



ENERCHEM
INTERNATIONAL INC.

1ST QUARTER INTERIM REPORT
2007

President's Message

To Our Shareholders,

On behalf of the Board of Directors of Enerchem International Inc. I am pleased to report the financial and operating results for the three months ended March 31, 2007.

Operating Environment

During the first quarter of 2007 the oil and gas industry in the Western Canadian Sedimentary Basin experienced a 22% decrease in drilling activity when compared to the first quarter in 2006. This decrease in oilfield activity has also been reflected in our financial performance for the first quarter of 2007 with an overall drop in revenues of 14% and a 33% drop in earnings when compared to the same period last year.

While we experienced reasonable sales activities during the first nine weeks of operations in the quarter, early spring like conditions during the first part of March reduced oilfield activity and put most oil companies on the side lines precipitating the start of an early spring break-up.

Of particular note is the comparative financial performance between the third quarter of 2005 and the first quarter of 2007. These two quarters experienced similar total revenues of \$27.9 million, but the gross profit margin in 2007 has nearly doubled and the net earnings have more than doubled. This improved performance can be attributed to: the favorable benefits realized from the Millard Trucking acquisition; the use of more flow-back to reduce our crude oil purchases and overall feedstock costs; and being vigilant in maintaining price margins in a very competitive market.

Overall, however, total revenues and net earnings have declined on a comparative period basis, but total profit and earnings have improved significantly when compared to other quarters over the past two years.

Facilities Update

This year, as in years past, we are implementing several strategic initiatives focused on improving our financial performance by increasing our facilities efficiencies and reducing our operational costs.

Our flowback return facility has been commissioned and is now cleaning used fracturing fluid. This facility has contributed to increase our product cuts and reduce feedstock costs, a great combination in this market. We expect this facility to provide considerable competitive advantages.

We have two projects scheduled for implementation at the Sundre refinery during turnaround. The first project is to complete the automation of tower one to operate in conjunction with the other two towers that were automated last year. The automation of tower one will contribute to increase the production yield of our solvent products. The second project will be the replacement of the old style salt bath heaters with new crude heaters that will increase the Sundre plant's production capacity and reduce operating costs.

In Slave Lake, we will be installing a new oil water wash system to clean the feedstock before it is processed in the refinery. This should remove a lot of the impurities in the crude oil and reduce our operational costs. We have also started to install a blend facility which we hope to have pipeline connected by the third quarter. This will increase the value of our by-products and give us the opportunity to blend third party volumes for resale and should also provide the additional benefit of reducing our trucking costs.

With the implementation of the above projects we should see a significant increase in earnings and a real reduction in emissions as we continue to build our business infrastructure and processes for the future.

Outlook

The downturn in industry activity over the last two quarters is expected to continue through to the third quarter of 2007 before we see any real indication of increased drilling activity. The long term fundamentals still require continued exploration in Western Canada to meet continued North American demand for our commodities. Despite the short-term weakness currently being experienced in our industry, we believe that the overall outlook remains very positive for the longer term. With \$21 million in working capital, current cash on hand in excess of \$4 million and unused credit facilities, we are well positioned to take advantage of any opportunities that may develop.

Acknowledgements

Once again, I would like to sincerely thank our Board of Directors for their direction, our employees for their continued commitment, innovation and dedication, and our shareholders for their support.



Douglas F. Robinson
President and Chief Executive Officer



Financial Highlights

(unaudited)

Results of Operations

Three months ended March 31

	2007	2006
	\$	\$
Revenues	27,876,401	32,315,486
Net earnings for the period	1,842,751	2,756,435
Earnings per share		
Basic	0.12	0.19
Diluted	0.12	0.18
EBITDA (1)	3,268,308	4,455,901
EBITDA per share (2)	0.21	0.30

Financial Position

As at

	March 31, 2007	March 31, 2006
	\$	\$
Total assets	71,692,383	64,824,788
Working capital (3)	21,906,934	23,875,301
Shareholders' equity	57,990,350	51,443,272

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

(2) EBITDA per share is calculated as EBITDA divided by the basic weighted average common shares outstanding.

(3) Calculated as current assets less current liabilities.

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") of the financial position and interim consolidated results of operations of Enerchem International Inc. for the period ended March 31, 2007 should be read in conjunction with the interim financial statements for the period ended March 31, 2007 and the audited financial statements and notes thereto, President's Message and MD&A for the year ended December 31, 2006. This MD&A is dated May 8, 2007.

Additional information relating to the Company, including the Company's Annual Information Form, is available on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com.

Statements throughout this report that are not historical facts may be considered "forward looking statements." Such statements are based on current expectations that involve risks and uncertainties which could cause actual results to differ from those anticipated. Important factors that can cause anticipated outcomes to differ materially from actual outcomes include the impact of general economic conditions, industry conditions, competition from other industry participants, volatility of petroleum prices, the ability to attract and retain qualified personnel, changes in laws or regulations, currency fluctuations, continued ability to access capital from available facilities and environmental risks. References in this MD&A to "Enerchem", the "Company", "us", "we", and "our" mean Enerchem International Inc.

This report also makes reference to certain non-GAAP measures in assessing the Company's financial performance. Non-GAAP measures do not have any standard meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers. The Company includes these non-GAAP measures as it believes they are used by investors to assess the performance of the Company, and is used by management to assist in assessing comparative performance of the Company.

