ENERCHEM INTERNATIONAL INC.

3RD 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 nine months ended September 30, 2007.

Operating Environment

Oilfield activity levels in the Western Canadian Sedimentary Basin ("WCSB") and overall industry conditions during the first nine months of 2007 have provided a challenging business climate for Canadian oil and gas service companies. Year to date, the weekly rig count has averaged 338 rigs, representing an average utilization rate of 39% of the total rig fleet available. This represents a 26% decline in rig utilization rates when compared to the same period last year and the lowest ratio of active rigs to available rigs since 1999. As a result, during the first nine months of 2007 a total of 13,260 wells were drilled compared to 17,740 wells drilled in the corresponding period last year. More specific to our regions of operation, during the third quarter this year, the industry drilled 5,460 wells representing a 24% decline from 7,160 wells drilled in the same quarter last year.

Much of this decline in activity levels affecting the WCSB has been precipitated by the significant build up in North American natural gas inventories over the past five quarters which in turn, has influenced the continuing weakness in natural gas prices to levels that are economically unattractive to support gas drilling programs in western Canada. Adding more uncertainty was the recent announcement of the new Alberta Royalty Program which may have a significant effect on future activity levels in Alberta.

As a result of the above described reduction in oilfield activity, the industry's expectations of activity levels in 2008 and the overall decline in the Company's market capitalization, we have recorded a goodwill impairment of $6,050,000, representing the entire amount of goodwill that was being carried on the balance sheet. As a summary, for the three months ended September 30, 2007, we experienced a 32% decline in consolidated revenues to $19,823,000 from $29,138,000 for the same period last year and net loss for the period of $6,319,000 compared to net earnings of $2,036,000 in the third quarter of 2006.

Facilities Update

Our new flowback cleaning facility operated until early August, 2007 at which time damages caused by a small fire at the facility and the subsequent time required to affect the required repairs and additional engineering suspended the operation of this facility until October, 2007. However, with the facility back in production, we have been pleased with the results being achieved in cleaning used fracturing fluid and with the high finished product yields resulting through the use of cleaned flowback as feedstock. We continue to expect that this facility will provide us with a considerable competitive advantage.

The automation of tower one at the Sundre refinery has been completed and the benefits thus far have exceeded our expectations with respect to increased product yield. The replacement of the old style salt bath heaters has been delayed by the manufacturer and we expect completion of this project before the end of the year.

The completion of the Slave Lake water-wash system and blending plant will be completed in the first quarter of 2008. We anticipate having the blending facility pipeline connected shortly thereafter. This will significantly reduce trucking costs associated with our by-product streams.

Outlook

Industry expectations for activity levels in the WCSB fall in the range of 13,500 to 15,000 wells drilled in 2008, which represents a reduction in activity of over 20% when compared to activity levels anticipated for 2007. The Canadian Association of Oilwell Drilling Contractors has recently predicted that first quarter activity for 2008 will only reach a utilization level of 50%, which represents a utilization level not seen since 1992.

This has added increased pressure in our business environment and on our pricing competitiveness. Early indications of fourth quarter 2007 activity levels suggest that the Company's consolidated revenues may resemble third quarter of 2007. Given the foregoing, management is pursuing initiatives that will contribute to improve the Company's financial performance.

Notwithstanding, the Company has maintained a strong balance sheet with almost five million in cash, nineteen million in working capital and no debt. Over the past several months we have been proactive in implementing processes and undertaking capital projects that we anticipate will contribute to improve our financial performance and provide growth opportunities for the Company. We anticipate that our capital expansion requirements in 2008 should be minimal with most projects to be completed shortly after the 2007 year end.

As well, given the current general near term outlook for our industry, we are well positioned to take advantage of any opportunities that may develop.

Acknowledgements

As in the past, 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 September 30	2007	2006
	$	$
Revenues	19,822,532	29,138,305
Net (loss) earnings for the period (1)	(6,318,781)	2,036,051
(Loss) earnings per share		
Basic	(0.41)	0.13
Diluted	(0.41)	0.13
EBITDA (2)	325,499	3,001,719
EBITDA per share (3)	0.02	0.20

Nine months ended September 30	2007	2006
	$	$
Revenues	55,166,712	83,546,871
Net (loss) earnings for the period (1)	(5,124,206)	5,557,330
(Loss) earnings per share		
Basic	(0.33)	0.37
Diluted	(0.33)	0.36
EBITDA (2)	3,152,746	8,820,623
EBITDA per share (3)	0.21	0.58

Financial Position

As at September 30	2007	2006
	$	$
Total assets	64,098,678	71,966,688
Working capital (4)	18,715,568	21,518,213
Total long-term financial liabilities (5)	-	520,007
Shareholders' equity	51,185,234	55,636,373

(1) Net loss for the three and nine months ended September 30, 2007 includes a goodwill impairment of $6,049,500.
(2) EBITDA represents earnings from operations before interest expense, taxes, depreciation, amortization, accretion expense and write-downs.
(3) EBITDA per share is calculated as EBITDA divided by the basic weighted average common shares outstanding.
(4) Calculated as currrent assets less current liabilities.
(5) 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 September 30, 2007 should be read in conjunction with the interim financial statements for the period ended September 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 November 13, 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 are 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 is assessing comparative performance of the Company.

