ENERCHEM
INTERNATIONAL INC.

2ND QUARTER INTERIM REPORT
2007

President's Message

To Our Shareholders,

On behalf of the Board of Directors of Enerchem International Inc. I would like to report the financial and operating results for the three and six months ended June 30, 2007.

Operating Environment

The first half of 2007 has clearly been challenging for Canadian oil and gas service companies. Year to date, the weekly rig count has averaged 334 rigs which is 35% below the average weekly record rig count of 516 rigs for the same period last year and 20% below the five-year average of 413 rigs. The industry drilled 7,749 wells so far this year compared to 10,608 wells in the same period last year, a 27% drop in activity. This decrease in activity has also been reflected in our financial performance for the year to date with an overall drop in revenue of 35% and a 66% decline in earnings when compared to the same period last year.

During the second quarter this year, 1,765 wells were drilled representing a 41% decline from the 2,997 wells drilled in the same three month period last year. Much of this decline in second quarter activity resulted from a longer than normal spring break-up combined with a reduction in exploration and development programs in the face of lower natural gas prices and concerns over high North American natural gas inventory levels. The foregoing combined with the impact of a higher Canadian dollar on realized Canadian commodity prices have caused producers to re-evaluate and defer their drilling programs.

Shallow areas of western Canada have seen the most significant decrease in activity; however, activity levels in the deeper areas of the basin have also seen a slowdown since the fourth quarter of 2006.

Despite these challenges it is encouraging to see drilling rig activity start to return to more historical levels as we start the third quarter.

Facilities Update

We are continuing with the implementation of our strategic initiatives focused on increasing efficiencies and improving performance to reduce our operational costs.

Our new flowback return cleaning facility was commissioned in May and as anticipated, the used fracturing fluid that has been reprocessed through this facility has significantly increased our product cuts and reduced feedstock costs at our Sundre refinery. We expect this to give us a considerable competitive advantage.

The Sundre turnaround is scheduled for this month and we will be proceeding with the two major projects slated for the refinery. 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. This should provide us with increased cuts in the manufacture 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 operating temperature for the refining process and thereby increase the plant's production capacity and also contribute to reducing 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 is expected to remove 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 sometime in the third quarter. This expansion will facilitate greater opportunities for our energy marketing operations and we anticipate that this project will be completed before year end.

Outlook

The downturn in industry activity over the last three quarters is expected to continue through to the fourth quarter of 2007, which is when we should start to see an increase in activity going into the winter drilling season. However, we do not anticipate a move back to more robust activity levels until mid to late 2008. The long-term fundamentals still require continued exploration in western Canada to meet the North American demand for commodities. Despite the short-term weakness currently being experienced in our industry, we believe that the overall outlook remains positive for the longer term. With $20 million in working capital, cash of over $7 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 June 30	2007	2006
	$	$
Revenues	7,467,779	22,093,080
Net (loss) earnings for the period	(648,176)	764,844
(Loss) earnings per share		
Basic	(0.04)	0.05
Diluted	(0.04)	0.05
EBITDA (1)	(441,061)	1,363,003
EBITDA per share (2)	(0.03)	0.09

Six months ended June 30	2007	2006
	$	$
Revenues	35,344,180	54,408,566
Net earnings for the period	1,194,575	3,521,279
Earnings per share		
Basic	0.08	0.23
Diluted	0.08	0.23
EBITDA (1)	2,827,247	5,818,904
EBITDA per share (2)	0.18	0.39

Financial Position

As at	June 30, 2007	June 30, 2006
	$	$
Total assets	65,589,250	70,266,738
Working capital (3)	20,172,629	21,116,399
Total long-term financial liabilities (4)	-	803,192
Shareholders' equity	57,540,216	53,555,530

(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 currrent assets less current liabilities.
(4) Excludes current portion of long-term debt.

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 June 30, 2007 should be read in conjunction with the interim financial statements for the period ended June 30, 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 August 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 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 are 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 Sundre 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. On May 1, 2006, the Company acquired all of the outstanding common shares of Millard Trucking Ltd. ("Millard"), a privately owned company based in Sundre, Alberta that provides transportation services and other oilfield services to the oil and gas industry (refer to note 3 "Acquisition", which provides further details of the acquisition).

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").

During the second quarter of 2007, the Company received proceeds of $750,000 U.S. less transaction 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 – Three Months Ended June 30

Consolidated Revenues

Three months ended June 30	2007		2006		Change
(unaudited)	$	%	$	%	%
Oilfield Services	3,786,720	51	15,344,354	69	(75)
Energy Marketing	1,614,242	21	5,119,184	23	(68)
Transportation Services	2,066,817	28	1,629,542	8	27
Total	7,467,779	100	22,093,080	100	(66)

Consolidated revenues declined by 66% during the second quarter of 2007 when compared to the same period last year as a result of the continued decline in oilfield activity in the WCSB which was largely precipitated by high levels of natural gas inventories in the North American market and extended spring break-up conditions that consumed a substantial portion of the entire quarter. Industry drilling rig utilization rates averaged 17% for the quarter, representing a 60% decline from the same period last year when drilling rig activity averaged 42%. While spring break-up conditions normally affect April and May activity levels, drilling rig utilization rates in June 2007 were at lows not experienced in over 10 years. As a result of the foregoing, the Company experienced a significant decline in the volume of its products sold in the second quarter of 2007 when compared to the same period last year.