Summary Description of Business

Enerchem International Inc. is a provider of hydrocarbon fluid solutions designed to resolve oilfield processing and production problems. The Company's hydrocarbon fluids provide measurable productivity increases, operating and maintenance cost reductions and solutions to environmental problems. The Company's proprietary hydrocarbon products are manufactured through its facilities located in Sunde and Slave Lake, Alberta. The Company's fracturing and drilling fluids and solvents ("Specialty Fluids") are manufactured from these locations. Enerchem's Specialty Fluids are marketed and distributed through its network of sales and service representatives. During the third quarter of 2004, the Company diversified its operations with the establishment of its Energy Marketing group. This diversification was precipitated to maximize the value received by the Company for its hydrocarbon by-products, provide energy marketing management and expertise and to mitigate, in part, the Company's exposure to the seasonality of its operations. During the second quarter of 2006, the Company acquired all of the outstanding common shares of Millard Trucking Ltd. ("Millard"), a privately owned company based in Sunde, Alberta that provides transportation services and other oilfield services to the oil and gas industry.

The Company's activities are divided into three distinct business segments: Oilfield Services which represents the manufacture and sale of Specialty Fluids; Energy Marketing which represents the purchasing, gathering and marketing of petroleum for resale to refiners and other customers; and Transportation Services which represents the operations of Millard. The operations of the Company are conducted entirely within the Western Canadian Sedimentary Basin ("WCSB").

Subsequent to March 31, 2007, the Company received proceeds of \$750,000 U.S., less legal and other fees of \$2,278 U.S., from the sale of its 25% interest in the Egyptian Canadian Company for Chemicals Industries-F.Z. This sale completed the disposition of the Company's investment in this Egyptian company.

Seasonality of Operations

Weather conditions can affect the sale of the Company's products and services. The ability to move heavy equipment in the Canadian oil and natural gas fields is dependent on weather conditions. As a result, spring months in Western Canada and the duration of this "spring break-up" has a direct impact on the Company's activity levels. In addition, many exploration and production areas in the northern WCSB are accessible only in winter months when the ground is frozen hard enough to support the weight of heavy equipment. The timing of freeze up and spring break up affects the ability to move equipment in and out of these areas. As a result, late March through May is traditionally the Company's slowest period.

Operating Results – First Quarter

Total Revenues

Three months ended March 31 (unaudited)	2007		2006		Change
	\$	%	\$	%	%
Oilfield Services	19,151,757	69	24,318,193	75	(21)
Energy Marketing	6,089,350	22	7,997,293	25	(24)
Transportation Services	2,635,294	9	-	-	-
Total	27,876,401	100	32,315,486	100	(14)

Consolidated revenues declined by 14% during the first quarter of 2007 when compared to the same period last year as a result of the decline in oilfield activity levels in the WCSB precipitated by the continued weakness in natural gas prices and early spring break-up conditions. During the first quarter of 2007, there was a 22% decline in the number of wells drilled when compared to the same period last year as drilling utilization rates declined to 58% from 80%. While the Transportation Services business segment provided new revenue growth of \$2,635,000 during the first quarter of 2007, revenues from the Energy Marketing business segment declined by 24% on a comparative quarter basis as a result of the decline in the Company's production activity levels.

Segmented Revenues

Oilfield Services

Three months ended March 31 (unaudited)	2007		2006		Change
	\$	%	\$	%	%
Fracturing	11,228,342		13,834,931		(19)
Drilling	4,844,489		6,941,009		(30)
Solvents	3,078,926		3,542,253		(13)
Total	19,151,757		24,318,193		(21)

Revenues from the Oilfield Services segment decreased by 21% during the first quarter of 2007 when compared to the same period last year. The drop off in oilfield activity during the first quarter of 2007 precipitated a 17% decline in the volume of product sold by the Company when compared to the same period last year with the largest decline in product volumes affecting the Company's drilling fluids.

Energy Marketing Revenues

For the three months ended March 31, 2007, revenues from the Energy Marketing segment decreased by 24% when compared to the same period last year as a result of the decline in the Company's activity levels which reduced the volume of by-products available for re-sale and the overall decline in crude oil prices on a comparative quarter basis which caused a decline in the end value received for the Company's by-products.

Transportation Services

Transportation Services revenues for the three months ended March 31, 2007 totaled \$2,635,000, excluding inter-segment revenues of \$1,604,000. Revenues from this segment represented 9% of consolidated revenues for the first quarter of 2007. During the first quarter of 2007, revenues from this business segment, excluding inter-segment revenues, decreased by 7% when compared to the three months ended December 31, 2006 largely due to early spring break-up conditions.

Gross Profit

Three months ended March 31 (unaudited)	2007	2006	Change
	\$	\$	%
Total Gross Profit	6,367,563	7,073,126	(10)
% of Total Revenues	23%	22%	
Oilfield Services	4,284,616	5,515,227	(22)
% of Oilfield Services revenues	22%	23%	
Energy Marketing	949,390	1,557,899	(39)
% of Energy Marketing revenues	16%	19%	
Transportation Services	1,248,639	-	-
% of Transportation Services revenues	29%	-	
Net inter-segment services	(115,082)	-	-

Consolidated Gross Profit decreased by 10% during the first quarter of 2007 when compared to the same period last year due to the overall decline in oilfield activity levels. However, consolidated gross profit as a percent of consolidated revenues improved to 23% from 22% for the comparative periods largely due the benefits realized from the Millard acquisition.

Oilfield Services gross profit as a percent of Oilfield Services revenues declined moderately to 22% from 23% for the comparative periods and reflects the affects of competitive pricing pressures precipitated by the slowdown in activity levels.

Energy Marketing gross profit as a percent of Energy Marketing revenues declined to 16% from 19% due to the increase in by-product density adjustments and transportation tariffs charged by the third party blending facilities.

