



Annual Report 2008

Enerchem International Inc. is a producer and distributor of hydrocarbon drilling and fracturing fluids designed to provide cost effective solutions to the upstream oil and gas industry and specialty solvents to help resolve production and processing problems to the downstream producers. The Company also provides energy marketing services and, through its wholly-owned subsidiary company, Millard Trucking Ltd., provides fluid transportation and other related oilfield services. The Company's common shares trade on the Toronto Stock Exchange under the symbol "ECH".

Our Mission Statement

Enerchem strives to be the manufacturer of choice for the supply of hydrocarbon solvents, drilling and fracturing fluids to the oil and gas industry. Our goal is to consistently meet or exceed our customers' expectations for the quality of our products and services in a safe and environmentally conscientious manner.

We are committed to a culture that is based on sound business ethics focused on enhancing shareholder value.

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Annual General Meeting

The Annual General Meeting of the Shareholders will be held on:

Thursday, May 21, 2009 at 2:00 p.m.

Metropolitan Conference Centre

Plaza Room

333 - 4 Avenue S.W.

Calgary, Alberta

All shareholders are cordially invited to attend.



Financial Highlights

Results of Operations	For the years ended December 31	
	2008	2007
(\$ thousands except per share amounts)		
Revenues	115,797	80,300
Net loss for the year	(1,901)	(4,481)
Net loss per share		
Basic	(0.13)	(0.29)
Diluted	(0.13)	(0.29)
EBITDA ⁽¹⁾	2,398	4,073
EBITDA per share ⁽²⁾	0.16	0.27

Financial position

Total assets	63,338	64,926
Working capital ⁽³⁾	13,915	15,991
Purchase of property, plant and equipment	4,134	9,118
Total bank indebtedness	3,448	-
Shareholders' equity	49,597	51,844
Number of shares (thousands)		
Outstanding, end of year	15,028	15,253
Average, during the year ⁽⁴⁾	15,177	15,293

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

(2) calculated as EBITDA divided by the basic weighted average number of shares outstanding during the year.

(3) calculated as current assets less current liabilities.

(4) represents the basic weighted average number of shares outstanding during the year.

President's Message

To Our Fellow Shareholders

On behalf of the Board of Directors of Enerchem International Inc. ("Enerchem" or the "Company"), I am pleased to provide this report on the results of the Company's operations for the year ended December 31, 2008.

The year was highlighted by record annual revenue and a head office consolidation in Calgary which included full replacement of the finance team and the addition of a Chief Operating Officer; under the new executive management team, Enerchem is a leaner organization, focused on tight logistics management and maximum utilization of its fractionating assets.

Annual revenue increased by 44% year-over-year, with increases of 39% in Oilfield Services (fluid sales), 72% in Energy Marketing and 18% in Transportation Services. These increases were driven by both higher activity levels in the Western Canadian Sedimentary Basin ("WCSB") and by high average prices for crude oil over the period. At Enerchem this translated into approximately 15% higher fluid sales volume at relatively higher product prices.

Although we finished the year in a net loss position, financial performance significantly improved in the second half of the year. Earnings from operations before taxes and other expenses for the last six months of 2008 were \$1.1 million compared with only \$54 thousand for the same period in 2007. This second half improvement was the result of margin recovery and a concerted effort to improve logistics management in our operating processes.

A number of one time charges contributed to our year-end loss position:

The first and largest (\$2.1 million) involved the failure of our direct-fired heater project in Sundre. This project took the plant out of production for a period of nine months during which significant engineering and management time was consumed in an attempt to resolve design and operating issues. In the end, we determined it was necessary to reinstall the salt-bath heaters. Although we have not realized the efficiency and productivity gains intended from the direct-fired heaters, the reinstalled salt-bath heaters have performed well. Also, despite working with a new engineering group to develop specifications for what we believe is a good design, given the current industry environment, we have indefinitely shelved this replacement project. We are seeking recourse against the supplier of the failed direct-fired heaters.

The second charge (\$850 thousand) comprised the relocation costs associated with moving our finance function from Leduc to a consolidated corporate office in Calgary. This consolidation was a necessary precursor to instituting important change in the organization.

Since bringing the full executive management team under one roof in October of 2008, we have focused our attention on managing our cost structure through a combination of strict control over capital items and detailed attention to logistics management. Enerchem purchases crude oil, processes it into finished goods and by-products then sells and transports these products by truck or pipeline to a variety of markets. Effective management of the business involves high plant utilization, optimal inventory maintenance and tight logistics control. Each of these areas has been the subject of critical scrutiny with a view to continuous improvement. This approach to cost reduction increased our earnings in the latter half of 2008 and should continue to positively affect the bottom line in 2009.

The Company's relatively heavy investments in its fractionation plants through 2007 and 2008 have, with the above-noted exception, proven effective in improving operational reliability and efficiency, along with lowering repair and maintenance costs. The enhanced reliability has improved our ability to respond to short-notice requests for finished goods, thereby lowering our

reliance on inventory as a buffer against seasonality and other factors that create erratic demand.

In late 2008 our lateral pipeline connection to the Rainbow Pipeline went live, and we entered 2009 with the ability to ship by-products from our Slave Lake facility without depending on trucking. In addition to reducing our operating costs, this functionality makes it possible for rapid and proactive management of feedstock inventories.

As an adjunct to operational improvements, we have been pursuing sales into markets outside of our traditional upstream client base. While to date we have no “alternative” sales to report, we are optimistic that we will begin shipping into new markets during this year.

Strategy

Our strategy for 2009 continues to be focused on internal control of our business. We entered the year with a strong balance sheet which included no long-term debt. Since year-end 2008, we have been reducing our reliance on our operating line, and anticipate that we may soon be able to finance our feedstock requirements with available cash. We have implemented the efficiency measures I have referred to above, and are prepared to take more drastic cost-reduction steps as necessary. We expect to find sales for our finished goods outside of our conventional markets which will assist with seasonal downturns and perhaps provide a new base-level for sales throughout the year. Although we are limiting our capital program to maintenance requirements, we continue to critically evaluate any growth opportunities which present themselves, whether by acquisition or organic growth.

Outlook

Professional financial analysts and business leaders alike have been unable to provide certainty around expectations for 2009. Drilling rig utilization in the WCSB was 37% in the first three months of 2009, down from 56% in the first quarter of 2008, and the outlook for the next several quarters remains uncertain at best. At Enerchem we have, to date, enjoyed decent levels of drill fluid sales, while fracturing fluid sales have been more sporadic. We believe as a prudent operator we must respond quickly when cost reductions are required as well as look to a broader customer base to sell our finished product. As compared to many in our sector, we are well configured both financially and operationally to sustain ourselves through the remainder of this recession.

Acknowledgements

I would like to extend my sincere appreciation to all of the employees of Enerchem who have embraced with enthusiasm the changes made over the past year. Although the industry is going through a painful period, I believe we have and will continue to develop a stronger team and a healthier company. I would also like to extend my appreciation to the Board of Directors for their support over the first year of my term in this office. They have provided wisdom and guidance during a time when most that was familiar has been altered. Finally I would like to assure our shareholders that we will continue to steward the assets of the Company carefully through these challenging times; we are optimistic that our performance will accrue as enhanced shareholder value.



Ken Bagan
President and Chief Executive Officer

Management's Discussion and Analysis ("MD&A")

The following discussion and analysis of the operating and financial results of Enerchem International Inc. ("Enerchem", the "Company", or "the Corporation") for the year ended December 31, 2008 should be read in conjunction with the Company's audited annual consolidated financial statements, including the accompanying notes and supplemental material contained in other parts of the Company's Annual Report and the Corporation's Annual Information Form. This MD&A focuses on key statistics from the financial statements of the Company and pertains to known risks and uncertainties relating to the oilfield services industry in the Western Canadian Sedimentary Basin ("WCSB") where the Company operates. This discussion should not be considered all inclusive, as it excludes unanticipated changes that may occur in general economic, political, environmental and industry conditions. Additional information relating to the Company is available on the System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com and the Company's website at www.enerchem.com. This MD&A was prepared effective March 12, 2009.

Forward Looking Statements

Certain statements contained in this Annual Report, including statements contained in the MD&A, constitute forward-looking statements. These statements relate to future events or our future performance. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "budget", "plan", "continue", "estimate", "expect", "forecast", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and other similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. We believe the expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this Annual Information Form should not be unduly relied upon. These statements speak only as of the date of this MD&A. In particular, this MD&A contains forward-looking statements pertaining to the following:

- oil and natural gas production levels;
- crude oil and natural gas storage levels;
- refined products storage levels;
- projections of market prices and costs;
- projections of oil and gas industry activity levels;
- expectations of currently completed projects on our future operations and financial results;
- expectations of cash flows and our ability to finance our operating activities;
- projections of costs of complying with environmental regulation;
- our ability to operate efficiently and profitably;
- the effect of the global financial crisis on our business;
- supply and demand for our products and services;
- expectations regarding the ability to raise capital;
- treatment under governmental regulatory regimes and tax laws;
- general political and economic circumstances; and
- capital expenditures programs.

The actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in this MD&A:

- volatility in market prices for oil and natural gas;
- liabilities inherent in oil and natural gas operations;
- competition from other suppliers of oil and gas services and products;
- competition for skilled personnel;

- changes in income tax laws or changes in tax laws and incentive programs relating to the oil and gas industry; and
- the other factors discussed under “Risk Factors”.

Readers are cautioned that the foregoing lists of factors are not exhaustive. Forward-looking statements or information are based on a number of factors and assumptions which have been used to develop such statements and information but which may prove to be incorrect. Although management of the Corporation (as defined below) believes that the expectations reflected in such forward-looking statements or information are reasonable, undue reliance should not be placed on forward-looking statements because the Corporation can give no assurance that such expectations will prove to be correct. In addition to other factors and assumptions which may be identified in this document, assumptions have been made regarding, among other things: the impact of increasing competition; the general stability of the economic and political environment; the timely receipt of any required regulatory approvals; the Corporation’s policies with respect to acquisitions; the ability of the Corporation to obtain qualified staff, equipment and services in a timely and cost efficient manner; the ability to operate our business in a safe, efficient and effective manner; the performance and characteristics of various business segments; the effect of current plans; the timing and costs of pipeline, storage and facility construction and expansion; future oil and natural gas prices; currency, exchange and interest rates; the regulatory framework regarding royalties, taxes and environmental matters in the jurisdictions in which the Corporation operates; and the ability of the Corporation to successfully market its products and services.

Use of Non-GAAP Measures

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

- EBITDA represents earnings from operations before interest expense, taxes, depreciation, amortization, accretion expense, and write-downs. It is used by management internally to measure the performance of the business as a whole. EBITDA is presented as supplemental information because management believes it is a widely used financial indicator of the Company’s operating profitability and performance before the effects of capital investment and financing decisions.
- Return on average capital employed (“ROACE”) is a non-GAAP measure which the Company has defined as the ratio of earnings before income taxes and interest on debt to average capital assets. ROACE is presented as supplemental information because management believes it provides useful information about the Company’s return on total capital.
- Cash provided by operations is derived from the Company’s consolidated statement of cash flows and represents cash provided by operating activities before changes in non-cash components of working capital. Cash provided by operations is provided as supplemental information because management believes it provides investors with additional information regarding the Company’s ability to generate funds to finance operations and its capital requirements.
- EBITDA per share represents EBITDA divided by the basic weighted average common shares outstanding.

