



The chemistry of quality
people, quality products,
quality service

3rd Quarter Interim Report

2005

To Our Shareholders,

I am pleased to report Enerchem's financial and operating results for the three and nine months ended September 30, 2005. Increased revenues and earnings from our operations have contributed to another good quarter for Enerchem shareholders.

Operating Environment

Strong commodity prices continued to have a positive impact on drilling activity. Despite extremely wet weather conditions for most of the summer, approximately 7,300 wells were drilled during the three months from July 1 to September 30, 2005 compared to 6,300 in the comparable period last year.

Operating and Financial Results

During the third quarter of 2005, rising crude oil prices continued to put upward pressure on our hydrocarbon feedstock costs which has, in part, been mitigated by increased retail pricing. In addition, our efforts to improve gross margin are focused on negotiating more favourable feedstock arrangements and improving our fluid transportation efficiencies. Over the past several months, we have encountered considerable increases in third party trucking rates associated with the transportation of our fluids. To counter this, we have implemented a strategy to increase our internal trucking fleet to effectively manage our transportation requirements and reduce overall costs.

One of our largest challenges has been acquiring enough feedstock volume of the right quality for our Slave Lake plant to meet customer demand. As we anticipate continued high oilfield activity levels and increased demand for our drilling and fracturing fluids for the remainder of 2005 and into the first quarter of 2006, the completion of our pipeline offload in the fourth quarter of 2005 should mitigate feedstock supply shortages.

For the three months ended September 30, 2005 revenues increased 40% from the comparable three months of 2004 and increased by 36% from the last quarter. Similarly, net earnings increased 40% from the same period last year and 153% from the second quarter of this year.

For the nine months ended September 30, 2005 revenues increased 79% and net earnings increased by 65% compared to last year.

For the year-to-date, revenues from the Oilfield Services Group have increased by 46% and the Energy marketing revenues have increased 282% for the same period as last year.

Facilities Update

Despite construction delays in completing our Slave Lake tank farm, the completion of this facility has now provided us with total control of our plant by-products starting the 1st of September, 2005. Combined with the foregoing, the completion of our cooling and blending infrastructure at our Sundre plant should provide greater flexibility in our energy marketing activities and contribute to improved earnings for the Company.

At our Slave Lake plant, we are in the final stages of completing our new refrigeration unit which will contribute to providing another source of energy marketing revenue. The completion of this project, scheduled for the fourth quarter of 2005, will reduce the amount of flaring at the facility and allow us to capture the light gases for resale.

Outlook

Current forecasts for the oil and gas industry predict that 2006 will be a record year for drilling activity in the WCSB as strong commodity prices continue to drive the oilfield services sector. This should continue to sustain demand for our premium products by the oil and gas industry and further improve Enerchem's performance.



Douglas F. Robinson
President & CEO



Financial Highlights

(unaudited)

Results of Operations

Three months ended September 30	2005	2004
	\$	\$
Revenues	31,622,261	22,561,656
Net earnings for the period	850,722	606,669
Earnings per share		
Basic	0.06	0.04
Diluted	0.06	0.04
EBITDA (1)	1,735,628	1,517,347
EBITDA per share (2)	0.12	0.11
Nine months ended September 30	2005	2004
	\$	\$
Revenues	89,705,395	50,156,805
Net earnings for the period	2,587,903	1,564,295
Earnings per share		
Basic	0.18	0.11
Diluted	0.18	0.11
EBITDA (1)	5,358,277	4,140,572
EBITDA per share (2)	0.36	0.29

Financial Position

As at	September 30, 2005	December 31, 2004
	\$	\$
Total assets	63,929,248	61,653,226
Working capital (3)	13,348,850	11,432,960
Total long-term financial liabilities (4)	2,123,863	3,042,634
Shareholders equity	42,689,816	39,206,314

(1) EBITDA represents earnings before interest, taxes, depreciation, amortization and accretion expense.

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

(3) Calculated as current assets less current liabilities.

(4) Excludes current portion of long-term debt.

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") of the financial position and interim results of operations of Enerchem International Inc. for the period ended September 30, 2005 should be read in conjunction with the audited financial statements and notes thereto, President's Message and MD&A for the year ended December 31, 2004. This MD&A was prepared November 2, 2005.

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.

Enerchem International Inc. is an oilfield services company that provides specialty chemical and hydrocarbon fluid solutions to resolve oilfield processing and production problems and is also a provider of energy marketing services. The Company manufactures its proprietary specialty chemical products through its facilities located in Nisku, Alberta. The Company's proprietary hydrocarbon products are manufactured through its facilities located in Slave Lake and Sundre, Alberta. The Company's products are marketed and distributed through its network of sales and service representatives situated in key sales regions of the Western Canadian Sedimentary Basin ("WCSB"). The Company's international operations represent a 25% investment in an Egyptian company which operates a blend plant in the free zone area of Alexandria, Egypt. The Company's activities are divided into two distinct business segments: Oilfield Services which represents the manufacture and sale

of specialty chemicals and hydrocarbon products; and, Energy Marketing which represents the purchasing, gathering and marketing of crude oil for resale to refiners and other customers.

