



ENERCHEM
INTERNATIONAL INC.

3rd Quarter Interim Report 2008



President's Message

To Our Shareholders,

On behalf of the Board of Directors of Enerchem International Inc. ("the Company") I am pleased to provide this report on the results of the Company's operations for the quarterly period ending September 30, 2008.

Enerchem increased its consolidated third quarter revenue by 64% when compared to the same quarter last year and by 59% for the first nine months of 2008 versus the same period in 2007. These increases reflect continued growth in sales volume as well as higher year-over-year finished goods pricing; the latter fluctuates as a function of the price of crude oil. In August as crude prices began trending downward we were able to recapture some of the sales margin lost as we attempted to keep up with a rising crude price. We have also increased the amount of third party fluid hauling service provided by our Transportation Services segment.

During the third quarter we brought our Sunde Fractionation Plant back on line having refurbished and reinstalled the salt-bath heaters which had been removed late in 2007 to accommodate the new direct-fired heaters. The facility has been running well since start-up and has significantly improved our finished goods production capacity. We have written off certain costs associated with the purchase and installation of the new heaters and are taking action against the suppliers to recover both our direct costs and indirect losses.

For the quarter we have posted a net loss of \$0.8 million, after one-time pretax charges of \$2.1 million, while the nine month loss is \$2.0 million, after one-time pretax charges of \$3.0 million. These compare with losses of \$6.3 million and \$5.1 million for the respective comparable periods in 2007, both of which are after one-time pretax charges of \$6.3 million. The improvements in this quarter, although the net numbers are still negative, are a reflection of: (i) increased sales volumes made possible by higher plant output; (ii) enhanced operating efficiency arising from capital improvements to our fractionation plants made over the past year; (iii) some margin recovery resulting from the dramatic drop in our feed-stock price over the past three months; and (iv) the increased volume of third party work in our Transportation Services operation. Though work remains to be done, we anticipate that our bottom line will continue to improve as we extract further efficiency from operations and move beyond the effects of one-time charges.

During this quarter the Company undertook significant changes in the executive management of the Company. First, the corporate offices were consolidated in Calgary,

the Finance Department having been moved from its traditional headquarters in Leduc, Alberta. This move precipitated the departure of Brian Zubach, CMA, who was replaced as Chief Financial Officer by Timothy Lemke, CA. Both of these gentlemen have done an excellent job of leading the transition of the accounting and finance functions of the Company to a new team.

Secondly, the Company retained James Burroughs as its Chief Operating Officer. Jim brings a wealth of experience in the management of production, transportation, supply and refining of oil and gas as well as business development.

Strategy and Outlook

The short term oil and gas industry environment appears relatively robust. Drilling rig utilization rates are up marginally over last year at this time, and projections for the remainder of the year are optimistic. However, like most that monitor this industry, we are cautious about the medium term future. The effects of recent global economic events on industrial and consumer behavior and the resulting impact on the supply/demand balance relative to oil and gas are difficult if not impossible to predict. It is perhaps sufficient at this point to remember that energy is neither a luxury good nor a renewable resource. Some base level of oilfield activity will be required to assure power in any economy.

The Company has been investing heavily in plant optimization over the past several years. Our strategy has been to create an operational efficiency which allows us to be profitable as the low cost producer of a suite of commodity products. This strategy has now begun to pay dividends, and we anticipate that our profitability will continue to improve. Enerchem will enter 2009 with a healthy balance sheet giving us the ability to remain strong throughout whatever period of economic uncertainty lays before us, and ultimately the ability to take advantage of opportunities it may present.

On behalf of the Board of Directors, I would like to thank Brian Zubach for eleven years of dedicated service to the company. Over the years, Brian has provided excellent financial and organizational leadership that has positioned us well for transition to the new management team.



Kenneth Bagan
President and Chief Executive Officer



Financial Highlights

(unaudited)

Results of Operations

Three months ended September 30	2008	2007
	\$	\$
Revenues	32,470,402	19,822,532
Net loss for the period (1) (2)	(844,959)	(6,318,781)
Loss per share		
Basic	(0.06)	(0.41)
Diluted	(0.06)	(0.41)
EBITDA (2)	1,426,701	325,499
EBITDA per share (3)	0.09	0.02

Nine months ended September 30	2008	2007
	\$	\$
Revenues	87,607,557	55,166,712
Net loss for the period (1) (2)	(1,982,443)	(5,124,206)
Loss per share		
Basic	(0.13)	(0.33)
Diluted	(0.13)	(0.33)
EBITDA (3)	2,132,644	3,152,746
EBITDA per share (4)	0.14	0.21

Financial Position

As at	September 30, 2008	September 30, 2007
Total assets	71,503,863	64,098,678
Working capital (5)	13,702,316	18,715,568
Shareholders' equity	49,521,021	51,185,234

(1) Net losses for the three month and nine month periods ended September 30, 2007 include goodwill impairment charges of \$6,049,530.

(2) Net losses for the three month and nine month periods ended September 30, 2008 include a write-down of plant equipment of \$2,128,673.

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

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

(5) Calculated as current assets less current liabilities.

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") of the financial position and interim consolidated results of operations of Enerchem International Inc. for the period ended September 30, 2008 should be read in conjunction with the unaudited interim financial statements and notes for the period ended September 30, 2008 and the audited financial statements and notes thereto, President's Message and MD&A for the year ended December 31, 2007. This MD&A is dated November 10, 2008.

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

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

Use of Non-GAAP Measures

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

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

Overview of the Company's Operations

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

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

- *Oilfield Services*, which represents the manufacture and sale of hydrocarbon products;
- *Energy Marketing*, which represents the purchasing, gathering and marketing of petroleum for resale to refiners and other customers; and
- *Transportation Services*, which represents the operations of Millard.

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

Seasonality of Operations

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

Results of Operations – Three and Nine Months Ended September 30, 2008 Overview

Oilfield activity levels in the WCSB and overall industry conditions continued to reflect an improving, but uncertain business climate for the oil and gas service sector during the third quarter and first nine months of 2008. The number of wells drilled in the third quarter of 2008 increased by 13% to 4,683 from 4,128 in the same period last year but declined by 8% to 12,817 for the nine months ended September 30, 2008 versus 13,950 in the same period last year. Drilling rig utilization rates averaged 46% in the third quarter of 2008, ahead of the 38% average rig utilization rate during the same period last year, and increased slightly for the comparative nine months to 40% in 2008 versus 39% in 2007.¹ Despite higher activity during the third quarter of 2008 versus the comparable period in 2007, utilization rates for the nine months ended in September 2008 versus the first nine months of 2007 were flat, due to extended wet weather or "spring break-up" conditions during the second quarter.

