ENERCHEM
INTERNATIONAL INC.

Third Quarter Interim Report 2009

President's Message

To Our Fellow Shareholders,

On behalf of the Board of Directors of Enerchem International Inc., I am pleased to provide this report on the results of the Company's operations for the quarterly period ending September 30, 2009.

Readers of Q3 financial results reported by the oil and gas service industry will by now be accustomed to descriptions of year-over-year decreases in drilling and completions activity. This analysis is also aptly provided in our Q3, 2009, MD&A In this analysis we seek no excuse for our financial performance, but rather point out that despite these activity declines we have managed to sell more product than we did last year during the same period. Some products were sold at lower margins and therefore did not contribute as much as we would have liked. Our strategy though was quite deliberate reflecting our view that the best available financial outcome would result if we maximized the utilization of our plants.

Over the third quarter of 2009 oil prices have been less volatile than we've seen for some time. As a result we did not have the additional pricing hurdle that comes along with quickly rising feed stock costs. It has instead permitted us to gradually address pricing through the quarter, which improved our successive monthly results, a trend which we believe will continue into the final quarter of the year.

I have commented in previous reports on the importance of inventory management to our business model. During the second quarter of this year we depleted our inventory to as low a level as we were able resulting in an inventory value on the balance sheet that is as close to current market cost as possible. As a consequence we minimized the historical cost impact on margins in the current quarter. As sales accelerated during the quarter, we were also able to maintain both feedstock supplies and finished goods output, making it possible for us to meet all of our customers' delivery requirements.

Reiterating my Q2 message, our efforts remain focused on doing what it takes operationally to maintain financial health through this challenging economic period and set us up for success in the long term.

Outlook

Most analysts seem to have taken the view that 2009 represents a low point in the cycle. Those who subscribe to the view that the market reacts ahead of real economic recovery will have noted a steady rise in the TSX Composite Index since March of 2009. We would also note that demand for our products, albeit to be considered in the context of current industry conditions, continues to be healthy. Finally, we have noted that year-over-year declines in natural gas well drilling have marginally outpaced declines in oil well drilling; oil wells represent a better market for our oil-based drilling and completion fluids. We take all of these indicators into account when coming to the view that the remainder of 2009 will provide us the opportunity to remain modestly profitable. 2010 remains anyone's guess, but early indications from analysts are that low slope recovery will continue.

As our industry recovers, we will continue to seek opportunities for further growth and development.

In closing I would like to extend my thanks to all Enerchem employees who have displayed enthusiasm in the face of the challenges presented to us.

Ken Bagan
President & Chief Executive Officer

ENERCHEM INTERNATIONAL INC.

Financial Highlights

(unaudited)

Results of Operations

($ thousands except per share amounts)	Three months ended September 30 2009	2008
Revenues	**31,028**	32,471
Net income (loss) for the period	**345**	(844)
Net income (loss) per share		
Basic	**0.02**	(0.06)
Diluted	**0.02**	(0.06)
EBITDA (1)	**831**	1,428
EBITDA per share (2)	**$ 0.06**	$ 0.10

	Nine months ended September 30 2009	2008
Revenues	**65,737**	87,608
Net loss for the period	**(1,432)**	(1,982)
Net loss per share		
Basic	**$ (0.10)**	$ (0.13)
Diluted	**$ (0.09)**	$ (0.13)
EBITDA (1)	**(886)**	2,133
EBITDA per share (2)	**$ (0.06)**	$ 0.14

Financial position

Financial position	September 30, 2009	September 30, 2008
Total assets	**66,225**	71,504
Working capital (3)	**14,978**	13,702
Purchase of property, plant and equipment	**840**	3,553
Total bank indebtedness	**260**	4,376
Shareholders' equity	**48,179**	49,521
Number of shares (thousands)		
Outstanding, end of period	**15,011**	15,227
Average, during the period (4)	**15,026**	15,227

(1) Non-GAAP measure – represents earnings from operations before interest, taxes, depreciation, amortization, accretion expense and write-downs.

(2) calculated as EBITDA divided by the basic weighted average number of shares outstanding during the period.

(3) calculated as current assets less current liabilities.

(4) represents the basic weighted average number of shares outstanding during the period.

Management's Discussion and Analysis ("MD&A")

The following discussion and analysis of the operating and financial results of Enerchem International Inc. ("Enerchem", or the "Company") for the period ended September 30, 2009 should be read in conjunction with the Company's unaudited interim financial statements and notes for the period ended September 30, 2009 and the audited annual consolidated financial statements and notes thereto, President's Message and MD&A for the year ended December 31, 2008. This MD&A was prepared effective November 10, 2009. All dollar amounts are expressed in Canadian dollars unless otherwise stated.

Additional information relating to the Company is available on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com and the Company's website at www.enerchem.com.

This MD&A focuses on key statistics from the financial statements of the Company and pertains to known risks and uncertainties relating to the oilfield services industry in the Western Canadian Sedimentary Basin ("WCSB") where the Company operates. This discussion should not be considered all inclusive, as it excludes unanticipated changes that may occur in general economic, political, environmental and industry conditions.

Forward Looking Statements

Certain statements contained in this MD&A constitute forward-looking statements. These statements relate to future events or future performance. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and other similar expressions. These statements speak only as of the date of this MD&A and the Company does not undertake to publicly update these forward-looking statements except in accordance with applicable securities laws. In particular, this MD&A contains forward-looking statements pertaining to the following:

- oil and natural gas production levels;
- projections of market prices and costs;
- projections of oil and gas industry activity levels;
- expectations of cash flows and the Company's ability to finance its operating activities;
- expectations of EBITDA;
- the ability to operate efficiently and profitably;
- the effect of the global financial crisis on the business;
- expectations of future current ratios for the Company
- supply and demand for the Company's products and services; and
- general political and economic circumstances.

Readers are cautioned that the foregoing list is not exhaustive. Forward-looking statements or information are based on a number of factors and assumptions which have been used to develop such statements and information but which may prove to be incorrect. Although management of the Company believes that the expectations reflected in such forward-looking statements or information are reasonable, undue reliance should not be placed on forward-looking statements because the Company can give no assurance that such expectations will prove to be correct. In addition to other factors and assumptions which may be identified in this document, assumptions have been made regarding: activity in the WCSB; the general stability of the economic and political environment; the effect of market conditions on demand for the Company's products and services; the Company's policies with respect to acquisitions; the ability to obtain qualified staff, equipment and services in a timely and cost efficient manner; the ability to operate the Company's businesses in a safe, efficient and effective manner; the performance and characteristics of various business segments; the effect of current plans; the timing and costs of pipeline, storage and facility construction and expansion; future oil and natural gas prices; currency, exchange and interest rates; the regulatory framework regarding royalties, taxes and environmental matters in the jurisdictions in which the Company operates; and the ability of the Company to successfully market its products and services.

The actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth under the section entitled "Risk Factors" in the Annual Information Form for the year ended December 31, 2008 and pages 17 and 18 of the MD&A in the Annual Report for the year ended December 31, 2008. The Annual Information Form and the Annual Report are available on SEDAR at www.sedar.com.

Use of Non-GAAP Measures

This MD&A contains references to certain financial measures that do not have any standardized meaning prescribed by Canadian Generally Accepted Accounting Principles ("GAAP"), and may not be comparable to similar measures presented by other companies. These measures are provided to assist investors in determining the Company's ability to generate cash from operations and to provide additional information regarding the use of its cash resources. These financial measures are identified below:

- Cash provided by operations is derived from the Company's consolidated statement of cash flows and represents cash provided by operating activities before changes in non-cash components of working capital. Cash provided by operations is provided as supplemental information because management believes it provides investors with additional information regarding the Company's ability to generate funds to finance its operations and capital requirements.
- EBITDA represents earnings from operations before interest expense, income taxes, depreciation, amortization, accretion expense, and write-downs. It is used by management internally to measure the performance of the business as a whole. EBITDA is presented as supplemental information because management believes it is a widely used financial indicator of the Company's operating profitability and performance before the effects of capital investment and financing decisions.
- EBITDA per share represents EBITDA divided by the basic weighted average common shares outstanding.

