



**Management's Discussion and Analysis**

**For the three months ended March 31, 2018 and 2017**



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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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This Management Discussion and Analysis (MD&A) should be read in conjunction with the audited consolidated financial statements and the notes contained therein of Enterprise Group, Inc. ("Enterprise", the "Company" or the "Corporation") for the three months ended March 31, 2018. The Company prepares its financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The documents are available at [www.sedar.com](http://www.sedar.com) and at [www.enterprisegrp.ca](http://www.enterprisegrp.ca).

*This MD&A was prepared effective May 8, 2018.*

### **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 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.

### **COMPANY PROFILE**

The Corporation provides specialized equipment and services in the build out of infrastructure for the energy, pipeline, and infrastructure construction industries. The Corporation's focus is specialty equipment rentals and service. With corporate headquarters in St. Albert, Alberta, Canada; site offices in Morinville, Edmonton, Rocky Mountain House, Drayton Valley, Hinton, Whitecourt, and Grande Prairie, Alberta; Pouce Coupe, and Fort St. John, British Columbia, Enterprise is strategically located near its customers. The Corporation's strategy is to acquire complementary service companies in Western Canada, consolidating capital, management and human resources to support continued growth.

In September 2012, Enterprise expanded by acquiring Artic Therm International Ltd. ("Artic Therm" or "ATI"). Founded in 1998, Artic Therm is an industry leader in providing flameless heat technology to the broad-based construction and oil & gas industries in Western Canada. Artic Therm provides flameless heaters ranging in heat output from 375,000 British Thermal Units ("BTUs") to 3,300,000 BTUs.



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On January 3, 2014, Enterprise began providing oilfield infrastructure site services and rentals through its acquisition of Hart Oilfield Rentals Ltd. (“Hart”). Hart is a full service oilfield site service infrastructure company providing services and rentals to its oil and gas customers operating within the Western Canadian Sedimentary Basin. Hart’s rental fleet includes patent-pending highly efficient modular designs that provide its competitive advantage. Hart designs, manufactures and assembles its modular/combo equipment (including fuel, generator, light stand, sewage treatment, medic, security and truck trailer combos), or when required, subcontracts manufacturing to local suppliers. Hart’s broad conventional and modular/combo rental equipment fleet is designed to provide “one-stop” on-site infrastructure to support drilling and completion operations. Hart services highly active plays of West Central Alberta and Northeast British Columbia, including Cardium, Duvernay, Montney and the Deep Basin from four service locations in Alberta (Drayton Valley, Whitecourt, Grande Prairie and Hinton) and a fifth location in British Columbia (Pouce Coupe) where it maintains office and yard facilities.

On October 1, 2014, Enterprise completed the acquisition of Westar Oilfield Rentals Inc. (“Westar”), a privately held oilfield site service infrastructure company based in Fort St. John, British Columbia. This acquisition provides both revenue and cost synergies with Hart. Furthermore, it provides the Company with a foothold in the important Fort St. John market and a platform from which to introduce all of Enterprise’s services.

On July 7, 2016, Enterprise Group, Inc. closed a transaction to divest substantially all the assets of T.C. Backhoe & Directional Drilling Ltd. (“TCB”). TCB provided directional drilling and installation of underground power, telecommunications and natural gas lines to the utility infrastructure segment. These activities were conducted from the Corporation’s Sherwood Park, Alberta construction office.

On March 22, 2018, Enterprise closed a transaction to divest substantially all the assets of Calgary Tunnelling & Horizontal Augering Ltd. (“CTHA”). CTHA provided specialized trenchless solutions for the energy, utility and infrastructure industries. These activities were conducted from the Corporation’s Calgary, Alberta office.

### **Seasonality of Operations**

The Corporation provides services to the oil and gas industry and infrastructure utility sectors. The oil and gas industry is affected by the seasonal nature of that industry. In general, the level of activity in the Canadian oil and gas industry is influenced by seasonal weather patterns. Wet weather and the spring thaw can make the ground unstable. Consequently, municipalities and provincial transportation authorities enforce road bans that restrict movement of rigs and other heavy equipment, thereby reducing activity levels. Certain oil and gas producing areas are located in areas that are inaccessible other than during the winter months because the ground surrounding the drilling sites in these areas consists of swampy terrain. Seasonal factors and unexpected weather patterns may lead to declines in the activity levels of exploration and production companies and corresponding declines in the demand for the services of the Corporation. Services provided to the utility infrastructure sector tend to be more evenly distributed throughout the calendar year although the spring thaw does affect movement of equipment even in the urban/suburban areas resulting in April and May being the slowest months of the year historically.



