6%, compared to 24.7% in the same period in 2008, and slightly below our expectations. As explained in our previous report, margins continue to be squeezed as the company receives lower prices from its customers due to lower oil and gas prices. In addition, competition also put downward pressure on pricing as many oilfield service companies lowered prices. Based on our discussion with management, Enterprise continues to focus on providing excellent service to its customers and thus, has been able to maintain relatively healthy gross margins compared to those of its competitors. In addition, we think YTD gross margins were negatively affected by the downsizing of the Wainwright operation, and the start-up and integration costs of the Peace River facilities maintenance operations. Nonetheless, we have lowered our gross margin forecast from 21.2% to 17% in 2009, based on YTD performance. We maintain our gross margin forecast for 2010 at 23%.

Margins	2007 (15 mo)	2008	2009E	2010E	2008 6mo	2007 6mo	Q2 2009	Q2 2008	2009 (6 mo)	2008 (6 mo)
Gross margins	23.8%	25.3%	17.0%	23.0%	24.7%	22.9%	4.6%	6.3%	13.6%	24.7%
EBITDA margin	10.5%	12.0%	1.3%	8.5%	12.1%	11.8%	-20.0%	-12.8%	-4.2%	12.1%
EBIT margin	4.8%	5.5%	-5.0%	2.4%	5.7%	7.4%	-29.7%	-21.9%	-11.0%	5.7%
EBT margin	2.9%	-34.2%	-5.8%	1.2%	4.6%	7.1%	-33.4%	-23.5%	-12.4%	4.6%
Net margin	2.0%	-30.9%	-4.2%	1.2%	3.8%	4.7%	-23.7%	-16.5%	-8.8%	3.8%

Lowered EPS Forecast in 2009

G&A expenses were $2.47 million in the first 6 months of 2009, compared to $2.45 million in the same period in 2008. We also believe YTD G&A expenses were negatively affected by the downsizing of the Wainwright operation and the start-up of the Peace River operation, which we believe is now completed. Hence, we expect G&A expenses to improve for the balance of 2009 (reflected in our valuation model). This is also in light of the company implementing a wage freeze, and is currently reviewing opportunities to further reduce G&A expenses as well as centralizing its repair and maintenance facilities with its equipment yard.

Overall, the company reported a net loss of $1.17 million (EPS: -$0.03) in Q2 2009, compared to a net loss of $1.12 million (EPS: -$0.03) in Q2 2008. For the first 6 months ended June 2009, Enterprise posted a net loss of $1.23 million (EPS: -$0.03), compared to net income of $0.74 million (EPS: $0.02) in the same period in 2008. In addition to the changes discussed above, we have included a tax recovery in our model. As a result, we forecast **a net loss of $1.25 million (EPS: -$0.03) in 2009, compared to our previous estimate of a net loss of $0.77 million (EPS: -$0.02). In 2010, we forecast net income of $0.42 million (EPS: $0.01) versus our previous forecast of $0.47 million (EPS: $0.01).**

Cash Flows and Capital Structure

In the first six months of 2009, the company generated $3.84 million from operations (despite a net loss during the period, positive cash flow from operations was the result of positive changes in non-cash working capital, primarily accounts receivables). This, combined with existing cash, was primarily used to pay down $2.38 million in long term debt, $1.99 million in short term bank loans, and finance a net purchase of $0.18 million in capital assets (purchased $0.44 million in new equipments and sold $0.26 million in old equipment). Note the company continues to update its equipment fleet with a goal to improve efficiency and provide excellent customer services.

Based on a capital expenditure estimate of $1 million in 2009 (unchanged from our precious report and provided to us by management), we believe current cash and cash flows from operations will be insufficient to fund capital expenditures and working capital for the balance of 2009. Our model indicates that the company will have to raise an additional $2.99 million for the balance of 2009. We have assumed it will be raised from the company's revolving line of credit of $9 million, of which, $6.34 million was available as at June 30, 2009 (the loan cannot exceed 75% of the company's accounts receivables). Note: the company repaid $1.99 million in short term bank loans in the first half of 2009; thus, the overall effect on the cash flow statement will be an additional $1.0 million in short term bank loans for the entire 2009.

Valuation

From the assumptions above, our DCF model gave a fair value estimate of $0.56 per share, lower than $0.74 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	(1,247,039)	423,618	1,231,000	2,083,064	2,632,021	3,708,748	4,039,978	4,371,033	4,613,955	4,853,461	5,090,996
Non Cash Charges	1,624,437	2,232,778	2,214,394	2,690,957	1,526,692	1,382,953	1,259,338	1,153,029	1,061,604	982,978	915,360
Funds from Operations	377,398	2,656,397	3,445,394	4,774,021	4,158,713	5,091,701	5,299,316	5,524,062	5,675,558	5,836,440	6,006,356
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	697,105	2,165,490	2,929,941	4,232,796	3,590,427	4,495,001	4,672,780	4,866,200	4,984,803	5,111,146	5,244,798
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	(302,895)	1,665,490	2,429,941	3,732,796	3,090,427	3,995,001	4,172,780	4,366,200	4,484,803	4,611,146	4,744,798
PV	(290,292)	1,425,171	1,856,534	2,546,381	1,882,303	2,172,551	2,026,099	1,892,870	1,735,971	1,593,639	18,220,331

Discount Rate	12%
Terminal Growth	3%
Firm PV	35,061,559
Cash (Beg. of Year)	607,286
Debt (Beg. Of Year)	11,983,496
PV Equity	23,685,349
Shares O/S	42,181,700
DCF Value/Share	**0.56**

Comparable Analysis: 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 16.7x (previously 15.9x), we value E at $0.168 per share based on our 2010 EPS forecast.

