

Enterprise Group Inc (E-T) Renewed Growth Strategy Heats Up Earnings Potential

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We are initiating coverage of Enterprise Group with a **BUY** rating and 12-month price target of **\$0.60**. Our target is based on ~5x F2013 EPS and ~4x F2013 EBITDA.

- **Enterprise is involved in four businesses, all benefiting from strong economic growth in Alberta.** The original lines of work include pipeline construction and maintenance (Enterprise Energy Services), and more importantly, underground utility infrastructure work (T.C. Backhoe & Directional Drilling). The utility business is set to grow with a small acquisition closing imminently. The legacy business is being augmented by a recently launched heavy equipment rental business (E One) and a recently acquired heating rental business (Artic Therm). There is a pipeline of additional acquisition opportunities, and the Company's near-term goal is to grow revenues to >\$100 million in a profitable manner.

- **We model revenue growth of 40% in 2012 and 45% in 2013, driven by the utilities division and the very accretive Artic Therm acquisition.** The business has already witnessed improved operating metrics and is now solidly profitable. After a breakeven year in 2011, we forecast EPS of \$0.07 in F2012 and \$0.12 in F2013.

- **The balance sheet is supported by a new three-year, \$12.5 million credit facility.** We believe current net debt stands at roughly \$9.2 million, post announced acquisitions. We would expect the Company to seek additional financing sources in the coming year to execute on the growth strategy.

Trading at just 3.8x F2012 EBITDA and 3.1x F2012 EPS, with significant growth forecast in F2013, we see compelling risk/reward in this name. Poor strategy execution or economic slowdown in Alberta are risks.

Initiating Coverage

BUY \$0.60 target

Previous Close	\$0.22
12-month Target Price	\$0.60
Potential Return	173%
52 Week Price Range	\$0.085-\$0.25

Estimates

YE: Dec 31	FY11A	FY12E	FY13E
Revenue (\$000s)	\$17,884	\$25,078	\$36,354
EBITDA (\$000s)	\$1,744	\$6,324	\$11,787
FD EPS	\$0.00	\$0.07	\$0.12

Valuation

	FY11A	FY12E	FY13E
EV/Revenue	1.4x	1.0x	0.7x
EV/EBITDA	13.9x	3.8x	2.1x
P/E	n/a	3.1x	1.8x

Stock Data

FD Shares O/S	68,740 (post acquisitions)
Market Cap.	\$15,123
Enterprise Value	\$24,323
Net Debt	\$9,200 (estimate post acquisitions)

About the Company

Enterprise is a construction services company in the energy, utility and transportation industries that operates primarily in central and northern Alberta. Headquartered in St. Albert, Alberta, the company operates four divisions and has over 200 pieces of heavy equipment. The Company was founded and went public in 2004, and currently employs over 105 people. www.enterprisegrp.ca

Stock Performance

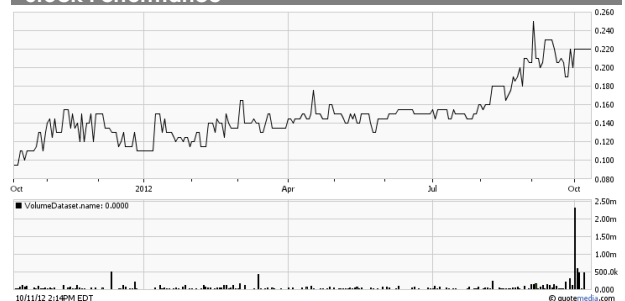


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Investment Thesis

Enterprise Group (Enterprise, EG, or the Company) has seen the benefit from resurgent economic activity in central and northern Alberta in the last two years. Home to one of the world's largest energy resources, the region in which Enterprise operates is routinely among the fastest growing regions in Canada. **The Company is very well positioned to benefit from increased activity levels in both the oil & gas and construction sectors in western Canada through its four operating segments:** 1) pipeline construction and maintenance, 2) underground utility infrastructure installation and maintenance, 3) heavy equipment rentals and 4) flameless heating equipment rentals. EG has established, long-term relationships with a blue chip roster of clients including Fortis, Shaw, Telus, Canadian Natural Resources, Encana, Suncor, Pennwest, Apache, Ledcor, and Flint Energy (aka URS Flint).

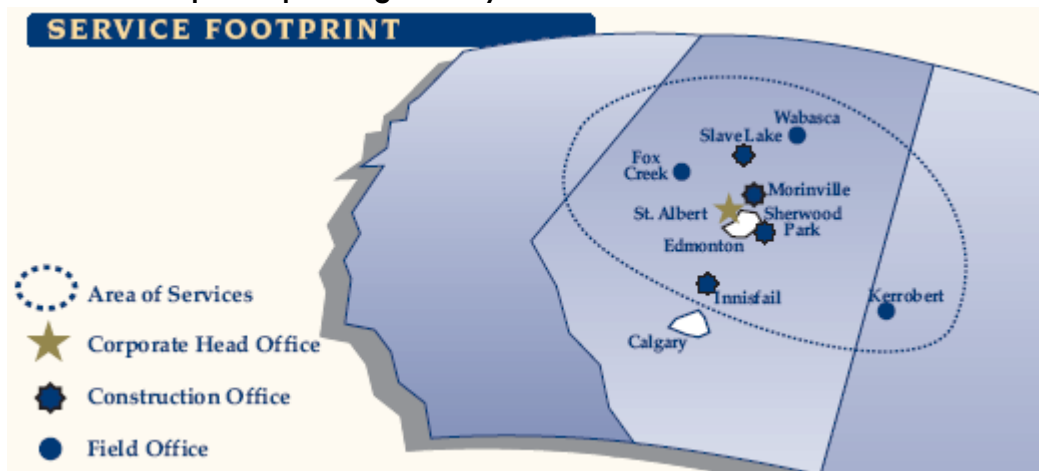
Although the business has seen a strong turnaround in results over the last two years, we believe the best is yet to come. EG is growing its utility business both organically and via a soon to close \$1 million acquisition. The biggest catalyst to a better bottom line will be the recently acquired Artic Therm heating rental firm. This business, which was acquired for \$6.5 million in September 2012, is expected to generate over 50% EBITDA margins in 2013 from sales of \$7 million. We expect that overall EG EBITDA margins will surpass 30% next year, up from just 9.8% in 2011. Although Enterprise did produce a breakeven result in 2011, we expect significant profitability in the back half of 2012 and into F2013. Trailing 12-month EPS stands at \$0.04, without any contribution from Artic Therm. Backstopping the better operating results is a balance sheet with a new \$12.5 million operating facility. This facility has a three year term at Prime + 2%. At present, including the two announced acquisitions, we estimate the net debt position will be ~\$9.2 million. With EBITDA expected to be nearly \$12 million in 2013, we are very comfortable with this level of leverage.