Overview of the Company’s Operations

Enerchem produces hydrocarbon fluids which are used as a base for invert mud systems in the drilling industry and as fracturing fluid in the well completions sector. In addition the Company produces specialty solvents which are used in both the production and processing of heavier crude oils. The Company’s proprietary fracturing and drilling fluids and solvents (“Fluids”) are produced at its fractionation facilities located in Sundre and Slave Lake, Alberta. The Company’s Fluids have been shown to provide its customers with measurable productivity improvements as well as contributing to reductions in operating and maintenance cost. The Company’s Fluids are marketed and sold throughout the WCSB and into the United States using both an internal sales structure and a network of distributors.

During the third quarter of 2004, the Company diversified its operations with the establishment of an Energy Marketing group. This initiative was undertaken to provide management and expertise in the purchase of its crude oil feedstock and to maximize the value received by the Company for its hydrocarbon by-products.

During the second quarter of 2006, the Company acquired Millard Trucking Ltd. ("Millard"), a privately owned company based in Sundre, Alberta that provides fluid transportation and related services to the oil and gas industry.

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

1. *Oilfield Services*, which represents the processing and sale of its Fluids;
2. *Energy Marketing*, which represents the purchasing and gathering of crude oil for use as feedstock and marketing of the Company's by-products for resale to refiners and other customers; and
3. *Transportation Services*, which represents the operations of Millard. Revenues are derived from services to third parties as well as from inter-segment work for the Company's Oilfield Services and Energy Marketing segments.

The operations of the Company are conducted primarily within the WCSB.

Our customers include large multi-national and independent oil and gas producers, as well as smaller independent producers and suppliers of hydrocarbon-based drilling fluid ("invert mud"). The primary factor influencing demand for our products and services is the level of drilling and workover activity in the WCSB, which in turn depends on current and anticipated future oil and gas prices and the levels of cash flow allocated by the industry to drilling and workover activity. As a result, demand for our products and services is cyclical and drilling and service rig counts as well as well depth are leading indicators of anticipated demand for the Company's products and services. The Company's Fluids are most often used on deep-well drilling and workover activities at depths greater than 1,850 metres. The following table summarizes average WCSB drilling and well service rig activity and historical commodity prices:

Selected Benchmarks (1)	2008	2007	2006
Wells drilled per year (#)	20,729	19,144	22,127
Drilling rig utilization rates (%)	47	42	55
Average rig utilization by depth			
- less than 1,851 metres (%)	36	43	39
- greater than 1,850 metres (%)	64	57	61
Crude Oil - West Texas Intermediate - year average (US\$ per bbl)	99.55	72.41	66.25
Natural Gas - AECO - year average (Cdn\$ per Mcf)	8.19	6.45	6.54
Canada to U.S. exchange rate - year average (Cdn\$ per \$1.00 USD)	1.07	1.07	1.13

(1) Sources: First Energy Capital Corp., Canadian Association of Oilwell Drilling Contractors, US Department of Energy, and Bank of Canada. All historical averages have been computed using weekday data only.

Business Strategy

Enerchem derives a competitive advantage from the fact that its facilities, situated in Alberta, are dedicated to producing proprietary hydrocarbon fluids of consistent quality with specifications designed to meet oil and gas drilling, completion and production requirements common to the WCSB. The Company's profitability depends on its continued ability to successfully market and maximize value received for its Fluids and by-products. This in turn hinges on securing an adequate supply of crude oil ("feedstock"), minimizing operational problems at our plants and establishing the most cost effective fluid transport methods for both supply and finished goods. In order to maximize return on our investments, our business strategy is to become a low cost producer of high quality Fluids that provide the best customer value; we focus on:

- Securing favourable feedstock arrangements;
- Enhancing our Fluid production and processing capabilities;
- Optimizing our fluid transportation arrangements, infrastructure and logistics management;
- Broadening our revenue base in order to stabilize earnings during seasonal slowdowns in oilfield activity; and
- Identifying and acquiring complementary businesses that are accretive and provide substantial opportunities for growth.

Risk Factors

The following are factors which could impact the Company's ability to be successful:

- Hydrocarbon prices; the prices which our exploration and development customers receive for crude oil and natural gas in turn influence their capital expenditure programs and the drilling and completion activity levels in the WCSB;
- Operating and project risks; the costs and lost revenue associated with accidents or equipment malfunction;
- Weather; seasonal weather patterns affect oilfield activity in the WCSB, which in turn affect the Company's sales of finished goods;
- Access to, and retention of, qualified personnel; the company has not had any difficulties to date finding people, and current market conditions favour employers;
- A continued ability to offer competitive product pricing; and
- Continued access to terminalling facilities when required by the Energy Marketing segment to accommodate the delivery of its by-products and the purchasing, gathering and marketing of petroleum for resale to refiners and other resellers.

For additional information regarding risk factors which could affect the Company's business see "Financial Instruments and Business Risks" herein and "Risk Factors" in the Corporation's Annual Information Form, which is available on SEDAR.

Key Success Indicators

- Continuous utilization of the Company's fractionation plants and flow-back facility; the Company's fractionation plants operate most efficiently when shut-downs are minimized;
- Volume of feedstock consumed and finished goods sold; each of these is a measure of through-put in the fractionation plants and an indicator that we are maximizing the capacity of both our facilities and our marketing;
- Utilization of the Company's transportation equipment: the success of our fluid transport business is, as with all companies running rolling-stock, a function of utilization;
- Margin maintenance; the interests of high utilization are balanced by the requirement to maintain profitability which we seek to achieve through a combination of marketing and cost management; and
- Inventory base-level; our goal is to maintain a base level of finished goods inventory such that we are able to satisfy the fluctuating demands of our customers while maintaining as high an inventory turn-over level as possible.

The Company monitors and assesses its performance relative to the key success indicators it believes are critical to measuring its success to the implementation of its strategy and the achievement of its goals.

Some of the Company's key financial performance indicators and results against those indicators for its operations are set out below:

Key financial performance indicators:

	At December 31		
	2008	2007	2006
Total revenue growth	44%	(25)%	(1)%
EBITDA (thousands)	\$ 2,398	\$ 4,073	\$10,356
Net (loss) earnings per common share, basic	\$(0.13)	\$(0.29)	\$ 0.39
Return on average capital employed ("ROACE")	1.4%	2.7%	14.5%

EBITDA and ROACE are non-GAAP measures and are defined by the Company under the section "Use of Non-GAAP Measures" in this MD&A.

In addition, the Company has key operating performance indicators that include but are not limited to: market share, product quality, plant productivity, productivity improvements and waste reduction, and operating and administrative cost management.

Capability to Deliver Results

Non-Capital Resources

People are the most critical non-capital resource required in order for the Company to achieve its goals. A formal human resource plan has been implemented in order to ensure that the Company focuses on improving and maintaining its human resources. The Company is continually evaluating its staff levels to determine adequacy and that personnel training continues to support business requirements. The Company believes that it presently has sufficient human resources to successfully operate its business and to execute its strategic plan.

Capital Resources

The Company has the necessary working capital to meet its current obligations and commitments. The Company maintains a fleet of leased field service vehicles and leased premises which represent its off-balance sheet financing arrangements. During 2008, the Company used cash flows from its operating activities together with drawings on available credit facilities to fund its capital projects in Sundre and Slave Lake, Alberta. In order to finance future capital expenditure obligations and future growth, Enerchem anticipates financing its activities through a combination of available cash and cash equivalents, cash flow from operations and, when necessary, utilizing its existing credit facilities. Due to the long term nature of its assets and its historical cost of capital, the Company believes that it must provide an annual return of 10% to 15% on average capital employed over the life of its asset base in order to deliver value to shareholders and to minimize Enerchem's cost of capital.

Systems and Processes

The Company's operational systems and processes are continuously reviewed by management. During 2008, the Company continued to assess and, where appropriate, modify its compensation system to ensure market competitiveness and to align its human resources to the attainment of the Company's strategic objectives. The Company also continues to evaluate and implement methods and infrastructure to facilitate increased productivity of its fractionation plants in Slave Lake and Sundre and continues to evaluate processes that will contribute to reduced overall operating costs.

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, the spring months in Western Canada and the duration of this "spring break-up" has a direct impact on the Company's activity levels. In addition, exploration and production in many of the northern regions of the WCSB are accessible only during the winter months when the ground is frozen hard enough to support the weight of heavy equipment. The timing and duration 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.

Selected Annual Information

Selected annual financial information derived from the audited financial statements for the three most recently completed financial years is set forth below and is prepared in accordance with generally accepted accounting principles in Canada:

	For the years ended December 31		
(\$ thousands except per share amounts)	2008	2007	2006
Revenues	115,797	80,300	107,746
Net (loss) earnings	(1,901)	(4,481)	5,931
Net (loss) earnings per share			
Basic	(0.13)	(0.29)	0.39
Diluted	(0.13)	(0.29)	0.39
EBITDA (1)	2,398	4,073	10,356
EBITDA per share (2)	0.16	0.27	0.68
Total assets	63,338	64,926	68,555
Cash provided by operations (3)	2,895	4,563	8,665
Cash and cash equivalents	196	2,711	2,413
Total bank indebtedness	3,448	-	287

Items (1), (2) and (3) above are non-GAAP measures and are defined by the Company under the section "Use of Non-GAAP Measures" in this MD&A.

Other than during the latter portion of the year, oilfield activity levels in the WCSB and overall industry conditions were generally improved in 2008 versus the relatively challenging business climate for oil and gas service companies in 2007. Drilling rig utilization rates reflect an industry benchmark measure of oil and gas activity. Drilling in the WCSB is predominantly focused on natural gas activities. During 2008, North American natural gas inventories decreased toward 5-year average levels, increasing gas prices sufficiently to lead to increased gas drilling programs in western Canada, moderated by concerns regarding the new Alberta Royalty Program announced in late 2007 to take effect in 2009. As a result, overall drilling rig utilization rates averaged 47% in 2008 compared to 42% and 55% in 2007 and 2006, respectively.

As a result of the higher industry activity levels, together with a higher pricing and cost environment, the Company's consolidated revenues in 2008 were 44% higher than those in 2007; 2007 revenues had declined 25% from those of 2006. The Company recorded a net loss for the year ended December 31, 2008 of \$1,901,000 compared to a net loss of \$4,481,000 in 2007 and net income of \$5,931,000 in 2006. The Company's net loss in 2008 included charges for relocating and consolidating its accounting, executive management, and sales offices in Calgary of \$850,000 as well as a write down of plant equipment at its Sundre, Alberta fractionation facility of \$2,129,000. The 2007 net loss included a goodwill impairment of \$6,049,000 which resulted from management's assessment of the impact of reduced oilfield activity levels, the industry's expectations of significantly reduced activity levels in subsequent years, and the overall decline in the Company's market capitalization. The Company's net income in 2006 was largely unaffected by one-time items.

