

CONSOLIDATED FINANCIAL STATEMENTS

**ENTERPRISE ENERGY RESOURCES LTD.
(FORMERLY BORDEAUX ENERGY INC.)**

For the Years Ended December 31, 2008 and 2007



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AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Enterprise Energy Resourced Ltd. (formerly Bordeaux Energy Inc.) as at December 31, 2008 and 2007 and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Calgary, Canada
April 23, 2009

ENTERPRISE ENERGY RESOURCES LTD.
(formerly Bordeaux Energy Inc.)

CONSOLIDATED BALANCE SHEETS
AS AT DECEMBER 31

(in Canadian dollars)	2008	2007
Assets		
Current Assets		
Cash and cash equivalents (Note 11)	\$ 1,470,443	\$ 7,382,689
Short term investments (Note 11)	800,694	-
Interest receivable	24,899	43,536
Prepaid expenses and other assets	68,973	62,816
	2,365,009	7,489,041
Restricted cash (Note 14)	-	2,667,613
Property and equipment (Note 6)	5,784	4,356,942
	\$ 2,370,793	\$ 14,513,596
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 84,535	\$ 4,257,737
Long-term obligation (Note 6)	-	387,500
	84,535	4,645,237
Shareholders' Equity		
Share capital (Note 8)	29,300,966	28,906,381
Share purchase warrants (Note 8)	-	13,468,205
Contributed surplus (Note 9)	15,310,205	1,823,000
Deficit	(42,324,913)	(34,329,227)
	2,286,258	9,868,359
	\$ 2,370,793	\$ 14,513,596

Going concern (Note 2)

See accompanying notes to the consolidated financial statements.

On behalf of the Board:

"Stephen Barley"
Director

"David Cohen"
Director

ENTERPRISE ENERGY RESOURCES LTD.
(formerly Bordeaux Energy Inc.)

CONSOLIDATED STATEMENTS OF OPERATIONS, COMPREHENSIVE LOSS AND DEFICIT
FOR THE YEARS ENDED DECEMBER 31

(in Canadian dollars, except share amounts)	2008	2007
Expenses:		
Depreciation and amortization	\$ 2,479	\$ 1,458
Foreign exchange loss (gain)	(354,974)	3,461,170
General and administrative	989,052	1,228,939
Impairment of oil and gas properties (Note 6)	7,354,851	-
Stock-based compensation (Note 9)	19,000	430,000
	(8,010,408)	(5,121,567)
Interest income	83,636	909,888
Net loss from continuing operations	(7,926,772)	(4,211,679)
Loss from discontinued operations, net of tax (Note 5)	(68,914)	(28,474,229)
Net loss and comprehensive loss for the year	(7,995,686)	(32,685,908)
Deficit, beginning of the year	(34,329,227)	(1,643,319)
Deficit, end of the year	\$ (42,324,913)	\$ (34,329,227)
Weighted average number of common shares outstanding:		
Basic and diluted	5,039,222	4,223,054
Net loss per share		
Basic and diluted	\$ (1.59)	\$ (7.74)

See accompanying notes to the consolidated financial statements.

ENTERPRISE ENERGY RESOURCES LTD.
(formerly Bordeaux Energy Inc.)

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31

(in Canadian dollars)	2008	2007
Cash Flows (used in) provided by:		
Operating Activities		
Net loss for year from continuing operations	\$ (7,926,772)	\$ (4,211,679)
Items not affecting cash:		
Stock-based compensation	19,000	430,000
Depreciation and amortization	2,479	1,458
Impairment of oil and gas properties	7,354,851	-
Unrealized foreign exchange gain	(40,550)	-
	(590,992)	(3,780,221)
Changes in non-cash working capital (Note 11)	(208,300)	125,890
	(799,292)	(3,654,331)
Cash flow from discontinued operations (Note 5)	(33,354)	1,237,821
	(832,646)	(2,416,510)
Investing Activities		
Change in restricted cash	2,667,613	(2,667,613)
Property and equipment acquisitions (Note 6)	(3,006,172)	(34,070,450)
Short-term investments	(800,694)	-
Short-term obligation	-	387,500
Changes in non-cash working capital (Note 11)	(3,952,422)	4,032,251
	(5,091,675)	(32,318,312)
Financing Activities		
Issuance of share capital, net of issue costs	7,085	37,484,140
Share issued for cash on warrants exercised	-	2,470,600
	7,085	39,954,740
Exchange differences related to cash held in foreign currency	4,990	-
Increase (decrease) in cash and cash equivalents	(5,912,246)	5,219,918
Cash and cash equivalents, beginning of the year	7,382,689	2,162,771
Cash and cash equivalents, end of the year	\$ 1,470,443	\$ 7,382,689

