



**ENERCHEM**  
INTERNATIONAL INC.

1<sup>st</sup> Quarter Interim Report 2008



# President's Message

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## To Our Shareholders,

On behalf of the Board of Directors of Enerchem International Inc. ("the Company") I am pleased to provide this my first report on the results of the Company's operations for the three months ended March 31, 2008.

## Industry Activity

Industry analysts had forecast a significant decrease in drilling activity in the Western Canadian Sedimentary Basin (WCSB) predicated principally on low natural gas prices resulting from continuing high inventories. Drilling rig utilization over the first quarter of 2008 declined 8% over the same period last year, 56% compared to 61%. On a completion basis, 4,986 wells were drilled during the first quarter of 2008 compared to 6,590 in the same period last year, representing a 25% decrease. The slowest month of the quarter was February, with a 49% decline in number of wells drilled. Rig count dropped in both Alberta and Saskatchewan, with a slight offsetting increase in British Columbia. Perhaps the most interesting statistic from the first quarter of 2008 was the uptum in the average monthly drilling rig utilization rate in March 2008 (45% to 49%), representing the first year-over-year increase in average monthly utilization rates since October 2005.

For the three months ended March 31, 2008, consolidated revenues increased by \$5,871,000, or 21%, to \$33,747,000 from \$27,876,000 over the same period last year. However, the Company reported a net loss of \$70,000, or nil per common share diluted, in the first quarter of 2008 compared to net earnings of \$1,843,000, or \$0.12 per common share diluted, for the three months ended March 31, 2007.

While we experienced reasonable sales activities during the first quarter of 2008, overall margins achieved by the Oilfield Services segment declined on a comparative quarter basis as a result of:

- a more competitive pricing environment which limited our ability to reflect underlying product values,
- the increase in feedstock costs as a result of the spike up in crude oil prices, and
- reduced capacity of the Sundre fractionation plant.

## Strategy

We consider ourselves a manufacturer and distributor of petroleum products. As such, our efforts and our investments over the past year have been directed at achieving optimal plant throughput. Our initiatives have included a desalter at our Slave Lake plant to remove impurities found in the crude oil feedstock and reduce down-time as well as repair and maintenance costs.

This initiative has been completed and the equipment has been commissioned and is operational.

Our flowback facility in Sundre, designed to treat recycled frac fluid in preparation for re-refining through the Sundre plant, was operational through the quarter. The capabilities of this facility when combined with our patented flowback purification process available at the Sundre fractionation plant should significantly reduce our average feedstock costs, as the price of flowback fluid is lower than the price of crude, and, as a previously refined fluid, is expected to produce a much higher yield of saleable product.

During the first quarter of 2008, we continued to work through the problems with the operation of the new heaters at the Sundre plant. This reduced the capacity of the plant thus limiting our ability to process and use clean flowback as a feed source in the manufacture of our premium fracturing fluid. As a result, the benefits attributable to processing flowback through the Sundre plant were largely unavailable throughout most of the first quarter of 2008.

Originally scheduled for start-up in January of 2008, we are now anticipating our new heaters will be operational during the third quarter of 2008. These heaters are currently being re-engineered and we are confident they can be brought within the desired specifications with relatively modest modification.

## Outlook

On April 23, the Petroleum Services Association of Canada released its revised forecast for 2008, increasing the well count by 2,000 wells to 16,500. Against a backdrop of high commodity prices, including a healthy natural gas price, we are cautiously optimistic regarding the direction of our industry. With the anticipated return to productivity at our Sundre facility following completion of the heater project combined with the recent completion of our pipeline connected blending facility in Slave Lake, we are well positioned to take advantage of a return to higher activity levels and our focus on improving profitability.

## Acknowledgments

I would like to thank the Board of Directors of Enerchem for their support and the confidence expressed in providing me the opportunity to guide the operations of the Company. I am excited by the possibilities for this very unique Company and confident that, together with an extremely competent staff, we can deliver improved value to our shareholders.



Kenneth Bagan  
President and Chief Executive Officer



## Financial Highlights

(unaudited)

### Results of Operations

Three months ended March 31	2008	2007
	\$	\$
Revenues	33,746,921	27,876,401
Net (loss) earnings for the period	(70,359)	1,842,751
Net (loss) earnings per share		
Basic	-	0.12
Diluted	-	0.12
EBITDA (1)	552,956	3,268,308
EBITDA per share (2)	0.04	0.21

### Financial Position

As at	March 31, 2008	March 31, 2007
Total assets	74,142,287	71,692,383
Working capital (3)	14,642,081	21,906,934
Purchase of property, plant and equipment	2,120,057	2,099,087
Shareholders' equity	51,764,133	57,990,350
Number of shares		
Outstanding, end of period	15,245,207	15,295,307
Average, during the period (4)	15,249,594	15,295,307

(1) represents earnings before interest expense, 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

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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, 2008 should be read in conjunction with the interim financial statements for the period ended March 31, 2008 and the audited financial statements and notes thereto, President's Message and MD&A for the year ended December 31, 2007. This MD&A is dated May 6, 2008.

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](http://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.*

## 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 or trusts. 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:

- EBITDA represents earnings from operations before interest expense, 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.
- 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 operations and its capital requirements.
- EBITDA per share represents EBITDA divided by the basic weighted average common shares outstanding.