Seasonality of Operations

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

Overview - Three months ended September 30, 2005

Total revenues for the three months ended September 30, 2005 increased by \$9,060,000 to \$31,622,000, an increase of 40% over revenues of \$22,562,000 for the comparable period last year. The increase in revenues on a comparative quarter basis can be attributed to; strong activity levels in the WCSB as high prices for oil and gas continued to stimulate exploration, drilling and production; overall product price increases stimulated by rising commodity prices; and revenues provided by the Company's Energy Marketing segment. Net earnings for the current quarter were \$851,000, or \$0.06 per common share compared to net earnings of \$607,000, or \$0.04 per common share for the same quarter in 2004.

Oilfield Services Revenues

Oilfield Services revenues increased by 54% to \$23,978,000 or 76% of the Company's total revenues for the third quarter of 2005 compared to \$15,566,000 or 69% of total revenues for the third quarter of 2004. Revenues from fracturing and drilling fluids increased by 90% to \$15,573,000 for the third quarter of 2005 compared to \$8,196,000 for the same period last year. Revenues from fracturing fluids increased by 32% during the third quarter of 2005 to \$8,806,000 compared to \$6,681,000 for the same period last year, while drilling fluid revenues increased by 347% to \$6,767,000 from \$1,515,000 for the comparative periods. The increase in fracing and drilling fluid revenues resulted from strong activity levels in the principal regions serviced by the

Company. Overall, the increase in revenues reflected the combined effects of increased product pricing implemented throughout the quarter to mitigate, in part, the rise in commodity prices and increased product sales volumes. Revenues from specialty chemicals and solvent fluids for the third quarter of 2005 increased by 21% to \$6,835,000 from \$5,641,000 for the same period last year which resulted from a refocus on the marketing of the Company's solvent fluids. Revenues from the Company's by-products produced at the Slave Lake facility and sold to a third party crude oil marketer totaled \$1,570,000 for the third quarter of 2005 compared to \$1,729,000 for the same period last year.

Energy Marketing Revenues

Energy Marketing revenues totaled \$7,644,000 during the third quarter of 2005 and increased by \$648,000 or 9% when compared to the same period last year. During the second quarter of 2005, the third party owned facility used by the Company in conducting its energy marketing activities was affected by a change of ownership which limited the Company's energy marketing flexibility. The Company continues to pursue opportunities that will complement its energy marketing activities.

Gross Profit

During the third quarter of 2005, total gross profit as a percent of total revenues was 17% compared to 21% for the same period last year. Commodity prices during the third quarter of 2005 continued to provide a challenging business environment for the Company relative to our ability to maintain appropriate product profit margins. During the third quarter of 2005 the Company experienced a 15% increase in feedstock costs when compared to the second quarter of 2005 and a 36% increase when compared to the third quarter of 2004. While the Company effected product price increases throughout the quarter to partially mitigate margin compression, the Company's specialty fluids are sold in a highly competitive market which, as a result, can restrict our ability to reflect product price increases that parallel their underlying cost increases. Oilfield Services gross profit was \$4,967,000 for the three months ended September 30, 2005 compared to \$4,007,000 for the same period last year. Gross profit as a percent of Oilfield Services revenues for the third quarter of 2005 was 21% compared to 26% for the second quarter of 2005, and 26% for the third quarter of 2004. The decline in gross profit in the third quarter of 2005, when compared to the same period last year, resulted from a change in product mix and the effects of rising commodity prices.

Energy Marketing gross profit as a percent of the business segment's revenues was 7% for the third quarter of 2005 compared to 10% for the same period last year. This decline in gross profit was largely attributable to the reduction in crude oil gathering and blending opportunities presently available to the energy marketing business segment.

Operations

Salaries and employee benefits for the third quarter of 2005 increased by 3%, or \$54,000, to \$1,782,000 from \$1,728,000 for the same period last year. The moderate increase in salary costs on a comparative quarter basis was largely the result of the \$43,000 net increase in stock based compensation costs and increased selling activities. As a percentage of gross profit, salary costs were 32% for the third quarter of 2005 compared to 37% for the same period last year.

Selling, general and administration ("SG&A") costs for the third quarter of 2005 increased by \$383,000 to \$1,995,000 representing an increase of 24% over SG&A costs of \$1,612,000 incurred during the same period last year. The increase in SG&A expenditures during the current quarter of 2005 can be attributed to general maintenance costs associated with the Company's production plants, higher fuel costs affecting the Company's fleet of service and delivery vehicles and increased selling activities. As a percentage of gross profit, SG&A costs were 36% for the third quarter of 2005 compared to 34% for the same period last year. Effective April 1, 2005, the Company implemented a scheduled turnaround maintenance program for its fractionation plants which required the shutdown of its facilities for significant overhaul and refurbishment. Costs of major fractionation plant maintenance are amortized and charged to operations on a straight-line basis between turnaround periods. During the third quarter of 2005, \$128,000 of turnaround costs were amortized and included in SG&A costs. At September 30, 2005 unamortized turnaround costs in the amount of \$304,000 are included in prepaid expenses and deferred charges.

Depreciation and amortization expense for the third quarter of 2005 in the amount of \$362,000 was \$119,000 lower than the \$481,000 of depreciation and amortization expense for the same period last year. Effective January 1, 2005, the Company changed the basis on which it depreciates its Sundre and Slave Lake fractionation processing facilities. Prior to January 1, 2005, the Company depreciated its fractionation plants on a declining balance basis at annual rates ranging from 5% to 10%. Effective

January 1, 2005, the Company began to depreciate its fractionation facilities on a straight-line basis based on the plants' estimated useful lives which range from 29 to 37 years. The Company has also established estimated salvage values for these facilities based on accepted industry standards. A salvage value of \$750,000 has been established for the Slave Lake facility and \$250,000 has been established for the Sundre facility. The impact of this change was a reduction in depreciation expense in the third quarter of 2005 of approximately \$123,000 relative to the previous method of depreciation.