Transportation Services gross profit as a percent of Transportation Services revenues improved to 29% in the first quarter of 2007 from 26% in the fourth quarter of 2006 primarily as a result of the decline in general fleet service costs during the current period.

Operations

Salaries and employee benefits

Three months ended March 31 (unaudited)	2007	2006	Change
	\$	\$	%
Expense amount	1,353,319	1,274,116	6
% of gross profit margin	21%	18%	

The 6% increase in salary costs on a comparative quarter basis was largely acquisition related and due to the increase in stock based compensation costs.

Selling, general and administration

Three months ended March 31 (unaudited)	2007	2006	Change
	\$	\$	%
Expense amount	1,798,127	1,373,241	31
% of gross profit margin	28%	19%	

Selling, general and administrative ("SG&A") costs increased by 31% during the first quarter of 2007 when compared to the same period in 2006 as a result of general plant repairs and maintenance expenditures combined with the amortization of costs incurred during the Company's scheduled plant turnaround programs. During the first quarter of 2007, \$255,000 of turnaround costs were amortized and included in SG&A expense compared to \$131,000 for the same period last year. The increase in SG&A on a comparative quarter basis is also acquisition related.

Depreciation and amortization

Three months ended March 31 (unaudited)	2007	2006	Change
Depreciation	\$ 567,747	\$ 229,494	147
Amortization	-	2,169	(100)
Total amount	567,747	231,663	145
% of gross profit margin	9%	3%	

Depreciation and amortization expense increased by 145% during the first quarter of 2007 when compared to the same period last year as a result of \$308,000 in depreciation expense associated with the acquired Millard assets.

As at March 31, 2007, \$2,781,000 of costs associated with a flowback cleaning facility under construction in Sundre, Alberta have not been depreciated as the facility has not yet been completed and put in to use. The flowback facility was completed and commissioned in April 2007.

Income Taxes

Three months ended March 31 (unaudited)	2007	2006	Change
Expense amount	\$ 780,374	\$ 1,434,000	(46)
Effective tax rate	30%	34%	

The provision for income taxes in the first quarter of 2007 includes current taxes of \$1,012,000 compared to \$1,421,000 during the same period last year. The reduction in the tax provision on a comparative quarter basis was largely due to the decrease in taxable income.

The reduction in the effective tax rate in the first quarter of 2007 to 30% from 34% for the same period last year resulted from the effects of substantively enacted changes in the Canadian Federal tax rates and the Alberta corporate tax rate in 2006 that are to be phased in over the next five years. The Federal tax rate reduction combined with the one time decrease in the Alberta corporate tax rate effective April 1, 2006 resulted in a statutory rate of 32.12% for 2007. This rate is scheduled to be reduced to 29% by the year 2010.

Net Earnings

Three months ended March 31 (unaudited)	2007	2006	Change
Net earnings for the period	\$ 1,842,751	\$ 2,756,435	(33)
Earnings per share, diluted	0.12	0.18	(33)
EBITDA (1)	3,268,308	4,455,901	(27)

(1) EBITDA is a non-GAAP measure which the Company defines as earnings before interest expense, taxes, depreciation, amortization, accretion expense and write-downs.

Net earnings from operations for the three months ended March 31, 2007 declined by 33% to \$1,843,000 from \$2,756,000 for the same period last year as a result of the slowdown in activity levels precipitated by continued near term weakness in natural gas prices and early spring break-up conditions. The drop off in oilfield activity during the first quarter of 2007 resulted in a 17% decline in the volume of product sold by the Company when compared to the same period last year with the largest decline in product volumes affecting the Company's drilling fluids.

EBITDA from operations decreased by 27% in the first quarter of 2007 when compared to the same quarter last year due to the 33% decline in earnings and offset by the 145% increase in depreciation and amortization expense for the comparative quarters.

Summary of Quarterly Results

The following tables provide selected unaudited financial information relating to the Company's quarterly activities in 2007, 2006 and 2005 and are prepared in accordance with Canadian generally accepted accounting principles with respect to the preparation of interim financial statements.

Three month period ended (unaudited)	March 31, 2007	December 31, 2006	September 30, 2006	June 30, 2006
	\$	\$	\$	\$
Revenues	27,876,401	24,199,343	29,138,305	22,093,080
Net earnings for the period	1,842,751	373,246	2,036,051	764,844
Net earnings per share for the period				
Basic	0.12	0.02	0.13	0.05
Diluted	0.12	0.02	0.13	0.05

Three month period ended (unaudited)	March 31, 2006	December 31, 2005(1)	September 30, 2005(1)	June 30, 2005(1)
	\$	\$	\$	\$
Revenues	32,315,486	31,380,017	27,896,098	19,910,693
Net earnings from continuing operations	2,756,435	1,701,475	699,772	425,952
Net earnings per share from continuing operations				
Basic	0.19	0.11	0.05	0.03
Diluted	0.18	0.11	0.05	0.03
Net earnings for the period	2,756,435	5,586,835	850,722	336,239
Net earnings per share for the period				
Basic	0.19	0.37	0.06	0.02
Diluted	0.18	0.37	0.06	0.02

(1) On December 31, 2005, the Company sold the inventory and property, plant and equipment associated with its specialty chemical operations. Accordingly, the specialty chemical operating activities represent the Company's discontinued operations which have been included in net earnings for the periods ended June 30, 2005 to December 31, 2005, inclusive.