Cash provided by operations

	Three months ended		Nine months ended	
(unaudited) ($ thousands)	**September 30, 2009**	September 30, 2008	**September 30, 2009**	September 30, 2008
Cash provided by operations	**985**	1,519	**2,341**	2,109
Add: Changes in non-cash components of working capital	**(6,882)**	(4,904)	**2,019**	(4,636)
Net cash provided by (used in) operating activities	**(5,897)**	(3,385)	**4,360**	(2,527)

Reconciliation of EBITDA to Net income (loss)

	Three months ended		Nine months ended	
(unaudited) ($ thousands)	**September 30, 2009**	September 30, 2008	**September 30, 2009**	September 30, 2008
EBITDA	**831**	1,428	**(886)**	2,133
Deduct (add): Amortization	**650**	617	**1,948**	1,886
Restructuring costs	**-**		**-**	850
Interest	**-**	33	**8**	57
Loss on write-down of plant equipment	**-**	2,129	**-**	2,129
Income taxes	**(164)**	(507)	**(1,410)**	(807)
Net income (loss)	**345**	(844)	**(1,432)**	(1,982)

Overview of the Company's Operations

Enerchem produces hydrocarbon fluids which are used as a base for invert mud systems in the drilling industry and as fracturing fluid in the well completions sector. In addition, the Company produces specialty solvents which are used in both the production and processing of heavier crude oils. The Corporation's proprietary fracturing and drilling fluids and solvents ("Fluids") are produced at its fractionation facilities located in Sundre and Slave Lake, Alberta. The Company's Fluids have been shown to provide its customers with measurable productivity improvements as well as contributing to reductions in operating and maintenance cost. The Fluids are marketed and sold throughout the WCSB and into the United States using both an internal sales structure and a network of distributors. The Company has also diversified its operations to capture energy marketing opportunities that are focused on maximizing value received by the Company for its hydrocarbon by-products. In addition, through its wholly-owned subsidiary, Millard Trucking Ltd. ("Millard") based in Sundre, Alberta, the Company provides fluid transportation and related services to the oil and gas industry.

The Company's activities are divided into three distinct business segments:

- *Oilfield services*, which represents the processing and sale of Fluids;
- *Energy marketing*, which represents the acquisition of crude oil for use as feedstock and marketing of the Company's by-products for resale to refiners and other customers; and
- *Transportation services*, which represents the operations of Millard. Revenue is derived from services to third parties as well as from inter-segment work for the Corporation's Oilfield services and Energy marketing segments.

Enerchem's customers include large multi-national and independent oil and natural gas producers, as well as smaller independent producers and suppliers of hydrocarbon-based drilling fluid ("invert mud"). The primary factors influencing demand for the Company's products and services are the level of drilling and workover activity in the WCSB, which in turn depends on current and anticipated future oil and natural gas prices and the levels of cash flow allocated by the industry to drilling and workover activity. As a result, demand for the Corporation's products and services is cyclical. Drilling and service rig counts and well depth are leading indicators of anticipated demand for Fluids which are most often used on deep-well drilling and workover activities at depths greater than 1,850 metres.

Seasonality of Operations

The ability to move heavy equipment used for drilling and well workovers in oil and natural gas fields in the WCSB is dependent on weather and road conditions. The roads that are utilized generally are not paved and as such present challenges in wet conditions. Exploration and production sites in many of the northern regions of the WCSB are accessible only during the winter months when the ground is frozen hard enough to support the weight of heavy equipment.

The timing and duration of freeze-up and spring break-up has a direct impact on Enerchem's activity levels. Late March through May has traditionally been the Company's slowest period for fluid sales and trucking activity while the peak period is generally from November through February.

Results of Operations – Three and Nine months Ended September 30, 2009

Overview

Oilfield activity levels in the WCSB and overall industry conditions remained at significantly lower levels than prior years during the third quarter of 2009 reflecting the impact of global economic conditions and depressed commodity prices, particularly for natural gas. Average drilling rig utilization in the WCSB during the third quarter of 2009 was only 21%, down 55% from the same period in 2008. Well completions for the third quarter of 2009 were also significantly lower, at 1,667 compared to 4,683 during the third quarter of 2008. On a year to date basis, 2009 rig utilization and well completions were down from 2008 by 44% and 41% respectively.

Revenue

Consolidated revenue for the three and nine months ended September 30, 2009 decreased by $1,443,000 and $21,871,000, respectively, when compared to the same periods of 2008. The Company's pricing in two of its segments is directly linked to the price of crude oil, which is used as a feedstock in the Oilfield services segment and as a marketed product in the Energy marketing segment. For the third quarter of 2009 and on a year to date basis, average crude oil prices were 43% and 50% lower than in the same periods of the prior year. In the third segment, Transportation services, industry activity drives revenues and with lower activity levels in 2009 in the industry, revenues were also lower in 2009 for this segment.

Oilfield Services. For the Oilfield services segment, when compared to the three months ended September 30, 2008, fluid sales volumes were up 24% in 2009 but a 73% drop in realized prices drove an overall $4,692,000 or 22% reduction in revenues. For the nine month period ended September 30, 2009 revenues were $12,593,000 or 25% lower than for the same period of the prior year, the net result of a 15% increase in sales volumes offset by a 36% reduction in prices received for the Company's fluids. During a time when industry activity was at it lowest level in many years, the Company increased sales volumes through focused marketing efforts, timely delivery of quality product and competitive pricing.

Enerchem's oilfield services segment results are driven by the overall margins the Company achieves on its fluid sales, maximization of refinery utilization rates, and maintaining appropriate inventory levels. Fluids sales are comprised generally of volumes of fracturing fluids, drilling fluids and solvents, each of which attracts a different margin over crude oil in the market place. Historically, fracturing fluids have attracted a narrower margin than have drilling fluid and solvents. The composition of the overall sales volumes determines total margin earned in any given period for the segment.

For the three month period ended September 30, 2009, fracturing fluid sales, driven by customer demand, represented a higher proportionate share of total volumes than in the same quarter of the prior year at 66% compared to 53%. Total margins for the nine months ended September 30, 2009 were lower than the same period of 2008 as fracturing fluid sales volumes were 54% of the total volumes sold compared to 49% in 2008.

Increased competition for sales due to the reduced industry activity also put downward pressure on margins, the impact of which was managed through focused inventory management to align product and crude storage levels more closely to market demand. Margins during this period of inventory reduction were further negatively affected by the high historical average cost of that inventory relative to the lower crude price environment in which it was sold in the first two quarters of 2009.

Energy Marketing. Segment revenue increased by $5,067,000, or 70% and decreased by $5,709,000 or 21% in the three and nine months ended September 30, 2009, respectively, compared to the same periods in 2008. Lower average crude prices in 2009 contributed to the reduction, while increased by-product volumes sold, driven by the Oilfield services segment's higher level of fluids sales, offset the price impact. Volatility in crude prices impacts the Energy marketing segment's margins, presenting opportunities when prices rise rapidly, as was the case in the first nine months of 2008, and challenges in less volatile crude oil price environments such as was the case for the first nine months of 2009.

Transportation Services. Third party segment revenue decreased by $1,818,000 or 53% and $3,569,000 or 41% in the three and nine months ended September 30, 2009 when compared to the same periods in 2008. The decrease in third party revenue reflects a reduction in oilfield activity levels as well as general rate reductions driven by customer relationship management in very competitive times.

Inter-segment revenue increased $809,000 or 60% and $613,000 or 12% in the three and nine months ended September 30, 2009 compared to the same periods of 2008. The increases in Oilfield services sales volumes drove these increases in inter-segment revenue as Transportation services equipment moves fluid volumes to customers and between internal Company tankage facilities to ensure timely delivery.