## Overview of the Company's Operations

Enerchem is a manufacturer of hydrocarbon drilling and fracturing fluids, designed to provide cost effective solutions to the upstream oil and gas industry, and specialty solvents which are designed to resolve production and processing problems encountered by downstream producers. The Company's proprietary hydrocarbon products are manufactured through its facilities located in Sundre and Slave Lake, Alberta and are distributed through its network of sales and service representatives. 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, providing energy marketing management and expertise and, to mitigate in part, the Company's exposure to the seasonality of its operations. In addition, through its wholly owned subsidiary, Millard Trucking Ltd. ("Millard") based in Sundre, Alberta, the Company provides transportation services and other oilfield services to the oil and gas industry. The operations of the Company are conducted entirely within the Western Canadian Sedimentary Basin ("WCSB").

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 petroleum for resale to refiners and other customers; and
- *Transportation Services*, which represents the operations of Millard.

Our customers include large multi-national and independent oil and gas producers, as well as smaller independent producers and major land based drilling contractors with operations in the WCSB. The primary factor influencing demand for our products and services is the level of drilling and workover activity in the WCSB, which in turn, depends on current and anticipated future oil and gas prices and the levels of cash flows allocated by the industry to drilling and workover activities. As a result, demand for our products and services is cyclical and substantially depends on oilfield activity levels in the WCSB and is highly sensitive to current and expected oil and natural gas prices. Drilling and well service rig counts and rigs utilized by depth are leading indicators of anticipated demand for the Company's products and services. The Company's drilling and fracturing fluids provide cost effective solutions for deep well drilling and workover activities that are at well depths greater than 1,850 metres.

## 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, exploration and production in many of the northern regions of the 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.

## Divestiture

During 2007, the Company sold its 25% interest in the Egyptian Canadian Company for Chemicals Industries – F. Z. ("ECC"), for total proceeds of \$750,000 U.S. (\$826,000 Cdn.), less transaction fees of \$2,278 U.S., to a privately held Egyptian company based in Cairo, Egypt. During 2007, the Company recorded a \$58,000 (December 31, 2006 - \$230,000) write down in respect of the carrying value of its Egyptian investment. The sale completed the disposition of the Company's investment in ECC.

## Results of Operations – Three months ended March 31, 2008

### Overview

Oilfield activity levels in the WCSB and overall industry conditions continued to provide a challenging business climate for the oil and gas service sector during the first quarter of 2008. The number of wells drilled in the first quarter of 2008 declined by 24% to 4,986 from 6,590 in the same period last year and drilling rig utilization rates, at 56%, were at lows not experienced since 1999.

While we experienced reasonable sales activities during the first quarter of 2008, overall margins achieved by the Oilfield Services segment declined on a comparative quarter basis as a result of a more competitive pricing environment, which limited our ability to reflect underlying product values, and the increase in feedstock costs as a result of the spike up in crude oil prices. During the first quarter of 2008, we continued to work through the problems with the operation of the new heaters at the Sundre plant which affected the availability of the facility in general, and our ability to process clean flowback in the manufacture of our premium fracturing fluid. As a result, the benefits attributable to processing flowback through the Sundre plant were largely unavailable throughout most of the first quarter of 2008. We continue to anticipate that the Sundre plant will be fully operational during the third quarter of 2008.

### Revenues

Consolidated revenues for the three months ended March 31, 2008 increased by \$5,871,000, or 21%, to \$33,747,000 from \$27,876,000 for the same period last year. The increase in the Company's consolidated revenues was largely attributable to revenues generated through its energy marketing business segment. Revenues by business segment were as follows:

- *Oilfield Services.* Segment revenues for the three months ended March 31, 2008 declined moderately to \$19,030,000 from \$19,152,000 for the same period last year and largely reflected the quarter over quarter decrease in oilfield activity combined with the affects of limited availability of the Sundre plant. While this business segment experienced an overall decline in the volume of products sold in the first quarter of 2008 when compared to the same period last year, this decrease was precipitated by the decline in fracturing fluid sales which resulted from our inability to meet customer demand due to the limited availability of the Sundre plant.
- *Energy Marketing.* Segment revenues increased by \$5,301,000, or 87%, to \$11,390,000 in the first quarter of 2008 from \$6,089,000 for the same quarter last year. The volume of by-products available to the energy marketing segment is a function of the volume of feedstock put into production during a period. As the volume of feedstock put into production during the first quarter of 2008 exceeded the

comparative quarter of 2007 due to comparative period opening finished product inventories on hand and customer demand, the volume of by-products available for sale increased. In addition, the increase in energy marketing revenues on a comparative quarter basis reflects the increase in the underlying value of crude oil.

- *Transportation Services.* Segment revenues increased by \$692,000, or 26%, to \$3,327,000 in the first quarter of 2008, excluding inter-segment revenues of \$2,147,000, from \$2,635,000 in the same period last year, excluding inter-segment revenues of \$1,604,000. The increase in revenues for the comparative quarters resulted from new business arrangements secured by this segment.