Liquidity and Capital Resources

Cash provided from the Company's operating activities, before non-cash working capital items, for the three months ended March 31, 2007 was \$2,607,000 compared to \$3,191,000 for the same period last year. The decrease in cash flows resulted primarily from the decline in net earnings for the comparative periods. As at March 31, 2007, the Company had positive working capital of \$21,907,000 compared to \$20,650,000 at December 31, 2006. The Company's current ratio (defined as current assets divided by current liabilities) was 3.4 to 1 at March 31, 2007 compared to 3.7 to 1 at December 31, 2006.

Net cash used by the Company for investing activities totaled \$1,988,000 for the first three months of 2007 compared to \$1,432,000 for the same period last year. Cash used for investing activities was primarily directed to the construction of the Company's flowback facility in Sundre, Alberta.

Net cash used by the Company for financing activities during the first quarter ended March 31, 2007 was directed to the repayment of all long-term debt outstanding associated with the Millard acquisition totaling \$287,000. Similarly during the first quarter of 2006, the Company's financing activities were directed to the repayment of all bank indebtedness of \$3,228,000 and long-term debt of \$3,048,000. As at March 31, 2007, the Company did not have amounts outstanding under its available credit facilities with a Canadian chartered bank or other financial institutions.

Summary of Contractual Obligations and Off-balance Sheet Arrangements

The following table summarizes the Company's contractual obligations including payments due for each of the next five years and thereafter:

Contractual obligations (unaudited)	Payments due by period				
	Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
	\$	\$	\$	\$	\$
Operating leases (1)	547,964	262,168	285,796	-	-
Total contractual obligations	547,964	262,168	285,796	-	-

(1) Represents normal operating leases comprised of office space and truck fleet.

In the normal course of business, the Company may become contingently liable for performance under letters of guarantee and credit. In this regard, the Company has arranged a \$10,000,000 bank guarantee facility available as security for its feedstock arrangements and purchase commitments. At March 31, 2007, the Company had outstanding bank guarantees for the purchase of crude oil from two of its suppliers.

For 2007 the Company expects cash flow from operations and from its sources of financing to be sufficient to meet its contractual obligations and off-balance sheet arrangements.

Share Capital

At March 31, 2007 the Company had 15,295,307 common shares outstanding. In addition, as at March 31, 2007, the Company has reserved 634,000 common shares for issuance under outstanding stock options.

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 ("Procedures") which provide reasonable assurance that information required to be disclosed by the Company under various securities legislation ("Required Filings") is accurate and is reported within the time periods specified. The Procedures are designed to ensure that material information relating to the Company is accumulated and communicated to management, the CEO and CFO and to allow for timely decisions regarding the Required Filings.

Enerchem's CEO and CFO evaluate the effectiveness of the Company's Procedures on a regular basis throughout the year and have concluded that the Procedures in place as of the end of the period covered by the Required Filings are effective.

In addition, management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The CEO and CFO have evaluated whether there were any changes to internal control over financial reporting during the quarter ended March 31, 2007 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting. No such changes were identified through their evaluation.

Outlook

Overall industry consensus is that oilfield activity levels will remain soft throughout the second and third quarters of 2007 and are not expected to rebound until late 2007 or early 2008. Notwithstanding, we continue to be cautiously optimistic that industry drilling activity for 2007 will range from approximately 19,000 to 21,000 wells drilled and that the regions serviced by the Company in the WCSB will provide normal anticipated demand for our products and services in 2007.

Changes in Accounting Policies

Effective January 1, 2007 the Company adopted new accounting standards for financial instruments issued by The Accounting Standards Board that comprehensively address when an entity should recognize a financial instrument on its balance sheet, or how it should measure the financial instrument once recognized. These standards have been adopted on a retroactive without restatement basis. The new standards comprise three sections of the CICA handbook:

- a) CICA Section 3855, "Financial Instruments-Recognition and Measurement", establishes the criteria for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. It also specifies how financial instrument gains and losses are to be presented. In accordance with this standard the Company now classifies all financial instruments as either 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 on the statement of operations.

The Company has made the following classifications:

- Cash and cash equivalents are classified as financial assets held for trading and are measured at fair value. Gains and losses related to periodical revaluation are recorded in net earnings;
- Accounts receivable and promissory note are classified as loans and receivables and are initially measured at fair value and subsequent period revaluations are recorded at amortized cost; and,
- Accounts payable and accrued liabilities and long-term debt are classified as other liabilities and are initially measured at fair value and subsequent periodical revaluations are recorded at amortized cost.

The estimated fair value of accounts receivable, accounts payable and accrued liabilities and the promissory note approximate carrying value due to the relatively short-term nature of the instruments.

Consequently, as at January 1, 2007 and March 31, 2007, the impact on the consolidated balance sheet of measuring the financial assets and liabilities was nil.

- b) CICA Section 3865, "Hedges", provides optional alternative treatments to CICA Section 3855 for entities which choose to designate qualifying transactions as hedges for accounting purposes. This new standard replaces AcG-13, "Hedging Relationships", and builds on CICA Section 1650, "Foreign Currency Translation", and specifies how hedge accounting is applied and what disclosures are necessary when CICA Section 3865 is applied. The adoption of this standard did not have an impact on the consolidated financial statements for the three months ended March 31, 2007.
- c) CICA Section 1530, "Comprehensive Income", establishes standards for the reporting and display of comprehensive income. These standards require that an entity present comprehensive income and its components in a separate financial statement that is displayed with the same prominence as other financial statements. The components of other comprehensive income will include unrealized gains and losses on financial assets classified as available-for-sale and the effective portion of cash flow hedges, if any. There were no such components to be recognized in comprehensive income upon transition or for the three month period ended March 31, 2007. As the Company has no items of other comprehensive income, net earnings for the period is equivalent to comprehensive income.
- d) The Company selected January 1, 2003 as its transition date for embedded derivatives. An embedded derivative is a component of a financial instrument or other contract of which the characteristics are similar to a derivative. This had no impact on the consolidated financial statements.