We are forecasting revenue growth of 40% and 45% in F2012 and F2013, along with vastly improved gross margins. We estimate F2012 EPS of \$0.07 and F2013 EPS of \$0.12. Currently trading at just 3.8x our F2012 EBITDA and 3.1x our EPS estimate, we believe the valuation on this small cap name is compelling. We are initiating coverage with a BUY rating and 12-month price target of \$0.60, for a total potential return of 173%. Our target is based on just 5x F2013 EPS and roughly 4x F2013 EBITDA, which is a discount to the current peer group average 2013 multiples (4.5x EBITDA and 7.8x EPS). There is a pipeline of additional acquisition opportunities, and the Company's near-term goal is to grow revenues to >\$100 million in a profitable manner. The discounted valuation, coupled with a consolidation trend in oil services names, means that Enterprise could also find itself as a take-over target.

Company Overview and Opportunity

Enterprise Group is a construction services company that is based in St. Albert, Alberta. The Company was formed in early 2004, and went public via a CPC transaction at \$0.25 per share. It began operations following the 2005 acquisition of AG Grant Construction, a pipeline construction business with over a 40 year track record. In 2007, Enterprise acquired T.C. Backhoe, an underground drilling and utility installation company that has operated since 1975. This has been followed up with the launch of its E One heavy equipment rental business at the beginning of 2012 and two recent acquisitions (Artic Therm in Sept. 2012) and a utility services business (formal closing expected mid-Oct. 2012). We will detail these new additions below. Enterprise recently changed its name to Enterprise Group from Enterprise Oilfield Group to better reflect its diversified business. Management is led by Leonard Jaroszuk, President & CEO since 2004.

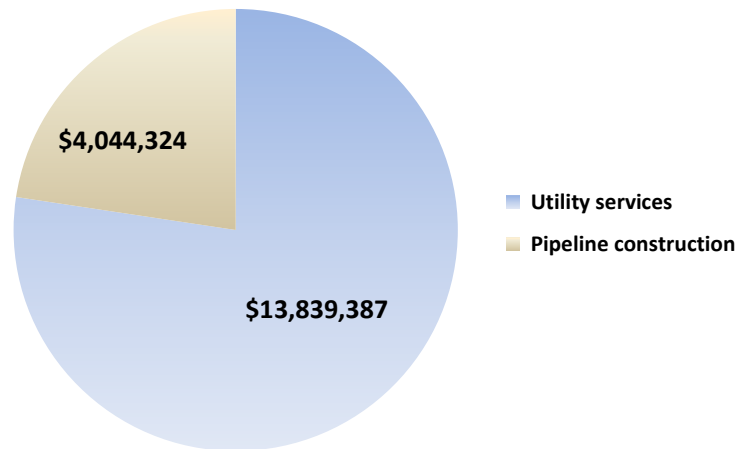
Exhibit 1: Enterprise Operating Territory



Source: Company reports

Enterprise has historically had two business segments: 1) Underground utilities and directional drilling (known as utilities from here on), and Pipeline/facilities construction & maintenance (pipelines). The pipelines division currently includes revenues from the heavy equipment rentals business (formed in January 2012). Prior to the 2008/09 downturn, Enterprise was doing \$40+ million a year in revenues and generated positive earnings. However, the business was severely impacted by the recession, seeing sales fall to just \$15.6 million in 2010. The Company has survived its near-death experience, growing sales by 14.5% in 2011, and is now well positioned to grow both via acquisition and organic means.