In addition to increased sales activities during the third quarter of 2008 when compared to the same period last year, overall margins achieved by the Oilfield Services segment recovered from the very low levels experienced during the second quarter of 2008 that were a result of the spike in crude oil prices which increased our feedstock costs. The re-installation of the original salt-bath heaters in the Sundre plant during the third quarter returned the plant to an operational state, serving to increase overall volumes. A very competitive pricing environment continues to limit our ability to fully reflect higher crude costs in our prices.

Revenues

Consolidated Revenues. Consolidated revenues for the three months ended September 30, 2008 increased by \$12,648,000, or 64%, to \$32,470,000 from \$19,822,000 for the same period last year, and increased by \$32,441,000 or 59%, to \$87,608,000 for the nine months ended September 30, 2008 versus \$55,167,000 for the first nine months of 2007. Revenues by business segment were as follows:

- *Oilfield Services.* Segment revenues for the three months ended September 30, 2008 increased by 60% to \$21,779,000 from \$13,648,000 for the same period last year and increased by 40% to \$51,287,000 for the nine months ended September 30, 2008 versus \$36,587,000 for the first nine months of 2007. The increase in revenues, in the third quarter of 2008 when compared to the same period last year, was attributable to stronger demand from the segment's existing customer base and the establishment of several new customer relationships for the Company's fracturing and drilling fluids and solvent products. As a result, the Oilfield Services segment experienced a 16% increase in the volume of products sold during the third quarter of 2008 when compared to the same period last year and a 15% increase in the total volume of products sold in the first nine months of 2008 when compared to the same period last year.
- *Energy Marketing.* Segment revenues increased by \$3,366,000, or 86%, to \$7,285,000 in the third quarter of 2008 from \$3,919,000 in the same quarter last year and increased by \$16,067,000, or by 138%, to \$27,689,000 for the first nine months of 2008 versus \$11,622,000 for the same period last year. The volume of by-products available to the energy marketing segment is a function of the volume of feedstock put into production during a period. As the volume of feedstock put into production during

¹Source: Canadian Association of Oilwell Drilling Contractors ("CAODC").

the third quarter and first nine months of 2008 significantly exceeded the comparative periods in 2007, the corresponding volume of by-products available for sale increased. In addition, the increase in energy marketing revenues for the comparative periods of 2008 and 2007 reflects the increase in the underlying value of crude oil.

- *Transportation Services.* Segment revenues increased by \$1,150,000, or 51%, to \$3,406,000 in the third quarter of 2008, excluding inter-segment revenues of \$1,340,000, from \$2,255,000 in the same period last year, excluding inter-segment revenues of \$1,041,000, as a result of the shift in utilization of the segment's fluid hauling fleet. During the third quarter of 2008 versus the same quarter of 2007, the segment's fluid hauling fleet was largely directed to providing its services to new business arrangements. For the nine months ended September 30, 2008, Transportation Services revenues increased by 24% to \$8,631,000, excluding inter-segment revenues of \$4,935,000, when compared to revenues of \$6,958,000, excluding inter-segment revenues of \$3,259,000, for the same period last year. The increase in revenues, excluding inter-segment revenues, for the comparative first nine months of 2008 and 2007 resulted from new business arrangements secured by this segment, together with a corresponding increase in fleet size.

Operating Expenses

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

Overall operating expenses as a percentage of consolidated revenues, after elimination of inter-segment transactions, was 92% in the three months ended September 2008, unchanged from the same period in 2007, but increased 6% to 94% of revenues for the nine months ended September 2008 versus 88% in the comparable period in 2007. The overall increase in operating expenses as a percentage of revenue for the first nine months of 2008 versus the same period in 2007 reflects the effects of the dramatic rise in crude oil prices during the first seven months of 2008, during which time price recoveries lagged cost increases. By way of example, the average posted price of light sweet crude oil increased 46% or \$272 per cubic metre from February to June 2008, but only increased 39% or \$160 per cubic metre during the entire prior year. The increase in operating expenses associated with the Energy Marketing segment for the comparative quarters and first nine months of 2008 and 2007 was primarily due to the increase in by-product volumes resulting from the increase in manufacturing activities and the effects of the sharp rise in crude oil prices.

General and Administrative

General and administrative ("G&A") expenses include salaries and other related expenses for the Company's administrative, finance, information technology and human resource functions. G&A expenditures for the three months ended September 30, 2008 increased \$115,000, or 10%, to \$1,218,000 from \$1,103,000 for the same period last year, and increased by \$135,000 or 4% to \$3,434,000 in the first nine months of 2008 from \$3,299,000 for the same period last year. The increase in G&A expenditures was largely due to increased consulting and legal services utilized by the Company during the current period offset by the decrease in stock based compensation costs and the capitalization of labour costs directly identifiable with several of the Company's construction projects.

Depreciation

Depreciation expense increased by \$18,000, or 3%, to \$614,000 in the third quarter of 2008 compared to \$595,000 for the same quarter last year and for the nine months ended September 30, 2008 increased by \$152,000 or 9% to \$1,876,000 from \$1,724,000 for the same period in 2007. The increase in depreciation expense is largely attributable to commencing with: the depreciation of the flowback facility in the latter half of 2007; the desalter and blend facility at the Slave Lake plant; and other equipment purchases completed in 2008.

At September 30, 2008, \$1,366,000 of costs largely associated with the construction and activation of the Company's land activated custody transfer connection for the bi-directional pipeline at the Slave Lake fractionation plant had not been depreciated as the project has not yet been completed and put into use.

Restructuring Costs

During the second quarter of 2008, the Company recorded a provision for restructuring costs of \$850,000 relating to the consolidation of its accounting and administrative offices from Leduc to Calgary, Alberta. Restructuring costs include severance provisions of \$555,000 and \$295,000 in other transitioning costs. Subsequent to September 30, 2008, the consolidation was completed as originally scheduled by October 31, 2008, as originally scheduled.

