Trickle Research

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

3QF24 Earnings Update

ENTERPRISE GROUP, INC.

Enterprise Group, Inc.

(OTC:ETOLF, TSX: E.TO)

Report Date: 11/15/24

12- 24 month Price Target: US$3.50

Allocation: 4

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

Closing Stock Price at This Update (Closing Px: 11/14/24): US$1.26

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

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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.

For 3QF24, EGI reported revenues of CAN $6.8 million, Adjusted EBITDA of CAN$1.8 million, Net Income of CAN$<197,592> and EPS of $0.00. Those compared to our estimates of CAN$10.1 million, Adjusted EBITDA of CAN$4.6 million, Net Income of $2.2 million, and EPS of $.04. Clearly, our estimates were markedly higher than the actual results.

We would note, our estimates for 2QF24 were lower than the actual results so *collectively* we were a bit closer to reality, but the fact remains, we missed 3QF24 badly. However, there were some nuances to the quarter that were topical and we think point to the anomalous nature of the quarter. Here is the explanation of the issues from the Company's MD&A:

> *The third quarter saw a reduction in activity, for the first half of the year for two primary reasons. First was apprehension and preparation for a potentially severe forest fire season, leading some customers to delay the execution of planned projects to the end of the forest fire season. The second reason was some customers took advantage of the summer months to allow employees extended time off to prepare employees for the up coming demands of another year of busy field activity. This shift underscores a broader industry commitment to sustainable work practices and the long-term well-being of the workforce, which naturally led to the reduction in activity compared to the first half of the year. Even though the third quarter saw reduced activity, activity levels are higher than in 2023 and contributed to the Company's strong year to date results which included growth in revenue and adjusted EBITDA of 12% and 21% respectively. The increasing demand for natural gas power generation systems indicates a shift towards lower emission alternatives, and going forward, market conditions remain favourable for the energy sector, resulting in increased drilling, completion, and infrastructure projects. These factors are expected to continue for the remainder of 2024 and 2025.*

We initiated our coverage of EGI in August (2024), so we admit our modeling remains a bit fluid. Further, as we noted in the initiating coverage, part of our thesis here is that the Company is adding capacity to address what they believe will be increasing demand for Canadian natural gas, and as such demand for Canadian gas field services. That said, we are still trying to understand what their realistic capacity utilization (and its timing) might be as they add capacity and then (for instance) move that capacity between jobs creating some down time etc. Moreover, while we are trying to understand (and model) some of the seasonality issues we identified in the initiating coverage, there are clearly some additional seasonal issues we may need to integrate as well. Obviously, we did not plan for the impact of forest fires. To that end, in our discussion with management, they reiterated something from the narrative above, which was that "*some customers took advantage of the summer months to allow employees extended time off to prepare employees for the upcoming demands of another year of busy field activity…"*. That brings us to another issue that may be topical.

Recall much of our constructive thesis around EGI centers on the notion that in mid-2025, Canada will, for the first time in its history become and exporter of LNG when its first LNG plant is slated to ship its first train. In short, we believe that paradigm will accelerate Canadian gas development and by extension the services that support it. Further, for a variety of reasons, we believe that EGI is perhaps uniquely positioned to benefit from that growth more than many of its competitors. From the perspective, and in the context of the "…*prepare employees for the upcoming demands of another year of busy field activity…"* statement above, we wonder if the industry may be gearing up new projects to coincide with the commencement of LNG production and export. To be clear, we do not dispute that the specter of forest fires didn't impact development, but we do think producers are well aware of LNG Canada's mid-2025 startup as they roll out new projects.

To summarize, we submit, there are some visibility challenges around the starts, stops, and deployment of EGI assets into the field, especially in the context of the general trajectory of Canadian gas production. Further, those nuances will also be impacted by traditional macro issues (global natural gas demand for instance). However, until we see datapoints that make us rethink the approach, we continue to believe that modeling around EGI's capacity, with an eye toward trying to tighten up defensible utilization expectations is a reasonable approach. That is, we remain of the view that they will be able to sell their capacity as the industry is aided by the opportunities provided by Canada's new and ostensibly growing LNG footprint. That said, we have made some adjustments to our model, but we reiterate our allocation of 4, as well as our 12-24 month price target of US$3.50 (CAN$4.80). We will revisit each as new data points arise.

Projected Operating Model

Enterprise Group, Inc.						
Projected Operating Statement						
(Expressed in CAD)						
By: Trickle Research	(Actual)	(Actual)	(Actual)	(Estimate)	(Estimate)	(Estimate)
	3/31/2024	**6/30/2024**	**9/30/2024**	**12/31/2024**	**Fiscal 2024**	**Fiscal 2025**
Revenues	$12,326,288	$ 8,349,556	$ 6,801,309	$11,803,000	$39,280,152	$47,664,452
Direct Expenses	$ 5,429,944	$ 4,388,946	$ 4,279,992	$ 5,332,720	$19,431,602	$21,439,468
					$ -	$ -
Gross Margin	$ 6,896,344	$ 3,960,610	$ 2,521,317	$ 6,470,280	$19,848,550	$26,224,983
					$ -	$ -
General & Admin. Expenses	$ 558,491	$ 666,642	$ 713,453	$ 633,272	$ 2,571,858	$ 2,543,947
Depreciation - PP&E	$ 1,258,326	$ 1,283,092	$ 836,710	$ 852,961	$ 4,231,089	$ 3,632,469
Depreciation - Right of Use Assets	$ 333,836	$ 393,052	$ 410,447	$ 324,773	$ 1,462,108	$ 1,326,935
Share Based Payments	$ 47,265	$ 70,741	$ 102,139	$ 50,000	$ 270,145	$ 200,000
Amortization of Intangibles	$ 12,536	$ 12,536	$ 12,536	$ 12,500	$ 50,108	$ 50,000
Acquisition Costs	$ -	$ -	$ -	$ -	$ -	$ -
(Gain)/Loss on Sale of Assets	$ (3,014)	$ 96,170	$ (42,501)	$ -	$ 50,655	$ -
					$ -	$ -
Total Operating Expenses	$ 2,207,440	$ 2,522,233	$ 2,032,784	$ 1,873,507	$ 8,635,964	$ 7,753,351
					$ -	$ -
Income Before Financing and Taxes	$ 4,688,904	$ 1,438,377	$ 488,533	$ 4,596,773	$11,212,587	$18,471,632
					$ -	$ -
Finance Expense	$ 697,390	$ 719,680	$ 686,125	$ 682,274	$ 2,785,469	$ 2,694,975
Impairments of PP&E	$ -	$ -	$ -	$ -	$ -	$ -
					$ -	$ -
Income Before Taxes	$ 3,991,514	$ 718,697	$ (197,592)	$ 3,914,499	$ 8,427,118	$15,776,657
					$ -	$ -
Income Tax Expense	$ -	$ -	$ -	$ -	$ -	$ -
					$ -	$ -
Net Income	$ 3,991,514	$ 718,697	$ (197,592)	$ 3,914,499	$ 8,427,118	$15,776,657
Income Per Share- Basic	$ 0.08	$ 0.01	$ (0.00)	$ 0.06	$ 0.15	$ 0.26
Income Per Share-Diluted	$ 0.07	$ 0.01	$ (0.00)	$ 0.06	$ 0.14	$ 0.25
Basic Shares Outstanding	51,435,755	59,208,399	60,774,321	60,824,321	58,060,699	60,949,321
Diluted Shares Outstanding	57,971,724	62,255,173	63,910,190	64,045,042	62,045,532	64,362,677

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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.