Exhibit 2: F2011 Revenue by Division

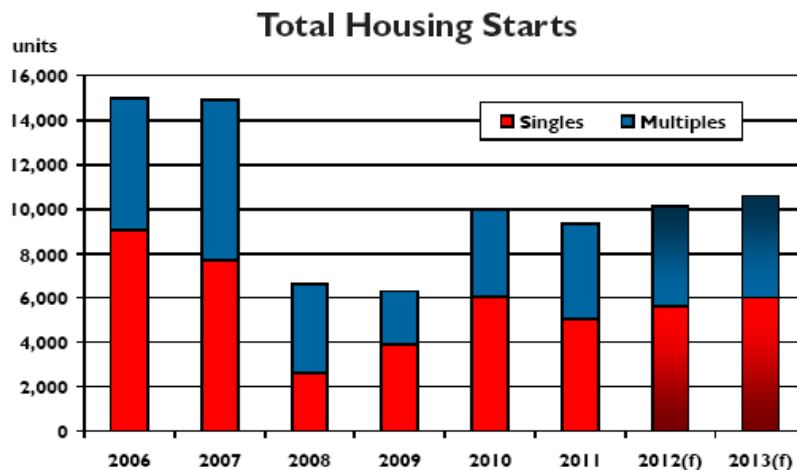


Source: Company reports, Beacon Securities

Utilities Services – T.C. Backhoe & Directional Drilling

This division, operated under the T.C. Backhoe and Directional Drilling name, is the largest division, accounting for 77% of 2011 sales and showing growth of 31% in that year. Year-to-date sales are up 34% in 2012, driven by increased projects from major customers and more seasonal soil conditions (2011 was more weather challenged). This business focuses on the installation and repair of utility (electric, natural gas, cable, telephone) services underground in new and existing developments. The primary base is residential, with new subdivisions being a key market. There is also work for industrial and commercial developments. The major customers in this segment are Fortis, Shaw and Telus, and Enterprise is a preferred contractor for some of the province's largest land developers, including Qualico, Landrex, and Genstar.

Exhibit 3: CMHC Historical and Forecast Housing Starts in Greater Edmonton



Source: CMHC Spring 2012 Report

Management estimates that approximately 40% of the work is under long-term contract and the visibility under these contracts stretches for 12-18 months. The business has been operating near full capacity for most of 2012, and management expects this to continue into 2013. The development of new subdivisions within 150 km of Edmonton generates the bulk of the work. Edmonton continues to be a thriving market, with significant population growth (8.6% growth since 2008). Over 10,000 annual new housing starts (both single and multi-residential) are anticipated in 2012-2013 in metropolitan Edmonton (see exhibit above). Enterprise is currently under contract to prepare 4,000 lots for four different developers.

Growth in this division will be accelerated by the purchase of a utility services business, in a deal that is expected to close within the next few days (LOI announced August 9, 2012). This \$1 million acquisition (\$500k cash, \$250k in stock at \$0.25 apiece, and \$250k vendor take-back) allows Enterprise to get into a specialized area of installation, testing and maintenance of municipal/provincial light and other traffic standards. We believe this is a nice tack-on acquisition for the utilities division.

Heating Rentals – Artic Therm

This division provides flameless, dry, contaminate-free warm air to outdoor work environments. This brand new division is the key driver for top and bottom line growth at Enterprise. Artic Therm was purchased in mid-September for \$6.5 million (\$5 million cash (using credit facility), \$500k in shares (2 million at \$0.25), and a \$1 million vendor take-back arrangement over two years). This privately-held business has been in operation for 14 years, working in northern Alberta and northeast BC. Using patented technology (two North American patents held, focused on blower and heat transfer technology), the Company has historically focused on servicing its customers well rather than rapid growth. In the twelve months to March 31, 2012, Artic Therm did \$4.7 million in sales and generated EBITDA of \$2.7 million and roughly \$2 million in earnings.



Importantly, EG did not overpay for the heating rental business (just 2.4x TTM EBITDA). When acquired, the business had 53 heating units (ranging in heating output from 375,000 BTUs to 3 million BTUs). Enterprise has since added 10 more units and is expected to take delivery of 18 more in early November. The average cost for a smaller unit (375k-900k BTUs) is between \$35k-\$70k. The biggest units (3 million BTUs) cost approximately \$625k. The units all currently run on diesel fuel, with most clients supplying fuel (removing a cost risk to Artic Therm). The big units are rented fully crewed, while the smaller units are typically rented without crews.

Artic Therm has two 3-million BTU units and two 1.2-million BTU units that generated roughly 60% of the TTM sales. We would expect the business to

add to its fleet of large output heaters. There is currently no direct competition for the 1+ million BTU units. These units are designed for a number of applications, but specialize in pipeline pre-expansion work. Pipelines laid in the winter require heat expansion to protect against expansion/weakening in the pipe at a latter point. Artic Therm's large units can achieve the required heat intensity, in what is typically a constrained work environment, on a cost effective basis. Other applications in the oil and gas sector for flameless heat include: large tank and pipeline drying, plant maintenance work secondary heat, and thawing well site equipment. The applications in the construction industry are numerous, and there is a noticeable productivity improvement with labour that is able to work in a heated environment during bitter winter weather.

Pipelines – Enterprise Energy Services

The pipelines division, which did just over \$3 million in sales over the last 12 months, focuses on small to medium (2"-12") diameter pipeline gathering systems. Based out of Slave Lake and Innisfail, Alberta, the division's two primary clients are Apache and Pennwest. Most of the current work is maintenance derived, with little active bidding for new pipeline installation work. This division has become a much less important part of the business ever since the move into the underground utility space in 2007 and the recession in 2008-09 that severely curtailed activity in the oil patch. The Company has faced extensive competition and tight margins in the business, and has made a concerted choice to do only "cost plus" work, thereby guaranteeing an acceptable profit margin. As other areas of the business grow, we believe it could make sense to exit this segment over time. However, there is value in maintaining relationships with the current blue chip customers. We note that this division currently includes the heavy equipment rental business (E One). Both are based out of Slave Lake, Alberta and the equipment that has gone into the E One business has come from the pipeline division. We expect the heavy equipment rentals, combined with the heating rentals, to be separated out into a new rentals division by the new year.