Loss on Write-Down of Plant Equipment

Subsequent to September 30, 2008, the Company determined that the direct-fired heaters constructed for the Sundre fractionation plant could not be re-designed to achieve the intended operational efficiency and required safety of operations. As a result, in the third quarter of 2008, the Company has recorded a \$2,129,000 write-down of all costs associated with the manufacture and installation of the direct-fired heaters previously recorded on the balance sheet under property, plant and equipment. The Company will be pursuing recourse against the companies that supplied the direct-fired heaters for all of the project's construction costs and other financial losses attributable to the unavailability of the Sundre fractionation plant during this project.

During the third quarter of 2008, the Company refurbished and re-installed the original salt-bath heaters at its Sundre fractionation facility, returning it to its original operating state.

Income Taxes

The provision for current income taxes in the third quarter of 2008 includes an expense of \$51,000 compared to an expense of \$61,000 in the same period last year. For the nine months ended September 30, 2008, the provision for current income taxes includes a recovery of \$278,000 versus an expense of \$662,000 for the same period in 2007.

The effective rate for the nine months ended September 30, 2008 was 29%. The large change in the effective rate for the period ended September 30, 2008 versus the comparable period in 2007 was primarily due to the effects of non-deductible permanent differences in the first nine months of 2007, in particular the goodwill impairment charge recorded in the third quarter of 2007.

Net Loss

For the three months ended September 30, 2008, the Company reported a net loss of \$845,000, or \$0.06 per common share diluted, compared to a net loss of \$6,319,000, or \$0.41 per common share diluted, for the three months ended September 30, 2007. For the nine months ended September 30, 2008, the Company reported a net loss of \$1,982,000 or \$0.13 per common share diluted, compared to a net loss of \$5,124,000, or \$0.33 per common share diluted, for the same period last year. The significant improvement in the Company's financial performance for the three and nine months ended September 30, 2008 resulted from: increased sales volumes and a partial recovery from the 2008 increase in feedstock costs; and a large reduction in other expenses year-over-year, in particular the plant equipment write-down and restructuring charges in 2008 versus the goodwill impairment and plant tank farm remediation charges in 2007.

EBITDA (refer to "Use of Non-GAAP Measures") for the three months ended September 30, 2008 increased by \$1,101,000, or 338%, to \$1,427,000 from \$326,000 for the same quarter last year, and for the nine months ended September 30, 2008, EBITDA decreased by \$1,020,000, or 32%, to \$2,133,000 from \$3,153,000 for the same period last year. EBITDA for the three months ended September 30, 2008 reflects the improvement in quarter over quarter earnings. The increase in the Company's earnings for the first nine months of 2008 when compared to the same period in 2007 is not reflected in the decline in year to date EBITDA because of the effects of large non-cash charges excluded from EBITDA.

Liquidity and Capital Resources

Cash provided by operations before changes in non-cash components of working capital (refer to "Use of Non-GAAP Measures") for the three months ended September 30, 2008 totaled \$1,518,000 compared to \$607,000 for the same quarter last year. For the nine months ended September 30, 2008, cash provided by operations before changes in non-cash components of working capital totaled \$2,108,000 compared to \$3,446,000 for the same period last year. The increase in cash provided by operations for the three months ended September 30, 2008 was largely the result of increased sales volumes and margins. For the nine months ended September 30, 2008, cash provided by operations decreased when compared to the same period last year as a result of the decrease in overall margins, despite higher sales volumes. The Company's working capital was \$13,702,000 at September 30, 2008 compared to \$15,991,000 at December 31, 2007. The Company's current ratio (defined as current assets divided by current liabilities) was 1.7 to 1 at September 30, 2008 compared to 2.8 to 1 at December 31, 2007. The decline in the Company's current ratio was largely influenced by the increase in accounts payable and accrued liabilities combined with its use of its available operating lines of credit to fund its business activities and feedstock purchases during the third quarter of 2008.

Net cash used by the Company for investing activities totaled \$667,000 for the three months ended September 30, 2008 compared to \$2,006,000 for the same period last year, and totaled \$4,027,000 for the nine months ended September 30, 2008 compared to \$5,194,000 for the same period last year. Cash used for investing activities during the first nine months of 2008 was primarily directed to the completion of the blend facility and desalter project at the Slave Lake fractionation plant, plant turnaround programs, work on the direct-fired heater project at Sundre early in the year, and refurbishment of the salt-bath heaters at the Sundre fractionation plant during the third quarter.

Net cash provided by financing activities in the third quarter of 2008 totaled \$4,022,000 and largely represented the Company's net increase in advances drawn from its available revolving operating line of credit. During the third quarter of 2008, the Company purchased 188,600 of its common shares at an average price of \$1.56 per common share, including transaction fees, totaling \$293,000. For the nine months ended September 30, 2008, the Company purchased 225,600 of its common shares at an average price of \$1.64 per common share, including transaction fees, totaling \$370,000. All of the common shares purchased in the first nine months of 2008 have been cancelled and returned to treasury.

During the third quarter of 2008, as part of its annual review, the Company entered into a new credit facility with a Canadian chartered bank consisting of: a \$10,500,000 revolving operating line of credit that bears interest at the bank's prime rate plus 0.40%; Bankers' Acceptances facility of \$10,000,000 which bears interest at Bankers' Acceptance rates plus a margin; an \$8,000,000 demand revolving loan at the bank's prime rate plus 0.90%; and a bank guarantee facility of \$17,000,000 that bears a fee of 1.35% per annum at the time of issuance of the bank guarantee.

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

	Total	Payments due by period			
		Less than 1 year	1 - 3 years	4 - 5 years	After 5 years
	\$	\$	\$	\$	\$
Operating leases (1)	1,958,927	663,515	867,390	428,022	-
Total contractual obligations	1,958,927	663,515	867,390	428,022	-

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

In the normal course of business, the Company may become contingently liable for performance under letters of guarantee and credit with certain of its vendors. In this regard, the Company has arranged an \$17,000,000 bank guarantee facility available as security for its feedstock arrangements and purchase commitments. At September 30, 2008, the Company had provided letters of guarantee totaling \$6,125,000, which were terminated and renewed in October, 2008, in favour of two suppliers for the purchase of petroleum feedstock from those suppliers.