Critical Accounting Policies

The Company's financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include estimates that reflect management's estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and revenue and expenses for the period reported. Estimates are based upon historical experience and various other assumptions that reflect management's best judgments. These estimates are evaluated periodically and form the basis for making judgments regarding the carrying values of assets and liabilities and the reported amount of revenue and expenses. Actual results could differ from these estimates.

The following discussion outlines the accounting policies and practices and management's estimates that are critical to determining Enerchem's financial results.

Goodwill Impairment

The Company tests goodwill for impairment annually and whenever events or circumstances make it more likely than not that an impairment may have occurred, such as a significant adverse change in the business climate or a decision to sell or dispose of a reporting unit. Determining whether impairment has occurred requires valuation of the respective reporting unit, which is estimated using discounted cash flow methodology. When available and as appropriate, comparative market multiples are used to corroborate discounted cash flow results. In applying this methodology, a number of factors are relied upon, including actual operating results, future business plans, economic projections and market data. During 2006, management performed its annual evaluation of the carrying value of goodwill and concluded that goodwill of its reporting units was not impaired.

Property, Plant and Equipment

Property, plant and equipment ("PP&E") are recorded at cost and are depreciated over their estimated useful lives on a declining balance basis or straight line basis, as appropriate. Judgment is involved in determining the useful life of the PP&E and the appropriate annual depreciation rate. The Company's investment in PP&E results in depreciation expense being a significant component of operating expenses of the Company and any misjudgment in determining the useful life and annual depreciation rate could result in a misstatement of depreciation expense.

Income Taxes

The provision for income taxes is calculated based on the expected tax treatment of transactions recorded in the Company's financial statements. Income tax assets and liabilities, both current and future, are measured according to the income tax legislation that is expected to apply when the asset is realized or when the liability settled. If the Company's interpretations differ from those of tax authorities or judgments with respect to tax losses change, the income tax provision could significantly increase or decrease in future periods.

Financial Instruments and Other

Fair Values

The carrying values of cash and cash equivalents, accounts receivable, promissory note, bank indebtedness and accounts payable and accrued liabilities approximate their fair value due to the relatively short period to maturity on these instruments. The fair value of the Company's long term debt is estimated based on market prices for same or similar instruments and approximates carrying value. For more information refer to Changes in Accounting Policies.

Credit Risk

The Company's Oilfield Services segment's revenues are predominantly from services provided to large oil and gas companies which may result in a significant exposure to one customer or on a combined basis to several individual customers. The Company's Energy Marketing revenues are attributable to several large oil & gas producers and oilfield services companies which account for all of this segment's revenues. Concentration of credit risk on the Company's trade accounts receivable exists in the oil and gas industry. The Company's management regularly reviews outstanding accounts receivable and follows up with customers when settlement has not occurred on a timely basis. Management believes that the Company is exposed to minimal credit risk since the majority of its business is conducted with companies that have a large market presence in the industry and or are large publicly held companies.

Petroleum Prices

The Company is exposed to changes in petroleum and natural gas prices as a result of its use of petroleum feedstock and natural gas for processing at its Sundre and Slave Lake fractionation plants. The potential fluctuations in petroleum and natural gas prices could have a significant impact on the cost of producing its products and the profitability of the Company. To mitigate the affects on profitability of upward changes in petroleum prices, the Company implements product price increases to reflect their underlying values. This ability, however, is sensitive to competitive product pressures. In addition, 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 petroleum and natural gas costs in the related production period.

As at March 31, 2007, the Company did not have any outstanding crude oil or natural gas forward purchase contracts.

Interest Rate Risk

The Company manages its interest rate risk on borrowings by utilizing a combination of short term fixed rates through the use of 30 to 90 day Bankers' Acceptance rates and floating rates on debt. As at March 31, 2007, the Company did not have amounts outstanding under its available credit facility with the bank.

Health, Safety and Environmental

The Company has achieved and maintained a Certificate of Recognition which is given to employers who develop health and safety programs to meet standards established by the Petroleum Industry Training Service and Alberta Human Resources and Employment. The Company has safety and environmental personnel responsible for maintaining and developing the Company's policies and monitoring the Company's operations to ensure compliance with established policies. However, there can be no assurances that the Company's procedures will prevent environmental damage occurring from spills of materials handled by the Company. The safety and environmental personnel report directly to the President and Chief Executive Officer of the Company.

Competition and Industry Conditions

The capital expenditure programs of oil and gas companies largely affect the services provided by the Company. The magnitude of capital expenditures determines the demand for the Company's services in providing hydrocarbon fluid solutions to the oil and gas production industry. The primary catalysts to high expenditures and activity levels in the energy industry are oil and gas prices which, in turn, are influenced strongly by supply and demand expectations. The ability to forecast the price of crude oil or natural gas is extremely difficult as many global factors affecting commodity prices are beyond the control of the Company.

There is a strong correlation between drilling activity and demand for the Company's hydrocarbon fracturing and drilling fluids. Industry demand for the Company's fracturing and drilling products is further determined by activity levels that are focused on deep well drilling and applications common to the foothills region and northern Alberta and British Columbia, areas known for deeper drilling. Oil and gas activity in these geographic regions is normally strong during winter months or other times when climatic conditions are favourable. In addition, as our Specialty Fluids and services are sold in highly competitive markets, the Company's revenues and earnings can be affected by changes in competitive prices and new technologies and methods.