Divestiture

During 2007, the Company sold its 25% interest in the Egyptian Canadian Company for Chemicals Industries – F.Z. ("ECC"), for total proceeds of \$750,000 U.S. (\$826,000 Cdn.), less transaction fees of \$2,278 U.S., to a privately held Egyptian company based in Cairo, Egypt. During 2007, the Company recorded a \$58,000 (December 31, 2006 – \$230,000) write down in respect of the carrying value of its Egyptian investment. The sale completed the disposition of the Company's investment in ECC.

Results of Operations – Annual Review

Revenue

Consolidated revenues for the year ended December 31, 2008 increased by \$35,497,000, or 44%, to \$115,797,000 from \$80,300,000 for the year ended December 31, 2007. The increase in the Company's consolidated revenues in 2008 when compared to 2007 was largely influenced by increased drilling activity in the WCSB in response to increased prices for both natural gas and crude oil in North America prior to the year-end decline in commodity prices which accompanied the global credit crisis. Revenues by business segment were as follows:

- *Oilfield Services.* Segment revenues increased by \$19,976,000, or 39%, to \$71,370,000 in 2008 from \$51,394,000 in 2007 primarily due to increased oilfield activity levels combined with higher prices and cost structure. Consequently, during 2008, the Company experienced higher product selling prices and the overall volume of products sold was up approximately 15% over 2007 volumes.
- *Energy Marketing.* Segment revenues increased by \$13,761,000, or 72%, to \$32,986,000 in 2008 from \$19,225,000 in 2007 largely as a result of the higher activity levels and increased prices on the sale of by-products.
- *Transportation Services.* Third party segment revenues increased by \$1,760,000, or 18%, to \$11,441,000 in 2008 from \$9,681,000 in 2007. Inter-segment revenues increased \$2,461,000 or 54% to \$7,018,000 in 2008, from \$4,557,000 in 2007. Except for the second quarter of 2008, in which the fleet was directed to provide a higher proportion of its services to the Company's Oilfield Services and Energy Marketing segments, third party revenues were higher each quarter in 2008 than in the comparable period in 2007, due to the securing of new business arrangements. Overall revenue increases were also accompanied by a corresponding increase in fleet size during the year.

Operating Expenses

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

Overall operating expenses as a percentage of revenues, after elimination of inter-segment transactions, were 93% in 2008 versus 90% for 2007. The overall increase in operating expenses as a percentage of revenues for

2008 versus 2007 reflects the effect of the dramatic rise in crude oil prices during the first seven months of 2008, during which time price recoveries lagged feedstock cost increases. Plant operating and maintenance expenditures were also higher in relation to reinstalling and refitting equipment at Sundre in order to resume operations during the third quarter of 2008.

General and Administrative (“G&A”)

General and administrative expenses include salaries and other related expenses for the Company's administrative, finance, information technology and human resource functions. G&A expenditures increased by \$223,000, or 5%, to \$4,444,000 in 2008 from \$4,221,000 in 2007. These expense increases were largely due to higher occupancy costs in Calgary, as well as professional fees in relation to internal controls certification.

Depreciation

Depreciation expense increased by \$138,000, or 6%, to \$2,495,000 in 2008 compared to \$2,357,000 in 2007. The increase in depreciation expense is attributable to a full year of depreciation of the Flowback facility in 2008 versus only seven months during 2007, as well as assets such as the desalter brought on line at Slave Lake. At the Slave Lake facility the desalter or water-wash system will contribute to improved operating efficiency and provide the plant with the ability to process a broader range of feedstock.

At December 31, 2008, \$2,046,000 of costs associated with the construction of the Company's blend facility and bi-directional pipeline connection in Slave Lake, Alberta have not been depreciated as the projects were completed late in the year. The completion of the blend facility in tandem with the pipeline connection in Slave Lake is expected to reduce the costs of transporting the Company's by-products. The projects were scheduled for completion and commissioning during the first quarter of 2008, however project completion was delayed to late in 2008 due to delays in software coordination with the pipeline as well as equipment modifications needed to permit year round operations.

Goodwill Impairment

During 2007, management evaluated the carrying value of goodwill and concluded that the goodwill associated with its hydrocarbon fluids segments was impaired. In determining the impairment amount, management considered actual operating results, expectations of oil and gas industry activity levels, current market data and the overall decline in the Company's economic value reflected by its share price. As a result, the Company recorded an impairment of \$6,049,000, representing the entire amount of goodwill that was being carried on the balance sheet. The goodwill impairment was recorded as a non-cash charge to income in the third quarter of 2007. The goodwill was initially recorded with the acquisition of Trysol Canada Ltd. on March 31, 2001.

Plant Tank Farm Remediation

During 2007, the Company accrued environmental costs of \$240,000 related to the clean-up of its tank farm in Sundre, Alberta. The \$240,000 is an estimate of the expected costs and the Company is obtaining quotations and making final preparations for the clean-up work. The Company carries insurance against such risks and anticipates that a portion of the environmental costs will be covered by insurance.

Income Taxes

The provision for income taxes in 2008 includes current taxes of \$119,000 compared to \$748,000 in 2007. The decrease in current taxes in 2008 when compared to last year resulted from the reduction in currently taxable earnings.

In 2008, the Company's effective combined federal and provincial tax rate is 19% as compared to less than 1% in 2007. The effective rate for 2008 was less than the 29.5% combined federal and provincial statutory rate primarily because of the significant portion of the write-down in relation to the direct-fired heaters that is not deductible in the current year. The unusual rate for 2007 is a combination of two significant items. Firstly, the reduction in the future tax rates resulting from changes in 2007 to substantively enacted changes in the Canadian Federal income tax rates over the subsequent five years resulted in a tax recovery of approximately \$655,000. The Federal income tax rate reduction effective December 14, 2007 resulted in a combined statutory rate of 32.12% in 2007. This rate is scheduled to be reduced to 25% by 2012. Secondly, the 2007 effective rate was impacted by the goodwill impairment which is non-deductible for tax purposes. The tax effect of this was approximately \$1,943,000. Upon adjusting the 2007 tax provision for these two items, the effective tax rate is 29%.

Net Loss

For the year ended December 31, 2008, the Company reported a net loss of \$1,901,000, or \$0.13 per common share diluted, compared to a net loss of \$4,481,000, or \$0.29 per common share diluted, for the year ended December 31, 2007. The reduced net loss in 2008 versus 2007 resulted from a combination of lower earnings from operations despite increased sales revenue offset by lower non-cash charges in 2008. Increased revenues in 2008 reflected a recovery in oilfield activity levels; however, margins were adversely affected by competition and crude feedstock price volatility. In addition, 2008 operating results included one-time expenses of \$850,000 for the consolidation of the accounting and administrative offices from Leduc to Calgary. Non-cash charges in 2008 included the \$2,129,000 write-down of the direct-fired heaters. Non-cash charges in 2007 included the impairment in the carrying value of goodwill associated with a previous business acquisition of \$6,049,000.

EBITDA (refer to "Use of Non-GAAP Measures") for the year ended December 31, 2008 decreased by \$1,675,000, or 41%, to \$2,398,000 from \$4,073,000 in 2007. The reduction in EBITDA in 2008 when compared to 2007 was largely influenced by the reduction in the Company's pre-tax earnings from operations.

Liquidity and Capital Resources

In 2008, the Company generated \$2,895,000 in cash provided by operating activities compared to \$4,563,000 in 2007. The decrease was the result of a decrease in operating earnings. The Company's working capital was \$13,915,000 at December 31, 2008 compared to \$15,991,000 at December 31, 2007. The decrease in working capital in 2008 when compared to last year is largely due to the Company's use of funds for capital projects at its plants and equipment purchases for Millard. In 2007, the Company funded a relatively large capital program from cash provided by operating activities. The Company's current ratio (defined as current assets divided by current liabilities) was 2.3 to 1 at December 31, 2008 compared to 2.8 to 1 at December 31, 2007.

In 2008, the Company increased its bank operating line of credit to \$10,500,000, subject to margining requirements in relation to accounts receivable and inventory, in order to finance its working capital requirements, and increased its bank guarantee facility to \$17,000,000 to accommodate feedstock arrangements and purchase commitments with its suppliers. At December 31, 2008 the Company had outstanding bank guarantees of \$3,634,600 (December 31, 2007 - \$2,632,500). In addition, the Company has an unused \$8,000,000 demand revolving credit facility that bears interest at the bank's prime rate plus 0.90%, to assist in financing projects undertaken at the Company's facilities and equipment purchases. As of the date of this MD&A, the Company is in compliance with all debt covenants and obligations. The terms of the credit facility with the bank provide that the demand revolving credit facility loans, while repayable on demand by the bank, will not be demanded by the bank unless the Company is in default of its obligations or covenants and, if in the opinion of the bank, there has been a change in the business, financial condition, operations or conduct of the Company. The Company believes that it has sufficient liquidity to operate its business and to execute its strategic plan.

In 2008, the Company financed its capital requirements, totaling \$4,134,000, from cash provided by operating activities and bank indebtedness. Primary items making up this expenditure included completion of the Slave Lake blend facility, the direct-fired heaters at Sundre which were subsequently written down, increases to the Millard truck fleet, and office interiors and furniture at the consolidated Calgary head office. The plan for 2008 had included a focus on completing existing projects at an estimated cost of \$3,000,000, however this amount was exceeded due to the Calgary head office consolidation costs, winterization of the blend facilities, and expansion of the transportation fleet.

By comparison, net cash used for investing activities during 2007 totaled \$8,957,000 which included \$7,236,000 directed to the construction of the flowback facility in Sundre, the bi-directional pipeline acquisition and blend facility construction in Slave Lake, automation and heater upgrades in Sundre and the installation of the desalter at the Slave Lake plant. Funds used in Millard during 2007 were directed to the replacement of tractors, construction of new office facilities and purchase of fixed storage tanks.

Net cash from financing activities totaled \$3,078,000 in 2008 versus a use of cash in 2007 of \$392,000. Cash from financing activities in 2008 consisted of increases in the operating line, offset by repurchases of the Company's common shares under the normal course issuer bid. Cash used in financing activities in 2007 were directed to repurchases of the Company's common shares and repayment of all debt under the demand revolving credit facility.

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 (\$000)	Payments due by period				
	Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Operating leases (1)	1,902	692	835	375	-
Total contractual obligations	1,902	692	835	375	-

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

In the normal course of business with vendors the Company may become contingently liable for performance under letters of guarantee and credit. In this regard, the Company has arranged a \$17,000,000 bank guarantee facility available as security for its feedstock arrangements and purchase commitments. At December 31, 2008 the Company had provided letters of guarantee totaling \$3,634,600, which terminated in February, 2009, in favour of two suppliers for the purchase of petroleum feedstock.