For 2008 the Company expects cash flow from operations and from its available credit facilities to be sufficient to meet its contractual obligations and off-balance sheet arrangements.

Share Capital

At September 30, 2008 the Company had 15,027,507 common shares outstanding. In addition, as at September 30, 2008, the Company has reserved 620,000 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. On July 15, 2008, the Company commenced a new normal course issuer bid to purchase up to 760,805 of its issued and outstanding common shares. Purchases under the normal course issuer bid will terminate on July 14, 2009, or such earlier time as the bid is completed or terminated by the Company. All shares purchased under the issuer bid will be cancelled.

During the first nine months of 2008, 225,600 common shares were purchased by the Company of which 43,100 common shares were acquired at purchase prices, including transaction fees, which exceeded the assigned value of the Company's issued and outstanding common shares, at \$1.94 per common share, and 182,500 common shares were acquired at purchase prices, including transaction fees, which were less than the assigned value. The cost of common shares purchased which exceeded the assigned value of the Company's common shares totaled \$89,237, or \$2.07 per common share, of which \$83,727 was recorded as reduction of share capital at the average carrying value of the Company's common shares, with the balance of \$5,510 charged against retained earnings. The cost of common share purchases which were less than the assigned value of the Company's common shares totaled \$280,912, or \$1.54 per common share, of which \$354,533 was recorded as a reduction of share capital at the average carrying value of the Company's common shares, with the off-setting balance of \$73,621 recorded as an increase in contributed surplus.

Summary of Quarterly Results

The following tables provide selected unaudited financial information relating to the Company's quarterly activities in 2008, 2007 and 2006 and are prepared in accordance with Canadian generally accepted accounting principles with respect to the preparation of interim financial statements.

Three month period ended (unaudited)	September 30, 2008	June 30, 2008	March 31, 2008	December 31, 2007
	\$	\$	\$	\$
Revenues	32,470,402	21,390,234	33,746,921	25,133,073
Net (loss) earnings for the period	(844,959)	(1,067,125)	(70,359)	642,814
Net (loss) earnings per share for the period				
Basic	(0.06)	(0.07)	0.00	0.04
Diluted	(0.06)	(0.07)	0.00	0.04

Three month period ended (unaudited)	September 30, 2007	June 30, 2007	March 31, 2007	December 31, 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

Trends and Outlook

Looking forward through the remainder of this year's drilling season into the first quarter of 2009, highly volatile crude costs and the effects of the global credit crisis, together with the potential for a longer term economic downturn, are contributing factors to highly uncertain industry conditions. Nevertheless, a number of customers have benefited from an extended period of high commodity prices and record cash flows. Some industry players have recently noted higher rig bookings into the upcoming winter drilling season and our recent direct experience with customers is positive for high activity levels in at least the short-term.

In this regard, over the past months, we have directed significant resources to make the necessary infrastructure and plant optimization improvements focused on aligning our operations to the achievement of our strategic goals which we anticipate will contribute to improve our overall financial performance and competitive capabilities. We continue to maintain a strong balance sheet with a focused new management team and are well positioned to take advantage of opportunities that may develop.

Changes in Accounting Policies

a) Capital Disclosures

Effective January 1, 2008, the Company adopted CICA Section 1535, "Capital Disclosures" which requires that an entity disclose information that enables users of its financial statements to evaluate an entity's objectives, policies and processes for managing capital including disclosures of any externally imposed capital requirements and the consequences of non-compliance. The adoption of this standard does not impact the Company's financial statements as it only addresses disclosure requirements. Information regarding the Company's capital disclosures is further described in note 5, "Capital Disclosures", of the Notes to the Interim Consolidated Financial Statements for the period ended September 30, 2008.

b) Financial Instruments – Presentation and Disclosure

Effective January 1, 2008, the Company adopted CICA Sections 3862 and 3863 which replaced CICA Section 3861, "Financial Instruments – Disclosure and Presentation." This new standard requires an increased emphasis on disclosures about the nature and extent of risk arising from financial instruments and how an entity manages those risks. The adoption of this standard does not impact the Company's financial statements as it only addresses disclosure requirements. Information regarding the nature and extent of risk arising from the Company's financial instruments and how it manages those risks is further described in note 6, "Financial Instruments", of the Notes to the Interim Consolidated Financial Statements for the period ended September 30, 2008.

c) Inventories

Effective January 1, 2008, the Company adopted CICA Section 3031, "Inventories" which harmonizes accounting for inventories under Canadian GAAP with International Financial Reporting Standards. This standard requires the measurement of inventories at the lower of cost and net realizable value and includes guidance on the determination of cost, including allocation of overheads and other costs to inventory. The standard also requires the consistent use of either first-in, first-out (FIFO) or weighted

average cost formula to measure the cost of other inventories and requires the reversal of previous write-downs to net realizable value when there is a subsequent increase in the value of inventories.

Information regarding the Company's inventory disclosures is further described in note 7, "Inventories", of the Notes to the Interim Consolidated Financial Statements for the period ended September 30, 2008.

Recent Canadian Accounting Pronouncements

a) International Financial Reporting Standards ("IFRS")

The Canadian Accounting Standards Board has confirmed that the use of IFRS will be required for publicly accountable profit-oriented enterprises. IFRS will replace Canada's current generally accepted accounting principles for those enterprises. These new standards are applicable to fiscal years beginning on or after January 1, 2011. Companies will be required to provide comparative IFRS information for the previous fiscal year. The Company will implement this standard in its first quarter of the year ending December 31, 2011 and is currently evaluating the impact of these standards on its consolidated financial statements. Management expects to discuss key elements and timing of a changeover plan in the year-end 2008 MD&A.

b) Goodwill and Intangible Assets

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets", replacing Section 3062, "Goodwill and Other Intangible Assets" and Section 3450, "Research and Development Costs". The new pronouncement establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the previous standards included in the previous Section 3062. The new standard applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008. The Company has determined that the adoption of this standard does not affect its consolidated 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 of the financial statements and the reported amounts of revenues and expenses during the reported period. Management regularly evaluates these estimates and assumptions which are based on past experience and other factors that are deemed reasonable under the circumstances. This involves varying degrees of judgment and uncertainty and, therefore, amounts currently reported in the financial statements could differ in the future. There have been no changes in these accounting estimates from those reported in the Company's Annual Report at December 31, 2007.

