



Consolidated Financial Statements

**For the twelve months ended December 31, 2008 and  
the fifteen months ended December 31, 2007**

# ENTERPRISE OILFIELD GROUP, INC.

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## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

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To the Shareholders of Enterprise Oilfield Group, Inc.

The management of Enterprise Oilfield Group, Inc. prepared these consolidated financial statements and is responsible for their reliability, completeness and integrity. They conform in all material aspects to Canadian generally accepted accounting principles.

Management maintains the necessary accounting and internal control systems to ensure: the timely production of reliable and accurate accounting information, the protection of assets (to a reasonable extent) against loss or unauthorized use, and the promotion of operational efficiency. The Board of Directors oversees management's responsibilities for the financial reporting and internal control systems.

The auditors, appointed by the Audit Committee, conducted an audit of these consolidated financial statements in accordance with Canadian generally accepted auditing standards. The Audit Committee reviewed these financial statements with the auditors in detail before recommending their approval.

St. Albert, Alberta  
Mar. 24, 2009

Signed "Leonard D. Jaroszuk"  
Leonard Jaroszuk, President, Chief Executive Officer

March 24, 2009

## **Auditors' Report**

### **To the Shareholders of Enterprise Oilfield Group, Inc.**

We have audited the consolidated balance sheet of **Enterprise Oilfield Group, Inc.** as at December 31, 2008 and the consolidated statements of income (loss) and retained earnings (accumulated deficit), comprehensive income (loss), accumulated other comprehensive income (loss) and cash flows for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements as at December 31, 2007 and for the period then ended were examined by other auditors who expressed an opinion without reservation on those financial statements in their report dated March 19, 2008.

**(Signed) "PricewaterhouseCoopers LLP"**

**Chartered Accountants**

**ENTERPRISE OILFIELD GROUP, INC.**

**Consolidated Balance Sheets**

	Dec. 31, 2008	Dec. 31, 2007
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents (note 4)	\$ 607,286	\$ 509,909
Accounts receivable (note 17)	10,916,390	7,320,831
Income taxes refundable	140,542	171,212
Inventory (note 5)	506,830	1,006,327
Prepaid expenses	624,441	520,215
	<b>12,795,489</b>	9,528,494
<b>Property, plant and equipment (note 6)</b>	<b>14,805,290</b>	16,557,906
<b>Goodwill (note 7)</b>	-	15,107,935
<b>Other intangible assets (note 8)</b>	<b>1,200,375</b>	1,345,876
<b>Portfolio investment (note 9)</b>	<b>28,000</b>	104,000
<b>Future income taxes (note 12)</b>	<b>932,600</b>	-
	<b>\$ 29,761,754</b>	\$ 42,644,211
<b>Liabilities and Shareholders' Equity</b>		
<b>Current</b>		
Bank indebtedness (note 10)	\$ 6,526,900	\$ 4,950,988
Accounts payable and accrued liabilities	1,909,814	1,342,171
Current portion of long term debt (note 11)	3,249,975	3,088,036
	<b>11,686,689</b>	9,381,195
<b>Long term debt (note 11)</b>	<b>2,206,621</b>	4,993,846
<b>Future income taxes (note 12)</b>	-	263,130
	<b>13,893,310</b>	14,638,171
<b>Shareholders' equity</b>		
Share capital (note 13)	24,032,796	24,142,242
Warrants (note 13)	47,796	197,609
Contributed surplus (note 14)	1,085,717	638,298
Retained earnings (deficit)	(9,243,865)	3,025,376
Accumulated other comprehensive income (loss)	(54,000)	2,515
	<b>15,868,444</b>	28,006,040
	<b>\$ 29,761,754</b>	\$ 42,644,211

**Commitments (note 16)**

Approved on behalf of the Board:

\_\_\_\_\_ "Leonard D. Jaroszuk" Director

\_\_\_\_\_ "J.P. Stout" Director

**ENTERPRISE OILFIELD GROUP, INC.**

**Consolidated Statements of Income (Loss) and Retained Earnings (Deficit)**

	Twelve months Dec. 31 2008	Fifteen months Dec. 31, 2007
<b>Revenue</b>	<b>\$ 39,761,681</b>	\$ 47,296,907
Direct expenses	29,691,300	36,031,478
<b>Gross margin</b>	<b>10,070,381</b>	11,265,429
<b>Expenses (other income)</b>		
General and administrative expenses	5,304,425	6,319,165
Interest on long term debt	395,669	549,057
Amortization	2,571,697	2,660,507
Goodwill write-down (note 7)	15,107,935	-
Loss on sale of equipment	308,873	582,624
Interest and other income	(30,741)	(238,513)
	<b>23,657,858</b>	9,872,840
<b>Income (loss) before income taxes</b>	<b>(13,587,477)</b>	1,392,589
<b>Income taxes (recovery) (note 12)</b>		
Current	(141,991)	(12,645)
Future	(1,176,245)	476,645
	<b>(1,318,236)</b>	464,000
<b>Net income (loss)</b>	<b>(12,269,241)</b>	928,589
<b>Retained earnings, beginning of period</b>	<b>3,025,376</b>	2,197,766
<b>Normal course issuer bid adjustment to retained earnings (note 13 (b))</b>	<b>-</b>	(100,979)
<b>Retained earnings (deficit), end of period</b>	<b>\$ (9,243,865)</b>	\$ 3,025,376
<b>Earnings per share</b>		
Basic earnings (loss) per share	\$ (0.295)	\$ 0.027
Diluted earnings (loss) per share	\$ (0.295)	\$ 0.026
<b>Weighted average number of common shares outstanding</b>		
Basic	41,637,252	34,850,995
Diluted	41,739,360	35,151,995