The proportion of inter-segment sales to total revenue increased to 58% and 52% for the three and nine month periods ended September 30, 2009 compared to 28% and 36% for the same periods of 2008. The increased proportion of inter-segment sales is driven by a combination of reduced industry activity and increased Oilfield services volumes in the three and nine month periods ended September 30, 2009 current year compared to the same periods of 2008.

Operating Expenses

Operating expenses represent the Company's product and service costs associated with the production and sale of its hydrocarbon products and the execution of its transportation services. In addition, operating expenses include all costs directly related to the support and maintenance of plant and other operating equipment.

Overall operating expense as a percentage of revenue, after elimination of inter-segment transactions, was 94% during the third quarter of 2009 and 96% for the nine months ended September 30, 2009 compared to 92% and 94% for the corresponding periods in 2008. Company management was effective in reducing operating expenses in the areas of lab operations, vehicle expenses and insurance. These gains have been offset by the higher percentage that crude supply cost forms of overall operating expenses due to the higher proportion of sales of fluids with narrower margins in the Oilfield services and Energy marketing segments.

The Transportation services segment did benefit from the impact of the drop in crude oil prices on fuel costs, and otherwise managed operating costs to the extent provided by the flexibility of retaining part of its hauling capacity through sub-contractor operations.

General and Administrative ("G&A")

General and administrative expenses include salaries and other related expenses for the Company's administrative, finance, information technology and human resource functions. G&A expenditures increased by $54,000 or 4% and $402,000 or 12% for the three and nine months ended September 30, 2009 when compared to the same periods in 2008. Savings over the nine month period in bank charges and interest have been more than offset by increased consulting fees related to public reporting requirements and higher occupancy costs. On a quarter over quarter basis lower salary and employee benefit costs due to changes made in the first quarter in the marketing team were more than offset by higher consulting and occupancy costs.

Depreciation and amortization

Depreciation expense increased by $33,000, or 5% and $62,000 or 3% respectively for the three and nine months ended September 30, 2009 when compared to the corresponding periods of the prior year. Effective January 1, 2009, the Company changed the basis on which it depreciates certain assets from a declining balance basis to a straight-line basis. As of 2009, all assets are depreciated on a straight-line basis. See "Changes in Accounting Policies and Practices" below.

Income Taxes

Enerchem filed its 2008 tax return carrying non-capital losses back to the 2005 tax year, which generated a recovery of income taxes previously paid amounting to $1,446,000. The Company received the amounts from Federal and Provincial taxing authorities during the third quarter of 2009. The consolidated provision for income tax expense for 2009 anticipates further non-capital losses which can be carried back to prior tax years for a recovery of taxes previously paid of $1,433,000. The impact of these provisions resulted in an offsetting increase in the Company's future income tax liability which moved from $3,179,000 at December 31, 2008 to $4,558,000 at September 30, 2009.

For the three and nine months ended September 30, 2009, the effective tax rates were 91% and 50% compared to 37% and 29% for the same periods in the prior year. The 2009 rates result from the impact of the recovery of prior years' income taxes recorded in the current periods, while the effective rates for 2008 reflect more normal course business.

Net income (loss)

The Company reported net income of $345,000 or $0.02 per common shared diluted for the three months ended September 30, 2009 and a net loss of $1,432,000 or $0.09 per common share diluted for the first nine months of 2009 compared to net losses of $844,000 and $1,982,000, or $0.06 and $0.13 per common share diluted for the corresponding periods in the prior year. Enerchem's focus on operating efficiencies and increasing market share are beginning to produce the expected results even in times of low industry activity.

EBITDA (refer to "Use of Non-GAAP Measures") decreased by $597,000 and $3,019,000, respectively, for the three and nine months ended September 30, 2009 when compared to the same periods in the previous year. Lower fluid margins, decreased third party transportation revenues and the impact of less volatile crude prices on Energy marketing were only partially offset by the higher sales volumes in providing lower cash flows for Enerchem in the current periods. Since September 30, 2009 changes in the mix of fluid sales and improving fluid margins are expected to have a substantial favorable impact on the Company's EBITDA for the final quarter of the year.

Liquidity and Capital Resources

Cash provided by operations before working capital changes (refer to "Use of Non-GAAP Measures" in this MD&A) for the three and nine months ended September 30, 2009 totaled $985,000 and $2,341,000, respectively compared to $1,519,000 and $2,109,000 for the same periods of 2008. Tighter margins on fluid sales in 2009, the impact of lower crude oil price volatility in the Energy marketing segment and lower third party activity in the Transportation services segment combined to create the lower values for Q3 2009. While the nine month value for 2008 is lower than for 2009, the prior year carried a one time charge of $850,000 on account of anticipated restructuring costs. The same factors discussed above for Q3 have created the resulting reduced cash flows for the nine months ended September 30, 2009.

Enerchem's working capital was $14,978,000 at September 30, 2009 compared to $13,915,000 at December 31, 2008. The Company's current ratio (defined as current assets divided by current liabilities) was 2.1 to 1 at September 30, 2009 and 2.3 to 1 at December 31, 2008. While the reduced cash flows in the current year have lowered the ratio, it is still well in excess of bank covenants. With the expectation of improved margins on higher volumes in the final quarter of the year, the ratio is expected to return to the 2008 levels.

Net cash used by the Company in investing activities totaled $123,000 and $1,224,000 for the three and nine months ended September 30, 2009, respectively, compared to $667,000 and $4,026,000 for the corresponding periods of 2008. In both years, refinery turnarounds conducted in the second quarter resulted in costs of approximately $550,000, which costs are deferred and amortized over a period of one year in the balance sheet category "Other Assets". Capital spending during the first nine months of 2008 related to completion of the blend facility and de-salter at Slave Lake, as well as the direct-fired heaters in Sundre. Management is restricting capital investments in 2009 to a maintenance level in line with their strategy to weather the industry downtown and prepare the Company to take advantage of the expected upturn in early 2010.

Net cash of $259,000 was generated from financing activities in the three months ended September 30 2009 and $3,201,000 was used in the nine month period. Bank debt outstanding at the end of 2008 was fully repaid by the end of the first quarter of 2009 and the Company utilized its own cash to fund operating activities until the end of September at which time the production increases which drove the requirement for additional crude feedstock, resulted in the need to draw on operating lines as a normal course business cycle activity. In 2008 both comparative periods saw the Company borrowing on its bank lines to fund the capital projects discussed earlier in this section.

At September 30, 2009, the Company had outstanding bank guarantees of $4,657,000 (September 30, 2008 – $6,125,000) which were terminated and renewed in the amount of $3,025,000 in October 2009, in favour of suppliers for feedstock purchases.

During the third quarter of 2009, as part of its annual review, the Company renewed its credit facilities with a Canadian chartered bank, re-configuring the available amounts to reflect the changing needs of the business. The facilities consist of $10,500,000 available under a revolving operating line of credit which bears interest at the bank's prime rate plus 0.75% and is available by way of account overdraft or by Bankers' Acceptances for $10,000,000 (September 30, 2008 – $5,000,000) of the amount, the latter of which bear interest at Bankers' Acceptance rates plus a margin; a $5,000,000 demand revolving loan (September 30, 2008 – $8,000,000) at the bank's prime rate plus 1.5%; and a bank guarantee facility of $10,000,000 (September 30, 2008 – $17,000,000) that bears a fee of 1.5% per annum at the time of the issuance of the guarantee. The rates on the facilities increased from the prior year as a result of the tighter credit conditions in the financial markets.

The Company had drawn $260,000 on the revolving operating facility at September 30, 2009 (September 30, 2008 – $4,376,000).

Summary of Contractual Obligations and Off-balance Sheet Arrangements

The following table summarizes the Company's contractual obligations including payments due in the next five years and thereafter.

