



Enerchem International Inc. is a manufacturer of specialty chemicals and hydrocarbon based fluids designed to provide technologically advanced solutions to oil and gas processing and production problems.

Our mission is to develop and market specialty chemicals and hydrocarbon based fluids to the oil and gas industry in a safe and environmentally conscious manner while enhancing value to our shareholders, customers and employees.

Financial Highlights

Three months ended March 31	2003	2002
	\$	\$
Results of operations		
Revenues	15,065,272	13,194,391
Net earnings for the period	77,405	1,411,970
Net earnings per share		
Basic	0.01	0.13
Diluted	0.01	0.12
EBITDA**	728,307	2,677,004
EBITDA per share	0.05	0.25

** Earnings before interest, taxes, depreciation and amortization

Chemical and
Fluid Solutions

1st
Quarter
Interim
Report
2003

President's Message

While we experienced record sales activity levels for our specialty chemical products and hydrocarbon based fracturing fluids for the three months ended March 31, 2003, our consolidated gross profit margin and net earnings were significantly eroded by the affects of higher hydrocarbon feedstock costs as light sweet crude oil prices increased by as much as 40% during the period. The impact of escalating oil prices most notably compressed margins achieved on sales of our fracturing fluids which represented 47% of consolidated revenues for the quarter. While we have historically been able to lessen the impact of rising raw material costs through price increases, an accumulation of higher than usual competing product inventories on an industry wide basis prevented this option. In this regard, Enerchem has established aggressive goals in 2003 that are targeted to minimize our exposure to escalating

hydrocarbon feedstock costs.

The recent announcement of our joint venture association with Newalta Income Fund represents a tremendous opportunity for both joint venture partners to explore and implement opportunities that will provide strong financial benefits to both organizations.

Given the anticipated activity levels and forecasts for the oil and gas industry in western Canada for the balance of 2003 and into 2004, and in view of the opportunities being pursued by the company, we remain optimistic that Enerchem will provide substantial value to our shareholders.



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 March 31, 2003 should be read in conjunction with the audited financial statements, President's Message and MD&A for the year ended December 31, 2002. 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 March 31, 2003 increased by 14% to \$15,065,000 compared with revenues of \$13,194,000 for the comparative quarter last year. High commodity prices and low commodity inventory levels in North America contributed to significantly improve oil-patch activity in western Canada which for Enerchem resulted in record sales of specialty chemicals and hydrocarbon based fluids.

Gross Profit

Gross profit as a percentage of revenues was 29% for the quarter ended March 31, 2003 compared with 42% for the comparative quarter in 2002. While margins associated with sales of the company's specialty chemical products were maintained on a comparative quarter basis the spike-up in oil prices, precipitating a substantial increase in feedstock costs, combined with an extremely competitive frac market contributed to significantly compress margins

associated with the company's hydrocarbon based products. On a comparative quarter basis the average monthly posted price for light sweet crude increased by 52%.

Expenses

Salaries and employee benefits were \$1,841,000, or 12% of revenues, for the three months ended March 31, 2003 compared with \$1,524,000, or 12% of revenues, for the comparative quarter in 2002. On a comparative quarter basis, the increased salary costs reflect the addition of sales, technical support and plant operations staff.

Selling, general and administration expenses were \$1,776,000 or 12% of revenues for the first quarter of 2003 compared with \$1,437,000 or 11% of revenues for the first quarter of 2002. The higher total cost structure on a comparative quarter basis was most notably affected by increased insurance premiums and operating costs associated with the Slave Lake plant. Prior to the commencement of fiscal 2003, pre-operating costs incurred during the start up of the company's fractionation plant in Slave Lake were capitalized.

Depreciation and amortization charges were \$525,000 for the current quarter compared to \$186,000 for the same period last year. The comparative quarter increase was attributable to the commencement of depreciation computations relevant to the Slave Lake fractionation plant and the associated amortization of pre-operating costs.

Management's Discussion and Analysis (continued)**Net Earnings and Earnings Per Share**

Net earnings for the three months ended March 31, 2003 were \$77,000, or \$0.01 per common share diluted, compared to net earnings of \$1,412,000, or \$0.12 per common share diluted, for the comparative period last year. Results for the first quarter of 2003 were negatively impacted by higher hydrocarbon feedstock costs.

