



**Management's Discussion and Analysis  
For The Three Months Ended  
March 31, 2010**

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### For The Three Months Ended March 31, 2010

*This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited consolidated interim financial statements and the notes contained therein, of Enterprise Oilfield Group, Inc. (the "Company" or "Enterprise") for the three months ended March 31, 2010. In addition, this MD&A should be read in conjunction with the MD&A and audited consolidated financial statements for the year ended December 31, 2009. The unaudited consolidated interim financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") and are expressed in Canadian dollars. This MD&A was prepared effective May 10, 2010.*

### FORWARD-LOOKING INFORMATION

Certain information in the MD&A, other than statements of historical fact, may include forward-looking information that involves various risks and uncertainties. Forward-looking statements may contain words such as "may", "will", "should", "could", "anticipate", "believe", "expect", "intend", "plan", "potential", "continue", and similar expressions and statements relating to matters that are not historical facts. These may include, without limitation, statements based on current expectations involving a number of risks and uncertainties related to pipeline and facilities construction and maintenance services associated with the oil and gas and industries and utility services and the domestic and worldwide supplies and commodity prices of oil and gas.

These risks and uncertainties include, but are not limited to, seasonal weather patterns, maintaining and increasing market share, government regulation of energy and resource companies, terrorist activity, the price and availability of alternative fuels, the availability of pipeline capacity, potential instability or armed conflict in oil producing regions, overall economic environment, the success of integrating and realizing the potential of acquisitions, ability to attract and retain key personnel, technological change, demand for services provided by Enterprise, and fluctuations in the value of the Canadian dollar relative to the US dollar.

These risks and uncertainties may cause actual results to differ from information contained herein. There can be no assurance that such forward-looking information will prove to be accurate. Actual results and future events could differ materially from those anticipated in such forward-looking information. The forward-looking information is based on the estimates and opinions of management on the dates they are made and are expressly qualified in their entirety by this notice. The Company assumes no obligation to update forward-looking information should circumstances or management's estimates or opinions change as a result of new information or future events. Readers should not place undue reliance on forward-looking information.

### NON-GAAP MEASURES

In addition to using financial measures prescribed by GAAP, a certain non-GAAP measure is also used in this MD&A. This non-GAAP measure is "EBITDAS". References in this MD&A to EBITDAS are to net income before interest, taxes, depreciation, amortization and stock-based compensation.

EBITDAS is not an earnings measure recognized by GAAP and does not have a standardized meaning prescribed by GAAP. Management believes that EBITDAS is an appropriate measure in evaluating the Company's performance. EBITDAS should not be construed as an alternative to net income or cash flow from operating activity (as determined under GAAP) as an indicator of financial performance or to cash flow from operating activities (as determined under GAAP) as a measure of liquidity and cash flow. The Company's method of calculating EBITDAS may differ from the methods used by other issuers and, accordingly, the Company's EBITDAS may not be comparable to similar measures used by other issuers. This non-GAAP performance measure, EBITDAS, does not have any standardized meaning prescribed by

GAAP and therefore is unlikely to be comparable to similar measures presented by other companies. Accordingly, it is intended to provide additional information and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with GAAP.

## **COMPANY PROFILE**

Enterprise Oilfield Group, Inc. (TSX Exchange: Symbol “E”) is a construction services company operating in the energy, utility and transportation infrastructure industry. The Company’s focus is primarily underground construction and maintenance and above ground plants and facilities. With office headquarters in St. Albert, Alberta, Canada, a sales office in Calgary, Alberta, construction offices in Slave Lake, Sherwood Park, Peace River and Innisfail, Alberta, and field offices in Wabasca, Red Earth and Fox Creek, Alberta; Enterprise is strategically located near its customers. The Company’s strategy is to acquire complementary service companies in Western Canada, consolidating capital, management and human resources to support continued growth.

### **Industry and Markets**

Enterprise provides construction services including directional drilling and installation of underground utility infrastructure, pipeline construction, repairs and maintenance, wellhead tie-ins, water injection lines, facilities construction, oilfield hauling, and transportation infrastructure. Enterprise’s customers include some of Canada’s largest telecommunication providers, utility service providers, energy producers, as well as the federal and provincial governments of Canada.

With the existing utility infrastructure rapidly aging in the province, an ongoing repair and replacement program is essential for continued growth in Alberta. Enterprise’s largest customers in the utilities and infrastructure sector have such programs in place. In addition to the repairs and maintenance programs, the development of industrial, commercial and residential properties requires the installation of new infrastructure such as full underground services. The directional drills in Enterprise’s fleet are ideal for this type of construction, and as a result, Enterprise has become the supplier of choice in this sector and has secured ongoing contracts with its largest customers.