## OVERALL PERFORMANCE AND RESULTS OF OPERATIONS

Consolidated:	Three months ended March 31, 2018	Three months ended March 31, 2017 restated <sup>(2)</sup>	Change
Revenue	\$6,810,906	\$7,015,278	(\$204,372)
Gross margin	\$2,126,160	\$2,695,739	(\$569,579)
Gross margin %	31%	38%	(7%)
EBITDA <sup>(1)</sup>	\$1,487,253	\$1,835,990	(\$348,737)
Income before tax	\$290,616	\$210,495	\$80,121
Net income (loss) and comprehensive income (loss)	\$3,190,242	(\$50,627)	\$3,240,869
EPS	\$0.06	\$0.00	\$0.06

(1) Identified and defined under "Non-IFRS Measures".

(2) In March 2018, the Company closed a transaction to divest substantially all the assets of CTHA. The net operations of CTHA, including the prior period, are presented as a single amount in the consolidated statements of income (loss) and comprehensive income (loss).

- Revenue for the three months ended March 31, 2018 of \$6,810,906 is relatively consistent with the prior period with a slight decrease of \$204,372 or 3%. The Company continues to see increased activity. However, with no construction work completed in the first quarter of 2018 on a major construction project in Northeastern B.C., the increased activity experienced with other customers did not fully offset the loss of revenue earned in the first quarter of 2017 associated with that project. Although this project has received government approval to continue, no construction work was completed in the first quarter of 2018. Enterprise recently responded to bids for the supply of specialized equipment to support construction work that will take place in 2018.
- Gross margin for the three months ended March 31, 2018 of \$2,126,160 or 31%, decreased compared to the prior period and EBITDA for the same period decreased by \$348,737 to \$1,487,253. The decreases in gross margin and EBITDA are consistent with decreased revenue associated with the major construction project described above. Also, as explained above, the revenue earned from increased customer activity that partially offset the lost revenue from that project, was at lower margins compared to the prior period.
- In March 2018, the Company closed a transaction to divest substantially all the assets of Calgary Tunnelling & Horizontal Augering Ltd. ("CTHA"). CTHA provided specialized trenchless solutions for the energy, utility and infrastructure industries. Gross cash proceeds from the transaction was \$16,854,551 plus \$3,840,441 of working capital for a total of \$20,694,992. Enterprise will utilize tax assets and tax losses to offset the gain on this transaction to minimize cash tax payable. All proceeds from the transaction were deployed towards reducing the Company's debt.
- During 2017, the Company integrated and upgraded its financial and reporting systems along with its rental fleet tracking and deployment system. Immediate efficiencies and cost savings were experienced after implementing these systems. Further enhancements to these systems continue and during the first quarter of 2018 the Company deployed a proprietary asset tracking and dispatch software called "Star". The software is comprised of multiple components that work together and exchange information over a central data base. Star allows the fleet manager the ability to ensure the highest level of service to the client, while lowering costs and delivering maximum equipment performance.
- Over the last 2 years, the Company has made significant improvements to its statement of financial position and overall total debt. At March 31, 2018, after adjusting for goodwill and deferred taxes, the Company has assets in excess of total debt of approximately \$54,000,000. Enterprise will continue to look for opportunities to improve its financial position and opportunities that will allow the Company to diversify and expand.

## Selected Consolidated Expenses

Selected Consolidated Expenses:	Three months March 31, 2018	Three months March 31, 2017 restated <sup>(1)</sup>
General and administrative	\$638,147	\$847,881
Finance expense	\$264,114	\$264,709
Fair value adjustment on bank loan facility	\$417,583	\$nil

(1) In March 2018, the Company closed a transaction to divest substantially all the assets of CTHA. The net operations of CTHA, including the prior period, are presented as a single amount in the consolidated statements of income (loss) and comprehensive income (loss).

