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to Quality.



Financial Highlights

<u>Three months ended</u>	<u>September 30, 2002</u>	<u>August 31, 2001</u>
	\$	\$
Revenues	7,824,822	13,905,939
Net (loss) earnings for the period	(221,590)	1,201,435
Basic (loss) earnings per share	(0.02)	0.11
EBITDA **	62,703	2,211,651
EBITDA ** per share	0.00	0.21
<u>Nine months ended</u>	<u>September 30, 2002</u>	<u>August 31, 2001</u>
	\$	\$
Revenues	28,350,666	27,692,092
Net earnings for the period	1,419,824	2,012,870
Basic earnings per share	0.12	0.20
EBITDA **	3,310,769	4,008,829
EBITDA ** per share	0.28	0.40

**EBITDA represents earnings before interest, taxes, depreciation and amortization

Enerchem International Inc. is an oilfield services company providing specialty chemical and hydrocarbon based fluid solutions to oil and gas production problems.

President's Message

The third quarter of 2002 was certainly more challenging than we, and the oilfield services sector in general, had anticipated. Our financial performance for the current quarter continued to reflect the impact of a significant reduction in oil and gas exploration and development programs in western Canada.

Revenues for the three months ended September 30, 2002 declined by 44% to \$7,825,000 from \$13,906,000 for the comparative quarter ended August 31, 2001. This decline combined with a one-time write down of \$345,000 in respect of hydrocarbon feedstock inventories contributed to Enerchem reporting a net loss of \$222,000 for the quarter.

Another unforeseen event that impacted our operations during the quarter was the less than optimal performance of the Slave Lake fractionation plant. While the plant is presently producing our line of hydrocarbon products at their designed specifications the plant's performance is well below our expected product

optimization level. While this issue has caused a reduction in our anticipated margins from what we originally expected, it has not caused any significant concerns about the capabilities of the plant. To remedy this issue a number of process modifications have been initiated and have been scheduled for completion in December of 2002.

Looking forward, we are encouraged by recent forecasts for our industry suggesting strong growth in demand for oilfield services. We, however, anticipate that this resurgence of activity will not occur until the first quarter of 2003.

L.B. Phillips
President and Chief Executive Officer

Management's Discussion and Analysis

Management's discussion and analysis ("MD&A") of the consolidated financial condition and interim results of operations for the period ended September 30, 2002 should be read in conjunction with the audited financial statements and MD&A for the four month period ended December 31, 2001. Statements throughout this interim 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.

Revenues

Revenues for the three months ended September 30, 2002 decreased by 44%, or \$6,081,000, to \$7,825,000 compared with revenues of \$13,906,000 for the three months ended August 31, 2001. Enerchem's results for the third quarter continued to reflect the impact of a significant reduction in oil and gas exploration and development programs in western Canada. On a year to date basis, revenues increased moderately to \$28,351,000 from \$27,692,000 for the comparative nine months last year. Revenues for the comparative period ended August 31, 2001 include the acquisition of Trysol Canada Ltd. effective April 1, 2001.

Gross Profit

Gross profit as a percentage of revenues was 44% for the quarter ended September 30, 2002 compared with 39% for the comparative quarter ended August 31, 2001. The increase in gross profit as a percentage of revenues resulted from a shift in product mix during the current quarter as revenues were more heavily weighted to sales of higher margin specialty chemicals and solvents. For the nine months ended September 30, 2002 gross profit as a percentage of revenues was 43% compared with 41% for the comparative period last year.

Expenses

Salaries and employee benefits decreased moderately to \$1,453,000, or 19% of revenues, for the three months ended September 30, 2002 compared with \$1,534,000, or 11% of revenues, for the three months ended August 31, 2001. The decline in sales volumes experienced during the current quarter when compared to last year influenced the decrease in salary costs and the increase in salaries expense as a percentage of revenues. For the nine months ended September 30, 2002, salaries and employee benefits were \$4,310,000, or 15% of revenues, compared with \$3,718,000, or 13% of revenues for

the comparative period last year. The higher total cost structure for the first nine months of 2002 when compared to the comparative nine months last year is acquisition related.

