



**ENTERPRISE**  
**OILFIELD GROUP, INC.**

**Management's Discussion and Analysis**  
**For the Three Months Ended**  
**March 31, 2011**

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### For the Three Months Ended March 31, 2011

*The Company has adopted International Financial Reporting Standards ('IFRS') for the year ending December 31, 2011. These consolidated unaudited interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) applicable to the preparation of interim financial statements including IAS34 and IFRS1.*

*These are the Company's first IFRS consolidated unaudited interim financial statements. Previously the Company prepared its consolidated audited annual and consolidated interim unaudited financial statements in accordance with Canadian Generally Accepted Accounting Principles (CGAAP or GAAP). IFRS 1 First-time Adoption of International Financial Reporting Standards has been applied in the preparation of these financial statements. An explanation of how the transition to IFRS has affected the reported financial position and comprehensive income is provided in Note 14.*

*These consolidated unaudited interim financial statements should be read in conjunction with the Company's Canadian GAAP annual financial statements for the year ended December 31, 2010. This MD&A was prepared effective June 10, 2011.*

## FORWARD-LOOKING INFORMATION

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

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

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

## NON-GAAP MEASURES

In addition to using financial measures prescribed by *IFRS*, 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 share-based payments. 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. This measure has been described and presented in the same manner in which the chief operating decision-maker makes operating decisions and assesses performance.

## **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 corporate headquarters in St. Albert, Alberta, Canada, a sales office in Calgary, Alberta, construction offices in Slave Lake, Sherwood Park, and Innisfail, Alberta, and field offices in Wabasca and Fox Creek, Alberta, Enterprise is strategically located near its customers. The Company's strategy is to acquire complementary service companies in Western Canada, consolidating capital, management and human resources to support continued growth.

### **Industry and Markets**

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

In the underground utility infrastructure industry, a large portion of the existing utility infrastructure is rapidly aging in the Province of Alberta, and in some areas, the utility infrastructure is beyond its intended useful life and beginning to fail. In response to this, the major stakeholders in the industry are implementing large scale, ongoing repair and replacement programs that are 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 repair and maintenance programs, the continuing development of new industrial, commercial and residential properties in the province requires the installation of new infrastructure such as full underground services. A large portion of Enterprise's customers are property developers and contribute significantly to the bottom line of the company.

Enterprise's fleet of directional drills is ideal for services required in the underground utility construction. Combined with our industry expertise and experienced field personnel, Enterprise has become the supplier of choice in this sector, which has enabled the Company to secure ongoing contracts with its largest customers.

Enterprise also constructs pipelines in the energy services industry throughout Western Canada utilizing a fleet of over 200 trucks and heavy construction equipment. The Company has the equipment and expertise to undertake a project from start to finish. Major projects in this industry relate to the construction of pipelines, including up to 12" diameter steel pipe. Enterprise will increase its 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 Enterprise'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. Services provided to underground utility and directional drilling customers are provided more evenly throughout the year but the spring quarter is also the slowest quarter of the year.

### SELECTED CONSOLIDATED FINANCIAL INFORMATION

(\$000's except per share amounts)	Three months ended Mar. 31, 2011	Three months ended Mar. 31, 2010
Revenue	\$4,231	\$5,270
EBITDAS	302	(263)
Net loss	(386)	(551)
Basic and diluted loss per share	\$(0.01)	\$(0.01)
Weighted average common shares outstanding	48,682	48,682
Total common shares outstanding	48,682	48,682
Total assets	\$15,044	\$20,806
Total liabilities	\$7,595	\$8,270
Shareholders' equity	\$7,449	\$12,537

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

Statement of Loss (\$000's)	Three months ended Mar. 31, 2011	Three months ended Mar. 31, 2010
Net loss	\$(386)	\$(551)
Add:		
Income taxes (recovery)	nil	(208)
Interest *	306	78
Amortization **	337	418
Share-based payments	45	nil
EBITDAS	\$302	\$(263)

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

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

### OVERALL PERFORMANCE AND RESULTS OF OPERATIONS

Enterprise Oilfield Group, Inc. realized consolidated revenue of \$4.2 million for the three months ended March 31, 2011, compared to \$5.3 million for the three months ended March 31, 2010, a decrease of \$1.1 million. The decrease in revenue is mostly attributed to projects in the energy sector being awarded at low margins and the Company continuing to bid projects at margins that it feels is competitive, but that will not put it at a greater risk of large losses. To offset the lower revenues and margins in the energy sector, the

Company began renting its heavy equipment to contractors in the industry.