Contractual obligations ($ thousands)	Payments due by period				
	Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Operating leases (1)	1,412	516	879	17	-
Total contractual obligations	1,412	516	879	17	-

(1) Represents normal operating leases comprised of vehicles, trailers and office space.

In the normal course of business with vendors the Company may become contingently liable for performance under letters of guarantee and credit. In this regard, the Company has arranged the bank guarantee facility discussed above as security for its feedstock arrangements and purchase commitments. For the remainder of 2009 the Company expects cash flow from operations and from its sources of financing to be sufficient to meet its contractual obligations.

Share Capital

At September 30, 2009 the Company had 15,011,173 common shares outstanding. In addition, as of September 30, 2009, the Company has reserved 565,000 common shares for issuance under outstanding stock options. There have been no changes in the number of shares outstanding and stock options as at November 10, 2009.

Enerchem commenced a normal course issuer bid (NCIB) on July 15, 2009, the intent of which is to purchase up to 500,000 of its issued and outstanding common shares. Purchases under the NCIB will terminate on July 14, 2010 or such earlier time as the full amount of common shares are acquired or the NCIB is terminated by the Company. The Company has purchased 6,200 shares under this bid as of September 30, 2009.

Summary of Quarterly Results

The following tables provide selected unaudited financial information relating to the Company's quarterly activities in 2009, 2008 and 2007 and are prepared in accordance with Canadian GAAP with respect to the preparation of interim financial statements.

Three month periods ended
(unaudited)

($ thousands except per share amounts)	September 30, 2009	June 30, 2009	March 31, 2009	December 31, 2008
Revenue	31,028	11,787	22,921	28,189
Net earnings (loss) for the period	345	(1,453)	(323)	81
Net earnings (loss) per share for the period				
Basic	$ 0.02	$ (0.10)	$ (0.02)	$ 0.01
Diluted	$ 0.02	$ (0.10)	$ (0.02)	$ 0.01

Three month periods ended
(unaudited)

($ thousands except per share amounts)	September 30, 2008	June 30, 2008	March 31 2008	December 31, 2007
Revenue	32,471	21,390	33,747	25,133
Net earnings (loss) for the period	(844)	(1,067)	(70)	643
Net earnings (loss) per share for the period				
Basic	$ (0.06)	$ (0.07)	$ 0.00	$ 0.04
Diluted	$ (0.06)	$ (0.07)	$ 0.00	$ 0.04

Trends and Outlook

The impact of the global economic downturn, which began to significantly affect the energy sector in the WCSB in late 2008, is expected to continue to affect the energy sector into early 2010. Crude oil prices, after having declined throughout the fourth quarter of 2008, began to recover in mid-February and appear to be settling at current levels with reduced volatility. This has provided some relief to the sector, but not sufficient to avoid job losses and other negative fall-out in the energy services and related sectors. Natural gas prices have trended lower and are expected to remain low for some time. Since the number of natural gas well completions have been more than double those of oil over the last several years, negative natural gas development prospects will continue to weigh heavily on the drilling sector.

Management anticipates 2009 industry activity of approximately 9,000 wells drilled on a rigs released basis, a reduction of approximately 56% from 2008's 20,729 wells. However, based on the Company's experience in the first nine months of 2009 given the type of specialty drilling recovery that is occurring, demand for Enerchem's products and services is expected to continue to counter the general industry trend. In addition, management believes that long-term fundamentals will continue to support exploration and development of energy reserves in the WCSB, providing a very positive long term outlook for Enerchem and its efficient approach to operations management.

Management continues to focus on maintaining a healthy balance sheet through effective management of inventories, capacity and constrained capital investments. At the end of September, Enerchem had very little net debt and substantial working capital. Management continues to pursue the development of alternative markets for the Company's products and believes it is well positioned to take advantage of opportunities that develop, particularly as the WCSB energy sector recovers.

Changes in Accounting Policies and Practices

(a) Goodwill and Intangible Assets

Effective January 1, 2009, the Company adopted CICA Section 3064, "Goodwill and Intangible Assets" which replaces Section 3062, "Goodwill and Other Intangible Assets" and Section 3450, "Research and Development Costs". The new pronouncement establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition of intangible assets. Standards concerning goodwill are unchanged from the previous standards included in the previous section 3062. Adoption of this standard has not had a material impact on the Company's financial statements.

(b) Credit Risk and the Fair Value of Financial Assets and Liabilities

On January 20, 2009 the Emerging Issues Committee of the CICA issued EIC-173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities." The EIC concluded that the credit risk of an entity and applicable counterparties should be taken into account when determining the fair values of financial assets or liabilities, including derivative instruments. The recommendations of EIC-173 are effective for interim and annual reporting periods in 2009 and were applied retrospectively, without restatement of prior periods. The application of the EIC recommendations did not have a material effect on the Company's financial statements.

(c) Depreciation

Effective January 1, 2009, the Company changed the basis on which it depreciates certain assets from a declining balance basis to a straight-line basis. As of 2009, all assets are depreciated on a straight-line basis. The accounting change is treated as a change in estimate and is applied prospectively. The benefit of the change is improved consistency of process, particularly in connection with periodic reassessments of remaining asset lives. The estimated useful lives under the straight-line method were computed as necessary in order to maintain the depreciation expense at essentially the same level as under the declining balance method immediately preceding the change. The effect of these changes on depreciation expense is nil in the current year.

Future Changes in Accounting Policies

(a) International Financial Reporting Standards ("IFRS")

The Canadian Accounting Standards Board has announced that accounting standards in Canada, as used by public companies, will be converged to International Financial Reporting Standards effective January 1, 2011. The Company will convert to these new standards according to the timetable set with these new rules. The changeover date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011.

IFRS uses a conceptual framework similar to Canadian GAAP but there are significant differences in recognition, measurement and disclosure requirements. As a result, the Company has established a changeover plan to convert to these new standards according to the timetable set for adoption of these new rules. An implementation plan has been created and at this time the impact on the Company's future financial position and results of operations is not reasonably determinable or estimable.

Additional details regarding the Company's changeover plan and progress to date are discussed in a separate section entitled "International Financial Reporting Standards" below.

(b) Business Combinations

CICA Handbook Section 1582, "Business Combinations" will be applicable to business combinations occurring in fiscal periods commencing on or after January 1, 2011. Early adoption is permitted. This section improves the relevance, reliability, and comparability of the information that a reporting entity provides in its financial statements regarding a business combination and its effects. The Company is currently evaluating the impact of adopting this standard.

(c) Consolidated Financial Statements

CICA Handbook Section 1601, "Consolidated Financial Statements" will be applicable to financial statements relating to the Company's fiscal year beginning on January 1, 2011. Early adoption is permitted. This section establishes standards for the preparation of consolidated financial statements. The Company has not yet determined the impact of the adoption of this new Section on the consolidated financial statements.

(d) Non-controlling Interests

CICA Handbook Section 1602, "Non-controlling interests" will be applicable to financial statements relating to the Company's year beginning on January 1, 2011. Early adoption is permitted. This section establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The Company is currently evaluating the impact of adopting this standard.

Critical Accounting Estimates

The preparation of the financial statements, in conformity with GAAP, requires management of the Company to make estimates and assumptions that affect the reported amounts of assets and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Management regularly evaluates these estimates and assumptions which are based on past experience and other factors that are deemed reasonable under the circumstances. This involves varying degrees of judgment and uncertainty and, therefore, amounts currently reported in the financial statements could differ in the future. Except as described above in "Depreciation", there have been no changes in these accounting estimates from those reported in the Company's Annual Report at December 31, 2008.

Risks and Uncertainties

The section entitled "Risk Factors" in the Annual Information Form for the year ended December 31, 2008 and page 17 and 18 of the MD&A included in the Annual Report of the Company for the year ended December 31, 2008 include an overview of the risks and uncertainties affecting the Company. The Annual Information Form and the Annual Report are available on SEDAR at www.sedar.com. The types of risks and uncertainties are largely unchanged as at September 30, 2009.