Heavy Equipment Rentals – E One Limited

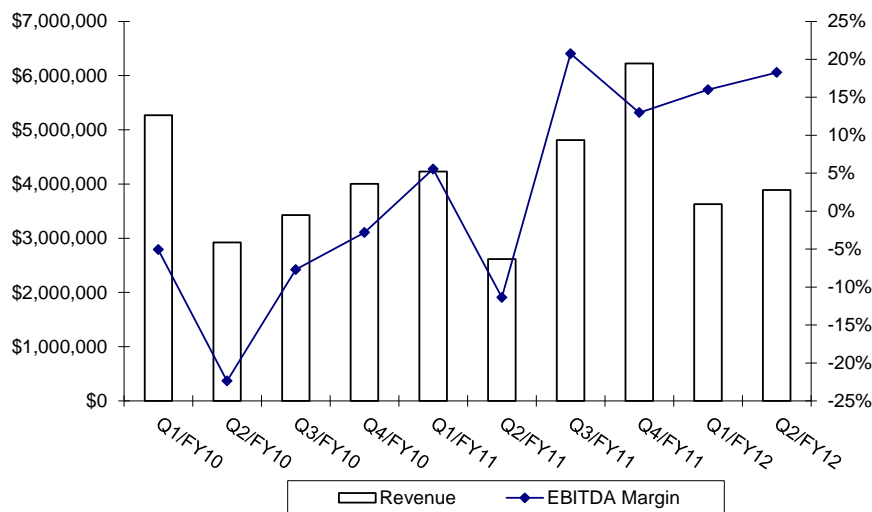
Enterprise has taken the surplus equipment from their pipelines division and set-up a heavy equipment rental business called E One Limited. There are currently roughly 40 pieces of "yellow iron" allocated to this division, with customers using EG's rental fleet when they cannot meet demand internally. The fleet is made up of bulldozers, pipe layers, and excavators. Individual pieces of equipment rent for between \$7,500 and \$19,500 per month. The current book value of the equipment is \$5.5 million, with an estimated replacement cost of \$6.6 million. E One's biggest customer is URS Flint, comprising the majority of anticipated revenues over the winter period. Overall, this is a \$2.5-\$3 million a year business, with high margins (50%+ EBITDA). We believe that long-term there is a big opportunity to expand this

business, and consolidate some smaller players. We do note that this line of business will be susceptible to slow periods when construction activity levels decline and customers do not require additional equipment.

Financial Results Recap

Enterprise has delivered four consecutive quarters of profitability, generating TTM EPS of \$0.04. Most impressively, the Company generated a penny in EPS during Q2, which is traditionally the seasonally slowest quarter. There has been solid topline growth, driven by increased work in the utilities infrastructure division. During the first half of 2012, sales are up 10% to \$7.5 million. Over 85% of this comes from the utilities division. Gross margins were 35.8% in the first half of this year, up from 18.2% last year. This has led to much improved profitability, with H1 EBITDA of \$1.2 million, up from breakeven one year ago. With the addition of higher margin businesses to the mix, we anticipate much stronger results in 2H 2012 (see more in next section).

Exhibit 4: Historical Quarterly Performance



Source: Company reports, Beacon Securities

Balance Sheet & Capital Structure

Enterprise ended Q2 with cash on hand of \$0.5 million and debt of \$4.7 million. We estimate that the net debt load will be approximately \$9.2 million, once this second acquisition is completed. EG has a \$12.5 million credit facility with PNC Bank Canada at Prime + 2%, under a three year term (maturing September 2015). There are two covenants attached to this facility. A fixed charge coverage ratio of not less than 1.25x (based on rolling four quarters) and a senior leverage ratio of not greater than 3.5x. Capital expenditures are also limited to a maximum of \$3 million per year. In the first half of 2012, cash from operations (prior to non-cash WC items) was \$1.4 million, while capex was \$1.1 million. In 2013, we look for the business to mark a return to positive free cash flow (estimated at \$5.7 million).

Outlook & Forecast

Enterprise's business has historically been seasonally geared toward a stronger second half to the year. We expect this will be even more greatly exaggerated in 2012 due to the addition of the heating business, ramp-up of the heavy equipment rentals, and the pending acquisition of a small utility services company. In short, we expect much improved results in 2H 2012, with Q4 shaping up to be a break-out period for the Company. This will set up a very strong F2013. Management has several other growth opportunities in front of it, and has a near-term goal of profitably growing the business to \$100 million in revenues. We expect big growth both this fiscal year (40%) and next (45%), comprised of the following (see more details below):

Exhibit 5: Revenue by Division (in millions)

	Utilities	Pipelines	Artic Therm*	E-One	Total
F2011A	\$13.8	\$4.0	\$0	\$0	\$17.9
F2012E	\$19.1	\$2.8	\$2.0	\$1.3	\$25.1
F2013E	\$23.6	\$3.0	\$7.0	\$2.7	\$36.4

* acquired Sept. 13, 2012, TTM sales to March 31, 2012 were \$4.7 million

Source: Company reports, Beacon Securities

The small pipeline division is expected to be relatively flat going forward (with steady 30% gross margins), therefore we focus on the growth drivers in Enterprise Group:

Heating Rentals (Artic Therm) – This brand new division will be a significant contributor to Q4 results (should be at least \$2 million in sales) and is conservatively estimated to deliver sales of \$7 million in 2013. This is going to be driven by utilization of the bigger units that command high monthly rental rates, increased inventory of smaller heating units (28 added this Fall), and more concerted sales and marketing efforts.

The 1.2 million and 3 million BTU units are currently under contract with major E&P companies for the next few months. As a combo, these units can rent for up to \$750k per month, including labour (nine men) and fuel. With an upfront capital cost of roughly \$1.1-\$1.2 million, the payback period on these pieces of equipment is short. The key is utilization, and up until now they have typically only seen a couple months of use per year.