Selling, general and administration expenses were \$1,585,000 or 20% of revenues for the three months ended September 30, 2002 compared with \$1,707,480 or 12% of revenues for the three months ended August 31, 2001. For the nine month period ended September 30, 2002, selling, general and administrative expenses were \$4,514,000 or 16% of revenues compared to \$3,744,000 or 14% of revenues for the same period last year. The higher total cost structure for the current nine month period is acquisition related.

The increase in depreciation expense for the current quarter and on a year to date basis when compared with last year's comparative figures is primarily acquisition related.

Other Income (Expense)

Other expense included a one-time write down of \$345,000 in respect of feedstock inventories used by the fractionation plant in Sundre, Alberta. Management has since changed its procurement policy to prevent such future occurrences.

Net Earnings and Earnings Per Share

Enerchem reported a net loss of \$222,000 for the three months ended September 30, 2002, or \$(0.02) per share compared with \$1,201,000 or \$0.11 per share for the three months ended August 31, 2001. Net earnings for the first nine months of 2002 were \$1,420,000 or \$0.12 per share, compared with net earnings of \$2,013,000 or \$0.20 per share for the nine months ended August 31, 2001. The overall decrease in earnings for the first nine months of 2002 when compared to last year was attributable to the significant reduction in oilfield activity in western Canada.

Slave Lake Fractionation Plant

The company's new fractionation plant in Slave Lake, Alberta produced its first batch of hydrocarbon products in July 2002. While the plant is producing our line of hydrocarbon based products at their designed specifications, the plant's performance is well below management's anticipated product optimization level. As a result the final commissioning of the plant is still being carried out by the company and project manager. The company has since undertaken a number of process modifications designed to augment the plant's performance

Management's Discussion and Analysis (continued)

Slave Lake Fractionation Plant (continued)

capabilities. The modifications are scheduled for completion during the fourth quarter of 2002 at a cost of \$250,000. The company has adopted the recommendations of EIC 27 of The Institute of Chartered Accountants "Revenues and Expenditures During the Pre-Operating Period". As a result of adopting these recommendations, \$454,000 of expenditures incurred during the pre-operating period have been deferred. The amortization of these deferred expenditures will commence once the expected product optimization levels have been achieved on a consistent basis (refer to note 2c). Construction costs incurred to September 30, 2002 totaled \$14,235,000 which represented an 18% increase over the original forecast of \$12,104,000. The costs incurred over the original forecast were primarily due to changes in the design and scope of the project and additional development costs incurred during the pre-operating period.

Liquidity and Capital Resources

The company's earnings before interest, taxes, depreciation and amortization ("EBITDA") for the three months ended September 30, 2002 were \$63,000 compared with \$2,212,000 for the three months ended August 31, 2001. For the nine months ended September 30, 2002 EBITDA decreased to \$3,311,000 from \$4,009,000 for the comparative period last year. During the three months ended September 30, 2002, total investing

activities used \$2,140,000 of cash compared with \$915,000 for the three months ended August 31, 2001. Net cash used in investing activities for the nine months ended September 30, 2002 totaled \$9,365,000 compared with \$8,336,000 for the nine months ended August 31, 2001. Net cash used for investing activities during the current year were primarily directed to the Slave Lake fractionation plant. Net cash used in financing activities for the third quarter ended September 30, 2002 totaled \$9,081,000 compared with net cash inflows from financing activities of \$52,000 for the three months ended August 31, 2001. During the current quarter the company repaid its Slave Lake credit facility and operating line of credit. For the nine months ended September 30, 2002 net cash inflows from financing activities totaled \$12,400,000 compared with \$4,670,000 for the nine month period ended August 31, 2001. On June 24, 2002 the company issued 3,000,000 common shares by private placement. The net proceeds were used for general corporate purposes including the repayment of bank debt, financing capital expenditure programs and working capital requirements.

At September 30, 2002, the company had cash on hand of \$335,000 and working capital of \$4,454,000 (see note 2b - Long term debt) compared with bank indebtedness of \$1,402,000 and working capital of \$2,660,000 at December 31, 2001.