For 2009 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 December 31, 2008 the Company had 15,027,507 common shares outstanding. In addition, as at December 31, 2008, the Company has reserved 565,000 common shares for issuance under outstanding stock options.

On June 27, 2007, the Company announced a normal course issuer bid to purchase up to 766,465 of its issued and outstanding common shares at the market price at the time of acquisition beginning on July 3, 2007 and ending on July 2, 2008, or such earlier time as the bid is completed or terminated by the Company. During 2007, the Company purchased 76,200 of its common shares at an average price of \$2.74, including transaction fees, which were cancelled and returned to treasury. The cost of common shares purchased totaled \$209,063 of which \$148,030 was recorded as a charge against share capital at the average carrying value of the Company's issued and outstanding common shares, with the balance of \$61,033 charged against retained earnings.

On July 15, 2008, the Company commenced a new normal course issuer bid to purchase up to 760,805 of its issued and outstanding common shares. Purchases under the normal course issuer bid will terminate on July 14, 2009, or such earlier time as the bid is completed or terminated by the Company. All shares purchased under the issuer bid will be cancelled. During 2008, 225,600 common shares were purchased by the Company of which 43,100 common shares were acquired at purchase prices, including transaction fees, which exceeded the assigned value of the Company's issued and outstanding common shares, at \$1.94 per common share, and 182,500 common shares were acquired at purchase prices, including transaction fees, which were less than the assigned value. The cost of common shares purchased which exceeded the assigned value of the Company's common shares totaled \$89,237, or \$2.07 per common share, of which \$83,727 was recorded as reduction of share capital at the average carrying value of the Company's common shares, with the balance of \$5,510 charged against retained earnings. The cost of common share purchases which were less than the assigned value of the Company's common shares totaled \$280,912, or \$1.54 per common share, of which \$354,533 was recorded as a reduction of share capital at the average carrying value of the Company's common shares, with the off-setting balance of \$73,621 recorded as an increase in contributed surplus.

Summary of Quarterly Results

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

2008 (\$ thousands except per share amounts) (unaudited)	Three month period ended			
	December 31	September 30	June 30	March 31
Revenues	28,189	32,471	21,390	33,747
Net earnings (loss) for the period	81	(845)	(1,067)	(70)
Net earnings (loss) per share for the period				
Basic	0.01	(0.06)	(0.07)	0.00
Diluted	0.01	(0.06)	(0.07)	0.00

2007 (\$ thousands except per share amounts) (unaudited)	Three month period ended			
	December 31	September 30	June 30	March 31
Revenues	25,133	19,823	7,468	27,876
Net earnings (loss) for the period	643	(6,319)	(648)	1,843
Net earnings (loss) per share for the period				
Basic	0.04	(0.41)	(0.04)	0.12
Diluted	0.04	(0.41)	(0.04)	0.12

Review of Quarterly Trends

The Company's quarterly financial performance is affected by the level of overall oilfield activity, which is broadly measured by drilling rig utilization rates and the number of well completions in the WCSB, and seasonal swings in activity due to the effects of extended spring break-up conditions or unseasonably wet or cold weather conditions. In addition, declining oilfield activity levels and the resultant excess industry capacity create a very aggressive competitive landscape dominated by substantial pressures on pricing.

The Company's quarterly financial performance in 2008 when compared to the same periods in 2007 was affected by crude feedstock price volatility, a general increase in oilfield activity levels, competition, and the variation in the length of spring break-up conditions.

First quarter sales for 2008 were higher than those in the same period of 2007 due primarily to higher prices obtained for sale of crude by-products and the timing of spring conditions which adversely affected 2007 sales in early March, several weeks earlier than normal and particularly in comparison to those in 2008. Despite record sales volumes for the first quarter of 2008, overall margins in our Oilfield Services business segment declined on a comparative basis as a result of a more competitive pricing environment, spiking crude oil costs, and reduced capacity at the Sundre fractionation plant.

Sales volumes were much higher in the second quarter of 2008 when compared with the same period in 2007, due to higher by-product prices and large volume increases in both Fluids and by-product sales. However, overall margins continued to be restrained by a very competitive environment, as well as continuing increases in feedstock costs, which the Company was unable to fully recover in its Fluids prices.

During the third quarter of 2008, crude prices spiked to a record high, then began a decreasing trend which allowed the Company to recapture some margin lost previously in attempting to keep pace with rising costs. Excluding the impact of the write-down on the direct-fired heaters, operations were profitable in the third quarter of 2008. Strong industry activity and rig utilization contributed to strong sales at a time when the Sundre fractionation facility was resuming operations during the quarter. Although third quarter revenues in 2008 were 63% higher than those in 2007, only 14% was attributable to volume increases, with the remainder due primarily to higher prices for Fluids and crude by-products. Indicators of pricing levels are average posted crude oil prices quoted at Edmonton for the respective quarters in 2008 and 2007 which were \$771 and \$503 per cubic metre. During the third quarter of 2007, declining rig utilization rates combined with the industry's unfavourable outlook for near-term oil and gas activity levels and the overall decline in the Company's economic value as reflected by its share price, resulted in the Company recording a goodwill impairment of \$6,049,000, representing the entire amount of goodwill carried on the balance sheet. As a result, the Company recorded a net loss of \$6,319,000 in the third quarter of 2007.

Review of Fourth Quarter Results

Exploration and production activities in many of the northern regions of the WCSB are feasible only in winter months when the ground is frozen hard enough to support the weight of heavy equipment. As a result, the fourth quarter normally reflects a period of resurgence in oilfield activity as remote regions become accessible. The number of wells drilled on a completion basis increased by 52% to 7,912 in the fourth quarter of 2008 compared to 5,212 during the same quarter in 2007. While rig utilization of 44% in the fourth quarter of 2008 was up 6% over the same period in 2007, the effects of the global credit crisis became evident, particularly in December 2008.

Consolidated revenues for the three months ended December 31, 2008 increased by \$3,056,000, or 12%, to \$28,189,000 from \$25,133,000 in the same period last year. Despite lower pricing levels, the Company's revenue increases were due to 19% higher volumes of Fluids and by-product sales over the comparable period in 2007. While operations were profitable for the fourth quarter of 2008, results were negatively impacted by reduced sales volumes for Fluids late in the quarter, and by reduced prices for sales of a large volume of by-products during the quarter.

Revenues by business segment were as follows:

- *Oilfield Services.* Segment revenues increased by \$5,276,000, or 36%, to \$20,083,000 in the fourth quarter of 2008 from \$14,807,000 in the same period in 2007, which largely reflected increased volumes from higher oilfield activity levels versus the prior comparable period.
- *Energy Marketing.* Segment revenues decreased by \$2,305,000, or 30%, to \$5,297,000 in the fourth quarter of 2008 from \$7,602,000 in the fourth quarter of 2007, attributable to lower prices available from third party blenders for its by-products.
- *Transportation Services.* Third party segment revenues increased slightly to \$2,809,000 in the fourth quarter of 2008 versus \$2,724,000 in the same period last year reflecting an overall higher level of oilfield activities in the quarter. Inter-segment revenues of \$2,083,000 in the fourth quarter of 2008 were also up considerably from \$1,298,000 in the same period last year, as a result of higher activities in the Company's other segments.

Operating expenses as a percentage of revenues were essentially flat at 93% in the fourth quarter of 2008 and 2007, however there were large offsetting trends in each of Oilfield Services and Energy Market segments. The significant reduction in prices for by-products versus the costs of previous purchases had a negative impact on operating costs in Energy Marketing, which virtually eliminated the favourable impact of higher product margins for Fluids.

General and administrative expenses for the fourth quarter of 2008 were up \$89,000 or 10% over the comparable period in 2007 due to higher occupancy costs in Calgary and professional fees in relation to internal controls certification. Depreciation expenses were slightly lower in the fourth quarter of 2008 versus the same period last year due to the impact of asset write-downs in 2008, which more than offset the increase in assets purchased and placed into service during 2008.

For the three months ended December 31, 2008 the Company reported net earnings of \$81,000 compared to net earnings of \$643,000 in the same period last year. Higher net earnings in the fourth quarter of 2007 versus those in the comparable period in 2008 were largely attributable to the reduction in future tax rates recorded to reflect substantively enacted changes in the Canadian Federal tax rates over the next five years.

EBITDA (refer to "Use of Non-GAAP Measures") for the three months ended December 31, 2008 increased by \$195,000, or 21%, to \$1,115,000 from \$920,000 in the comparative quarter last year. The increase in EBITDA for the comparative quarters resulted from the increase in the Company's pre-tax earnings.

Cash provided by operating activities for the three months ended December 31, 2008 totaled \$786,000 compared to \$1,116,000 for the three months ended December 31, 2007. Capital expenditures in the fourth quarter of 2008 totaled \$581,000 compared to \$3,591,000 in the same period last year. Capital expenditures in the fourth quarter of 2008 were directed to the winterization of the blend facility in Slave Lake, office leasehold improvements and furniture at the consolidated Calgary offices, and fleet additions in Millard.

Trends and Outlook

Over the past months, we have concluded several plant optimization and infrastructure development programs which have positioned our operations to run efficiently and profitably. Throughput has been streamlined at both the Slave Lake and Sundre plants, and we have secured increased diversity of feedstock supply and

transportation arrangements. Shipments have been initiated through our bi-directional lateral pipeline to the major pipeline near our Slave Lake plant, and the desalter has met expectations in reducing downtime.

Having navigated through a year with record crude price volatility, we continue to maintain a healthy balance sheet. We have completed consolidation of the head office functions in Calgary and the new executive management is focused and well oriented to the business. While our short-term plan emphasizes caution, our longer-term strategy involves ongoing investigation of strategically appropriate and accretive opportunities in our business areas.

Industry expectations for activity levels in the WCSB for the upcoming year are relatively pessimistic and variable, with estimates in the range of 11,000 to 14,000 wells to be drilled in 2009. Rig utilization rates are expected to be at 15-year lows in the 30% range. This is beginning to become evident in relatively low activity during the first quarter of 2009, which by mid-February represented the weakest start to the drilling season since 1992. Nevertheless, some upstream players have built flexibility into capital expenditure plans for 2009, in order to react quickly, should commodity prices improve later in the year.

The significant downward pressure on commodity prices resulting from the contraction in the worldwide economy is expected to continue throughout the year, depending on the impact from and effectiveness of economic stimulus measures implemented by governments around the globe. As a result, we anticipate lower demand for our products and services in the challenging year ahead.

In response to the turbulent and challenging environment, our focus will remain on preserving and strengthening our financial position, including cost-cutting initiatives and focused capacity planning. Our plans are to commit capital only to those initiatives required to provide worker safety and contribute significantly to more efficient operations. As industry conditions improve, our strong balance sheet and highly disciplined approach to operations will make us well positioned to take full advantage of opportunities that develop.

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.

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, except for the fractionation processing facilities which are depreciated on a straight-line basis. Judgment is involved in determining the useful life and salvage value 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, salvage value, 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.