Operating Risk and Insurance

Enerchem has an insurance and risk management program in place to protect its assets, operations and employees. The Company's operations are, however, subject to risks inherent in the oil and gas industry such as malfunction and failures and natural disasters with resultant fluid spills, explosions and fires. These risks could expose the Company to substantial liability for personal injury, loss of life, business interruption, property damage or destruction, pollution and other environmental damages. Although the Company has obtained insurance against certain of the risks to which it is exposed, such insurance is subject to coverage limits and no assurance can be given that such insurance will be adequate to cover the Company's liabilities or will be generally available in the future or, if available, that premiums will be commercially justifiable. If the Company were to incur substantial liability and such damages were not covered by insurance or were in excess of policy limits, its business, results of operations and financial condition could be materially adversely affected.

Enerchem International Inc. Consolidated Balance Sheet

As at	March 31, 2007 (unaudited)	December 31, 2006 (audited)
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	2,829,643	2,413,522
Accounts receivable	16,035,465	16,386,688
Inventories	11,222,008	9,288,729
Prepaid expenses	247,781	197,533
Other assets held for sale	840,000	-
Current portion of promissory note	30,251	61,127
	<u>31,205,148</u>	<u>28,347,599</u>
Other assets	100,376	1,279,903
Property, plant and equipment	34,337,329	32,877,523
Goodwill	6,049,530	6,049,530
	<u>71,692,383</u>	<u>68,554,555</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	7,962,782	7,258,179
Income taxes payable	1,335,432	323,709
Current portion of long-term debt	-	115,585
	<u>9,298,214</u>	<u>7,697,473</u>
Long-term debt	-	171,477
Asset retirement obligations	195,461	192,301
Future income taxes	4,208,358	4,439,707
	<u>13,702,033</u>	<u>12,500,958</u>
Contingent liabilities (note 5)		
Shareholders' equity		
Share capital (note 4(b))	29,675,698	29,675,698
Contributed surplus (note 4(c))	1,217,675	1,123,673
Retained earnings	27,096,977	25,254,226
	<u>57,990,350</u>	<u>56,053,597</u>
	<u>71,692,383</u>	<u>68,554,555</u>

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

Enerchem International Inc.
Consolidated Statement of Operations,
Comprehensive Income and Retained Earnings

(unaudited)

Three months ended March 31,	2007	2006
	\$	\$
Revenues	27,876,401	32,315,486
Cost of sales	21,508,838	25,242,360
Gross profit	6,367,563	7,073,126
Expenses		
Salaries and employee benefits	1,353,319	1,274,116
Selling, general and administration	1,798,127	1,373,241
Depreciation and amortization	567,747	231,663
Accretion expense	3,160	3,000
Amortization of pre-operating costs	21,718	21,718
Interest expense	8,116	9,085
	3,752,187	2,912,823
Earnings before other income (expense)	2,615,376	4,160,303
Other income (expense)		
Other	61,125	(2,574)
Loss on write-down of investment in foreign operations	(44,442)	-
(Loss) gain on disposal of property, plant and equipment	(8,934)	32,706
	7,749	30,132
Earnings before income taxes	2,623,125	4,190,435
Income taxes		
Current	1,011,723	1,421,000
Future	(231,349)	13,000
	780,374	1,434,000
Net earnings and comprehensive income for the period (note 1(c))	1,842,751	2,756,435
Retained earnings, beginning of period	25,254,226	19,323,650
Retained earnings, end of period	27,096,977	22,080,085
Earnings per share		
Basic	0.12	0.19
Diluted	0.12	0.18
Weighted average shares outstanding (note 4(e))		
Basic	15,295,307	14,868,585
Diluted	15,404,297	15,079,853

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

Enerchem International Inc. Consolidated Statement of Cash Flows

(unaudited)

Three months ended March 31,	2007	2006
	\$	\$
Operating activities		
Net earnings for the period	1,842,751	2,756,435
Items not affecting cash -		
Depreciation, amortization and accretion expense	592,625	256,381
Stock based compensation	94,002	66,945
Amortization of plant turnaround costs	255,461	130,592
Loss (gain) on disposal of property, plant and equipment	8,934	(32,706)
Write-down of investment in foreign operations	44,442	-
Future income taxes	(231,349)	13,000
	2,606,866	3,190,647
Changes in non-cash components of working capital		
Net change in accounts receivable	351,223	1,980,696
Net change in inventories and prepaid expenses	(1,983,527)	2,275,454
Net change in accounts payable and accrued liabilities	704,603	(4,952,901)
Net change in income taxes payable	1,011,723	(1,102,000)
	84,022	(1,798,751)
Net cash provided by operating activities	2,690,888	1,391,896
Investing activities		
Purchase of property, plant and equipment	(2,099,087)	(1,619,495)
Decrease in promissory note	30,876	30,430
Proceeds on disposal of property, plant and equipment	62,600	156,695
Decrease in other assets	17,906	-
Net cash used in investing activities	(1,987,705)	(1,432,370)
Financing activities		
Issue of common shares	-	395,200
Net change in bank indebtedness	-	(3,228,132)
Repayment of long-term debt	(287,062)	(3,047,764)
Net cash used in financing activities	(287,062)	(5,880,696)
Increase (decrease) in cash and cash equivalents	416,121	(5,921,170)
Cash and cash equivalents - beginning of period	2,413,522	10,974,739
Cash and cash equivalents - end of period	2,829,643	5,053,569

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

Enerchem International Inc.

