



**ENTERPRISE**  

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**OILFIELD GROUP, INC.**

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**Management's Discussion and Analysis  
For The Twelve Months Ended  
December 31, 2009**

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### For The Twelve Months Ended December 31, 2009

*This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the audited consolidated financial statements and the notes contained therein, of Enterprise Oilfield Group, Inc. (the "Company" or "Enterprise") for the twelve months ended December 31, 2009. The audited consolidated 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 March 26, 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.

*Throughout this MD&A a certain measure has been used that is not a recognized measure under GAAP. The specific measure used is earnings before interest, taxes, depreciation, amortization and stock-based compensation ("EBITDAS"). Please review the discussion of this measure in the "NON-GAAP Measures" section of this MD&A.*

## **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 our 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 pipeline construction, repairs and maintenance, wellhead tie-ins, water injection lines, facilities construction, oilfield hauling, transportation infrastructure, directional drilling and installation of underground utility infrastructure. Enterprise’s customers include some of Canada’s largest energy producers, telecommunication providers, utility service providers 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 an equipment cost base of approximately \$16 million, including 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)	Twelve months ended Dec. 31, 2009	Twelve months ended Dec. 31, 2008
Revenue	\$27,699	\$39,762
EBITDAS*	(1,462)	5,197
Net income (loss)	(4,528)	(12,269)
Basic and diluted loss per share	\$(0.107)	\$(0.295)
Weighted average common shares outstanding – basic and diluted	42,193	41,637
Total common shares outstanding	48,682	42,302
Total Assets	\$20,580	\$29,762
Total Liabilities	\$7,964	\$13,893
Shareholders' Equity	\$12,616	\$15,868

\* EBITDAS (earnings before interest, taxes, depreciation, amortization and stock-based compensation) is not a recognized measure under Canadian Generally Accepted Accounting Principles (GAAP) and therefore is unlikely to be comparable to similar measures presented by other companies. Accordingly, EBITDAS 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. Management believes that in addition to net income from continuing operations, EBITDAS is a useful supplemental financial measure of the Company's operating results, which assists investors' understanding and assessment of the Company's performance.

## OVERALL PERFORMANCE AND RESULTS OF OPERATIONS

Enterprise Oilfield Group, Inc. realized consolidated revenue of \$27.7 million for the year ended December 31, 2009 compared to \$39.8 million for the year ended December 31, 2008, a decrease of \$12.1 million. For the three months ended December 31, 2009, the consolidated revenue of Enterprise amounted to \$7.2 million, compared to \$11.7 million for the same period last year, a decrease of \$4.5 million. The decrease in annual 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 \$1.5 million and a net loss of \$4.5 million for the year ended December 31, 2009, compared to EBITDAS of \$5.2 million and a net loss of \$12.3 million for the year ended December 31, 2008. Negative EBITDAS for the three months ended December 31, 2009 was \$1.1 million with a net loss of \$2.2 million compared to EBITDAS of \$1.0 million and a net loss of \$13.6 million for the three months ended December 31, 2008. 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.

EBITDAS for 2009 was also negatively affected by the Company providing an allowance against an accounts receivable of \$360 thousand. The receivable is the subject of a lawsuit to reclaim damages caused by a subcontractor on a pipeline project. The Company anticipates a favourable outcome to the lawsuit in 2010 and believes the receivable will be fully recovered through an insurance claim filed by the subcontractor. However, due to the uncertainty of success a provision has been recorded.

The Company 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. During the year management targeted old, redundant and underutilized equipment. For the year ended December 31, 2009, proceeds from the sale of equipment totaled \$1.9 million. These proceeds were used to continue the Company's aggressive repayment of long term debt and contribute towards operating capital. For the year ended December 31, 2009, the Company repaid \$4.3 million of long term debt, with \$0.9 million repaid in the fourth quarter.

## Gross margin

The gross margin for the year ended December 31, 2009 was 7.7% compared to 25.3% for the year ended December 31, 2008. 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 42.0% for the year ended December 31, 2009. The Company expects this sector to continue operating at or near full capacity, with consistently high margins through 2010.