The smaller units (77 in total ranging from 375k BTU to 900k BTU) are much less expensive to rent (\$5.5k-\$10k per month), but are also in high demand during the winter season. The portable heating market is fragmented, with many providers of smaller BTU units. Rental heating competitors include Hertz Equipment Rentals, Aerotech Herman Nelson, Enerbuilt Technologies, and

ASL Industrial No-Flame Heaters. However, there is little to no competition for the big 1.2 million and 3 million BTU units. Artic feels it is able to better service its customers and offer a wider variety of size options than many of its competitors.

For pipeline pre-commissioning, the big conglomerates such as Weatherford, Halliburton and Baker Hughes offer various forms of drying, including nitrogen, chemical swabbing, or vacuuming. These are generally more expensive applications than what is offered by the high BTU units at Artic. It is difficult to peg a value to the total addressable market for portable heating rentals. However, the addressable market opportunity for pre-commissioning work alone is large, with thousands of kilometres of new pipelines proposed to be built in the next few years in Alberta and BC. A 4km to 6km stretch of pre-expansion work on insulated pipe can take 24 hours and cost \$30,000+. Non-insulated pipe takes even longer to pre-expand (1km to 2km per 24 hour period).

We believe the growth opportunities for Artic Therm are there for the taking. The first is geographic expansion. For example, to date that there has been no exposure in Fort McMurray. There will be a couple units in that market this winter, with management testing the market for growth in 2013. Beyond Alberta, there is demand for outdoor heat in BC (already doing work in Horn River, and could have huge potential with additional proposed pipeline work) and in Saskatchewan. As the business grows, there could also be opportunities in other parts of Canada or even in international cold weather markets. The second opportunity is to turn the business into a 12-month opportunity. The business has historically been a winter-only focus, with very little warmer season work. There are applications, including pipe and tank drying and concrete curing, that could use high CFM (cubic feet per minute) blowers (with or without heat). Thirdly, Artic Therm did not have dedicated sales and marketing efforts until November 2011. A sales person has been placed in Calgary to solicit business from the major E&P companies. With the existing relationships in the construction and O&G sectors at Enterprise, we believe Artic Therm can grow its reach rapidly in the next few years. Three of the original four shareholders of Artic have been retained, including Lorne Norton who developed the technology and will oversee the building of additional units.

Artic Therm has an impressive margin profile (EBITDA of 50%+), and provides a nice seasonality offset to the utilities work (which is slowest during the Q1 winter period). We believe there is significant upside from the heating division, and that the market opportunity will be expanded dramatically under the leadership of Enterprise. We expect the small BTU fleet to generate sales of roughly \$2.5 million in 2013, with the balance (\$4.5 million) coming from the large BTU units.

Utilities Services (T.C. Backhoe) – This business continues to win market share and benefit from the construction growth (focused on residential) in the Alberta market. There is very good visibility going out 12-18 months, and gross margins have been steady in the 42%-47% range over the last four years. The business is split currently 75%/25% with new construction versus repair and maintenance work. The underground utility infrastructure in Alberta is aging, and we would expect the level of required repair and replacement work to increase in the years ahead. In addition, the pending acquisition is expected to boost sales by approximately \$4 million annually, with margins comparable to the existing business. We also believe the acquisition provides an opportunity to expand further into Saskatchewan, where this target company has done numerous projects. We look for total growth in the utilities division of 23% in 2013 over 2012. EBITDA margins have consistently been in the 27%-30% range and no change is expected.

Heavy Equipment Rentals (E One) – This division is ramping up for a busy fall/winter season, with essentially the entire inventory of 40 pieces spoken for. We expect 75% of annual revenues will be generated during Q4 and Q1. With shared overhead from the pipelines division, we expect the margin profile to be very attractive for E One. We model F2013 sales of \$2.7 million.

Details of our overall forecast are below, with more specific details to be found in the appendix section of this report.

Exhibit 6: Beacon Securities' Forecast (\$ millions, except EPS)

Dec. Year End	F2011A	F2012E	F2013E
Revenues	\$17.9	\$25.1	\$36.4
Gross Margins	26.3%	38.3%	43.9%
EBITDA	\$1.7	\$6.3	\$11.8
EBITDA Margin	9.8%	25.2%	32.4%
Net Earnings	\$0.0	\$4.3	\$8.0
FD EPS	\$0.00	\$0.07	\$0.12

Source: Beacon Securities, Company reports

Enterprise has significant tax losses that will offset approximately \$10 million of future income. Based on our forecast, we do not expect the Company to pay cash taxes until Q4 2013. Our F2013 EPS is based on a fully diluted share count of 68.8 million shares. Our forecast does not take into account potential upside from additional acquisition activity.

Recommendation and Valuation

We are initiating coverage with a BUY rating and 12-month price target of \$0.60. Our target is based on 5x F2013 EPS and roughly 4x F2013 EBITDA. We see little downside risk at current price levels and significant upside as management executes on the new growth platform.

Downside valuation support is provided by the recent equipment appraisal value of \$16.5 million, including \$4.7 million in equipment with the Artic Therm acquisition. This provides an asset value of \$0.24 per fully diluted share (pre-debt). Tangible book value per share stood at \$0.16 at the end of Q2. We believe it was the equipment value and strong quality of A/R (\$3.2 million at end of Q2) that led PNC Bank to provide a \$12.5 million credit facility that is helping fund the growth of the business. This facility has the potential to be expanded as EG continues to grow out its operations.

We note that Enterprise looks like a potential take-out target in what has been a consolidating O&G services sector. The exhibit below highlights several deals that have been struck in 2012. Note that our \$0.60 target price implies a F2012 EBITDA multiple of 8.0x. Given the lack of a majority shareholder (insiders and friendly parties are believed to own 38%), there is no available defense against a hostile take-over offer.