Notes to the Interim Consolidated Financial Statements

For the period ended March 31, 2007 (unaudited)

1. Basis of presentation and Accounting policies

The accompanying unaudited interim consolidated financial statements are prepared in accordance with generally accepted accounting principles ("GAAP") in Canada with respect to 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 parent company and its wholly owned subsidiary Millard Trucking Ltd. effective May 1, 2006. 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, 2006.

Effective January 1, 2007 the Company adopted new accounting standards for financial instruments issued by The Accounting Standards Board that comprehensively address when an entity should recognize a financial instrument on its balance sheet, or how it should measure the financial instrument once recognized. These standards have been adopted on a retroactive without restatement basis. The new standards comprise three sections of the CICA handbook:

- a) CICA Section 3855, "Financial Instruments-Recognition and Measurement", establishes the criteria for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. It also specifies how financial instrument gains and losses are to be presented. In accordance with this standard the Company now classifies all financial instruments as either 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 on the statement of operations.

The Company has made the following classifications:

- Cash and cash equivalents are classified as financial assets held for trading and are measured at fair value. Gains and losses related to periodical revaluation are recorded in net earnings;
- Accounts receivable and promissory note are classified as loans and receivables and are initially measured at fair value and subsequent period revaluations are recorded at amortized cost; and,
- Accounts payable and accrued liabilities and long-term debt are classified as other liabilities and are initially measured at fair value and subsequent periodical revaluations are recorded at amortized cost.

The estimated fair value of accounts receivable, accounts payable and accrued liabilities and the promissory note approximate carrying value due to the relatively short-term nature of the instruments.

Consequently, as at January 1, 2007 and March 31, 2007, the impact on the consolidated balance sheet of measuring the financial assets and liabilities was nil.

- b) CICA Section 3865, "Hedges", provides optional alternative treatments to CICA Section 3855 for entities which choose to designate qualifying transactions as hedges for accounting purposes. This new standard replaces AcG-13, "Hedging Relationships", and builds on CICA Section 1650, "Foreign Currency Translation", and specifies how hedge accounting is applied and what disclosures are necessary when CICA Section 3865 is applied. The adoption of this standard did not have an impact on the consolidated financial statements for the three months ended March 31, 2007.

- c) CICA Section 1530, "Comprehensive Income", establishes standards for the reporting and display of comprehensive income. These standards require that an entity present comprehensive income and its components in a separate financial statement that is displayed with the same prominence as other financial statements. The components of other comprehensive income will include unrealized gains and losses on financial assets classified as available-for-sale and the effective portion of cash flow hedges, if any. There were no such components to be recognized in comprehensive income upon transition or for the three month period ended March 31, 2007. As the Company has no items of other comprehensive income, net earnings for the period is equivalent to comprehensive income.
- d) The Company selected January 1, 2003 as its transition date for embedded derivatives. An embedded derivative is a component of a financial instrument or other contract of which the characteristics are similar to a derivative. This had no impact on the consolidated financial statements.

2. Nature of operations

Enerchem International Inc. is a manufacturer 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 to the downstream producers. The Company also provides energy marketing services and, through its wholly-owned subsidiary company, 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 manufacture and sale of hydrocarbon products; Energy Marketing which represents the purchasing, gathering and marketing of crude oil for resale to refiners and other customers; and Transportation Services which represents the operations of Millard.

3. Seasonality of operations

Weather conditions can affect the sale of the Company's products and services. Spring months in Western Canada tend to effect operations negatively as road bans and wet weather conditions ("spring break-up") make it difficult to drill for oil and 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.

4. 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

	March 31, 2007		December 31, 2006	
	#	\$	#	\$
Balance - beginning of period	15,295,307	29,675,698	14,820,807	27,973,843
Issue of shares for cash upon exercise of stock options	-	-	374,500	1,146,730
Compensation expense relating to stock options exercised	-	-	-	23,125
Issue of shares upon acquisition of Millard	-	-	100,000	532,000
Balance - end of period	15,295,307	29,675,698	15,295,307	29,675,698

(c) Contributed surplus

	March 31, 2007	December 31, 2006
	\$	\$
Balance – beginning of period	1,123,673	927,199
Stock based compensation expensed during the period	94,002	219,599
Compensation expense relating to stock options exercised	-	(23,125)
Balance – end of period	1,217,675	1,123,673

(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 five 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:

	March 31, 2007		December 31, 2006	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
	#	\$	#	\$
Common shares under option				
- beginning of period	534,000	3.36	1,026,000	3.35
Share options granted	100,000	3.75	-	-
Share options cancelled	-	-	(117,500)	4.21
Share options exercised	-	-	(374,500)	3.06
Common shares under option				
- end of period	634,000	3.43	534,000	3.36
Options exercisable				
- end of period	416,833	3.45	302,167	3.60

During the three months ended March 31, 2007, the Company granted 100,000 (three months ended March 31, 2006 – NIL) options to an employee of the Company with an exercise price of \$3.75. The fair value of the options granted during the three months ended March 31, 2007 was estimated using the Black-Scholes model with the following assumptions: risk-free interest rate of 6.0 percent; expected life of five years; volatility of 54 percent and zero dividend yield.

The impact of expensing stock options for the three months ended March 31, 2007 was \$94,002 (three months ended March 31, 2006 - \$66,945) with a corresponding increase in contributed surplus.

(e) Weighted average shares outstanding

The following table summarizes the common shares used in calculating the net earnings per common share.