Disclosure Controls and Internal Control Over Financial Reporting

The Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") are responsible for establishing and maintaining disclosure controls and procedures to provide reasonable assurance that material information about the Company is identified and communicated to management in order to allow timely decisions regarding required disclosure.

Management is also responsible for establishing and maintaining internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with Canadian GAAP. The Company's design of internal control over financial reporting used criteria established by the Committee of Sponsoring Organizations of the Treadway Commission in the *Internal Control – Integrated Framework* (COSO Framework). Management has concluded that the Company's design of internal control over financial reporting is effective as of September 30, 2009.

There were no changes in the Company's internal control over financial reporting during the period beginning January 1, 2009 and ended on September 30, 2009 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

International Financial Reporting Standards

The Company has developed a changeover plan to complete the transition to IFRS by January 1, 2011, including the preparation of required comparative information relating to 2010. The key elements of Enerchem's changeover plan include:

- Determination of appropriate changes to accounting policies and required disclosures;
- Identification and implementation of changes in supporting processes and information systems;
- Compliance with internal control over financial reporting requirements;
- Communication with internal and external stakeholders regarding expected outcomes; and
- Training of internal staff and education of relevant external stakeholder to support the changes.

After completing a diagnostic analysis earlier in 2009 to determine aspects of IFRS specific to Enerchem which are high impact and complex, work has been completed on analysis of gaps and differences, particularly in key standards such as International Accounting Standard ("IAS") 16 – *Property, Plant and Equipment* as well as IAS 36 – *Impairment of Assets*. The Company is also assessing various accounting policy choices made available by IFRS 1, which pertains to first-time adoption of the new standards. The Company has determined its cash generating units and is finalizing componentization of the Company's assets. Developing pro-forma financial statements under IFRS will be the key activity in this area for the final quarter of 2009. Management does not expect the adoption of IRFS to impact the underlying cash flows or profitability of the Company.

Consolidated Balance Sheets

($ thousands)	September 30, 2009 (unaudited)	December 31, 2008 (audited)
Assets		
Current assets		
Cash and cash equivalents	**131**	196
Accounts receivable (note 5(b))	**22,453**	16,217
Income taxes receivable (note 8)	**1,433**	26
Inventories (note 6)	**3,942**	7,562
Prepaid expenses	**249**	188
Future income taxes	**29**	70
	28,237	24,259
Other assets	**267**	125
Property, plant and equipment	**37,721**	38,954
	66,225	63,338
Liabilities		
Current liabilities		
Bank indebtedness	**260**	3,448
Accounts payable and accrued liabilities (note 5(b))	**12,999**	6,896
	13,259	10,344
Asset retirement obligations	**229**	218
Future income taxes (note 8)	**4,558**	3,179
	18,046	13,741
Contingent liabilities and commitments (note 9)		
Shareholders' Equity		
Share capital (note 7(b))	**29,161**	29,193
Contributed surplus (note 7(c))	**1,645**	1,599
Retained earnings	**17,373**	18,805
	48,179	49,597
	66,225	63,338

The accompanying notes are an integral part of these consolidated financial statements

Consolidated Statements of Operations, Comprehensive Income (loss) and Retained Earnings
(unaudited)

($ thousands, except per share amounts)	Three months ended September 30		Nine months ended September 30	
	2009	2008	**2009**	2008
Revenues	**31,028**	32,471	**65,737**	87,608
Expenses				
Operating	**29,061**	29,839	**62,916**	82,086
General and administrative	**1,272**	1,218	**3,836**	3,434
Restructuring costs	**-**	-	**-**	850
Depreciation and amortization	**646**	614	**1,937**	1,876
Accretion expense	**4**	3	**11**	10
Interest expense	**-**	33	**8**	57
	30,983	31,707	**68,708**	88,313
Income (loss) from operations before other income (expense)	**45**	764	**(2,971)**	(705)
Other income (expense)				
Interest income and other	**138**	14	**107**	40
Loss on write-down of plant equipment	**-**	(2,129)	**-**	(2,129)
Gain (loss) on disposal of property, plant and equipment	**(2)**	-	**22**	5
	136	(2,115)	**129**	(2,084)
Income (loss) before income taxes	**181**	(1,351)	**(2,842)**	(2,789)
Income taxes				
Current expense (recovery)	**3**	51	**(2,830)**	(278)
Future provision (recovery)	**(167)**	(558)	**1,420**	(529)
	(164)	(507)	**(1,410)**	(807)
Net income (loss) and comprehensive income (loss) for the period	**345**	(844)	**(1,432)**	(1,982)
Retained earnings, beginning of period	**17,028**	19,569	**18,805**	20,712
Common shares repurchased and cancelled	**-**	(1)	**-**	(6)
Retained earnings, end of period	**17,373**	18,724	**17,373**	18,724
Income (loss) per share (note 7(e))				
Basic	**0.02**	(0.06)	**(0.10)**	(0.13)
Diluted	**0.02**	(0.06)	**(0.09)**	(0.13)
Weighted average shares outstanding (note 7(e))				
Basic	**15,024**	15,208	**15,026**	15,227
Diluted	**15,188**	15,208	**15,189**	15,227

The accompanying notes are an integral part of these consolidated financial statements

Consolidated Statement of Cash Flows
(unaudited)

($ thousands)	Three months ended September 30 2009	Three months ended September 30 2008	Nine months ended September 30 2009	Nine months ended September 30 2008
Operating activities				
Net income (loss)	**345**	(844)	**(1,432)**	(1,982)
Items not affecting cash				
Depreciation, amortization and accretion expense	**650**	617	**1,948**	1,886
Stock based compensation	**7**	12	**26**	30
Amortization of plant turnaround costs	**148**	163	**401**	580
Loss (gain) on disposal of property, plant and equipment	**2**	-	**(22)**	(5)
Loss on write-down of plant equipment	**-**	2,129	**-**	2,129
Future income tax provision (recovery)	**(167)**	(558)	**1,420**	(529)
	985	1,519	**2,341**	2,109
Changes in non-cash components of working capital				
Net change in accounts receivable	**(13,240)**	(8,501)	**(6,236)**	(6,013)
Net change in inventories and prepaid expenses	**1,481**	1,093	**3,559**	(3,776)
Net change in accounts payable and accrued liabilities	**3,436**	2,182	**6,103**	5,043
Net change in income taxes receivable	**1,441**	322	**(1,407)**	110
	(6,882)	(4,904)	**2,019**	(4,636)
Net cash provided by (used in) operating activities	**(5,897)**	(3,385)	**4,360**	(2,527)
Investing activities				
Purchase of property, plant and equipment	**(101)**	(661)	**(840)**	(3,553)
Proceeds on disposal of property, plant and equipment	**10**	-	**158**	34
Increase in other assets	**(32)**	(6)	**(542)**	(507)
Net cash used in investing activities	**(123)**	(667)	**(1,224)**	(4,026)
Financing activities				
Net change in bank indebtedness	**260**	4,316	**(3,188)**	4,376
Repurchase of common shares under normal course issuer bid (note 7(c))	**(1)**	(294)	**(13)**	(370)
Net cash provided by (used in) financing activities	**259**	4,022	**(3,201)**	4,006
(Decrease) increase in cash and cash equivalents	**(5,761)**	(30)	**(65)**	(2,547)
Cash and cash equivalents – beginning of period	**5,892**	194	**196**	2,711
Cash and cash equivalents – end of period	**131**	164	**131**	164

The accompanying notes are an integral part of these consolidated financial statements

1. Basis of Presentation and Accounting Policies

The accompanying unaudited interim consolidated financial statements of Enerchem International Inc. ("Enerchem" or the "Company") are prepared in accordance with generally accepted accounting principles ("GAAP") in Canada regarding the preparation of interim financial statements. Accordingly, they do not include all of the information and disclosures required by Canadian GAAP in the preparation of annual statements.