Risk and Uncertainties

The MD&A of the Annual Report for the year ended December 31, 2007 includes an overview of the risks and uncertainties affecting the Company on pages 17 and 18. The types of risks and uncertainties are largely unchanged as at September 30, 2008, however the levels and degree of volatility in feedstock prices have increased during 2008. In addition, the intensity of exposure to customer credit risk has likely increased as a result of global events, therefore the company continues to exercise diligence over working capital management.

Disclosure Controls and Internal Controls over Financial Reporting

The Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") are responsible for establishing and maintaining disclosure controls and procedures ("Procedures") which provide reasonable assurance that information required to be disclosed by the Company under various securities legislation ("Required Filings") is reported within the time periods specified. The Procedures are designed to ensure that material information relating to the Company is accumulated and communicated to management, the CEO and CFO, and to allow for timely decisions regarding the Required Filings.

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

In addition, management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The CEO and CFO have evaluated whether there were any changes to internal control over financial reporting during the quarter ended September 30, 2008 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting. No such changes were identified through their evaluation.

Consolidated Balance Sheets

As at	September 30, 2008 (unaudited)	December 31, 2007 (audited)
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	163,963	2,711,136
Accounts receivable (note 6(b))	22,087,556	16,074,755
Income taxes receivable	195,187	305,609
Inventories (note 7)	9,426,213	5,839,545
Prepaid expenses	306,283	117,184
Current portion of future tax asset	73,200	73,200
	<u>32,252,402</u>	<u>25,121,429</u>
Other assets		
	243,093	315,582
Property, plant and equipment (note 12)	<u>39,008,368</u>	<u>39,488,530</u>
	<u>71,503,863</u>	<u>64,925,541</u>
Liabilities		
Current liabilities		
Bank indebtedness	4,376,436	-
Accounts payable and accrued liabilities (note 6(b))	<u>14,173,650</u>	<u>9,130,388</u>
	18,550,086	9,130,388
Asset retirement obligations	215,039	204,937
Future income taxes	<u>3,217,717</u>	<u>3,746,478</u>
	<u>21,982,842</u>	<u>13,081,803</u>
Contingent liabilities and commitments (note 9)		
Shareholders' equity		
Share capital (note 8 (b))	29,193,108	29,631,368
Contributed surplus (note 8 (c))	1,604,065	1,500,569
Retained earnings	<u>18,723,848</u>	<u>20,711,801</u>
	<u>49,521,021</u>	<u>51,843,738</u>
	<u>71,503,863</u>	<u>64,925,541</u>

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

Consolidated Statement of Operations, Comprehensive Loss and Retained Earnings

(unaudited)

	Three months ended		Nine months ended	
	September 30		September 30	
	2008	2007	2008	2007
	\$	\$	\$	\$
Revenues	32,470,402	19,822,532	87,607,557	55,166,712
Expenses				
Operating	29,839,333	18,194,326	82,086,334	48,570,383
General and administrative	1,218,273	1,102,934	3,433,608	3,299,046
Restructuring costs (note 10)	-	-	850,000	-
Depreciation and amortization	613,505	595,458	1,875,632	1,723,744
Accretion expense	3,367	3,160	10,101	9,480
Amortization of pre-operating costs	-	21,717	-	65,153
Interest expense	32,577	-	57,359	8,116
	31,707,055	19,917,595	88,313,034	53,675,922
(Loss) earnings from operations before other income (expense)	763,347	(95,063)	(705,477)	1,490,790
Other income (expense)				
Interest income and other	13,905	72,750	39,705	131,640
Plant tank farm remediation (note 9 (c))	-	(240,000)	-	(240,000)
Loss on write-down of plant equipment (note 12)	(2,128,673)	-	(2,128,673)	-
Goodwill impairment	-	(6,049,530)	-	(6,049,530)
Loss on write-down of investment in foreign operations	-	-	-	(58,358)
Gain (loss) on disposal of property, plant and equipment	-	(32,523)	5,324	(36,177)
	(2,114,768)	(6,249,303)	(2,083,644)	(6,252,425)
Loss before income taxes	(1,351,421)	(6,344,366)	(2,789,121)	(4,761,635)
Income taxes				
Current expense (recovery)	51,062	60,605	(277,917)	622,350
Future expense (recovery)	(557,524)	(86,190)	(528,761)	(259,779)
	(506,462)	(25,585)	(806,678)	362,571
Net loss and comprehensive loss for the period	(844,959)	(6,318,781)	(1,982,443)	(5,124,206)
Retained earnings, beginning of period	19,569,443	26,448,801	20,711,801	25,254,226
Common shares repurchased and cancelled	(636)	(46,961)	(5,510)	(46,961)
Retained earnings, end of period	18,723,848	20,083,059	18,723,848	20,083,059
Loss per share				
Basic	(0.06)	(0.41)	(0.13)	(0.33)
Diluted	(0.06)	(0.41)	(0.13)	(0.33)
Weighted average shares outstanding (note 8 (e))				
Basic	15,208,536	15,310,871	15,226,709	15,302,545
Diluted	15,208,536	15,311,547	15,226,709	15,351,964

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

Consolidated Statement of Cash Flows

(unaudited)