The Company had EBITDAS of \$302 thousand and a net loss of \$386 thousand for the three months ended March 31, 2011, compared to negative EBITDAS of \$263 thousand and a net loss of \$551 thousand for the three months ended March 31, 2010, improvements of \$565 thousand and \$165 thousand respectively.

This marks the second consecutive quarter of positive EBITDAS and a continuing trend towards profitability. While the Company's decision to avoid projects with smaller margins in the energy sector has reduced revenues, this strategy has proven to be successful as this division made a positive contribution to the EBITDAS of the Company.

Revenue in the underground utilities and directional drilling division increased by \$1.2 million over the previous year and margins remained relatively high. The Company anticipated stronger results from this division, however heavy snow fall and extreme variations in temperature over the winter months resulted in lower than anticipated revenues and margins. Although weather impacted revenues and margins for the first quarter, the change in the revenue mix, moving from heavily weighted energy sector revenues to heavily weighted underground utilities and directional drilling revenues, greatly improved the Company's EBITDAS compared to three months ended March 31, 2010.

Along with increasing EBITDAS, the Company improved its balance sheet and repaid a significant portion of its debt facilities. For the quarter ended March 31, 2011, Enterprise repaid \$419 thousand of loans and borrowings, and an additional \$435 thousand subsequent to the quarter end. In total, the Company has repaid \$854 thousand of loans and borrowings since the year ended December 31, 2010. In addition to the debt repayment, Enterprise has secured conventional financing in the form of a \$1.1 million operating line, and a \$1.8 million term debt facility. The proceeds from the term facility will be used to pay down the Company's high interest term debt.

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. Management and administrative salaries, depreciation, office, travel, advertising/promotions and telephone communications costs were reduced by \$211 thousand. However these were offset by increases in interest on long term debt, professional fees and share-based payments.

### **Gross margin**

The gross margin of the Company for the three months ended March 31, 2011, was 23.6% compared to 8.4% for the three months ended March 31, 2010. The increase in gross margin is the result of a large percentage of the Company's revenue generated by the underground utilities and directional drilling sector. Gross margin in this sector was 25.5% for the first quarter of 2011 on revenues of \$3.5 million compared to gross margin of 47.3% on revenues of \$2.4 million in 2010. The gross margin for this division is well below our historical averages due to heavy snowfall over the winter months, followed by a late spring thaw and wet soil conditions. However, the Company expects the underground utilities and directional drilling sector to continue operating at or near full capacity, with increased margins through 2011.

The gross margin in the pipeline construction division returned to a positive position for the three months ended March 31, 2011, however revenue was significantly lower compared to last year. For the first quarter of 2011, gross margin in this division was 34.8% on revenues of \$691 thousand compared to negative gross margin of 14.2% on revenues of \$2.9 million last year. The decrease in revenue is directly related to the Company bidding projects at reasonable margins, and choosing not to work for low or negative margins. As a result, Enterprise's competitors are being awarded larger jobs at very small margins and the Company is being awarded smaller construction projects at forced account/hourly rates with significantly higher margins. The Company has also chosen to take advantage of the shortage of heavy equipment in the industry and rent out its underutilized equipment, which has also contributed significantly to higher gross margins for the quarter.

### Selected Consolidated Expenses

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

Selected Consolidated Expenses (\$000's)	Three months ended Mar. 31, 2011	Three months ended Mar. 31, 2010
Depreciation and amortization	\$339	\$417
Management and administrative salaries and fees	226	286
Professional and consulting fees	209	76
Interest and bank charges	306	78
Advertising and promotions	27	73

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

Management and administrative salaries and fees amounted to \$226 thousand or 5.3% of revenue for the three months ended March 31, 2011, compared to \$286 thousand or 5.4% of revenue for the three months ended March 31, 2010. The decrease was due to staff reductions through layoffs, retirements, and reductions in pay.

Professional and consulting fees amounted to \$209 thousand or 4.9% of revenue for three months ended March 31, 2011, compared to \$76 thousand or 1.4% of revenue for the three months ended March 31, 2010. This increase is due to engaging the expertise of consultants relating to legal, IFRS and other accounting related matters for the Company.

Interest on loans and borrowings amounted to \$306 thousand or 7.2% of revenue for the three months ended March 31, 2011, compared to \$78 thousand or 1.5% for the same period in the previous year. This increase was mainly due to the Company carrying a significant portion of its debt at an interest rate of 24% per annum.