See accompanying notes to the consolidated financial statements.

ENTERPRISE ENERGY RESOURCES LTD.

(formerly Bordeaux Energy Inc.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 and 2007
(in Canadian dollars)

1. NATURE OF OPERATIONS

Enterprise Energy Resources Ltd. ("Enterprise" or the "Company") is a petroleum and natural gas exploration, development and production company. The Company was incorporated under the Business Corporations Act (Ontario) as Bordeaux Energy Inc.

On November 10, 2008, the Company changed its name to Enterprise Energy Resources Ltd. from Bordeaux Energy Inc. ("Enterprise" or the "Company"), in connection with a share consolidation as described in note 8(b) and is currently listed on the TSX Venture under the symbol "EER". Prior to the change, the Company's trading symbol was "BDO".

2. GOING CONCERN

The consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern. These principles assume that the Company will be able to realize its assets and discharge its obligations in the normal course of operations for the foreseeable future.

The Company has incurred a net loss of \$7,995,686 for the year ended December 31, 2008 (December 31, 2007 - \$32,685,908) and negative cash flow from operations while the Company has a working capital surplus as at December 31, 2008 of \$2,280,474 (December 31, 2007 - \$2,843,804). It has no current sources of revenue. These circumstances raise doubt about the ability to continue as a going concern. The Company's continued existence is dependent upon the ability to raise additional financing, achieving its development plans and attaining and maintaining profitability. The Company has successfully raised financing in the past and believes that it will be able to raise necessary financing in the future. However, there can be no assurance that the Company will be successful in raising funds and exploring for and developing its oil and gas properties.

Should the Company no longer be able to continue as a going concern, assets and liabilities would require restatement on a liquidation basis, which may differ materially from the going concern basis.

3. ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and are stated in Canadian dollars.

As a precise determination of many assets and liabilities is dependent upon future events, the preparation of consolidated financial statements for a period necessarily involves the use of estimates, which have been made using careful judgment. Actual results may differ from these estimates.

The consolidated financial statements have, in management's opinion, been properly prepared within the framework of the significant accounting policies summarized below:

a) Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Chandero Limited, Bordeaux De Olie En Gas and Bordeaux Alaska Holdings Inc. All intercompany transactions have been eliminated on consolidation.

ENTERPRISE ENERGY RESOURCES LTD. (formerly Bordeaux Energy Inc.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 and 2007
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3. ACCOUNTING POLICIES (continued)

b) Cash and cash equivalents

Cash and cash equivalents consist of cash and short term deposits with an original maturity date of ninety days or less.

c) Property and equipment

The Company follows the full cost method of accounting whereby all costs related to the exploration for and development of oil and gas reserves are accumulated in one cost centre. Costs include lease acquisition, geological and geophysical expenditures, carrying costs of non-productive properties, the drilling of productive and non-productive wells and related plant and production equipment costs and asset retirement costs. Proceeds received from the disposal of properties are normally deducted from the full cost pool without recognition of a gain or loss, unless such sale results in a change in the rate of depletion of 20% or more.