	Three months ended		Nine months ended	
	September 30		September 30	
	2008	2007	2008	2007
	\$	\$	\$	\$
Operating activities				
Net loss	(844,959)	(6,318,781)	(1,982,443)	(5,124,206)
Items not affecting cash				
Depreciation, amortization and accretion expense	616,872	620,335	1,885,733	1,798,377
Stock based compensation	11,905	94,682	29,875	283,026
Amortization of plant turnaround costs	162,787	214,802	580,321	604,665
(Gain) loss on disposal of property, plant and equipment	-	32,523	(5,324)	36,177
Write-down of investment in foreign operations	-	-	-	58,358
Loss on write-down of plant equipment (note 12)	2,128,673	-	2,128,673	-
Goodwill impairment	-	6,049,530	-	6,049,530
Future income tax recovery	(557,524)	(86,190)	(528,761)	(259,779)
	1,517,754	606,901	2,108,074	3,446,148
Changes in non-cash components of working capital				
Net change in accounts receivable	(8,500,675)	(7,127,079)	(6,012,801)	3,793,983
Net change in inventories and prepaid expenses	1,093,287	765,147	(3,775,767)	195,015
Net change in accounts payable and accrued liabilities	2,182,464	4,874,240	5,043,262	1,200,356
Net change in income taxes receivable	321,508	142,302	110,422	(624,942)
	(4,903,416)	(1,345,390)	(4,634,884)	4,564,412
Net cash (used in) provided by operating activities	(3,385,662)	(738,489)	(2,526,810)	8,010,560
Investing activities				
Purchase of property, plant and equipment	(661,060)	(1,901,662)	(3,552,999)	(5,527,192)
Decrease in promissory note	-	-	-	61,127
Proceeds on disposal of property, plant and equipment	-	26,500	34,180	114,100
Increase in other assets	(5,736)	(131,117)	(507,831)	(668,237)
Proceeds received on sale of foreign investment	-	-	-	826,083
Net cash used in investing activities	(666,796)	(2,006,279)	(4,026,650)	(5,194,119)
Financing activities				
Issue of common shares	-	-	-	103,700
Net change in bank indebtedness	4,315,553	-	4,376,436	-
Repurchase of common shares under normal course issuer bid (note 8(b))	(293,398)	(130,883)	(370,149)	(130,883)
Repayment of long-term debt	-	-	-	(287,062)
Net cash provided by (used in) financing activities	4,022,155	(130,883)	4,006,287	(314,245)
(Decrease) increase in cash and cash equivalents	(30,303)	(2,875,651)	(2,547,173)	2,502,196
Cash and cash equivalents - beginning of period	194,266	7,791,369	2,711,136	2,413,522
Cash and cash equivalents - end of period	163,963	4,915,718	163,963	4,915,718

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

Notes to the Interim Consolidated Financial Statements

For the Period Ended September 30, 2008 (unaudited)

1. Basis of Presentation and Accounting Policies

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

These unaudited interim consolidated financial statements include the accounts of the parent company and its wholly owned subsidiary Millard Trucking Ltd. (“Millard”). All significant inter-company balances and transactions have been eliminated. With the exception of items (a), (b) and (c) as described below, these unaudited interim consolidated financial statements follow the same accounting policies and methods of computation as, and should be read in conjunction with, the most recent audited annual financial statements for the year ended December 31, 2007.

a) Capital Disclosures

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

b) Financial Instruments – Presentation and Disclosure

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

c) Inventories

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

2. Recent Canadian Accounting Pronouncements

a) International Financial Reporting Standards (“IFRS”)

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

2. Recent Canadian Accounting Pronouncements (continued)

b) Goodwill and Intangible Assets

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets", replacing Section 3062, "Goodwill and Other Intangible Assets" and Section 3450, "Research and Development Costs". The new pronouncement establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the previous standards included in the previous Section 3062. The new standard applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008. The Company has determined that the adoption of this standard does not affect its consolidated financial statements.

3. Nature of Operations

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

The Company's activities are divided into three distinct business segments: Oilfield Services, which represents the manufacture and sale of hydrocarbon products; Energy Marketing, which represents the purchasing, gathering and marketing of crude oil for resale to refiners and other customers; and Transportation Services, which represents the operations of Millard.

4. Seasonality of Operations

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

5. Capital Disclosures

The Company's objectives in managing capital are:

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

The Company's capital is composed of bank indebtedness, a demand revolving loan of which the company has none at September 30, 2008, and shareholders' equity. The Company's primary uses of capital in the past have been to finance its plant and equipment expenditures. The Company currently funds these requirements out of its internally-generated cash flows. The Company maintains a secured operating line of credit with a chartered bank that it uses from time to time for its business activities. The Board of Directors does not establish quantitative return on capital criteria for management; but rather promotes year over year sustainable profitable growth. The Board of Directors also monitors the share repurchase program activities. The Company does not have a defined share repurchase plan and buy decisions are made on a specific transaction basis and depend on market prices and regulatory restrictions. The Company is not subject to any externally imposed capital requirements.

6. Financial Instruments

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

a) Fair Value Disclosure

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

6. Financial Instruments (continued)

b) Financial Risk Management

The Company's activities are exposed to a variety of financial risks: credit risk, liquidity risk and market risk. The Company's overall risk management program focuses on the unpredictability of financial and economic markets and seeks to minimize potential adverse effects on the Company's financial performance. Risk management is carried out by financial management in conjunction with overall Company governance.

i) Credit Risk

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

As at September 30, 2008 the Company's exposure to credit risk for accounts receivable was as follows:

Aging of financial assets:

	Total	Current Amount	Not more than three months past due	More than three months but less than six months past due
	\$	\$	\$	\$
Accounts Receivable	22,087,556	12,238,875	8,676,363	1,172,318

ii) Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents and the availability of funding through an adequate amount of committed credit lines and bank guarantee facility. Due to the dynamic nature of the business, the Company aims to maintain flexibility in funding by keeping committed credit lines available. The contractual maturity of accounts payable and accrued liabilities as at September 30, 2008 totaled \$14,173,650 of which \$13,323,650 requires payment within thirty days and \$850,000, representing restructuring costs, upon completion of the required services.

During the third quarter of 2008, as part of its annual review, the Company entered into a new credit facility with a Canadian chartered bank consisting of: a \$10,500,000 (September 30, 2007 - \$5,500,000) revolving operating line of credit that bears interest at the bank's prime rate plus 0.40%; Bankers' Acceptances facility of \$10,000,000 (September 30, 2007 - \$5,000,000) which bears interest at Bankers' Acceptance rates plus a margin; an \$8,000,000 (September 30, 2007 - \$8,000,000) demand revolving loan at the bank's prime rate plus 0.90%; and a bank guarantee facility of \$17,000,000 (September 30, 2007 - \$10,000,000) that bears a fee of 1.35% per annum at the time of issuance of the bank guarantee.

iii) Market Risk

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

- *Currency Risk:* Foreign currency risk arises from fluctuations in foreign exchange rates and the degree of volatility of these rates relative to the Canadian dollar. The Company is not significantly exposed to foreign currency risk.