Segmented Revenues

Oilfield Services

Three months ended June 30	2007	2006	Change
(unaudited)	$	$	%
Fracturing	1,079,892	7,495,952	(86)
Drilling	707,048	4,959,400	(86)
Solvents	1,999,780	2,889,002	(31)
Total	3,786,720	15,344,354	(75)

Revenues from the Oilfield Services segment decreased by 75% during the second quarter of 2007 when compared to the same period last year, representing a 72% decline in the volume of product sold. While the decrease in fracturing and drilling fluid revenues resulted from the lack of oilfield activity, the decline in solvent revenues largely resulted from the Company's decision to discontinue the sale of one of its solvent products that was inefficient in its required method of manufacture.

Energy Marketing

For the three months ended June 30, 2007, revenues from the Energy Marketing segment decreased by 68% when compared to the same period last year primarily as a result of the decline in the Company's activity levels which reduced the volume of by-products available for re-sale.

Transportation Services

Transportation Services revenues for the three months ended June 30, 2007 totaled $2,067,000, excluding inter-segment revenues of $614,000, compared to $1,630,000, excluding inter-segment revenues of $899,000, for the same period last year. Revenues for the second quarter of 2006 are from the date of acquisition of Millard on May 1, 2006. This business segment experienced lower equipment utilization rates during the second quarter of 2007 when compared to the same period last year as a result of extended spring break-up conditions. Revenues from the Transportation Services segment represented 28% of consolidated revenues for the second quarter of 2007 compared to 8% of consolidated revenues for the same period last year.

Gross Profit

Three months ended June 30	2007	2006	Change
(unaudited)	$	$	%
Consolidated gross profit	1,998,776	3,804,510	(47)
% of consolidated revenues	27%	17%	
Oilfield Services	1,183,057	2,546,432	(54)
% of Oilfield Services revenues	31%	17%	
Energy Marketing	83,106	363,266	(77)
% of Energy Marketing revenues	5%	7%	
Transportation Services	840,530	1,032,599	(19)
% of Transportation Services revenues	31%	41%	
Net inter-segment services	(107,917)	(137,787)	-

Consolidated gross profit decreased by 47% during the second 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 27% from 17% for the comparative periods largely due to: the change in revenue mix; the reduction in feedstock costs resulting from increased flowback usage; an overall reduction in the cost of crude oil purchases resulting from the year over year decline in the price of crude oil; and, the benefits realized from the Millard acquisition. As a result of the foregoing, Oilfield Services gross profit as a percent of Oilfield Services revenues improved to 31% for the current quarter of 2007 compared to 17% for the comparative period.

Energy Marketing gross profit as a percent of Energy Marketing revenues declined to 5% from 7% due to the increase in by-product density adjustments and transportation tariffs charged by the third party blending facilities combined with the unfavourable affects of a one-time disposition of feedstock that did not meet the Company's manufacturing specifications.

Transportation Services gross profit as a percent of Transportation Services revenues declined to 31% in the second quarter of 2007 from 41% for the same period last year largely as a result of the reorganization of the Company's fluid transportation fleet precipitated by the acquisition of Millard. Prior to the acquisition, operating costs associated with the Company's fleet of fluid hauling units were expensed to SG&A. As a result of the acquisition, fleet operating costs incurred by the Transportation Services segment are expensed to cost of sales.

Operations

Salaries and employee benefits

Three months ended June 30	2007	2006	Change
(unaudited)	$	$	%
Expense amount	1,206,021	1,263,749	(5)
% of gross profit margin	60%	33%	

The 5% decrease in salary costs on a comparative quarter basis resulted primarily from the capitalization of labour costs directly identifiable with the construction of the Company's flowback and Millard facilities and the reduction in sales incentive payments due to the decline in oilfield activity levels. As an offset to the foregoing was the increase in stock based compensation costs for the comparative quarters.

Selling, general and administration

Three months ended June 30	2007	2006	Change
(unaudited)	$	$	%
Expense amount	1,236,861	1,347,855	(8)
% of gross profit margin	62%	35%	

Selling, general and administrative ("SG&A") costs decreased by 8% in the second quarter of 2007 when compared to the same period in 2006 largely as a result of the reorganization of the Company's fluid transportation fleet precipitated by the acquisition of Millard. Also contributing to the reduction in comparative period SG&A expenditures was the re-scheduling of the turnaround program for the Sundre plant to the third quarter of 2007, instead of its normal occurrence during the second quarter, to coincide with the installation of the new crude oil heaters at the plant. This change in the scheduled turnaround of the Sundre plant contributed to reduce the amount of turnaround costs available for amortization to SG&A in the current quarter of 2007 when compared to the same period last year.

Depreciation and amortization

Three months ended June 30	2007	2006	Change
(unaudited)	$	$	%
Depreciation	560,539	411,497	36
Amortization	-	278	-
Total amount	560,539	411,775	36
% of gross profit margin	28%	11%	

The 36% increase in depreciation expense in the second quarter of 2007 when compared to the same period last year was largely associated with the depreciable pool of Millard assets acquired effective May 1, 2006 and subsequent upgrades to and expansion of the fleet.