Inventories

Inventories are carried at the lower of average cost and estimated net realizable value. Fluids or finished goods inventories include an allocation of direct labour and overhead attributable to production. High volatility in crude oil feedstock prices and attainable prices for Fluids during 2008 has affected the potential net realizable value of inventories, therefore management assesses the values of inventories on a regular basis and records adjustments as necessary.

Accounts Receivable

Accounts receivable are recorded net of allowance for doubtful accounts. Tightening credit conditions during the year have increased collection risk; management closely monitors longer outstanding accounts on an ongoing basis and assesses the impact on at least a monthly basis.

Changes in Accounting Policies and Practices

(a) Capital Disclosures

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

(b) Financial Instruments – Presentation and Disclosure

Effective January 1, 2008, the Company adopted CICA Sections 3862, "Financial Instruments – Disclosures" and 3863, "Financial Instruments – Presentation" issued in October, 2006 by the CICA to replace Section 3861, "Financial Instruments – Disclosure and Presentation". These standards require an increased emphasis on disclosures about the nature and extent of risk arising from financial instruments and how an entity manages those risks. The new standards apply to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007, specifically January 1, 2008 for the Company. Further details regarding the Company's management of financial instruments are provided in the notes to the financial statements.

(c) Inventories

Effective January 1, 2008 the Company adopted CICA Section 3031, "Inventories" to harmonize accounting for inventories under Canadian GAAP with International Financial Reporting Standards. This standard requires the measurement of inventories at the lower of cost and net realizable value and includes guidance on the determination of cost, including the allocation of overheads and other costs to inventory. This standard requires the allocation of fixed production overheads to the costs of conversion to be based on the normal capacity of the production facilities. The standard also requires the consistent use of either first-in, first-out (FIFO) or weighted average cost formula to measure the cost of other inventories and requires the reversal of previous write-downs to net realizable value when there is a subsequent increase in the value of inventories. The impact of the adoption of this new section on the consolidated financial statements has not been material.

Future Changes in Accounting Policies

(a) Goodwill and Intangible Assets

In February 2008, the CICA issued Handbook Section 3064, "Goodwill and Intangible Assets" which replaces the existing standard for goodwill and other intangible assets in Section 3062 and research and development costs in Section 3450. The new Section is effective for the Company beginning January 1, 2009. The Section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Adoption of this standard will not materially impact the Company's financial statements.

(b) International Financial Reporting Standards ("IFRS")

The Canadian Accounting Standards Board has announced that accounting standards in Canada, as used by public companies, will be converged to International Financial Reporting Standards ("IFRS") effective January 1, 2011. The Company will convert to these new standards according to the timetable set with these new rules. The changeover date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011.

IFRS uses a conceptual framework similar to Canadian GAAP but there are significant differences in recognition, measurement and disclosure requirements. As a result, the Company has established a changeover plan to convert to these new standards according to the timetable set with these new rules. An implementation plan has been created and at this time the impact on the Company's future financial position and results of operations is not reasonably determinable or estimable.

(c) Business Combinations

CICA Handbook Section 1582, "Business Combinations" will be applicable to business combinations for which the acquisition date is on or after the Company's interim and fiscal year beginning January 1, 2011. Early adoption is permitted. The section improves the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements regarding a business combination and its effects.

(d) Consolidated Financial Statements

CICA Handbook Section 1601, "Consolidated Financial Statements" will be applicable to financial statements relating to the Company's interim and fiscal year beginning on or after January 1, 2011. Early adoption is permitted. This section establishes standards for the preparation of consolidated financial statements. The Company has not yet determined the impact of the adoption of this new Section on the consolidated financial statements.

(e) Non-controlling Interests

CICA Handbook Section 1602, "Non-controlling Interests" will be applicable to financial statements relating to the Company's interim and fiscal year beginning on or after January 1, 2011. Early adoption is permitted. This section establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination.

Financial Instruments and Business Risks

Fair Values

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

Credit Risk

The Company's Oilfield Services segment's revenues are predominantly from services provided to large oil and gas companies which may result in a significant exposure to one customer or on a combined basis to several individual customers. The Company's Energy Marketing revenues are attributable to several large oil & gas producers and oilfield services companies which account for all of this segment's revenues. Concentration of credit risk on the Company's trade accounts receivable exists in the oil and gas industry. The Company's management regularly reviews outstanding accounts receivable and follows up with customers when settlement has not occurred on a timely basis. Management believes that the Company is exposed to minimal credit risk since the majority of its business is conducted with companies that have a large market presence in the industry and/or are large publicly held companies.

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 Sunde and Slave Lake fractionation plants. The potential fluctuations in petroleum and natural gas prices can have a significant impact, particularly in the short-term, on the margins the Company obtains on its Fluids. To mitigate the effects on profitability of upward changes in petroleum prices, the Company implements product price increases to reflect their underlying values. This ability, however, is impacted by competitor pricing. 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 December 31, 2008 and 2007 the Company did not have any outstanding crude oil and natural gas forward purchase contracts.

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 Bankers' Acceptance rates and floating rates on debt.

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's Oilfield Services segment has received a Work Safe Alberta 2006 Best Safety Performer Award for exceptional performance in workplace health and

safety. This award is presented to only 300 of a possible 140,000 employers. 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 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

The exploration and development programs of oil and gas companies are the principle drivers affecting demand for the Company's Fluid sales in the drilling and completions industry. The primary catalyst to high expenditures and activity levels is commodity pricing which, in turn, is influenced by supply and demand imbalances. The ability to forecast the price of crude oil or natural gas is extremely difficult as many global factors affecting commodity prices are beyond the control of the Company.

There is also a strong correlation between drilling activity on deep wells drilled in the foothills region as well as northern Alberta and British Columbia and demand for the Company's hydrocarbon fracturing and drilling fluids. Oil and gas activity in these geographic regions is normally strong during winter months or other times when climatic conditions are favourable. In addition, as our Fluids and services are sold in highly competitive markets, the Company's revenues and earnings can be affected by changes in competitive prices and new competing technologies and methods.

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.

Disclosure Controls and Internal Control Over Financial Reporting

National Instrument 52-109, "Certification of Disclosure in Issuers' Annual and Interim Filings", issued by the Canadian Securities Administrators requires that the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") for an issuer certify that they are responsible for establishing and maintaining disclosure controls and procedures for the issuer, that disclosure controls and procedures have been designed to provide reasonable assurance that material information relating to the issuer is made known to them, that they have evaluated the effectiveness of the issuer's disclosure controls and procedures, and that their conclusions about the effectiveness of those disclosure controls and procedures at the end of the period covered by the relevant annual filings by the issuer have been disclosed.

An evaluation was performed under the supervision and with the participation of the Company's management, including the CEO and CFO, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as defined in National Instrument 52-109. Based on that evaluation, the Company's management, including the CEO and CFO, have concluded that the Company's disclosure controls and procedures were designed to provide a reasonable level of assurance over disclosure of material information, and are effective as of December 31, 2008.

In addition, an assessment and evaluation of the design and operating effectiveness of internal control over financial reporting was conducted by and under the supervision of management, including the CEO and CFO. In making this assessment, the Company used the criteria established by the Committee of Sponsoring Organizations of the Treadway Commission in the *Internal Control - Integrated Framework* (COSO Framework). Based on that evaluation, the Company's management concluded that the Company's internal control over financial reporting is effective and provides reasonable assurance regarding the reliability of the Company's financial reporting and its preparation of financial statements for external purposes in accordance with Canadian Generally Accepted Accounting Principles, and is effective as of December 31, 2008.

Internal control over financial reporting, no matter how well designed, has inherent limitations. Therefore, internal control over financial reporting determined to be effective can provide only reasonable, and not absolute, assurance with respect to financial statement preparation and may not prevent or detect all misstatements.

There were no changes in the Company's internal control over financial reporting during the period beginning October 1, 2008 and ended on December 31, 2008 that have materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.

International Financial Reporting Standards (“IFRS”)

In February 2008, the CICA's Accounting Standards Board confirmed transition timing for publicly accountable enterprises in Canada to adopt IFRS. Accordingly, the Company will be required to adopt IFRS on January 1, 2011, including reporting for interim periods in fiscal 2011. The company has developed a changeover plan to complete transition to IFRS by January 1, 2011, including the preparation of required comparative information relating to 2010.

The key elements of Enerchem's changeover plan include:

- Determination of appropriate changes to accounting policies and required disclosures;
- Identification and implementation of changes in supporting processes and information systems;
- Compliance with internal control over financial reporting requirements;
- Communication with internal and external stakeholders regarding expected outcomes; and
- Training of internal staff and education of relevant external stakeholder to support the changes.

The Company has completed a diagnostic analysis to determine high impact and complex aspects of IFRS specific to Enerchem, as well as the adequacy of current information systems to support the changeover. A project management office has been established and governance roles have been developed for monitoring subsequent phases of the project. The Company is now analyzing accounting policy details in key components of the project and considering alternatives for modification of supporting processes. The changeover plan will be updated in the latter half of 2009 to incorporate new and amended IFRS accounting standards. Due to significant changes anticipated in key elements of IFRS before 2011, the impact of IFRS on the Company's consolidated financial statements is not reasonably determinable at this time.

Management's Responsibility

The management of Enerchem International Inc. is responsible for the preparation of the accompanying consolidated financial statements and the preparation of all information in the annual report. The consolidated financial statements have been prepared using Canadian generally accepted accounting principles and are considered by management to present fairly the financial position and operating results of the Company.

The Company maintains various systems of internal control to provide reasonable assurance that transactions are appropriately authorized and recorded, that assets are safeguarded and that financial records are properly maintained to provide accurate and reliable financial statements.

The Board of Directors of the Company carries out its responsibilities for the financial statements through the Audit Committee. The Audit Committee has and will meet periodically with the Company's management and independent auditors to review financial reporting matters and internal controls and to review the consolidated financial statements. The Audit Committee reported its findings to the Board of Directors who have approved the consolidated financial statements.

The Company's independent auditors, PricewaterhouseCoopers LLP, Chartered Accountants, have examined the consolidated financial statements whose findings are contained in this annual report.



Kenneth Bagan
President & Chief Executive Officer



Timothy Lemke, CA
Vice-President Finance & Chief Financial Officer

Auditors' Report

To the Shareholders of Enerchem International Inc.