Industry - Oil and Gas Equipment and Services	
Industry P/E	16.7
EPS (2010E)	0.010
Fair Value based on 2010 EPS	0.168

Source: Yahoo Finance, FRC

Conclusion & Rating

The average valuation of our DCF model and comparables analysis is $0.36 per share, compared to $0.46 per share in our previous report. Therefore, we reiterate our BUY rating on Enterprise at a lower fair value opinion of $0.36 per share and maintain our Risk outlook on the company at 3 (Average).

Risk Analysis

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 at a fair price, which would delay the company's acquisition plans and hinder its growth. In addition, until industry demand returns to normal, the company may have to rely on bank loans. Any setback in the general economy or the banking industry could have a significant adverse effect on the company's capital structure.
- 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	30,037,946	34,556,439
Direct expenses	36,031,478	29,691,300	24,922,600	26,608,458
Gross margin	**11,265,429**	**10,070,381**	**5,115,346**	**7,947,981**
General and administrative expenses		5,304,425	4,723,854	5,000,000
Stock-based compensation	252,057		-	-
Others	6,067,108			
	6,319,165	**5,304,425**	**4,723,854**	**5,000,000**
EBITDA	**4,946,264**	**4,765,956**	**391,492**	**2,947,981**
Amortization	2,660,507	2,571,697	1,904,701	2,114,165
EBIT	**2,285,757**	**2,194,259**	**(1,513,210)**	**833,816**
Interest on long term debt	549,057	395,669	243,183	410,198
Other income	(344,111)	(30,741)	-	
Goodwill		15,107,935		
Loss on sale of equipment		308,873		
EBT	**1,392,589**	**(13,587,477)**	**(1,756,393)**	**423,618**
Tax	464,000	(1,318,236)	(509,354)	
Net income	**928,589**	**(12,269,241)**	**(1,247,039)**	**423,618**
EPS				
Basic	0.03	(0.295)	(0.03)	0.01

Balance Sheet - Enterprise Oilfield Group
(in C$)

	2007 (15 mo)	2008	2009E	2010E
Current assets				
Cash and cash equivalents	509,909	607,286	21,915	9,303
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**	**11,871,313**	**12,444,145**
Property, plant and equipment	16,557,906	14,805,290	13,995,824	12,487,367
Goodwill	15,107,935	-	-	-
Other intangible assets	1,530,319	1,200,375	1,105,140	999,432
Portfolio investment	102,515	28,000	28,000	28,000
Future income taxes		932,600	1,441,954	1,323,341
	42,642,726	**29,761,754**	**28,442,231**	**27,282,284**
Current liabilities				
Bank overdraft and indebtedness	4,950,988	6,526,900	7,526,900	8,126,900
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	2,278,101	435,595
	9,381,195	**11,686,689**	**11,695,717**	**10,547,747**
Long term debt	4,993,846	2,206,621	1,914,930	1,479,335
Future income taxes	261,645		-	-
Shareholders' equity				
Share capital	24,142,242	24,032,796	24,013,885	24,013,885
Warrants	197,609	47,796	47,796	47,796
Contributed surplus	638,298	1,085,717	1,260,807	1,260,807
Retained earnings	3,025,376	(9,243,865)	(10,490,904)	(10,067,285)
Other comprehensive income	2,515	(54,000)	-	-
	28,006,040	**15,868,444**	**14,831,584**	**15,255,203**
Total liabilities and shareholder's equity	**42,642,726**	**29,761,754**	**28,442,231**	**27,282,284**

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

	2007 (15 mo)	2008	2009E	2010E
Cash from operations				
Net income	928,589	(12,269,241)	(1,247,039)	423,618
Amortization	2,660,507	2,571,697	1,904,701	2,114,165
Goodwill write down		15,107,935		
(Gain) loss on sale of property, plant and equipment	582,624			
Stock-based compensation	252,057	96,175	229,090	-
Loss on sale of equipment		308,873	-	-
Future income tax (recovery)	476,645	(1,176,245)	(509,354)	118,613
	4,900,422	4,639,194	377,398	2,656,397
Changes in non-cash working capital	(2,796,342)	(2,786,414)	319,706	(490,907)
	2,104,080	**1,852,780**	**697,105**	**2,165,490**
Financing activities				
Increase in bank indebtedness		1,575,912	1,000,000	600,000
Decrease in vendor debt	(587,267)			
Proceeds from long-term financing	10,941,502		637,125	
Proceeds from issue of common shares,		160,500		
Share repurchase		(68,516)	(18,911)	
Share capital issuance	10,043,066			
Financing costs	(131,818)			
Repayment of long- term debt	(8,752,279)	(3,379,187)	(1,900,690)	(2,278,101)
	11,513,204	**(1,711,291)**	**(282,476)**	**(1,678,101)**
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	(585,371)	(12,611)

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.