Enterprise also constructs pipelines throughout Western Canada with a fleet of over 200 trucks and heavy construction equipment. Our major projects relate to the construction of pipelines which include up to 12” diameter steel pipe. We have the equipment and expertise to undertake a project from start to finish. Enterprise will increase the collective customer base and overall revenues by developing a skilled labor force supported by a complete fleet of vehicles and equipment, thereby providing wide geographic coverage of energy services in Western Canada.

### **Seasonality of Operations**

A significant portion of the Company’s operations relate to energy production customers in Alberta. The Company’s earnings follow the seasonal activity pattern of Alberta’s oil and gas exploration industry whereby activity peaks in the winter months and declines during the spring thaw. During spring thaw, roads become incapable of supporting the heavy equipment needed to drill and tie-in oil and gas wells. As a result, demand for these types of services generally is the highest in the fall and winter quarters and the lowest in the spring quarter.

Our services to utility, telecommunication, and infrastructure customers are provided more evenly throughout the year but the spring quarter is also the slowest quarter of the year.

## SELECTED CONSOLIDATED FINANCIAL INFORMATION

(\$000's except per share amounts)	Three months ended Mar. 31, 2010	Three months ended Mar. 31, 2009
Revenue	\$5,270	\$8,971
EBITDAS	(263)	488
Net loss	(548)	(55)
Basic and diluted loss per share	\$(0.01)	\$(0.00)
Weighted average common shares outstanding – basic and diluted	48,672	42,223
Total common shares outstanding	48,682	42,192
Total Assets	\$20,338	\$31,483
Total Liabilities	\$8,270	\$15,681
Shareholders' Equity	\$12,069	\$15,802

### Reconciliation of EBITDAS to Historical Results (GAAP)

Statement of Loss (\$000's)	Three months ended Mar. 31, 2010	Three months ended Mar. 31, 2009
Net loss	\$(548)	\$(55)
Add:		
Income taxes (recovery)	(208)	(22)
Interest *	78	115
Amortization **	415	450
EBITDAS	\$(263)	\$488

\* Interest includes short term interest and interest on long term debt

\*\* Amortization includes (gain)/loss on sale of equipment

## OVERALL PERFORMANCE AND RESULTS OF OPERATIONS

Enterprise Oilfield Group, Inc. realized consolidated revenue of \$5.3 million for the three months ended March 31, 2010 compared to \$9.0 million for the three months ended March 31, 2009, a decrease of \$3.7 million. The decrease in revenue is attributed to fewer projects in the energy industry resulting from tight capital markets, decreased capital expenditures and lower natural gas prices. The Company had negative EBITDAS of \$0.3 million and a net loss of \$0.5 million for the three months ended March 31, 2010, compared to EBITDAS of \$0.5 million and a net loss of \$55 thousand for the three months ended March 31, 2009. The negative EBITDAS is attributable to lower revenue and margins on energy sector projects. The low margins in the energy sector were offset by higher margins in the utilities and infrastructure sector.

The Company's utilities and infrastructure division finalized negotiations on a multiyear contract that could generate over \$25 million in revenue over the life of the contract and could increase EBITDA by approximately \$1.75 million annually. In addition to the contract, this sector has seen a substantial increase in subdivision work. As a result the utilities and infrastructure division will be operating at full capacity for the remainder of the year.

The energy sector has seen an increase in the volume of projects over the previous year and management

expects this will lead to increased revenue and margins for 2010. (See the Outlook section of this MD&A).

Enterprise continues to monitor its overheads and reduce costs where necessary while maintaining the effectiveness of the operations. Equipment costs, operational costs and G&A costs are continually under review. As a result, for the three months ending March 31, 2010, the Company reduced its non operational costs by \$576 thousand as compared to March 31, 2009.

### Gross margin

The gross margin for the three months ended March 31, 2010 was 8.4% compared to 18.6% for the three months ended March 31, 2009. The decrease in gross margin was the direct result of customers and competition in the energy sector driving prices down in order to secure the limited contracts available. The drop in overall gross margin has been offset by a strong gross margin in the utility and infrastructure sector. Gross margin in the utility and infrastructure sector was 47.3% for the three months ended March 31, 2010. The Company expects this sector to continue operating at or near full capacity, with consistently high margins through 2010 and 2011.