The Company incurred other expenses of \$17,000 during the third quarter of 2005 compared to other income of \$181,000 for the same period last year. This decrease was due to a one-time revenue item in 2004 combined with the effects of foreign currency translation losses from holding U.S. denominated assets and liabilities in the current quarter of 2005 compared to foreign currency translation gains for the same period last year.

The Company's income tax expense increased proportionately with the increase in profitability. The Company's effective tax rate during the third quarter of 2005 was 34%. The Company's earnings before interest, taxes, depreciation, amortization and accretion expense was \$1,736,000 for the quarter ended September 30, 2005 compared to \$1,517,000 for the same period in 2004.

Overview –

Nine months ended September 30, 2005

Total revenues for the nine months ended September 30, 2005 increased by \$39,548,000 to \$89,705,000, an increase of 79% over revenues of \$50,157,000 for the comparable period last year. The increase in revenues reflects; strong activity levels in the WCSB as high prices for oil and gas continued to stimulate exploration, drilling and production; overall product price increases stimulated by rising commodity prices; and revenues provided by the Company's Energy Marketing segment for the full nine months of 2005 compared to a three month period in 2004 as the business segment was initiated during the second half of 2004. Net earnings for the nine months ended September 30, 2005 were \$2,588,000, or \$0.18 per common share compared to net earnings of \$1,564,000, or \$0.11 per common share for the same period in 2004.

Oilfield Services Revenues

Oilfield Services revenues increased by 46% to \$62,975,000 or 70% of the Company's total

revenues for the first nine months of 2005 compared to \$43,161,000 or 86% of total revenues for the comparative period last year. Revenues from fracturing and drilling fluids increased by 57% to \$37,119,000 for the nine months ended September 30, 2005 compared to \$23,685,000 for the same period last year. Revenues from fracturing fluids increased by 6% during the first nine months of 2005 to \$22,687,000 from \$21,480,000 for the same period last year, while drilling fluid revenues increased by 555% to \$14,432,000 from \$2,205,000 for the comparative periods. The dramatic increase in drilling fluid revenues resulted from marketing initiatives undertaken during the latter half of 2004 combined with strong activity levels in the principal regions serviced by the Company. The moderate increase in fracturing revenues resulted from the seasonal drop off in fracturing fluid demand experienced during the second quarter of 2005 combined with the shortfall of sufficient quantities of crude oil that also met the quality specifications of the Company's Slave Lake fractionation facility during the first quarter of 2005 which limited the Company's ability to meet fracturing fluid demand. Revenues from specialty chemicals and solvent fluids for the first nine months of 2005 increased by 7% to \$18,953,000 from \$17,747,000 for the same period last year. Revenues from the Company's by-products produced at the Slave Lake facility and sold to a third party crude oil marketer totaled \$6,903,000.

Energy Marketing Revenues

Energy Marketing revenues totaled \$26,731,000 for the first nine months of 2005 and increased by 282% when compared to the same period last year. The increase in revenues for the comparative periods reflects the Company's commencement of its energy marketing operations during the third quarter of 2004.

Gross Profit

For the nine months ended September 30, 2005 total gross profit as a percent of total revenues was 19% compared to 28% for the same period last year. The reduction in total gross profit in 2005 resulted from; the Company's change in business operations precipitated by the Energy Marketing segment; the effects of high commodity prices; and the change in product mix. Oilfield Services gross profit was \$14,409,000, or 23% of Oilfield Services revenues for the first nine months of 2005 compared to \$13,609,000, or 32% of Oilfield Services revenues for the same period last year. Energy Marketing gross profit as a percent of the business segment's revenues was 10% for the comparative periods.

Overall, the Company's feedstock costs have increased by 34% during the first nine months of 2005 when compared to the same period in 2004. The Company does not have any outstanding crude oil forward purchase contracts.

Operations

Salaries and employee benefits for the nine months ended September 30, 2005 increased by 11% to \$5,857,000 from \$5,299,000 for the same period last year. The increase in salary costs on a comparative period basis resulted from the \$173,000 net increase in stock based compensation costs and \$335,000 increase in compensation costs associated with increased selling activities and commencement of the Energy Marketing business segment during the second half of 2004. As a percentage of gross profit, salary costs were 34% for the nine month period ended September 30, 2005 compared to 37% for the same period last year.

SG&A costs for the nine month period ended September 30, 2005 increased by \$901,000 to \$5,950,000, an increase of 18% over SG&A costs of \$5,049,000 incurred during the same period last year. The increase in SG&A expenditures for the first nine months of 2005 can be attributed to general maintenance costs associated with the Company's production plants, higher fuel costs affecting the Company's fleet of service and delivery vehicles and increased selling activities. As a percentage of gross profit, SG&A costs were 35% for the nine months ended September 30, 2005 and 2004.

Depreciation and amortization expense for the nine months ended September 30, 2005 of \$1,074,000 was \$321,000 less than the \$1,395,000 of depreciation and amortization expense for the same period last year. Effective January 1, 2005, the Company began to depreciate its fractionation facilities on a straight-line basis based on the plants' estimated useful lives. The impact of this change was a reduction in depreciation expense for the first nine months of 2005 of approximately \$342,000 relative to the previous method of depreciation.