As at June 30, 2007, $652,000 of costs associated with projects under construction in Sundre and Slave Lake, Alberta have not been depreciated as the projects have not yet been completed and put into use.

Income Taxes

Three months ended June 30	2007	2006	Change
(unaudited)	$	$	%
(Recovery) expense amount	(392,218)	140,743	(379)
Effective tax rate	38%	16%	

The provision for income taxes in the second quarter of 2007 includes a current tax recovery of $450,000 compared to a recovery of $31,000 for the same period last year. The reduction in the tax provision on a comparative quarter basis was largely due to the effect of the substantively enacted change in the Canadian Federal tax rate in 2011 from 19.0% to 18.5% which affected both current and future tax provisions.

Net (Loss) Earnings

Three months ended June 30	2007	2006	Change
(unaudited)	$	$	%
Net (loss) earnings for the period	(648,176)	764,844	(185)
Earnings per share, diluted	(0.04)	0.05	(180)
EBITDA (1)	(441,061)	1,363,003	(132)

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

Due to the significant reduction in activity levels experienced during the second quarter of 2007, the Company recorded a net loss from operations of $648,000 compared to net earnings of $765,000 for the same period last year.

EBITDA from operations decreased by 132% in the second quarter of 2007 to $(441,000) from $1,363,000 in the second quarter of 2006.

Operating Results – Six Months Ended June 30

Consolidated Revenues

Six months ended June 30		2007		2006	Change
(unaudited)	$	%	$	%	%
Oilfield Services	22,938,477	65	39,662,547	73	(42)
Energy Marketing	7,703,592	22	13,116,477	24	(41)
Transportation Services	4,702,111	13	1,629,542	3	189
Total	35,344,180	100	54,408,566	100	(35)

For the first six months of 2007, consolidated revenues declined by 35% to $35,344,000 from $54,409,000 for the same period last year. The decline in consolidated revenues for the first half of 2007 resulted from the same industry, economic and weather related conditions as described earlier in this MD&A. Industry drilling rig utilization rates averaged 39% for first half of 2007, which represented a 41% decline from the same period last year when drilling rig activity rates averaged 66%.

Segmented Revenues

Oilfield Services

Six months ended June 30	2007	2006	Change
(unaudited)	$	$	%
Fracturing	12,308,234	21,330,882	(42)
Drilling	5,551,538	11,900,409	(53)
Solvents	5,078,705	6,431,256	(21)
Total	22,938,477	39,662,547	(42)

As a result of the significant decline in year-over-year oilfield activity, revenues from the Company's Oilfield Services segment decreased by 42%. This represented a 38% decline in the total volume of product sold during the period.

Energy Marketing

For the six months ended June 30, 2007, revenues from the Energy Marketing segment decreased by 41% when compared to the same period last year due to the decline in the Company's activity levels and the reduction in volume of by-products available for re-sale.

Transportation Services

Transportation Services revenues for the six months ended June 30, 2007 totaled $4,702,000, excluding inter-segment revenues of $2,218,000, compared to $1,630,000, excluding inter-segment revenues of $899,000, for the same period last year. Transportation Services revenues for the first half of 2007 reflect the full six months of this business segment's operations compared to two months for the same period last year.

Gross Profit

Six months ended June 30	2007	2006	Change
(unaudited)	$	$	%
Consolidated gross profit	8,366,339	10,877,636	(23)
% of consolidated revenues	24%	20%	
Oilfield Services	5,467,673	8,061,659	(32)
% of Oilfield Services revenues	24%	20%	
Energy Marketing	1,032,495	1,921,165	(46)
% of Energy Marketing revenues	13%	15%	
Transportation Services	2,089,169	1,032,599	102
% of Transportation Services revenues	30%	41%	
Net inter-segment services	(222,998)	(137,787)	-

Consolidated gross profit decreased by 23% during the first half 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 24% from 20% for the comparative period largely due to: the change in revenue mix; the reduction in feedstock costs resulting from increased flowback usage; an overall reduction in the cost of crude oil purchases resulting from the year over year decline in the price of crude oil; and, the benefits realized from the Millard acquisition. As a result of the foregoing, Oilfield Services gross profit as a percent of Oilfield Services revenues improved to 24% for the six months ended June 30, 2007 compared to 20% for the comparative period.

Energy Marketing gross profit as a percent of Energy Marketing revenues declined to 13% from 15% due to the increase in by-product density adjustments and transportation tariffs charged by the third party blending facilities combined with the unfavourable affects of a one-time disposition of feedstock during the second quarter of 2007 that did not meet the Company's manufacturing specifications.

Transportation Services gross profit as a percent of Transportation Services revenues decreased to 30% for the first half of 2007 compared to 41% for the same period last year largely as a result of the reorganization of the Company's fluid transportation fleet as described earlier in this MD&A.

Operations

Salaries and employee benefits

Six months ended June 30	2007	2006	Change
(unaudited)	$	$	%
Expense amount	2,559,340	2,537,865	1
% of gross profit margin	31%	23%	

The moderate increase in salary costs on a comparative period basis resulted from recognizing the full effects of the Millard acquisition and the increase in stock based compensation costs offset by the capitalization of labour costs directly identifiable with the construction of the Company's flowback and Millard facilities and the reduction in sales incentive payments due to the decline in oilfield activity levels.