### Selected Consolidated Expenses

A summary of selected financial information pertaining to consolidated expenses is set out below:

Selected Consolidated Expenses (\$000's)	Three months ended Mar. 31, 2010	Three months ended Mar. 31, 2009
Amortization	\$419	\$472
Management and administrative salaries and fees	286	555
Professional and consulting fees	76	177
Interest on long-term debt	30	51
Insurance	103	131

*Management and administrative salaries and fees include those expenses associated with the operations of the Company's head office.*

Management and administrative salaries and fees amounted to \$286 thousand or 5.4% of revenue for the three months ended March 31, 2010 compared to \$555 thousand or 6.2% of revenue for the three months ended March 31, 2009. This decrease was due to downsizing our Wainwright operation and staff reductions due to layoffs and retirements.

Interest on long term debt amounted to \$30 thousand or 0.6% of revenue for the three months ended March 31, 2010 compared to \$51 thousand or 0.6% for the same period in the previous year. This decrease was due to the Company's aggressive repayment plan throughout 2009, resulting in less long term debt outstanding on which interest is charged.

Professional and consulting fees amounted to \$76 thousand or 1.4% of revenue for the three months ended March 31, 2010 compared to \$177 thousand or 2.0% of revenue for the three months ended March 31, 2009. This decrease is due to utilizing in house expertise to perform the duties.

### Cash Flow Information

A summary of cash flow information for the three month periods ended March 31, 2010 and March 31, 2009 is set out below:

Cash Flow Information (\$000's)	Three months ended Mar. 31, 2010	Three months ended Mar. 31, 2009
Cash provided by (used in) operating activities:		
Net income (loss) and non-cash items	\$(341)	\$373
Changes in non-cash working capital	(860)	(413)
Cash provided by (used) in operating activities	(1,201)	(40)
Financing activities	59	(267)
Investing activities	(26)	(299)
Decrease in cash	(1,168)	(606)
Cash and cash equivalents – beginning of period	1,668	607
Cash and cash equivalents – end of period	500	1

Financial Statistics and Ratios	Three months ended Mar. 31, 2010	Three months ended Mar. 31, 2009
Gross margin as a percentage of revenue	8.4%	18.6%
Net loss as a percentage of revenue	(10.4%)	(0.6%)
EBITDAS (negative) as a percentage of revenue	(5.0%)	5.4%

## OTHER SIGNIFICANT EVENTS DURING THE THREE MONTHS ENDED MARCH 31, 2010

In October 2009, the Company refinanced its non-revolving bank loans. The loans were consolidated into a non-revolving prime based facility in the amount of \$2.1 million with monthly payments of \$66,400. The Company repaid \$0.8 million on the facility since October, leaving a balance of \$1.3 million outstanding at March 31, 2010. The Company now has a more conventional repayment schedule however it will continue to make additional payments to its long term debt from time to time.

Additionally, the Company's equipment acquisition line was reduced to a maximum of \$1.0 million from \$2.5 million and will not be available to the Company until June 2010. The Company's mortgages and revolving lines of credit were not significantly affected by the refinancing agreement.

The bank indebtedness is guaranteed and secured by a general security agreement on all the assets of the Company and its subsidiaries.

The credit facility requires the Company to comply with certain financial covenants. At March 31, 2010, the Company was required to maintain the following financial statement ratios as defined in the credit facility:

- working capital of not less than 1.35 :1
- funded debt to EBITDA of not more than 3.00:1
- total debt to capitalization of not more than 0.60:1
- fixed charge coverage of not less than 1.10:1

At March 31, 2010, the Company was not in compliance with the working capital ratio, the funded debt to EBITDA ratio and the fixed charge coverage ratio.

The financial covenants are calculated as follows: working capital ratio is current assets divided by current liabilities excluding current portion of long term debt; funded debt to EBITDA ratio is the sum of bank indebtedness and total long term debt divided by the trailing twelve months EBITDA and the fixed charge

coverage ratio is the trailing twelve months EBITDA divided by the trailing twelve months of required principal loan payments.

The Company is in compliance with all repayment terms and the lender has not given any indication that they will demand repayment. However, as the lender has the ability to demand repayment, generally accepted accounting principles require that the entire amount of the debt be shown as a current liability until such time as the covenant breaches are remedied or waived by the lender.

## SUMMARY OF QUARTERLY RESULTS

(\$000's except per share amounts)	2010		2009				2008		
	Mar. 31	Total	Dec. 31	Sep. 30	Jun. 30	Mar. 31	Dec. 31	Sep. 30	Jun. 30
Revenue	\$5,270	\$27,699	\$7,191	\$6,585	\$4,952	\$8,971	\$11,666	\$8,683	\$6,752
Net Income (loss)	(548)	(4,528)	(2,218)	(1,081)	(1,174)	(55)	(13,597)	588	(1,117)
Earnings (loss) per share — Basic and Diluted	(0.01)	(0.11)	(0.05)	(0.03)	(0.03)	0.00	(0.32)	0.01	(0.03)

Quarterly information is discussed in the “Overall Performance and Results of Operations” section of this MD&A.