The Company performs a cost recovery test which recognizes impairment when the carrying amount of the property and equipment, by cost centre, exceeds its undiscounted future cash flows from proved reserves based on estimated future commodity prices. If impairment is recognized, the amount of impairment is determined as the excess of the carrying amount over the fair value. Fair value is based on the present value of expected cash flows, reflecting discounting at the risk-free rate. Both proved and probable reserves and undeveloped properties are used in estimating fair value. This cost centre impairment test is conducted at each balance sheet date or more frequently if conditions indicating potential impairment are present.

d) Depletion and depreciation

Depletion and depreciation of oil and gas properties and equipment is computed using the unit-of-production method where the ratio of production to proved reserves, before royalties, determines the proportion of depletable costs to be expensed in each period. Undeveloped properties are excluded from the depletion calculation until quantities of proved reserves are found or impairment occurs. Volumes are converted to equivalent units using the ratio of one barrel of oil to six mcf of natural gas.

e) Amortization

Property and equipment are amortized based on the following:

Computer equipment	30%, Declining balance
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f) Future income taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method the change in net future tax assets or liabilities is to be included in income. Future tax assets and liabilities are measured using enacted tax rates expected to be applied to taxable income in years in which the timing differences are anticipated to be reversed or settled. In the case of unused tax losses, income tax reductions, and certain items that have a tax basis but cannot be identified with an asset or liability on the balance sheet, the recognition of future income tax assets is determined by reference to the likely realization of future income tax reductions. The Company has not recognized and has fully allowed for any potential future benefit amounts as the criteria for recognition under Canadian generally accepted accounting principles have not been met.

ENTERPRISE ENERGY RESOURCES LTD. (formerly Bordeaux Energy Inc.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 and 2007
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3. ACCOUNTING POLICIES (continued)

g) Foreign currency translation

All of the Company's operations are considered financially and operationally integrated. The Canadian dollar is the functional currency of the Company and each of its subsidiaries. As a result, monetary assets and liabilities denominated in foreign currencies are translated at exchange rates in effect at the balance sheet date and non-monetary assets and liabilities are translated at rates in effect when the assets were acquired or liabilities incurred. Revenues and expenses are translated at rates of exchange prevailing on the transaction dates. Foreign exchange gains and losses are recorded in the statement of operations.

h) Restricted cash

Restricted cash consists of cash and cash equivalents over which the Company has legal ownership but is restricted as to its availability or intended use.

i) Loss per share

Basic loss per share are based on the weighted average number of all common shares issued and outstanding, and is calculated by dividing net loss available to common shareholders by the weighted average shares outstanding during the year. Diluted earnings per share reflect the potential dilution that could occur if potentially diluted securities were exercised or converted to common stock. The dilutive effect of options and warrants and their equivalent is computed by application of the treasury stock method and the effect of convertible securities by the "if converted" method. Fully diluted amounts are not presented when the effect of the computations are anti-dilutive due to the losses incurred. Accordingly, there is no difference in the amounts presented for basic and diluted loss per share.

j) Stock-based compensation

Options granted by the Company are accounted for in accordance with the fair value method of accounting for stock-based compensation and, as such, the cost of the option is charged to operations with an offsetting amount recorded to contributed surplus, based on an estimate of the fair value using a Black-Scholes option pricing model.

The Company accounts for forfeitures as they occur. In the event that vested options expire without being exercised, previously recognized compensation expense is not reversed. Upon the exercise of the stock options, consideration paid together with the amount previously recognized in contributed surplus is recorded as an increase in share capital.

k) Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reported year. These estimates are reviewed yearly and, as adjustments become necessary, they are reported in earnings in the year in which they become known.

Amounts recorded for depletion and depreciation, and amounts used in impairment test calculations are based upon estimates of useful lives, petroleum and natural gas reserves and future costs to develop those reserves. By their nature, these estimates of useful lives, reserves, costs, and related future cash flows are subject to uncertainty, and the impact on the consolidated financial statements of future periods could be material.