**ENTERPRISE OILFIELD GROUP, INC.**  
**Consolidated Statements of Comprehensive Income (Loss)**

	Twelve months Dec. 31 2008	Fifteen months Dec. 31, 2007
<b>Net income (loss)</b>	<b>\$ (12,269,241)</b>	<b>\$ 928,589</b>
<b>Other comprehensive income (loss):</b>		
Change associated with portfolio investment, net of future income taxes	(56,515)	2,515
<b>Total comprehensive income (loss), end of period</b>	<b>\$ (12,325,756)</b>	<b>\$ 931,104</b>

**ENTERPRISE OILFIELD GROUP, INC.****Consolidated Statements of Accumulated Other Comprehensive Income (Loss)**

	Twelve months Dec. 31, 2008	Fifteen months Dec. 31, 2007
Accumulated other comprehensive income, beginning of period	\$ 2,515	\$ -
Other comprehensive income (loss):		
Change associated with portfolio investment, net of future income taxes	(56,515)	2,515
Accumulated other comprehensive income (loss), end of period	\$ (54,000)	\$ 2,515

**ENTERPRISE OILFIELD GROUP, INC.**

**Consolidated Statements of Cash Flows**

	Twelve months Dec. 31,2008	Fifteen months Dec. 31,2007
<b>Cash provided by (used for) the following:</b>		
<b>Operating activities</b>		
Net income (loss) for the period	\$ (12,269,241)	\$ 928,589
<b>Items not affecting cash:</b>		
Amortization of property, plant and equipment	2,241,754	2,487,507
Amortization of intangible assets	329,943	173,000
Goodwill write-down	15,107,935	-
Loss on sale of equipment	308,873	582,624
Stock-based compensation	96,175	252,057
Future income tax expense (recovery)	(1,176,245)	476,645
	<b>4,639,194</b>	<b>4,900,422</b>
<b>Changes in non-cash working capital related to operating activities (note 20)</b>	<b>(2,786,414)</b>	<b>(2,796,342)</b>
	<b>1,852,780</b>	<b>2,104,080</b>
<b>Financing activities</b>		
Increase in bank indebtedness	1,575,912	2,988,329
Proceeds from long term debt	-	2,250,000
Proceeds from issue of common shares, net of share issue costs	160,500	10,240,695
Share repurchase	(68,516)	(197,629)
Financing costs	-	(131,818)
Repayment of long term debt	(3,379,187)	(7,235,610)
	<b>(1,711,291)</b>	<b>7,913,967</b>
<b>Investing activities</b>		
Purchase of property, plant and equipment	(584,444)	(1,020,687)
Proceeds on disposition of equipment	540,332	1,219,120
Acquisition of subsidiary (note 3)	-	(12,017,900)
	<b>(44,112)</b>	<b>(11,819,467)</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>97,377</b>	<b>(1,801,420)</b>
Cash and cash equivalents, beginning of period	509,909	2,311,329
<b>Cash and cash equivalents, end of period</b>	<b>\$ 607,286</b>	<b>\$ 509,909</b>
<b>Supplementary information</b>		
Interest paid	\$ 700,012	\$ 981,467
Income taxes paid	-	1,137,184



**ENTERPRISE OILFIELD GROUP, INC.**  
**Notes to Consolidated Financial Statements**  
**For the twelve month period ended December 31, 2008**

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**1. Nature of operations**

Enterprise Oilfield Group, Inc. ("Enterprise" or the "Company") was incorporated under the *Alberta Business Corporations Act* on Mar. 23, 2004 and is publicly traded on the TSX Exchange under the symbol "E", effective Aug. 13, 2007. The Company provides pipeline construction and directional drilling services to the energy and utilities industries in Western Canada. On May 23, 2007 the Company filed a Certificate of Amendment with the *Alberta Business Corporations Act* changing its name to Enterprise Oilfield Group, Inc. from Enterprise Oil Limited. The Company has changed its fiscal year end to Dec. 31 from Sept. 30 commencing with the fifteen month period ended Dec. 31, 2007.

**2. Significant accounting policies**

**Basis of consolidation and preparation of consolidated financial statements**

These consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada ("Canadian GAAP"). The consolidated financial statements include the accounts of the parent company and its wholly-owned subsidiaries: Enterprise Energy Services Inc. ("EES") and Enterprise Pipeline Company Inc. ("EPC"). All significant inter-company accounts and transactions have been eliminated on consolidation.

**Use of 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.

Accounts receivable are stated after evaluation as to their collectability and appropriate allowance for doubtful accounts is provided where considered necessary. Provisions are made for slow-moving and obsolete inventory. Amortization is based on the estimated useful economic lives of property, plant and equipment, and intangible assets. Stock-based compensation expense is based on estimates of volatility, expected life of options granted and risk-free rate of interest. The allocation between goodwill and other intangibles of the excess of purchase price over fair value of tangible assets is based on preliminary assumptions and estimates that may change as final assessments of the acquired companies are completed.

Future income tax provisions and liabilities are estimated based on differences between accounting and taxable carrying values and the estimated tax rate and treatment will be applied when the differences are settled.

# ENTERPRISE OILFIELD GROUP, INC.

## Notes to Consolidated Financial Statements

For the twelve month period ended December 31, 2008

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### New accounting standards and policies

#### a) Capital disclosures

On Jan. 1, 2008, the Company adopted CICA Handbook Section 1535 *Capital disclosures*, which requires the disclosure of both qualitative and quantitative information that provides users of financial statements with information to evaluate the entity's objective, policies and processes for managing capital (note 17).