Consolidated Balance Sheet (unaudited)

As at	September 30, 2002	December 31, 2001
Assets	\$	\$
Current assets		
Cash	335,410	-
Accounts receivable	8,779,159	8,916,164
Inventories	5,086,554	3,633,197
Prepaid expenses and deposits	346,986	499,608
	14,548,109	13,048,969
Property, plant and equipment	24,033,990	15,861,816
Goodwill (note 3)	6,049,530	6,049,530
Other assets	1,358,655	901,573
Future income taxes	276,000	-
	46,266,284	35,861,888
Liabilities		
Current liabilities		
Bank indebtedness (note 2b)	3,835,167	1,402,160
Accounts payable and accrued liabilities	5,353,422	6,396,501
Income taxes payable	815,424	1,693,276
Current portion of obligations under capital leases	90,000	-
Current portion of long-term debt (note 2b)	-	896,605
	10,094,013	10,388,542
Obligations under capital leases	872,101	-
Long-term debt (note 2b)	-	6,471,758
Future income taxes	-	92,000
	10,966,114	16,952,300
Contingent liabilities (note 4)		
Shareholders' equity		
Share capital (note 5)	25,926,586	10,955,828
Retained earnings	9,373,584	7,953,760
	35,300,170	18,909,588
	46,266,284	35,861,888

Consolidated Statement of Earnings and Retained Earnings (unaudited)

	For the three months ended		For the nine months ended	
	September 30, 2002	August 31, 2001	September 30, 2002	August 31, 2001
	\$	\$	\$	\$
Revenues	7,824,822	13,905,939	28,350,666	27,692,092
Cost of sales	4,406,429	8,499,518	16,033,157	16,259,915
Gross profit	3,418,393	5,406,421	12,317,509	11,432,177
Expenses				
Salaries and employee benefits	1,452,692	1,534,338	4,309,769	3,717,635
Selling, general and administration	1,584,535	1,707,480	4,513,708	3,744,198
Depreciation and amortization	345,008	219,516	759,506	546,559
Interest on long-term debt	39,670	93,304	151,885	143,572
Other interest	30,720	11,034	61,159	46,418
	3,452,625	3,565,672	9,796,027	8,198,382
Earnings (loss) before other income (expense)	(34,232)	1,840,749	2,521,482	3,233,795
Other income (expense)				
Other (expense) income	(329,172)	39,351	(207,456)	32,791
Gain on disposal of property, plant and equipment	10,709	7,697	24,193	5,694
	(318,463)	47,048	(183,263)	38,485
Earnings (loss) before income taxes	(352,695)	1,887,797	2,338,219	3,272,280
Provision for (recovery of) income taxes	(131,105)	686,362	918,395	1,259,410
Net earnings (loss) for the period	(221,590)	1,201,435	1,419,824	2,012,870
Retained earnings, beginning of period	9,595,174	6,297,582	7,953,760	5,486,147
Retained earnings, end of period	9,373,584	7,499,017	9,373,584	7,499,017
Earnings (loss) per share				
Basic	(0.02)	0.11	0.12	0.20
Diluted	(0.02)	0.11	0.11	0.19
Weighted average shares outstanding				
Basic	13,989,043	10,620,487	12,005,392	10,043,492
Diluted	13,989,043	11,079,620	12,935,706	10,387,355

Consolidated Statement of Cash Flows (unaudited)

	For the three months ended		For the nine months ended	
	September 30, 2002	August 31, 2001	September 30, 2002	August 31, 2001
	\$	\$	\$	\$
Operating activities				
Net earnings (loss) for the period	(221,590)	1,201,435	1,419,824	2,012,870
Items not affecting cash -				
Depreciation and amortization	345,008	219,516	759,506	546,559
Gain on disposal of property, plant and equipment	(10,709)	(7,697)	(24,193)	(5,694)
Future income taxes	-	(30,366)	(368,000)	(30,366)
Write down of investment and deferred costs - foreign operations	-	167,073	-	167,073
	112,709	1,549,961	1,787,137	2,690,442
Changes in non-cash components of working capital				
Net change in current assets	(860,155)	(1,058,674)	(1,163,730)	1,751,012
Net change in current liabilities	1,137,826	(1,569,241)	(1,920,931)	(5,383,941)
Net cash (used in) provided by operating activities	390,380	(1,077,954)	(1,297,524)	(942,487)
Investing activities				
Purchase of property, plant and equipment	(1,764,380)	(322,525)	(9,106,169)	(1,038,276)
Proceeds on disposal of property, plant and equipment	84,133	89,581	198,682	176,766
Acquisition of subsidiary operations	-	(286,013)	-	(6,843,261)
Increase in other assets	(459,877)	(396,467)	(457,083)	(631,263)
	(2,140,124)	(915,424)	(9,364,570)	(8,336,034)
Financing activities				
Issue of common shares	75,845	147,802	14,970,758	325,371
Net decrease in bank indebtedness (note 2b)	(9,145,469)	-	(3,508,133)	-
Net increase (decrease) in obligations under capital leases	(11,317)	(19,292)	962,101	(19,292)
Increase in long-term debt	-	-	-	4,500,000
Repayment of long-term debt	-	(76,171)	(25,062)	(136,040)
	(9,080,941)	52,339	12,399,664	4,670,039
Increase (decrease) in cash	(10,830,685)	(1,941,039)	1,737,570	(4,608,482)
Cash (bank indebtedness) - beginning of period	11,166,095	419,620	(1,402,160)	3,087,063
Cash (bank indebtedness) - end of period	335,410	(1,521,419)	335,410	(1,521,419)

