

Trickle Research

Every raging river, every great lake, every
deep blue sea starts ... with a trickle



Initiating Research Coverage



Enterprise Group, Inc.

(OTC:ETOLF, TSX: E.TO)

Report Date: 08/05/24

12- 24 month Price Target: US\$3.50

Allocation: 4

Closing Stock Price at Initiation (Closing Px: 08/02/24): US\$.99

(Share price data is in U.S. Dollars. The attached Projected Operating Model is in Canadian Dollars)

Prepared By:
David L. Lavigne
Senior Analyst, Managing Partner
Trickle Research

Disclosure: Portions of this report are excerpted from Enterprise Group's filings, website(s), presentations or other public collateral. We have attempted to identify those excerpts by *italicizing* them in the text.

Company Overview

Enterprise Group, Inc. (“EGI”) provides specialized equipment and services in the buildout 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, Drayton Valley, Whitecourt, and Grande Prairie, Alberta; 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.

The Company’s customer base includes some of the largest energy operators in Canada such as Suncor Energy Inc. (NYSE: SU), Canadian Natural Resources Limited (NYSE: CNQ), Cenovus Energy Inc. (NYSE: CVE) and others, as well as some of the largest energy companies in the world including Chevron Corporation (NYSE: CVX), Shell plc (NYSE: SHEL), ConocoPhillips (NYSE: COP), Petroliam Nasional Berhad (“Petronas”), China Petroleum & Chemical Corporation (“Sinopec”) and others.

Currently, the Company operates through 4 divisions as follows:

- *Evolution Power Projects*
- *Westar Oilfield Rentals*
- *Artic Therm International*
- *Hart Oil Field Rentals*

These divisions are delineated by their respective services, and/or their geography, and those characteristics overlap across these business units. We will provide additional details of each in the Technology/Services Overview of this document.

EGI has a proven history of acquiring companies that are accretive to the operations and adding value to the acquired companies through capital expenditure and organic growth. The Company is also prepared to sell individual operations to realize the increased value and redeploy the capital.

Our enthusiasm for EGI stems from a handful of advantages and opportunities that we believe underpin the story. First, from the high level, EGI services the Canadian oil and gas industry, primarily in western Canada, and its customer base therein is largely producing natural gas (“NG”). That is an important distinction in our view, because, for a handful of reasons, natural gas prices can be quite volatile. However, natural gas producers who have access to liquified natural gas (“LNG”) facilities can mitigate some of the typical volatility of prevailing (local) natural gas prices, which may remove some of the risks they might otherwise face. Recognize, **western Canada is about to commission its first LNG plant, which we believe is a highly positive development for EGI’s customers, and by extension EGI.**

Second, as we understand it, the market for the services which EGI provides is fragmented and void of any large dominant players. Further, as we understand it, EGI may be the “Alpha” in their respective market(s), and we think some of that may be the result of the technology they are able to deploy for their customers that most of their competitors apparently lack. Specifically, the Company’s natural gas turbine fleet provides cost, environmental and other cogent advantages over the diesel footprints provided by their competitors. Here again, we will expand on that notion throughout the report.

Third, as a result in part of the two prior bullet points, we think the Company is in a position where they could likely do markedly more business if they had the available plant/capacity to do so. To that end, in February (2024) the Company completed an equity raise of CAN\$7 million, which we believe was completed for the purpose of

adding capacity. We think that speaks to our notion that they can likely capture more business than the trailing twelve month provided.

Lastly, management has demonstrated vertical and horizontal success identifying, acquiring and integrating acquisitions, as well as in turn opportunistically selling others portions of the business when advantageous. We expect them to continue their acquisitive search for pieces they believe can provide synergy. In the meantime, as we will try to illustrate below, we think the convergence of some of the items we identified above could lead to results that in our view would speak to markedly higher valuations of the underlying shares.

Industry Overview

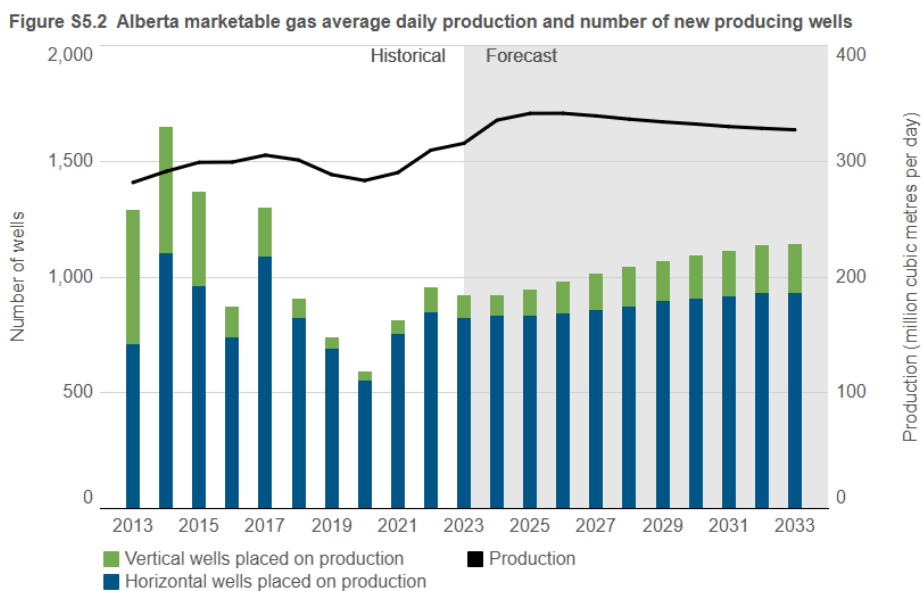
EGI provides services to the Canadian oil and gas industry in the western provinces of Alberta and British Columbia. Collectively, these two provinces produce approximately 98% of Canada’s roughly 18 Bcf/day of domestic natural gas, placing Canada comfortably in the top 10 largest gas producer in the world. That production represents about 163% of Canada’s daily consumption. Further, the region’s gas is produced by over 200 companies, which includes small operators as well as some of the largest energy companies in the world.