#### b) Inventories

On Jan. 1, 2008, the Company adopted the CICA Handbook Section 3031 *Inventories*, which establishes that inventories should be measured at the lower of cost and net realizable value, and also provides guidance on the issues of cost determination and inventory related disclosures. This new standard had no material impact on the consolidated financial statements.

#### c) Financial instruments – disclosures and presentation

On Jan. 1, 2008, the Company adopted CICA Handbook Sections 3862 Financial Instruments - disclosures and 3863 Financials instruments – presentation. The objective of Section 3862 is to provide users with information to evaluate the significance of the financial instruments on the entity's financial position and performance, the nature and extent of risks arising from financial instruments, and how the entity manages those risks (note 17). The provisions of Section 3863 deal with the classification of financial instruments, related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset. This new standard has no impact on the presentation of the Company's financial statements.

#### d) Going concern

On Jan. 1, 2008, the Company adopted the amended CICA Handbook Section 1400 *General standards of financial statement presentation*. This section was amended to include requirements to assess and disclose an entity's ability to continue as a going concern. The adoption of this Section had no impact on the presentation of the Company's financial statements.

### Cash and cash equivalents

Cash and cash equivalents include balances with banks and short-term investments with maturities of three months or less.

### Inventory

Supplies and parts inventory are valued at the lower of cost and net realizable value. Cost is determined using the first in, first out basis method. Work in progress inventory is valued at the lower of absorption cost and net realizable value. Absorption costs include direct labour, direct materials and related variable and fixed overhead pertaining to the jobs in progress.

### Property, plant and equipment

Property, plant and equipment are recorded at cost. Property, plant and equipment are amortized over their estimated useful lives using the straight line method at the following rates, commencing the month of acquisition:

Buildings	240 months
Office furniture and equipment	60 months
Computers and communication equipment	48 months
Small tools and equipment	36 months
Light automotive equipment	60 months
Heavy automotive equipment	120 months
Construction equipment	120 months

Leasehold improvements are amortized over the remaining term of the lease.

**ENTERPRISE OILFIELD GROUP, INC.**  
**Notes to Consolidated Financial Statements**  
**For the twelve month period ended December 31, 2008**

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**Impairment of long-lived assets**

Long-lived assets consist of property, plant and equipment and other intangible assets. The Company performs impairment testing on long-lived assets held for use whenever events or changes in circumstances indicate that the carrying value of an asset, or group of assets, may not be recoverable. An impairment is recognized when the carrying value of an asset exceeds the total undiscounted cash flows expected from its use and eventual disposition. Impairment is measured as the amount by which the assets' carrying value exceeds its fair value. Any impairment is included in the consolidated statement of income in the period when the impairment is determined.

**Goodwill**

Goodwill represents the excess of purchase price over the fair value of the net identifiable assets acquired, and is recorded at cost, less any provision for permanent impairment. Goodwill is not amortized. Instead, during each fiscal year and as economic events dictate, management conducts an impairment test, taking into consideration any events or circumstances which might have impaired the fair value. Goodwill is carried at initial cost less write down for impairment. Goodwill will be written down when the carrying value exceeds its fair value using a discounted cash flow approach. Any impairment is included in the current period earnings.

**Intangible assets**

Customer relationships are recorded at cost and amortized on a straight line basis over their estimated life of ten years.

**Future income taxes**

The Company follows the asset and liability method of accounting for future income taxes. Under this method, future income tax assets and liabilities are recorded based on temporary differences between the financial reporting and tax basis of assets and liabilities and measured using the substantively enacted tax rates and laws that will be in effect when the differences are expected to be settled or recovered. A valuation allowance is recorded for the portion of the future tax assets for which the realization of any value does not meet the "more likely than not" test.

**Stock-based compensation**

The Company uses the fair value method, whereby compensation cost is charged directly to earnings for all stock-based awards granted. The Company determines the fair value of the stock options, using the Black-Scholes option-pricing model. The expense is determined on the grant date and recognized in income over the vesting period of the option, with a corresponding increase to contributed surplus in shareholders' equity. When stock options are exercised, the proceeds, together with the amount previously recognized in contributed surplus, are recorded in share capital. The Company accounts for forfeitures in the period that they occur. This may result in a reduction of stock-based compensation expense.

**Earnings per share**

Basic earnings per share is calculated by dividing net income by the weighted average number of common shares outstanding during the period.

Diluted earnings per share is calculated using the "treasury method", which assumes that all outstanding share options and share purchase warrants are exercised, if dilutive, and the assumed proceeds from the exercise of share options and share purchase warrants that are in the money are used to purchase the Company's common shares at the average market price during the period.

# ENTERPRISE OILFIELD GROUP, INC.

## Notes to Consolidated Financial Statements

For the twelve month period ended December 31, 2008

### Revenue recognition

Revenue from long-term contracts is recognized on the completed contract basis, when the contract job is substantially completed and the related expenses are incurred. Revenue for cost plus and unit rate contracts is recognized when the service is performed and the related expenses are incurred. Any amounts invoiced prior to completion are recorded as unearned revenue and related costs as work in progress inventory.

### Recent accounting pronouncements

#### 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 is effective for fiscal years beginning on or after Oct. 1, 2008. The adoption of this standard will have no impact on the Company's financial statements.

#### International financial reporting standards

In Mar. 2008, the CICA announced that Canadian publicly accountable enterprises will adopt *International Financial Reporting Standards* ("IFRS") effective Jan. 1, 2011. The Company is currently assessing the impact that IFRS will have on its financial statements.