### **General and administrative expenses**

General and administrative expenses for the three month period ended March 31, 2018 decreased to \$638,147, a decrease of \$209,734 compared to the prior period. Enterprise has historically operated with minimal head office infrastructure however the Company continues to promote efficiencies throughout the organization to reduce corporate level costs where possible. During 2017, the Company integrated and upgraded its financial and reporting systems along with its rental fleet tracking and deployment system. Efficiencies are being experienced after implementing these systems.

### **Finance expense**

Finance expense includes interest charges on all outstanding debt including: the loan facility with PNC and finance leases. The Company has utilized debt to support operations, fund capital expenditures and partially fund acquisitions as required. Total finance expense for the three month period ended March 31, 2018 is consistent when compared to the prior period. As the CTHA transaction and resulting debt reduction took place on March 22, 2018, the impact on reducing finance expense will be realized going forward.

### **Fair value adjustment on bank loan facility**

On January 1, 2018, the Company implemented a new accounting policy, IFRS 9 – Financial Instruments, which requires adjustments to the carrying value of debt in the financial statements when terms of the original debt agreement are changed, provided those changes significantly impact cash flow. These required adjustments are then amortized over the remaining term of the debt and offset against the current period finance expense. Since Enterprise made a significant repayment of debt on closing of the CTHA transaction, the current period finance expense was offset by a non-cash amount of \$417,583.

## OUTLOOK

Due to increased activity in 2017 and into the first quarter of 2018, management's confidence is building in its outlook for the Company and its services. Management's continued efforts to streamline and maximize efficiencies are now firmly in place and delivering meaningful margin ratios while still navigating a challenging landscape. Management believes that Enterprise is relatively well positioned.

Throughout 2017 and into the first quarter of 2018, management has experienced a meaningful increase in activity from its existing customers coupled with a substantial surge in new customers which has resulted in increased market share for its business units. As evidenced by this most recent quarter, management's efforts to streamline and maximize efficiencies are translating into positive gross margin and EBITDA. Management feels that Enterprise is within a very select group of producers and service providers that have adapted their organizations to operate successfully in the current commodity price environment.

Enterprise's customers include some of Canada's largest energy producers, utility service providers and the federal and provincial governments of Canada. The Company employs experienced management and is committed to maintaining a high quality of service provided to its clients. With the diversification of the Company's services, streamlining of our operations, our cash management measures, management believes the Company is well positioned to navigate a difficult commodity price environment.

Management continues to drive cost reductions throughout the Company to assist in offsetting pricing pressures and reduced activity. Although cost reductions will continue in 2018, management is committed to maintaining the quality of service provided to its clients in order to position the Company for the future increases in activity levels and large project approval.

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

Management will maintain a conservative approach towards capital spending while looking at fleet management, and opportunistic asset dispositions. This approach will allow management to both maintain financial flexibility and allow for opportunistic acquisition activity.

## SELECTED CONSOLIDATED FINANCIAL INFORMATION

	Three months March 31, 2018	Three months March 31, 2017 restated <sup>(2)</sup>	Year ended December 31, 2017 restated <sup>(2)</sup>	Year ended December 31, 2016 restated <sup>(2)(5)(6)</sup>	Year ended December 31, 2015 restated <sup>(2)(5)(6)</sup>
Revenue	\$6,810,906	\$7,015,278	\$24,969,175	\$18,261,216	\$29,543,363
EBITDA <sup>(1)</sup>	\$1,487,253	\$1,835,990	\$5,934,404	\$1,411,826	\$4,357,048
Income (loss) before income tax	\$290,616	\$210,495	\$(1,019,617)	\$(17,285,687)	\$(17,346,468)
Net income (loss) from continuing operations <sup>(3)</sup>	\$213,782	\$148,890	\$(845,439)	\$(14,221,535)	\$(13,610,299)
Net income (loss) and comprehensive income (loss)	\$3,190,242	\$(50,627)	\$(936,041)	\$(13,165,040)	\$(20,307,151)
Basic and diluted earnings (loss) per share	\$0.06	\$0.00	(\$0.02)	(\$0.24)	(\$0.40)
Weighted average common shares outstanding – basic <sup>(4)</sup>	55,439,307	55,652,374	55,652,374	55,652,374	50,990,059
Weighted average common shares outstanding – diluted <sup>(4)</sup>	56,288,316	55,652,374	55,652,374	55,652,374	50,990,059
Total common shares outstanding <sup>(4)</sup>	55,338,874	55,652,374	55,652,374	55,652,374	55,652,374
Total assets	\$68,899,927	\$84,155,281	\$81,482,330	\$84,600,493	\$119,217,868
Total liabilities	\$14,323,628	\$31,235,539	\$29,490,552	\$31,630,124	\$54,293,286
Total equity	\$54,576,299	\$52,919,742	\$51,991,778	\$52,970,369	\$64,924,582

(1) Identified and defined under "Non-IFRS Measures".