The Company's income tax expense increased proportionately with the increase in profitability. The Company's effective tax rate for the nine months ended September 30, 2005 was 35% compared to 36% for the same period last year. The Company's earnings before interest, taxes, depreciation, amortization and accretion expense was \$5,358,000 for the nine months ended September 30, 2005 compared to \$4,141,000 for the same period in 2004.

Summary of Quarterly Results

The following tables provide selected unaudited financial information relating to the Company's quarterly activities in 2005, 2004 and 2003 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, 2005	June 30, 2005	March 31, 2005	December 31, 2004
	\$	\$	\$	\$
Revenues	31,622,261	23,268,649	34,814,485	30,675,809
Net earnings for the period	850,722	336,239	1,400,942	396,405
Net earnings per share for the period				
Basic	0.06	0.02	0.10	0.03
Diluted	0.06	0.02	0.10	0.03

Three month period ended (unaudited)	September 30, 2004	June 30, 2004	March 31, 2004	December 31, 2003
	\$	\$	\$	\$
Revenues	22,561,656	8,958,562	18,636,587	13,087,605
Net earnings (loss) from continuing operations	606,669	(53,987)	1,011,613	(10,363)
Net earnings (loss) per share from continuing operations				
Basic	0.04	-	0.07	-
Diluted	0.04	-	0.07	-
Net earnings (loss) for the period	606,669	(53,987)	1,011,613	(104,829)
Net earnings (loss) per share for the period				
Basic	0.04	-	0.07	(0.01)
Diluted	0.04	-	0.07	(0.01)

Liquidity and Capital Resources

Net cash provided by the Company's operating activities, after changes in non-cash components of working capital, totaled \$735,000 for the nine months ended September 30, 2005 compared to net cash provided by operating activities of \$741,000 for the same period in 2004. As at September 30, 2005 the Company had positive working capital of \$13,349,000 compared to \$11,433,000 at December 31, 2004. The Company's current ratio (defined as current assets divided by current liabilities) was 1.84 to 1 at September 30, 2005 compared to 1.67 to 1 at December 31, 2004. Bank indebtedness, which represents the Company's use of its available operating line of credit in the amount of \$15,000,000, was \$3,323,000 at September 30, 2005 compared to \$3,477,000 at December 31, 2004. The demand operating loan was, in part, drawn and financed through Bankers' Acceptances of \$3,000,000 which mature on October 31, 2005. The Company's debt to equity ratio (defined as total liabilities divided by shareholders' equity) was 0.50 to 1 at September 30, 2005 compared to 0.57 to 1 at December 31, 2004.

The improvement in the Company's debt to equity ratio resulted from the normal reduction in trade accounts payable and bank debt combined with the growth in earnings from operations.

For the nine months ended September 30, 2005 net cash used in investing activities totaled \$2,720,000 compared with \$1,149,000 for the same period last year. Cash used for investing activities was primarily directed to the expansion of the Company's feedstock storage capabilities at its Slave Lake facility and optimization of its Sundre plant. Net cash used in financing activities totaled \$519,000 for the nine months ended September 30, 2005 compared to net cash used in financing activities of \$324,000 for the same period in 2004.

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 (unaudited)	Total	Payments due by period			
		Less than 1 year	1 - 3 years	4 - 5 years	After 5 years
	\$	\$	\$	\$	\$
Long term debt (1)	3,342,804	1,218,941	976,224	443,259	704,380
Operating leases (2)	680,198	570,708	109,490	-	-
Total contractual obligations	4,023,002	1,789,649	1,085,714	443,259	704,380

(1) Represents non-revolving bank loans provided through a credit facility with a Canadian chartered bank and are repayable in blended monthly payments of \$113,526 and mature at varying dates from May 2006 to May 2020.

(2) Represents normal operating leases comprised of office space and truck fleet.

In the normal course of business with vendors, the Company may become contingently liable for the performance under letters of guarantee and credit. In this regard, the Company has arranged a \$5,000,000 bank guarantee facility available as security for its feedstock arrangements and purchase commitments. At September 30, 2005, the Company did not have any outstanding bank guarantees and letters of credit.

For 2005 the Company expects cash flow from operations and from its sources of financing to be sufficient to meet its contractual obligations and off-balance sheet arrangements.

Share capital

At September 30, 2005 the Company had 14,820,807 common shares outstanding. In addition, as at September 30, 2005, the Company has reserved 1,146,000 common shares for issuance under outstanding stock options. The Company terminated its Employee Share Purchase Plan effective July 1, 2005 and, in place thereof, has adopted an employee bonus plan providing for cash compensation based upon the attainment of designated objectives.

Outlook

Strong commodity prices continue to support high activity levels and continued exploration and production in the WCSB which provides a positive backdrop for demand of the Company's products and services for the remainder of 2005 and in to 2006. We continue to anticipate strong levels of demand for our services for the remainder of 2005 and are focused on improving the Company's financial and operating results.

Critical Accounting Policies

The Company's financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include estimates that reflect management's estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and revenue and expenses for the period reported. Estimates are based upon historical experience and various other assumptions that reflect management's best judgments. These estimates are evaluated periodically and form the basis for making judgments regarding the carrying values of assets and liabilities and the reported amount of revenue and expenses. Actual results could differ from these estimates.