Liquidity and Capital Resources

The company's earnings before interest, taxes, depreciation and amortization ("EBITDA") for the three months ended March 31, 2003 decreased to \$728,000 from \$2,677,000 for the three months March 31, 2002. During the first quarter of 2003 total investing activities used net cash resources of \$740,000 compared with \$2,933,000 for the comparative quarter in 2002. Net cash used for investing activities during the current quarter

were primarily directed to the Slave Lake fractionation plant. Net cash inflows from financing activities for first quarter ended March 31, 2003 totaled \$2,673,000 compared with net cash inflows of \$2,989,000 for the comparative quarter last year. During the current quarter the company used, in part, its available credit facilities to fund its operating requirements.

At March 31, 2003, the company had cash on hand of \$44,000 and working capital of \$5,459,000 compared with cash on hand of \$255,000 and working capital of \$5,223,000 at December 31, 2002.

Business risks and uncertainties

Please refer to the MD&A for the year ended December 31, 2002 which includes an overview of the business risks and uncertainties affecting the company.

Consolidated Balance Sheet

As at	March 31, 2003 (unaudited) \$	December 31, 2002 (audited) \$
Assets		
Current assets		
Cash	43,875	255,052
Accounts receivable	13,968,999	10,183,945
Income taxes recoverable	1,176,406	1,103,737
Inventories	5,577,110	5,118,349
Prepaid expenses and deposits	370,138	382,130
	21,136,528	17,043,213
Property, plant and equipment	25,392,142	25,259,376
Goodwill	6,049,530	6,049,530
Other assets	1,429,901	1,333,134
	54,008,101	49,685,253
Liabilities		
Current liabilities		
Bank indebtedness	8,368,802	6,084,421
Accounts payable and accrued liabilities	7,218,375	5,645,899
Current portion of obligations under capital leases	90,000	90,000
	15,677,177	11,820,320
Obligations under capital leases	849,070	860,652
Future income taxes	1,135,500	1,135,500
	17,661,747	13,816,472
Contingent liabilities (note 5)		
Shareholders' equity		
Share capital	26,420,026	26,019,858
Retained earnings	9,926,328	9,848,923
	36,346,354	35,868,781
	54,008,101	49,685,253

Consolidated Statement of Earnings and Retained Earnings (unaudited)

For the three months ended March 31	2003	2002
	\$	\$
Revenues	15,065,272	13,194,391
Cost of sales	10,741,965	7,654,577
Gross profit	4,323,307	5,539,814
Expenses		
Salaries and employee benefits	1,840,891	1,523,526
Selling, general and administration	1,776,441	1,436,959
Depreciation and amortization	525,046	186,220
Interest expense	98,446	109,230
	4,240,824	3,255,935
Earnings before other income (expense)	82,483	2,283,879
Other income (expense)		
Other	7,560	97,701
Gain (loss) on disposal of property, plant and equipment	14,772	(26)
	22,332	97,675
Earnings before income taxes	104,815	2,381,554
Provision for income taxes	27,410	969,584
Net earnings for the period	77,405	1,411,970
Retained earnings, beginning of period	9,848,923	7,953,760
Retained earnings, end of period	9,926,328	9,365,730
Net earnings per share		
Basic	0.01	0.13
Diluted	0.01	0.12
Weighted average shares outstanding (note 3)		
Basic	14,164,873	10,805,110
Diluted	14,560,981	11,461,849

Consolidated Statement of Cash Flows (unaudited)

For the three months ended March 31	2003	2002
	\$	\$
Operating activities		
Net earnings for the period	77,405	1,411,970
Items not affecting cash -		
Depreciation and amortization	525,046	186,220
(Gain) loss on disposal of property, plant and equipment	(14,772)	26
	<u>587,679</u>	<u>1,598,216</u>
Changes in non-cash components of working capital		
Net change in trade and other accounts receivable	(3,785,054)	(2,699,050)
Net change in inventories and prepaid expenses	(446,769)	775,753
Net change in accounts payable and accrued liabilities	1,572,476	1,118,714
Net change in income taxes payable	(72,669)	(837,076)
	<u>(2,732,016)</u>	<u>(1,641,659)</u>
Net cash used in operating activities	<u>(2,144,337)</u>	<u>(43,443)</u>
Investing activities		
Purchase of property, plant and equipment	(699,786)	(2,974,784)
Proceeds on disposal of property, plant and equipment	78,463	42,089
Increase in other assets	(118,484)	-
	<u>(739,807)</u>	<u>(2,932,695)</u>
Financing activities		
Issue of common shares	400,168	204,652
Increase in bank indebtedness	2,284,381	2,785,841
Repayment of obligations under capital leases	(11,582)	-
Net decrease in long-term debt	-	(1,930)
	<u>2,672,967</u>	<u>2,988,563</u>
(Decrease) increase in cash	(211,177)	12,425
Cash - beginning of period	255,052	-
Cash - end of period	43,875	12,425

Notes to Interim Consolidated Financial Statements

For the three months ended March 31, 2003

1. Basis of presentation

The accompanying unaudited interim consolidated financial statements of Enerchem International Inc. have been prepared by management in accordance with Canadian generally accepted accounting principles. These interim financial statements were prepared following the same accounting policies and methods of computation as the annual audited consolidated financial statements for the year ended December 31, 2002. These interim financial statements should be read in conjunction with the annual audited consolidated financial statements and notes thereto for the year ended December 31, 2002.