### 3. Business acquisition

#### T.C. Backhoe & Directional Drilling Inc.

Effective Apr. 1, 2007, the Company acquired the business and assets of T.C. Backhoe & Directional Drilling Inc. ("TCB") for consideration of \$14.2 million paid by \$11,724,193 in cash, assumption of vendor debt of \$1,000,000 (note 11(b)), the issuance of 1,500,000 common shares of Enterprise at an attributable price of \$0.80 per share and related acquisition costs of \$293,707. Intangible assets acquired with the TCB acquisition consist of customer relationships of \$1,455,000 that are being amortized on a straight line basis over their estimated useful life of ten years (note 8).

The acquisition has been accounted for using the purchase method of accounting and the results of operations of this acquisition are included in the consolidated financial statements from the acquisition date:

	<b>TCB</b>
Working capital (net)	\$ 836,552
Property, plant and equipment	4,197,639
Goodwill and intangible assets	9,621,361
	<b>14,655,552</b>
Long term debt	437,652
<b>Net assets acquired</b>	<b>\$14,217,900</b>
<b>Consideration</b>	
Cash	\$11,724,193
Business acquisition costs	293,707
Common shares (note 13)	1,200,000
Vendor debt (note 11)	1,000,000
	<b>\$14,217,900</b>

No business acquisitions were made during the twelve month period ended Dec. 31, 2008.

**ENTERPRISE OILFIELD GROUP, INC.**

**Notes to Consolidated Financial Statements**

**For the twelve month period ended December 31, 2008**

**4. Cash and cash equivalents**

Cash includes \$453,079 held in term deposits bearing interest at 1.1% maturing on Jan. 5, 2009 (Dec. 31, 2007 - \$441,671 bore interest at 3.25% and matured on Jan. 3, 2008).

**5. Inventory**

	<b>Dec. 31, 2008</b>	Dec. 31, 2007
Supplies and parts	\$ 476,993	\$ 562,108
Work in progress	29,837	444,219
	<b>\$ 506,830</b>	\$ 1,006,327

Inventory of supplies and parts expensed in direct expenses during the twelve month period ended Dec. 31, 2008 is \$4,993,342 (Fifteen month period ended Dec. 31, 2007 - \$4,619,092).

**6. Property, plant and equipment**

	Cost	Accumulated amortization	<b>Net book value Dec. 31, 2008</b>
Land	\$ 250,000	\$ -	\$ 250,000
Buildings	590,766	45,824	544,942
Leasehold improvements	113,425	50,559	62,866
Computers and communication	116,553	61,694	54,859
Office furniture and equipment	353,218	130,347	222,871
Small tools and equipment	673,424	254,065	419,359
Light automotive equipment	2,009,904	935,020	1,074,884
Heavy automotive equipment	4,830,550	1,104,381	3,726,169
Construction equipment	10,591,340	2,142,000	8,449,340
	<b>\$ 19,529,180</b>	<b>\$ 4,723,890</b>	<b>\$ 14,805,290</b>

	Cost	Accumulated amortization	Net book value Dec. 31, 2007
Land	\$ 250,000	\$ -	\$ 250,000
Buildings	542,366	22,634	519,732
Leasehold improvements	91,176	27,062	64,114
Computers and communication	102,559	34,071	68,488
Office furniture and equipment	234,610	71,726	162,884
Small tools and equipment	542,173	129,434	412,739
Light automotive equipment	2,122,120	640,381	1,481,739
Heavy automotive equipment	4,986,864	691,780	4,295,084
Construction equipment	10,474,763	1,171,637	9,303,126
	<b>\$ 19,346,631</b>	<b>\$ 2,788,725</b>	<b>\$ 16,557,906</b>

**ENTERPRISE OILFIELD GROUP, INC.**  
**Notes to Consolidated Financial Statements**  
**For the twelve month period ended December 31, 2008**

**7. Goodwill**

	Dec. 31, 2008	Dec. 31, 2007
	\$ -	\$ 15,107,935

The Company completed its annual impairment test on Dec. 31, 2008. As a result, it was determined that the goodwill associated with the amounts recognized initially on its business acquisitions were fully impaired. The conditions that precipitated the goodwill write-down were the unfolding global financial crisis and weakening future outlook for the oil services industry. These uncertainties culminated in a decreased market value of the Company which resulted in a non-cash goodwill write-down of \$15,107,935.

**8. Other intangible assets**

	Cost	Accumulated amortization	Net book value Dec. 31, 2008
Customer relationships	1,455,000	254,625	1,200,375

	Cost	Accumulated amortization	Net book value Dec. 31, 2007
Customer relationships	1,455,000	109,124	1,345,876

During the fifteen month period ended Dec. 31, 2007, the Company acquired total intangible assets of \$1,455,000 representing customer relationships resulting from the acquisition of TCB (note 3). There were no additions for the twelve month period ended Dec. 31, 2008.

**9. Portfolio investment**

	Dec. 31, 2008		Dec. 31, 2007	
	Cost	Market	Cost	Market
<b>Samoth Oilfield Inc.</b>				
<b>400,000 common shares (2007- 400,000 common shares)</b>	<b>\$100,000</b>	<b>\$28,000</b>	\$100,000	\$104,000

The Company has invested \$100,000 in 400,000 common shares of Samoth Oilfield Inc. ("Samoth"), a public company, incorporated May 8, 2006. Samoth is controlled by certain directors and officers of Enterprise.

The Company classified its portfolio investment as available-for-sale. At Dec. 31, 2008, the Company adjusted the carrying value of its investment in Samoth, to its quoted market value of \$0.07 per share, resulting in an accumulated other comprehensive loss of \$72,000, net of \$18,000 in future income tax recoveries.