### Cash Flow Information

A summary of cash flow information for the three months ended March 31, 2011, and 2010, is set out below:

Cash Flow Information (\$000's)	Three months ended Mar. 31, 2011	Three months ended Mar. 31, 2010
Cash provided by (used in) operating activities	212	(1,429)
Cash (used in) provided by financing activities	(531)	287
Cash used in investing activities	(73)	(26)
Decrease in cash	(392)	(1,168)
Cash and cash equivalents – beginning of period	392	1,667
Cash and cash equivalents – end of period	\$nil	\$499

Financial Statistics and Ratios	Three months ended Mar. 31, 2011	Three months ended Mar. 31, 2010
Gross margin as a percentage of revenue	23.6%	8.4%
Net loss as a percentage of revenue	(9.1)%	(10.5)%
EBITDAS (negative) as a percentage of revenue	7.1%	(5.0)%

## Segmented information

The Company operates in two main business segments in Western Canada, installation and maintenance of underground utilities and directional drilling in the utility and transportation infrastructure industry sector, along with pipeline and facilities construction and maintenance in the energy sector. The business segments presented reflect the management structure of the Company and the way the Company's management reviews business performance. The accounting policies and practices of the reportable segments are the same as those described in note 4 of the accompanying financial statements.

Three months ended March 31, 2011 (\$000's)	Underground utilities and directional drilling	Pipeline and facilities construction and maintenance	Corporate	Consolidated
Revenue	\$3,540	\$691	\$nil	\$4,231
EBITDAS	742	12	(452)	302
Depreciation and amortization	46	288	5	339
Interest and bank charges	100	193	13	306
Gain on sale of equipment	nil	(2)	nil	(2)
Share-based payments	nil	nil	45	45
Income (loss) before taxes	\$596	\$(466)	\$(516)	\$(386)
Total identifiable assets	\$7,371	\$7,131	\$542	\$15,044

Three months ended March 31, 2010 (\$000's)	Underground utilities and directional drilling	Pipeline and facilities construction and maintenance	Corporate	Consolidated
Revenue	\$2,368	\$2,902	\$nil	\$5,270
EBITDAS	1,008	(815)	(456)	(263)
Depreciation and Amortization	54	344	19	417
Interest and bank charges	13	64	1	78
Loss on sale of equipment	nil	1	nil	1
Income (loss) before taxes	\$941	\$(1,223)	\$(477)	\$(759)
Total identifiable assets	\$6,589	\$11,068	\$842	\$18,499

## Going Concern Uncertainty

These consolidated unaudited interim financial statements have been prepared in accordance with *International Financial Reporting Standards (IFRS)* and its interpretations adopted by the *International Accounting Standards Board (IASB)* on a going concern basis which contemplate that the Company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments as they become due in the normal course of business.

Over the past two fiscal years, the Company has experienced net losses and negative cash flows from operations. The Company has incurred a net loss of \$386 thousand for the three months ended March 31, 2011, a net loss of \$5.6 million for the year ended December 31, 2010 and has a working capital deficit of \$2.5 million at March 31, 2011 and \$1.9 at December 31, 2010.

The working capital deficit and annual operating losses over the past two fiscal years and uncertainty relating to the pipeline and facilities construction and maintenance activity, create significant uncertainty as to the ability of the Company to continue as a going concern. The Company's ability to continue as a going concern is dependent on its ability to generate positive cash flow and sustained profitability from operations going forward.

In addition to its ongoing working capital requirements, the Company must secure sufficient funding for its existing commitments as at March 31, 2011, including a term facility of \$3.7 million maturing November 23, 2011, and a mortgage of \$559 thousand, maturing January 1, 2012.

In recognition of these circumstances, the Company has secured a bank revolving line of credit of \$1.1 million during the three months ended March 31, 2011. Also in May 2011, the Company entered into a financing arrangement with a Canadian chartered bank to secure a \$1.8 million non-revolving demand loan. The facility is secured by specific equipment, a general security agreement on all assets of the Company and guarantees by the Company and an officer and Director of the Company. The interest rate on the facility is lender prime plus 2.0%. The loan is repayable over 60 months with principal payments of \$30 thousand plus interest. Proceeds of the loan will be used to pay down the existing 24% term loan facility.

Also, in June 2011, the Company sold one property, a condominium building in the Town of Slave Lake. The proceeds from the sale were used to pay down the existing mortgage by \$169 thousand to \$390 thousand with the remaining proceeds of approximately \$131 thousand, going towards closing costs and working capital.

These undertakings, while significant, are not sufficient in itself to enable the Company to fund all aspects of its operations and accordingly, management is continuing to dispose of underutilized assets, streamline operations, actively seek merger opportunities and is pursuing other financing alternatives to fund the Company's operations so it can continue as a going concern. Management plans to secure necessary financing through the issue of new equity and/or debt instruments. Nevertheless, there is no assurance that these initiatives will be successful.