Selling, general and administration

Six months ended June 30	2007	2006	Change
(unaudited)	$	$	%
Expense amount	3,034,988	2,721,096	12
% of gross profit margin	36%	25%	

SG&A costs increased by 12% during the first half of 2007 when compared to the same period in 2006 as a result of: one-time expenditures incurred during the first quarter of 2007 associated with the repair of salt bath heaters and exchangers at the Sundre plant; the Millard acquisition; the increase in general plant repair and maintenance costs; and the amortization of costs incurred during the Company's scheduled plant turnaround programs. During the first half of 2007, $390,000 of turnaround costs were amortized and included in SG&A expense compared to $297,000 for the same period last year. As an offset to the foregoing was the reorganization of the Company's fluid transportation fleet during the second quarter of 2006 precipitated by the acquisition of Millard.

Depreciation and amortization

Six months ended June 30	2007	2006	Change
(unaudited)	$	$	%
Depreciation	1,128,286	640,992	76
Amortization	-	2,446	-
Total amount	1,128,286	643,438	75
% of gross profit margin	13%	6%	

Depreciation and amortization expense increased by 75% during the first half of 2007 when compared to the same period last year largely as a result of the $448,000 net increase in depreciation expense associated with the acquired Millard assets. This increase reflects a full six months of depreciation in 2007 compared to two months for the same period last year as a result of the Millard acquisition effective May 1, 2006.

Income Taxes

Six months ended June 30	2007	2006	Change
(unaudited)	$	$	%
(Recovery) Expense amount	388,156	1,574,743	(75)
Effective tax rate	25%	31%	

The provision for income taxes in the first six months of 2007 includes current taxes of $562,000 compared to $1,390,000 in the same period last year.

The reduction in the tax provision on a comparative period basis was largely due to the effect of the substantively enacted change in the Canadian Federal tax rate in 2011 from 19.0% to 18.5% which affected both current and future tax provisions.

Net Earnings

Six months ended June 30	2007	2006	Change
(unaudited)	$	$	%
Net earnings for the period	1,194,575	3,521,279	(66)
Earnings per share, diluted	0.08	0.23	(65)
EBITDA (1)	2,827,247	5,818,904	(51)

(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 for the six months ended June 30, 2007 declined by 66% to $1,195,000 from $3,521,000 for the same period last year as a result of: the significant reduction in activity levels precipitated by the continued near-term weakness in natural gas prices; the extended spring break-up conditions affecting the second quarter of 2007; the increase in depreciation expense associated with Millard; and the general increase in plant repair and maintenance costs combined with one-time plant repair expenditures during the first quarter of 2007.

EBITDA from operations decreased by 51% to $2,827,000 for the first half of 2007 from $5,819,000 for the same period last year and reflected the decline in the Company's activity levels and profitability.

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)	June 30, 2007	March 31, 2007	December 31, 2006	September 30, 2006
	$	$	$	$
Revenues	7,467,779	27,876,401	24,199,343	29,138,305
Net (loss) earnings for the period	(648,176)	1,842,751	373,246	2,036,051
Net (loss) earnings per share from operations				
Basic	(0.04)	0.12	0.02	0.13
Diluted	(0.04)	0.12	0.02	0.13

Three month period ended (unaudited)	June 30, 2006	March 31, 2006	December 31, 2005(1)	September 30, 2005(1)
	$	$	$	$
Revenues	22,093,080	32,315,486	31,380,017	27,896,098
Net earnings from continuing operations	764,844	2,756,435	1,701,475	699,772
Net earnings per share from continuing operations				
Basic	0.05	0.19	0.11	0.05
Diluted	0.05	0.18	0.11	0.05
Net earnings for the period	764,844	2,756,435	5,586,835	850,722
Net earnings per share for the period				
Basic	0.05	0.19	0.37	0.06
Diluted	0.05	0.18	0.37	0.06

(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 September 30, 2005 and December 31, 2005.

Liquidity and Capital Resources

Cash provided from the Company's operating activities, before non-cash working capital items, for the three months ended June 30, 2007 was $232,000 compared to $1,591,000 for the same period last year. The decrease in cash flows in the second quarter of 2007 when compared to the same period last year resulted primarily from the significant decline in earnings. As at June 30, 2007, the Company had positive working capital of $20,173,000 compared to $20,650,000 at December 31, 2006. The Company's current ratio (defined as current assets divided by current liabilities) was 6.6 to 1 at June 30, 2007 compared to 3.7 to 1 at December 31, 2006.

Net cash used by the Company for investing activities totaled $1,200,000 in the second quarter of 2007 and $3,188,000 for the first half of 2007 compared to $5,284,000 in the second quarter of 2006 and $6,716,000 in the first half of 2006. Cash used for investing activities during the second quarter and for the first six months of 2007 was primarily directed to complete the construction of the Company's flowback facility in Sundre, Alberta and the construction of new office facilities for Millard in Sundre, Alberta. Cash used for investing activities during 2006 was primarily directed to the acquisition of Millard and plant expansion projects in Slave Lake and Sundre.