Summary Description of Business

Enerchem International Inc. is a manufacturer and distributor 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 to these financial statements, "Acquisition", which provides further details of this 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 September 30

Consolidated Revenues

Three months ended September 30	2007		2006		Change
(unaudited)	$	%	$	%	%
Oilfield Services	13,648,287	69	19,382,011	67	(30)
Energy Marketing	3,918,809	20	7,554,945	26	(48)
Transportation Services	2,255,436	11	2,201,349	7	2
Total	19,822,532	100	29,138,305	100	(32)

Consolidated revenues declined by 32% during the third quarter of 2007 when compared to the same period last year. Oilfield activity in the WCSB continued to be unfavourably affected by the weak gas-price environment, precipitated by high levels of natural gas inventories in the North American market, and the late start up of general industry operations after a prolonged spring break-up. Industry drilling rig utilization rates averaged 38% in the third quarter of 2007, representing a 41% decline from the same period last year when drilling rig activity averaged 64%. As a result of the foregoing, the Company experienced declining sales volumes for its specialty fluids for the comparative quarters. The decline in oilfield activity levels also contributed to the reduction in Energy Marketing revenues and overall flatness of the revenue streams from the Transportation Services business segment.

Segmented Revenues

Oilfield Services

Three months ended September 30	2007	2006	Change
(unaudited)	$	$	%
Fracturing	6,574,228	9,149,817	(28)
Drilling	4,526,523	6,779,127	(33)
Solvents	2,547,536	3,453,067	(26)
Total	13,648,287	19,382,011	(30)

Revenues from the Oilfield Services segment decreased by 30% during the third quarter of 2007 when compared to the same period last year, representing a 21% decline in the volume of specialty fluids sold. The decrease in the Company's specialty fluid revenues and fluid volumes sold resulted from the effects of relatively poor levels of oilfield activity combined with the oil and gas producers' overall focus on reducing service costs which has squeezed product selling prices.

Energy Marketing

For the three months ended September 30, 2007, revenues from the Energy Marketing segment decreased by 48% 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 September 30, 2007 totaled $2,255,000, excluding inter-segment revenues of $1,041,000, compared to $2,201,000, excluding inter-segment revenues of $1,349,000, for the same period last year. The late start up of oilfield operations after a prolonged spring break-up resulted in less than normal demand for the services provided by this business segment in July and August, 2007. As a result, revenues for the third quarter of 2007 increased only marginally when compared to the same period last year.

Gross Profit

Three months ended September 30	2007	2006	Change
(unaudited)	$	$	%
Consolidated gross profit	3,329,338	5,829,345	(43)
% of consolidated revenues	17%	20%	
Oilfield Services	1,663,286	3,661,433	(55)
% of Oilfield Services revenues	12%	19%	
Energy Marketing	699,000	1,017,252	(31)
% of Energy Marketing revenues	18%	13%	
Transportation Services	1,060,298	1,238,775	(14)
% of Transportation Services revenues	32%	35%	
Net inter-segment services	(93,246)	(88,115)	-

Consolidated gross profit decreased by 43% during the third quarter of 2007 when compared to the same period last year due to the overall decline in oilfield activity levels and the effects of the oil and gas producers' overall focus on reducing service costs which has squeezed margins on products offered by the Oilfield Services business segment. The Company's flowback facility was shut down for repairs during the third quarter of 2007 due to a fire at the facility. The fire was caused by the malfunction of a tank heater. No injuries or significant damages resulted from the fire and the facility is now fully operational.

The decline in gross profit margin experienced by the Oilfield Services segment was largely influenced by the impact of overall higher manufacturing overhead costs attributable to the sale of finished product inventories manufactured and built up during the first half of 2007 and the oil and gas producers' overall focus on reducing service costs which combined with the overall increase in the Company's feedstock costs during the third quarter of 2007 squeezed product selling prices and margins. As a result of the foregoing, Oilfield Services gross profit as a percent of Oilfield Services revenues decreased to 12% in the third quarter of 2007 compared to 19% for the comparative period.

Energy Marketing gross profit as a percent of Energy Marketing revenues improved to 18% from 13% for the comparative periods due to: the improvement in the density composition of blended by-products; the improvement in equalization adjustments affecting the heavies by-product streams; and the improvement in compensation arrangements with third party blenders.

Transportation Services gross profit as a percent of Transportation Services revenues declined to 32% in the third quarter of 2007 from 35% in the same period last year largely as a result of normal fleet maintenance expenditures.

Operations

Salaries and employee benefits

Three months ended September 30	2007	2006	Change
(unaudited)	$	$	%
Expense amount	1,347,660	1,254,560	7
% of gross profit margin	40%	22%	

The 7% increase in salary costs on a comparative quarter basis resulted primarily from the net increase in stock based compensation costs in the amount of $50,000 and the full effects of support staff added to the operations of Millard during the latter half of 2006.