Accordingly, these financial statements do not reflect any adjustments to the carrying values of the assets and liabilities and in the reported expenses and balance sheet classifications that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

## SUMMARY OF QUARTERLY RESULTS

(\$000's except per share amounts)	2011 IFRS		2010 IFRS			2009 Canadian GAAP		
	Mar. 31	Dec. 31	Sep. 30	Jun. 30	Mar. 31	Dec. 31	Sep. 30	Jun. 30
Revenue	4,231	4,005	3,426	2,922	5,270	7,191	6,585	4,952
Net loss	(386)	(3,593)	(537)	(837)	(551)	(4,473)	(1,081)	(1,174)
Loss per share – Basic and Diluted	(0.01)	(0.07)	(0.01)	(0.02)	(0.01)	(0.05)	(0.03)	(0.03)

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

## OTHER SIGNIFICANT EVENTS DURING THE THREE MONTHS ENDED MARCH 31, 2011

In March 2011, the Company entered into a financing arrangement with a Canadian chartered bank to secure a \$1.1 million revolving working capital line of credit. The facility is secured by accounts receivable,

a general security agreement on all assets of the Company and guarantees by the Company and an officer and director of the Company. The interest rate on the facility is lender prime plus 1.50% with interest payable monthly. The facility expires April 30, 2012. The Company had a balance outstanding of \$nil for three months ended March 31, 2011.

## SUBSEQUENT EVENTS

In May 2011, the Company entered into a financing arrangement with a Canadian chartered bank to secure a \$1.8 million non-revolving demand loan. The facility is secured by specific equipment, a general security agreement on all assets of the Company and guarantees by the Company and an officer and Director of the Company. The interest rate on the facility is lender prime plus 2.0%. The loan is repayable over 60 months with principal payments of \$30 thousand plus interest. Proceeds of the loan will be used to pay down the existing 24% term loan facility and will reduce the Company's monthly interest payments by approximately \$34 thousand.

In June 2011, the Company sold one property, a condominium building in the Town of Slave Lake. The proceeds from the sale were used to pay down the existing mortgage by \$169 thousand to \$390 thousand with the remaining proceeds of approximately \$131 thousand, going towards closing costs and working capital. The remaining mortgage of \$390 thousand is secured by a specific land and building.

## OUTSTANDING SHARE DATA

	Jun. 30, 2011	Mar. 31, 2011	Dec. 31, 2010
Common shares outstanding	48,681,700	48,681,700	48,681,700
Stock options outstanding	4,120,000	4,175,000	4,335,000
Warrants outstanding	1,200,000	1,200,000	1,200,000
Total	54,001,700	54,056,700	54,216,700

## OFF-BALANCE SHEET ARRANGEMENTS

Enterprise enters into short term and long term operating leases with various vendors to provide office space and equipment in our normal course of operations. Our commitments under operating leases are disclosed in the table labeled "contractual obligations." Enterprise does not have any other off-balance sheet arrangements as at March 31, 2011.

## RELATED PARTY TRANSACTIONS

The Company has entered into various transactions with corporations that are controlled by officers and Directors of the Company. Related party transactions not otherwise disclosed in this MD&A are as follows:

The Company paid \$12 thousand for premises rented for the Company's office in Slave Lake during the three month period ended March 31, 2011, to a company controlled by a director.

The Company paid \$43.5 thousand for the rental of equipment during the three month period ended March 31, 2011, to a company controlled by a director.

The Company paid \$9 thousand for the rental of yard premises in Innisfail, Alberta, during the three month period ended March 31, 2011, to a company controlled by a director.

At March 31, 2011, the Company has the following related party loans payable:

- \$327 thousand unsecured demand loan, bearing interest at 12% per annum due to a related company which is controlled by a director and an officer of the Company.
- \$250 thousand unsecured demand loan, bearing interest at 16% per annum due to a related party which is controlled by a member of management of the Company.
- During the three months ended March 31, 2011, the Company incurred interest expense in the amount of \$26 thousand on the loans to related parties of which, \$8 thousand is outstanding and included in loans payable at March 31, 2011.

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

### **CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future periods affected. Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are valuation of financial instruments, property, plant and equipment, intangible assets, and measurement of share-based payments.

### **RISKS AND UNCERTAINTIES**

The Company's activities expose it to a variety of financial risks that arise as a result of certain financial instruments held such as credit risk, liquidity risk, and, market risk. The following presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital.

The Board of Directors oversees management's establishment and execution of the Company's risk management framework. Management has implemented and monitors compliance with risk management policies. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company's activities.