## 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 Dec. 31, 2009	Three months ended Dec. 31, 2008	Twelve months ended Dec. 31, 2009	Twelve months ended Dec. 31, 2008
Amortization	\$437	\$749	\$1,846	\$2,572
Management and administrative salaries and fees	245	806	1,418	3,049
Professional fees	50	75	170	123
Interest on long-term debt	43	81	164	396
Insurance	84	139	478	529

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

The Company's amortization expense for the year ended December 31, 2009 was \$1.8 million compared to \$2.6 million for the same period last year, a decrease of \$726 thousand. The decrease in amortization expense is due to a change in the estimate of amortization pertaining to construction equipment and their related salvage values as well as selling off old and underutilized equipment.

Effective January 1, 2009, the Company evaluated the amortization of its construction equipment. As a result of this review it was determined to include salvage values in the calculation of amortization. This change has been accounted for on a prospective basis with effect from January 1, 2009. For the year ended December 31, 2009, amortization is \$360 thousand lower than it would have been had no salvage values been estimated. The Company has determined this will provide a more reasonable allocation of the cost of the assets to the periods in which they are used.

Management and administrative salaries and fees amounted to \$1.4 million or 5.1% of revenue for the year ended December 31, 2009 compared to \$2.4 million or 6.0% of revenue for the year ended December 31, 2008. This decrease was due to downsizing our Wainwright operation and staff reductions due to layoffs and retirements.

Interest on long term debt amounted to \$164 thousand or 0.6% of revenue for the year ended December 31, 2009 compared to \$396 thousand 0.9% in the previous year. This decrease was due to the Company's aggressive repayment plan resulting in less long term debt outstanding on which interest is charged.

## Cash Flow Information

A summary of cash flow information for the three and twelve month periods ended December 31, 2009 and three and twelve month periods ended December 31, 2008 is set out below:

Cash Flow Information (\$000's)	Three months ended Dec. 31, 2009	Three months ended Dec. 31, 2008	Twelve months ended Dec. 31, 2009	Twelve months ended Dec. 31, 2008
Cash provided by (used in) operating activities:				
Net income (loss) and non-cash items	\$(1,237)	\$1,023	\$(1,941)	\$4,639
Changes in non-cash working capital	1,659	(2,549)	7,481	(2,786)
Cash provided by (used) in operating activities	422	(1,526)	5,540	1,853
Financing activities	256	1,534	(5,343)	(1,711)
Investing activities	320	131	863	(44)
Increase in cash	998	139	1,060	97
Cash and cash equivalents – beginning of year	670	468	607	510
Cash and cash equivalents – end of year	1,668	607	1,668	607

Financial Statistics and Ratios	Three months ended Dec. 31, 2009	Three months ended Dec. 31, 2008	Twelve months ended Dec. 31, 2009	Twelve months ended Dec. 31, 2008
Gross margin as a percentage of revenue	(5.2%)	20.5%	7.7%	25.3%
Net income (loss) as a percentage of revenue	(30.8%)	(116.5)%	(16.3%)	(30.9)%
EBITDAS as a percentage of revenue	(14.9%)	8.7%	(6.1%)	13.1%

## OTHER SIGNIFICANT EVENTS DURING THE YEAR ENDED DECEMBER 31, 2009

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 \$0.6 million on the facility since October, leaving a balance of \$1.5 million outstanding at December 31, 2009.

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 March 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 December 31, 2009, 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 3.50:1
- total debt to capitalization of not more than 0.60:1
- fixed charge coverage of not less than 1.75:1

At December 31, 2009, 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 three months EBITDA divided by the trailing 3 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.

#### Normal Course Issuer Bid

In July 2008, the Company received approval from the TSX to purchase up to 1,000,000 common shares at market price beginning July 21, 2008 and ending July 20, 2009.

During the year ended December 31, 2009, 120,000 common shares were purchased and cancelled at an approximate average cost of \$0.16 per common share totaling \$18,912. The carrying value of the total common shares purchased and cancelled in the amount of \$68,122 was recorded as a charge against share capital with the balance of \$49,210 credited against contributed surplus.

#### Private Placement

During the year ended December 31, 2009, the Company completed two brokered private placements consisting of 4,100,000 shares at \$0.17 per share for gross proceeds of \$697,000 and 2,400,000 shares at \$0.17 per share for gross proceeds of \$408,000 respectively.