Selling, general and administration

Three months ended September 30	2007	2006	Change
(unaudited)	$	$	%
Expense amount	1,456,406	1,637,819	(11)
% of gross profit margin	44%	28%	

Selling, general and administrative ("SG&A") costs decreased by 11% in the third quarter of 2007 when compared to the same period in 2006 largely as a result of re-scheduling 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. While the turnaround program for the Sundre plant was completed in September 2007, the delivery of the third party manufactured crude oil heater has been delayed to the fourth quarter of 2007 at which time the Sundre plant will be shut down for one week to accommodate this installation. The reduction in SG&A expenditures in the third quarter of 2007 when compared to the same period last year is also attributable to the benefits of the Millard acquisition.

Depreciation and amortization

Three months ended September 30	2007	2006	Change
(unaudited)	$	$	%
Expense amount	595,458	501,721	19
% of gross profit margin	18%	9%	

The 19% increase in depreciation expense on a comparative quarter basis was largely associated with fleet additions and upgrades to the depreciable pool of Millard assets and capital projects completed at the Sundre and Slave Lake plants during the latter part of 2006.

As at September 30, 2007, $1,721,000 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.

Goodwill Impairment

As at September 30, 2007, management performed its annual evaluation of the carrying value of goodwill and concluded that the goodwill of its hydrocarbon reporting unit was impaired. In determining the impairment amount, management considered a number of factors including actual operating results, expectations of oil & gas industry activity levels, current market data and the overall decline in the Company's economic value reflected by its share price. As a result, the Company recorded an impairment of $6,049,530, representing the entire amount of goodwill that was being carried on the balance sheet. The goodwill impairment has been recorded as a non-cash charge to income as of September 30, 2007. The goodwill was initially recorded with the acquisition of Trysol Canada Ltd. on March 31, 2001.

Plant Tank Farm Remediation

During the third quarter of 2007, the Company 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 covered by insurance.

Income Taxes

Three months ended September 30	2007	2006	Change
(unaudited)	$	$	%
(Recovery) expense amount	(25,585)	422,713	(106)
Effective tax rate	9%	17%	

The provision for income taxes in the third quarter of 2007 includes a current tax provison of $60,605 despite the overall loss for the current quarter of $294,836 before income taxes. This is a result of the swings in temporary tax differences that occur when a tax calculation is done at the end of each quarter rather than the effective tax rate being used. The primary swing in temporary differences in the third quarter of 2007 resulted from the introduction of the remediation contingency which has been treated as a future income tax asset and therefore was not deductible against current income taxes in the third quarter of 2007.

Net (Loss) Earnings

Three months ended September 30	2007	2006	Change
(unaudited)	$	$	%
Net (loss) earnings for the period	(6,318,781)	2,036,051	(410)
(Loss) earnings per share, diluted	(0.41)	0.13	(415)
EBITDA (1)	325,499	3,001,719	(89)

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

During the third quarter of 2007, with the continuation of weak near term natural gas prices and the announcement in September by the Alberta government of its Alberta Royalty Review, oilfield activity reached the lowest level of active rigs working since 2002 and average rig utilization rates at levels not experienced since 1992. This business setting largely affected the Company's financial performance during the third quarter of 2007 when compared to the same period last year which resulted in a 32% decline in consolidated revenues and net loss of $6,319,000 or $(0.41) per common share. The significant reduction in the Company's financial performance in the third quarter also reflected the goodwill impairment of $6,050,000.

EBITDA from operations decreased by 89% in the third quarter of 2007 to $325,000 from $3,002,000 in the third quarter of 2006. The significant reduction in EBITDA is largely due to the significant reduction in revenues and earnings.

Operating Results – Nine Months Ended September 30

Consolidated Revenues

Nine months ended September 30		2007		2006	Change
(unaudited)	$	%	$	%	%
Oilfield Services	36,586,764	66	59,044,558	70	(38)
Energy Marketing	11,622,401	21	20,671,422	25	(44)
Transportation Services	6,957,547	13	3,830,891	5	82
Total	55,166,712	100	83,546,871	100	(34)

For the first nine months of 2007, consolidated revenues declined by 34% to $55,167,000 from $83,547,000 for the same period last year. The decline in consolidated revenues for the first nine months 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 nine months of 2007, which represented a 41% decline from the same period last year when drilling rig activity rates averaged 65%.

Segmented Revenues

Oilfield Services

Nine months ended September 30	2007	2006	Change
(unaudited)	$	$	%
Fracturing	18,882,462	30,480,700	(38)
Drilling	10,078,061	18,679,535	(46)
Solvents	7,626,241	9,884,323	(23)
Total	36,586,764	59,044,558	(38)

As a result of the significant decline in year-over-year oilfield activity, revenues from the Company's Oilfield Services segment decreased by 38%. This represented a 33% decline in the total volume of product sold during the period.

Energy Marketing

For the nine months ended September 30, 2007, revenues from the Energy Marketing segment decreased by 44% when compared to the same period last year due to the decline in the Company's activity levels and reduction in the volume of by-products available for re-sale.

Transportation Services

Transportation Services revenues for the nine months ended September 30, 2007 totaled $6,958,000, excluding inter-segment revenues of $3,259,000, compared to $3,831,000, excluding inter-segment revenues of $2,248,000, for the same period last year. Transportation Services revenues for the first nine months of 2007 reflect the full nine months of this business segment's operations compared to five months for the same period last year.