## OUTSTANDING SHARE DATA

	May 10, 2010	Mar. 31, 2010	Mar. 31, 2009
Common shares outstanding	48,681,700	48,681,700	42,191,700
Stock options outstanding	3,480,000	3,480,000	3,940,000
Warrants outstanding	1,850,000	1,850,000	1,200,000
Total	54,011,700	54,011,700	47,331,700

## OFF-BALANCE SHEET ARRANGEMENTS

Enterprise enters into short term and long term operating leases with various vendors to provide office space and equipment in our normal course of operations. Our commitments under operating leases are disclosed in the table labeled “contractual obligations.” Enterprise does not have any other off-balance sheet arrangements as at March 31, 2010.

## RELATED PARTY TRANSACTIONS

The Company paid \$12,000 during the three months ended March 31, 2010 (2009 - \$12,000) to a company controlled by a director, for premises rented for the Company's office in Slave Lake.

These transactions were recorded at the exchange amount established and agreed to by the parties. All transactions were rendered in the normal course of business during the year.

## CAPITAL MANAGEMENT

The primary objective of capital management is to ensure the Company has sufficient capital to support its business and maximize shareholder value. The Company manages its capital in proportion to risk of the underlying assets and makes adjustments in light of changes in economic conditions and risks. The Company's strategy remains unchanged from prior periods. Management considers its capital structure to

include net debt and adjusted capital of the Company, as reflected in the table below:

The Company's objectives when managing capital are:

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders
- to provide an adequate return to shareholders by pricing services commensurately with the level of risk, and
- to finance its operations and growth strategies

In order to maintain or adjust the capital structure, the Company may issue new shares, or sell assets to reduce debt.

The Company monitors capital on the basis of the net debt-to-adjusted capital ratio. This ratio is calculated as net debt divided by adjusted capital. Net debt is calculated as total debt (as shown in the balance sheet less accounts payable and accrued liabilities) and less cash and cash equivalents. Adjusted capital comprises all components of equity (share capital, contributed surplus, warrants and deficit), other than amounts in accumulated other comprehensive income relating to the portfolio investment, and includes subordinated debt.

	Mar. 31, 2010	Dec. 31, 2009
Total debt	\$5,744,658	\$5,685,771
Less: cash and cash equivalents	(499,520)	(1,667,547)
Net debt	5,245,138	4,018,224
Total equity	12,068,742	12,616,292
Add: subordinated debt instruments	nil	nil
Add: amounts in accumulated other comprehensive (loss) relating to portfolio investment	nil	nil
Adjusted capital	12,068,742	12,616,292
Net debt-to-adjusted capital ratio	0.43	0.32

The net debt-to-adjusted capital ratio increased to 0.43 from 0.32. The ratio was impacted by decreases in cash and cash equivalents and the adjusted capital amounts for the three months ended March 31, 2010 compared to the year ended December 31, 2009. The Company's total debt increased during the period ended March 31, 2010. This was due to an increase in bank indebtedness of \$342,411 which offset the long term debt reduction payments for the same period. As a result, total debt increased by \$58,887, for the three month period ended March 31, 2010 as compared to the year ended December 31, 2009.

## RISKS AND UNCERTAINTIES

This document contains forward-looking information based upon current expectations that involve a number of business risks and uncertainties. These business risks and uncertainties may cause actual results, events or developments to be materially different from any future results, events or developments expressed or implied by such forward-looking information.

### Financial Instruments and Business Risks

The Company holds various forms of financial instruments. Financial instruments consist of the Company's cash and cash equivalents, portfolio investment, accounts receivable, bank indebtedness,

accounts payable and accrued liabilities, and long term debt. The nature of these instruments and the manner in which the Company operates exposes the Company to interest rate, credit and fair value risk.

The Company manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical. The Company's primary activities revolve around providing construction services to energy, utility and infrastructure markets in Western Canada. The demand, price and terms of these services are dependent on the level of activity in the industry, which in turn depends on several other factors.

#### **Fair value**

The carrying amounts of cash and cash equivalents, accounts receivable, bank indebtedness and accounts payable and accrued liabilities approximate fair value due to the short term maturity of these instruments. The fair value of long term debt approximates its carrying value as the interest rates on these instruments do not differ significantly from current market rates. The Company's portfolio investment is subject to market price and liquidity risk.