Notes to Interim Consolidated Financial Statements

For the nine months ended September 30, 2002

1. Basis of presentation

The accompanying unaudited interim consolidated financial statements of Enerchem International Inc. have been prepared by management in accordance with accounting principles generally accepted in Canada. These unaudited interim consolidated financial statements include the accounts of the parent company and its wholly owned subsidiary Enerchem International Corporation. All significant inter-company balances and inter-company transactions have been eliminated. The unaudited interim financial statements follow the same accounting policies and methods as the audited consolidated financial statements for the four month period ended December 31, 2001, except as described in note 2. The unaudited interim consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto included in Enerchem's Annual Report for the four month period ended December 31, 2001 and year ended August 31, 2001.

Certain comparative period amounts of the prior year have been reclassified in the accompanying unaudited interim consolidated financial statements for consistent presentation to current period amounts.

2. Change in accounting policies
a) Stock based compensation

Effective January 1, 2002, the company adopted the new recommendations of Section 3870 of The Canadian Institute of Chartered Accountants "Stock Based Compensation and Other Stock Based Payments." This standard establishes financial and reporting standards for stock based employee compensation plans. The recommendations encourage, but do not require, the use of the fair value method of accounting for all employee based stock compensation plans. Under this method, compensation cost must be measured at the grant date based on the fair value of the award and must be recognized over the related service period. The company has two stock based compensation plans.

Notes to Interim Consolidated Financial Statements (continued)

For the nine months ended September 30, 2002

2. Change in accounting policies (continued)

a) Stock based compensation (continued)

The company has reserved 2,700,000 common shares for issuance pursuant to an approved stock option plan ("Option Plan") granted to directors, management and employees of the company or affiliated companies. Options granted under the Option Plan are generally exercisable after one to three years and expire 5 years after the grant date. Option exercise prices represent the closing market price for the common shares on the last business day prior to the date of the option granted. The company has elected to not adopt the fair value method of accounting for compensation awards issued under its Option Plan and will therefore be required to include in its financial statements pro forma disclosures of net earnings and earnings per share as if the fair value method of accounting had been applied to stock based compensation awards granted after January 1, 2002. In accordance with these recommendations, pro forma disclosure is not required for awards granted prior to January 1, 2002.

Continuity of stock options	Number of options	Average exercise price
	#	\$
Outstanding at January 1, 2002	1,639,500	2.49
Granted	235,000	5.15
Exercised	174,500	1.73
Expired/cancelled	15,000	3.04
Outstanding at September 30, 2002	1,685,000	2.93
Options exercisable at end of period	1,338,000	2.54

Options not exercisable at period end

Exercise price (\$)	Number outstanding at September 30, 2002	Weighted average remaining contractual life (years)	Weighted average exercise price (\$)
5.15	235,000	4.6	5.15
3.04	112,000	2.8	3.04
3.04 to 5.15	347,000	4.0	4.47

Had the company determined compensation costs on this Option Plan based on the fair value at the grant dates for those share options consistent with the fair value method of accounting for stock based compensation, the company's net earnings (loss) and earnings (loss) per share would have been reduced to the pro forma amounts indicated below:

Net earnings (loss)	For the three months ended September 30, 2002	For the nine months ended September 30, 2002
	\$	\$
Net earnings (loss) as reported	(221,590)	1,419,824
Less stock based compensation costs	52,484	87,473
Pro forma earnings (loss) for the period	(274,074)	1,332,351
Pro forma earnings (loss) per share		
Basic	(0.02)	0.11
Diluted	(0.02)	0.10