These unaudited interim consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Millard Trucking Ltd. ("Millard"). All significant inter-company balances and transactions have been eliminated.

With the exception of items (a), (b) and (c) as described below, these unaudited interim consolidated financial statements follow the same accounting policies and methods of computation as, and should be read in conjunction with, the most recent audited annual financial statements for the year ended December 31, 2008.

a) Goodwill and Intangible Assets

Effective January 1, 2009, the Company adopted CICA Section 3064, "Goodwill and Intangible Assets", which replaces Section 3062, "Goodwill and Other Intangible Assets" and Section 3450, "Research and Development Costs". The new pronouncement establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets. Standards concerning goodwill are unchanged from the previous standards included in the previous Section 3062. Adoption of this standard has not had a material impact on the Company's financial statements.

b) Credit Risk and the Fair Value of Financial Assets and Liabilities

On January 20, 2009, the Emerging Issues Committee of the CICA issued EIC-173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities." The EIC concluded that the credit risk of an entity and applicable counterparties should be taken into account when determining the fair values of financial asset or liabilities, including derivative instruments. The recommendations of EIC-173 are effective for interim and annual reporting periods in 2009 and were applied retrospectively, without restatement of prior periods. The application of the EIC recommendations did not have a material effect on the Company's financial statements.

c) Depreciation

Effective January 1, 2009, the Company changed the basis on which it depreciates certain assets from a declining balance basis to a straight-line basis. As of 2009, all assets are depreciated on a straight-line basis. The accounting change is treated as a change in estimate and is applied prospectively. The benefit of the change is improved consistency of process, particularly in connection with periodic reassessments of remaining asset lives. The effect of this change on depreciation expense is nil in the current year.

2. Recent Canadian Accounting Pronouncements

a) International Financial Reporting Standards ("IFRS")

The Canadian Accounting Standards Board has confirmed that the use of IFRS will be required for publicly accountable profit-oriented enterprises. IFRS will replace Canada's current generally accepted accounting principles for those enterprises. These new standards are applicable for fiscal years beginning on or after January 1, 2011. Companies will be required to provide comparative IFRS information for the previous fiscal year. The Company will implement this standard in its first quarter of the year ending December 31, 2011 and is currently evaluating the impact of these standards on its consolidated financial statements.

2. Recent Canadian Accounting Pronouncements (continued)

b) Business Combinations

CICA Handbook Section 1582, "Business Combinations" will be applicable to business combinations occurring in fiscal periods commencing on or after January 1, 2011. Early adoption is permitted. This section improves the relevance, reliability, and comparability of the information that a reporting entity provides in its financial statements regarding a business combination and its effects. The Company is currently evaluating the impact of adopting this standard.

c) Consolidated Financial Statements

CICA Handbook Section 1601, "Consolidated Financial Statements" will be applicable to financial statements relating to the Company's fiscal year beginning on January 1, 2011. Early adoption is permitted. This section establishes standards for the preparation of consolidated financial statements. The Company is currently evaluating the impact of adopting this standard.

d) Non-controlling Interests

CICA Handbook Section 1602, "Non-controlling Interests" will be applicable to financial statements relating to the Company's year beginning on January 1, 2011. Early adoption is permitted. This section establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. The Company is currently evaluating the impact of adopting this standard.

3. Nature of Operations

Enerchem is a producer and distributor of hydrocarbon drilling and fracturing fluids designed to provide cost effective solutions to the upstream oil and gas industry and specialty solvents to help resolve production and processing problems of downstream producers. The Company also provides energy marketing services and, through its wholly-owned subsidiary, Millard Trucking Ltd., provides fluid transportation and other related oilfield services.

The Company's activities are divided into three distinct business segments: Oilfield Services, which represents the production and sale of hydrocarbon products ("Fluids"); Energy Marketing, which represents the purchasing and gathering of crude oil for use as feedstock and marketing of the Company's by-products for resale to refiners and other customers; and Transportation Services, which represents the operations of Millard.

4. Seasonality of Operations

Weather conditions can affect the sale of the Company's products and services. Spring months in Western Canada tend to affect operations negatively as road bans and wet weather conditions ("spring break-up") make it difficult to drill for oil and natural gas and to access service sites. The Company traditionally experiences increased activity levels during the fall and winter seasons and decreased activity during spring break-up.

5. Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, bank indebtedness and accounts payable and accrued liabilities.

a) Fair Value Disclosure

The fair values of cash and cash equivalents, accounts receivable, bank indebtedness and accounts payable and accrued liabilities approximate their carrying values due to the relatively short periods to maturity of these instruments.

b) Financial Risk Management

Enerchem's activities are exposed to a variety of financial risks including credit risk, liquidity risk and market risk. The Company's overall risk management program focuses on the unpredictability of

5. Financial Instruments (continued)

b) Financial Risk Management (continued)

financial and economic markets and seeks to minimize potential adverse effects on the Company's financial performance. Risk management is carried out by financial management in conjunction with overall Company governance.

i) Credit Risk

The Company is exposed to credit risk through its cash and cash equivalents and accounts receivable. The Company has deposited the cash and cash equivalents with reputable financial institutions, from which management believes the risk of loss to be remote. The Company has accounts receivable from customers in the oil and gas industry and risk is mitigated by the Company's diverse customer base, by conducting a majority of its business with large companies in the industry, by following a program of credit evaluation and limiting the amount of customer credit where deemed necessary.

As at September 30, 2009 the Company's exposure to credit risk for accounts receivable was as follows:

Aging of financial assets:

($ thousands)	Total	Current Amount	Not more than three months past due	More than three months but less than nine months past due
Accounts receivable	22,453	19,801	1,831	821

ii) Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents and the availability of funding through an adequate amount of committed credit lines and bank guarantee facilities. Due to the dynamic nature of the business, the Company aims to maintain flexibility in funding by keeping committed credit lines available. The contractual maturity of accounts payable and accrued liabilities of $13,259,000 at September 30, 2009 requires payment within thirty days.

As at September 30, 2009, the Company's credit facilities consisted of the following with a Canadian chartered bank: a $10,500,000 revolving operating line of credit (September 30, 2008 – $5,500,000) which bears interest at the bank's prime rate plus 0.75% and is available by way of account overdraft or by Bankers' Acceptances for $10,000,000 (September 30, 2008 – $5,000,000) of the amount, which bear interest at Bankers' Acceptance rates plus a margin; a $5,000,000 demand revolving loan (September 30, 2008 – $8,000,000) at the bank's prime rate plus 1.5%; and a bank guarantee facility of $10,000,000 (September 30, 2008 – $17,000,000) that bears a fee of 1.5% per annum at the time of issuance of the bank guarantee.

iii) Market Risk

Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

- *Currency Risk:* Foreign currency risk arises from fluctuations in foreign exchange rates and the degree of volatility of these rates relative to the Canadian dollar. The Company is not significantly exposed to foreign currency risk.
- *Interest Rate Risk:* The Company has a credit facility with a Canadian chartered bank which when utilized by the Company provides loans that are subject to interest rate fluctuation. The Company manages its interest risk on borrowings by utilizing a combination of short term fixed rates through the use of 30 to 90 day Bankers' Acceptance instruments and floating rates on debt.

5. Financial Instruments (continued)

b) Financial Risk Management (continued)

iii) Market Risk (continued)

- *Other Price Risk:* The Company's exposure to other price risk arises from changes in crude oil and natural gas prices as a result of its use of crude oil feedstock and natural gas for processing at its Sundre and Slave Lake fractionation plants. The potential fluctuations in crude oil and natural gas prices, without a corresponding increase in the underlying value of the Company's products to the end user, could have a significant impact on the cost of producing its products and the profitability of the Company. This risk is reduced in part, from time to time, through the use of crude oil and natural gas forward purchase contracts. The contracts are not used for speculative trading purposes. Realized gains or losses on these contracts are reported as adjustments to operating expenses in the related production period.