The following discussion outlines the accounting policies and practices and management's estimates that are critical to determining Enerchem's financial results.

Goodwill Impairment

The Company tests goodwill for impairment annually and whenever events or circumstances make it more likely than not that an impairment may have occurred, such as a significant adverse change in the business climate or a decision to sell or dispose of a reporting unit. Determining whether impairment has occurred requires valuation of the respective reporting unit, which is estimated using discounted cash flow methodology. When available and as appropriate, comparative market multiples are used to corroborate discounted cash flow results. In applying this methodology, a number of factors are relied upon, including actual operating results, future business plans, economic projections and market data. During 2004, management performed its annual evaluation of the carrying value of goodwill and concluded that goodwill of its reporting units was not impaired.

Property, Plant and Equipment

Property, plant and equipment ("PP&E") are recorded at cost and are depreciated over their estimated useful lives on a declining balance basis or straight-line basis, as appropriate. Judgment is involved in determining the useful life of the PP&E and the appropriate annual depreciation rate. The Company's investment in PP&E results in depreciation expense being a significant component of operating expenses of the Company and any misjudgment in determining the useful life and annual depreciation rate could result in a misstatement of depreciation expense.

Income Taxes

The provision for income taxes is calculated based on the expected tax treatment of transactions recorded in the Company's financial statements. Income tax assets and liabilities, both current and future, are measured according to the income tax legislation that is expected to apply when the asset is realized or when the liability settled. If the Company's interpretations differ from those of tax authorities or judgments with respect to tax losses change, the income tax provision could increase or decrease, potentially significantly, in future periods.

Financial Instruments and Other

Fair Values

The carrying values of cash, accounts receivable, promissory note, accounts payable, accrued liabilities and bank indebtedness approximate their fair value due to the relatively short period to maturity of these instruments. The fair value of the Company's long term debt is estimated based on market prices for same or similar instruments and approximates carrying value.

Credit Risk

The Company's Oilfield Services segment does not have a significant exposure to any individual customer. The Company's Energy Marketing revenues are attributable to several major international oil & gas and pipeline companies which account for all of this segment's revenues. All amounts collectible from the Energy Marketing customers are received within 25 days after the month of delivery of the Company's product. Concentration of credit risk on the Company's trade accounts receivable exists in the oil and gas industry. Management believes that the Company is exposed to minimal credit risk since the majority of its business is conducted with major companies in the industry.

Petroleum Prices

The Company is exposed to changes in petroleum and natural gas prices as a result of its use of petroleum feedstock and natural gas for processing at its Sundre and Slave Lake fractionation plants. The potential fluctuations in petroleum and natural gas prices could have a significant impact on the cost of producing its products and the profitability of the Company. To mitigate the affects on profitability of upward changes in petroleum prices, the Company implements product price increases to reflect their underlying values. This ability, however, is sensitive to competitive product pressures. In addition, 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.

As at September 30, 2005, the Company did not have any outstanding crude oil and natural gas forward purchase contracts. During 2004, the Company had agreements to buy 65,000 barrels of

West Texas Intermediate crude oil at strike prices ranging from \$41 to \$46 CDN per barrel for terms ranging from November 1, 2003 to March 31, 2004. In addition the Company had an agreement to buy 50,000 gigajoules of natural gas at a strike price of \$6.25 CDN for the period covering November 1, 2003 to March 31, 2004.

Interest Rate Risk

The Company manages its interest rate risk on borrowings by utilizing a combination of short term fixed rates through the use of 30 to 90 day Banker's Acceptance rates and floating rates on debt. At September 30, 2005 bank indebtedness included a short term fixed Banker's Acceptance instrument maturing on October 31, 2005. Due to the level of debt carried by the Company, changes in interest rates will not have a significant impact on its operations.

Health, Safety and Environmental

The Company has achieved and maintained a Certificate of Recognition which is given to employers who develop health and safety programs to meet standards established by the Petroleum Industry Training Service and Alberta Human Resources and Employment. The Company has safety and environmental personnel responsible for maintaining and developing the Company's policies and monitoring the Company's operations to ensure compliance with established policies. However, there can be no assurances that the Company's procedures will prevent safety infractions or environmental damage occurring from spills of materials handled by the Company. The safety and environmental personnel report directly to the President and Chief Executive Officer of the Company.

Competition and Industry Conditions

There is a strong correlation between drilling activity and demand for the Company's hydrocarbon fracturing and drilling fluids. Industry demand for the Company's fracturing and drilling products is further determined by activity levels that are focused on deep well drilling and applications common to the foothills region and northern Alberta and British Columbia, areas known for deeper drilling. Oil and gas activity in these geographic regions is normally strong during winter months or other times when climatic conditions are favourable. Enerchem's specialty chemical products and services are largely focused on resolving oil and gas production

problems encountered on a broader scale throughout the western Canadian oil and gas market. While the specialty chemicals market offers greater diversity and a more stable revenue stream for our products and services, this market is highly competitive and our revenues and earnings can be affected by our ability to provide effective and economic solutions and by fluctuations in activity levels in our key sales regions. In addition, as our specialty fluids and services are sold in highly competitive markets, the Company's revenues and earnings can be affected by changes in competitive prices.