#### **Credit risk**

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual 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 underground utilities and infrastructure industries. Credit risk is mitigated due to significant customers being large industry leaders, following a program of credit evaluation and limiting the amount of customer credit where deemed necessary. The Company monitors accounts receivable monthly to identify any amounts which are past due and considers if they are impaired. This assessment is done on an invoice by invoice basis.

The Company does not anticipate any default as it transacts with creditworthy customers, and management does not expect any losses from non-performance by these customers. As such, a provision

for doubtful accounts has not been recorded for March 31, 2011.

The majority of the accounts receivable relates to subdivision and underground utilities installation for large land developers and energy and utility providers and as such, invoices outstanding over 90 days are not uncommon. Management is not aware of any uncollectable receivables in this category.

As at March 31, 2011, the Company's maximum exposure to credit risk in this area was as follows:

	Total	1 – 90 days	91 – 120 days	121+ days
Accounts Receivable - 2011	\$3,572,851	\$3,355,486	\$38,331	\$179,034

Cash and cash equivalents consist of cash bank balances held in both interest and non-interest bearing accounts. The Company manages credit exposure of cash by selecting financial institutions with high credit ratings.

#### Liquidity Risk and Capital Resources

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The following are the principal payments of the Corporation's financial obligations as at March 31, 2011:

Contractual Obligations	Total	2011	2012	2013	2014	2015	After 5 years
Trade and other payables	2,110,555	2,110,555	nil	nil	nil	nil	nil
Loans and borrowings	5,484,088	5,193,887	195,984	56,646	31,175	6,396	nil
Operating lease commitments	454,343	394,912	59,431	nil	nil	nil	nil
Total	\$8,048,986	\$7,699,354	\$255,415	\$56,646	\$31,175	\$6,396	\$nil

The Company may be exposed to liquidity risk if it is unable to collect its trade account receivable balances on a timely basis, which in turn could impact the Company's long-term ability to meet commitments under its credit facility, or if the credit facility is not renewed requiring the Company to make scheduled principal repayments. The Company's customers are subject to an internal credit review along with ongoing monitoring of the amount and age of balances in order to minimize the risk of non-payment. Long and short term cash flow forecasts are prepared and monitored to ensure adequate liquidity. To mitigate this risk, the Company is actively pursuing other sources of financing.

The Company has no significant commitments to capital resources other than those disclosed in this MD&A.

#### Market risk

Market risk is the risk that changes in market prices, such as interest rates, will affect the Company's income or the value of the financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while maximizing return. As at March 31, 2011, the Company is not exposed to interest rate risk as the Company has not drawn on its available financing facilities that have a floating interest rate.

#### 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 and less bank indebtedness related to trade payables. 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 marketable securities investment.

	Mar. 31, 2011	Dec. 31, 2010
Total debt (as defined above)	\$5,393,990	\$5,705,756
Less: cash and cash equivalents	nil	(392,032)
Net debt (as defined above)	\$5,393,990	\$5,313,724
Total equity	\$7,449,257	\$7,758,118
Less: amounts in accumulated other comprehensive loss relating to marketable securities	(40,000)	(8,000)
Adjusted capital	\$7,409,257	\$7,750,118
Net debt-to-adjusted capital ratio	0.73	0.69

The increase in the net debt-to-adjusted capital ratio during 2011 is the result of a decrease of cash and cash equivalents, and an increase in the Company's deficit for the period ended March 31, 2011, as compared to the year ended December 31, 2010.

One of the Company's top priorities is to replace its existing term debt outstanding as at March 31, 2011, with conventional forms of debt financing. Management is actively pursuing new financing as it will greatly improve the Company's balance sheet, reduce current debt obligations, improve cash flow and fund new growth opportunities. The Company's relatively new equipment fleet along with its other assets provides strong security for potential lenders.

#### **Fair value determination**

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes of the accompanying financial

statements specific to that asset or liability.

- **Marketable Securities**

The fair value of financial assets held as available-for-sale is determined by reference to their quoted closing bid price at the reporting date.

- **Cash and cash equivalents, trade and other receivables, bank overdraft and trade and other payables**

The fair value of cash and cash equivalents, trade and other receivables, and trade and other payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. At March 31, 2011, and 2010, the fair value of these balances approximated their carrying value due to their short term to maturity.

- **Long-term debt and obligations under finance leases**

The fair values of the long-term debt and obligations under finance leases approximate their carrying values since their stated interest rates approximate market interest rates at March 31, 2011, and December 31, 2010.

- **Loans payable**

The fair value of the loans payable is not determinable as loans with similar terms would not be available from third parties.

#### **Financial Instruments and Business Risks**

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

The Company does not enter into derivative financial instruments.