EGI’s business segments, which we will discuss in more detail in the Technology/Services Overview below, include an array of equipment that the Company provides (rents) largely to oil and gas companies to facilitate the preparation, drilling and completion of natural gas wells/projects throughout their western Canada footprint.

From the 10,000-foot view, our confidence in the Company’s ability to grow the business is partially rooted in the forecasted increases in Canadian gas production and by extension, the number of anticipated new wells coming online in future periods. **Table 1 and Table 2** below reflect some of those projections:

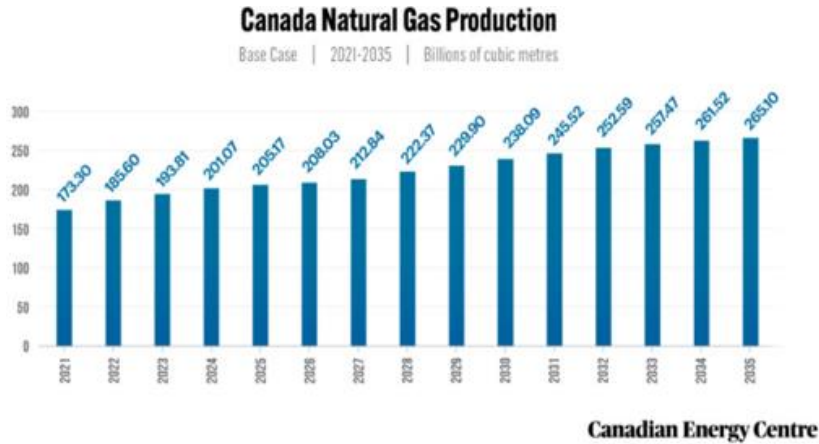
Table 1.

(Alberta only)



[Natural Gas Well Activity | Alberta Energy Regulator \(aer.ca\)](https://www.aer.ca/natural-gas-well-activity)

Table 2.



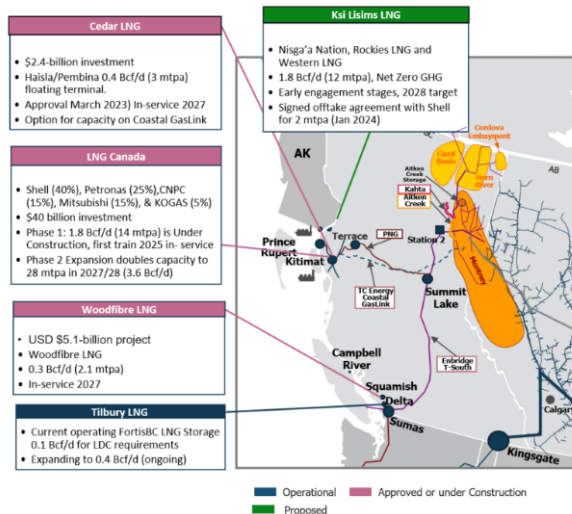
Assessing the future of Canada’s natural gas sector under net zero emissions - Canadian Energy Centre

Estimates around increases in Canadian natural gas production are based on a notion we touched on above, which is that Canada is preparing to commission its first LNG facility, which represents the country’s entrée into the *international* LNG market. That is a watershed event for Canadian gas producers that again, is expected to drive international demand for Canadian natural gas. This initial facility, called “LNG Canada” is a “*joint venture company comprised of Shell, PETRONAS, PetroChina, Mitsubishi Corporation and KOGAS*”. The LNG Canada project is located Kitimat, British Columbia, and is slated for two phases. The first phase will include two LNG trains with a capacity of 14 million tonnes of LNG per annum and the second two future trains will have similar capacities. The cost of each phase is approximately USD\$31 billion. The first phase of the project is anticipated to begin initial startup this year (2024), with full production sometime in 2025. (We would note, some of the producing JV partners in LNG Canada are current customers of EGI). In addition to LNG Canada, as **Table 3** below reflects, there are additional Canadian LNG projects in the works as well:



The first phase will include two LNG trains with a capacity of 14 million tonnes of LNG per annum and the second two future trains will have similar capacities. The cost of each phase is approximately USD\$31 billion. The first phase of the project is anticipated to begin initial startup this year (2024), with full production sometime in 2025. (We would note, some of the producing JV partners in LNG Canada are current customers of EGI). In addition to LNG Canada, as **Table 3** below reflects, there are additional Canadian LNG projects in the works as well:

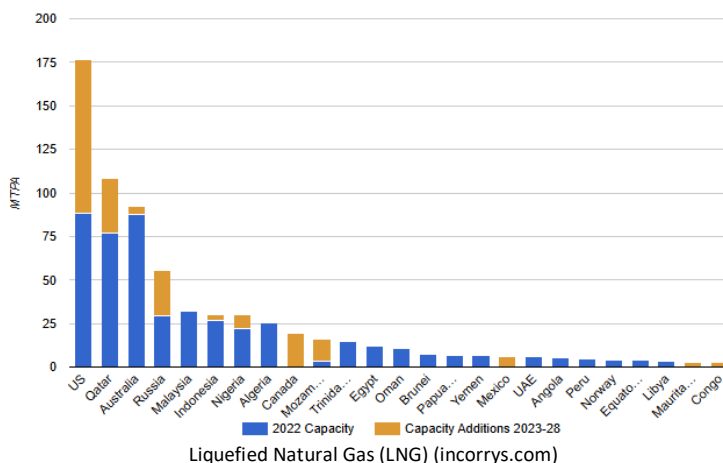
Table 3.
West Coast Canada LNG Export Projects



Liquefied Natural Gas (LNG) (incorrays.com)

As a result of the (planned) onboarding of LNG projects in British Columbia, Canada is expected to move from zero LNG exports currently, to a top 10 international exporter of LNG by 2028.

Table 4.
Liquefaction Capacity by Country (2028)



While the growth of LNG is reshuffling the energy deck across the globe, certainly some of the overriding theme associated with the growth of natural gas is the push toward greener energy. We submit, much of that narrative seeks to replace fossil fuels with renewables, but the reality is that despite those efforts, fossil fuels will be required well into the foreseeable future and natural gas is a cleaner approach to coal and most other legacy fuels. That said, the push for renewables is rooted in climate change narrative which has also resulted in a variety of standards, rules and other regulations aimed at curbing emissions. Further, around the world, those standards are more pronounced in some jurisdictions than in others and Canada is among those nations with higher standards.