## Operating Expenses

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

### Operating Expenses as a Percentage of Consolidated Revenue

For the three months ended March 31	2008	2007	Change
	%	%	%
Oilfield Services	53	56	(3)
Energy Marketing	31	17	14
Transportation Services	11	11	-
<b>Total</b>	<b>95</b>	<b>84</b>	<b>11</b>

The overall increase in operating expenses as a percentage of revenues largely reflects the effects of the quarter over quarter increase in feedstock costs precipitated by the dramatic rise in crude oil prices over the comparative quarters. By way of example, the average posted price of light sweet crude oil in the first quarter of 2008 was \$616 per cubic metre compared to \$425 per cubic metre in the same period last year, representing a quarter over quarter increase of 45%. The increase in operating expenses associated with the Energy Marketing segment for the comparative quarters was primarily due to the increase in by-product volumes resulting from the increase in manufacturing activities and the effects of the sharp rise in crude oil prices.

### 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 decreased by \$57,000, or 5%, to \$1,090,000 in the first quarter of 2008 from \$1,147,000 in same period last year. The decline in G&A expenditures was largely due to the decrease in stock based compensation costs and the capitalization of labour costs directly identifiable with several of the Company's construction projects.

### Depreciation

Depreciation expense increased by \$69,000, or 12%, to \$637,000 in the first quarter of 2008 compared to \$568,000 in the same period last year. The increase in depreciation expense is largely attributable to commencing with the depreciation of the flowback facility in the latter half of 2007.

At March 31, 2008, \$1,817,000 of costs associated with the construction of the Company's blend facility and pipeline connection in Slave Lake, Alberta and \$3,683,000 of costs associated with the desalter and direct fired heaters projects undertaken in Sundre and Slave Lake have not been depreciated as the projects were not completed and put into use at March 31, 2008. The completion of the blend facility in tandem with the pipeline connection in Slave Lake will reduce the costs of transporting the Company's by-products. The installation of the direct fired heaters, which will replace the old style salt bath heaters, at the Sundre plant will increase the operational efficiency of the plant by reducing plant maintenance expenditures and facilitate increased finished product yield. At the Slave Lake facility the desalter or water-wash system will also contribute to improve the plant's operating efficiency and provide the plant an effective ability to process a broader range of feedstock. The Company will commence with the depreciation of the blend facility, pipeline connection and desalter projects during the second quarter of 2008.

### Income Taxes

The provision for income taxes in first quarter of 2008 includes a recovery of \$11,000 compared to current tax expense of \$1,012,000 in the same period last year. The decrease in current taxes for the three months ended March 31, 2008 when compared to the same quarter last year resulted from the reduction in earnings.

The effective rate for the three months ended March 31, 2008 was 25% compared to 30% for the same period in the prior year. The reduction in the effective rate for the period ended March 31, 2008 was largely due to the reduction in the Federal income tax rate effective December 14, 2007 which resulted in a combined statutory rate of 29.5% in 2008 compared to 32.12% in 2007 and the effects of non-deductible permanent differences.

### Net (Loss) Earnings

For the three months ended March 31, 2008, the Company reported a net loss of \$70,000, or nil per common share diluted, compared to net earnings of \$1,843,000, or \$0.12 per common share diluted, for the three months ended March 31, 2007. The significant decline in the Company's financial performance in the first quarter of 2008 resulted from: the continued decline in oilfield activity levels precipitated by the low natural gas prices; the effects of the oil and gas producers' overall focus on reducing service costs which combined with the increase in feedstock costs has squeezed margins on products offered by the Oilfield Services business segment; and operational problems with the new heaters at the Sundre plant which affected the availability of the facility, in general, and our ability to process clean flowback in the manufacture of our premium fracturing fluid.

EBITDA (refer to "Use of Non-GAAP Measures") for the three months ended March 31, 2008 decreased by \$2,715,000 or 83%, to \$553,000 from \$3,268,000 in the same quarter last year. The reduction in EBITDA for the comparative periods was largely influenced by the reduction in the Company's earnings for the period as explained in this MD&A.

### Liquidity and Capital Resources

Cash provided by operations (refer to "Use of Non-GAAP Measures") for the three months ended March 31, 2008 totaled \$799,000 compared to \$2,607,000 in the same period of 2007. The decrease in cash provided by operations was the result of the decline in operating earnings. The Company's working capital was \$14,642,000 at March 31, 2008 compared to \$15,991,000 at December 31, 2007. The Company's current ratio (defined as current assets divided by current liabilities) was 1.8 to 1 at March 31, 2008 compared to 3.7 to 1 at December 31, 2007. The decline in the Company's current ratio was largely influenced by the increase in accounts payable and accrued liabilities in respect of feedstock purchased in March 2008 combined with the use of the Company's operating lines of credit.

Net cash used by the Company for investing activities totaled \$2,132,000 for the three months ended March 31, 2008 compared to \$1,988,000 for the same period last year. Cash used for investing activities were primarily directed to the completion of the blend facility and desalter project at the Slave Lake plant and the direct fired heater project at the Sundre fractionation plant.

Net cash provided by financing activities in the first quarter of 2008 totaled \$4,702,000 and largely represented the Company's use of its available revolving operating line of credit to finance its working capital requirements. At March 31, 2008, the Company had outstanding bank guarantees of \$4,567,000 (March 31, 2007 - \$3,075,000), terminated in April 2008, in favour of two suppliers for purchases of feedstock from those suppliers. During the first quarter of 2008, the Company purchased 7,900 of its common shares at an average price of \$1.96 per common share, including transaction fees, which have been cancelled and returned to treasury. The cost of common shares purchased totaled \$15,512.