In both placements, the broker received a 10% commission and common share purchase warrants equivalent to 10% of the total of each of the placements (410,000 warrants and 240,000 warrants respectively). Each share purchase warrant entitles the shareholder to one common share and is exercisable at \$0.17. The common share purchase warrants expire on December 22, 2010 and December 30, 2010 respectively. The private placement on December 30, 2009 for 2,400,000 shares was with a director of the Company.

### SUMMARY OF QUARTERLY RESULTS

(\$000's except per share amounts)	2009					2008				
	Total	Dec. 31	Sep. 30	Jun. 30	Mar. 31	Total	Dec. 31	Sep. 30	Jun. 30	Mar. 31
Revenue	\$27,699	\$7,191	\$6,585	\$4,952	\$8,971	\$39,762	\$11,666	\$8,683	\$6,752	\$12,661
Net Income (loss)	(4,528)	(2,218)	(1,081)	(1,174)	(55)	(12,270)	(13,597)	588	(1,117)	1,856
Earnings (loss) per share – Basic and Diluted	(0.11)	(0.05)	(0.03)	(0.03)	0.00	(0.30)	(0.32)	0.01	(0.03)	0.04

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

### OUTSTANDING SHARE DATA

	Mar. 26, 2010	Dec. 31, 2009	Dec 31, 2008
Common shares outstanding	48,681,700	48,681,700	42,301,700
Stock options outstanding	4,075,000	4,075,000	3,970,000
Warrants outstanding	1,850,000	1,850,000	1,200,000
Total	54,606,700	54,606,700	47,471,700

## 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 December 31, 2009.

## RELATED PARTY TRANSACTIONS

The Company paid \$48,000 during the year ended December 31, 2009 (2008 - \$48,000) to a company controlled by a director, for premises rented for the Company's office in Slave Lake.

The Company paid \$346,500 for the year ended December 31, 2009 (2008 - \$575,000) to companies controlled by a director of the Company and \$nil for the year ended December 31, 2009 (2008 - \$30,000) to a company controlled by an officer for executive management services.

The Company paid fees and interest of \$25,762 during the year ended December 31, 2009 (2008 - \$nil) to Samoth Oilfield Inc., a company controlled by certain directors and officers of the Company for a short term advance of \$500,000 which was repaid November 27, 2009.

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.

## 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 is showing signs of recovery.

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. The Company expects the contract to add approximately \$1.75 million in EBITDA 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.

Additionally, the economic stimulus packages implemented by the Canadian governments have had a positive effect on our underground utility and infrastructure division. This division continues to operate at or near full capacity with margins in the 42% to 50% range. Our largest clients have a significant back log of work through 2010 for which we are the primary contractor. The Company recognizes the value of our underground utilities and infrastructure division and is committed to growing this portion of the operation organically and through acquisition. In 2010 we expect to see the high margins continue and our production capacity to increase. The addition of key expertise and equipment are fueling the organic growth and identifying potential acquisition targets for 2010 will help stimulate the overall growth of the Company.

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 has ended as the world wide economic stimulus packages begin to take hold. Certain indicators support this assessment.

Crude oil has been trading above \$70 a barrel for several months; capital expenditure budgets in 2010 for conventional oil based assets have increased for the first time since 2006, in some cases as much as 50% over 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 have released for tender, large pipeline constructions projects in Northern Alberta that are to begin 2010; and the volume of projects out for tender is greater than anticipated.

Enterprise is geographically well positioned for these projects with our flagship operation for the energy sector located in Slave Lake, Alberta. Slave Lake is near the middle of the conventional oil activity in Northern Alberta, including the projects mentioned above. 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 where necessary, while maintaining the effectiveness of the energy sector operations.

In addition to the energy sector, the Company has diversified its oil and gas pipeline construction to include transportation infrastructure. Strong synergies exist between these two sectors. Both types of construction use the same heavy equipment, the same construction processes and we have field staff 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.

In late 2008, the Company expanded into the Peace River, Alberta area. Peace River holds tremendous potential for pipeline services work due to significant heavy oil production in the area. The Company is continuing to explore opportunities to work with existing companies 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. The plan is working with continued success. Enterprise purchased several pieces of new equipment during the year and sold off older and underutilized equipment in order to maintain a more efficient and 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 we have reached the bottom of the market turmoil, 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 has ended, and 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. Equipment costs, operational costs, long term debt and G&A costs are all under review.