Operating Risk and Insurance

Enerchem has an insurance and risk management program in place to protect its assets, operations and employees. The Company's operations are, however, subject to risks inherent in the oil and gas

industry such as malfunction and failures and natural disasters with resultant fluid spills, explosions and fires. These risks could expose the Company to substantial liability for personal injury, loss of life, business interruption, property damage or destruction, pollution and other environmental damages. Although the Company has obtained insurance against certain of the risks to which it is exposed, such insurance is subject to coverage limits and no assurance can be given that such insurance will be adequate to cover the Company's liabilities or will be generally available in the future or, if available, that premiums will be commercially justifiable. If the Company were to incur substantial liability and such damages were not covered by insurance or were in excess of policy limits, its business, results of operations and financial condition could be materially adversely affected.

Enerchem International Inc.
Balance Sheet

	As at September 30, 2005 (unaudited) \$	As at December 31, 2004 (audited) \$
Assets		
Current assets		
Cash	90,220	2,594,664
Accounts receivable	20,252,948	17,432,270
Inventories	8,157,892	8,039,203
Prepaid expenses and deferred charges	529,950	267,178
Current portion of promissory note	122,217	125,964
	<u>29,153,227</u>	<u>28,459,279</u>
Promissory note	91,671	188,950
Other assets	1,325,476	1,397,135
Property, plant and equipment	27,309,344	25,558,332
Goodwill	6,049,530	6,049,530
	<u>63,929,248</u>	<u>61,653,226</u>
Liabilities		
Current liabilities		
Bank indebtedness	3,322,585	3,476,944
Accounts payable and accrued liabilities	10,780,851	12,376,288
Income taxes payable	482,000	-
Current portion of long-term debt	1,218,941	1,173,087
	<u>15,804,377</u>	<u>17,026,319</u>
Long-term debt	2,123,863	3,042,634
Asset retirement obligations	179,192	169,320
Future income taxes	3,132,000	2,208,639
	<u>21,239,432</u>	<u>22,446,912</u>
Contingent liabilities (note 4)		
Shareholders' Equity		
Share capital (note 2(b))	27,973,843	27,465,971
Contributed surplus (note 2(c))	979,158	591,431
Retained earnings	13,736,815	11,148,912
	<u>42,689,816</u>	<u>39,206,314</u>
	<u>63,929,248</u>	<u>61,653,226</u>

Enerchem International Inc.
Statement of Operations and Retained Earnings

(Unaudited)

	Three months ended September 30		Nine months ended September 30	
	2005	2004	2005	2004
	\$	\$	\$	\$
Revenues	31,622,261	22,561,656	89,705,395	50,156,805
Cost of sales	26,091,995	17,885,750	72,554,953	35,878,421
Gross profit	5,530,266	4,675,906	17,150,442	14,278,384
Expenses				
Salaries and employee benefits	1,781,866	1,727,597	5,857,397	5,299,486
Selling, general and administration	1,995,314	1,611,686	5,949,744	5,048,867
Depreciation	361,719	481,086	1,074,494	1,395,378
Accretion expense	1,643	-	9,872	-
Amortization of pre-operating costs	21,717	21,717	65,153	65,153
Interest expense	62,566	72,075	215,494	247,146
	4,224,825	3,914,161	13,172,154	12,056,030
Earnings before other income (expense)	1,305,441	761,745	3,978,288	2,222,354
Other income (expense)				
Other	(26,760)	175,409	16,581	410,168
Gain (loss) on disposal of property, plant and equipment	9,302	5,315	(1,605)	75,717
Settlement of legal claim	-	-	-	(275,344)
	(17,458)	180,724	14,976	210,541
Earnings from operations before income taxes	1,287,983	942,469	3,993,264	2,432,895
Income taxes				
Current	366,340	-	482,000	-
Future	70,921	335,800	923,361	868,600
	437,261	335,800	1,405,361	868,600
Net earnings for the period	850,722	606,669	2,587,903	1,564,295
Retained earnings, beginning of period	12,886,093	10,145,838	11,148,912	9,188,212
Retained earnings, end of period	13,736,815	10,752,507	13,736,815	10,752,507
Basic earnings per share	0.06	0.04	0.18	0.11
Diluted earnings per share	0.06	0.04	0.18	0.11
Weighted average shares outstanding (note 2(e))				
Basic	14,820,807	14,405,331	14,784,581	14,371,347
Diluted	14,820,807	14,575,027	14,787,485	14,598,565

Enerchem International Inc.
Statement of Cash Flows

(Unaudited)