Exhibit 7: 2012 O&G Services Consolidation Activity

Acquirer	Target	Sector	TTM EBITDA Multiple
Wood Group (WG-LSE)	Mitchell's Oil Field Services (private)	O&G construction and transportation	9.6x, incl. all potential earn-outs
DXP Enterprises (DXPE-Q)	HSE Integrated (HSL-T)	Health, safety and environment monitoring	5.1x
National Oilwell Varco (NOV-N)	CE Franklin Ltd (CFT-T)	Product distribution centres	8.1x
URS Corporation (URS-N)	Flint Energy Services (FES-T)	O&G production, construction, transportation and maintenance	11.0x

Source: Company reports, Capital IQ, Beacon Securities

There is not a perfect comparable to Enterprise, but we use the same small cap O&G services peers as we use for Petrowest (PRW-T; currently restricted). All of these companies have significant leverage to the health of the western Canadian economy. Given the lack of dividend and illiquidity (strong insider ownership) at Enterprise, we discount the peer multiples to come up with our target. **Enterprise is currently trading at just 1.8x F2013 EPS and 2.1x F2013 EBITDA, while the comparables are averaging 7.8x and 4.5x, respectively.** Narrowing the universe to include only the sub \$200 million market cap peers provides average forward multiples of 5.6x and 4.0x, respectively.

Exhibit 8: Peer Comparables

Company	Last Price	Enterprise Value (Millions)	Market Capitalization (Millions)	Dividend Yield	Revenues		EBITDA		2013 EBITDA Margin	EPS		EV/EBITDA		Price/Earnings	
					2012	2013	2012	2013		2012	2013	2012	2013	2012	2013
Enterprise Group	\$0.22	\$24	\$15	0.0%	\$ 25.1	\$ 36.4	\$ 6.3	\$ 11.8	32.4%	\$ 0.07	\$ 0.12	3.8x	2.1x	3.1x	1.8x
Petrowest Corp	\$0.51	\$118	\$56	0.0%	R	R	R	R	R	R	R	R	R	R	R
Bird Construction	\$14.01	\$471	\$591	5.1%	\$1,419.7	\$1,505.3	\$ 77.6	\$ 94.9	6.3%	\$ 1.01	\$ 1.36	6.1x	5.0x	13.9x	10.3x
Aecon Group	\$12.06	\$1,230	\$673	2.3%	\$2,962.2	\$3,194.7	\$ 178.7	\$ 213.0	6.7%	\$ 0.88	\$ 1.22	6.9x	5.8x	13.6x	9.9x
Churchill Corp	\$8.25	\$317	\$202	5.8%	\$1,262.4	\$1,352.2	\$ 49.3	\$ 72.8	5.4%	\$ 0.34	\$ 1.02	6.4x	4.4x	24.4x	8.1x
Entrec Corp	\$1.67	\$194	\$130	0.0%	\$ 131.5	\$ 208.4	\$ 34.7	\$ 60.2	28.9%	\$ 0.21	\$ 0.31	5.6x	3.2x	8.0x	5.4x
Aveda Transportation	\$2.55	\$51	\$25	0.0%	\$ 90.5	\$ 111.3	\$ 13.1	\$ 20.9	18.7%	\$ 0.26	\$ 0.64	3.9x	2.4x	9.8x	4.0x
WesternOne Equity	\$8.50	\$340	\$176	7.1%	\$ 217.7	\$ 233.3	\$ 44.7	\$ 51.2	22.0%	\$ (0.72)	\$ (0.07)	7.6x	6.6x	nmf	nmf
Essential Energy Services	\$2.49	\$364	\$309	4.0%	\$ 366.7	\$ 382.6	\$ 84.6	\$ 91.5	23.9%	\$ 0.31	\$ 0.32	4.3x	4.0x	8.1x	7.7x
IROC Energy Services	\$2.51	\$138	\$126	4.0%	\$ 108.0	\$ 120.8	\$ 35.0	\$ 38.3	31.7%	\$ 0.32	\$ 0.35	3.9x	3.6x	7.7x	7.3x
Badger Daylighting	\$29.31	\$374	\$361	3.5%	\$ 230.0	\$ 242.0	\$ 60.6	\$ 65.9	27.2%	\$ 2.42	\$ 2.27	6.2x	5.7x	12.1x	12.9x
N. American Energy Part	\$2.90	\$410	\$105	0.0%	\$ 945.1	\$ 993.6	\$ 77.9	\$ 103.8	10.4%	\$ 0.04	\$ 0.49	5.3x	4.0x	nmf	5.9x
										Peer Average:	5.6x	4.5x	12.2x	7.8x	

*Note R = currently restricted, Beacon does not cover any of the other comp names at this time

Source: Beacon Securities, Bloomberg

Key Risks

- **Alberta Economic Conditions** – Enterprise's business interests are significantly levered to the general health of the provincial economy, led by the oil and gas sector. The business segments are all subject to economic downturns.
- **Competitive Pressures** – The Company faces competition, from firms big and small, for contracts. Safety, reputation, and pricing are key components to success. There is also competition for skilled labour, particularly when the resources industry is booming. Having many projects close to the city of Edmonton has helped reduce turnover rates.
- **Interest Rate Exposure** – Enterprise is exposed to rising interest rates on its credit facility with interest based on Prime + 2%. In the near-term, we believe the risk of rising rates is low.
- **Weather and Seasonal Factors** – Poor weather conditions (extreme cold & wet conditions) can negatively impact operations in any given quarter. The addition of the heating rental business is expected to offset seasonality impacts.
- **Customer Contracts** – The ten largest customers accounted for 76% of revenue during 2011. This is a contract based business, and any change, termination or non-renewal of work can impact results.
- **Acquisition Integration and Strategy** – Enterprise has launched two take-overs in recent months and has other targets in sight. It will be important to integrate the assets well and have a cohesive growth strategy going forward.