The fair values of the options included in the pro forma amounts presented above have been estimated using the Black-Scholes option pricing model. The assumptions used in the pricing model are as follows:

Weighted average fair value per option	\$2.68
Risk free interest rate	4.50%
Expected life of options	5 years
Expected volatility	55%

The company has reserved 970,000 common shares for sale to employees of the company under the Employee Share Purchase Plan ("Plan"). Employees electing to participate in the Plan may contribute a minimum of two percent to a maximum of five percent of monthly salaries. The employees' contributions are matched equally by the company. The share purchase price is equal to the weighted average of the trading prices of the common shares of the company on the Toronto Stock Exchange for the five days on which the shares traded on or before the last day of the month for which contributions were remitted. Common shares acquired under the Plan vest with the employee upon purchase and are distributed to the employees, at least, on an annual basis. The company's contributions to the plan are recorded as compensation costs in the month incurred and totaled \$133,131 for the nine months ended September 30, 2002. During the nine months ended September 30, 2002, 52,629 shares were issued under the Plan totaling \$266,262.

b) Long-term debt

Effective January 1, 2002, the company adopted the new recommendations of EIC 122 of The Canadian Institute of Chartered Accountants "Balance Sheet Classification of Callable Debt Obligations and Debt Obligations Expected to be Refinanced". As a result of adopting these recommendations, loan agreements that specify the company's repayment terms but enable the creditor, at its discretion, to demand payment at any time are now presented as a current liability under the caption bank indebtedness. Prior to the adoption of the new recommendations the company presented the demand loans as long-term on the basis of the repayment terms specified by the Bank.

c) Slave Lake plant pre-operating costs

The company has adopted the recommendations of EIC 27 of The Canadian Institute of Chartered Accountants "Revenues and Expenditures

Notes to Interim Consolidated Financial Statements (continued)

For the nine months ended September 30, 2002

2. Change in accounting policies (continued)

c) Slave Lake plant pre-operating costs (continued)

During the Pre-Operating Period." As a result of adopting these recommendations, pre-operating costs incurred during the start up of the Slave Lake fractionation plant are deferred when the expenditure is related directly to placing the plant into commercial service, the cost is incremental in nature and the expenditure is recoverable from future operations of the plant. Costs will be deferred until the facility is ready to commence production, which is generally the time at which the plant is capable of consistently providing its intended service. Revenues realized during the pre-operating period are recorded as a reduction of the deferred expenditures. Pre-operating costs are amortized over a period of five years commencing at the end of the pre-operating period.

3. Goodwill

The pro forma effect of the discontinuance of goodwill amortization on net earnings and earnings per share for the periods presented is as follows:

Net earnings (loss)	For the three months ended		For the nine months ended	
	September 30, 2002	August 31, 2001	September 30, 2002	August 31, 2001
	\$	\$	\$	\$
Net earnings (loss) for the period	(221,590)	1,201,435	1,419,824	2,012,870
Amortization of goodwill	-	40,097	-	73,746
Adjusted net earnings (loss) for the period	(221,590)	1,241,532	1,419,824	2,086,616
Earnings (loss) per share				
Basic	(0.02)	0.11	0.12	0.20
Diluted	(0.02)	0.11	0.11	0.20

4. Contingent liabilities

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, 2002, 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.

5. Share capital

On June 24, 2002, the company completed a private placement of 3,000,000 common shares for net proceeds of \$14,034,079.

6. Segmented information

The company operates in one industry which encompasses blending, manufacturing and distributing a wide variety of specialty products to the oil and gas industry. Inter-segment revenues are accounted for at prices comparable to open market prices for similar products and services. Summarized financial information concerning the industry segment and geographic areas in which the company operated at September 30, 2002 and August 31, 2001 are as follows:

As at September 30, 2002 (unaudited)