Net cash used by the Company for financing activities during the first half of 2007 was directed to the repayment of all long-term debt outstanding associated with the Millard acquisition totaling $287,000. Similarly during the first half 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 June 30, 2007, the Company did not have amounts outstanding under its available credit facilities with the 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		Payments due by period			
(unaudited)	Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
	$	$	$	$	$
Operating leases (1)	526,214	261,815	264,399	-	-
Commitments to capital expenditures (2)	745,900	745,900	-	-	-
Total contractual obligations	1,272,114	1,007,715	264,399	-	-

(1) Represents normal operating leases comprised of office space and truck fleet.
(2) Represents an agreement with a third party for the construction of new heaters at the Sundre plant.

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 June 30, 2007, the Company did not have any outstanding bank guarantees for the purchase of crude oil from 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 June 30, 2007 the Company had 15,329,307 common shares outstanding. In addition, as at June 30, 2007, the Company has reserved 600,000 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. Purchases under the normal course issuer bid will commence on July 3, 2007 and will terminate on July 2, 2008, or such earlier time as the bid is completed or terminated by the Company. All shares purchased under the issuer bid will be cancelled.

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 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 June 30, 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

Given the disappointing levels of oilfield activity experienced during the first half of 2007, the Canadian Association of Oilwell Drilling Contractors has released a revised forecast of activity for 2007 which projects 16,339 well completions. This new projection compares with drilling activity levels experienced in 2001 and 2002 and represents the first time the expected fleet utilization levels will fall below 50% since 2002. Much of this expected reduction in activity is focused on natural gas drilling.

Coming off the poor performance of the second quarter 2007, we are encouraged with the recent strong resurgence in sales of our Specialty Fluids. While we are still early into the third quarter of 2007 we are cautiously optimistic that we will experience more normal levels of activity for the quarter.

Notwithstanding, the Company is strong financially and we are proceeding with our planned capital expansion programs that are directed to the continued improvement of plant operating efficiencies. In addition, we will pursue acquisition opportunities that are accretive and complementary to our operations.

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 and 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 June 30, 2007, the impact on the consolidated balance sheet of measuring the financial assets and liabilities was nil.

   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.

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 and six months ended June 30, 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 and six months ended June 30, 2007. As the Company has no items of other comprehensive income or loss, the net earnings or loss for the periods are equivalent to comprehensive income or loss.

d) CICA Section 1506, "Accounting Changes" allows for voluntary changes in accounting policy only when they result in the financial statements providing reliable and more relevant information, requires changes in accounting policy to be applied retroactively unless doing so is impracticable, requires prior period errors to be corrected retroactively and calls for enhanced disclosures about the effects of changes in accounting policies, estimates and errors on the financial statements. The impact that the adoption of Section 1506 will have on the Company's results of operations and financial condition will depend on the nature of future accounting changes. The adoption of Section 1506 effective January 1, 2007 had no impact on these unaudited interim consolidated financial statements.

Recent Canadian Accounting Pronoucements Not Yet Adopted

a) Capital Disclosures

In December 2006, the CICA issued Handbook Section 1535, "Capital Disclosures". This standard 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 new standard applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007, specifically January 1, 2008 for the Company. The Company is currently evaluating the impact of this standard.

b) Financial Instruments - Presentation and Disclosure

In October, 2006, the CICA issued Handbook Sections 3862 and 3863 to replace Section 3861, "Financial Instruments – Disclosure and Presentation." This 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 new standard applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007, specifically January 1, 2008 for the Company. The Company is currently evaluating the impact of this standard.

c) Inventories

In June 2007, the CICA issued Handbook Section 3031, "Inventories" to harmonize 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. The new standard applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008, specifically January 1, 2008 for the Company. The Company is currently evaluating the impact of this standard.

d) Transaction Costs

In June 2007, the CICA issued Emerging Issues Committee Abstract No. 166, "Accounting Policy Choices for Transaction Costs". This guidance provides additional clarification on accounting policy choices relating to transaction costs under CICA Handbook Section 3855, "Financial Instruments – Recognition and Measurement". Specifically, the accounting policy provides a choice of recognizing transaction costs in net income when incurred versus adding transaction costs that are directly attributable to the acquisition or issue of a financial asset or financial liability to the financial instrument's carrying cost. This guidance allows companies to choose different accounting policies for transaction costs of financial instruments that are not similar. This guidance applies to interim and annual financial statements for periods ending on or after September 30, 2007, specifically the interim period ended September 30, 2007 for the Company. The Company is currently evaluating the impact of this standard.

Critical Accounting Policies

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, 2006.

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. For more information refer to Changes in Accounting Policies.

Risk and Uncertainties

The MD&A of the Annual Report for the year ended December 31, 2006 includes an overview of the risks and uncertainties affecting the Company on pages 23 and 24. These risks and uncertainties are unchanged as at June 30, 2007.