Gross Profit

Nine months ended September 30	2007	2006	Change
(unaudited)	$	$	%
Consolidated gross profit	11,695,677	16,706,981	(30)
% of consolidated revenues	21%	20%	
Oilfield Services	7,130,959	11,723,092	(39)
% of Oilfield Services revenues	19%	20%	
Energy Marketing	1,731,495	2,938,417	(41)
% of Energy Marketing revenues	15%	14%	
Transportation Services	3,149,467	2,271,374	39
% of Transportation Services revenues	31%	37%	
Net inter-segment services	(316,244)	(225,902)	-

Consolidated gross profit decreased by 30% in the first nine months of 2007 when compared to the same period last year due to the overall decline in oilfield activity levels as described in this MD&A. However, consolidated gross profit as a percent of consolidated revenues on a year-over year basis improved moderately to 21% from 20% largely due to: the change in revenue mix; the reduction in feedstock costs resulting from increased flowback usage during the second quarter of 2007; an overall year-over-year decline in the price of crude oil precipitated by a stronger Canadian dollar; and, the benefits realized from the Millard acquisition. Factors that had a negative impact on gross profit included the effects of the oil and gas producers' overall focus on reducing service costs which squeezed margins on products offered by the Oilfield Services business segment and the shut down of the flowback facility during the last two months of the third quarter in 2007.

Energy Marketing gross profit as a percent of Energy Marketing revenues improved to 15% from 14% on a year-over-year basis due to the improvement in the density composition of the blended by-products; the improved compensation arrangements with third party blenders; and, the improvement in equalization adjustments affecting the heavies by-product streams. As an offset, the year-over-year margin has been

affected by variations 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 31% for the first nine months of 2007 compared to 37% 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

Nine months ended September 30	2007	2006	Change
(unaudited)	$	$	%
Expense amount	3,907,000	3,792,425	3
% of gross profit margin	33%	23%	

The 3% increase in salary costs on a comparative period basis primarily resulted from recognizing the full effects of the Millard acquisition in 2007 compared to a five month period in 2006, commencing from the date of acquisition, and the increase in stock based compensation costs. As an offset, salary costs were reduced during the first nine months of 2007 when compared to the same period last year due to the capitalization of labour costs directly identifiable with the construction of the Company's flowback and Millard's office facilities and the reduction in sales incentive payments due to the decline in oilfield activity levels.

Selling, general and administration

Nine months ended September 30	2007	2006	Change
(unaudited)	$	$	%
Expense amount	4,491,394	4,358,915	3
% of gross profit margin	38%	26%	

SG&A costs increased by 3% in the first nine months 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 nine months of 2007, $605,000 of turnaround costs were amortized and included in SG&A expense compared to $542,000 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

Nine months ended September 30	2007	2006	Change
(unaudited)	$	$	%
Depreciation	1,723,744	1,142,713	51
Amortization	-	2,446	-
Total amount	1,723,744	1,145,159	51
% of gross profit margin	15%	7%	

Depreciation and amortization expense increased by 51% during the first nine months of 2007 when compared to the same period last year largely as a result of the $505,000 net increase in depreciation expense associated with the acquired Millard assets. This increase reflects a full nine months of depreciation in 2007 compared to five months for the same period last year as a result of the Millard acquisition effective May 1, 2006.

Income Taxes

Nine months ended September 30	2007	2006	Change
(unaudited)	$	$	%
Expense amount	362,571	1,997,456	(82)
Effective tax rate	28%	26%	

The provision for income taxes in the first nine months of 2007 includes current taxes of $622,000 compared to $2,297,000 in the same period last year.

The decrease in the tax provision on a comparative period basis was largely due to the significant reduction in taxable income in 2007 as a result of the decline in the Company's financial performance. The moderate reduction in the future tax recovery for the nine months ended September 30, 2007 when compared to the same period last year resulted from the substantively enacted change in the Canadian Federal tax rate in 2011 from 19.0% to 18.5%.

Net (Loss) Earnings

Nine months ended September 30	2007	2006	Change
(unaudited)	$	$	%
Net (loss) earnings for the period	(5,124,206)	5,557,330	(192)
(Loss) earnings per share, diluted	(0.33)	0.36	(192)
EBITDA (1)	3,152,746	8,820,623	(64)

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

The Company reported a net loss of $5,124,000 for the nine months ended September 30, 2007, compared to net earnings of $5,557,000 for the same period last year. The significant decline in the Company's financial performance for the comparative periods resulted from: the effects of the significant reduction in oilfield activity levels precipitated by the continued near-term weakness in natural gas prices; the impairment in the carrying value of goodwill associated with a previous business acquisition; the extended spring break-up conditions affecting the second and third quarters of 2007; the increase in depreciation expense associated with Millard; the general increase in plant repair and maintenance costs combined with one-time plant repair expenditures incurred during the first quarter of 2007; the effects of the oil and gas producers' overall focus on reducing service costs which squeezed margins on products offered by the Oilfield Services business segment; and the shut down of the flowback facility during the last two months of the third quarter in 2007.