	Three months ended September 30		Nine months ended September 30	
	2005	2004	2005	2004
	\$	\$	\$	\$
Operating activities				
Net earnings for the period	850,722	606,669	2,587,903	1,564,295
Items not affecting cash				
Depreciation, amortization and accretion expense	385,079	502,803	1,149,519	1,460,531
Amortization of deferred charges	128,364	-	211,579	-
Stock based compensation	121,388	78,530	387,727	214,816
Loss (gain) on disposal of property, plant and equipment	(9,302)	(5,315)	1,605	(75,717)
Future income taxes	70,921	335,800	923,361	868,600
	1,547,172	1,518,487	5,261,694	4,032,525
Changes in non-cash components of working capital				
Net change in trade and other accounts receivable	(7,519,907)	(5,534,587)	(2,820,678)	(2,147,850)
Net change in inventories and prepaid expenses	2,653,574	1,480,284	(593,040)	(2,006,033)
Net change in accounts payable and accrued liabilities	1,274,931	4,270,901	(1,595,437)	999,577
Net change in income taxes payable	366,340	(66,462)	482,000	(137,222)
	(3,225,062)	150,136	(4,527,155)	(3,291,528)
Net cash provided by (used in) operating activities	(1,677,890)	1,668,623	734,539	740,997
Investing activities				
Purchase of property, plant and equipment	(1,048,036)	(915,110)	(2,916,905)	(1,449,275)
Promissory note	44,760	-	101,026	-
Proceeds on disposal of property, plant and equipment	30,500	87,271	96,300	305,571
Net change in other assets	-	61,496	-	(4,909)
Net cash used in investing activities	(972,776)	(766,343)	(2,719,579)	(1,148,613)
Financing activities				
Issue of common shares	-	103,290	507,872	341,022
Net change in bank indebtedness	(174,132)	(472,781)	(154,359)	3,130
Repayment of long-term debt	(294,238)	657,838	(872,917)	234,921
Repayment of obligations under capital leases	-	(879,121)	-	(903,515)
Net cash used in financing activities	(468,370)	(590,774)	(519,404)	(324,442)
Increase (decrease) in cash	(3,119,036)	311,506	(2,504,444)	(732,058)
Cash - beginning of period	3,209,256	-	2,594,664	1,043,564
Cash - end of period	90,220	311,506	90,220	311,506

1. Basis of Presentation and Accounting Policies

The accompanying unaudited interim financial statements 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.

With the exception of items (a) and (b) as described below, these financial statements follow the same accounting policies and methods of computation as, and should be read in conjunction with, the most recent audited annual consolidated financial statements for the year ended December 31, 2004.

- (a) Effective January 1, 2005 the Company has changed its estimated useful life of the fractionation processing facilities. Prior to January 1, 2005, the Company depreciated its fractionation plants on a declining balance basis at annual rates ranging from 5% to 10%. Effective January 1, 2005, the Company began to depreciate its fractionation facilities on a straight-line basis which incorporates the change in the plants' expected useful lives which range from 29 to 37 years. The Company has also established estimated salvage values for these facilities based on accepted industry standards. A salvage value of \$750,000 has been established for the Slave Lake facility and \$250,000 has been established for the Sundre facility. The impact of this change was a reduction in depreciation expense for the three month period ended September 30, 2005 of \$123,000 and for the nine month period ended September 30, 2005 of \$342,000 relative to the previous method of depreciation.
- (b) Effective April 1, 2005, the Company implemented a scheduled turnaround maintenance program for its fractionation plants which requires the shutdown of its facilities for significant overhaul and refurbishment. The Company expects to execute its scheduled turnaround program during the second quarter of each year. Costs of major fractionation plant maintenance are charged to operations over a one year period. At September 30, 2005 unamortized turnaround costs in the amount of \$304,000 are included in prepaid expenses and deferred charges. For the period ended September 30, 2005, \$212,000 of turnaround costs were amortized and included in selling, general and administration expense. Normal repairs and maintenance to the fractionation plants are expensed as incurred.

2. Share capital and Contributed surplus

(a) Authorized

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

(b) Issued

Common

	September 30, 2005		December 31, 2004	
	#	\$	#	\$
Balance - beginning of period	14,594,610	27,465,971	14,317,655	26,769,227
Issue of shares for cash upon exercise of stock options	150,000	292,500	138,000	272,900
Issue of shares for cash through employee share purchase plan	76,197	215,372	138,955	423,844
Balance - end of period	14,820,807	27,973,843	14,594,610	27,465,971

(c) Contributed surplus

	September 30, 2005		December 31, 2004	
		\$		\$
Balance - beginning of period		591,431		298,087
Stock based compensation expensed during the period		387,727		293,344
Balance - end of period		979,158		591,431

(d) Stock options

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

	September 30, 2005		December 31, 2004	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
	#	\$	#	\$
Common shares under option				
- beginning of period	1,226,000	3.11	1,214,000	2.94
Share options granted	384,000	3.06	160,000	3.49
Share options cancelled	(314,000)	2.28	(10,000)	5.15
Share options exercised	(150,000)	1.95	(138,000)	1.98
Common shares under option - end of period	1,146,000	3.47	1,226,000	3.11
Options exercisable at end of period	712,000	3.67	956,000	2.66

During the three months ended September 30, 2005, the Company did not grant any options (three months ended September 30, 2004 - NIL). For the nine months ended September 30, 2005 the Company granted 384,000 (nine months ended September 30, 2004 - 160,000) options with exercise prices ranging from \$3.05 to \$3.30 (nine months ended September 30, 2004 - \$3.40 to \$3.70). The fair value of the options granted during the nine months ended September 30, 2005 was estimated using the Black-Scholes model with the following assumptions: risk-free interest rate of 3.7 percent; expected life of five years; volatility of 51 percent and, zero dividend yield.

The impact of expensing stock options for the three months ended September 30, 2005 was \$121,388 (three months ended September 30, 2004 - \$78,530), and totaled \$387,727 for the nine months ended September 30, 2005 (nine months ended September 30, 2004 - \$214,816) with a corresponding increase in contributed surplus.