Enerchem International Inc.
Consolidated Balance Sheet

As at	June 30, 2007 (unaudited)	December 31, 2006 (audited)
	$	$
Assets		
Current assets		
Cash and cash equivalents	7,791,369	2,413,522
Accounts receivable	5,465,626	16,386,688
Income taxes recoverable	443,535	-
Inventories	9,809,326	9,288,729
Prepaid expenses	247,068	197,533
Current portion of promissory note	-	61,127
	23,756,924	28,347,599
Other assets	499,283	1,279,903
Property, plant and equipment	35,283,513	32,877,523
Goodwill	6,049,530	6,049,530
	65,589,250	68,554,555
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	3,584,295	7,258,179
Income taxes payable	-	323,709
Current portion of long-term debt	-	115,585
	3,584,295	7,697,473
Long-term debt	-	171,477
Asset retirement obligations	198,621	192,301
Future income taxes	4,266,118	4,439,707
	8,049,034	12,500,958
Contingent liabilities and commitments (note 7)		
Shareholders' equity		
Share capital (note 6(b))	29,779,398	29,675,698
Contributed surplus (note 6(c))	1,312,017	1,123,673
Retained earnings	26,448,801	25,254,226
	57,540,216	56,053,597
	65,589,250	68,554,555

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 June 30		Six months ended June 30	
	2007	2006	2007	2006
	$	$	$	$
Revenues	7,467,779	22,093,080	35,344,180	54,408,566
Cost of sales	5,469,003	18,288,570	26,977,841	43,530,930
Gross profit	1,998,776	3,804,510	8,366,339	10,877,636
Expenses				
Salaries and employee benefits	1,206,021	1,263,749	2,559,340	2,537,865
Selling, general and administration	1,236,861	1,347,855	3,034,988	2,721,096
Depreciation and amortization	560,539	411,775	1,128,286	643,438
Accretion expense	3,160	3,081	6,320	6,081
Amortization of pre-operating costs	21,718	21,718	43,436	43,436
Interest expense	-	20,842	8,116	29,927
	3,028,299	3,069,020	6,780,486	5,981,843
(Loss) earnings from operations before other income (expense)	(1,029,523)	735,490	1,585,853	4,895,793
Other income (expense)				
Other	(2,235)	157,445	58,890	154,871
Write-down of investment in foreign operations	(13,916)	-	(58,358)	-
Gain (loss) on disposal of property, plant and equipment	5,280	12,652	(3,654)	45,358
	(10,871)	170,097	(3,122)	200,229
(Loss) earnings from operations before income taxes	(1,040,394)	905,587	1,582,731	5,096,022
Income taxes				
Current	(449,978)	(31,096)	561,745	1,389,904
Future	57,760	171,839	(173,589)	184,839
	(392,218)	140,743	388,156	1,574,743
Net (loss) earnings and comprehensive (loss) income for the period	(648,176)	764,844	1,194,575	3,521,279
Retained earnings, beginning of period	27,096,977	22,080,085	25,254,226	19,323,650
Retained earnings, end of period	26,448,801	22,844,929	26,448,801	22,844,929
(Loss) earnings per share				
Basic	(0.04)	0.05	0.08	0.23
Diluted	(0.04)	0.05	0.08	0.23
Weighted average shares outstanding (note 6(e))				
Basic	15,301,285	15,222,098	15,298,313	15,046,318
Diluted	15,348,658	15,455,873	15,375,014	15,292,174

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

Enerchem International Inc.
Consolidated Statement of Cash Flows
(unaudited)

	Three months ended June 30		Six months ended June 30	
	2007	2006	2007	2006
	$	$	$	$
Operating activities				
Net (loss) earnings for the period	(648,176)	764,844	1,194,575	3,521,279
Items not affecting cash -				
Depreciation, amortization and accretion expense	585,417	436,574	1,178,042	692,955
Stock based compensation	94,342	63,884	188,344	130,829
Amortization of plant turnaround costs	134,402	166,533	389,863	297,125
(Gain) loss on disposal of property, plant and equipment	(5,280)	(12,652)	3,654	(45,358)
Write-down of investment in foreign operations	13,916	-	58,358	-
Future income taxes	57,760	171,839	(173,589)	184,839
	232,381	1,591,022	2,839,247	4,781,669
Changes in non-cash components of working capital				
Net change in accounts receivable	10,569,839	5,226,476	10,921,062	7,207,172
Net change in inventories and prepaid expenses	1,413,395	860,454	(570,132)	3,135,908
Net change in accounts payable and accrued liabilities	(4,378,487)	1,155,099	(3,673,884)	(3,797,802)
Net change in income taxes payable	(1,778,967)	(739,033)	(767,244)	(1,841,033)
	5,825,780	6,502,996	5,909,802	4,704,245
Net cash provided by operating activities	6,058,161	8,094,018	8,749,049	9,485,914
Investing activities				
Purchase of property, plant and equipment	(1,526,443)	(1,921,990)	(3,625,530)	(3,541,485)
Acquisition of subsidiary operations (note 3)	-	(2,733,000)	-	(2,733,000)
Cash acquired on acquisition of subsidiary operations	-	53,037	-	53,037
Decrease in promissory note	30,251	36,098	61,127	66,528
Proceeds on disposal of property, plant and equipment	25,000	124,862	87,600	281,557
Increase in other assets	(555,026)	(842,776)	(537,120)	(842,776)
Proceeds received on sale of foreign investment	826,083	-	826,083	-
Net cash used in investing activities	(1,200,135)	(5,283,769)	(3,187,840)	(6,716,139)
Financing activities				
Issue of common shares	103,700	751,530	103,700	1,146,730
Net change in bank indebtedness	-	(467,009)	-	(3,695,141)
Repayment of long-term debt	-	(757,899)	(287,062)	(3,805,663)
Net cash provided by (used in) financing activities	103,700	(473,378)	(183,362)	(6,354,074)
Increase (decrease) in cash and cash equivalents	4,961,726	2,336,871	5,377,847	(3,584,299)
Cash and cash equivalents - beginning of period	2,829,643	5,053,569	2,413,522	10,974,739
Cash and cash equivalents - end of period	7,791,369	7,390,440	7,791,369	7,390,440