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, marketable securities, bank overdrafts, loans and borrowings, and trade and other payables. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are classified and measured as described below.

- **Financial assets at fair value through profit or loss**

A financial asset is classified at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognized in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. The Company has designated cash and cash equivalents at fair value through profit or loss.

- **Available-for-sale financial assets**

The Company's marketable securities are classified as available-for sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes, other than impairment losses, are recognized in other comprehensive income. When the investment is derecognized, the cumulative gain or loss in equity is transferred to profit and loss.

- **Other**

Other non-derivative financial instruments, such as trade and other receivables, loans and borrowings, and

trade and other payables, are measured at amortized cost using the effective interest method, less any impairment losses.

The 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.

- Level 1 fair value measurements are based on unadjusted quoted market prices.
- Level 2 fair value measurements are based on valuation models and techniques where the significant inputs are derived from quoted indices.
- Level 3 fair value measurements are based on unobservable information.

The Company has designated its financial instruments as follows:

<b>Financial Instrument</b>	<b>Category</b>	<b>Measurement</b>
Cash and cash equivalents	Held-for-trading	Fair value
Trade and other receivables	Loans and receivables	Amortized cost
Marketable securities	Available for sale	Fair value
Bank indebtedness	Held-for-trading	Fair value
Trade and other payables	Other liabilities	Amortized cost
Term loan facility	Other liabilities	Amortized cost
Loans payable	Other liabilities	Amortized cost
Long-term loan and borrowings	Other liabilities	Amortized cost

#### **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 – Although the current economic environment is recovering from the recent recession, the recovery is still fragile. Should economic environment slide into a double dip 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 continuing to implement cost control measures and possibly expand its services into other industries in order to manage through the recession. Management has already implemented some cost cutting measures and is continuing to review other areas for possible cost savings.
- 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.

## TRANSITION TO IFRS

As stated in Note 3 of the accompanying financial statements, these are the Company's first interim financial statements for the period covered by the first annual consolidated financial statements prepared in accordance with *IFRS*.

The accounting policies in Note 4 have been applied in preparing the interim financial statements for the three months ended March 31, 2011, the comparative information for the three months ended March 31, 2010, the financial statements for the year ended December 31, 2010, and the preparation of an opening *IFRS* statement of financial position on January 1, 2010, the Company's transition date.

The Company followed the provisions of *IFRS 1, First-Time Adoption of International Financial Reporting Standards* in preparing its opening IFRS balance sheet. Certain of the Company's IFRS accounting policies used for this opening balance sheet differed from its Canadian GAAP policies applied at the same date. The resulting adjustments arose from events and transactions before the date of transition to *IFRS*. Therefore as required by *IFRS 1*, those adjustments were recognized directly through retained earnings (or another category of equity where appropriate) as of January 1, 2010, in accordance with the general rules of *IFRS 1* which is to apply IFRS retrospectively. Outlined below, in conjunction with Note 13 of the financial statements, is an explanation of the principal adjustments made in restating the Company's Canadian GAAP statements.

*IFRS 1 First-Time Adoption of International Financial Reporting Standards* allows first-time adopters certain exemptions from the retrospective application of certain *IFRSs* effective for December 2011 year-

ends. The Company has applied the following exemptions:

- *IFRS 1 election for deemed cost*

Consistent with Canadian GAAP, under *IFRS*, separable components of property, plant and equipment (“PP&E”) are recognized initially at cost. Under *International Accounting Standards (“IAS”) 16, Property, Plant and Equipment*, an entity is required to choose, for each class of PP&E, to use either the cost model (consistent with Canadian GAAP) or the revaluation model. Under the revaluation model, an item of PP&E is carried at its revalued amount, which is its fair value at the date of the revaluation less any accumulated amortization and accumulated impairment losses. Increases in fair value are recorded in a revaluation surplus account in equity. Decreases in fair value will reduce the revaluation surplus account with any excess recognized in income.

The Company has elected to apply *IFRS 1 Deemed Cost Exemption* to land, buildings, and light automotive equipment as at January 1, 2010. In accordance with *IFRS 1*, at the date of transition, the Company has measured land, buildings, and light automotive equipment at fair values. All other property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. The effect is to increase the carrying amount of land, buildings, and light automotive equipment by approximately \$668 thousand at the date of transition.

- *Share-based payments*

*IFRS 2 Share-Based Payment* provides the Company the choice of whether or not to apply the fair value approach in accounting for share based payments arrangements to equity instruments that vested before the transition date. Any shares that remain unvested at the transition date are required to be revalued using the fair value approach.