As a result of those Canadian standards, oil and gas producers seek to identify procedures, techniques and technologies that can assist them in achieving zero emissions goals, especially those they can deploy as economically as possible. Ostensibly, given those parameters, solutions that can provide both environmental **and** economic advantages are perhaps the “holy grail” of the emission mitigation calculus. To that end, one of the approaches that some producers have adopted is the use of natural gas turbines in place of diesel turbines to produce the power required to establish and maintain new drill sites. Perhaps some color regarding those requirements would be helpful.

Due to the remote nature of most drilling operations, the power to run a drill site is considerable and it includes power to run onsite personnel, lighting for both personnel and drilling operations, assisting drill rigs and a host of others. In most cases, many of those requirements are fulfilled by generators and those generators typically come in one of two forms, either diesel or natural gas and there are advantages and disadvantages of each.

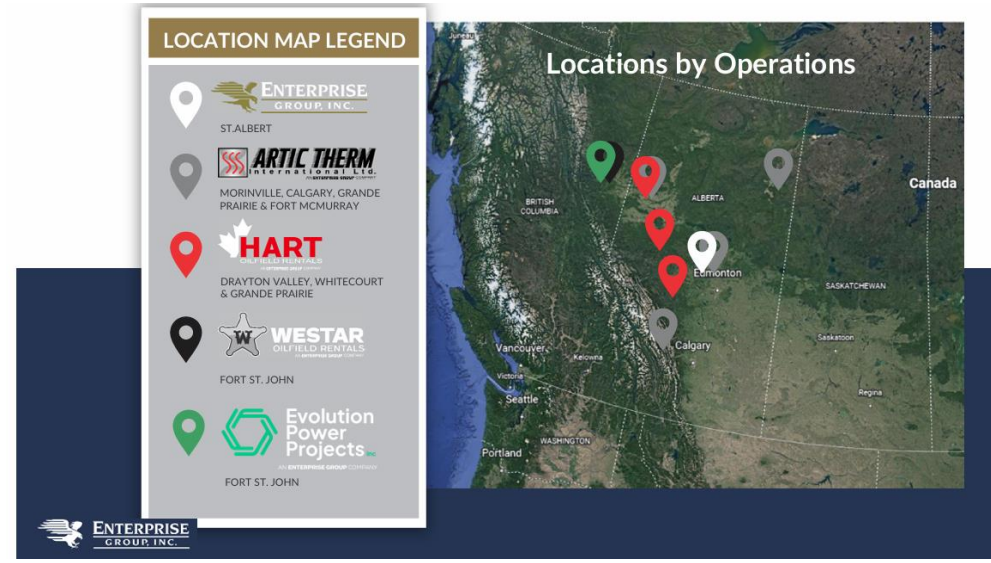
The advantages of diesel versus natural gas dovetail with the advantages of many fossil fuels over natural gas which basically reduce to ease/cost of transport and ease/cost of storage. In short, a single truck can transport more diesel (a liquid) than natural gas. (By the way, that difference is the impetus for *liquifying* natural gas). As a result of that difference, logic would dictate that for a facility producing natural gas, tapping some of *that* natural gas and using a gas generator to run the facility would be more efficient on the face. While that approach can lead to marked cost savings, it also provides the operator with a more favorable emissions profile because of the emission advantages of gas over diesel. In short, as we will demonstrate in a bit more detail in the Technology/Services Overview, EGI has established what we view as an elegant platform (and fleet) of on-site remote power services

around the use of natural gas generators that utilize delivered natural gas and/or gas generated by the facility typically referred to as “field gas”. We believe that capability provides the Company with marked advantages over many of their competitors that tend to be smaller and less equipped to provide equivalent services.

Technology/Services Overview

Table 5 below reflects the Company current operating footprint throughout western Canada, specifically Alberta and British Columbia.

Table 5.



Within the region, the Company operates through 4 divisions as follows and the Company narrative thereafter provides a short overview of each.

- Westar Oilfield Rentals
- Artic Therm International
- Hart Oil Field Rentals
- Evolution Power Projects

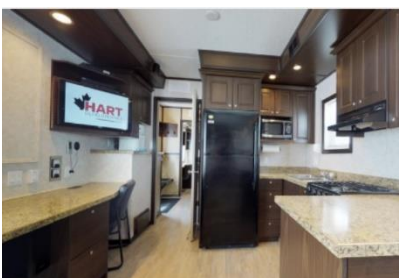
Westar Oilfield Rentals is a site infrastructure business that fulfills a multitude of equipment needs for a variety of top-tier energy producers. Westar is based in Fort St. John, BC.



Arctic Therm International is a pioneer in pipeline thermal expansion and superior expertise in heating. The Company provides advanced and patented flameless heaters that produce outputs of up to 3.3 million BTU and 15,000 CFM of airflow.

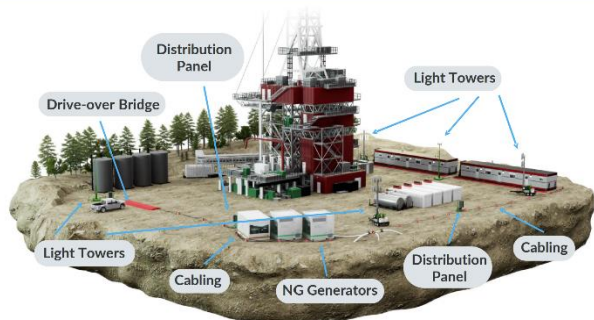


Hart Oilfield Rentals is a full-service oilfield site infrastructure company, providing both site services and custom equipment rentals to Alberta energy producers utilizing 20+ patented designs.