### 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

	Payments due by period				
	Total	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years
	\$	\$	\$	\$	\$
Operating leases (1)	421,606	285,881	135,725	-	-
Commitments and capital expenditures (2)	472,288	472,288	-	-	-
Total contractual obligations	893,894	758,169	135,725	-	-

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

(2) Represents agreements with third parties for the construction of new heaters to be installed at the Sundre plant in the amount of \$745,900 of which \$162,980 is outstanding at March 31, 2008 and the construction and assembly of a crude oil desalter at the Slave Lake plant in the amount of \$1,950,000 of which \$309,308 is outstanding at March 31, 2008.

In the normal course of business with vendors, the Company may become contingently liable for performance under letters of guarantee and credit with certain of its vendors. In this regard, the Company has arranged an \$11,000,000 bank guarantee facility available as security for its feedstock arrangements and purchase commitments. At March 31, 2008, the Company had provided letters of guarantee totaling \$4,467,000, which terminated in April, 2008, in favour of two suppliers for the purchase of petroleum feedstock from those suppliers.

For 2008, 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, 2008 the Company had 15,245,207 common shares outstanding. In addition, as at March 31, 2008, the Company has reserved 640,000 common shares for issuance under outstanding stock options.

On June 27, 2007, the Company announced a normal course issuer bid to purchase up to 766,465 of its issued and outstanding common shares at the market price at the time of acquisition, beginning on July 3, 2007 and ending on July 2, 2008, or such earlier time as the bid is completed or terminated by the Company. During the first quarter of 2008, the Company purchased 7,900 of its common shares at an average price of \$1.96 per common share, including transaction fees, which have been cancelled and returned to treasury. The cost of common shares purchased totaled \$15,512 of which \$15,346 was recorded as a charge against share capital at the average carrying value of the Company's issued and outstanding common shares, with the balance of \$166 charged against retained earnings.

Subsequent to March 31, 2008, 100,000 options were granted to an employee of the Company at an exercise price of \$2.21 per share.

## Summary of Quarterly Results

The following tables provide selected unaudited financial information relating to the Company's quarterly activities in 2008, 2007 and 2006 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, 2008	December 31, 2007	September 30, 2007	June 30, 2007
	\$	\$	\$	\$
Revenues	33,746,921	25,133,073	19,822,532	7,467,779
Net (loss) earnings for the period	(70,359)	642,814	(6,318,781)	(648,176)
Net (loss) earnings per share for the period				
Basic	0.00	0.04	(0.41)	(0.04)
Diluted	0.00	0.04	(0.41)	(0.04)

  

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

## Trends and Outlook

As we exit the first quarter of 2008, while still cautionary, it would appear that the underlying fundamentals affecting the oil & gas industry in the WCSB have improved. Natural gas prices have strengthened, the Alberta government has announced plans to deal with certain unintended consequences from the royalty review and several Canadian producers have recently announced increases to their capital programs in 2008. While we anticipate that we will experience normal spring break-up conditions during the second quarter of 2008, the effects of the foregoing improvement in business fundamentals may provide for stronger than expected levels of oilfield activity during the second half of 2008.

In this regard, over the past months, we have directed significant resources to make the necessary infrastructure and plant optimization improvements focused on aligning our operations to the achievement of our strategic goals.

In Slave Lake, the desalter project has been completed and will provide the benefit of reducing the flow of impurities found in crude oils through the plant and thereby reduce overall repair and maintenance costs at this facility. We have also completed the new blending facility located at the Slave Lake facility which will be pipeline connected in April 2008. This project should significantly reduce transportation costs associated with the hauling of by-products from this facility and provide enhanced blending opportunities for the Company's energy marketing business segment.

As mentioned earlier in this MD&A, while the Sundre plant continued to be hampered by operational problems as a result of the new heaters inability to achieve the required operating parameters, we believe the problems with the heaters will be remedied in the near term, and anticipate the Sundre refinery will be fully operational during the third quarter of 2008.

With the anticipated completion of Sundre heaters project, we will be closer to achieving certain of our fundamental business strategies which we anticipate will contribute to improve our overall performance and competitive capabilities in a year where the business environment may be less favourable than in previous years. Notwithstanding, we continue to maintain a strong balance sheet with a focused management team and are well positioned to take advantage of opportunities that may develop.

## Changes in Accounting Policies

### a) Capital Disclosures

Effective January 1, 2008, the Company adopted CICA Section 1535, "Capital Disclosures" which requires that an entity disclose information that enables users of its financial statements to evaluate an entity's objectives, policies and processes for managing capital including disclosures of any externally imposed capital requirements and the consequences of non-compliance. The adoption of this standard does not impact the Company's financial statements as it only addresses disclosure requirements. Information regarding the Company's capital disclosures is further described in note 5, "Capital Disclosures", of the Notes to the Interim Consolidated Financial Statements for the period ended March 31, 2008.

### b) Financial Instruments – Presentation and Disclosure

Effective January 1, 2008, the Company adopted CICA Sections 3862 and 3863 which replaced CICA Section 3861, "Financial Instruments – Disclosure and Presentation." This new standard requires an increased emphasis on disclosures about the nature and extent of risk arising from financial instruments and how an entity manages those risks. The adoption of this standard does not impact the Company's financial statements as it only addresses disclosure requirements. Information regarding the nature and extent of risk arising from the Company's financial instruments and how it manages those risks is further described in note 6, "Financial Instruments", of the Notes to the Interim Consolidated Financial Statements for the period ended March 31, 2008.