The Company has elected to not apply *IFRS 2 Share-Based Payments* to equity instruments related to share-based compensation arrangements that were granted on or before November 7, 2001, that vested before January 1, 2010. All options issued by the Company were vested as at December 31, 2009. The effect is \$nil to contributed surplus and retained earnings at the date of transition.

- *Business combinations*

*IFRS 3 Business Combinations* provides the Company the choice to restate its combinations that occurred before the transition date, restate all business combinations after an internally elected date, or not to restate any of the business combinations. The Company has participated in several business combinations and as permitted by *IFRS 1*, has elected to take this exemption so that any business combinations that occurred prior to January 1, 2010, will not be affected by *IFRS*.

- *Leases*

At the date of transition, for existing arrangements, Enterprise has the option of classifying its leases as operating leases or finance leases on the basis of circumstances existing at the inception of the lease or choosing an exemption not to reassess any arrangements previously determined under GAAP.

The Company has elected to apply the *IFRS 2* exemption to leases. As a result, the Company has not reassessed any arrangements to determine whether they contain a lease if they have already been assessed under CGAAP.

- *Estimates*

In accordance with *IFRS 1*, an entity’s estimate under *IFRS* at the date of transition to *IFRS* must be consistent with estimates made for the same date under previous CGAAP, unless there is objective evidence that those estimates were in error.

It has been determined that to include salvage values in the calculation of depreciation for all items in property, plant and equipment to more accurately allocate the costs of the assets to the periods in which they are used. Previously, the Company only included salvage values in the calculation of depreciation for its construction equipment. See note 13(a) for the effect of this change.

With the exception of the above estimates in depreciation with the use of salvage values in the calculation, the Company's *IFRS* estimates as at January 1, 2010, are consistent with its Canadian GAAP estimates for the same date.

- **Depreciation**

*IFRS* requires separation based upon its cost relative to the total cost of the asset. Under *IFRS* component accounting is required if the useful life and/or depreciation method for the component is different from the remainder of the asset. There was no impact of this difference on adoption of *IFRS* at January 1, 2010.

- **Share-based compensation**

Under previous GAAP the Company's equity-settled share-based payments were measured at their fair value at the grant date. This amount was expensed to share-based compensation on the income statement on a straight-line basis over the vesting period. Forfeitures were accounted for as they occurred. Under *IFRS*, an estimate of forfeitures must be factored into the calculation of the expense at the grant date and any difference between the estimates and actual is recognized in the period when actual forfeitures are incurred. The effect on loss for the year ended December 31, 2010, is a decrease share-based compensation, as recorded in general and administration expense by approximately \$17 thousand with a corresponding change to contributed surplus.

- **Deferred taxes**

The deferred tax asset was decreased by \$157 thousand, based on a tax rate of 25% on adoption of *IFRS* on January 1, 2010.

The benefit of the Company's future income tax asset has not been recognized in the audited consolidated financial statements at December 31, 2010 or the March 31, 2011, unaudited consolidated interim financial statements. The Company evaluates at each reporting date if this asset is "more likely than not" to be realized and resulted in a change in valuation allowance.

## **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 *IFRS*.

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

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

Management has evaluated the design and operation of the Company's internal control over financial reporting as of March 31, 2011, and has concluded that such internal controls over financial reporting were effective. There are no material weaknesses that have been identified by management in this regard.

### **Disclosure Controls and Procedures**

The Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of the Corporation's disclosure controls and procedures (as defined in the rules of the Canadian Securities Administrators) and concluded that the Corporation's disclosure controls and procedures were effective as of March 31, 2011 and in respect of the March 31, 2011 interim reporting period.

For the three months ended March 31, 2011, the Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of the Corporation's internal disclosure controls and procedures and have concluded that the Corporation's disclosure controls and procedures were effective.

## **OUTLOOK**

The economic recovery continued through the first quarter of 2011 and is expected to continue right through 2012. BMO economists are predicting that Western Canada will lead the nation in economic growth in 2011, and the Province of Alberta will lead all provinces in 2012 due to growth in the energy sector. Many of the oil and gas service and completion companies are reporting large increases in activity, revenue and profitability. This is a clear indicator that the construction services provided by the Company will be increasing in demand in the near future.

The underground utility and infrastructure division is anticipating a very busy year. The multi-year contract Enterprise signed in March of 2010, with one of Canada's premier power suppliers is now well underway and revenues are increasing as we continue to ramp up production to meet the customer's growing demands.

In addition to the contract, revenue and backlogs have increased over last year, and Enterprise's largest clients in the underground utility and infrastructure division have a significant backlog of work for which the Company is the primary contractor. These customers have all indicated that the upcoming year will be extremely busy and are encouraging us to ramp up in preparation for the volume of work.