Evolution Power Projects is leading the industry by advancing the Natural Gas to Electricity methods of mobile power supply for our clients, achieving serious reductions in emissions, increasing safety and significant cost reductions. Leading the way by advancing the Natural Gas to Electricity methods of mobile power supply for our clients. Furthering their ESG goals and assisting clients to meet new Federal and Provincial legislative targets by a serious reduction in emissions. Our Natural Gas to Electricity methods substitute 10 to 20 diesel generators per facility. This reduces daily diesel consumption by thousands of litres and significantly lowers the ambient noise at the site. Eliminating diesel fuel handling completely is not only an environmental benefit, but also a safety advantage.

The transition away from diesel to natural gas, isn't an alternative—it's an advancement. Our fleet is powerful, streamlined and can accommodate up to 2.4 MegaWatt projects. Our generators use compression and turbine technology with sequencing capabilities allowing us to add-on as projects scale up or down. Packages are portable and fuel tolerant, relevant not only in oil and gas production, but across industry.



Given the above Company descriptions and associated illustrations, here is a bit of added color that may be helpful. Recognize, the Company's divisions provide some differentiation as well as some overlap in terms of services/equipment and geography. Generally speaking, Westar and Hart provide similar (rental) equipment and that includes lighting, buildings for personnel, water/sewer systems, generators, fuel storage and a host of others. As **Table 5** reflects, Westar and Hart are delineated largely by geography, with Westar's operations in British Columbia and Hart's throughout Alberta.

In contrast, Arctic Therm's services are a bit more specific. As noted, Arctic Therm provides flameless heaters that address a variety of applications and their heaters include proprietary patented technology. Here are a few examples.

In the oil and gas industry, thermal heaters are used to heat and expand pipes, which facilitates the joining of the pipes and leads to stronger stress points. That application requires considerable portable heat, and Arctic Therm's heaters can generate temperatures of 115°C. These heaters can also be used to dry out pipelines, and storage tanks which facilitates maintenance procedures. Further, because the technology generates flameless heat, it can be used safely around well heads and other areas that may produce combustible constituents.

Aside from oil and gas operations, their heaters can assist other industrial applications. For instance, they are used to cure coatings especially in places where low ambient temperatures might prohibit that curing process. In addition, they can be deployed quickly to facilities that experience power outages that can be catastrophic if heat is not maintained in those facilities. That may also apply to new construction projects. Succinctly, aside from their proprietary and patented features, as we understand it, Arctic Therm's technology is clearly specialized and as such, is applicable to jobs for which there may be few substitutes and/or provide marked advantages over other alternatives.

Inasmuch as Westar, Hart and Arctic Therm have carved out beachhead operations among many of Canada's biggest gas producers, our belief is that Evolution Power Projects is likely to be the major growth driver in the Company's foreseeable future. Recognize, Evolution is much more than a provider of remote turbine powered energy sources. On the contrary, Evolution provides their customers with turnkey remote power *platforms* that are customizable to their specific needs. For instance, their platform(s) and services can deliver natural gas on site, utilizing the customers' own gas infrastructure to retrieve gas from the customers' own gas treatment facilities, or where possible, utilizing the customers' field gas produced on site. The point is, EGI's services reach well beyond providing onsite, albeit much more efficient gas turbines, their platform is designed for contingencies and flexibility that we believe the preponderance of their competitors cannot provide. That said, the minutia of gas turbines vs. industry standard diesel turbines is stark. **Table 6** and **Table 7** provide some color to that end:

Table 6.**FUEL CONSUMPTION / COST COMPARISON**

| 350 kW Diesel Generator | | 333 kW Gas Turbine | |
|--|------------------|---------------------------------|-------------|
| Load | 100% | Load | 100% |
| Volume | 2,400 Litres/Day | Volume | 74.7 MCF/D |
| Price | \$1.60/Litre | Price | \$7.00/MCF |
| Total | \$3,840/Day | Total | \$523 / Day |
| Diesel Cost for 90 Day Project | | Nat Gas Cost for 90 Day Project | |
| Total | \$345,600 | Total | \$47,070 |
| <i>The transition noted in this table indicates an 86% savings in fuel costs</i> | | | |

Note: the indicated cost in the table of \$7.00 /MCF is for 3rd party compressed natural gas supply. The large majority of the Company's clients have made available their own natural gas supply being produced on site or nearby, therefore reducing costs even further.

Table 7.**EMISSIONS DATA: DIESEL VS NATURAL GAS**

| 350 kW Diesel Generator | | 333 kW Gas Turbine | | Reduction |
|-------------------------|---------------|--------------------|---------------|-----------|
| Pollutant | Emission Rate | Pollutant | Emission Rate | |
| PM2.5 | 9.59 kg/d | PM2.5 | 0.34 kg/d | -96.4% |
| PM10 | 9.59 kg/d | PM10 | 0.34 kg/d | -96.4% |
| SOX | 8.93 kg/d | SOX | 0 | -100.0% |
| NOX | 135.11 kg/d | NOX | 16.53 kg/d | -87.8% |
| VOC | 10.96 kg/d | VOC | 0.11 kg/d | -99.0% |
| CO | 29.11 kg/d | CO | 4.24 kg/d | -85.5% |

We will not belabor the point, but per the tables above, the cost savings and the environmental footprint of diesel vs. natural gas generators speak for themselves. That provides stark competitive advantages for those capable of delivering natural gas-powered solutions relative to those who cannot. We would add, while we tend to place high value on economic advantages, reducing environmental standards/edicts are becoming a growing portion of the calculus and are beginning to create barriers to entry to those that cannot provide congruent solutions to customers who are beholden to those regulatory standards. That reality encompasses much of our enthusiasm for EGI and is the basis for our view that the Company's ability to grow the business may well depend on their ability to finance and expand its fleet.