ENTERPRISE ENERGY RESOURCES LTD. (formerly Bordeaux Energy Inc.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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3. ACCOUNTING POLICIES (continued)

k) Use of estimates (continued)

Amounts recorded for stock-based compensation and warrants are based on management's estimates of share price volatility and the expected life of the instruments. By their nature, these estimates are subject to uncertainty and the impact on the consolidated financial statements of future periods could be material.

l) Joint interest activities

The Company's exploration, development and production activities are conducted jointly with other entities and accordingly the consolidated financial statements reflect only the Company's proportionate interest in such activities.

m) Financial instruments

The Company classifies all financial instruments as held-to-maturity, available-for-sale, held-for-trading or loans and receivables. Financial assets held to maturity, loans and receivables and financial liabilities, other than those held for trading, are measured at amortized cost. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Instruments classified as held-for-trading are measured at fair value with unrealized gains and losses recognized in the Statement of Operations, Comprehensive loss and Deficit.

The Company has classified its financial instruments as follows:

Cash and cash equivalents	Held for trading
Short term investments	Held for trading
Interest receivable	Loans and receivables
Accounts payable and accrued liabilities	Other liabilities
Short-term obligation	Other liabilities

n) Asset retirement obligation

The fair value of obligations associated with the retirement of tangible long-lived assets is recorded in the period the asset is put into use, with a corresponding increase to the carrying amount of the related asset. The obligations recognized are statutory, contractual or legal obligations. The liability is accreted over time for changes in the fair value of the liability through charges to accretion, which is included in depletion, depreciation and accretion expense. The costs capitalized to the related assets are amortized in a manner consistent with the depletion and depreciation of the related asset. At December 31, 2008 and 2007, the Company had no asset retirement obligation.

o) New accounting pronouncements

Effective January 1, 2008, the Company adopted three new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA"). These accounting standards are adopted on a prospective basis with no restatement of prior period financial statements. There was no impact on opening retained earnings. The new standards are as follows:

Capital Disclosures (CICA Handbook Section 1535)

The CICA issued a new accounting standard, Section 1535, Capital Disclosures, which requires the disclosure of both qualitative and quantitative information that provides users of financial statements with information to evaluate the entity's objectives, policies and processes for managing capital. Refer to note 13.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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3. ACCOUNTING POLICIES (continued)

o) New accounting pronouncements (continued)

Financial Instruments – Disclosures (CICA Handbook Section 3862)

The objective of Section 3862 is to provide users with information to evaluate the significance of the financial instruments on the entity's financial position and performance, the nature and extent of risks arising from financial instruments, and how the entity manages those risks. Refer to note 12.

Financial Instruments – Presentation (CICA Handbook Section 3863)

The provisions of Section 3863 deal with the classification of financial instruments, related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset. Refer to note 12.

General Standards of Financial Statement Presentation – Presentation (CICA Handbook Section 1400)

The objective of Section 1400 is to include the requirement for management to assess the entity's ability to continue as a going concern at any time that the financial statements are reported and disclose any material uncertainties that may cast significant doubt on the entity's ability to continue as a going concern.

4. RECENT ACCOUNTING PRONOUNCEMENTS

As of January 1, 2009, Enterprise will be required to adopt the CICA Handbook Section 3064 "Goodwill and Intangible Assets", which will replace the existing Goodwill and Intangible Assets standard. The new standard revises the requirement for recognition, measurement, presentation and disclosure of intangible assets. The adoption of this standard is not expected to have a material impact on Enterprise's Consolidated Financial Statements.

In January 2009, the CICA issued Handbook Sections 1582, Business Combinations, ("Section 1582"), 1601, Consolidated Financial Statements, ("Section 1601") and 1602, Non-controlling Interests, ("Section 1602") which replaces CICA Handbook Sections 1581, Business Combinations, and 1600, Consolidated Financial Statements. Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under International Financial Reporting Standards ("IFRS"). Section 1582 is applicable for the Company's business combinations with acquisition dates on or after January 1, 2011. Early adoption of this Section is permitted. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. Section 1601 is applicable for the Company's interim and annual consolidated financial statements for its fiscal year beginning January 1, 2011. Early adoption of this Section is permitted. The Company has not chosen to early adopt any one of these Sections at the year end date.