(2) In March 2018, the Company closed a transaction to divest substantially all the assets of CTHA. The net operations of CTHA, including the prior period, are presented as a single amount in the consolidated statements of income (loss) and comprehensive income (loss).

(3) Includes a non-recurring and non-cash impairment charge for the year ended December 31, 2016 of \$8,436,911 (2015 - \$16,558,240) relating to property, plant and equipment, intangible assets and goodwill.

(4) The Company completed a 3 for 1 consolidation of outstanding shares on June 24, 2015.

(5) In July 2016, the Company closed a transaction to divest substantially all the assets of TCB. The net operations of TCB, including the prior period, are presented as a single amount in the consolidated statements of income (loss) and comprehensive income (loss).

(6) In December 2016, the Company decided to cease all operations relating to single pass tunneling. The net operations of this line of business, including the prior period, are presented as a single amount in the consolidated statements of income (loss) and comprehensive income (loss).



## Cash Flow Information

A summary of cash flow information for the three months ended March 31, 2018, and 2017, is set out below:

Cash Flow Information	Three months March 31, 2018	Three months March 31, 2017
Net cash provided by operating activities	\$626,984	\$474,544
Net cash used by financing activities	(16,439,143)	(245,722)
Net cash provided by investing activities	15,127,871	69,210
Change in cash and cash equivalents	(684,288)	298,032
Cash and cash equivalents, beginning of period	1,291,785	691,718
Cash and cash equivalents, end of period	\$607,497	\$989,750

Operating activities provided net cash of \$626,984 compared to \$474,544 in the prior period.

Net cash used by financing activities reflects debt payments made during the period of \$613,322, a decrease in the bank loan facility of \$15,751,354 as a result of the divestiture of the assets of CTHA, and \$74,467 used to buyback and cancel shares.

Net cash used by investing activities reflects \$1,751,310 paid to purchase equipment and \$16,879,181 of cash received from sale of equipment including the divestiture of the assets of CTHA.

## SUMMARY OF QUARTERLY RESULTS

	2018	2017 restated				2016 restated			
	Mar. 31	Dec. 31	Sep. 30	Jun. 30	Mar. 31	Dec. 31	Sep. 30	Jun. 30	
Revenue	\$6,810,906	\$7,500,732	\$6,217,755	\$4,235,410	\$7,015,278	\$5,501,555	\$3,366,967	\$6,858,129	
Net income (loss) for the period	\$3,190,242	\$1,795,708	\$(694,824)	\$(1,692,625)	\$225,566	\$(9,937,877)	\$(156,216)	\$(2,081,146)	
Earnings (loss) per share - Basic and Diluted	\$0.06	\$0.03	\$(0.01)	\$(0.03)	\$(0.00)	\$(0.18)	\$0.00	\$(0.04)	

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

## OUTSTANDING SHARE DATA

	May 8, 2018	March 31, 2018	December 31, 2017
Common shares outstanding	55,290,874	55,338,874	55,517,874
Stock options outstanding	4,835,000	4,835,000	4,835,000
Warrants outstanding	6,183,500	6,183,500	6,183,500
Total	66,309,374	66,357,374	66,536,374

## 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, 2018.

## RELATED PARTY TRANSACTIONS

The Company has entered into various transactions in the normal course of business with corporations controlled by officers and directors of the Company. These transactions were recorded at the exchange amount established and agreed to by the parties. Management and consulting fees were paid to a company controlled by Leonard Jaroszuk, President and Chief Executive Officer as compensation for serving the Company in his role. Equipment rental fees were paid to a company controlled by Leonard Jaroszuk, President and Chief Executive Officer, and Desmond O’Kell, Senior Vice President and Director, to rent equipment required for operating activities.