We believe that the industry has turned 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 excited about its future prospects.

## 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.

	Dec. 31, 2009	Dec. 31, 2008
Total debt	\$5,685,771	\$11,983,496
Less: cash and cash equivalents	(1,667,547)	(607,286)
Net debt	4,018,224	11,376,210
Total equity	12,616,292	15,868,444
Add: subordinated debt instruments	nil	500,000
Add: amounts in accumulated other comprehensive (loss) relating to portfolio investment	nil	(54,000)
Adjusted capital	12,616,292	\$16,314,444
Net debt-to-adjusted capital ratio	0.32	0.70

The improved net debt-to-adjusted capital ratio resulted primarily from the reduction in net debt that occurred on the sale of property, plant and equipment, as well as the accelerated long-term debt repayment schedule.

## 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 December 31, 2009 was \$1,516,761 or 37%, of total accounts receivable owing from three customers due to the significant contracts in progress at December 31, 2009. As at December 31, 2009 the Company's exposure to credit risk was as follows:

	Total	Current 1 – 90 days	91 + days
Accounts Receivable	\$4,011,810	\$3,553,750	\$458,060

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 December 31, 2009 totaled \$2,277,882 which is payable within 30 - 45 days.

The Company has an authorized revolving line of credit of \$9,000,000, of which \$5,080,000 was available based on margins as at December 31, 2009. \$3,363,530 of bank indebtedness was outstanding as at December 31, 2009, comprised of \$3,265,000 of revolving line of credit and \$98,530 of bank overdraft balances. The revolving line of credit bears interest at the Company's bank prime plus 3.0% (5.25% at December 31, 2009). 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 December 31, 2009 (see Other Significant Events section of this MD&A). This non-compliance resulted from lower EBITDA for the year ended December 31, 2009.

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.

The current lending agreement's annual review date is on or before April 30, 2010. 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 April 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 December 31, 2009 to impact the Company's annual interest expense by approximately \$50,800. 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 \$1,039,052. 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 \$2,205,801. 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 December 31, 2009, are estimated as follows:

Contractual Obligations	Total	2010	2011	2012	2013	2014	After 5 years
Long-term debt including capital leases	\$2,322,241	\$1,039,052	\$884,624	\$89,680	\$52,638	\$44,938	\$211,309
Operating leases	1,132,648	670,260	412,092	50,296	nil	nil	nil
Total	\$3,454,889	\$1,039,052	\$884,624	\$89,680	\$52,638	\$44,938	\$211,309

## 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.
- **Cyclicalities –** 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 cyclicalities 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.

### **CRITICAL ACCOUNTING ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Significant accounting estimates applied in 2009 are as follows:

#### **Changes in accounting estimate**

Effective January 1, 2009, the Company evaluated the amortization of its construction equipment. As a result of this review it was determined to include salvage values in the calculation of amortization to more accurately allocate the cost of the assets to the periods in which they are used. This change in estimate has been accounted for on a prospective basis with effect from January 1, 2009. For the year ended December 31, 2009, amortization is \$360 thousand lower than it would have been had no salvage values been estimated.

#### **Useful Lives of Intangible Assets and Property, Plant and Equipment**

Enterprise amortizes intangible assets and property, plant and equipment based upon estimated useful lives. The Company reviews historical experience with similar assets to help ensure these amortization rates are appropriate. However, the actual useful life of the assets may differ from our original estimate due to factors such as technological obsolescence and level of maintenance activity. Enterprise assesses the estimated useful lives of these assets on an annual basis to ensure they match the anticipated life of the asset from a revenue producing perspective. If the company determines that the useful life of an asset is different from the original assessment, changes to amortization will be applied prospectively.

#### **Fair Value of Assets and Liabilities Acquired in Business Combinations**

The value of acquired assets and liabilities on the acquisition date require the use of estimates to determine the purchase price allocation. Estimates are made as to the valuation of property, plant and equipment, intangible assets, and goodwill, among other items.