EBITDA from operations decreased by 64% to $3,153,000 in the first nine months of 2007 from $8,821,000 in 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	September 30,	June 30,	March 31,	December 31,
(unaudited)	2007	2007	2007	2006
	$	$	$	$
Revenues	19,822,532	7,467,779	27,876,401	24,199,343
Net (loss) earnings for the period	(6,318,781)	(648,176)	1,842,751	373,246
Net (loss) earnings per share for the period				
Basic	(0.41)	(0.04)	0.12	0.02
Diluted	(0.41)	(0.04)	0.12	0.02

Three month period ended (unaudited)	September 30, 2006	June 30, 2006	March 31, 2006	December 31, 2005(1)
	$	$	$	$
Revenues	29,138,305	22,093,080	32,315,486	31,380,017
Net earnings from continuing operations	2,036,051	764,844	2,756,435	1,701,475
Net earnings per share from continuing operations				
Basic	0.13	0.05	0.19	0.11
Diluted	0.13	0.05	0.18	0.11
Net earnings for the period	2,036,051	764,844	2,756,435	5,586,835
Net earnings per share for the period				
Basic	0.13	0.05	0.19	0.37
Diluted	0.13	0.05	0.18	0.37

(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 period ended 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 September 30, 2007 was $607,000 compared to $2,368,000 for the same period last year. The decrease in cash flows in the third quarter of 2007 when compared to the same period last year resulted primarily from the significant decline oilfield activity levels and the effect of this decline on the Company's earnings. As at September 30, 2007, the Company had positive working capital of $18,716,000 compared to $20,650,000 at December 31, 2006. The Company's current ratio (defined as current assets divided by current liabilities) was 3.2 to 1 at September 30, 2007 compared to 3.7 to 1 at December 31, 2006.

Net cash used by the Company for investing activities totaled $2,006,000 in the third quarter of 2007 and $1,654,000 in the same period last year. During the first nine months of 2007, net cash used for investing activities totaled $5,194,000 compared to $8,370,000 for the same period in 2006. Cash used for investing activities during the third quarter of 2007 was primarily directed to plant project commitments in Sundre and Slave Lake and Millard fleet replacements. During the first nine months of 2007, investing activities included the construction of the Company's flowback facility in Sundre, Alberta, new office facilities and fleet additions for Millard in Sundre and the automation of tower one at the Sundre plant. Cash used for investing activities during 2006 was primarily directed to the acquisition of Millard, the tank farm expansion in Slave Lake and the automation of towers two and three at the Sundre plant.

Net cash used by the Company for financing activities during the three months ended September 30, 2007 was directed to the purchase of the Company's common shares under a normal course issuer bid. During the first nine months of 2007, the Company repaid all of its long term debt. Similarly, during the first nine months 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 September 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)	484,572	266,829	217,743	-	-
Commitments to capital expenditures (2)	2,695,900	2,695,900	-	-	-
Total contractual obligations	3,180,472	2,962,729	217,743	-	-

(1) Represents normal operating leases comprised of office space and truck fleet.
(2) Represent agreements with third parties for the construction of new heaters at the Sundre plant in the amount of $745,900 and the construction and assembly of a crude oil desalter at the Slave Lake plant in the amount of $1,950,000.

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 September 30, 2007, the Company had provided letters of guarantee totaling $3,084,000, terminating during the fourth quarter of 2007, in favour of two suppliers for the purchase of feedstock from those 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 September 30, 2007 the Company had 15,286,107 common shares outstanding. In addition, as at September 30, 2007, the Company has reserved 540,000 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 third quarter of 2007, 43,200 shares were purchased at an average price of $3.03 per common share, including transaction fees. The cost of common shares purchased totaled $130,883 of which $83,922 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 $46,961 charged against retained earnings.

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 September 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 nine months of 2007 and the yet to be determined impact of the Alberta Royalty Review, the Canadian Association of Oilwell Drilling Contractors ("CAODC") has forecast 16,393 well completions for 2007 and has recently released its forecast of drilling activity for 2008 which predicts a dramatic reduction in field activity with the number of well completions at 13,735. In addition, CAODC has projected fleet utilization to average 34% for the year 2008. CAODC believes first quarter activity in 2008 will reach a utilization level of 50%, which would reflect utilization rates not seen since 1992. Much of this expected reduction in activity is focused on natural gas drilling.

With the above as a background, early indications of fourth quarter 2007 activity levels suggest that the Company's consolidated revenues may resemble the third quarter of 2007. Given the foregoing and the industry's expectations into 2008, management is pursuing initiatives that will contribute to improve the Company's financial performance.

Notwithstanding, the Company has maintained a strong balance sheet and continues with its planned capital expansion programs that are directed to the improvement of plant efficiencies and organic growth opportunities. 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 September 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 1651, “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 nine months ended September 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 nine months ended September 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.

Effective September 30 2007, the Company adopted 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 impact of the adoption of this new section on the consolidated financial statements has not been material.

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. There will be no impact to the Company’s financial statements as this standard only addresses disclosure requirements.