**ENTERPRISE OILFIELD GROUP, INC.****Notes to Consolidated Financial Statements****For the twelve month period ended December 31, 2008****10. Bank indebtedness**

The Company has an authorized revolving line of credit of \$9,000,000, of which \$7,350,000 was available based on margins as at Dec. 31, 2008. \$5,190,000 was outstanding as at Dec. 31, 2008.

The revolving demand loan bears interest at the Company's bank prime plus 0.75% (4.25% at Dec. 31, 2008). The loan cannot exceed 75% of eligible unencumbered accounts receivable as defined by the Company's bank measured on an ongoing basis. Collateral issued and its borrowing covenants and restrictions are described in note 11.

The Company has an additional demand loan outstanding in the amount of \$500,000 (4.5% at Dec. 31, 2008) used to finance the TCB vendor debt repayment made on Apr. 1, 2008 bearing interest at prime plus 1% which is due in full on Apr. 30, 2009 (notes 3 and 11(b)). No specific security has been issued.

Also, included in bank indebtedness is \$836,900 relating to the Company's general bank accounts.

**11. Long term debt****(a) Bank loans**

The Company has non-revolving bank loans used to finance certain equipment acquisitions. The loans bear interest at prime lending rate plus 1% (4.5% at Dec. 31, 2008) and repayments are as follows:

<b>Loan</b>	<b>Type</b>	<b>Balance Dec. 31, 2008</b>	<b>Balance Dec. 31, 2007</b>	<b>Monthly Repayments</b>	<b>Maturity Date</b>
Loan 1	Business acquisition	\$ 1,751,213	\$ 2,906,332	\$ 105,553	Jun. 2010
Loan 2	Capital line	361,366	778,141	37,703	Oct. 2009
Loan 5	Capital line	681,480	854,851	18,250	May. 2012
Loan 7	Capital line	-	22,710	625	
Loan 8	Capital line	139,595	173,212	3,575	Jul. 2012
Loan 9	Capital line	141,772	-	4,455	Oct. 2011
Loan 10	Capital line	185,670	-	3,680	Aug. 2013
		<b>\$ 3,261,096</b>	<b>\$ 4,735,246</b>	<b>\$ 173,841</b>	

The Company has a capital line of credit available in the maximum amount of \$2,500,000 to finance equipment acquisitions (loans 2, 5, 8, 9, 10). The loans bear interest at prime plus 1% (4.5% at Dec. 31, 2008) and are repayable in monthly blended payments over terms ranging from 24 to 48 months depending upon the age of the equipment financed. The Company has \$990,117 available on its credit line as at Dec. 31, 2008 (\$671,086 available on its credit line as at Dec. 31, 2007).

The following has been pledged as security for the bank indebtedness:

- General Security agreements charging all assets of the Company and its subsidiaries.
- Guarantee from all subsidiaries of the Company.

The bank requires that the Company maintain certain covenants and restrictions at all times to support its indebtedness. The Company was in compliance with all financial covenants as at Dec. 31, 2008.

**(b) Vendor debt**

The Company has vendor debt resulting from the acquisition of the operating assets of TCB of \$500,000 as at Dec. 31, 2008 (Dec. 31, 2007 - \$1,000,000). The debt is non-interest bearing and the balance due is repayable in the amount of \$500,000 on Apr. 1, 2009. No specific security has been issued.



**ENTERPRISE OILFIELD GROUP, INC.**  
**Notes to Consolidated Financial Statements**  
**For the twelve month period ended December 31, 2008**

**11. Long term debt continued:**

**(c) Equipment and automotive loans**

The Company financed specific construction equipment with a total balance of \$1,072,430 as at Dec. 31, 2008 (Dec. 31, 2007 - \$1,695,707) bearing interest from 0% to 9.98%, with cumulative monthly payments of \$54,466 maturing Jul. 2011. Specific construction equipment has been pledged as collateral.

The Company financed specific automotive vehicles and equipment with a total balance of \$169,612 as at Dec. 31, 2008 (Dec. 31, 2007 - \$166,723), bearing interest from 0% to 7.42% with cumulative blended monthly payments of \$6,325, maturing Aug. 2013. Specific automotive vehicles and equipment have been pledged as collateral.

**(d) Mortgages**

The Company owns buildings with mortgage balances of \$453,459 as at Dec. 31, 2008 (Dec. 31, 2007 - \$484,206) bearing interest at prime plus 1%, with monthly payments of \$4,875 maturing Mar. 2012. Specific buildings have been pledged as collateral.

<b>Summary</b>	<b>Note</b>	<b>Dec. 31, 2008</b>	<b>Dec. 31, 2007</b>
Bank loans	(a)	\$ 3,261,095	\$ 4,735,246
Vendor debt	(b)	500,000	1,000,000
Equipment and automotive loans	(c)	1,242,042	1,862,430
Mortgages	(d)	453,459	484,206
		<b>5,456,596</b>	<b>8,081,882</b>
Less: current portion		<b>(3,249,975)</b>	<b>(3,088,036)</b>
Long term portion		<b>\$ 2,206,621</b>	<b>\$ 4,993,846</b>

Principal repayment requirements on the long term debt for the next five years (twelve month periods ending on Dec. 31st) and thereafter are estimated as follows:

<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>Thereafter</b>	<b>Total</b>
<b>\$3,249,975</b>	<b>\$ 1,246,968</b>	<b>\$ 435,595</b>	<b>\$ 200,546</b>	<b>\$ 83,208</b>	<b>\$ 240,304</b>	<b>\$ 5,456,596</b>



**ENTERPRISE OILFIELD GROUP, INC.**  
**Notes to Consolidated Financial Statements**  
**For the twelve month period ended December 31, 2008**