#### **Credit risk**

Credit risk arises from the potential that a customer will fail to perform its obligations. The Company is exposed to credit risk from customers. This risk is elevated in the current year similar to the prior year due to the impact of the current credit market and economy on its customers. The Company's maximum exposure is the value of its accounts receivable. However, to mitigate this risk the Company regularly reviews customer credit limits.

The Company has accounts receivable from customers in the oil and gas industry, as well as the utilities and infrastructure industry. Credit risk is mitigated due to the Company's significant customers being large industry leaders, following a program of credit evaluation and limiting the amount of customer credit where deemed necessary. Included in accounts receivable at March 31, 2010 was \$3,703,071 or 72%, of total accounts receivable owing from four customers due to the significant contracts in progress at that time. As at March 31, 2010, the Company's exposure to credit risk was as follows:

	Total	Current 1 – 90 days	91 + days
Accounts Receivable	\$5,118,621	\$4,501,663	\$616,958

All of the Company's cash is held at one institution and as a result the Company has concentration of credit risk.

#### **Liquidity Risk and Capital Resources**

Liquidity risk is defined as the risk associated with the Company not being able to meet its financial obligations as they come due. The Company manages liquidity risk to ensure it has sufficient cash and credit facilities to meet its obligations under both normal and adverse conditions, by managing net working capital, monitoring cash flow requirements and maintaining flexibility with its lines of credit.

Accounts payable and accrued liabilities as at March 31, 2010 totaled \$2,525,051 which is payable within 30 - 45 days.

The Company has an authorized revolving line of credit of \$9,000,000, of which \$3,730,000 was available based on margins as at March 31, 2010. \$3,705,941 of bank indebtedness was outstanding as at March 31, 2010, comprised of \$3,440,000 of revolving line of credit and \$265,941 of bank overdraft balances. The revolving line of credit bears interest at the Company's bank prime plus 3.0% (equating to 5.25% at March 31, 2010). The loan cannot exceed 75% of eligible unencumbered accounts receivable as defined by the Company's bank measured on an ongoing basis.

Under its long term credit facilities, the Company must maintain certain ratios. The Company was not in compliance with the working capital ratio, the funded debt to EBITDA ratio and the fixed charge coverage

ratio at March 31, 2010 (see Other Significant Events section of this MD&A). This non-compliance resulted from lower EBITDA for the three months ended March 31, 2010 and the trailing twelve months EBITDA ended March 31, 2010.

The Company is in compliance with all repayment terms and the lender has not given any indication that they will demand repayment. However, as the lender has the ability to demand repayment, generally accepted accounting principles require that the entire amount of the debt be shown as a current liability until such time as the covenant breaches are remedied or waived by the lender.

Although the current lending agreement's annual review date is on or before April 30, 2010, the lender, at its discretion, has extended the deadline date. The Company and its lender are currently in the process of negotiating the 2010/2011 lending agreement with expectations of having a new agreement in place before June 30, 2010.

This non-compliance increases the Company's liquidity risk as the lender could demand repayment of this facility. Management has assessed the risk and believes that it has sufficient capital through internally generated cash flows or alternate sources of financing to mitigate this risk.

#### Interest rate risk

The Company minimizes its exposure to interest rate risks by securing financing with a fixed interest rate for certain capital asset acquisitions and limiting its financing terms to less than sixty months.

Management has assessed the effect of a 1% interest rate increase or decrease in the prime lending rate at March 31, 2010 to impact the Company's annual interest expense by approximately \$54,200. The Company has not entered into any derivative agreements to mitigate this risk.

The Company's estimated principal repayments on long term debt over the next twelve months based on the current repayment schedule are \$1,029,527. However, in the unlikely event the lender demands repayment of long term debt, the repayment of principal over the next twelve months would increase to \$1,910,654. The Company anticipates that its current cash resources will be sufficient to meet all anticipated obligations throughout the next fiscal year.