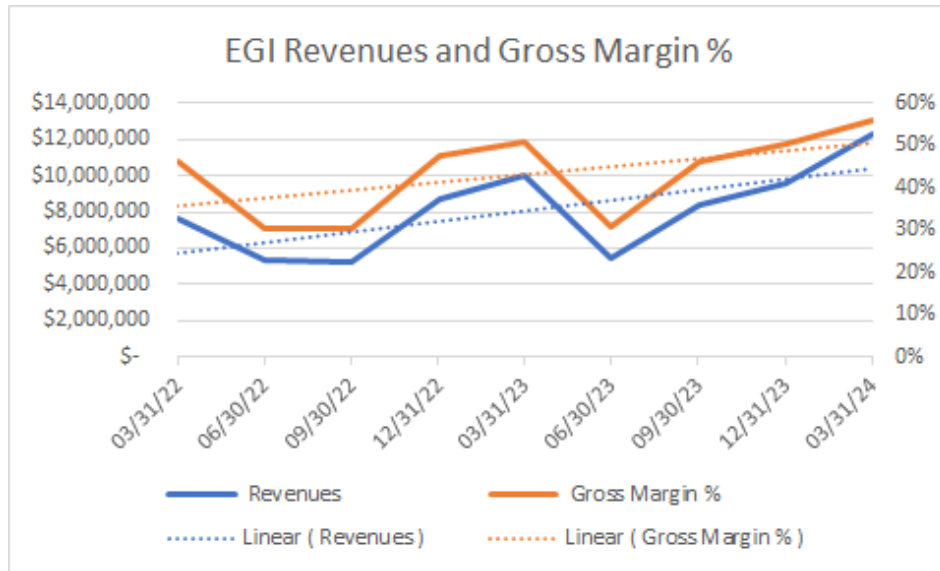
Operating Overview

Our overriding thesis for Enterprise Group rests on a handful of variables we addressed above, and we think the coalescing of those items is resulting in momentum in the Company's results. Below are some metrics we have selected from recent operating results and we provided some color around those as well. Moreover, as we also alluded to above, we are of the view that given the coming expansion of Canadian gas production (as a result of the start of domestic LNG facilities), EGI will experience increasing demand for their services beyond the capacity reflected in the historic numbers. Put another way, for the foreseeable future, they will likely be able to utilize new additions to the fleet (as reflected in their capex numbers) as quickly as they can add them. To that end, the excerpt from the following announcement a few months ago is topical:

On February 26, 2024, the Company announced that it entered into a bought deal agreement, under the Listed Issuer Financing Exemption (LIFE) program, to which the underwriter agreed to purchase 5,882,350 Units of Enterprise at a price of \$0.85 per Unit for gross proceeds of approximately \$5 million. Each Unit was comprised of one common share in the capital of the Company and one-half of one common share purchase warrant. Each share warrant will be exercisable to one additional common share for a period of 24 months following the close of the offer at \$0.95 per warrant share. The shares under the LIFE program are not subject to resale restrictions pursuant to applicable Canadian securities laws.

Succinctly, we believe these funds are earmarked for capacity expansion, and the historic numbers do not reflect the contribution of that expansion. With that in mind, here are some of the historic metrics we discussed above.

Table 8.



In support of our view regarding the momentum of the business, **Table 8** above reflects the Company’s revenue and gross margin over the past 9 quarters, and each reflects positive trendlines. Inside the numbers, revenues increased 43.5% for fiscal 2022 vs. 2021, and 24.5% for 2023 vs. 2022. We would add, 1QF24 reflected a 23% increase over 1QF23. In addition to revenues, margins have also been moving higher, and interestingly, at a faster pace than revenues. Clearly, revenue growth in conjunction with margin expansion is a positive combination.

To segue a bit, **Table 8** reflects another issue that requires some analysis. Recognize, the business involves some seasonality on multiple fronts. Specifically, Arctic Therm provides heating related services, so ostensibly, they are busier when it is cold outside than when it is not. That said, the Company also typically experiences a seasonality dip in the second calendar quarter ended June 30. This situation is the result of accessing some of the remote areas where natural gas producers are operating. More specifically, winter thaw in the quarter sometimes creates soft muddy terrain that makes getting equipment into these areas difficult. Further, while the mid-winter results of Q4 (ended December 31) and Q1 (ended March 31) are generally aided by Arctic Therm contributions, Q2 (ended June 30) and Q3 (ended September 30) are in turn negatively impacted by the lack of Arctic Therm contributions. As a result, 2Q is typically the Company’s most challenging quarter, followed by 3Q. Conversely, the winter quarters (Q4 and Q1) tend to be the best quarters. We have made appropriate iterations to our model to reflect this seasonality.

While the Company has been driving revenues at robust rates, as **Table 9** reflects, they have been able to achieve that without corresponding increases in Operating Expenses. As a result, the trendline in Operating Margin has been quite positive as well (**Table 10**). We would submit much of our enthusiasm is centered around improving operating leverage, which is driving operating margins.

Table 9.

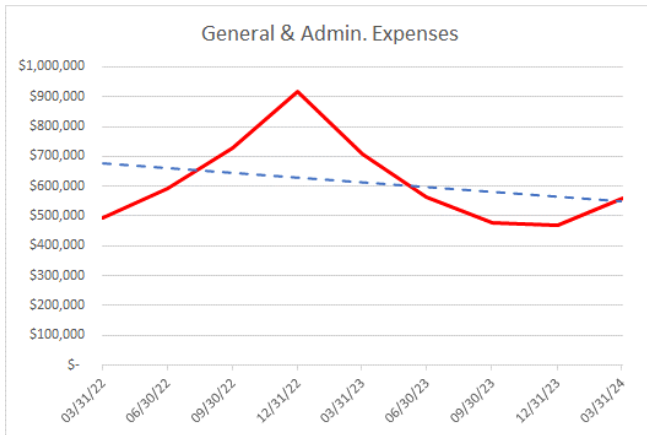
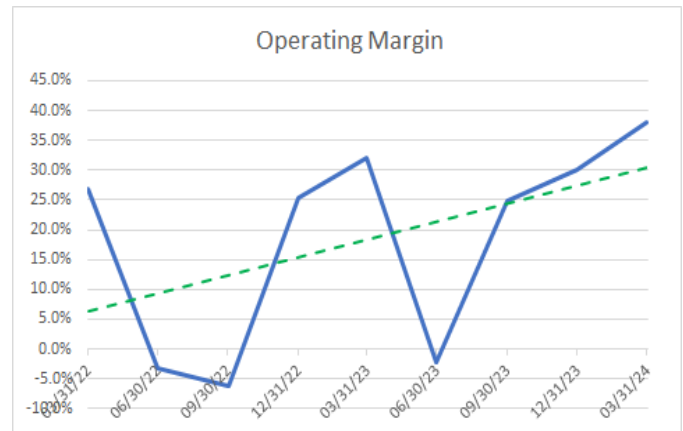


Table 10.