We have audited the consolidated balance sheets of Enerchem International Inc. as at December 31, 2008 and 2007 and the consolidated statements of operations, comprehensive loss and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



PricewaterhouseCoopers LLP
Chartered Accountants

Edmonton, Canada
March 12, 2009

Consolidated Balance Sheets

As at December 31

(\$ thousands)

2008 **2007**

Assets

Current assets

Cash and cash equivalents	196	2,711
Accounts receivable	16,217	16,075
Income taxes receivable	26	306
Inventories (note 7)	7,562	5,839
Prepaid expenses	188	117
Future income taxes (note 14)	70	73

24,259 **25,121**

Other assets (note 6)

125 316

Property, plant and equipment (note 8)

38,954 **39,489**

63,338 **64,926**

Liabilities

Current liabilities

Bank Indebtedness (note 10)	3,448	-
Accounts payable and accrued liabilities	6,896	9,130

10,344 **9,130**

Asset retirement obligations (note 11)

218 205

Future income taxes (note 14)

3,179 **3,747**

13,741 **13,082**

Contingent liabilities and commitments (note 16)

Shareholders' equity

Share capital (note 12(b))	29,193	29,631
Contributed surplus (note 12(c))	1,599	1,501
Retained earnings	18,805	20,712

49,597 **51,844**

63,338 **64,926**

Signed on behalf of the Board,



Larry B. Phillips
Director



William D. Burch
Director

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

Consolidated Statements of Operations, Comprehensive Loss and Retained Earnings

	For the years ended December 31	
(\$ thousands, except per share amounts)	2008	2007
Revenues	115,797	80,300
Expenses		
Operating	108,210	71,974
General and administrative	4,444	4,221
Restructuring costs (note 17)	850	-
Depreciation and amortization	2,495	2,357
Accretion expense (note 11)	13	13
Amortization of pre-operating costs (note 2(k))	-	87
Interest expense (note 13)	107	8
	116,119	78,660
(Loss) earnings from operations before other (expense) income	(322)	1,640
Other (expense) income		
Interest income and other	100	235
Plant tank farm remediation (note 16(b))	-	(240)
Loss on write-down of plant equipment (note 16(c))	(2,129)	
Goodwill impairment (note 9)	-	(6,049)
Loss on write-down of investment in foreign operations	-	(58)
Gain (loss) on disposal of property, plant and equipment	5	(27)
	(2,024)	(6,139)
Loss before income taxes	(2,346)	(4,499)
Income taxes (note 14)		
Current	119	748
Future recovery	(564)	(766)
	(445)	(18)
Net loss and comprehensive loss for the year	(1,901)	(4,481)
Retained earnings, beginning of year	20,712	25,254
Common shares repurchased and cancelled (note 12(b))	(6)	(61)
Retained earnings, end of year	18,805	20,712
Basic loss per share (note 12(e))	(0.13)	(0.29)
Diluted loss per share (note 12(e))	(0.13)	(0.29)
Weighted average shares outstanding (note 12(e))		
Basic	15,177	15,293
Diluted	15,177	15,304

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

Consolidated Statements of Cash Flow

For the years ended
December 31

(\$ thousands)	2008	2007
Operating activities		
Net loss	(1,901)	(4,481)
Items not affecting cash		
Depreciation, amortization and accretion expense	2,509	2,457
Stock based compensation	25	377
Amortization of plant turnaround costs (note 6)	702	842
Loss (gain) on disposal of property, plant and equipment	(5)	27
Write-down of investment in foreign operations	-	58
Loss on write-down of plant equipment (note 16(c))	2,129	-
Goodwill impairment (note 9)	-	6,049
Future income tax recovery (note 14)	(564)	(766)
	2,895	4,563
Changes in non-cash components of working capital		
Net change in accounts receivable	(142)	312
Net change in inventories and prepaid expenses	(1,795)	3,529
Net change in accounts payable and accrued liabilities	(2,234)	1,872
Net change in income taxes receivable	280	(629)
	(3,891)	5,084
Net cash (used in) provided by operating activities	(996)	9,647
Investing activities		
Purchase of property, plant and equipment	(4,134)	(9,118)
Decrease in promissory note	-	61
Proceeds from disposal of property, plant and equipment	49	123
Increase in other assets	(512)	(849)
Proceeds from sale of foreign investment	-	826
Net cash used in investing activities	(4,597)	(8,957)
Financing activities		
Increase in bank indebtedness	3,448	-
Issuance of common shares	-	104
Repurchase of common shares under normal course issuer bid (note 12(b))	(370)	(209)
Repayment of demand revolving loan	-	(287)
Net cash provided by (used in) financing activities	3,078	(392)
Increase (decrease) in cash and cash equivalents	(2,515)	298
Cash and cash equivalents - beginning of year	2,711	2,413
Cash and cash equivalents - end of year	196	2,711

Supplementary information (note 15)

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

Notes to Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

1. Nature of Operations

Enerchem International Inc. (“Enerchem” or “Company”) is a producer of hydrocarbon drilling and fracturing fluids, designed to provide cost effective solutions to the upstream oil and gas industry, and specialty solvents which are designed to help resolve production and processing problems encountered by downstream producers. The Company also provides energy marketing services and, through its wholly-owned subsidiary, Millard Trucking Ltd. (“Millard”), provides fluid transportation and other related oilfield services. The Company’s common shares trade on the Toronto Stock Exchange under the symbol “ECH”.

2. Summary of Significant Accounting Policies

(a) Basis of Presentation

These consolidated financial statements are prepared in accordance with generally accepted accounting principles (“GAAP”) in Canada. In the opinion of management, all adjustments which are of a normal and recurring nature and necessary for a fair presentation of the balance sheets, results of operations and comprehensive loss and cash flows of these annual statements, have been included.

These consolidated financial statements include the accounts of the parent company and its wholly-owned subsidiary Millard. All significant inter-company balances and transactions have been eliminated.

(b) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(c) Cash and Cash Equivalents

Cash and cash equivalents consist of cash on deposit and short-term interest bearing securities with maturities of less than three months.

(d) Inventories

Inventories are carried at the lower of average cost and estimated net realizable value. For finished goods inventory, cost includes direct labour and an allocation of overhead that can be attributed to production.

The Company allocates feedstock costs to its products and by-products that are produced simultaneously in the same processing operation through the relative sales value method. Under this method, joint product costs are allocated based on each product’s percentage of the total sales value of all products produced. This method results in the same gross profit percentage for each joint or common product produced. Under this method, revenues from the sale of the Company’s by-products are recorded as revenue with the corresponding cost of by-products sold, as determined under the relative sales value method, recorded as a cost of sales.

(e) Property, Plant and Equipment

Property, plant and equipment are recorded at cost and are depreciated over their estimated useful lives at the following annual rates:

Buildings and blend plant facilities	5% to 20% declining balance
Laboratory equipment	Straight-line method (described below)
Oilfield equipment	10% declining balance
Fractionation processing facilities	10% declining balance
Leasehold improvements	Straight-line method (described below)
Automotive equipment	10% to 20% declining balance
Oilfield trailers	30% declining balance
Office, computer equipment and software	10% declining balance
	20% to 100% declining balance

2. Summary of Significant Accounting Policies (continued)

(e) Property, Plant and Equipment (continued)

Buildings and blend plant facilities includes the Company's flowback cleaning facility which is depreciated on a straight-line basis over the plant's expected useful life of 20 years. A salvage value of \$300,000 has been established for the flowback facility. The Company depreciates its fractionation processing facilities on a straight-line basis over the plants' expected useful lives which range from 29 to 37 years. A salvage value of \$750,000 has been established for the Slave Lake facility and \$250,000 has been established for the Sundre facility.

(f) Future Income Taxes

Income taxes are calculated using the liability method of accounting. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax liabilities or assets. Future income tax liabilities or assets are calculated using substantively enacted tax rates anticipated to apply in periods that the temporary differences are expected to reverse. The effect on future income tax liabilities and assets of a change in the tax rate is recognized in income in the period that the change occurs.

(g) Revenue Recognition

Revenues from sales of the Company's hydrocarbon fluids are recorded in the period in which the fluids are delivered to the customer, the customer has taken title, assumed the risks and rewards of ownership, amounts are known and collection is reasonably assured. Revenues associated with the services provided by Millard are recognized when its services have been provided to and accepted by the customer and collectibility is reasonably assured.

(h) Turnaround Maintenance Costs

The Company has 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. Normal repairs and maintenance to the fractionation plants are expensed as incurred.

(i) Loss Per Share

Basic loss per common share is calculated based on the average number of common shares outstanding during the year. Diluted loss per share is calculated based on the treasury stock method which assumes that any proceeds from the exercise of in the money stock options would be used to purchase the Company's common shares at the average market price during the year. The computation of diluted loss per share is similar to basic loss per share except that the weighted average number of shares outstanding is increased to include additional shares from the assumed exercise of stock options, if dilutive.

(j) Stock Based Compensation

Awards of stock options are accounted for in accordance with the fair value method of accounting for stock based compensation. Under the fair value method, compensation expense equal to the fair value of stock options granted is recorded in the statement of operations over the vesting period. The Company's stock based compensation plans are described in note 12 (d).

(k) Pre-Operating Costs

Pre-operating costs incurred during the start-up of the Company's fractionation plant in Slave Lake, Alberta were capitalized until the plant was capable of consistently providing its intended commercial service. These costs were amortized over a period of five years which commenced on January 1, 2003. At December 31, 2007, the pre-operating costs of \$434,355 were completely amortized.

(l) Asset Retirement Obligations

Obligations associated with the retirement of tangible long-lived assets and associated retirement costs are recognized in the period in which a reasonable estimate of fair value can be made by recording a liability at a discounted fair value for the future abandonment and restoration associated with the properties. The discounted fair value of the liability is capitalized as part of the cost of the related asset and amortized to expense over its useful life. The liability accretes until the date of expected settlement of the retirement obligation. The related accretion expense is recognized in the statement of operations. The provision is revised for any changes to timing related to cash flow or undiscounted abandonment costs. Actual expenditures incurred for the purpose of site restoration are

2. Summary of Significant Accounting Policies (continued)

(l) Asset Retirement Obligations (continued)

charged to the asset retirement obligations to the extent that the liability exists on the balance sheet. Differences between the actual costs incurred and the fair value of the liability recorded will be recognized in the statement of operations in the period incurred.

(m) Impairment of Long-Lived Assets

The Company tests long-lived assets when events or changes in circumstances occur which may cause their carrying value to exceed the total undiscounted cash flows expected from their use and eventual disposition. An impairment loss, if any, is determined as the excess of the carrying value of the asset over its fair value.

The Company determined that it had no impairment of long-lived assets at December 31, 2008 and 2007.

(n) Financial Instruments

The Company has made the following classifications:

- Cash and cash equivalents as well as bank indebtedness are classified as financial assets held for trading and are measured at fair value. Gains and losses related to periodic revaluations are recorded in net earnings;
- Accounts receivable are classified as loans and receivables and are initially measure at fair value and subsequent period revaluations are recorded at amortized cost; and
- Accounts payable and accrued liabilities are classified as other liabilities and are initially measured at fair value and subsequent periodic revaluations are recorded at amortized cost.