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. As this standard only addresses presentation and disclosure requirements, there will be no impact to the Company’s financial statements.

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 does not expect this new section to have a significant impact on its financial statements.

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, 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 September 30, 2007.

Enerchem International Inc.
Consolidated Balance Sheet

As at	September 30, 2007 (unaudited)	December 31, 2006 (audited)
	$	$
Assets		
Current assets		
Cash and cash equivalents	4,915,718	2,413,522
Accounts receivable	12,592,705	16,386,688
Income taxes receivable	301,233	-
Inventories	9,095,679	9,288,729
Prepaid expenses	195,568	197,533
Current portion of future tax asset	73,200	-
Current portion of promissory note	-	61,127
	27,174,103	28,347,599
Other assets	393,881	1,279,903
Property, plant and equipment	36,530,694	32,877,523
Goodwill (note 6)	-	6,049,530
	64,098,678	68,554,555
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	8,458,535	7,258,179
Income taxes payable	-	323,709
Current portion of long-term debt	-	115,585
	8,458,535	7,697,473
Long-term debt	-	171,477
Asset retirement obligations	201,781	192,301
Future income taxes	4,253,128	4,439,707
	12,913,444	12,500,958
Contingent liabilities and commitments (note 8)		
Shareholders' equity		
Share capital (note 7(b))	29,695,476	29,675,698
Contributed surplus (note 7(c))	1,406,699	1,123,673
Retained earnings	20,083,059	25,254,226
	51,185,234	56,053,597
	64,098,678	68,554,555

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

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

(unaudited)

	Three months ended September 30, 2007	2006	Nine months ended September 30, 2007	2006
	$	$	$	$
Revenues	19,822,532	29,138,305	55,166,712	83,546,871
Cost of sales	16,493,194	23,308,960	43,471,035	66,839,890
Gross profit	3,329,338	5,829,345	11,695,677	16,706,981
Expenses				
Salaries and employee benefits	1,347,660	1,254,560	3,907,000	3,792,425
Selling, general and administration	1,456,406	1,637,819	4,491,394	4,358,915
Depreciation and amortization	595,458	501,721	1,723,744	1,145,159
Accretion expense	3,160	2,964	9,480	9,045
Amortization of pre-operating costs	21,717	21,717	65,153	65,153
Interest expense	-	16,553	8,116	46,480
	3,424,401	3,435,334	10,204,887	9,417,177
(Loss) earnings from operations before other income (expense)	(95,063)	2,394,011	1,490,790	7,289,804
Other income (expense)				
Interest income and other	72,750	64,024	131,640	218,895
Plant tank farm remediation (note 8(c))	(240,000)	-	(240,000)	-
Goodwill impairment (note 6)	(6,049,530)	-	(6,049,530)	
Loss on write-down of investment in foreign operations	-	-	(58,358)	-
(Loss) gain on disposal of property, plant and equipment	(32,523)	729	(36,177)	46,087
	(6,249,303)	64,753	(6,252,425)	264,982
(Loss) earnings from operations before income taxes	(6,344,366)	2,458,764	(4,761,635)	7,554,786
Income taxes				
Current	60,605	906,740	622,350	2,296,644
Future	(86,190)	(484,027)	(259,779)	(299,188)
	(25,585)	422,713	362,571	1,997,456
Net (loss) earnings and comprehensive (loss) income for the period	(6,318,781)	2,036,051	(5,124,206)	5,557,330
Retained earnings, beginning of period	26,448,801	22,844,929	25,254,226	19,323,650
Common shares repurchased and cancelled (note 7 (b))	(46,961)	-	(46,961)	-
Retained earnings, end of period	20,083,059	24,880,980	20,083,059	24,880,980
(Loss) earnings per share				
Basic	(0.41)	0.13	(0.33)	0.37
Diluted	(0.41)	0.13	(0.33)	0.36
Weighted average shares outstanding (note 7(e))				
Basic	15,310,871	15,295,307	15,302,545	15,130,226
Diluted	15,311,547	15,476,645	15,351,964	15,355,418

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

Enerchem International Inc.
Consolidated Statement of Cash Flows

(unaudited)