We think it is also important to note that while they have done well controlling Operating Expenses, as **Table 11** reflects, much of the increases they have experienced in those expenses have been non-cash depreciation and amortization. In correlation, **Table 12** below reflects the quarterly capex additions, which have ostensibly driven higher depreciation and amortization expense.

Table 11.

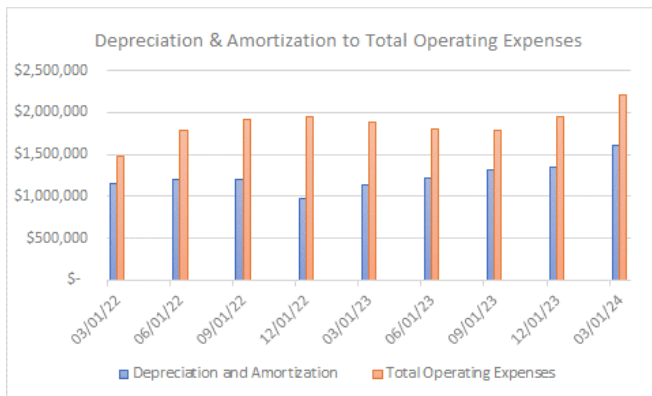
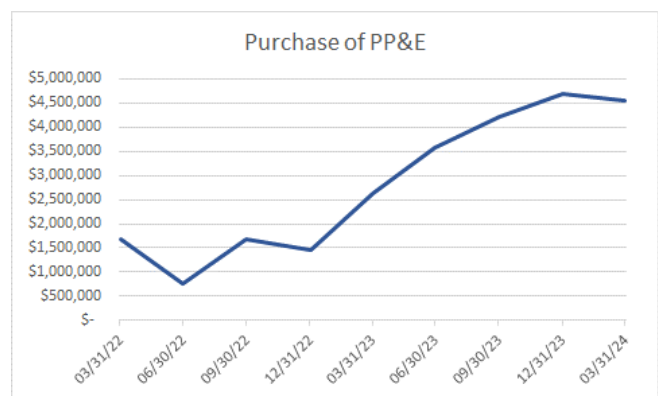


Table 12.



To summarize, we have built our model assumptions around estimates of ongoing capex and the capacity we estimate around those capex levels. Recall, one of our overriding assumptions is that they can likely deploy any capital they can add. As we move forward, that particular assessment may prove overstated, but for now, that is our approach. In that regard, we are driving our capex estimates from Company narrative around the same, as well as from our estimates of organically generated cash that we think they can commit to expand capacity. Obviously, if they choose to tap the equity markets again, we will make appropriate adjustments to our model. We would add we have developed some methodology to try to determine the correlation of added capex to future revenues. We will attempt to tighten down that methodology as more revenue and capex data points become available.

Lastly, we have not attempted to model any acquisitions, but frankly, given management’s acquisitive history, we think that is more likely than not. The one caveat to that is probably the availability of potential acquisitions, as we believe management has a well-defined approach to both identifying and valuing potential targets. We do not expect them to deviate much from that calculus, which may impact the likelihood of further acquisitions.

Management Overview

Leonard D. Jarosuk – CEO and Chairman

- *Over three decades of experience managing public companies, engaged in real estate, construction, natural resources, and exploration.*
- *Serves as Director of several companies in both the manufacturing and O&G industries.*
- *Co-Founder of Enterprise Group*

Desmond O’Kell – President and Director

- *Over 30 years of business build-out, finance and executive operations experience.*
- *Integral member of Enterprise team since its 2005 inception.*
- *Co-Founder of Enterprise Group*

Warren Cabral – CFO

- *Over 25 years experience of financial experience.*
- *Former CFO for AIMCO, managing global investments for pensions, endowments, and governmental funds in Alberta, Canada.*

Risks and Caveats

We believe that EGI has established a beachhead in its respective markets that addresses solutions that have been adopted by some of the industry’s largest gas providers. Despite that posture, the Company still faces several risks that could keep it from succeeding and/or make that path significantly more difficult and lengthier than some might anticipate.

As we attempted to establish, the Company’s success is/will be driven largely by continued strength in the Canadian natural gas production industry. Given Canada’s efforts to develop LNG facilities, we expect that strength to continue, which should be constructive for EGI. However, history has demonstrated that energy markets can be quite volatile and as a result, so can the fortunes of those who serve them.

We have argued that EGI enjoys comparative advantages over many of their smaller “mom and pop” competitors. We submit, much of our view in that regard is based on our discussions with management, which could be overstated. Further, our notion that the Canadian natural gas industry is poised to benefit from the launch of domestic LNG capabilities that will open Canadian gas to foreign markets could be a “doubled edged sword” for EGI. That is, the expansion of the industry could attract larger, more formidable competitors that could negatively impact EGI’s participation in the anticipated industry growth.

As we covered, the Company is subject to weather-related seasonality. That seasonality could from time to time be more marked which could create poor relative comparative results that could negatively impact the share price.

As we have seen during the pandemic, long tail risks can have a dramatic impact on certain (or all) industries and that impact can be particularly harsh for some. Unfortunately, “long tail risks”, including international conflicts, seem to be getting more common than the moniker suggests. We would add that might include political changes as well. Recently we have seen some movement amongst Western European governments along both ends of the political spectrum, and those types of changes could impact the overall energy strategies of those new governments, which might for instance, mean more (or less) reliance on imported LNG. While macro shocks of that nature can be difficult to handicap, they remain topical.