In February 2008, the CICA announced that Canadian generally accepted accounting principles (GAAP) for publicly accountable enterprises will be replaced by International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011. Companies will be required to provide IFRS comparative information for the previous fiscal year. Accordingly the conversion from Canadian GAAP to IFRS will be applicable to the Company's reporting for the first quarter of 2011 for which the current and comparative information will be prepared under IFRS. The Company expects the transition to IFRS to impact accounting, financial reporting, and IT systems and processes. The Company is currently assessing the impact of the transition to IFRS.

ENTERPRISE ENERGY RESOURCES LTD.
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5. DISCONTINUED OPERATIONS

On December 4, 2008, the Company terminated its relationship with its variable interest entity, Vermillion AMAR Rep SAS ("AMAR") in France as a result of the abandonment of the property and transfer of legal and ownership to Vermillion. As a result, the operations and cash flow of AMAR have been classified as discontinued operations and amounts have been restated for comparative purposes.

The following are the summarized financial statements of the discontinued operations:

Statement of operations	December 31, 2008	December 31, 2007
Revenue	\$ -	\$ -
Expenses		
General and administrative	21,460	307,307
Foreign exchange loss (gain)	35,864	(1,545,128)
Impairment of other current assets	203,320	-
Impairment of oil and gas properties	-	44,297,218
	(260,644)	(43,059,397)
Interest income	23,970	-
Impairment recovery	167,760	-
	(68,914)	(43,059,397)
Future income tax recovery	-	14,585,168
Loss from discontinued operations, net of tax	\$ (68,914)	\$ (28,474,229)

Statement of cash flows	December 31, 2008	December 31, 2007
Operating activities	\$ (33,354)	\$ 1,237,821
Cash flows related to discontinued operations	\$ (33,354)	\$ 1,237,821

ENTERPRISE ENERGY RESOURCES LTD.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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6. PROPERTY AND EQUIPMENT

2008	Cost	Accumulated amortization and impairment	Net book value
Oil and gas properties			
France	\$ 44,297,218	\$ (44,297,218)	\$ -
United States	7,354,851	(7,354,851)	-
Computer equipment	9,721	(3,937)	5,784
	\$ 51,661,790	\$ (51,656,006)	\$ 5,784

2007	Cost	Accumulated amortization and impairment	Net book value
Oil and gas properties			
France	\$ 44,297,218	\$ (44,297,218)	-
United States	4,348,679	-	4,348,679
Computer equipment	9,721	(1,458)	8,263
	\$ 48,655,618	\$ (44,298,676)	\$ 4,356,942

France

In 2007, the Company and its joint interest participants' decided to terminate the drilling of the exploration well in France. The Company completed a review for asset impairment for the France full cost pool. For the year ended December 31, 2007, the Company recorded a \$44,297,218 write-down (\$29,712,050 million write-down net of tax) to reflect an impairment in these assets. The restricted cash was used for the drilling of the exploratory well.

During the year ended December 31, 2008, the Company recorded an impairment recovery resulting from the finalization of the exploratory well costs of \$167,760.

United States

In 2007, the Company entered into a participation agreement in leases located on and offshore the North Slope of Alaska. Pursuant to this agreement, in order to earn a 30% working interest, the Company was required to pay 40% of the total capital costs to drill one exploratory well up to a maximum of USD\$7.0 million.

In connection with this agreement, the Company paid a finders' fee in the form of 83,333 shares of the Company valued at a price of \$4.65 per share totaling \$387,500. These shares were issued in January 2008 and therefore recorded as short term obligation as at December 31, 2007.

ENTERPRISE ENERGY RESOURCES LTD. (formerly Bordeaux Energy Inc.)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008 and 2007
(in Canadian dollars)

6. PROPERTY AND EQUIPMENT (continued)

During the year ended December 31, 2008, the Company completed a review for asset impairment for the United States full cost pool. For the year ended December 31, 2008, the Company recorded a \$7,354,851 (December 31, 2007 - \$Nil) write-down to reflect an impairment in these assets.

7. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2008 and 2007, consulting fees paid to directors and to companies controlled by directors' and officers' were as follows:

	2008	2007
Consulting fees	\$ 282,975	\$ 141,788

These amounts were measured at the exchange amounts which represents the fair value of the transactions.