	Three months ended September 30, 2007	Three months ended September 30, 2006	Nine months ended September 30, 2007	Nine months ended September 30, 2006
	$	$	$	$
Operating activities				
Net (loss) earnings for the period	(6,318,781)	2,036,051	(5,124,206)	5,557,330
Items not affecting cash				
Depreciation, amortization and accretion expense	620,335	526,402	1,798,377	1,219,357
Stock based compensation	94,682	44,792	283,026	175,621
Amortization of plant turnaround costs	214,802	245,338	604,665	542,463
Loss (gain) on disposal of property, plant and equipment	32,523	(729)	36,177	(46,087)
Write-down of investment in foreign operations	-	-	58,358	-
Goodwill impairment (note 6)	6,049,530	-	6,049,530	-
Future income taxes	(86,190)	(484,027)	(259,779)	(299,188)
	606,901	2,367,827	3,446,148	7,149,496
Changes in non-cash components of working capital				
Net change in accounts receivable	(7,127,079)	(1,103,641)	3,793,983	6,103,531
Net change in inventories and prepaid expenses	765,147	(4,398,597)	195,015	(1,262,689)
Net change in accounts payable and accrued liabilities	4,874,240	(2,063,994)	1,200,356	(5,861,796)
Net change in income taxes payable	142,302	70,341	(624,942)	(1,770,692)
	(1,345,390)	(7,495,891)	4,564,412	(2,791,646)
Net cash (used in) provided by operating activities	(738,489)	(5,128,064)	8,010,560	4,357,850
Investing activities				
Purchase of property, plant and equipment	(1,901,662)	(1,677,209)	(5,527,192)	(5,218,694)
Acquisition of subsidiary operations (note 3)	-	-	-	(2,733,000)
Cash acquired on acquisition of subsidiary operations	-	-	-	53,037
Decrease in promissory note	-	29,228	61,127	95,756
Proceeds on disposal of property, plant and equipment	26,500	96,812	114,100	378,369
Increase in other assets	(131,117)	(102,433)	(668,237)	(945,209)
Proceeds received on sale of foreign investment	-	-	826,083	-
Net cash used in investing activities	(2,006,279)	(1,653,602)	(5,194,119)	(8,369,741)
Financing activities				
Issue of common shares	-	-	103,700	1,146,730
Net change in bank indebtedness	-	2,421,634	-	(1,273,507)
Repurchase of common shares under normal course issuer bid (note 7 (b))	(130,883)	-	(130,883)	-
Repayment of long-term debt	-	(327,809)	(287,062)	(4,133,472)
Net cash (used in) provided by financing activities	(130,883)	2,093,825	(314,245)	(4,260,249)
(Decrease) increase in cash and cash equivalents	(2,875,651)	(4,687,841)	2,502,196	(8,272,140)
Cash and cash equivalents - beginning of period	7,791,369	7,390,440	2,413,522	10,974,739
Cash and cash equivalents - end of period	4,915,718	2,702,599	4,915,718	2,702,599

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, or how it should measure the financial instrument once recognized. These standards have been adopted on a retroactive without restatement basis. The new standards comprise three sections of the CICA Handbook:

(a) CICA Section 3855, "Financial Instruments - Recognition and Measurement", establishes the criteria for recognizing and measuring financial assets, financial liabilities and non-financial derivatives. It also specifies how financial instrument gains and losses are to be presented. In accordance with this standard, the Company now classifies all financial instruments as either held-to-maturity, available for sale, held for trading or loans and receivables. Financial assets held to maturity, loans and receivables and financial liabilities other than those held for trading, are measured at amortized cost. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Instruments classified as held for trading are measured at fair value with unrealized gains and losses recognized on the statement of operations.

The Company has made the following classifications:

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

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

Consequently, as at January 1, 2007 and September 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 1651, “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 nine months ended September 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 nine months ended September 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.

Effective September 30, 2007, the Company adopted 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 impact of the adoption of this new section on the consolidated financial statements has not been material.

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. There will be no impact to the Company’s financial statements as this standard only addresses disclosure requirements.

(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. As this standard only addresses presentation and disclosure requirements, there will be no impact to the Company’s financial statements.

(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 does not expect this new section to have a significant impact on its financial statements.

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. Goodwill

	September 30, 2007	December 31, 2006
	$	$
Balance - beginning of period	6,049,530	6,049,530
Goodwill impairment	(6,049,530)	
Balance - end of period	-	6,049,530

As at September 30, 2007, management performed its annual evaluation of the carrying value of goodwill and concluded that the goodwill of its hydrocarbon reporting unit was impaired. In determining the impairment amount, management considered a number of factors including actual operating results, expectations of oil & gas industry activity levels, current market data and the overall decline in the Company's economic value reflected by its share price. As a result, the Company recorded an impairment of $6,049,530, representing the entire amount of goodwill that was being carried on the balance sheet. The goodwill impairment has been recorded as a non-cash charge to income as of September 30, 2007. The goodwill was initially recorded with the acquisition of Trysol Canada Ltd. on March 31, 2001.

7. Share Capital and Contributed Surplus

(a) Authorized

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

(b) Issued -

- Common

	September 30, 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
Redemption pursuant to normal course issuer bid	(43,200)	(83,922)	-	-
Exercise of stock options	-	-	-	23,125
Issue of shares upon acquisition of Millard	-	-	100,000	532,000
Balance - end of period	15,286,107	29,695,476	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 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 third quarter of 2007, 43,200 were purchased at an average price of $3.03 per common share, including transaction fees. The cost of common shares purchased totaled $130,883 of which $83,922 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 $46,961 charged against retained earnings.