The Company terminated the Employee Share Purchase Plan effective July 1, 2005 and, in place thereof, adopted an employee bonus plan providing for cash compensation based upon the attainment of designated objectives. Under the Company's Employee Share Purchase Plan, employees electing to participate in the plan could contribute a minimum of two percent to a maximum of five percent of monthly salaries. The employees' contributions were matched equally by the Company. Common shares acquired under the plan vested with the employees upon purchase and were distributed to the employees on an annual basis. The Company's contributions to the plan were recorded as compensation costs in the month incurred and totaled \$NIL for the three months ended September 30, 2005 (three months ended September 30, 2004 - \$51,645) and \$107,686 for the nine months ended September 30, 2005 (nine months ended September 30, 2004 - \$157,836)

(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	
	2005	2004	2005	2004
Weighted average share calculation				
- Basic				
Common shares - opening	14,820,807	14,394,082	14,594,610	14,317,655
Weighted average common shares issued during the period	-	11,249	189,971	53,692
	14,820,807	14,405,331	14,784,581	14,371,347
- Diluted				
Basic weighted average common shares - opening	14,820,807	14,405,331	14,784,581	14,371,347
Dilutive effect of stock options and Equivalents	-	169,696	2,904	227,218
	14,820,807	14,575,027	14,787,485	14,598,565

3. Seasonality of operations

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

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, 2005, 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. Segmented information

During the third quarter 2004, the Company's services were diversified with the establishment of its Energy Marketing Group. This diversification was precipitated to maximize value received by the Company for its hydrocarbon by-products, mitigate the Company's exposure to the seasonality of its operations and to provide energy marketing management and expertise. As a result, the Company's activities are divided into two distinct business segments: Oilfield Services which represents the manufacture and sale of specialty chemicals and hydrocarbon products; and, Energy Marketing which represents the purchasing, gathering and marketing of crude oil for resale to refiners and other customers. Both of these business segments operate in one geographic region being the Western Canadian Sedimentary Basin.

Three months ended September 30, 2005	Oilfield Services \$	Energy Marketing \$	Total \$
Revenues	23,978,392	7,643,869	31,622,261
Cost of sales	19,011,760	7,080,235	26,091,995
Gross profit	4,966,632	563,634	5,530,266
Depreciation, amortization & accretion expense	385,079	-	385,079
Interest expense	62,566	-	62,566
Earnings before income taxes	914,553	373,430	1,287,983

Three months ended September 30, 2004	Oilfield Services \$	Energy Marketing \$	Total \$
Revenues	15,566,217	6,995,439	22,561,656
Cost of sales	11,559,215	6,326,535	17,885,750
Gross profit	4,007,002	668,904	4,675,906
Depreciation, amortization & accretion expense	502,803	-	502,803
Interest expense	72,075	-	72,075
Earnings before income taxes	332,445	610,024	942,469

Nine months ended September 30, 2005	Oilfield Services	Energy Marketing	Total
	\$	\$	\$
Revenues	62,974,513	26,730,882	89,705,395
Cost of sales	48,565,037	23,989,916	72,554,953
Gross profit	14,409,476	2,740,966	17,150,442
Depreciation, amortization & accretion expense	1,149,519	-	1,149,519
Interest expense	215,494	-	215,494
Earnings before income taxes	2,006,618	1,986,646	3,993,264

Nine months ended September 30, 2004	Oilfield Services	Energy Marketing	Total
	\$	\$	\$
Revenues	43,161,366	6,995,439	50,156,805
Cost of sales	29,551,886	6,326,535	35,878,421
Gross profit	13,609,480	668,904	14,278,384
Depreciation, amortization & accretion expense	1,460,531	-	1,460,531
Interest expense	247,146	-	247,146
Earnings before income taxes	1,822,871	610,024	2,432,895

As at September 30, 2005			
Total assets	60,212,340	3,716,908	63,929,248
Capital expenditures	2,916,905	-	2,916,905
Goodwill	6,049,530	-	6,049,530

As at December 31, 2004			
Total assets	58,799,616	2,853,610	61,653,226
Capital expenditures	3,253,368	-	3,253,368
Goodwill	6,049,530	-	6,049,530

Corporate Governance

Full disclosure with respect to the Toronto Stock Exchange Corporate Committee requirements is contained in the Information Circular of Enerchem International Inc., prepared for the Annual General Meeting held on May 19, 2005.

The main corporate governance practices followed by Enerchem involve the assumption by the directors of responsibility for stewardship of the Company. Enerchem's Board of Directors comprises 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. The Board of Directors has three committees being: the Audit Committee, the Compensation Committee and the Environmental Committee.

Enerchem is committed to the objectives of the corporate governance policy established by the Toronto Stock Exchange and will continue to work toward complying with the objectives set forth therein.

Board of Directors

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

Douglas F. Robinson
President and Chief Executive Officer
Director (3)

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

William D. Burch, FCA
Director (1)

Hugh L. Planche, B.Comm.
Director (2)

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

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

Officers

Douglas F. Robinson
President and Chief Executive Officer (3)

Brian M. Zubach, CMA
Chief Financial Officer

J. Barrie Brookman
Vice President, Corporate Development (3)

Member of:

- (1) Audit Committee
 - (2) Compensation Committee
 - (3) Environmental Committee
-

Corporate Office

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Principal Bank

HSBC Bank Canada
Edmonton, Alberta

Auditors

PricewaterhouseCoopers LLP
Edmonton, Alberta

Legal Counsel

Chamberlain Hutchison
Edmonton, Alberta

Stock Exchange Listing

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

Shareholder Information

Shareholders may obtain copies of annual and quarterly reports, news releases, product information and other Company information by contacting:

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