8. SHARE CAPITAL

a) Share capital

Authorized:

- Unlimited common shares
- Unlimited Class A voting preference shares, non-participating, and redeemable at issue price

b) Issued

On November 10, 2008, the Company adopted a resolution from its August 28, 2008 Annual and Special Meeting of Shareholders where the shareholders of the Company approved a 30 (thirty) for 1 (one) common share consolidation for the total number of issued and outstanding common shares.

As of November 10, 2008, the Company had 151,279,112 common shares outstanding which resulted in 5,042,637 common shares outstanding after consolidation. All outstanding stock based compensation options and common share purchase warrants were also re-priced to reflect the Company's share market price post-consolidation. The details below are based on post consolidation.

ENTERPRISE ENERGY RESOURCES LTD.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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8. SHARE CAPITAL (continued)

Common shares

	Number of Common Shares	Amount
Balance, December 31, 2006	2,087,204	\$ 2,419,846
Issued for cash on warrants exercised	823,533	2,470,600
Issued pursuant to a private placement at \$19.50 per share	2,048,567	39,947,050
Share issuance costs	-	(3,109,910)
Value assigned to share purchase warrants	-	(12,821,205)
Balance, December 31, 2007	4,959,304	\$ 28,906,381
Share issued for finders' fee (note 6)	83,333	387,500
Share issuance costs	-	7,085
Consolidation adjustment	(2,521)	-
Balance, December 31, 2008	5,040,116	\$ 29,300,966

On March 23, 2007, the Company completed a private placement (the "Private Placement"). The Private Placement consisted of 2,048,567 units with each unit comprised of one common share of the Company and one common share purchase warrant (the "Warrants"). Each Warrant was exercisable to acquire an additional common share of the Company at a price of \$27.00 on or before August 6, 2008. As at December 31, 2008, all of the private placement warrants have expired without exercise.

In 2007, the Company also issued 61,457 compensation warrants (the "Compensation Warrants") to the agents who participated in completing the Private Placement. Each Compensation Warrant entitled the holder to purchase one common share of the Company at a price of \$19.50 on or before August 6, 2008. As at December 31, 2008, all of the Compensation Warrants have expired without exercise.

In connection with the Participation Agreement in the North Slope Leases, the Company paid a finders' fee in the form of 83,333 shares of the Company valued at a price of \$4.65 per share totaling \$387,500. These shares were issued on January 2008 and accordingly recorded as a short-term obligation as at December 31, 2007.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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8. SHARE CAPITAL (continued)

c) Share Purchase Warrants

A summary of the changes in share purchase warrants is presented below:

	Number of Warrants	Weighted Average Exercise Price	Carrying Value
Balance, December 31, 2006	998,333	\$3.00	\$ -
Private placement	2,048,567	\$27.00	12,821,205
Exercised	(823,533)	\$3.00	-
Compensation warrants	61,457	\$19.50	647,000
Balance, December 31, 2007	2,284,824	\$24.90	\$ 13,468,205
Expired	(2,284,824)	\$24.90	(13,468,205)
Balance, December 31, 2008	-	\$ -	\$ -

d) Stock Options

Under the Company's stock option plan, options to purchase common shares are granted to directors, officers, consultants and employees at current market prices with a maximum term of five years. The vesting period of the options granted is at the discretion of the Board. The aggregate number of shares of the corporation which may be issued and sold under the plan will not exceed 10% of the issued and outstanding shares at the time of the grant.

A summary of the changes in stock options is presented below:

	Number of Options	Weighted Average Exercise Price
Balance, December 31, 2006	68,333	\$18.00
Cancelled	(50,000)	\$21.00
Granted	93,333	\$17.40
Balance, December 31, 2007	111,666	\$16.20
Granted	5,000	\$4.50
Expired	(3,333)	\$9.90
Balance, December 31, 2008	113,333	\$15.90

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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8. SHARE CAPITAL (continued)

d) Stock Options (continued)

At December 31, 2008, stock options to purchase common shares were exercisable as follows:

Exercise Price	Number of Options		Contractual Life (Years)
	Outstanding	Exercisable	
\$9.90	15,000	15,000	2.72
\$18.00	5,000	5,000	3.39
\$22.50	50,000	50,000	3.30
\$20.40	16,667	16,667	3.45
\$3.90	21,666	21,666	3.91
\$4.50	5,000	5,000	4.10
	113,333	113,333	

e) Loss per share

Loss per common share is calculated based upon the weighted average number of common shares outstanding during the year ended December 31, 2008, being 5,039,222 (2007 – 4,223,054). No shares were added to the weighted average common shares for diluted loss per share amounts as the exercise of stock options and warrants would be anti-dilutive.