  The Company did not have any outstanding crude oil and natural gas forward purchase contracts as at September 30, 2009 or September 30, 2008.

  The Company's purchase of crude oil feedstock and natural gas and forward purchase contracts are not considered to be financial instruments under CICA Section 3855.

6. Inventories

Inventories are comprised as follows:

($ thousands)	September 30, 2009	December 31, 2008
Raw materials	1,755	2,659
Finished product	2,187	4,903
Total	3,942	7,562

For the three and nine months ended September 30, 2009, operating expenses include inventories recognized as an expense in the amount of $25,807,000 and $52,618,000 (three and nine months ended September 30, 2008 – $24,571,000 and $67,826,000 respectively).

The Company's inventories have been pledged as collateral on its demand revolving operating loans, bank guarantees and long-term credit facility with a Canadian chartered bank.

7. Share Capital and Contributed Surplus

a) Authorized -

- 20,000,000 non-voting, preferred shares, rights to be determined upon issue
- Unlimited number of common shares

b) Issued -

- Common

	September 30, 2009		December 31, 2008	
	# thousands	$ thousands	# thousands	$ thousands
Balance – beginning of period	15,027	29,193	15,253	29,631
Redemption pursuant to normal course issuer bid	(16)	(32)	(226)	(438)
Balance – end of period	15,011	29,161	15,027	29,193

On July 15, 2008, the Company commenced a normal course issuer bid (NCIB) which expired July 14, 2009. The NCIB provided for the Company to purchase up to 760,805 of its issued and outstanding common shares. During 2009, the Company purchased 10,100 shares under this

7. Share Capital and Contributed Surplus (continued)

b) Issued – (continued)

plan. Enerchem commenced a new NCIB on July 15, 2009, the intent of which is to purchase up to 500,000 of its issued and outstanding common shares. Purchases under the NCIB will terminate on July 14, 2010 or such earlier time as the full amount of common shares are acquired or the NCIB is terminated by the Company. The Company has purchased 6,200 shares under this new plan up to September 30, 2009.

c) Contributed Surplus

($ thousands)	September 30, 2009	December 31, 2008
Balance – beginning of period	1,599	1,501
Redemption pursuant to normal course issuer bid at an average price less than the average carrying value	19	73
Stock based compensation expensed during the period	27	25
Balance – end of period	1,645	1,599

d) Stock Options

The Company has reserved 2,700,000 common shares which may be granted to directors and employees of the Company pursuant to an approved stock option plan ("Option Plan"). Stock options granted to employees vest after varying terms from the date of grant and expire up to ten years after the date of grant. The exercise price of each option equals the market price of the Company's common shares at the date of grant. A summary of the status of the Company's Option Plan is presented below:

		September 30, 2009
	Options	Weighted Average Exercise Price
	#	$
Common shares under option – beginning of period	565,000	2.35
Share options granted	75,000	.58
Share options forfeited	(75,000)	1.42
Common shares under option – end of period	565,000	2.24
Options exercisable at end of period	290,000	3.07

The impact of expensing stock options for the three and nine months ended September 30, 2009 was $7,000 and $26,000 respectively (three and nine months ended September 30, 2008 – $12,000 and $30,000 respectively) with a corresponding increase in contributed surplus.

7. Share Capital and Contributed Surplus (continued)

e) Weighted Average Shares Outstanding

The following table summarizes the common shares used in calculating basic and diluted net loss per common share:

	Three months ended September 30,		Nine months ended September 30,	
(# thousands)	2009	2008	2009	2008
Weighted average share calculation				
- Basic				
Common shares – opening	15,025	15,216	15,027	15,253
Weighted average common shares repurchased during the period	(1)	(8)	(1)	(26)
	15,024	15,208	15,026	15,227
- Diluted				
Common shares – opening	15,173	15,208	15,176	15,227
Dilutive effect of stock options and equivalents	15	-	13	-
	15,188	15,208	15,189	15,227

8. Income Taxes

During the second quarter of 2009 Enerchem filed its 2008 income tax return, carrying non-capital losses back to the 2005 tax year, which generated a recovery of income taxes previously paid amounting to $1,446,000. For 2009, the consolidated provision for income tax anticipates further non-capital losses which can be carried back to prior tax years resulting in further recovery of taxes previously paid of $1,433,000.

The following table reconciles income taxes from operations calculated at the combined statutory federal and provincial tax rate with the income tax provision in the financial statements:

	Three months ended September 30,		Nine months ended September 30,	
($ thousands)	**2009**	2008	**2009**	2008
Expected income taxes based on combined statutory Canadian federal and provincial tax rate	**52**	(399)	**(824)**	(823)
Changes in substantively enacted rates	**(140)**	-	**(140)**	-
Non-capital losses	**-**	-	**(340)**	-
Adjustments to prior years tax filings	**-**	-	**-**	46
Stock based compensation	**2**	4	**8**	9
Non-deductible and other	**(78)**	(112)	**(114)**	(39)
	(164)	(507)	**(1,410)**	(807)

9. Contingent Liabilities and Commitments

a) Letters of guarantee are provided by the Company on an ongoing basis and for varying amounts for its petroleum feedstock purchases from suppliers. At September 30, 2009, the Company had obligations under letters of guarantee totaling $4,657,000 to two suppliers; these obligations were subsequently terminated and renewed in October, 2009.

b) In the normal course of business, the Company is party to various claims and legal proceedings. While the final outcome with respect to the claims and legal proceedings pending, as at September 30, 2009, cannot be determined with certainty, it is the opinion of management that their resolution will not have a material adverse effect on the Company's financial position or results of operations.

10. Segmented Information

The Company's business segments are described in Note 3. All of these business segments operate in one geographic region – the Western Canadian Sedimentary Basin. In the following tables, the elimination of significant inter-segment transactions is reflected under the caption "Inter-segment Eliminations".

Three months ended September 30, 2009

($ thousands)	Oilfield services	Energy marketing	Transportation services	Inter-segment Eliminations	Consolidated
Revenue	17,088	12,352	1,588	-	31,028
Inter-segment revenue	-	-	2,149	(2,149)	-
Total revenue	17,088	12,352	3,737	(2,149)	31,028
Operating expenses	16,298	12,504	2,454	(2,195)	29,061
Depreciation, amortization & accretion expense	363	31	256	-	650
Interest expense	-	-	-	-	-
Other (income) expense	(137)	-	1	-	(136)
Subtotal	564	(183)	1,026	46	1,453
Less: General and administrative					1,272
Income before income taxes					181

Three months ended September 30, 2008

($ thousands)	Oilfield services	Energy marketing	Transportation services	Inter-segment Eliminations	Consolidated
Revenue	21,780	7,285	3,406	-	32,471
Inter-segment revenue	-	-	1,340	(1,340)	-
Total revenue	21,780	7,285	4,746	(1,340)	32,471
Operating expenses	20,721	6,990	3,436	(1,307)	29,840
Depreciation, amortization & accretion expense	346	11	260	-	617
Interest expense	32	-	-	-	32
Other (income) expense	2,115	-	-	-	2,115
Subtotal	(1,434)	284	1,050	(33)	(133)
Less: General and administrative					1,218
Less: Restructuring costs					-
Loss before income Taxes					(1,351)

Nine months ended September 30, 2009

($ thousands)	Oilfield services	Energy marketing	Transportation services	Inter-segment Eliminations	Consolidated
Revenue	38,694	21,980	5,063	-	65,737
Inter-segment revenue	-	-	5,548	(5,548)	-
Total revenue	38,694	21,980	10,611	(5,548)	65,737
Operating expenses	38,656	22,219	7,517	(5,476)	62,916
Depreciation, amortization & accretion expense	1,075	91	782	-	1,948
Interest expense	8	-	-	-	8
Other (income) expense	(102)	-	(27)	-	(129)
Subtotal	(943)	(330)	2,339	(72)	994
Less: General and administrative					3,836
Loss before income taxes					(2,842)

10. Segmented Information (continued)

Nine months ended September 30, 2008

($ thousands)	Oilfield services	Energy marketing	Transportation services	Inter-segment Eliminations	Consolidated
Revenue	51,287	27,689	8,632	-	87,608
Inter-segment revenue		-	4,935	(4,935)	
Total revenue	51,287	27,689	13,567	(4,935)	87,608
Operating expenses	51,227	26,085	9,679	(4,905)	82,086
Depreciation, amortization & accretion expense	1,023	21	842	-	1,886
Interest expense	57	-	-	-	57
Other (income) expense	2,088	-	(4)	-	2,084
Subtotal	(3,108)	1,583	3,050	(30)	1,495
Less: General and Administrative					3,434
Less: Restructuring costs					850
Loss before income taxes					(2,789)
As at September 30, 2009					
Total assets	62,990	2,452	7,996	(7,213)	66,225
Capital expenditures	780	29	31	-	840
As at December 31, 2008					
Total assets	55,492	3,538	9,814	(5,506)	63,338
Capital expenditures	3,480	532	634	-	4,646

11. Comparative figures

Certain comparative figures have been reclassified to conform with the current year's presentation.