Three months ended March 31	2018	2017
Management and consulting fees	\$153,026	\$138,423
Equipment rental	37,500	37,500
Total	\$190,526	\$175,923

In addition to the amounts in the above table, \$600,000 of fees, associated with the transaction to divest substantially all the assets of CTHA for gross cash proceeds of \$20,694,992, were paid to companies controlled by Leonard Jaroszuk, President and Chief Executive Officer, Desmond O’Kell, Senior Vice President and Director, and Warren Cabral, Chief Financial Officer. These transactions were recorded at the exchange amount established and agreed to by the parties.

## CRITICAL ACCOUNTING JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The following are significant management judgements, apart from those involving estimation uncertainty, in applying the accounting policies of the Company that have the most significant effect on the financial statements:

### i. Leases

Management uses judgement in determining whether the lease is a finance lease arrangement that transfers substantially all the risks and rewards of ownership. Management evaluates the lease terms and in some cases the lease transaction is not always conclusive in its classification as a finance lease.

Management uses judgement in determining whether modifications to a lease impacts its classification as a finance lease, and impacts the original financial liability. The specific details of the changes will determine if they should be recognized immediately in the statement of income and comprehensive income or as part of the leased assets.

### ii. Deferred taxes

Management estimates the probability of future taxable income in which deferred tax assets can be utilized based on the Company’s forecasted budget. The Company also takes into consideration non-taxable income and expenses and the various tax rules in effect or expected to be in effect at a future date. If a positive forecast of taxable income indicates the probable use of a deferred tax asset, then the asset is recognized. The recognition of deferred tax assets that are subject to certain legal or economic limits or uncertainties is assessed by management based on specific circumstances.

## ESTIMATION UNCERTAINTY

The preparation of financial statements in conformity with IFRS requires management to make 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 in applying accounting policies that have the most significant effect on the amounts included in the financial statements included, but were not limited to, the following:

i. Share-based payments

The Company estimates the fair value of stock option awards using the Black-Scholes Option Pricing Model. Certain key assumptions used in the model include the expected interest rate, expected volatility, forfeitures, dividend yield and expected term.

ii. Property, plant and equipment and intangible assets

The Company estimates useful life, residual value and depreciation methods based on industry norms, historical experience, market conditions and future cash flows. It is possible that future results could be materially affected by changes in the above factors.

iii. Investment property

The determination of the fair value of the investment property requires the use of estimates based on local market conditions existing at the reporting date. In arriving at estimates of market values, the Company uses an expert in order to apply market knowledge and professional judgement.

iv. Business combinations

In a business combination, the Company may acquire assets and assume certain liabilities of an acquired entity. Estimates are made as to the fair value of property, plant and equipment, intangible assets, and goodwill, among other items. In certain circumstances, such as the valuation of property, plant and equipment, intangible assets and goodwill acquired, the Company may rely on independent third party valuers. The determination of these fair values involves a variety of assumptions, including revenue growth rates, expected operating income, discount rates, and earnings multiples.

v. Impairments

An asset or cash generating unit ("CGU") is impaired when its carrying value exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model, which incorporates the Company's budget and business plan. The recoverable amount is most sensitive to the discount rate used in the discounted cash flow model as well as the expected future cash flows and the growth rate used for extrapolation purposes. To arrive at cash flow projections the Company uses estimates of economic and market information over the projection period, including growth rates in revenues, estimates of future expected changes in operating margins, cash expenditures, the amount of property, plant and equipment required to achieve the cashflow projections, other future estimates of capital expenditures and changes in future working capital requirements.

vi. Impairment of financial assets

At the end of each reporting period, management reviews the individual balances in accounts receivable and assesses their recoverability based on the aging of outstanding balances, historical bad debt experience, indicators of change in customer credit worthiness, and change in customer payment terms, to identify and determine the extent of impairment, if any.

vii. Income tax

The Company follows the asset/liability method for calculating deferred taxes. Tax interpretations, regulations and legislation in the various jurisdictions in which the Company operates are subject to change. As such, income taxes are subject to measurement uncertainty. Deferred tax assets are assessed by management at the end of the reporting period to determine the likelihood that they will be realized from future taxable earnings. Assessing the recoverability of deferred tax assets requires the Company to make significant estimates related to the expectations of future cash flows from operations and the application of existing tax laws in each jurisdiction.