9. CONTRIBUTED SURPLUS

	2008	2007
Balance, beginning of year	\$ 1,823,000	\$ 1,393,000
Stock-based compensation	19,000	430,000
Warrants expired	13,468,205	-
Balance, end of year	\$ 15,310,205	\$ 1,823,000

During the year ended December 31, 2008, the Company recorded expense of \$19,000 for stock-based compensation awarded to directors and consultants (December 31, 2007 - \$430,000). The weighted average fair value of the stock options granted was \$3.80 (December 31, 2007 – \$9.90) per stock option. The Company used the Black-Scholes Option Pricing Model to estimate the fair value of the options, using the following weighted average assumptions:

	2008	2007
Risk free interest rate	3.38%	4.37%
Dividend yield	Nil	Nil
Expected volatility	120%	120%
Expected option life	5 years	5 years

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10. INCOME TAX

The Company's provision for income taxes differs from the amounts computed by applying the statutory income tax rates to the loss as a result of the following:

	2008	2007
Statutory rates	31%	34%
Recovery of income taxes computed at statutory rates	\$ (2,543,000)	\$ (16,128,891)
Difference in tax rates between foreign jurisdictions	(241,000)	313,494
Non-deductible items	6,000	146,716
Effect on change in tax rate	390,000	-
Other	156,000	51,633
Unrealized foreign exchange gain	(3,000)	-
Foreign exchange adjustment	(641,000)	-
Change in valuation allowance	2,876,000	1,031,880
	\$ -	\$ (14,585,168)

The tax effects on temporary timing differences that give rise to significant components of the future tax assets and future tax liabilities are as follows:

	2008	2007
Future income tax assets (liabilities):		
Non-capital loss carry forward	\$ 3,660,000	\$ 1,043,000
Share issue costs	384,000	675,000
Property and equipment	(2,000)	-
Unrealized foreign exchange	(22,000)	-
Oil and gas properties	574,000	-
Less: Valuation allowance	(4,594,000)	(1,718,000)
	\$ -	\$ -

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10. INCOME TAX (continued)

The Company had non-capital losses available to reduce future taxable income of approximately \$11,496,000 (2007 – \$9,612,000) and capital losses of approximately \$Nil (2007 – \$Nil). Under current tax legislation the non-capital losses expire between 2010 – 2030.

The Company evaluates its valuation allowance requirements based on projected future operations. When circumstances change and this causes a change in management’s judgment about the recoverability of the future tax assets, the impact of the change on valuation allowance is reflected in current income. Due to the uncertainty of realization, the Company has not reflected any benefit recorded from these losses in these financial statements.

11. SUPPLEMENTAL CASH FLOW INFORMATION

a) Changes in non-cash working capital are as follows:

	2008	2007
Amounts and interest receivable	\$ 18,637	\$ (11,225)
Prepaid expenses and other assets	(6,157)	(59,371)
Accounts payable and accruals	(4,173,202)	4,228,737
Change in non-cash working capital	\$ (4,160,722)	\$ 4,158,141
Relating to:		
Operating activities	\$ (208,300)	\$ 125,890
Investing activities	(3,952,422)	4,032,251
Change in non-cash working capital	\$ (4,160,722)	\$ 4,158,141

b) Cash and cash equivalents are comprised of the following:

	2008	2007
Cash	\$ 366,521	\$ 1,876,895
Cash equivalents	1,103,922	5,505,794
	\$ 1,470,443	\$ 7,382,689

Cash and cash equivalents are classified as “held for trading” and are measured at carrying value which approximates the fair values due to the short term nature of these instruments with maturity at acquisition not exceeding 90 days, bearing interest at rates of 1.15% to 3.48% per annum.