### c) Inventories

Effective January 1, 2008, the Company adopted CICA Section 3031, "Inventories" which harmonizes accounting for inventories under Canadian GAAP with International Financial Reporting Standards. This standard requires the measurement of inventories at the lower of cost and net realizable value and includes guidance on the determination of cost, including allocation of overheads and other costs to inventory. The standard also requires the consistent use of either first-in, first-out (FIFO) or weighted average cost formula to measure the cost of other inventories and requires the reversal of previous write-downs to net realizable value when there is a subsequent increase in the value of inventories. Information regarding the Company's inventory disclosures is further described in note 7, "Inventories", of the Notes to the Interim Consolidated Financial Statements for the period ended March 31, 2008.

## 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 to 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.

## **b) Goodwill and Intangible Assets**

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets", replacing 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 by profit-oriented enterprises. Standards concerning goodwill are unchanged from the previous standards included in the previous Section 3062. The new standard applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008. 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 the financial statements and the reported amounts of revenues 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. There have been no changes in these accounting estimates from those reported in the Company's Annual Report at December 31, 2007.

## **Risk and Uncertainties**

The MD&A of the Annual Report for the year ended December 31, 2007 includes an overview of the risks and uncertainties affecting the Company on pages 17 and 18. These risks and uncertainties are unchanged as at March 31, 2008.

## **Disclosure Controls and Internal Controls 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 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, 2008 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.

## Consolidated Balance Sheets

As at	March 31 2008 (unaudited)	December 31 2007 (audited)
	\$	\$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	360,062	2,711,136
Accounts receivable	23,343,903	16,074,755
Income taxes receivable	413,350	305,609
Inventories (note 7)	8,710,890	5,839,545
Prepaid expenses	176,547	117,184
Current portion of future tax asset	73,200	73,200
	<u>33,077,952</u>	<u>25,121,429</u>
<b>Other assets</b>	112,350	315,582
<b>Property, plant and equipment</b>	40,951,985	39,488,530
	<u>74,142,287</u>	<u>64,925,541</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Bank indebtedness	4,717,135	-
Accounts payable and accrued liabilities	13,718,736	9,130,388
	<u>18,435,871</u>	<u>9,130,388</u>
<b>Asset retirement obligations</b>	208,305	204,937
<b>Future income taxes</b>	3,733,978	3,746,478
	<u>22,378,154</u>	<u>13,081,803</u>
<b>Contingent liabilities and commitments</b> (note 9)		
<b>Shareholders' equity</b>		
Share capital (note 8 (b))	29,616,022	29,631,368
Contributed surplus (note 8 (c))	1,506,835	1,500,569
Retained earnings	20,641,276	20,711,801
	<u>51,764,133</u>	<u>51,843,738</u>
	<u>74,142,287</u>	<u>64,925,541</u>

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

# Consolidated Statement of Operations, Comprehensive Loss and Retained Earnings

(unaudited)

Three months ended March 31	2008	2007
	\$	\$
<b>Revenues</b>	33,746,921	27,876,401
<b>Expenses</b>		
Operating	32,122,504	23,513,718
General and administrative	1,090,441	1,146,566
Depreciation and amortization	636,690	567,747
Accretion expense	3,367	3,160
Amortization of pre-operating costs	-	21,718
Interest expense	6,258	8,116
	33,859,260	25,261,025
<b>(Loss) earnings from operations before other income (expense)</b>	(112,339)	2,615,376
<b>Other income (expense)</b>		
Interest income and other	14,991	61,125
Loss on write-down of investment in foreign operations	-	(44,442)
Gain (loss) on disposal of property, plant and equipment	3,989	(8,934)
	18,980	7,749
<b>(Loss) earnings from operations before income taxes</b>	(93,359)	2,623,125
<b>Income taxes</b>		
Current	(10,500)	1,011,723
Future	(12,500)	(231,349)
	(23,000)	780,374
<b>Net (loss) earnings and comprehensive (loss) income for the period</b>	(70,359)	1,842,751
<b>Retained earnings, beginning of period</b>	20,711,801	25,254,226
<b>Common shares repurchased and cancelled</b>	(166)	-
<b>Retained earnings, end of period</b>	20,641,276	27,096,977
<b>(Loss) earnings per share</b>		
Basic	(0.00)	0.12
Diluted	(0.00)	0.12
<b>Weighted average shares outstanding (note 8 (e))</b>		
Basic	15,249,594	15,295,307
Diluted	15,249,594	15,404,297

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

# Consolidated Statement of Cash Flows

(unaudited)