6. Financial Instruments (continued)

b) Financial Risk Management (continued)

iii) Market Risk (continued)

- *Interest Rate Risk:* The Company has a credit facility with a Canadian chartered bank which when utilized by the Company provides loans that are subject to interest rate fluctuations. The Company manages its interest risk on borrowings by utilizing a combination of short term fixed rates through the use of 30 to 90 day Bankers' Acceptance instruments and floating rates on debt. The effect of this possible change in market interest rates on the Company's pre-tax earnings for the nine months ended September 30, 2008 due to changes in market interest rates affecting the Company's floating rate debt outstanding of \$4,376,436 at the balance sheet date is outlined below. The sensitivity analysis has been prepared using using a 50 basis point change as the most reasonable possible change in market interest rates.

	Pre-tax earnings change
<u>50 basis point change</u>	<u>\$16,382</u>

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

The Company did not have any outstanding crude oil and natural gas forward purchase contracts as at September 30, 2008 or September 30, 2007.

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

7. Inventories

Inventories are comprised as follows:

As at	September 30, 2008	December 31, 2007
	\$	\$
Raw materials	3,036,749	3,153,345
Finished product	6,389,464	2,686,200
<u>Total</u>	<u>9,426,213</u>	<u>5,839,545</u>

For the three months and nine months ended September 30, 2008, operating expenses include inventories recognized as an expense, using the weighted cost method, in the amount of \$24,571,517 and 67,826,521, respectively (three and nine months ended September 30, 2007 - \$14,441,865 and 37,112,007, respectively).

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

8. Share Capital and Contributed Surplus

a) Authorized -

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

b) Issued -

- Common

	Nine months ended September 30, 2008		Year ended December 31, 2007	
	#	\$	#	\$
Balance - beginning of period	15,253,107	29,631,368	15,295,307	29,675,698
Issue of shares for cash upon exercise of stock options	-	-	34,000	103,700
Redemption pursuant to normal course issuer bid	(225,600)	(438,260)	(76,200)	(148,030)
Balance - end of period	15,027,507	29,193,108	15,253,107	29,631,368

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. On July 15, 2008, the Company commenced a new normal course issuer bid to purchase up to 760,805 of its issued and outstanding common shares. Purchases under the normal course issuer bid will terminate on July 14, 2009, or such earlier time as the bid is completed or terminated by the Company. All shares purchased under the issuer bid will be cancelled.

During the first nine months of 2008, 225,600 common shares were purchased by the Company of which 43,100 common shares were acquired at purchase prices, including transaction fees, which exceeded the assigned value of the Company's issued and outstanding common shares, at \$1.94 per common share, and 182,500 common shares were acquired at purchase prices, including transaction fees, which were less than the assigned value. The cost of common shares purchased which exceeded the assigned value of the Company's common shares totaled \$89,237, or \$2.07 per common share, of which \$83,727 was recorded as reduction of share capital at the average carrying value of the Company's common shares, with the balance of \$5,510 charged against retained earnings. The cost of common share purchases which were less than the assigned value of the Company's common shares totaled \$280,912, or \$1.54 per common share, of which \$354,533 was recorded as a reduction of share capital at the average carrying value of the Company's common shares, with the off-setting balance of \$73,621 recorded as an increase in contributed surplus.

c) Contributed Surplus

	Nine months ended September 30, 2008	Year ended December 31, 2007
	\$	\$
Balance - beginning of period	1,500,569	1,123,673
Redemption pursuant to normal course issuer bid at an average price less than the average carrying value	73,621	-
Stock based compensation expensed during the period	29,875	376,896
Balance - end of period	1,604,065	1,500,569

8. Share Capital and Contributed Surplus (continued)

d) Stock Options

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

	Options	September 30, 2008 Weighted Average Exercise Price
	#	\$
Common shares under option - beginning of period	540,000	3.26
Share options cancelled	(220,000)	3.40
Share options granted	300,000	1.94
Common shares under option - end of period	620,000	2.57
Options exercisable at end of period	320,000	3.16

During the third quarter of 2008, the Company granted 100,000 stock options to employees of the Company with an exercise price of \$1.42 (three months ended September 30, 2007 – NIL). During the nine months ended September 30, 2008, the Company granted a total of 300,000 stock options (nine months ended September 30, 2007 – 100,000) to employees of the Company with exercise prices ranging from \$1.42 to \$2.21 per stock option. The stock options vest with the employees over a five year period and expire seven years after the date of grant. The weighted average fair value of the options granted during the nine months ended September 30, 2008 ranged from \$0.66 to \$1.30 per option grant and were estimated using the Black-Scholes model with the following assumptions: risk-free interest rates ranging from 2.9 to 3.7 percent; vesting period of five years per grant; volatility ranging from 50 to 68 percent and a zero dividend yield.

The impact of expensing stock options for the three and nine months ended September 30, 2008 was \$11,905 and \$29,875, respectively (three and nine months ended September 30, 2007 – \$94,682 and \$283,026, respectively), 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	
	2008	2007	2008	2007
	#	#	#	#
Weighted average share reconciliation				
- Basic				
Common shares - opening	15,216,107	15,329,307	15,253,107	15,295,307
Weighted average common shares (repurchased) issued during the period	(7,571)	(18,436)	(26,398)	7,238
	15,208,536	15,310,871	15,226,709	15,302,545
- Diluted				
Basic weighted average common shares - opening	15,208,536	15,310,871	15,226,709	15,302,545
Dilutive effect of stock options and equivalents	-	676	-	49,419
	15,208,536	15,311,547	15,226,709	15,351,964

9. Contingent Liabilities and Commitments

- a) Letters of guarantee are provided by the Company on an on-going basis and for varying amounts for its petroleum feedstock purchases from suppliers. At September 30, 2008, the Company had obligations under letters of guarantee totaling \$6,125,000 to two suppliers, which were subsequently terminated and renewed in October 2008.
- 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, 2008, cannot be determined with certainty, it is the opinion of management that their resolution will not have a material adverse effect on the Company's financial position or results of operations.
- c) The Company has accrued environmental costs of \$240,000 related to the clean-up of its tank farm in Sundre, Alberta. The \$240,000 is an estimate and the Company is in the process of gathering third party quotations. The Company carries insurance against such risks and anticipates that a portion of the environmental costs will be insured. The insurance underwriter is presently examining the Company's claim for the environmental clean-up. The accrual for the clean-up has been reported on the balance sheet under the caption accounts payable and accrued liabilities.