Appendix A

Management and Directors

Leonard Jaroszuk – President & CEO: Mr. Jaroszuk was appointed President & CEO in March 2004. Prior thereto, he was President and Chief Executive Officer of Bancshares Capital Corp., a private financial investment company. He has been involved in and managed a number of public companies engaged in real estate, construction, natural resources and exploration over the past 28 years.

Desmond O’Kell – Vice-President, Corporate Development: Mr. O’Kell has 23 years business operations and finance experience in the public marketplace. Prior to the inception of Enterprise Oilfield Group he was President of Rochester Resources, a producing gold & silver mining company listed on the TSX-Venture Exchange. Mr. O’Kell also serves as a director of another Canadian listed resource company.

Douglas Moak, CMA – Interim CFO: Mr. Moak is a Certified Management Accountant with over 19 years of accounting experience, receiving his CMA in designation in 1997. Mr. Moak’s extensive background and experience includes management consulting and senior management roles in both publicly traded and privately owned corporations mainly in the construction and manufacturing industries.

Exhibit 9: Enterprise Board of Directors

Name	Position	Director Since	Shares Controlled**
Leonard Jaroszuk	President & CEO, Enterprise Group and Samoth Oilfield	2004	8.986 million (16.2%)
Keir Reynolds*	Founder and President of Mammoth Market Advisory Corp.	2012	Nil
John Pinsent*	Chartered accountant and corporate director	2012	Nil
Fredy Ramsoondar*	CEO of United Protection Security Group (UZZ-V)	2011	Nil
Desmond O’Kell	VP, Corporate Development, Enterprise Group	2011	0.128 million (0.2%)

Source: Company reports, Beacon Securities

*Independent directors

**Percentage ownership based on 55.4 million shares outstanding at end of Q2, ownership excludes options and warrants held

We note that President & CEO, Leonard Jaroszuk, has an employment contract with what may be regarded as generous provisions. Given the size

of the business and the earn-out potential, investors should be aware of the compensation arrangement. Mr. Jaroszuk collected a base salary of \$371k in 2011 and was issued option-based awards worth another \$104k. His employment contract allows for three years of compensation if terminated without cause. He is also entitled to 30 months' worth of compensation should he leave within two years of a modification of his role. The most generous part of Mr. Jaroszuk's compensation comes from a 7% cash bonus on any earnings (before taxes) above a baseline of \$1.5 million. Bonusing based purely on earnings are not ideal, in our opinion, particularly when it is a cash payment. We acknowledge Mr. Jaroszuk has strong shareholder alignment through his 16% ownership in E stock (including purchasing over 240k shares in recent months) and that he has personally guaranteed several loans and contracts associated with the business. We believe he is heavily invested in the success of the business, but that the contract provisions may be worth revisiting.

Finally, we note that later this year Enterprise is expected to announce a permanent CFO, with an effective start date of January 1, 2013. This person, yet unnamed, is expected to bring several years of CFO experience from a highly regarded organization. As the business grows, we believe it will be important for the experience and reputation level to grow at both the management and board level.

Appendix B

Financial Statements

Year End: Dec	FY08	FY09	FY10	FY11	FY12E	FY13E
Revenue	39,761,681	27,699,442	15,623,488	17,883,712	25,078,347	36,354,299
Cost of Sales	29,691,300	25,564,225	13,833,129	13,173,446	15,462,799	20,394,098
Gross Profit	10,070,381	2,135,217	1,790,359	4,710,266	9,615,548	15,960,201
Gross margin	25.3%	7.7%	11.5%	26.3%	38.3%	43.9%
Operating Expenses:						
General and administrative	5,304,425	3,782,484	3,315,375	3,148,533	3,508,149	4,473,099
Total operating expenses	5,304,425	3,782,484	3,315,375	3,148,533	3,508,149	4,473,099
EBITDAS	4,862,131	-1,418,177	-1,298,168	1,743,751	6,323,879	11,787,102
EBITDAS margin	12.2%	-5.1%	-8.3%	9.8%	25.2%	32.4%
Amortization	2,571,697	1,845,808	1,570,339	1,259,252	1,472,912	2,242,933
EBIT	2,194,259	-3,493,075	-3,095,355	302,481	4,634,488	9,244,170
Total net interest expense	364,928	528,577	202,564	808,065	342,364	436,215
Gain on sale of PP&E	308,873	1,748,154	188,444	54,598	-5,000	0
EBT & other expenses	1,520,458	-5,769,806	-3,486,363	-560,182	4,297,124	8,807,955
Other expenses (income)	15,107,935	43,492	-21,945	-639,056	-37,619	0
EBT	-13,587,477	-5,813,298	-3,464,418	78,874	4,334,743	8,807,955
Tax Expense	-1,318,236	-1,285,468	2,099,700	0	0	795,416
	9.7%	22.1%	-60.6%	0.0%	0.0%	9.0%
Net Income attrib. to shareholders	-12,269,241	-4,527,830	-5,564,118	78,874	4,334,743	8,012,538
Shares Outstanding (FD)	41,637,252	42,192,604	48,681,700	51,515,808	61,602,427	68,802,881
EPS (FD)	-0.29	-0.11	-0.11	0.00	0.07	0.12