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## CHANGES IN ACCOUNTING POLICIES

### ***IFRS 9 - Financial Instruments***

The new standard introduces extensive changes to IAS 39's guidance on the classification and measurement of financial assets. On January 1, 2018, the Company adopted IFRS 9 which requires adjustments to the carrying value of debt in the financial statements when terms of the original debt agreement are changed, provided those changes significantly impact cash flow. These required adjustments are then amortized over the remaining term of the debt and offset against the current period finance expense. On August 11, 2016, an amendment was made to the bank loan facility and the interest rate increased by 1.0%. The impact on this interest rate increase on future cash flows was calculated, and per this new standard, the opening balance of the bank loan facility on January 1, 2018 was increased by \$531,254 with an offsetting entry to retained earnings.

### ***IFRS 15 - Revenue from Contracts with Customers***

IFRS 15 presents new requirements for the recognition of revenue. The new standard establishes a control-based revenue recognition model and provides additional guidance in many areas not covered in detail under existing IFRSs, including how to account for arrangements with multiple performance obligations, variable pricing, customer refund rights, supplier repurchase options, and other common complexities. Starting January 1, 2018, revenue contracts are accounted for using the cumulative effect method with no restatement of comparative periods. The new policy had no impact to the statements of financial position or results of operations in the current period ended March 31, 2018.

## 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 through cash and cash equivalents and trade and other receivables. The Company manages the credit risk associated with its cash and cash equivalents by holding its funds in financial institutions with high credit ratings. Credit risk for trade and other receivables are managed through established credit monitoring activities.

The Company has trade receivables from customers in the utilities/infrastructure construction industry, as well as customers in the oil and gas industry. Credit risk is mitigated due to significant customers being large industry leaders and following a program of credit evaluation and limiting the amount of customer credit where deemed necessary. The Company monitors trade receivables 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. Losses from trade accounts receivable have not historically been significant. As such the Company has recorded a provision of doubtful accounts at March 31, 2018 of \$24,245 (December 31, 2017 - \$172,000).

At March 31, 2018, \$1,808,000 or 27% of trade receivables was from two customers compared to \$1,804,000 or 19% from two customers as at December 31, 2017.



	<b>March 31, 2018</b>	December 31, 2017
Current (less than 90 days)	\$ 9,863,494	\$ 10,946,163
Past due (more than 90 days)	980,197	547,284
<b>Total</b>	<b>\$ 10,843,691</b>	<b>\$ 11,493,447</b>

Included in trade receivables past due (more than 90 days) is \$nil (December 31, 2017 - \$nil) of holdback receivables.

### Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations. On an ongoing basis the Company manages liquidity risk by maintaining adequate cash and cash equivalents balances and appropriately utilizing available lines of credit. Management believes that forecasted cash flows from operating activities, along with available lines of credit, will provide sufficient cash requirements to cover the Company's forecasted normal operating activities, commitments and capital expenditures.

The following are undiscounted contractual maturities of financial liabilities, excluding estimated interest and the impact of netting agreements at March 31, 2018:

<b>Contractual Obligations March 31, 2018</b>	<b>Total</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>After 5 years</b>
Trade and other payables	\$2,163,989	\$2,163,989	\$nil	\$nil	\$nil	\$nil	\$nil
Loans and borrowings	\$6,257,153	\$254,932	\$57,155	\$5,110,785	\$100,946	\$105,147	\$628,188
Operating lease commitments	\$1,159,245	\$795,908	\$351,345	\$11,992	\$nil	\$nil	\$nil
<b>Total contractual obligations</b>	<b>\$9,580,387</b>	<b>\$3,214,829</b>	<b>\$408,500</b>	<b>\$5,122,777</b>	<b>\$100,946</b>	<b>\$105,147</b>	<b>\$628,188</b>

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. Management has assessed the effect of a 1% interest rate increase or decrease in the prime lending rate at March 31, 2018 to impact the Company's annual interest expense by approximately \$60,000 (December 31, 2017 - \$218,000). The Company has not entered into any derivative agreements to mitigate this risk.

### 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 the 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 funded debt and adjusted capital of the Company. Adjusted capital comprises all components of equity (share capital, contributed surplus, warrants and deficit). Included in funded debt is the bank loan facility which requires the Company to maintain certain financial covenants as defined below. The Company's objectives when managing capital are to finance its operations and growth strategies and to provide an adequate return to its shareholders. In order to maintain or adjust the capital structure, the Company may issue new shares, or sell assets to reduce debt. As at March 31, 2018 the Company has met these objectives.