**12. Income taxes**

The provision for income taxes recorded in the consolidated audited financial statements differs from the amount which would be obtained by applying the combined statutory income tax rate of approximately 29.5% (2007 - 32.12%) to the income (loss) before income taxes for the period as follows:

	Twelve months ended Dec. 31, 2008	Fifteen months ended Dec. 31, 2007
Current income tax rates	<b>29.5</b>	32.12%
<b>Expected income tax expense (recovery)</b>	<b>\$ (4,008,306)</b>	<b>\$ 447,300</b>
Increase (decrease) in taxes resulting from:		
Stock-based compensation	<b>28,372</b>	80,961
Tax rate differences on non-capital loss carryback	<b>(12,896)</b>	(75,303)
Impact of substantively enacted rates	<b>56,585</b>	-
Non-deductible goodwill write-down	<b>2,522,918</b>	-
Non-taxable items and other	<b>95,091</b>	11,042
<b>Actual income tax expense (recovery)</b>	<b>\$ (1,318,236)</b>	<b>\$ 464,000</b>

The components of the future income tax liability (asset) are as follows:

	Twelve months ended Dec. 31, 2008	Fifteen months ended Dec. 31, 2007
Property, plant and equipment	<b>\$ 1,013,400</b>	\$ 579,645
Goodwill and customer relationships	<b>(1,629,300)</b>	29,000
Undeducted share issuance costs and financing fees	<b>(231,200)</b>	(311,000)
Non-capital losses	<b>(67,500)</b>	(36,000)
Portfolio investment	<b>(18,000)</b>	1,485
	<b>\$ (932,600)</b>	<b>\$ 263,130</b>

As at Dec. 31, 2008, the Company has non-capital losses of approximately \$236,000, which expire if unutilized on Dec. 31, 2028.

**ENTERPRISE OILFIELD GROUP, INC.**

**Notes to Consolidated Financial Statements**

**For the twelve month period ended December 31, 2008**

**13. Share capital**

**(a) Authorized and issued capital**

Unlimited Class "A" voting shares  
 Unlimited Preferred shares, issuable in series, terms to be set at issuance

	Twelve months Dec. 31, 2008		Fifteen months Dec. 31, 2007	
	Shares	Amount	Shares	Amount
<b>Shares outstanding, beginning of period</b>	<b>41,449,200</b>	<b>\$24,142,242</b>	25,405,700	\$12,769,513
Normal course issuer bid (note 13 (b))	(417,500)	(236,516)	(189,800)	(96,650)
Private placements (note 13 (c))	1,200,000	204,000	13,354,000	10,000,500
Share cancellation (note 13 (f))	(150,000)	(98,500)	-	-
Shares issued for acquisition of TCB	-	-	1,500,000	1,200,000
Warrants exercised	-	-	1,217,000	912,750
Stock options exercised (note 13 (d))	220,000	55,000	160,000	101,000
Agent options exercised	-	-	2,300	1,725
Fair value of exercised options (note 14)	-	14,366	-	30,293
Adjust warrants to fair market value (note 13 (e))	-	(47,796)	-	(197,609)
Share issue costs	-	-	-	(579,280)
<b>Shares outstanding, end of period</b>	<b>42,301,700</b>	<b>\$24,032,796</b>	41,449,200	\$24,142,242

**(b) Normal course issuer bid**

In Jul. 2008, the Company received approval from the TSX to repurchase up to 1,000,000 common shares at market price beginning Jul. 21, 2008 and ending Jul. 20, 2009. During the twelve month period ended Dec. 31, 2008, 417,500 common shares were purchased and cancelled at an average cost of \$0.16 per common share. The aggregate cost of the total common shares purchased and cancelled was \$236,516 and recorded as a charge against share capital with the balance of \$168,001 charged against contributed surplus.

In Oct. 2006, the Company received approval from the TSX Venture Exchange to repurchase up to 1,267,185 common shares at the market price at the time of the TCB acquisition beginning Oct. 23, 2006 and ending Oct. 23, 2007. During the fifteen month period ended December 31, 2007, a total of 189,800 common shares were purchased and cancelled at an average cost of \$1.04 per common share. The aggregate cost of the common shares purchased and cancelled was \$197,629, of which \$96,650 was recorded as a charge against share capital for the average carrying value of the common shares, with the balance of \$100,979 charged against retained earnings.

**(c) Private placements**

For the twelve month period ended Dec. 31, 2008, the Company completed a non-brokered private placement, on Oct. 31, 2008, consisting of 1,200,000 units at \$0.17 per unit for gross proceeds of \$204,000. Each unit consists of one common share in the capital of the Company and one common share purchase warrant exercisable at \$0.25 per common share purchase warrant. The common share purchase warrants vest on May 1, 2009, and expire Oct. 31, 2009. The private placement was with a company controlled by a director of the Company.

For the fifteen month period ended Dec. 31, 2007, the Company closed a brokered private placement, on Mar. 29, 2007, consisting of 13,334,000 common shares at \$0.75 for gross proceeds of \$10,000,500 with 6,667,000 warrants at \$1.00 expiring Jun. 29, 2008. The agent received 933,380 warrants which were exercisable at \$1.00, expiring Jun. 29, 2008. For the twelve month period ended Dec. 31, 2008, 6,667,000 warrants and 933,380 agent warrants expired unexercised on Jun. 29, 2008.