Principal repayment requirements on the long term debt for the next five years and thereafter based on the Company's current repayment schedule as at March 31, 2010, are estimated as follows:

<b>Contractual Obligations</b>	<b>Total</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>After 5 years</b>
Long-term debt including capital leases	\$2,038,717	\$1,029,527	\$647,218	\$68,253	\$48,569	\$45,593	\$199,557
Operating leases	938,721	599,125	329,753	9,843	nil	nil	nil
<b>Total</b>	<b>\$2,977,438</b>	<b>\$1,628,652</b>	<b>\$976,971</b>	<b>\$78,096</b>	<b>\$48,569</b>	<b>\$45,593</b>	<b>\$199,557</b>

#### Other Risks

Other risks include:

- **Commodity pricing** – Fluctuation in the price of petroleum products is a business risk that impacts the Company directly. Oil and gas prices determine the economic feasibility of exploration and drilling activity in the oil and gas industry, to which the Company provides its services. High prices increase demand for the Company's services, while adverse or lower prices impact the Company's ability to generate revenues.
- **Production declines and new discoveries** – New discoveries of oil and gas reserves lead to an increase in the demand for the Company's services. On the other hand, declines in production result in

decreased demands for the Company's services. Either situation directly impacts the operating results of the Company.

- **Access to capital** – The Company is dependent on access to equity or debt financing to fund capital expansion programs when operating cash flows are not sufficient to do so. To date, sufficient capital has been obtained to meet the Company's capital expansion and acquisition requirements. Any further capital expansion or acquisitions that cannot be funded through operating cash flows will require external financing, the availability of which is dependent on economic factors such as interest rates, investor and creditor confidence, and industry profitability.
- **Weather** – The Company operates heavy equipment, the movement of which requires reasonable weather and road conditions. In the spring season this is especially true, with spring breakup making many secondary roads impassable. Since heavy equipment cannot be moved under these conditions, the Company's operating results are subject to significant decreases during this time period. To mitigate this risk, the Company is diversifying its operations to other industries enabling the Company to perform services elsewhere during the spring.
- **Available workforce** – The ability to perform services is contingent upon sufficient and appropriately skilled staff being available. Obtaining personnel is crucial to the Company's ability to meet demand for its services.
- **Recession Risk** – Should the current challenging economic environment slide into a deep recession, demand for the Company's services would be reduced and have a negative impact on revenues and earnings. This would result in the company implementing cost control measures and possibly expanding its services into other industries in order to manage through the recession. Management has already implemented some cost cutting measures and is currently reviewing other areas for possible cost savings. In addition, due to the Company's aggressive repayment plan on long term debt, Enterprise is not heavily leveraged, limiting the Company's exposure.
- **Cyclicality** – The Company has a significant portion of its revenues tied directly to oil and gas pipeline construction industry in Western Canada. These revenues are subject to any cyclicality of the industry. To mitigate this risk the Company has diversified its revenue stream to include pipeline maintenance, transportation infrastructure, and directional drilling and installation of underground utility infrastructure, all of which are less seasonal than pipeline construction.
- **Insurance** – The Company believes the insurance coverage it has in place is appropriate for the nature of its services provided and its associated risks, however such coverage may not be adequate. To mitigate this risk, management reviews the Company's insurance coverage on a regular basis.
- **Competition** – The Company's ability to provide cost-effective, quality service to its customers is essential to help mitigate the Company's business risk of competition.

A change in any one of these factors could have a material impact on the financial performance of the Company. The above discussion of risks is not intended to be all-inclusive. The intention of the discussion is to highlight for the reader what are typical risks for this industry.

## **RECENT ACCOUNTING PRONOUNCEMENTS ISSUED BUT NOT YET ADOPTED**

### **Convergence to International Financial Reporting Standards ("IFRS")**

The Canadian Accounting Standards Board (AcSB) announced in 2006 that for fiscal years commencing on or after January 1, 2011, all publicly accountable enterprises are required to report their financial results using International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). IFRS uses a conceptual framework similar to Canadian GAAP, but there are some differences in recognition, measurement and disclosures. The Company is required to prepare interim and annual financial statements that are compliant with IFRS with comparative numbers for the

prior year. The Company's transition date is January 1, 2011 and will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010.

As a result of this announcement, the Company developed an implementation plan to convert its consolidated financial statements to IFRS. To support the implementation plan the Company has established a project management team consisting of both internal and external consultants, and has commenced the mobilization of organizational support for the implementation plan.

The plan addresses the impact that IFRS has on:

- accounting policies and implementation decisions
- information technology and data systems
- financial statement presentation and disclosure options available upon initial changeover to IFRS
- internal control over financial reporting
- disclosure controls and procedures
- business activities, including impact on debt covenants

The conversion to IFRS from Canadian GAAP is a significant undertaking. The implementation project consists of three primary phases:

- The initial diagnostic phase involves performing a high-level impact assessment to identify key areas that may be impacted by the transition to IFRS. Each potential impact identified during this phase is ranked as having a high, moderate or low impact on financial reporting.
- The impact analysis, evaluation and solution development phase involves the selection of IFRS accounting policies by senior management and the review by the audit committee; the quantification of the impact of the changes to existing policies on the opening balance sheet; and the development of the draft IFRS financial statements. This phase will also include the development of IFRS training programs and the identification of the changes to internal controls over financial reporting and business process and procedures.
- The implementation and review phase involves the delivery of training programs to key personnel and the board members and the implementation of the required changes to information systems and business policies and procedures identified in the previous phase of the project.