10. Restructuring Costs

During the second quarter of 2008, the Company recorded a provision for restructuring costs of \$850,000 relating to the consolidation of its accounting and administrative offices from Leduc to Calgary, Alberta. Restructuring costs include severance provisions of \$555,000 and \$295,000 of other transitioning costs. The consolidation was completed October 31, 2008.

11. 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, 2008

	Oilfield Services	Energy Marketing	Transportation Services	Inter-Segment Eliminations	Consolidated
	\$	\$	\$	\$	\$
Revenues	21,779,498	7,285,305	3,405,599	-	32,470,402
Inter-segment revenues	-	-	1,339,812	(1,339,812)	-
Total revenues	21,779,498	7,285,305	4,745,411	(1,339,812)	32,470,402
Operating expenses	20,720,304	6,989,930	3,435,509	(1,306,410)	29,839,333
Depreciation, amortization & accretion expense	345,899	10,716	260,257	-	616,872
Interest expense	32,577	-	-	-	32,577
Other expense	2,114,768	-	-	-	2,114,768
Subtotal	(1,434,050)	284,659	1,049,645	(33,402)	(133,148)
Less: General and administrative					1,218,273
Loss before income taxes					(1,351,421)

Three months ended September 30, 2007

	Oilfield Services	Energy Marketing	Transportation Services	Inter-Segment Eliminations	Consolidated
	\$	\$	\$	\$	\$
Revenues	13,648,287	3,918,809	2,255,436	-	19,822,532
Inter-segment revenues	-	-	1,040,579	(1,040,579)	-
Total revenues	13,648,287	3,918,809	3,296,015	(1,040,579)	19,822,532
Operating expenses	13,504,174	3,286,618	2,428,992	(1,025,458)	18,194,326
Depreciation, amortization & accretion expense	339,536	-	280,799	-	620,335
Other expense	6,225,780	-	23,523	-	6,249,303
Subtotal	(6,421,203)	632,191	562,701	(15,121)	(5,241,432)
Less: General and administrative					1,102,934
Loss before income taxes					(6,344,366)

Nine months ended September 30, 2008

	Oilfield Services	Energy Marketing	Transportation Services	Inter-Segment Eliminations	Consolidated
	\$	\$	\$	\$	\$
Revenues	51,287,398	27,688,974	8,631,185	-	87,607,557
Inter-segment revenues	-	-	4,934,860	(4,934,860)	-
Total revenues	51,287,398	27,688,974	13,566,045	(4,934,860)	87,607,557
Operating expenses	51,226,738	26,085,857	9,678,538	(4,904,799)	82,086,334
Depreciation, amortization & accretion expense	1,022,381	21,432	841,920	-	1,885,733
Interest expense	57,359	-	-	-	57,359
Other (income) expense	2,087,633	-	(3,989)	-	2,083,644
Subtotal	(3,106,713)	1,581,685	3,049,576	(30,061)	1,494,487
Less: General and administrative					3,433,608
Less: Restructuring Costs					850,000
Loss before income taxes					(2,789,121)

Nine months ended September 30, 2007

	Oilfield Services	Energy Marketing	Transportation Services	Inter-Segment Eliminations	Consolidated
	\$	\$	\$	\$	\$
Revenues	36,586,764	11,622,401	6,957,547	-	55,166,712
Inter-segment revenues	-	-	3,258,802	(3,258,802)	-
Total revenues	36,586,764	11,622,401	10,216,349	(3,258,802)	55,166,712
Operating expenses	34,112,787	10,074,701	7,609,484	(3,226,589)	48,570,383
Depreciation, amortization & accretion expense	928,754	-	869,623	-	1,798,377
Interest expense	-	-	8,116	-	8,116
Other expense	6,232,935	-	19,490	-	6,252,425
Subtotal	(4,687,712)	1,547,700	1,709,636	(32,213)	(1,462,589)
Less: General and administrative					3,299,046
Loss before income taxes					(4,761,635)

As at September 30, 2008

Total assets	59,187,788	5,013,439	9,267,218	(1,964,582)	71,503,863
Capital expenditures	3,007,806	529,169	523,855	-	4,060,830

December 31, 2007

Total assets	57,215,981	4,744,887	8,901,277	(5,936,604)	64,925,541
Capital expenditures	6,691,673	1,405,267	1,870,644	-	9,967,584

12. Subsequent Event

Loss on Write-Down of Plant Equipment

Subsequent to September 30, 2008, the Company determined that the direct-fired heaters constructed for the Sundre fractionation plant could not be re-designed to achieve the intended operational efficiency and required safety of operations. As a result, for the three and nine months ended September 30, 2008, the Company has recorded a \$2,128,673 write down of all costs associated with manufacture and installation of the direct-fired heaters previously recorded on the balance sheet under property, plant and equipment. The Company will be pursuing recourse against the companies that supplied the direct-fired heaters for all of the project's construction costs and other financial losses attributable to the unavailability of the Sundre fractionation plant during this project.

During the third quarter of 2008, the Company re-installed the original salt-bath heaters at its Sundre fractionation facility, returning it to its original operating state.

13. Comparative figures

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

Health, Safety and Environment

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

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

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

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

Corporate Governance

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

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

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

Composition of the Board of Directors and Committees

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

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

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

The Audit Committee reviews and recommends to the Board, for its approval: (a) the Company's interim unaudited financial statements and Management's Discussion and Analysis related thereto; (b) the Company's audited annual financial statements and Management's Discussion and Analysis related thereto;

(c) prospectuses and other offering memoranda, if applicable; and (d) the annual and interim earnings press releases and other public disclosure documents containing audited or unaudited financial information required by regulatory authorities.

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

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

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

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

Code of Ethics and Business Conduct

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

Enchem is committed to maintaining its business in compliance with applicable laws, statutes and regulations. Additional information about our commitment to corporate governance practices are detailed in our 2008 Information Circular which can be found at www.sedar.com.

Directory

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Board of Directors

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

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

William D. Burch, FCA
Director (1)

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

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

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

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

Officers

Kenneth Bagan, LLB
President and Chief Executive Officer

Timothy A. Lemke, B.Comm., CA
Chief Financial Officer

James C. Burroughs, BBA
Chief Operating Officer

J. Barrie Brookman
Vice President, Corporate Development

Member of:

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

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HSBC Bank Canada
Edmonton, Alberta

Auditors

PricewaterhouseCoopers LLP
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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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