Year End: Dec	FY08	FY09	FY10	FY11	FY12E	FY13E
Balance Sheet						
ASSETS						
Cash	\$607,286	\$1,667,547	\$392,032	\$357,203	\$154,534	\$1,220,678
Accounts receivable	10,916,390	4,011,810	2,729,006	4,817,204	7,776,050	10,338,556
Unbilled revenue	140,542	0	196,320	938,234	626,721	626,721
Inventories	737,596	706,155	714,846	601,510	1,296,008	1,421,551
Prepaid expenses	393,675	357,442	216,030	304,860	228,370	228,370
Other	0	0	0	0	0	0
Total Current Assets	12,795,489	6,742,954	4,248,234	7,019,011	10,081,683	13,835,877
Property and equipment	14,805,290	10,493,416	9,531,420	8,863,130	\$16,125,393	\$17,027,961
Intangibles & Goodwill	1,200,375	1,054,875	909,375	763,875	618,375	472,875
Marketable securities	28,000	32,000	40,000	28,000	24,000	24,000
Other	932,600	2,256,700	0	0	0	0
Total Assets	29,761,754	20,579,945	14,729,029	16,674,016	26,849,452	31,360,713
Liabilities and Shareholders' Equity						
Bank debt	6,526,900	3,363,530	0	962,200	6,114,671	2,114,671
Current portion of LTD	3,249,975	2,205,801	4,647,505	2,317,762	2,060,367	1,848,367
Current portion of finance leases	0	0	229,596	275,111	165,905	65,905
Current portion of mortgage facilities	0	0	0	384,525	340,000	240,000
Accounts payable & accrued liabilities	1,909,814	2,277,882	1,265,155	2,575,341	3,369,622	3,980,344
Total Current Liabilities	11,686,689	7,847,213	6,142,256	6,514,939	12,050,565	8,249,287
Long-term loans and borrowings	2,206,621	116,440	828,655	1,254,221	1,346,807	1,346,807
Other	0	0	0	0	0	0
Total Liabilities	13,893,310	7,963,653	6,970,911	7,769,160	13,397,372	9,596,094
Share capital	24,032,796	24,945,961	24,945,961	25,577,893	25,702,893	26,002,893
Warrants	-6,204	78,009	47,796	313,710	313,710	313,710
Contributed surplus	1,085,717	1,364,017	1,621,078	1,803,096	1,894,576	1,894,576
Deficit	-9,243,865	-13,771,695	-18,864,717	-18,785,843	-14,451,099	-6,438,560
Accumulated other comprehensive loss	0	0	8,000	-4,000	-8,000	-8,000
Total Shareholders' Equity	15,868,444	12,616,292	7,758,118	8,904,856	13,452,080	21,764,619
Total Liabilities and S.E.	29,761,754	20,579,945	14,729,029	16,674,016	26,849,452	31,360,713

Year End: Dec	FY08	FY09	FY10	FY11	FY12E	FY13E
Statement of Cash Flows						
Net Income	-12,269,241	-4,527,830	-5,564,118	78,874	4,334,744	8,012,538
Amortization & Depreciation	2,571,697	1,845,808	1,570,339	1,259,252	1,472,913	2,242,933
Loss on sale of PP&E	308,873	1,748,154	188,444	54,598	-5,000	0
Share based compensation	96,175	229,090	226,848	182,018	216,480	300,000
Fair value adjustment	0	0	0	-121,215	-37,081	0
Finance expenses	0	0	202,564	808,065	269,134	268,000
Other	15,107,935	50,000	2,099,700	-26,962	0	0
Cash Flow Operations	5,815,439	-654,778	-1,276,223	2,234,630	6,251,190	10,823,471
Change in non-cash working capital	-3,962,659	6,194,764	206,478	-1,829,361	-2,471,061	-2,077,327
CFO	1,852,780	5,539,986	-1,069,745	405,269	3,780,129	8,746,144
Financing Activities						
Increase in bank indebtedness	1,575,912	-1,986,231	-3,363,530	962,200	5,152,471	-4,000,000
Proceeds from finance lease liabilities	0	0	719,997	211,050	62,321	0
Interest paid on loans and borrowings	0	0	-202,564	-678,299	-274,206	-280,000
Repayment of LTD	-3,379,187	-4,311,494	3,659,896	-1,261,972	-102,816	-200,000
Repayment of finance leases/mtgs	0	0	-996,378	-431,766	-235,892	-200,000
Private placement of common shares	0	0	0	897,846	0	0
Other	91,984	954,588			0	0
Cash Flow Investing	-1,711,291	-5,343,137	-182,579	-300,941	4,601,878	-4,680,000
Investing Activities						
Purchase of PP&E	-584,444	-1,032,874	-882,821	-638,117	-2,589,676	-3,000,000
Proceeds from sale of PP&E	540,332	1,896,286	859,630	498,960	5,000	0
Other/Business Acquisition					-6,000,000	0
Cash Flow Financing	-44,112	863,412	-23,191	-139,157	-8,584,676	-3,000,000
Cash Flow	97,377	1,060,261	-1,275,515	-34,829	-202,669	1,066,144
Cash, begin period	509,909	607,286	1,667,547	392,032	357,203	154,534
Cash, end period	607,286	1,667,547	392,032	357,203	154,534	1,220,678

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Ending		
Q3 2012	# Stocks	Distribution
BUY	12	85.7%
Spec. Buy	1	7.1%
HOLD	1	7.1%
SELL	0	0.0%
Restricted	0	0.0%
Total	14	100.0%
*as of quarter end		

BUY
SPECULATIVE BUY
HOLD
SELL

Total 12-month return expected to be >15%
Potential total 12-month return is high (>15%), but given elevated risk, investment could result in a material loss
Total 12-month return expected to be between 0% and 15%
Total 12-month return expected to be negative

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