	Oilfield Chemicals		Total Oilfield Chemicals	(Eliminations) Adjustments	Total Operations
	Canada	United States			
	\$	\$	\$	\$	\$
Revenues	27,479,813	870,853	28,350,666	-	28,350,666
Inter-segment revenues	-	1,019,296	1,019,296	(1,019,296)	-
	27,479,813	1,890,149	29,369,962	(1,019,296)	28,350,666
Depreciation	710,759	48,747	759,506	-	759,506
Interest on long-term debt and capital leases	151,885	-	151,885	-	151,885
Earnings from operations	2,243,303	237,996	2,481,299	40,183	2,521,482
Other income (expense)	(180,069)	(1,050)	(181,119)	(2,144)	(183,263)
Income taxes	835,600	82,795	918,395	-	918,395
Net earnings for the period	1,227,634	154,151	1,381,785	38,039	1,419,824
Property, plant and equipment	23,499,800	534,190	24,033,990	-	24,033,990
Goodwill	6,049,530	-	6,049,530	-	6,049,530
Identifiable assets	45,911,188	1,687,118	47,598,306	(1,332,022)	46,266,284

As at August 31, 2001 (unaudited)

	Oilfield Chemicals		Total Oilfield Chemicals	(Eliminations) Adjustments	Total Operations
	Canada	United States			
	\$	\$	\$	\$	\$
Revenues	26,763,497	928,595	27,692,092	-	27,692,092
Inter-segment revenues	-	1,102,187	1,102,187	(1,102,187)	-
	26,763,497	2,030,782	28,794,279	(1,102,187)	27,692,092
Depreciation and amortization	429,711	59,502	489,213	57,346	546,559
Interest on long-term debt	143,691	(119)	143,572	-	143,572
Earnings (loss) from operations	3,350,212	(61,054)	3,289,158	(55,363)	3,233,795
Other income (expense)	(60,547)	97,340	36,793	1,692	38,485
Income taxes	1,234,144	25,266	1,259,410	-	1,259,410
Net earnings for the period	2,055,521	11,020	2,066,541	(53,671)	2,012,870
Property, plant and equipment	7,253,978	594,148	7,848,126	-	7,848,126
Goodwill	5,948,389	-	5,948,389	-	5,948,389
Identifiable assets	33,103,777	1,426,756	34,530,533	(3,416,445)	31,114,088

Our mission is to enhance shareholder value through the marketing of specialty chemicals and hydrocarbon based well servicing fluids to the oil and gas industry in a safe and environmentally conscious manner.

Corporate Information

Head Office

Enerchem International Inc.
1406 - 8 Street
Nisku, Alberta T9E 7M1
Tel: (780) 955-3388
Fax: (780) 955-2064
website: www.enerchem.com



Oilfield Chemical Operations

Specialty Chemicals Group
1406 - 8 Street
Nisku, Alberta T9E 7M1
Tel: (780) 955-3388
Fax: (780) 955-2064
e-mail: chemicals@enerchem.com



Enerchem International Corporation
5500 East Highway 80
Midland, Texas 79710
Tel: (915) 570-6799
Fax: (915) 570-7826
e-mail: jbell@enerchem.com



Hydrocarbon Fluids Group
Suite 450, 630 - 6 Avenue S.W.
Calgary, Alberta T2P 0S8
Tel: (403) 269-1500
Fax: (403) 269-1559
e-mail: fluids@enerchem.com



Directors and Officers

Larry B. Phillips	President and Chief Executive Officer, Director
Brian M. Zubach, CMA	Chief Financial Officer
J. Barrie Brookman	Vice President, Operations
Kenneth A. Klein	Director
Hugh L. Planche	Director
David F. Potter	Director
Fred Pheasey	Director

Registrar and Transfer Agent

CIBC Mellon Trust Company
Toronto, Ontario

Principal Bank

HSBC Bank Canada
Edmonton, Alberta

Legal Counsel

Chamberlain Hutchison
Edmonton, Alberta

Auditors

PricewaterhouseCoopers LLP
Edmonton, Alberta

Stock Exchange Listing

Toronto Stock Exchange	United States - Over the Counter: 12g-3-2(b)
Trading symbol "ECH"	

Investor Information

Larry B. Phillips
President and Chief Executive Officer
Tel: (780) 955-2335
Fax: (780) 955-2336
e-mail: lbphillips@enerchem.com

For copies of our annual and quarterly reports or other investor material, please contact:
Enerchem International Inc.
1406 - 8 Street,
Nisku, Alberta T9E 7M1
Tel: (780) 955-3388
Fax: (780) 955-2064
e-mail: investors@enerchem.com
or visit our website: www.enerchem.com