(c) Contributed Surplus

	September 30, 2007	December 31, 2006
	$	$
Balance – beginning of period	1,123,673	927,199
Stock based compensation expensed during the period	283,026	219,599
Exercise of stock options	-	(23,125)
Balance – end of period	1,406,699	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:

	September 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 expired	(60,000)	5.15	-	-
Share options exercised	(34,000)	3.05	(374,500)	3.06
Common shares under option - end of period	540,000	3.26	534,000	3.36
Options exercisable - end of period	336,667	3.18	302,167	3.60

During the three months ended September 30, 2007 and 2006 the Company did not grant any options. During the nine months ended September 30, 2007 the Company granted 100,000 (nine months ended September 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 nine months ended September 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 September 30, 2007 was $94,682 (three months ended September 30, 2006 - $44,792) and totaled $283,026 for the nine months ended September 30, 2007 (nine months ended September 30, 2006 - $175,621) 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 September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
	#	#	#	#
Weighted average share calculation				
- Basic				
Common shares - opening	15,329,307	15,295,307	15,295,307	14,820,807
Weighted average common shares issued and (repurchased) during the period	(18,436)	-	7,238	309,419
	15,310,871	15,295,307	15,302,545	15,130,226
- Diluted				
Basic weighted average common shares – opening	15,310,871	15,295,307	15,302,545	15,130,226
Dilutive effect of stock options and equivalents	676	181,338	49,419	225,192
	15,311,547	15,476,645	15,351,964	15,355,418

8. 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 September 30, 2007, the Company had provided letters of guarantee totaling $3,084,000, terminating during the fourth quarter of 2007, 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 September 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) 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 accrual for the clean-up has been reported on the balance sheet under the caption accounts payable and accrued liabilities and the expense has been reported on the statement of operations as plant tank farm remediation.

(d) During the second quarter of 2007, the Company entered into an agreement with a third party for the construction of a new heating unit for the Sundre plant in theamount of $745,900. The project, originally scheduled for completion during the third quarter of 2007, will be completed during the fourth quarter of 2007.

(e) During the third quarter of 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. The project is scheduled for completion during the first quarter of 2008.

9. 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 September 30, 2007

	Oilfield Services	Energy Marketing	Transportation Services	Inter-segment Eliminations	Total
	$	$	$	$	$
Revenues	13,648,287	3,918,809	2,255,436	-	19,822,532
Inter-segment revenues	-	-	1,040,579	(1,040,579)	-
	13,648,287	3,918,809	3,296,015	(1,040,579)	19,822,532
Cost of sales	11,985,001	3,219,809	2,235,717	(947,333)	16,493,194
Gross profit	1,663,286	699,000	1,060,298	(93,246)	3,329,338
Depreciation, amortization & accretion expense	339,535	-	280,800	-	620,335
(Loss) earnings before income taxes	(7,034,042)	624,552	80,245	(15,121)	(6,344,366)

Three months ended September 30, 2006

	Oilfield Services	Energy Marketing	Transportation Services	Inter-segment Eliminations	Total
Revenues	19,382,011	7,554,945	2,201,349	-	29,138,305
Inter-segment revenues	-	-	1,348,884	(1,348,884)	-
	19,382,011	7,554,945	3,550,233	(1,348,884)	29,138,305
Cost of sales	15,720,578	6,537,693	2,311,458	(1,260,769)	23,308,960
Gross profit	3,661,433	1,017,252	1,238,775	(88,115)	5,829,345
Depreciation, amortization & accretion expense	303,445	-	222,957	-	526,402
Interest expense	3,599	-	12,954	-	16,553
Earnings before income taxes	1,010,483	955,500	515,502	(22,721)	2,458,764

Nine months ended September 30, 2007

	Oilfield Services	Energy Marketing	Transportation Services	Inter-segment Eliminations	Total
	$	$	$	$	$
Revenues	36,586,764	11,622,401	6,957,547	-	55,166,712
Inter-segment revenues	-	-	3,258,802	(3,258,802)	-
	36,586,764	11,622,401	10,216,349	(3,258,802)	55,166,712
Cost of sales	29,455,805	9,890,906	7,066,882	(2,942,558)	43,471,035
Gross profit	7,130,959	1,731,495	3,149,467	(316,244)	11,695,677
Depreciation, amortization & accretion expense	928,754	-	869,623	-	1,798,377
Interest expense	-	-	8,116	-	8,116
(Loss) earnings before income taxes	(6,689,584)	1,529,205	430,958	(32,214)	(4,761,635)

Nine months ended September 30, 2006

	Oilfield Services	Energy Marketing	Transportation Services	Inter-segment Eliminations	Total
Revenues	59,044,558	20,671,422	3,830,891	-	83,546,871
Inter-segment revenues	-	-	2,247,691	(2,247,691)	-
	59,044,558	20,671,422	6,078,582	(2,247,691)	83,546,871
Cost of sales	47,321,466	17,733,005	3,807,208	(2,021,789)	66,839,890
Gross profit	11,723,092	2,938,417	2,271,374	(225,902)	16,706,981
Depreciation, amortization & accretion expense	855,636	-	363,721	-	1,219,357
Interest expense	18,467	-	28,013	-	46,480
Earnings before income taxes	3,738,396	2,721,200	1,216,641	(121,451)	7,554,786

As at September 30, 2007

	Oilfield Services	Energy Marketing	Transportation Services	Inter-segment Eliminations	Total
Total Assets	59,379,861	2,080,376	8,250,397	(5,611,956)	64,098,678
Capital Expenditures	4,276,008	390,220	1,529,201	-	6,195,429

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.

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Board of Directors

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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

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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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