The number of new subdivision developments has also increased this year due to low interest rates and the demand for new housing. Management expects this trend to continue through 2011. The Company's underground utility and infrastructure division specializes in the type of infrastructure that new subdivisions require.

Recognizing the opportunity at hand, management has begun executing its plan to increase this division's production capacity. In the first quarter, the Company added \$175 thousand dollars of heavy equipment to this division's existing fleet, and is continuing to add key personnel, and identifying potential targets for acquisition.

The energy sector is expected to continue its rapid growth in activity and propel the Province of Alberta into nation leading growth in 2012. The price of crude oil has been steadily increasing for several months and has once again broken through \$100 per barrel; capital expenditure budgets in 2010/2011 for conventional oil based assets have increased for the first time since 2006, and in some cases the increases are 50% greater than 2009 levels; oil sands projects that were put on hold in late 2008 and early 2009 are coming back on line; several large oil companies are tendering large pipeline construction projects in Northern Alberta for construction in 2011; and to date the overall volume of projects released for tender is greater than anticipated.

However, many of the construction projects that were being awarded in the first quarter were at low margins. The Company continued, and will continue, to bid projects at margins that it feels are competitive, and will not put it at a greater risk of large losses. The Company is now being awarded projects based on forced account/hourly rates, with significantly higher margins than bid work. Additionally, Enterprise is taking advantage of the limited supply of heavy equipment in the market place, and is renting its underutilized equipment at very healthy margins.

The increased access to capital for many of the oil and gas companies has resulted in an increase in the number of wells drilled in the Western Canadian Sedimentary Basin in 2011. The Canadian Association of Oilwell Drilling Contractors is increasing its forecast for drilling rig utilization by 24% for the rest of 2011 over its October 2010 forecast. In the first three months of 2011, drilling rig utilization averaged 68% in Western Canada. This is in stark contrast to the drilling rig utilization rate of 43% in 2010 and 24% in 2009.

As a result, many companies in the lease building, drilling and completion sectors of the industry are reporting significant increases in revenue and profitability. Management believes these clear indicators will lead to higher revenue and margins beginning in late in the second quarter of 2011, however management continues to monitor overheads and operational costs while maintaining the effectiveness of the energy sector operations.

With many of these projects being located in Northern Alberta, Enterprise is geographically well positioned in relation to these projects. Our flagship operation for the energy sector is located in Slave Lake, Alberta which is surrounded by the conventional oil activity in Northern Alberta.

As the Company returns to profitability, it will begin utilizing its \$9.75 million of non capital losses to offset any income taxes payable. As a result, the Company's profits are effectively tax free until the non capital losses are fully utilized.

Along with returning to profitability, one of the Company's top priorities is to pay down and replace its existing term debt as at March 31, 2011, with conventional forms of debt financing. Since the beginning of the year, Enterprise repaid \$419 thousand of loans and borrowings, and an additional \$435 thousand subsequent to the quarter end. In total, the Company has repaid \$854 thousand of loans and borrowings since the year ended December 31, 2011. In addition to the debt repayment, Enterprise has secured conventional financing in the form of a \$1.1 million operating line, and a \$1.8 million term debt facility. The proceeds from the term facility will be used to pay down the Company's high interest term debt.

Enterprise will continue to actively pursue opportunities to enter new geographic territories and make strategic acquisitions. With the Company's belief that the global economy is recovering, we are certainly upbeat about the indicators we are seeing.

### **Conclusion**

Management's outlook for its services is optimistic. The economy is recovering, activity in the energy sector is increasing, and the service demands for underground and directional drilling services are growing. Management believes that Enterprise is relatively well positioned due to the diversity of its business and operational performance. Management also believes that a balanced and diversified position in underground utilities and directional drilling, 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.

We believe that the Company is turning a corner. With the diversification of our construction services, streamlining of our operations, and our cash management measures, we believe that Enterprise is relatively well positioned operationally to take advantage of the increased economic activity which should allow for improvement in financial performance.

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

### **ADDITIONAL INFORMATION**

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

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

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

Desmond O’Kell, Vice President and Corporate Secretary

Ron Ingram, Director

Jason Krueger, CFA, Director

James P. Stout, CA, Director

Nick Demare, CA, Director

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

Pete Kalf, Project Manager – Central Alberta

Tom Lavender, General Manager – Underground Utilities and Infrastructure Operations

James Chorney, Independent Advisor – Engineering & Pipeline Construction

## **OFFICE TEAM**

Brian M. Stasynek, CA, Chief Financial Officer

Doug Moak, General Manager

Francine Coleman, Divisional Controller

## **CONTACT INFORMATION**

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