Three months ended March 31	2008	2007
	\$	\$
<b>Operating activities</b>		
Net (loss) earnings from operations	(70,359)	1,842,751
Items not affecting cash -		
Depreciation, amortization and accretion expense	640,057	592,625
Stock based compensation	6,266	94,002
Amortization of plant turnaround costs	239,045	255,461
Gain (loss) on disposal of property, plant and equipment	(3,989)	8,934
Write-down of investment in foreign operations	-	44,442
Future income taxes	(12,500)	(231,349)
	798,520	2,606,866
Changes in non-cash components of working capital		
Net change in accounts receivable	(7,269,148)	351,223
Net change in inventories and prepaid expenses	(2,930,708)	(1,983,527)
Net change in accounts payable and accrued liabilities	4,588,348	704,603
Net change in income taxes payable	(107,741)	1,011,723
	(5,719,249)	84,022
Net cash (used in) provided by operating activities	(4,920,729)	2,690,888
<b>Investing activities</b>		
Purchase of property, plant and equipment	(2,120,057)	(2,099,087)
Decrease in promissory note	-	30,876
Proceeds on disposal of property, plant and equipment	23,900	62,600
Increase in other assets	(35,811)	17,906
Net cash used in investing activities	(2,131,968)	(1,987,705)
<b>Financing activities</b>		
Net change in bank indebtedness	4,717,135	-
Repurchase of common shares under normal course issuer bid	(15,512)	-
Repayment of long-term debt	-	(287,062)
Net cash provided by (used in) financing activities	4,701,623	(287,062)
<b>(Decrease) increase in cash and cash equivalents</b>	<b>(2,351,074)</b>	<b>416,121</b>
<b>Cash and cash equivalents - beginning of period</b>	<b>2,711,136</b>	<b>2,413,522</b>
<b>Cash and cash equivalents - end of period</b>	<b>360,062</b>	<b>2,829,643</b>

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

# Notes to the Interim Consolidated Financial Statements

For the period ended March 31, 2008 (unaudited)

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## 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 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. (“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, 2007.

### a) Capital Disclosures

Effective January 1, 2008, the Company adopted CICA Section 1535, “Capital Disclosures” which requires that an entity disclose information that enables users of its financial statements to evaluate an entity’s objectives, policies and processes for managing capital, including disclosures of any externally imposed capital requirements and the consequences of non-compliance. The adoption of this standard does not impact the Company’s financial statements as it only addresses disclosure requirements. Information regarding the Company’s capital disclosures is further described in note 5.

### b) Financial Instruments – Presentation and Disclosure

Effective January 1, 2008, the Company adopted CICA Sections 3862 and 3863 which replaced CICA Section 3861, “Financial Instruments – Disclosure and Presentation. ” This new standard requires an increased emphasis on disclosures about the nature and extent of risk arising from financial instruments and how an entity manages those risks. The adoption of this standard does not impact the Company’s financial statements as it only addresses disclosure requirements. Information regarding the nature and extent of risk arising from the Company’s financial instruments and how it manages those risks is further described in note 6.

### c) Inventories

Effective January 1, 2008, the Company adopted CICA Section 3031, “Inventories” which harmonizes accounting for inventories under Canadian GAAP with International Financial Reporting Standards. This standard requires the measurement of inventories at the lower of cost and net realizable value and includes guidance on the determination of cost, including allocation of overheads and other costs to inventory. The standard also requires the consistent use of either first-in, first-out (FIFO) or weighted average cost formula to measure the cost of other inventories and requires the reversal of previous write-downs to net realizable value when there is a subsequent increase in the value of inventories. Information regarding the Company’s inventory disclosures is further described in note 7.

## 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 to 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) Goodwill and Intangible Assets

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets", replacing 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 by profit-oriented enterprises. Standards concerning goodwill are unchanged from the previous standards included in the previous Section 3062. The new standard applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008. The Company is currently evaluating the impact of adopting this standard.

## 3. Nature of Operations

Enerchem 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, 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.

## 4. 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.

## 5. Capital Disclosures

The Company's objectives in managing capital are:

- 1) to ensure sufficient liquidity to enable the internal financing of capital projects thereby facilitating its expansion,
- 2) to maintain a strong capital base so as to maintain investor, creditor and market confidence, and
- 3) to provide an adequate return to shareholders.

The Company's capital is composed of long-term debt, including the current portion, and shareholders' equity. The Company's primary uses of capital in the past have been to finance its plant and equipment expenditures. The Company currently funds these requirements out of its internally-generated cash flows. The Company maintains a secured operating line of credit with a Chartered bank that it uses from time to time for its business activities. The Company does not have any long-term debt and therefore net earnings generated from operations are available for reinvestment in the Company. The Board of Directors does not establish quantitative return on capital criteria for management; but rather promotes year over year sustainable profitable growth. The Board of Directors also monitors the share repurchase program activities. The Company does not have a defined share repurchase plan and buy and sell decisions are made on a specific transaction basis and depend on market prices and regulatory restrictions. The Company is not subject to any externally imposed capital requirements.

## 6. 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.

## 6. Financial Instruments (continued)

### b) Financial Risk Management

The Company's activities are exposed to a variety of financial risks: credit risk, liquidity risk and market risk. The Company's overall risk management program focuses on the unpredictability of 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 due to: the Company's diverse customer base; conducting a majority of its business with large companies in the industry; following a program of credit evaluation; and limiting the amount of customer credit where deemed necessary.

As at March 31, 2008 the Company's exposure to credit risk for these financial instruments was as follows:

Aging of financial assets:		Not more than three months past due	More than three months but less than six months past due
Total	Current Amount		
\$	\$	\$	\$
23,343,903	9,272,053	13,219,946	851,904

#### 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 facility. 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 \$13,718,736 at March 31, 2008 requires payment within thirty days. As at March 31, 2008, the Company has a \$5,500,000 revolving operating line of credit with a Canadian chartered bank (March 31, 2007 - \$5,500,000). During the first quarter of 2008, the Company increased its bank guarantee facility to \$11,000,000 from \$10,000,000 to accommodate its feedstock purchase commitments with two suppliers. Advances under the operating line are available at either the bank's prime rate plus 0.40%, Bankers' Acceptance rates plus 1.65%, or a combination thereof, and are repayable on demand. The guarantee facility bears a fee of 1.35% 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. The effect on pre-tax earnings for the three months ended March 31, 2008 due to changes in market interest rates affecting the Company's floating rate debt outstanding at the balance sheet date is outlined below. The sensitivity analysis has been prepared using management's assessment that a 50 basis point decrease is the most reasonably possible change in market interest rates.