Short term investments of \$800,694 on December 31, 2008 (2007 - \$Nil) are classified as “held for trading” with maturity of greater than 90 days, but less than a year. The short term investment bears interest at 3.45% per annum.

c) The Company made no cash outlays in respect of interest and taxes.

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12. FINANCIAL INSTRUMENTS

Overview

The Company has exposure to the following risks from its use of financial instruments:

- a. Credit risk
- b. Liquidity risk
- c. Market risk

Credit risk

The Company's exposure to credit risk is on its cash and cash equivalents and interest receivable.

Cash and cash equivalents consist of cash bank balances and short-term deposits. The Company manages the credit exposure related to short-term investments by selecting counter parties based on stability of the counter party and avoids complex investment vehicles with higher risk.

The carrying amount of interest receivable and cash and cash equivalents represents the maximum credit exposure.

Liquidity risk

The Company endeavors to maintain sufficient capital in order to meet short-term business requirements, after taking into account the Company's holdings of cash. The Company's cash is invested in business accounts and is available on demand. The Company's short-term investment is available on demand after 30 days without penalty.

Market risk

The Company is subject to normal market risks including fluctuations in foreign exchange rates and interest rate. While the Company manages its operations in order to minimize exposure to these risks, the Company has not entered into any derivatives or contracts to hedge or otherwise mitigate this exposure.

The Company is exposed to interest rates fluctuations on its short-term investments as they are based on a floating rate of interest. As at December 31, 2008, the Company invested \$800,694 in short-term interest bearing instruments (December 31, 2007 - \$Nil). A change in floating rate by 1% would affect the interest received on short-term investments by approximately \$1,337.

Fair value of financial assets and liabilities

The carrying amount for cash and cash equivalent, interest receivable, accounts payable and accrued liabilities on the balance sheet approximate fair value because of the limited term of these instruments.

13. CAPITAL MANAGEMENT

As the Company is in the exploration stage, its principal source of capital is from the issuance of common shares. The Company's capital management objective is to obtain sufficient capital to maintain its exploration programs for the benefit of its stakeholders. To meet the objectives, management monitors the Company's ongoing capital requirements against unrestricted net working capital and assesses additional capital requirements on specific exploration properties on a case by case basis. The Company is not subject to any externally imposed capital requirements.

The capital structure of the Company consists of equity attributable to common shareholders, comprising of issued capital, share purchase warrants, contributed surplus, and deficit.

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14. RESTRICTED CASH

The restricted cash was used to pay the Company's proportionate 30% share of capital costs related to an exploratory well in the Aquitaine Maritime Exploration Permit area (France full cost pool) in 2007. At December 31, 2008, no restricted cash was held.

15. COMPARATIVE FIGURES

Certain of the prior period's comparative figures have been reclassified to conform to the current period's financial statement presentation.

16. SEGMENT INFORMATION

Geographic Information

The Company operates in one reportable operating segment, being the exploration of oil and gas properties. Geographical information is as follows:

2008	United States	France	Others	Canada	Total
Current assets	\$ 111	\$ -	\$ 46,094	\$ 2,318,804	\$ 2,365,009
Property and equipment	-	-	-	5,784	5,784
Total assets	\$ 111	\$ -	\$ 46,094	\$ 2,324,588	\$ 2,370,793

2007	United States	France	Others	Canada	Total
Current assets	\$ -	\$ 12,283	\$ 26,839	\$ 7,449,919	\$ 7,489,041
Exploration advances	-	2,667,613	-	-	2,667,613
Property and equipment	4,348,679	-	-	8,263	4,356,942
Total assets	\$ 4,348,679	\$ 2,679,896	\$ 26,839	\$ 7,458,182	\$ 14,513,596

During the year December 31, 2008, capital expenditures in France and United States were \$Nil and \$3,006,172 respectively. (2007 - \$44,297,218 and \$4,348,679)