#### **Asset Impairment**

Enterprise assesses goodwill for impairment annually. This assessment includes a comparison of the carrying value to the estimated fair value to ensure that the fair value is greater than the carrying value. The estimated fair value is arrived at using valuation methods such as discounted cash flow analysis. These valuation methods employ a variety of assumptions, including future revenue growth and expected earnings. Estimating fair value is a subjective process and requires the use of the Company's best estimates. If estimates or assumptions change from those used in current valuations, the Company may be required to recognize an impairment loss in future periods.

Enterprise assesses the carrying value of long-lived assets, which include property, plant and equipment and intangible assets subject to amortization, for indications of impairment when events or circumstances indicate that the carrying amounts may not be recoverable from estimated future cash flows. Significant, unanticipated changes to these assumptions could require a provision for impairment in the future.

### **Fair Value of Options and Warrants Issued**

The fair value of options and warrants issued is estimated using the Black-Scholes option pricing model with assumptions that include: expected life, volatility, and the risk-free interest rate. Changes in these assumptions could materially affect the measure of estimated fair value of the options and warrants.

### **Taxation Amounts**

Income tax provisions, including current and future income tax assets and liabilities, may require estimates and interpretations of federal and provincial income tax rules and regulations and judgments as to their interpretation and application to a specific situation. Therefore, it is possible that the ultimate value of tax assets and liabilities could change in the future and that changes to these amounts could have a material effect on the consolidated financial statements.

The recognition of a future income tax asset is also based on estimates of whether the Company is “more likely than not” to realize these assets. Changes in these estimates could materially impact net income and the future income tax asset recognized.

## **ADOPTION OF NEW ACCOUNTING POLICIES**

### **Financial instruments – recognition and measurement**

Section 3862 Financial instruments – disclosures was amended during the year. These changes include additional disclosures about fair value measurements of financial instruments and to enhance liquidity risk disclosure. The additional fair value measurement disclosures include classification of financial instrument fair values in a fair value hierarchy comprising three levels reflecting the significance of the inputs used in making the measurements, described as follows:

- Level 1: Valuations based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: Valuations based on inputs other than quoted prices in an active market that are observable for the asset or liability either directly or indirectly; and
- Level 3: Valuations based on significant inputs that are not derived from observable market data.

These amendments are effective for the Company's current year ending December 31, 2009 year end

### **Goodwill and Intangible Assets**

The CICA issued a new standard, Section 3064 Goodwill and intangible assets. Standards concerning goodwill are unchanged from the previous Handbook Section 3062; however, this new section provides guidance for the treatment of preproduction and start up costs and requires these costs be expensed as incurred. This new section was effective for the fiscal year beginning on January 1, 2009. The adoption of this standard has no impact on the Company's financial statements.

## **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; and
- 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) and
- 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
Assessment of first-time adoption (IFRS 1) requirements and alternatives	In Progress now

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 December 31, 2009, 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 December 31, 2009 and in respect of the 2009 year end reporting period.

For the year ended December 31, 2009, 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.

## 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.

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

Statement of Income (Loss) (\$000's)	Three months ended Dec. 31, 2009	Three months ended Dec. 31, 2008	Twelve months ended Dec. 31, 2009	Twelve months ended Dec. 31, 2008
Net income (loss)	\$(2,218)	\$(13,597)	\$(4,528)	\$(12,269)
Add:				
Income taxes (recovery)	(389)	(1,726)	(1,285)	(1,318)
Interest *	216	137	529	700
Goodwill write-down	nil	15,108	nil	15,108
Amortization **	1,320	1,001	3,594	2,880
Stock-based compensation	nil	96	229	96
EBITDAS	\$(1,071)	\$1,019	\$(1,461)	\$5,197

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

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

#### 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 BOARD OF ADVISORS**

Mike Runcer, Project Manager – Central Alberta

Tom Lavender, General Manager – Sherwood Park Operations

James Chorney, Independent Advisor – Engineering & Pipeline Construction

## **OFFICE TEAM**

Colette Dziwenka, Interim Chief Financial Officer/Corporate Controller

Francine Coleman, Divisional Controller, Peace River Maintenance/ Pipeline Operations

Darlene Hubscher, Divisional Controller, Sherwood Park Operations

Angela Hatt, Human Resources / Safety Coordinator

## **CONTACT INFORMATION**

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