While an analysis will be required for all current accounting policies, the initial key areas of assessment will include:

- First-time adoption of International Financial Reporting Standards (IFRS 1)
- Stock-based compensation (IFRS 2)
- Income taxes (IAS 12)
- Property plant and equipment (IAS 16)
- Revenue (construction contracts) (IAS 18)
- Related party disclosures (IAS 24)
- Financial instruments (IAS 32)
- Impairment of assets (IAS 36)

As the analysis of each of the key areas progresses, other elements of our IFRS implementation plan will also be addressed. The table below summarizes the expected timing of activities related to our transition to IFRS:

Initial diagnostic and analysis of key areas for which changes to accounting policies may be required	Completed
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Detailed analysis of all relevant IFRS requirements and identification of areas requiring accounting policy changes or those with accounting policy alternatives	In Progress now and throughout 2010
Final determination of changes to accounting policies and choices to be made with respect to first-time adoption alternatives	By September 30, 2010
Resolution of the accounting policy change implications on the accounting processes	By September 30, 2010
Quantification of the financial statement impact of changes in accounting policies	Throughout 2010

## **Internal Control Over Financial Reporting**

### **Management's Annual Report on Internal Control Over Financial Reporting**

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting, and has designed such internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

Management has used the Internal Control – Integrated Framework to evaluate the effectiveness of internal control over financial reporting, which is a recognized and suitable framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”).

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management has evaluated the design and operation of the Company's internal control over financial reporting as of March 31, 2010, and has concluded that such internal control over financial reporting is effective. There are no material weaknesses that have been identified by management in this regard.

### **Disclosure Controls and Procedures**

The Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of the Corporation's disclosure controls and procedures (as defined in the rules of the Canadian Securities Administrators) and concluded that the Corporation's disclosure controls and procedures were effective as of March 31, 2010 and in respect of the March 31, 2010 interim reporting period.

For the three months ended March 31, 2010, the Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of the Corporation's internal disclosure controls and procedures and have concluded that the Corporation's disclosure controls and procedures were effective.

## **OUTLOOK**

Management is optimistic in its outlook for its construction services including underground utility and infrastructure and directional drilling, pipeline construction, repairs and maintenance, facilities construction, oilfield hauling, and transportation infrastructure and believes the economy has started to recover.

In March 2010, Enterprise announced its underground utility and infrastructure division finalized negotiations with one of Canada's premier power suppliers on a multiyear contract. The value of the contract could generate revenues in excess of \$25 million for the duration of the contract and add approximately \$1.75 million in EBITDAS annually to its consolidated results. This contract secures Enterprise's future growth in the utility and infrastructure business and allows the Company to continue its

expansion across Western Canada. Management expects additional capital requirements to fulfill this new contract to be minimal.

In addition to the contract, economic stimulus packages implemented by Canadian governments have had a positive effect. Enterprise's largest clients in the underground utility and infrastructure division have a significant backlog of work for which the Company is the primary contractor. In addition to the existing backlog they are also releasing work programs to begin in the second half of 2010. The increased size and scope of the programs over previous years will require a significant increase in personnel and equipment for 2010 and well into 2011.

The volume and size of new subdivision developments has also increased year over due to low interest rates and the demand for new housing. New subdivisions require the type of infrastructure that the underground utility and infrastructure specialize in. As a result, this division will continue to operate at or near full capacity with margins in the 42% to 50% range for the foreseeable future.

Recognizing the opportunity at hand, management plans to increase this division's production capacity through organic growth and acquisitions. The addition of key personnel, equipment and identifying potential targets for acquisition are all incorporated into the strategic growth of the underground utility and infrastructure division.

Although the global financial and economic turmoil continues to add to the uncertainty for commodity prices, we believe the bottom has been reached and the downward trend in the energy sector may have ended, as the world wide economic stimulus packages take hold. Certain indicators support this assessment.

Crude oil has been trading in the \$70 to \$84 per barrel range for several months; capital expenditure budgets for conventional oil based assets have increased for the first time since 2006, in some cases the increases are 50% greater than 2009 levels; oil sands projects that were put on hold in late 2008 and early 2009 are coming back on line; several large oil companies are tendering large pipeline construction projects in Northern Alberta for construction in 2010; and to date, the overall volume of projects released for tender is greater than anticipated. Management believes these indicators will lead to higher revenue and margins for 2010.