	Pre-tax earnings increase
	\$
50 basis point decrease	6,000

## 6. 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 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, 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 petroleum and natural gas costs in the related production period.

The Company did not have any outstanding crude oil and natural gas forward purchase contracts as at March 31, 2008 or March 31, 2007.

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

## 7. Inventories

Inventories are comprised as follows:

As at	March 31, 2008	December 31, 2007
	\$	\$
Raw materials	2,896,637	3,153,345
Finished product	5,814,253	2,686,200
<u>Total</u>	<u>8,710,890</u>	<u>5,839,545</u>

For the three months ended March 31, 2008, operating expenses include inventories recognized as an expense in the amount of \$26,943,000 (three months ended March 31, 2007 - \$18,981,000).

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.

## 8. 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

As at	March 31, 2008	December 31, 2007
	#	#
Balance - beginning of period	15,253,107	15,295,307
Issue of shares for cash upon exercise of stock options	-	34,000
Redemption pursuant to normal course issuer bid	(7,900)	(76,200)
<u>Balance - end of period</u>	<u>15,245,207</u>	<u>15,253,107</u>

  

	March 31, 2008	December 31, 2007
	\$	\$
Balance - beginning of period	29,631,368	29,675,698
Issue of shares for cash upon exercise of stock options	-	103,700
Redemption pursuant to normal course issuer bid	(15,346)	(148,030)
<u>Balance - end of period</u>	<u>29,616,022</u>	<u>29,631,368</u>

On June 27, 2007, the Company announced a normal course issuer bid to purchase up to 766,465 of its issued and outstanding common shares at the market price at the time of acquisition beginning on July 3, 2007 and ending on July 2, 2008, or such earlier time as the bid is completed or terminated by the Company. During the first quarter of 2008, 7,900 common shares were purchased at an average price of \$1.96 per common share, including transaction fees. The cost of common shares purchased totaled \$15,512 of which \$15,346 was recorded as a charge against share capital at the average carrying value of the Company's common shares issued and outstanding, with the balance of \$166 charged against retained earnings.

## 8. Share Capital and Contributed Surplus (continued)

### c) Contributed Surplus

	March 31, 2008	December 31, 2007
	\$	\$
Balance – beginning of period	1,500,569	1,123,673
Stock based compensation expensed during the period	6,266	376,896
Balance – end of period	1,506,835	1,500,569

### 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:

	Options	March 31, 2008 Weighted Average Exercise Price
	#	\$
Common shares under option - beginning of period	540,000	3.26
Share options granted	100,000	2.20
Common shares under option - end of period	640,000	3.09
Options exercisable at end of period	540,000	3.25

During the three months ended March 31, 2008, the Company granted 100,000 stock options to an employee of the Company with an exercise price of \$2.20 (three months ended March 31, 2007 - 100,000, with an exercise price of \$3.75). The stock options vest with the employee over a five year period and expire seven years after the date of grant. The weighted average fair value of the options granted during the three months ended March 31, 2008 of \$1.05 per option was estimated using the Black-Scholes model with the following assumptions: risk-free interest rate of 3.7 percent; vesting period of the grant of five years; volatility of 50 percent and zero dividend yield.

The impact of expensing stock options for the three months ended March 31, 2008 was \$6,266 (three months ended March 31, 2007 - \$94,002) with a corresponding increase in contributed surplus.

Subsequent to March 31, 2008, 100,000 options were granted to an employee of the Company at an exercise price of \$2.21 per share.

### 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	2008	2007
	#	#
Weighted average share calculation		
- Basic		
Common shares - opening	15,253,107	15,295,307
Weighted average common shares repurchased during the period	(3,513)	-
	15,249,594	15,295,307
- Diluted		
Basic weighted average common shares – opening	15,249,594	15,295,307
Dilutive effect of stock options and equivalents	-	108,990
	15,249,594	15,404,297

## 9. Contingent Liabilities and Commitments

- a) Letters of guarantee are provided by the Company on an on-going basis and for varying amounts for its petroleum feedstock purchases from suppliers. At March 31, 2008, the Company had provided letters of guarantee totaling \$4,567,000 which terminated in April 2008, in favour of two suppliers for purchases of feedstock from those 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, 2008, 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.
- c) The Company has accrued environmental costs of \$240,000 related to the clean-up of its tank farm in Sundre, Alberta. The \$240,000 is an estimate and the Company is in the process of gathering third party quotations. The Company carries insurance against such risks and anticipates that a portion of the environmental costs will be insured. The insurance underwriter is presently examining the Company's claim for the environmental clean-up. The accrual for the clean-up has been reported on the balance sheet under the caption accounts payable and accrued liabilities.
- d) On April 30, 2007, the Company entered into an agreement with a third party for the construction of new heating units for the Sundre plant in the amount of \$745,900 of which \$162,980 is outstanding at March 31, 2008. The project is scheduled for completion during the third quarter of 2008.
- e) On May 4, 2007, the Company entered into an agreement with a third party for the construction and assembly of a new crude oil desalter for the Slave Lake plant in the amount of \$1,950,000 of which \$309,308 is outstanding at March 31, 2008. The project was substantially completed at March 31, 2008 and is being commissioned.