While we believe that EGI's services provide its customers with economically attractive solutions that also help them address their environmental requirements, there is no guarantee that those solutions will continue to meet what look like increasingly *higher* standards. In that event, (more stringent requirements) EGI may need to adopt technologies or processes that could negatively impact their margins and/or their competitive posture. That could include by the way their relationships with suppliers of key components of their solutions. If they were to lose those relationships, and/or their ability to procure those portions of their solutions, it could negatively impact the business.

Currently, the Company relies on a small number of people to operate the business. That posture carries obvious risks with respect to the performance and continued employment of those individuals.

EGI's shares are thinly traded and generally illiquid and that may be the case for the foreseeable future. Those characteristics may involve additional risks beyond those associated with equities in general.

These are just a few of the more visible risks associated with EGI. There are likely others we have missed and/or are others that may not be apparent at this time.

Summary and Conclusion

As we covered throughout this report, there are a handful of pillars to our investment thesis for Enterprise Group, Inc. Here is a recap of the major bullet points.

- Today, Canada is the 6th largest producer of natural gas worldwide. That said, Canada's natural gas industry has been limited by its ability to export excess gas production. However, Canada is in the process of commissioning its first LNG plant (in British Columbia), with others to follow. We believe Canada's emerging LNG capabilities will provide a basis for the continued growth of the industry, and by extension, growth opportunities for those (like EGI) that are servicing it.
- The Company operates in western Canada (Alberta and British Columbia) and the market it addresses is largely fragmented and served by small enterprises. That said, as we understand it, EGI represents one of the largest players in their respective market(s), and its top-tier customer base supports that view. We believe the Company's established relationships amongst major producers may prove *exponentially* beneficial as LNG comes online.
- To reiterate, EGI enjoys some comparative advantages over many of its competitors, and those advantages include things like the capacity and existing customer relationships we just noted. However, we believe their biggest differentiator may be the energy platform solutions they provide through Evolution Power Projects. As we discussed above, these platforms provide gas producers marked economic and environmental benefits vis-à-vis legacy diesel-powered alternatives. In that regard, these platforms include some proprietary and other "tribal knowledge" elements, that may set them apart from much of their competitors. In short, the economic benefits of providing an energy platform that (for instance) allows producers to power their drill sites with their own field gas are obvious on the face. However, the positive environmental impact of switching from diesel to cleaner natural gas may prove equally beneficial. Moreover, we think it is safe to assume that Canadian environmental regulations around oil and gas producers are more likely to become more restrictive than less, and in our view, that scenario may further enhance EGI's competitive posture.

- In conjunction with the prior bullet point, we believe that one of the Company's bigger constraints is accessing the capital necessary to add to their fleet and build capacity. That is, if some of the other bullet points play out as we have suggested, the Company could likely deploy as much infrastructure as it has on hand. Obviously, there will be *some* limit to that, but keep in mind, part of that view is predicated on them capturing additional market share as much as it is their participation in a growing market. To that end, as we noted, the Company recently completed an equity round that we believe provides the capital necessary to expand capacity and grow the business as our model reflects (20% YoY growth for F24 over F23). Recognize, thereafter, our model essentially assumes the addition of increasing amounts of capex from organically generated sources, into the future. Again, our thesis includes the notion that if they add capacity, *it will* get deployed and *it will* result in higher revenue. As we said, there are limits to that and those limits may prove to be less robust than we think. On the other hand, if they choose to access external capital to accelerate additional capacity, and they can in fact deploy it, that will almost certainly lead to better results than we are reflecting. Obviously, that would be impacted by their cost of capital, but on the face, we believe capital expansion beyond our model assumptions would likely lead to better results than we are reflecting. To that end, as they have demonstrated, their public currency may provide access to additional capital if they deem that approach to be optimal.
- Lastly, we alluded to this although we did not expand on it much, but management has demonstrated an ability to source, acquire and integrate new pieces into the business. (We would add they have also demonstrated an ability to profitably sell portions of the business that may no longer provide synergies). We have not modeled that scenario, but our sense is that further acquisitions are probably more likely than not. We submit, acquisitions are not good or bad on the face, but given management's past success in that regard, our bet would be that any acquisition would likely prove accretive into the foreseeable future. We will stay tuned to that issue.

As the points above reflect, we believe the stars are aligning for the Company and we expect them to report favorable comparable results into the foreseeable future. Further, we believe those results will speak to much higher intrinsic valuations than current pricing reflects. As a result, we are initiating coverage of Enterprise Group, Inc. with an allocation of 4 and a 12-24 month price target of US \$3.50. We will reassess each as additional visibility provides.