3. Changes in Accounting Policies and Recent Canadian Accounting Pronouncements

- (a) Effective January 1, 2008 the Company adopted CICA Section 3031, "Inventories" to harmonize accounting for inventories under Canadian GAAP with International Financial Reporting Standards. This standard requires the measurement of inventories at the lower of cost and net realizable value and includes guidance on the determination of cost, including the allocation of overheads and other costs to inventory. This standard requires the allocation of fixed production overheads to the costs of conversion to be based on the normal capacity of the production facilities. The standard also requires the consistent use of either first-in, first-out (FIFO) or weighted average cost formula to measure the cost of other inventories and requires the reversal of previous write-downs to net realizable value when there is a subsequent increase in the value of inventories. The impact of the adoption of this new section on the consolidated financial statements has not been material.
- (b) Effective January 1, 2008, the Company adopted CICA Section 1535, "Capital Disclosures" which requires that an entity disclose information that enables users of its financial statements to evaluate an entity's objectives, policies and processes for managing capital, including disclosures of any externally imposed capital requirements and the consequences of non-compliance. The adoption of this standard did not impact the Company's financial statements as it only addresses disclosure requirements. Information regarding the Company's capital disclosures is further described in note 4.
- (c) Effective January 1, 2008, the Company adopted CICA Sections 3862, "Financial Instruments – Disclosures" and 3863, "Financial Instruments – Presentation" issued in October, 2006 by the CICA to replace Section 3861, "Financial Instruments – Disclosure and Presentation". These standards require an increased emphasis on disclosures about the nature and extent of risk arising from financial instruments and how an entity manages those risks. The new standards apply to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007, specifically January 1, 2008 for the Company. Further details regarding the Company's management of financial instruments are provided in note 5.

3. Changes in Accounting Policies and Recent Canadian Accounting Pronouncements (continued)

Recent Accounting Pronouncements Not Yet Adopted

(d) In February 2008, the CICA issued Handbook Section 3064, "Goodwill and Intangible Assets" which replaces the existing standard for goodwill and other intangible assets in Section 3062 and research and development costs in Section 3450. The new Section is effective for the Company beginning January 1, 2009. The Section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Adoption of this standard will not materially impact the Company's financial statements.

(e) The Canadian Accounting Standards Board has announced that accounting standards in Canada, as used by public companies, will be converged to International Financial Reporting Standards ("IFRS") effective January 1, 2011. The Company will convert to these new standards according to the timetable set with these new rules. The changeover date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011.

IFRS uses a conceptual framework similar to Canadian GAAP but there are significant differences in recognition, measurement and disclosure requirements. As a result, the Company has established a changeover plan to convert to these new standards according to the timetable set with these new rules. An implementation plan has been created and at this time the impact on the Company's future financial position and results of operations is not reasonably determinable or estimable.

(f) CICA Handbook Section 1582, "Business Combinations" will be applicable to business combinations for which the acquisition date is on or after the Company's interim and fiscal year beginning January 1, 2011. Early adoption is permitted. The section improves the relevance, reliability and comparability of the information that a reporting entity provides in its financial statements regarding a business combination and its effects.

(g) CICA Handbook Section 1601, "Consolidated Financial Statements" will be applicable to financial statements relating to the Company's interim and fiscal year beginning on or after January 1, 2011. Early adoption is permitted. This section establishes standards for the preparation of consolidated financial statements. The Company has not yet determined the impact of the adoption of this new Section on the consolidated financial statements.

(h) CICA Handbook Section 1602, "Non-controlling Interests" will be applicable to financial statements relating to the Company's interim and fiscal year beginning on or after January 1, 2011. Early adoption is permitted. This section establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination.

4. Capital Disclosures

The Company's objectives in managing capital are:

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

The Company's capital is composed of bank indebtedness, a demand revolving loan facility, which the Company had not drawn on as at December 31, 2008, and shareholders' equity. The Company's primary uses of capital in the past have been to finance its plant and equipment expenditures. The Company currently funds these requirements out of its internally-generated cash flows. The Company maintains a secured operating line of credit with a chartered bank that it uses from time to time for its business activities. The Board of Directors does not establish quantitative return on capital criteria for management, but rather promotes year over year sustainable profitable growth. The Board of Directors also monitors the share repurchase program activities. The Company does not have a defined share repurchase plan and buy decisions are made on a specific transaction basis and depend on market prices and regulatory restrictions. The Company is not subject to any externally imposed capital requirements.

5. Financial Instruments

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

(a) Fair Value Disclosure

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

(b) Financial Risk Management

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

(i) Credit Risk

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

As at December 31, 2008 the Company's exposure to credit risk for accounts receivable was as follows:

Aging of financial assets:

(\$ thousands)	Total	Current Amount	Not more than three months past due	More than three months but less than six months past due
Accounts receivable	16,217	6,713	8,680	824

(ii) Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents and the availability of funding through an adequate amount of committed credit lines. Due to the dynamic nature of the business, the Company aims to maintain flexibility in funding by keeping committed credit lines available. The contractual maturity of accounts payable and accrued liabilities as at December 31, 2008 totaled \$6,896,227, all of which generally requires payment within 30 days.

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

(iii) Market Risk

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

- *Currency Risk:* Foreign currency risk arises from fluctuations in foreign exchange rates and the degree of volatility of these rates relative to the Canadian dollar. The Company is not significantly exposed to foreign currency risk.
- *Interest Rate Risk:* The Company has a credit facility with a Canadian chartered bank which when utilized by the Company provides loans that are subject to interest rate fluctuation. The Company manages its interest risk on borrowings by utilizing a combination of short term fixed rates through the use of 30 to 90 day Bankers' Acceptance instruments and floating rates on debt.

5. Financial Instruments (continued)

(b) Financial Risk Management (continued)

The effect of a possible change in market interest rates on the Company's pre-tax earnings for the year ended December 31, 2008 due to changes in market interest rates affecting the Company's floating rate debt outstanding of \$3,447,523 at the balance sheet date is outlined below. The sensitivity analysis has been prepared using a 50 basis point change as the most reasonable possible change in market interest rates.

	Pre-tax earnings change
50 basis point change	\$17,238

- *Other Price Risk:* The Company's exposure to financial market risk arises from changes in petroleum and natural gas prices as a result of its use of petroleum feedstock and natural gas for processing at its 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. This risk is reduced in part, from time to time, through the use of crude oil and natural gas forward purchase contracts. The contracts are not used for speculative trading purposes. Realized gains or losses on these contracts are reported as adjustments to petroleum and natural gas costs in the related production period.

The Company did not have any outstanding crude oil and natural gas forward purchase contracts as at December 31, 2008 or December 31, 2007.

6. Other Assets

(\$ thousands)	December 31, 2008	December 31, 2007
Deferred charges	117	308
Other	8	8
	125	316

Deferred charges represent the costs incurred for scheduled turnaround maintenance programs for the Company's fractionation plants. The Company's turnaround maintenance program is described in note 2(h). For the year ended December 31, 2008, \$702,583 (December 31, 2007 - \$842,531) of turnaround costs were amortized and included in operating expenses.

7. Inventories

Inventories are comprised as follows:

(\$ thousands)	December 31, 2008	December 31, 2007
Raw materials	2,659	3,153
Finished product	4,903	2,686
Total	7,562	5,839

For 2008, operating expenses include inventories recognized as an expense, using the weighted average cost method, in the amount of \$88,238,982 (2007 - \$56,040,284).

The Company's inventories are pledged as collateral on its operating loans, bank guarantees and demand revolving loan facility with a Canadian chartered bank.

8. Property, Plant and Equipment

As at December 31, 2008

(\$ thousands)	Cost	Accumulated Depreciation	Net Book Value
Land	675	-	675
Buildings and blend plant facilities	7,070	926	6,144
Laboratory equipment	214	48	166
Oilfield equipment	575	184	391
Fractionation processing facilities	34,325	6,774	27,551
Leasehold improvements	193	51	142
Automotive equipment	4,905	2,840	2,065
Oilfield trailers	2,093	455	1,638
Office, computer equipment & software	553	371	182
	50,603	11,649	38,954

As at December 31, 2007

(\$ thousands)	Cost	Accumulated Depreciation	Net Book Value
Land	675	-	675
Buildings and blend plant facilities	6,199	784	5,415
Laboratory equipment	214	30	184
Oilfield equipment	455	111	344
Fractionation processing facilities	34,034	5,615	28,419
Leasehold improvements	104	30	74
Automotive equipment	4,583	2,041	2,542
Oilfield trailers	1,957	285	1,672
Office, computer equipment & software	450	286	164
	48,671	9,182	39,489

Buildings and blend plant facilities include \$804,961 (December 31, 2007 – \$1,448,916) of costs associated with the construction of the Company's blend facility pipeline connection in Slave Lake. Fractionation processing facilities include \$580,662 (December 31, 2007 – \$2,528,533) of costs associated with projects under construction at the Slave Lake fractionation plant. Costs associated with these projects have not been depreciated as they have not yet been completed and put into use.

9. Goodwill

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

10. Operating Lines of Credit and Bank Guarantee Facility

The Company has a \$10,500,000 (December 31, 2007 – \$5,500,000) revolving operating line of credit and a \$17,000,000 (December 31, 2007 – \$10,000,000) bank guarantee facility with a Canadian chartered bank. The guarantee facility bears a fee of 1.35% per annum at the time of issuance of each bank guarantee. Advances under the operating line are available at either the bank's prime rate plus 0.40%, Bankers' Acceptance rates plus 1.65%, or a combination thereof, and are repayable on demand. At December 31, 2008, the Company has outstanding bank guarantees in the amount of \$3,634,600 (December 31, 2007 – \$2,632,500) in respect of petroleum feedstock purchases.

10. Operating Lines of Credit and Bank Guarantee Facility (continued)

Borrowing under the operating line of credit is restricted to specific margin requirements and the Company has pledged an assignment of accounts receivable and inventories, a general security agreement creating a first priority security interest in all present and after acquired personal property of the Company and a floating charge over all of the Company's present and after acquired real property as collateral on its operating loans, bank guarantees and demand revolving facility with the bank.

The Company has an \$8,000,000 (December 31, 2007 – \$8,000,000) demand revolving loan facility with a Canadian chartered bank, that bears interest at the bank's prime rate plus 0.90%, to assist in financing projects undertaken at the Company's facilities and equipment purchases. The bank's prime rate at December 31, 2008 was 3.50% (December 31, 2007 – 6.00%).

While the revolving loan facility is demand in nature, repayment of the debt in advance of the agreed terms is not at the bank's discretion provided the Company is not in default of its obligations, covenants and other conditions to the facility that will materially affect the Company's ability to fulfill its obligations. The Company was in compliance with these covenants at December 31, 2008 and 2007.

11. Asset Retirement Obligations

The Company has recorded the current fair value of its expected cleanup and site closure costs associated with the Slave Lake and Sundre plant locations. The analysis of the asset retirement obligation (ARO) is as follows:

(\$ thousands)	December 31, 2008	December 31, 2007
Asset retirement obligations – beginning of year	205	192
Accretion expense	13	13
Asset retirement obligations – end of year	218	205

Upon adoption of this standard at December 31, 2004, \$137,261 was added to property, plant and equipment. Included in depreciation and amortization of plant and equipment for the amortization of the ARO is a charge of \$3,221 (December 31, 2007 – \$3,221) for the year ended December 31, 2008.