2. 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 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.

3. Per share amounts

The following table provides a reconciliation of the denominators used for the computation of basic and diluted earnings per share.

	2003	March 31 2002
Weighted average share calculation		
- Basic		
Common shares - opening	14,041,873	10,787,229
Weighted average common shares issued during the period	123,000	17,881
	14,164,873	10,805,110
- Diluted		
Basic weighted average common shares - opening	14,164,873	10,805,110
Dilutive effect of stock options and equivalents	396,108	656,739
	14,560,981	11,461,849

4. Stock based compensation plans

The company has two stock based compensation plans.

- a) Under the company's Stock Option Plan, options granted to employees vest after a period ranging from one to three years from the date of grant and expire five years after the date of grant. Stock options granted to directors and officers of the company are exercisable immediately. The exercise price of each option equals the market price of the company's common shares at the date of grant. As the company has elected not to adopt the fair market value method of accounting for compensation awards issued under its Stock Option Plan, pro forma disclosure of net earnings and net earnings per share is required as if the fair value method had been applied to stock based compensation awards after January 1, 2002. The pro forma disclosure is as follows:

	2003	March 31 2002
Pro forma net earnings		
Net earnings as reported	77,405	1,411,970
Less stock based compensation, net of tax	30,911	-
Pro forma net earnings for the period	46,494	1,411,970
Pro forma earnings per share		
Basic	-	0.13
Diluted	-	0.12

Notes to Interim Consolidated Financial Statements

For the three months ended March 31, 2002

4. Stock based compensation plans (continued)

b) Under the company's Employee Share Purchase 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. Common shares acquired under the plan vest with the employee upon purchase and are distributed to the employees on an annual basis. The company's contributions to the plan are recorded as compensation costs in the month incurred and totaled \$52,783 for the three months ended March 31, 2003 (\$43,570 - three months ended March 31, 2002).

5. 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 March 31, 2003 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.

6. Subsequent event

On April 30, 2003, Enerchem International Inc. and Newalta Income Fund entered into a Joint Venture Agreement to explore a broad range of opportunities to enhance the performance of both Enerchem and Newalta.

7. Comparative figures

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

8. 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 are as follows:

Three months ended March 31, 2003 (unaudited)

	Oilfield Chemicals		Total Oilfield Chemicals	(Eliminations) Adjustments	Total Operations
	Canada	United States			
	\$	\$	\$	\$	\$
Revenues	14,714,756	350,516	15,065,272	-	15,065,272
Inter-segment revenues	-	385,330	385,330	(385,330)	-
	14,714,756	735,846	15,450,602	(385,330)	15,065,272
Depreciation and amortization	512,927	12,119	525,046	-	525,046
Interest expense	98,373	73	98,446	-	98,446
Net earnings for the period	19,119	32,507	51,626	25,779	77,405
Property, plant and equipment	24,916,427	475,715	25,392,142	-	25,392,142
Total assets	53,775,154	1,577,661	55,352,815	(1,344,714)	54,008,101

Three months ended March 31, 2002 (unaudited)

	Oilfield Chemicals		Total Oilfield Chemicals	(Eliminations) Adjustments	Total Operations
	Canada	United States			
	\$	\$	\$	\$	\$
Revenues	12,827,073	367,318	13,194,391	-	13,194,391
Inter-segment revenues	-	381,387	381,387	(381,387)	-
	12,827,073	748,705	13,575,778	(381,387)	13,194,391
Depreciation and amortization	169,666	16,554	186,220	-	186,220
Interest expense	108,456	774	109,230	-	109,230
Net earnings for the period	1,339,625	84,398	1,424,023	(12,053)	1,411,970
Property, plant and equipment	18,033,295	574,970	18,608,265	-	18,608,265
Total assets	41,604,296	1,594,058	43,198,354	(2,654,295)	40,544,059

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Stock Exchange Listing

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

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