## 10. 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 "Inter-segment Eliminations".

Three months ended March 31, 2008

	Oilfield Services	Energy Marketing	Transportation Services	Inter-Segment Eliminations	Consolidated
	\$	\$	\$	\$	\$
Revenues	19,030,366	11,389,907	3,326,648	-	33,746,921
Inter-segment revenues	-	-	2,146,849	(2,146,849)	-
Total revenues	19,030,366	11,389,907	5,473,497	(2,146,849)	33,746,921
Operating expenses	17,806,229	10,503,327	3,812,948	-	32,122,504
Depreciation, amortization & accretion expense	327,978	-	312,079	-	640,057
Interest expense	6,258	-	-	-	6,258
Other income	14,991	-	3,989	-	18,980
Subtotal	904,892	886,580	1,352,459	(2,146,849)	997,082
Less: General and administrative	-	-	-	-	1,090,441
Earnings (loss) before income taxes	904,892	886,580	1,352,459	(2,146,849)	(93,359)

## 10. Segmented Information (continued)

Three months ended March 31, 2007

	Oilfield Services	Energy Marketing	Transportation Services	Inter-Segment Eliminations	Consolidated
	\$	\$	\$	\$	\$
Revenues	19,151,757	6,089,350	2,635,294	-	27,876,401
Inter-segment revenues	-	-	1,603,866	(1,603,866)	-
Total revenues	19,151,757	6,089,350	4,239,160	(1,603,866)	27,876,401
Operating expenses	15,518,216	4,821,043	3,174,459	-	23,513,718
Depreciation, amortization & accretion expense	284,166	-	308,459	-	592,625
Interest expense	-	-	8,116	-	8,116
Other (income) expense	(8,996)	-	1,247	-	(7,749)
Subtotal	3,358,371	1,268,307	746,879	(1,603,866)	3,769,691
Less: General and administrative	-	-	-	-	1,146,566
Earnings before income taxes	3,358,371	1,268,307	746,879	(1,603,866)	2,623,125
As at March 31, 2008					
Total assets	64,028,045	7,518,544	10,087,706	(7,492,008)	74,142,287
Capital expenditures	1,679,526	386,985	89,357	-	2,155,868
As at December 31, 2007					
Total assets	57,215,981	4,744,887	8,901,277	(5,936,604)	64,925,541
Capital expenditures	6,691,673	1,405,267	1,870,644	-	9,967,584

## 11. Comparative figures

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

## Health, Safety and Environment

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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.

We have initiated comprehensive policies and procedures to ensure the health and safety of all our employees, contractors, sub-contractors and visitors.

Enerchem holds a Certificate of Recognition ("COR") for all of its business operations. The COR recognizes that our health and safety management systems meet the Standards of Partnerships developed by Alberta Human Resources and Employment. We are proud that our employees have maintained an excellent safety performance record and that all facilities have operated lost-time incident free throughout the year. In recognition of our exceptional performance in workplace health and safety, we received a **Work Safe 2006 Alberta Best Safety Performer Award** which is presented to only 300 employers out of a possible 140,000 employers.

We also have implemented programs and guidelines to minimize our 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

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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, of 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 comprises six 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, and all Audit Committee members qualify as independent within the meaning of Multilateral Instrument 52-110 – "Audit Committees". It believes that such number of directors is large enough to allow the directors to benefit from a wide variety of ideas and viewpoints without compromising communication among the directors, and between the directors and management.

The Board of Directors has four committees to which the Board has delegated certain of its authority and responsibilities, as well as certain advisory functions and power to make recommendations and reports to the Board. The standing committees of the Board are: the Audit Committee; the Compensation Committee; the Health, Safety and Environment Committee; and the Strategic Planning and Priorities Committee.

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 Company's interim unaudited financial statements and Management's Discussion and Analysis related thereto; (b) the

Company's 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 considered to be financially literate and a 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 Environment 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.

The Company has set up a Strategic Planning and Priorities Committee whose mandate involves considering and advising the Board of Directors on matters of strategic importance to the Company.

#### **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 are detailed in our 2008 Information Circular which can be found at [www.sedar.com](http://www.sedar.com).

## Directory

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### Corporate Office

Enerchem International Inc.  
1950, 777 - 8 Avenue S.W.  
Calgary, Alberta  
CANADA T2P 3R5

T: 403.269.1500  
F: 403.269.1559  
www.enerchem.com

### Board of Directors

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

Kenneth Bagan  
President and Chief Executive Officer  
Director

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), (4)

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

### Officers

Kenneth Bagan  
President and Chief Executive Officer

Brian M. Zubach, B. Admin., CMA  
Chief Financial Officer

J. Barrie Brookman  
Vice President, Corporate Development

Member of:

- (1) Audit Committee
- (2) Compensation Committee
- (3) Health, Safety and Environment Committee
- (4) Strategic Planning and Priorities Committee

### 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. Kenneth Bagan  
Enerchem International Inc.  
First Alberta Place  
1950, 777 - 8th Avenue S.W.  
Calgary, Alberta T2P 3R5

T: 403.269.1500  
F: 403.269.1559

Enerchem International Inc.

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

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T: 403.269.1500  
F: 403.269.1559

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