Projected Operating Model

| Enterprise Group, Inc. | | | | | | |
|--------------------------------------|------------------|------------------|------------------|-------------------|--------------------|--------------------|
| Projected Operating Statement | | | | | | |
| (Expressed in CAD) | | | | | | |
| By: Trickle Research | (Actual) | (Estimate) | (Estimate) | (Estimate) | (Estimate) | (Estimate) |
| | <u>3/31/2024</u> | <u>6/30/2024</u> | <u>9/30/2024</u> | <u>12/31/2024</u> | <u>Fiscal 2024</u> | <u>Fiscal 2025</u> |
| Revenues | \$ 12,326,288 | \$ 6,485,005 | \$ 9,786,769 | \$ 12,111,220 | \$ 40,709,282 | \$ 45,284,768 |
| Direct Expenses | \$ 5,429,944 | \$ 4,056,401 | \$ 4,848,824 | \$ 5,406,693 | \$ 19,741,863 | \$ 20,868,344 |
| | | | | | \$ - | \$ - |
| Gross Margin | \$ 6,896,344 | \$ 2,428,604 | \$ 4,937,944 | \$ 6,704,528 | \$ 20,967,419 | \$ 24,416,424 |
| | | | | | \$ - | \$ - |
| General & Admin. Expenses | \$ 558,491 | \$ 430,640 | \$ 509,882 | \$ 565,669 | \$ 2,064,683 | \$ 2,186,834 |
| Depreciation - PP&E | \$ 1,258,326 | \$ 1,284,294 | \$ 1,300,099 | \$ 1,334,975 | \$ 5,177,694 | \$ 5,688,316 |
| Depreciation - Right of Use Assets | \$ 333,836 | \$ 319,322 | \$ 322,036 | \$ 324,773 | \$ 1,299,968 | \$ 1,326,935 |
| Share Based Payments | \$ 47,265 | \$ 50,000 | \$ 50,000 | \$ 50,000 | \$ 197,265 | \$ 200,000 |
| Amortization of Intangibles | \$ 12,536 | \$ 12,500 | \$ 12,500 | \$ 12,500 | \$ 50,036 | \$ 50,000 |
| Acquisition Costs | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| (Gain)/Loss on Sale of Assets | \$ (3,014) | \$ - | \$ - | \$ - | \$ (3,014) | \$ - |
| | | | | | \$ - | \$ - |
| Total Operating Expenses | \$ 2,207,440 | \$ 2,096,756 | \$ 2,194,518 | \$ 2,287,918 | \$ 8,786,632 | \$ 9,452,085 |
| | | | | | \$ - | \$ - |
| Income Before Financing and Taxes | \$ 4,688,904 | \$ 331,848 | \$ 2,743,426 | \$ 4,416,609 | \$ 12,180,788 | \$ 14,964,339 |
| | | | | | \$ - | \$ - |
| Finance Expense | \$ 697,390 | \$ 689,801 | \$ 688,155 | \$ 685,505 | \$ 2,760,851 | \$ 2,720,041 |
| Impairments of PP&E | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| | | | | | \$ - | \$ - |
| Income Before Taxes | \$ 3,991,514 | \$ (357,953) | \$ 2,055,272 | \$ 3,731,105 | \$ 9,419,937 | \$ 12,244,297 |
| | | | | | \$ - | \$ - |
| Income Tax Expense | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| | | | | | \$ - | \$ - |
| Net Income | \$ 3,991,514 | \$ (357,953) | \$ 2,055,272 | \$ 3,731,105 | \$ 9,419,937 | \$ 12,244,297 |
| | | | | | | |
| Income Per Share- Basic | \$ 0.08 | \$ (0.01) | \$ 0.04 | \$ 0.06 | \$ 0.17 | \$ 0.21 |
| Income Per Share-Diluted | \$ 0.07 | \$ (0.01) | \$ 0.03 | \$ 0.06 | \$ 0.16 | \$ 0.20 |
| | | | | | | |
| Basic Shares Outstanding | 51,435,755 | 57,971,724 | 57,971,724 | 57,971,724 | 56,337,732 | 57,971,724 |
| Diluted Shares Outstanding | 57,971,724 | 59,704,652 | 59,762,978 | 59,818,525 | 59,314,470 | 59,944,633 |

General Disclaimer:

Trickle Research LLC produces and publishes independent research, due diligence and analysis for the benefit of its investor base. Our publications are for information purposes only. Readers should review all available information on any company mentioned in our reports or updates, including, but not limited to, the company's annual report, quarterly report, press releases, as well as other regulatory filings. Trickle Research is not registered as a securities broker-dealer or an investment advisor either with the U.S. Securities and Exchange Commission or with any state securities regulatory authority. Readers should consult with their own independent tax, business and financial advisors with respect to any reported company. Trickle Research and/or its officers, investors and employees, and/or members of their families may have long/short positions in the securities mentioned in our research and analysis and may make purchases and/or sales for their own account of those securities. David Lavigne does not hold a position in Enterprise Group, Inc.

Trickle Research co-sponsors two microcap conferences each year. Trickle Research encourages its coverage companies to present at those conferences and Trickle charges them a fee to do so. Companies are under no obligation to present at these conferences. As of the date of this document, Enterprise Group, Inc. has not paid fees to present at Trickle co-sponsored conferences but Trickle will encourage them to do so in the future.

future.

Reproduction of any portion of Trickle Research's reports, updates or other publications without written permission of Trickle Research is prohibited.

All rights reserved.

Portions of this publication excerpted from company filings or other sources are noted in *italics* and referenced throughout the report.

Rating System Overview:

There are no letters in the rating system (Buy, Sell Hold), only numbers. The numbers range from 1 to 10, with 1 representing 1 "investment unit" (for my performance purposes, 1 "investment unit" equals \$250) and 10 representing 10 investment units or \$2,500. Obviously, a rating of 10 would suggest that I favor the stock (at respective/current levels) more than a stock with a rating of 1. As a guideline, here is a suggestion on how to use the allocation system.

Our belief at Trickle is that the best way to participate in the micro-cap/small cap space is by employing a diversified strategy. In simple terms, that means you are generally best off owning a number of issues rather than just two or three. To that point, our goal is to have at least 20 companies under coverage at any point in time, so let's use that as a guideline. Hypothetically, if you think you would like to commit \$25,000 to buying micro-cap stocks, that would assume an investment of \$1000 per stock (using the diversification approach we just mentioned, and the 20-stock coverage list we suggested and leaving some room to add to positions around allocation upgrades. We generally start initial coverage stocks with an allocation of 4. Thus, at \$1000 invested per stock and a typical starting allocation of 4, your "investment unit" would be the same \$250 we used in the example above. Thus, if we initiate a stock at a 4, you might consider putting \$1000 into the position ($\$250 * 4$). If we later raise the allocation to 6, you might consider adding two additional units or \$500 to the position. If we then reduce the allocation from 6 to 4 you might consider selling whatever number of shares you purchased with 2 of the original 4 investment units. Again, this is just a suggestion as to how you might be able to use the allocation system to manage your portfolio.

For those attached to more traditional rating systems (Buy, Sell, Hold) we would submit the following guidelines.

A Trickle rating of 1 thru 3 would best correspond to a "Hold" although we would caution that a rating in that range should not assume that the stock is necessarily riskier than a stock with a higher rating. It may carry a lower rating because the stock is trading closer to a price target we are unwilling to raise at that point. This by the way applies to all of our ratings.

A Trickle rating of 4 thru 6 might best (although not perfectly) correspond to a standard "Buy" rating.

A Trickle rating of 7 thru 10 would best correspond to a "Strong Buy" however, ratings at the higher end of that range would indicate something that we deem as quite extraordinary..... an "Extreme Buy" if you will. You will not see a lot of these.