**ENTERPRISE OILFIELD GROUP, INC.**

**Notes to Consolidated Financial Statements**

**For the twelve month period ended December 31, 2008**

**13. Share capital continued:**

**(d) Stock options**

The Company has a stock option plan for directors, officers, consultants and employees to purchase common shares over a period ranging from two to five years from the date the option is granted at prices approximating market prices on the day prior to the date of grant. On Apr. 26, 2007, the stock option plan was amended to re-price 1,495,000 stock options previously issued at \$1.45 - \$1.80 to \$0.82 per common share. There was no material financial statement impact.

The table below sets out the changes in stock options, with their weighted average prices, during the twelve month period ended Dec. 31, 2008:

	<b>Twelve months Dec. 31, 2008</b>		<b>Fifteen months Dec. 31, 2007</b>	
	<b>Number</b>	<b>Weighted average exercise price</b>	<b>Number</b>	<b>Weighted average exercise price</b>
<b>Stock options, outstanding, beginning of period</b>	<b>3,490,000</b>	<b>\$ 1.20</b>	2,410,000	\$ 1.20
Granted	700,000	0.42	1,330,000	0.82
Exercised	(220,000)	0.25	(160,000)	(0.69)
Expired	-	-	(90,000)	(0.82)
<b>Stock options, outstanding, end of period</b>	<b>3,970,000</b>	<b>\$ 0.74</b>	3,490,000	\$ 0.74
<b>Exercisable stock options:</b>				
<b>Expiry date</b>				
Aug. 6, 2009	120,000	\$ 0.25	340,000	\$ 0.25
Aug. 25, 2010	80,000	0.25	80,000	0.25
Jan. 9, 2011	375,000	0.72	375,000	0.72
Jul. 20, 2011	750,000	0.82	750,000	0.82
Apr. 3, 2011	485,000	0.82	485,000	0.82
Apr. 3, 2011	200,000	0.82	200,000	0.82
May 2, 2009	1,260,000	0.82	1,260,000	0.82
May 4, 2010	700,000	0.42	-	-
	<b>3,970,000</b>	<b>\$ 0.74</b>	3,490,000	\$ 0.74

The Company recorded stock-based compensation expense of \$96,175 for the twelve month period ended Dec. 31, 2008, relating to 700,000 stock options issued during the period which vested Nov. 4, 2008.

For the fifteen month period ended Dec. 31, 2007 recorded stock-based compensation expense of \$252,057, relating to 1,330,000 stock options issued during the period which vested immediately and 770,000 options which vested Jan. 20, 2007. The weighted fair average value of options granted was \$0.12.

The weighted average fair value of options granted during the fifteen month period ended Dec. 31, 2007 was \$0.14 estimated using the Black-Scholes option pricing model, under the following assumptions:

	<b>2008</b>	<b>2007</b>
Expected term	2 years	2 years
Risk-free interest	3.60%	3.05%
Expected dividends	nil	nil
Expected volatility	61%	22%

**ENTERPRISE OILFIELD GROUP, INC.**  
**Notes to Consolidated Financial Statements**  
**For the twelve month period ended December 31, 2008**

**13. Share capital continued:**

**(e) Share purchase warrants**

At Dec. 31, 2008, the Company had 1,200,000 outstanding warrants (7,600,380 at Dec. 31, 2007). On Oct. 31, 2008, the Company issued 1,200,000 warrants as part of a private placement (see note 13(c)). Unless permitted under Securities Legislation, the holder of the warrants must not trade the security before the date that is four months and one day after the date of original issue of the warrants. (Mar. 29, 2007, the Company issued 7,600,380 warrants as part of a private placement). The Black-Scholes option pricing model was used to determine the fair market value of the warrants using the following assumptions:

	<b>2008</b>	<b>2007</b>
Expected term	1 year	15 months
Risk-free interest	2.11%	2.83%
Expected dividends	nil	nil
Expected volatility	69%	26%

The warrants were valued at \$47,796 (2007- the warrants were valued at \$197,609). On Jun. 29, 2008, 7,600,380 and on Feb. 22, 2007, 5,267,460 warrants expired unexercised.

**(f) Share cancellation**

On Sept. 24, 2008, the Company purchased and cancelled a 150,000 shares with an aggregate cost of the total common shares purchased of \$98,500, which was all charged against share capital.

**14. Contributed surplus**

	<b>Twelve months Dec. 31, 2008</b>	<b>Fifteen months Dec. 31, 2007</b>
<b>Balance, beginning of period</b>	<b>\$ 638,298</b>	<b>\$ 416,534</b>
Fair value of exercised options (note 13 (a))	<b>(14,366)</b>	<b>(30,293)</b>
Stock-based compensation expense (note 13 (d))	<b>96,175</b>	<b>252,057</b>
Normal course issuer bid adjustment (note 13 (b))	<b>168,001</b>	<b>-</b>
Expired warrants (note 13 (e))	<b>197,609</b>	<b>-</b>
<b>Balance, end of period</b>	<b>\$ 1,085,717</b>	<b>\$ 638,298</b>

# ENTERPRISE OILFIELD GROUP, INC.

## Notes to Consolidated Financial Statements

For the twelve month period ended December 31, 2008

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### 15. Related party transactions

The Company paid \$48,000 for the twelve month period ended Dec. 31, 2008 (Fifteen month period ended Dec. 31, 2007 - \$56,000) for premises rented for the Company's office in Slave Lake and \$4,500 for the twelve month period ended Dec. 31, 2008 (Fifteen month period ended Dec. 31, 2007 - \$nil) for director fees to a company controlled by a director of the Company.

The Company paid \$575,000 for the twelve month period ended Dec. 31, 2008 (Fifteen month period ended Dec. 31, 2007 - \$412,211) to companies controlled by a director of the Company and \$30,000 for the twelve month period ended Dec. 31, 2008 (Fifteen month period ended Dec. 31, 2007 - \$30,000) to a company controlled by an officer for executive management services.