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

1. Basis of Presentation and Accounting Policies

The accompanying unaudited interim consolidated financial statements of Enerchem International Inc. (“Enerchem” or the “Company”) are prepared in accordance with generally accepted accounting principles (“GAAP”) in Canada 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”) acquired May 1, 2006. All significant inter-company balances and transactions have been eliminated. With the exception of items (a), (b), (c) and (d) 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 and 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 June 30, 2007, the impact on the consolidated balance sheet of measuring the financial assets and liabilities was nil.

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.

(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 and six months ended June 30, 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 and six months ended June 30, 2007. As the Company has no items of other comprehensive income or loss, the net earnings or loss for the periods are equivalent to comprehensive income or loss.

(d) The CICA Section 1506, "Accounting Changes" allows for voluntary changes in accounting policy only when they result in the financial statements providing reliable and more relevant information, requires changes in accounting policy to be applied retroactively unless doing so is impracticable, requires prior period errors to be corrected retroactively and calls for enhanced disclosures about the effects of changes in accounting policies, estimates and errors on the financial statements. The impact that the adoption of Section 1506 will have on the Company's results of operations and financial condition will depend on the nature of future accounting changes. The adoption of Section 1506 effective January 1, 2007 had no impact on these unaudited interim consolidated financial statements.

2. Recent Canadian Accounting Pronouncements Not Yet Adopted

(a) Capital Disclosures

In December 2006, the CICA issued Handbook Section 1535, "Capital Disclosures". This standard 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 new standard applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007, specifically January 1, 2008 for the Company. The Company is currently evaluating the impact of this standard.

(b) Financial Instruments - Presentation and Disclosure

In October, 2006, the CICA issued Handbook Sections 3862 and 3863 to replace Section 3861, "Financial Instruments – Disclosure and Presentation." This 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 new standard applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007, specifically January 1, 2008 for the Company. The Company is currently evaluating the impact of this standard.

(c) Inventories

In June 2007, the CICA issued Handbook Section 3031, "Inventories" to harmonize 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. The new standard applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008, specifically January 1, 2008 for the Company. The Company is currently evaluating the impact of this standard.

(d) Transaction Costs

In June 2007, the CICA issued Emerging Issues Committee Abstract No. 166, "Accounting Policy Choices for Transaction Costs". This guidance provides additional clarification on accounting policy choices relating to transaction costs under CICA Handbook Section 3855, "Financial Instruments – Recognition and Measurement". Specifically, the accounting policy provides a choice of recognizing transaction costs in net income when incurred versus adding transaction costs that are directly attributable to the acquisition or issue of a financial asset or financial liability to the financial instrument's carrying cost. This guidance allows companies to choose different accounting policies for transaction costs of financial instruments that are not similar. This guidance applies to interim and annual financial statements for periods ending on or after September 30, 2007, specifically the interim period ended September 30, 2007 for the Company. The Company is currently evaluating the impact of this standard.

3. Acquisition

On May 1, 2006, the Company acquired all of the outstanding common shares of Millard for an aggregate purchase price of $3,265,000. Millard is a Sundre, Alberta based company involved in providing transportation services to the oil and gas industry. The operations of Millard Trucking Ltd. and J.D.M. Trucking Ltd. were amalgamated effective May 12, 2006 and continued under the name of Millard Trucking Ltd., a wholly owned subsidiary of Enerchem. The results from operations of Millard are included in the Transportation Services segment. This acquisition has been accounted for by the purchase method and the results of operations have been included in these consolidated financial statements from the date of acquisition. The cost of the purchase has been allocated to the acquired assets based on their estimated fair values at the date of the acquisition. Details of the acquisition are as follows:

As at May 1, 2006	$
Current assets	2,707,614
Property and equipment	4,521,000
Total assets acquired	7,228,614
Current liabilities	2,421,578
Long-term debt	848,408
Future income taxes	693,628
Total liabilities assumed	3,963,614
Net assets acquired	3,265,000

The consideration was by way of:

Cash	2,733,000
100,000 common shares	532,000
	3,265,000

The value of the 100,000 common shares issued was determined based on the simple average of the closing prices of Enerchem's common shares on the Toronto Stock Exchange for the period near the date of acquisition.

4. 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.

5. 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.

6. 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

	June 30, 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	34,000	103,700	374,500	1,146,730
Exercise of stock options	-	-	-	23,125
Issue of shares upon acquisition of Millard	-	-	100,000	532,000
Balance - end of period	15,329,307	29,779,398	15,295,307	29,675,698

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. Purchases under the normal course issuer bid will commence on July 3, 2007 and will terminate on July 2, 2008, or such earlier time as the bid is completed or terminated by the Company. All shares purchased under the issuer bid will be cancelled.