Three months ended March 31	2007	2006
	#	#
Weighted average share calculation		
- Basic		
Common shares - opening	15,295,307	14,820,807
Weighted average common shares issued during the period	-	47,778
	<u>15,295,307</u>	<u>14,868,585</u>
- Diluted		
Basic weighted average common shares - opening	15,295,307	14,868,585
Dilutive effect of stock options and equivalents	108,990	211,268
	<u>15,404,297</u>	<u>15,079,853</u>

5. Contingent liabilities

- (a) At March 31, 2007, the Company had provided letters of guarantee totaling \$3,075,000, which terminated April 2007, in favour of two suppliers for the purchase of petroleum feedstock from those companies. Letters of guarantee are provided by the Company on an on-going basis and for varying amounts for its petroleum feedstock purchases from suppliers.
- (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 March 31, 2007, 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.

6. Segmented information

The Company's activities are divided into three distinct business segments: Oilfield Services which represents the manufacture and sale of hydrocarbon products; Energy Marketing which represents the purchasing, gathering and marketing of crude oil for resale to refiners and other customers; and Transportation Services which represents the operations of Millard. All of these business segments operate in one geographic region being the Western Canadian Sedimentary Basin. In the following tables, the elimination of significant inter-segment transactions are reflected under the caption "Eliminations".

Three months ended March 31, 2007

	Oilfield Services	Energy Marketing	Transportation Services	Eliminations	Total
	\$	\$	\$	\$	\$
Revenues	19,151,757	6,089,350	2,635,294	-	27,876,401
Inter-segment revenues	-	-	1,603,866	(1,603,866)	-
	19,151,757	6,089,350	4,239,160	(1,603,866)	27,876,401
Cost of sales	14,867,141	5,139,960	2,990,521	(1,488,784)	21,508,838
Gross profit	4,284,616	949,390	1,248,639	(115,082)	6,367,563
Depreciation, amortization & accretion expense	284,166	-	308,459	-	592,625
Interest expense	-	-	8,116	-	8,116
Earnings before income taxes	1,400,450	882,959	328,308	11,408	2,623,125

Three months ended March 31, 2006

Revenues	24,318,193	7,997,293	-	-	32,315,486
Cost of sales	18,802,966	6,439,394	-	-	25,242,360
Gross profit	5,515,227	1,557,899	-	-	7,073,126
Depreciation, amortization & accretion expense	256,381	-	-	-	256,381
Interest expense	9,085	-	-	-	9,085
Earnings before income taxes	2,724,338	1,466,097	-	-	4,190,435

As at March 31, 2007

Total Assets	66,667,923	1,762,461	8,696,304	(5,434,305)	71,692,383
Capital Expenditures	1,206,863	-	874,318	-	2,081,181
Goodwill	6,049,530	-	-	-	6,049,530

As at December 31, 2006

Total Assets	64,154,259	1,566,217	8,445,711	(5,611,632)	68,554,555
Capital Expenditures	7,127,835	-	1,238,403	-	8,366,238
Goodwill	6,049,530	-	-	-	6,049,530

7. Subsequent event

Subsequent to March 31, 2007, the Company received proceeds of \$750,000 U.S., less legal and other fees of \$2,278 U.S., from the sale of its 25% interest in the Egyptian Canadian Company for Chemicals Industries-F.Z. This sale completed the disposition of the Company's investment in this Egyptian company.

8. Comparative figures

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

Corporate Governance

The main corporate governance practices followed by Enerchem involve the assumption by the directors of responsibility for stewardship of the Company. Enerchem's Board of Directors comprises seven members, five 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. The Board of Directors has four committees being: the Audit Committee, the Compensation Committee, the Environmental Committee and the Strategic Planning and Priorities Committee.

Enerchem is committed to the objectives of the corporate governance policy established by the Toronto Stock Exchange and will continue to work toward complying with the objectives set forth therein.

Directory

Corporate Office

Enerchem International Inc.
1950, 777 - 8th Avenue S.W.
Calgary, Alberta
CANADA T2P 3R5
T: 403.269.1500
F: 403.269.1559
website: www.enerchem.com

Officers

Douglas F. Robinson
President and Chief Executive Officer (3), (4)

Brian M. Zubach, CMA
Chief Financial Officer

J. Barrie Brookman
Vice President, Corporate Development (3)

Board of Directors

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

Douglas F. Robinson
President and Chief Executive Officer
Director (3), (4)

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

William D. Burch, FCA
Director (1)

Hugh L. Planche, B. Comm.
Director (2)

David F. Potter
Director (1), (2), (4)

Kevin M. Maguire, P.Eng., MBA
Director (1), (4)

Member of:
(1) Audit Committee
(2) Compensation Committee
(3) Environmental Committee
(4) Strategic Planning and Priorities Committee

Directory

Registrar and Transfer Agent

CIBC Mellon Trust Company
320 Bay Street
Toronto, Ontario CANADA M5H 4A6
T: 800.387.0825
www.cibcmellon.com

Principal Bank

HSBC Bank Canada
Edmonton, Alberta

Auditors

PricewaterhouseCoopers LLP
Edmonton, Alberta

Legal Counsel

Chamberlain Hutchison
Edmonton, 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:

Investor Relations
Mr. Douglas F. Robinson
Enerchem International Inc.
1950, 777 - 8th Avenue S.W.
Calgary, Alberta
CANADA T2P 3R5
T: 403.269.1500
F: 403.269.1559

Enerchem International Inc.

1950, 777 - 8th Avenue S.W.
Calgary, Alberta
CANADA T2P 3R5

T: 403.269.1500
F: 403.269.1559

www.enerchem.com