	<b>March 31, 2018</b>	December 31, 2017
Bank loan	\$ 4,804,344	\$ 20,424,199
Current portion of long-term debt	254,933	398,952
Long-term debt	1,197,876	1,310,780
Net funded debt	6,257,153	22,133,931
Shareholders' equity	54,576,299	51,991,778
<b>Total capital</b>	<b>\$ 60,833,452</b>	<b>\$ 74,125,709</b>

The Company's covenants are as follows:



	March 31, 2018	Required	December 31, 2017	Minimum Required
Fixed charge coverage ratio	2.49	>1.25	2.49	>1.25
Senior leverage ratio	0.95	<6.25	3.23	<6.25
Capital expenditure	(\$15,127,871)	<\$1,125,000	\$1,022,057	<\$1,125,000

"Fixed Charge Coverage Ratio" – EBITDA less unfinanced capital expenditures, less taxes paid divided by fixed charges.

"Senior Leverage Ratio" - the result of the amount Senior Funded Debt of the Company and its subsidiaries on a consolidated basis, to the trailing twelve month EBITDA for the 12 month period ended as of such date.

"EBITDA" – earnings before finance expense, taxes, depreciation and amortization, loss (gain) on disposal of property, plant and equipment, fair value adjustments, impairment losses and share-based payments.

The minimum covenants are noted in the table above. The Company monitors these requirements on an ongoing basis and reports on its compliance to its lender on a monthly basis. The Company is in compliance with all covenants.

#### Financial Instruments and Business Risks

A change in any one of these factors could have a material impact on the financial performance of the Company. The discussion below of risks is not intended to be all-inclusive. The intention of this discussion is to highlight for the reader what are typical risks for this industry and readers should carefully consider, among other things, the risks described herein and in the Company's Annual Information Form dated March 15, 2018.

The Company classifies financial assets and liabilities as either available-for-sale, loans and receivables or other financial liabilities. The classification of a financial asset or liability is determined at the time of initial recognition. Financial instruments are initially recognized at fair value and are measured subsequently as described below. The Company does not enter into derivative contracts.

i. Loans and receivables

The Company's cash and cash equivalents, trade and other receivables, and deposits are classified as loans and receivables. Loans and receivables are subsequently measured at amortized cost using the effective interest method.

ii. Other financial liabilities

The Company's loans and borrowings and trade and other payables are classified as other financial liabilities. Other financial liabilities are subsequently measured at amortized cost using the effective interest method.

Financial instruments are classified into one of the following levels of fair value hierarchy:

Level 1 - Fair value measurements based on unadjusted quoted market prices in active markets for identical assets or liabilities that can be accessed at the measurement date.

Level 2 - Fair value measurements are based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly.

Level 3 - Fair value measurements derived from valuation techniques that include unobservable inputs.

#### 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. The Company also rents flameless heaters which are in greater demand during cold weather. The extent of cold weather and the duration of winter will have a significant impact on operating results. To mitigate this risk, the Company is diversifying the use of its blower capacity, contained within the flameless heaters, in warmer months.

- 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.

- Cyclicity – 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 cyclicity 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.

- Operating Risk and Liability 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.

- Cyber Security – The Company's operations may be disrupted or threatened by cyber attacks or viruses. The business requires the continued operation of information technology systems and network infrastructure. Management believes it has implemented reasonable security measures to prevent disability or failure. However, if the Company's systems cannot be recovered in a timely manner, the Company may be unable to meet critical business functions, which could have a material adverse effect on the business, financial condition, and results of operations.

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 this discussion is to highlight for the reader what are typical risks for this industry and readers should carefully consider, among other things, the risks

described herein and in the Company's Annual Information Form dated March 15, 2018.

## **INTERNAL CONTROL OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS**

### **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 internal controls 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 a recognized framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) to evaluate the effectiveness of internal controls over financial reporting.

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, 2018 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.

### **Management's Interim Report on Disclosure Controls**

As of March 31, 2018, the Company's management evaluated the effectiveness of its disclosure controls and procedures as defined in the rules of the Canadian Securities Administrators. This evaluation is performed under the supervision of, and with the participation of, the Chief Executive Officer and the Chief Financial Officer. The Chief Executive Officer and the Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective as of March 31, 2018.