(c) Contributed Surplus

	June 30, 2007	December 31, 2006
	$	$
Balance – beginning of period	1,123,673	927,199
Stock based compensation expensed during the period	188,344	219,599
Exercise of stock options	-	(23,125)
Balance – end of period	1,312,017	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:

	June 30, 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	(34,000)	3.05	(374,500)	3.06
Common shares under option - end of period	600,000	3.45	534,000	3.36
Options exercisable - end of period	394,167	3.48	302,167	3.60

During the three months ended June 30, 2007 and 2006 the Company did not grant any options. During the six months ended June 30, 2007 the Company granted 100,000 (six months ended June 30, 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 six months ended June 30, 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 June 30, 2007 was $94,342 (three months ended June 30, 2006 - $63,884) and totaled $188,344 for the six months ended June 30, 2007 (six months ended June 30, 2006 - $130,829) 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 June 30		Six months ended June 30	
	2007	2006	2007	2006
	#	#	#	#
Weighted average share calculation				
- Basic				
Common shares - opening	15,295,307	14,950,807	15,295,307	14,820,807
Weighted average common shares issued during the period	5,978	271,291	3,006	225,511
	15,301,285	15,222,098	15,298,313	15,046,318
- Diluted				
Basic weighted average common shares – opening	15,301,285	15,222,098	15,298,313	15,046,318
Dilutive effect of stock options and equivalents	47,373	233,775	76,701	245,856
	15,348,658	15,455,873	15,375,014	15,292,174

7. 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 June 30, 2007, the Company did not have any outstanding letters of guarantee.

(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 June 30, 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.

(c) On April 30, 2007, the Company entered into an agreement with a third party for the construction of a new heating unit for the Sundre plant in the amount of $745,900. The project is scheduled for completion during the third quarter of 2007.

8. 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 June 30, 2007

	Oilfield Services	Energy Marketing	Transportation Services	Inter-segment Eliminations	Total
	$	$	$	$	$
Revenues	3,786,720	1,614,242	2,066,817	-	7,467,779
Inter-segment revenues	-	-	614,357	(614,357)	-
	3,786,720	1,614,242	2,681,174	(614,357)	7,467,779
Cost of sales	2,603,663	1,531,136	1,840,644	(506,440)	5,469,003
Gross profit	1,183,057	83,106	840,530	(107,917)	1,998,776
Depreciation, amortization & accretion expense	305,052	-	280,365	-	585,417
(Loss) earnings before income taxes	(1,055,992)	21,694	22,405	(28,501)	(1,040,394)

Three months ended June 30, 2006

	Oilfield Services	Energy Marketing	Transportation Services	Inter-segment Eliminations	Total
Revenues	15,344,354	5,119,184	1,629,542	-	22,093,080
Inter-segment revenues	-	-	898,807	(898,807)	-
	15,344,354	5,119,184	2,528,349	(898,807)	22,093,080
Cost of sales	12,797,922	4,755,918	1,495,750	(761,020)	18,288,570
Gross profit	2,546,432	363,266	1,032,599	(137,787)	3,804,510
Depreciation, amortization & accretion expense	295,810	-	140,764	-	436,574
Interest expense	5,783	-	15,059	-	20,842
Earnings before income taxes	3,575	299,603	701,139	(98,730)	905,587

Six months ended June 30, 2007

	Oilfield Services	Energy Marketing	Transportation Services	Inter-segment Eliminations	Total
	$	$	$	$	$
Revenues	22,938,477	7,703,592	4,702,111	-	35,344,180
Inter-segment revenues	-	-	2,218,223	(2,218,223)	-
	22,938,477	7,703,592	6,920,334	(2,218,223)	35,344,180
Cost of sales	17,470,804	6,671,097	4,831,165	(1,995,225)	26,977,841
Gross profit	5,467,673	1,032,495	2,089,169	(222,998)	8,366,339
Depreciation, amortization & accretion expense	589,218	-	588,824	-	1,178,042
Interest expense	-	-	8,116	-	8,116
Earnings before income taxes	344,458	904,653	350,713	(17,093)	1,582,731

Six months ended June 30, 2006

	Oilfield Services	Energy Marketing	Transportation Services	Inter-segment Eliminations	Total
Revenues	39,662,547	13,116,477	1,629,542	-	54,408,566
Inter-segment revenues	-	-	898,807	(898,807)	-
	39,662,547	13,116,477	2,528,349	(898,807)	54,408,566
Cost of sales	31,600,888	11,195,312	1,495,750	(761,020)	43,530,930
Gross profit	8,061,659	1,921,165	1,032,599	(137,787)	10,877,636
Depreciation, amortization & accretion expense	552,191	-	140,764	-	692,955
Interest expense	14,868	-	15,059	-	29,927
Earnings before income taxes	2,727,913	1,765,700	701,139	(98,730)	5,096,022

As at June 30, 2007

	Oilfield Services	Energy Marketing	Transportation Services	Inter-segment Eliminations	Total
Total Assets	62,339,548	863,653	7,911,460	(5,525,411)	65,589,250
Capital Expenditures	3,055,828	56,875	1,049,947	-	4,162,650
Goodwill	6,049,530	-	-	-	6,049,530

As at December 31, 2006

	Oilfield Services	Energy Marketing	Transportation Services	Inter-segment Eliminations	Total
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

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 six members, four 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

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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)

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

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

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)

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

Directory

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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:

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