These transactions were recorded at the exchange amount established and agreed to by the parties based on standard commercial terms. All transactions were rendered in the normal course of business during the period.

### 16. Commitments

The Company has lease commitments for facilities, construction equipment and vehicles that provide for minimum annual lease payments as follows:

2009	\$	1,026,359
2010		344,804
2011		178,120
2012		39,749
2013		-
	\$	<u>1,589,032</u>

### 17. Risk management and financial instruments

#### 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 all related debt and equity of the Company.

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.

ENTERPRISE OILFIELD GROUP, INC.

Notes to Consolidated Financial Statements

For the twelve month period ended December 31, 2008

**17. Risk management and financial instruments - Capital management continued:**

The Company monitors capital on the basis of the 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 retained earnings), other than amounts in accumulated other comprehensive income relating to the portfolio investment, and includes subordinated debt.

	Dec. 31, 2008	Dec. 31, 2007
Total debt	\$ 11,983,496	\$ 13,032,870
Less: cash and cash equivalents	(607,286)	(509,909)
Net debt	<u>11,376,210</u>	<u>12,522,961</u>
Total equity	15,868,444	28,006,040
Add: subordinated debt instruments	500,000	1,000,000
Add: amounts in accumulated other comprehensive income (loss) relating to portfolio investment	(54,000)	2,515
Adjusted capital	<u>16,314,444</u>	<u>29,008,555</u>
Debt-to-adjusted capital ratio	0.70	0.43

The increase in the debt-to-adjusted capital ratio during 2009 resulted primarily from the write-off of goodwill offset by 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.

Debt management:

Under its long-term credit facilities, the Company must maintain certain ratios. The Company was in compliance with all its required ratios at Dec. 31, 2008. Specifically, the ratio relating to the above is the Total Debt to Capitalization ratio which, as calculated per the Company's Bank requirements was 0.46:1 at Dec. 31, 2008. The Company's Bank, requires that this ratio must not be more than 0.60:1.

**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 Company is exposed to the following risks in respect of certain of the financial instruments held:

**a) 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.

**b) 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 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.

**ENTERPRISE OILFIELD GROUP, INC.**

**Notes to Consolidated Financial Statements**

**For the twelve month period ended December 31, 2008**

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**17. Risk management and financial instruments (b) continued:**

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 Dec. 31, 2008 was \$2,512,556 or 23% and \$3,327,738 or 30% of total accounts receivable owing from two customers, respectively due to the significant contracts in progress at Dec. 31, 2008. As at Dec. 31, 2008 the Company's exposure to credit risk in this area was as follows:

	<b>Total</b>	<b>Current 1 - 90 days</b>	<b>91 - 120 days</b>	<b>121+ days</b>
Accounts receivable	\$10,916,390	\$9,722,363	\$325,108	\$868,919

**c) Liquidity risk**

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 line of credits.

Accounts payable and accrued liabilities as at Dec. 31, 2008 totaled \$1,909,814 which is payable within 30-45 days.

The Company has an authorized revolving line of credit of \$9,000,000, of which \$7,350,000 was available based on margins as at Dec. 31, 2008. \$5,190,000 was outstanding as at Dec. 31, 2008.

The revolving demand loan bears interest at prime plus 0.75% (4.25% at Dec. 31, 2008).

The Company has a capital line of credit available in the maximum amount of \$2,500,000 to finance equipment acquisitions. The various loans bear interest at prime plus 1% and are repayable in monthly blended payments over terms ranging from 24 to 48 months. The Company has \$990,117 available on its capital line of credit as at Dec. 31, 2008.

See note 11 for repayment requirements on the Company's long term debt.

**d) Interest rate risk**

The Company minimizes its exposure to interest rate risks by securing financing with a fixed interest rate for some of its 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 to impact the Company's annual interest expense by approximately \$80,500. The Company has not entered into any derivative agreements to mitigate this risk.

**18. Comparative amounts**

The comparative consolidated financial statements have been reclassified, where applicable, to conform to the presentation used in the current period.

**ENTERPRISE OILFIELD GROUP, INC.**  
**Notes to Consolidated Financial Statements**  
**For the twelve month period ended December 31, 2008**

**19. Segmented information**

The Company operates solely in Western Canada with all its property, plant and equipment and intangibles also held within Western Canada.

The Company's chief operating decision maker, in conjunction with executive management, effective Jan. 1, 2008, re-evaluated the method that the operations are monitored and has concluded that the Company revise its segment reporting policy from two segments, pipeline construction and directional drilling services to one core business industry. The Company can no longer identify its activities by segment, as the assets and resources are integrated and utilized by the Company as a whole. The reporting of financial position, results of operations or cash flows are not reviewed separately by the Company's chief operating decision maker, nor is discrete financial information produced. This change does not impact the operations of the Company. Current and future financial reports will reflect this reporting structure. Prior periods have not been affected.

For the year ended Dec. 31, 2008, the Company had revenues of 25% from one customer (2007-revenues of 19% and 11%, respectively from two customers). No other customers comprise more than 10% of revenues.

**20. Changes in non-cash working capital**

	Twelve months Dec. 31, 2008	Fifteen months Dec. 31, 2007
Account receivable	<b>\$(3,595,559)</b>	\$(2,072,273)
Inventory	<b>499,497</b>	491,918
Prepaid expenses	<b>(288,669)</b>	(84,257)
Accounts payable and accrued liabilities	<b>567,647</b>	47,850
Income taxes payable	<b>30,670</b>	(1,179,580)
	<b>\$(2,786,414)</b>	\$(2,796,342)