## NON-IFRS MEASURES

In addition to using financial measures prescribed by IFRS, certain non IFRS measures are used in this MD&A. Non-IFRS measures should not be construed as an alternative to net income or cash flow from operating activity as an indicator of financial performance or to cash flow from operating activities as a measure of liquidity and cash flow. Non-IFRS performance measures do not have any standardized meaning prescribed by IFRS and therefore the Company's methods of calculating non-IFRS measures may not 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 IFRS. This measure has been described and presented in the same manner in which the chief operating decision maker makes operating decisions and assesses performance.

### EBITDA

EBITDA is defined as earnings before interest, taxes, depreciation and amortization, loss (gain) on disposal of property, plant and equipment, fair value adjustments, impairment losses and share-based payments. Management believes that EBITDA is a useful measure used by management when evaluating the Company's principal business activities.

Reconciliation of net income (loss) to EBITDA:

	Three months March 31, 2018	Three months March 31, 2017 restated <sup>(1)</sup>	Year ended December 31, 2017 restated <sup>(1)(2)(3)</sup>	Year ended December 31, 2016 restated <sup>(1)(2)(3)</sup>	Year ended December 31, 2015 restated <sup>(1)(2)(3)</sup>
Net income (loss) from continuing operations	\$213,782	\$148,890	\$(845,439)	\$(13,426,982)	\$(10,679,319)
Add:					
Interest	264,114	264,709	1,235,099	1,676,676	2,022,843
Income taxes (recovery)	76,834	61,605	(277,184)	(2,476,400)	(3,123,490)
Depreciation and amortization	1,350,106	1,324,377	5,360,984	5,554,679	5,236,861
Loss (gain) on disposal of property, plant and equipment	Nil	36,409	405,944	306,115	182,514
Fair value adjustments	(417,583)	Nil	55,000	130,000	Nil
Impairment losses	Nil	Nil	Nil	8,436,911	8,805,197
Share-based payments	Nil	Nil	Nil	1,210,827	1,912,443
EBITDA	\$1,487,253	\$1,835,990	\$5,934,404	\$1,411,826	\$4,357,049

(1) In March 2018, the Company closed a transaction to divest substantially all the assets of CTHA. The net operations of CTHA, including the prior period, are presented as a single amount in the consolidated statements of income (loss) and comprehensive income (loss).

(2) In July 2016, the Company closed a transaction to divest substantially all the assets of TCB. The net operations of TCB, including the prior period, are presented as a single amount in the consolidated statements of income (loss) and comprehensive income (loss).

(3) In December 2016, the Company decided to cease all operations relating to single pass tunneling. The net operations of this line of business, including the prior period, are presented as a single amount in the consolidated statements of income (loss) and comprehensive income (loss).

## CONCLUSION

Due to increased activity in 2017 and into the first quarter of 2018, management's confidence is building in its outlook for the Company and its services. 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 between infrastructure and utilities construction and specialized equipment rental is the best path to generating shareholder value.

Throughout 2017 and into the first quarter of 2018, management has experienced a meaningful increase in activity from its existing customers coupled with a substantial surge in new customers which has resulted in increased market share for its business units. Management feels that Enterprise is within a very select group of producers and service providers that have adapted their organizations to operate successfully in the current commodity price environment.

Enterprise's customers include some of Canada's largest energy producers, utility service providers and the federal and provincial governments of Canada. The Company employs experienced management and is committed to maintaining a high quality of service provided to its clients. With the diversification of the Company's services, streamlining of our operations, our cash management measures, management believes the Company is well positioned to navigate a difficult commodity price environment.

Management continues to drive cost reductions throughout the Company to assist in offsetting pricing pressures and reduced activity. Although cost reductions will continue in 2018, management is committed to maintaining the quality of service provided to its clients in order to position the Company for the future increases in activity levels and large project approval.

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





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## **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.enterprisegrp.ca](http://www.enterprisegrp.ca).

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

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

Desmond O'Kell, Senior Vice President, Director and Corporate Secretary

Warren Cabral, CPA, CA Chief Financial Officer

Rich Hoffart, Chief Operating Officer (resigned April 30, 2017)

John Campbell, CPA, CA, CFA, CPA (Illinois), Lead Director

John Pinsent, FCPA, FCA, ICD.D., Director

Neil Darling, Director

## **CONTACT INFORMATION**

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