Health, Safety and Environmental

Enerchem places the importance of safety above all other aspects of the Company's business. Enerchem recognizes that its employees represent its most valuable asset and must be provided with the tools and systems necessary to carry out their work in a safe environment.

Management has initiated comprehensive polices and procedures to ensure the health and safety of all the Company's employees, contractors, sub-contractors and visitors.

Enerchem holds a Certificate of Recognition ("COR") for all of its business operations. The COR recognizes that the Company's health and safety management systems meet the Standards of Partnerships developed by Alberta Human Resources and Employment. Management is proud that employees have maintained an excellent safety performance record and that all facilities have operated lost-time incident free throughout the year.

Management has also implemented programs and guidelines to minimize environmental exposures. All environmental laws and regulations are adhered to, including Alberta's Environmental Protection and Enhancement Act, the Canadian Environmental Protection Act, the Transportation of Dangerous Goods Act, and the Environmental Operating Guidelines for the Alberta Petroleum Industry.

Corporate Governance

The Board of Directors and management of the Company consider good corporate governance to be central to the effective operation and success of the Company.

The Board of Directors is responsible for the overall stewardship of the Company and has full power and authority to manage and control the affairs and business of the Company. It establishes the overall policies and standards for the Company. While delegating certain of its authority and responsibilities to its committees and management of the Company, it retains full effective control over the Company and monitors senior management. The directors are kept informed of the Company's operations at meetings of the Board, its committees and through reports, analyses and discussions with management.

The Board is also responsible for overseeing the formulation by management of long-term strategic, financial and organizational and related objectives. The mandate of the Board also establishes a requirement that it implement structures and procedures to ensure that it functions independently of management, such as the Board's practice of conducting in-camera sessions as part of each regularly scheduled meeting.

Composition of the Board of Directors and Committees

Enerchem's Board of Directors (Board) comprises seven members, all of whom qualify as unrelated directors by virtue of their independence from management or any interest, business or other relationship that could materially interfere with the directors' ability to act in the best interests of the Company. All Audit Committee members are qualified as independent within the meaning of *Multilateral Instrument 52-110 – Audit Committees.* The Board believes that such number of directors is large enough to allow them to benefit from a variety of ideas and viewpoints without compromising communication among the directors, and between the directors and management.

The Board has four committees to which it has delegated certain of its authority and responsibilities, providing for the performance of certain advisory functions which result in recommendations and reports to the Board. The standing committees of the Board are: the Corporate Governance Committee, the Audit Committee, the Compensation Committee, and the Health, Safety and Environmental Committee. The full Board has regularly scheduled meetings four times per year and to ensure that the Board is fully informed of the strategic issues and critical risks facing the Company, the Board has one meeting each year devoted to the review and approval of the Company's strategic plan. The Audit Committee meets four times per year. The Compensation Committee generally meets at least two times per year. The Corporate Governance Committee, established in 2009, expects to meet four times per year.

The Corporate Governance Committee is responsible for Board succession and identification of new potential directors. The Committee also assesses the performance and effectiveness of the Board, its committees and individual directors. Other responsibilities include annual review of Board and committee mandates, ongoing development of effective corporate governance practices, new director education, and monitoring of compliance with the Company's Code of Business Conduct and Ethics.

The Audit Committee meets on a regular basis with the Chief Financial Officer of the Company and the independent auditors to, among other things, review and inquire into: (a) matters affecting financial reporting; (b) the adequacy of internal controls and procedures for financial reporting and accounting; (c) the audit procedures and audit plans; and (d) the financial and business risks or exposures of the Company and the steps that management has taken to control such risks. It also recommends to the Board of Directors the external auditors to be appointed and their remuneration. The Audit Committee annually reviews the independence of the external auditors.

The Audit Committee reviews and recommends to the Board, for its approval: (a) the interim unaudited financial statements and Management's Discussion and Analysis related thereto; (b) the audited annual financial statements and Management's Discussion and Analysis related thereto; (c) prospectuses and other offering memoranda, if applicable; and (d) the annual and interim earnings press releases and other public disclosure documents containing audited or unaudited financial information required by regulatory authorities.

The responsibilities of the Audit Committee, including those responsibilities described above, are reviewed by the Board of Directors annually. All the members of the Audit Committee are financially literate and the majority have accounting or related financial expertise.

The Compensation Committee is responsible for reviewing matters of remuneration for senior executive positions, including that of the President and Chief Executive Officer, and making recommendations to the Board of Directors thereon. It is also responsible for reviewing and making recommendations to the Board for the appointment of persons to senior executive positions, for considering their terms of employment and for succession planning.

The Health, Safety, and Environmental Committee is responsible for reviewing and making recommendations and reports to the Board of Directors relating to the policies, standards, practices and programs of the Company on matters pertaining to both the environment and occupational health and safety. The committee monitors the Company's performance in relation to its own policies, as well as in relation to applicable legislation pertaining to both the environment and occupational health and safety. It also reviews and reports to the Board of Directors on the Company's state of readiness to respond to crisis situations.

Code of Ethics and Business Conduct

The Board has adopted a Code of Business Conduct and Ethics which applies to all directors, officers and employees of the Company. The Code calls for the highest standard of ethical conduct and personal integrity.

Enerchem is committed to maintaining its business in compliance with applicable laws, statutes and regulations. Additional information about our commitment to corporate governance practices is detailed in our 2009 Information Circular which can be found at www.sedar.com.

Notes

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Board of Directors

Larry B. Phillips
Chairman of the Board
Director (2), (4)

William D. Burch, FCA
Director (1)

Gordon J. Hoy, P.Eng., MBA, CFA
Director (3), (4)

Kenneth A. Klein, B. Comm.
Director (1), (2)

Kevin M. Maguire, P. Eng., MBA
Director (1), (3)

Bruce K. Gibson, B.Comm., CA
Director (1)

David M. Fitzpatrick, P.Eng., C.Dir.
Director (2), (4)

Officers

Kenneth Bagan, LLB
President and Chief Executive Officer

Kim R. Hubick, B.Comm., CA
Vice President Finance and Chief Financial Officer

James C. Burroughs, BBA
Vice-President Operations and Chief Operating Officer

Member of:

(1) Audit Committee
(2) Compensation Committee
(3) Health, Safety and Environment Committee
(4) Corporate Governance Committee

Registrar and Transfer Agent

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HSBC Bank Canada
Edmonton, Alberta

Auditors

PricewaterhouseCoopers LLP
Calgary, Alberta

Legal Counsel

Burnet, Duckworth & Palmer LLP
Calgary, Alberta

Stock Exchange Listing

Toronto Stock Exchange: trading symbol "ECH"
United States – Over the Counter 12g-3-2(b)

Shareholder Information

Shareholders may obtain copies of annual and quarterly reports, news releases, product information and other company information by contacting:

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