In combination with the projected increase in project margins, management is continuing to monitor overheads and cut costs, while maintaining the effectiveness of the energy sector operations. Also, with the majority of these projects being in Northern Alberta, Enterprise is geographically well positioned to in relation to these projects. Our flagship operation for the energy sector is located in Slave Lake, Alberta which is near the middle of the conventional oil activity in Northern Alberta.

Along with the energy sector, the Company has diversified its oil and gas pipeline construction to include transportation infrastructure construction, as strong synergies exist between these two sectors. Both types of construction use the same heavy equipment and similar construction processes, and we personnel within the Company with many years of expertise in the transportation infrastructure business. Moreover, the season for transportation infrastructure begins in the spring and winds down in the fall, making this an excellent complement to oil and gas pipeline construction which begins in the fall and ends in the spring. With the large amounts of infrastructure dollars being allocated by the Canadian governments, Enterprise believes there is an excellent opportunity for growth in this sector.

In late 2008, the Company expanded into Peace River, Alberta. This area holds tremendous potential for pipeline services projects due to significant heavy oil production in the region. Although 2009 proved to be a difficult year for this region the Company is continuing to explore opportunities to work with existing companies in the area and expect 2010 to be a more successful year due to increased activity in the area.

One of the Company's goals is to increase the level of customer service with the best and safest practices, the newest equipment and the best field staff. Enterprise is continually assessing its heavy equipment fleet, selling older and underutilized equipment and buying new and more efficient equipment in order to

maintain a more cost effective fleet.

Additionally, the Company has a history of success due to the commitment of its field staff to provide excellent service to its customers regardless of industry conditions, and the commitment of its management team to prudent financial management. Consequently, Enterprise will continue to actively pursue opportunities to enter new geographic territories and make strategic acquisitions. With the Company's belief that the global economy is beginning to recover, we are certainly upbeat about the indicators we are seeing.

### **Conclusion**

Management's outlook for its services is optimistic. We believe that the downward trend in the energy sector may have ended, and that Enterprise is relatively well positioned due to the diversity of its business and operational performance. Management also believes that a balanced and diversified position in underground utilities and infrastructure, pipeline construction services, and transportation infrastructure is the best path to generating shareholder value.

Enterprise's customers include some of Canada's largest energy producers, telecommunication providers, utility service providers and the federal and provincial governments of Canada. The Company employs management experienced in infrastructure projects to spearhead more civic-related construction and maintenance as there are inherent synergies in the equipment, crews and services provided.

Over the last year, Enterprise's competitive landscape has shrunk with some competing companies choosing to cease operations and exit the industry, while others were forced to file for creditor protection. Enterprise will continue to exercise fiscal and operational prudence by monitoring overheads and reducing costs where necessary while maintaining the effectiveness of the operations.

We believe that the Company is turning a corner and with the diversification of our construction services, streamlining of our operations, updating our equipment fleet and our cash management measures, believe that Enterprise is relatively well positioned operationally and financially for 2010.

Management remains confident in its strategic and operational plans and has a seasoned leadership team to guide the Company. Enterprise is committed to the further expansion of its customer base throughout the Western Canadian provinces and strives to provide excellent customer service and is optimistic about its future prospects.

### **ADDITIONAL INFORMATION**

Additional information, including the Company's Annual Information Form, can be found on SEDAR at [www.sedar.com](http://www.sedar.com) or the Company web site at [www.enterpriseoil.ca](http://www.enterpriseoil.ca).

## **MANAGEMENT TEAM / BOARD OF DIRECTORS**

Leonard D. Jaroszuk, President, Chief Executive Officer and Director

Desmond O’Kell, Vice President and Corporate Secretary

Ron Ingram, Director

Jason Krueger, CFA, Director

James P. Stout, CA, Director

Nick Demare, CA, Director

## **PIPELINE CONSTRUCTION TEAM AND BOARD OF ADVISORS**

Mike Runcer, Project Manager – Central Alberta

Tom Lavender, General Manager – Underground Utilities and Infrastructure Operations

James Chorney, Independent Advisor – Engineering & Pipeline Construction

## **OFFICE TEAM**

Colette Dziwenka, Interim Chief Financial Officer/Corporate Controller

Francine Coleman, Divisional Controller, Pipeline Maintenance and Construction Operations

Darlene Hubscher, Divisional Controller, Underground Utilities and Infrastructure Operations

Angela Hatt, Human Resources / Safety Coordinator

## **CONTACT INFORMATION**

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