The following assumptions were used to estimate the fair values of the obligation on the date the obligation was incurred:

Total undiscounted amount of the estimated cash flows	\$1,186,000
Expected timing of payment of cash flows	2033 and 2041
Credit adjusted risk free rate	6.49% and 6.87%

The estimate of total liability for future asset retirement obligations is subject to change based on amendments to laws and regulations and as new information concerning the Company's operations becomes available. Future changes, if any, to the estimated total liability as a result of amended requirements, laws, regulations and operating assumptions may be significant and would be recognized prospectively as a change in estimate, when applicable.

12. 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

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

12. Share Capital and Contributed Surplus (continued)

(b) Issued – (continued)

On June 27, 2007, the Company announced a normal course issuer bid to purchase up to 766,465 of its issued and outstanding common shares at the market price at the time of acquisition beginning on July 3, 2007 and ending on July 2, 2008, or such earlier time as the bid is completed or terminated by the Company. During 2007, the Company purchased 76,200 of its common shares at an average price of \$2.74, including transaction fees, which were cancelled and returned to treasury. The cost of common shares purchased totaled \$209,063 of which \$148,030 was recorded as a charge against share capital at the average carrying value of the Company's issued and outstanding common shares, with the balance of \$61,033 charged against retained earnings.

On July 15, 2008, the Company commenced a new normal course issuer bid to purchase up to 760,805 of its issued and outstanding common shares. Purchases under the normal course issuer bid will terminate on July 14, 2009, or such earlier time as the bid is completed or terminated by the Company. All shares purchased under the issuer bid will be cancelled. During 2008, 225,600 common shares were purchased by the Company of which 43,100 common shares were acquired at purchase prices, including transaction fees, which exceeded the assigned value of the Company's issued and outstanding common shares, at \$1.94 per common share, and 182,500 common shares were acquired at purchase prices, including transaction fees, which were less than the assigned value. The cost of common shares purchased which exceeded the assigned value of the Company's common shares totaled \$89,237, or \$2.07 per common share, of which \$83,727 was recorded as reduction of share capital at the average carrying value of the Company's common shares, with the balance of \$5,510 charged against retained earnings. The cost of common share purchases which were less than the assigned value of the Company's common shares totaled \$280,912, or \$1.54 per common share, of which \$354,533 was recorded as a reduction of share capital at the average carrying value of the Company's common shares, with the off-setting balance of \$73,621 recorded as an increase in contributed surplus.

(c) Contributed Surplus

(\$ thousands)	Year ended December 31, 2008	Year ended December 31, 2007
Balance – beginning of year	1,501	1,124
Stock based compensation expensed during the period	25	377
Redemption pursuant to normal course issuer bid at an average price less than the average carrying value	73	-
Balance – end of year	1,599	1,501

12. Share Capital and Contributed Surplus (continued)

(d) Stock Options

The Company has reserved 2,700,000 common shares for issuance pursuant to an approved stock option plan ("Option Plan") granted to directors and employees of the Company. Stock options granted to employees vest over different periods and amounts from the date of grant and expire five to seven 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:

	December 31, 2008		December 31, 2007	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
	#	\$	#	\$
Common shares under option				
– beginning of year	540,000	3.26	534,000	3.35
Share options granted	375,000	1.76	100,000	3.75
Share options cancelled	(340,000)	3.03	-	-
Share options expired	(10,000)	3.25	(60,000)	5.15
Share options exercised	-	-	(34,000)	3.05
Common shares under option				
– end of year	565,000	2.35	540,000	3.26
Options exercisable at end of year	290,000	3.07	336,667	3.18

The following options were outstanding and exercisable under the Option Plan at December 31, 2008:

Expiry date	Outstanding			Exercisable		
	Options	Exercise Price	Weighted Average Exercise Price	Weighted Average Remaining Years of Contractual Life	Options	Weighted Average Exercise Price
	#	\$	\$		#	\$
January 4, 2010	270,000	3.05	3.05	1.0	270,000	3.05
January 7, 2010	20,000	3.30	3.30	1.0	20,000	3.30
April 1, 2015	100,000	2.21	2.21	6.2	-	-
September 29, 2015	100,000	1.42	1.42	6.7	-	-
October 7, 2015	75,000	1.01	1.01	6.8	-	-
	565,000	-	2.35	3.7	290,000	3.07

During the year ended December 31, 2008, the Company granted 375,000 stock options (year ended December 31, 2007 – 100,000) at exercise prices ranging from \$1.01 to \$2.21 to employees of the Company. The options granted in 2008 have seven year terms and vest in equal proportions over five years.

The fair value of the options granted in 2008 has been estimated using the Black-Scholes option pricing model. The assumptions used in the pricing model are as follows:

Risk free interest rate (%)	2.74 to 3.68
Vesting period of options (years)	5
Expected volatility (%)	50 to 68
Dividend yield (%)	0

The impact of expensing the stock options for the year ended December 31, 2008 was \$24,624 (December 31, 2007 – \$376,896), with a corresponding increase in contributed surplus.

12. Share Capital and Contributed Surplus (continued)

(e) Net Loss Per Share

Basic loss per share is calculated using the reported net loss divided by the weighted average number of common shares outstanding during the period. Diluted loss per share is calculated on the basis of the weighted average number of common shares outstanding recognizing the effect of outstanding stock options and their equivalent using the treasury stock method.

A reconciliation of the number of shares used for the computation of basic and diluted loss per share is as follows:

Weighted average share reconciliation	December 31, 2008	December 31, 2007
	#	#
- Basic		
Common shares – opening	15,253,107	15,295,307
Weighted average of common shares issued (purchased) during the year	(76,470)	(2,572)
	15,176,637	15,292,735
- Diluted		
Basic weighted average common shares – opening	15,176,637	15,292,735
Dilutive effect of stock options and equivalents	-	11,731
	15,176,637	15,304,467

13. Interest Expense

Interest expense is comprised as follows:

(\$ thousands)	December 31, 2008	December 31, 2007
Interest on bank indebtedness	107	-
Interest on demand revolving loan	-	8
	107	8

14. Income Taxes

The tax provision recorded in the financial statements differs from the amount computed by applying the combined federal and provincial statutory tax rates to income before tax as follows:

(\$ thousands)	December 31, 2008	December 31, 2007
Expected income taxes based on combined statutory		
Canadian federal and provincial tax rates	(692)	(1,445)
Changes in substantively enacted rates	143	(655)
Goodwill impairment	-	1,943
Stock based compensation	6	121
Non-deductible and other	98	18
	(445)	(18)
(\$ thousands)		
Cash income taxes paid	429	1,790
Refunds received during the year	(590)	(413)
Net cash income taxes paid	(161)	1,377

Significant components of the Company's future tax liabilities (assets) are as follows:

(\$ thousands)	December 31, 2008	December 31, 2007
Prepaid expenses and deferred charges	31	87
Property, plant and equipment	3,260	3,770
Other assets	(56)	(58)
Accounts payable and accrued liabilities	(70)	(73)
Asset retirement obligation	(56)	(52)
	3,109	3,674

14. Income Taxes (continued)

Comprised of:

(\$ thousands)	December 31, 2008	December 31, 2007
Current asset	(70)	(73)
Long-term liability	3,179	3,747
Net	3,109	3,674

15. Supplementary Cash Flow Information

(\$ thousands)	December 31, 2008	December 31, 2007
Cash interest income received	17	233
Cash interest expense paid	112	48

16. Contingent Liabilities and Commitments

(a) 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 December 31, 2008 cannot be determined with certainty, it is the opinion of management that their resolution will not have a material adverse effect on the Company's financial position or results of operations.

(b) Plant Tank Farm Remediation

During the third quarter of 2007, the Company accrued environmental costs of \$240,000 related to the clean-up of its tank farm in Sundre, Alberta. The \$240,000 is an estimate and the Company is in the process of gathering third party quotations. The Company carries insurance against such risks and anticipates that a portion of the environmental costs will be covered by insurance. The accrual for the clean-up has been reported on the balance sheet under the caption accounts payable and accrued liabilities and the expense has been reported on the statement of operations as plant tank farm remediation.

(c) Construction Projects

(i) During the second quarter of 2007, the Company entered into an agreement with a third party for the construction of new direct-fired heaters for the Sundre plant in the amount of \$745,900, excluding installation costs. The project was originally scheduled for completion during the third quarter of 2007, but was subsequently delayed to mid-2008. In the fourth quarter of 2008, the Company determined that the direct-fired heaters constructed for the Sundre fractionation plant could not be re-designed to achieve the intended operational efficiency and required safety of operations. As a result, the Company recorded a \$2,128,673 write-down of all costs associated with manufacture and installation of the direct fired-heaters previously recorded on the balance sheet under property, plant and equipment. The Company will be pursuing recourse against the companies that supplied the direct-fired heaters for all of the project's construction costs and other financial losses attributable to the unavailability of the Sundre fractionation plant during this project.

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

(ii) During the third quarter of 2007, the Company entered into an agreement with a third party for the construction and assembly of a new crude oil desalter for the Slave Lake plant in the amount of \$1,950,000. The project was completed during 2008.

(d) Petroleum Feedstock

The Company has entered into contracts of varying terms and quantities for the purchase of petroleum feedstock for processing. These contracts are not speculative and are typically renewed on a monthly basis.

(e) Letters of Guarantee

Letters of guarantee are provided by the Company on an ongoing basis and for varying amounts for its petroleum feedstock purchases from suppliers. At December 31, 2008, the Company had obligations under letters of guarantee totaling \$3,634,600 to two suppliers (December 31, 2007 - \$2,632,500 to one supplier), which were subsequently terminated and renewed in January 2009.

16. Contingent Liabilities and Commitments (continued)

(f) Leases

The future minimum lease payments under operating leases amount to \$1,901,602 as at December 31, 2008 (December 31, 2007 – \$412,172) and for each of the next five years are:

	Year	Amount
	2009	692,453
	2010	501,446
	2011	333,184
	2012	214,011
	2013	160,508

17. Restructuring

During 2008, the Company recorded a provision for restructuring costs of \$850,000 relating to the consolidation of its accounting and administrative offices from Leduc to Calgary, Alberta. Restructuring costs included severance provisions and other transitioning costs. The total cost of the consolidation, which was completed by October 31, 2008, was substantially in conformity with the previously provided amount.

18. Segmented Information

The Company's activities are divided into three distinct business segments: Oilfield Services which represents the production and sale of hydrocarbon products; Energy Marketing which represents the purchasing, gathering and marketing of crude oil for resale to refiners and other customers; and Transportation Services which represents the operations of Millard. All of these business segments operate in one geographic region being the Western Canadian Sedimentary Basin. In the following tables, the elimination of significant inter-segment transactions are reflected under the caption "Inter-segment Eliminations".

December 31, 2008 (\$ thousands)	Oilfield Services	Energy Marketing	Transportation Services	Inter-segment Eliminations	Total
Revenues	71,370	32,986	11,441	-	115,797
Inter-segment revenues	-	-	7,018	(7,018)	-
Total revenues	71,370	32,986	18,459	(7,018)	115,797
Operating expenses	70,297	31,712	13,138	(6,937)	108,210
Depreciation, amortization and accretion expense	1,379	21	1,108	-	2,508
Interest expense	107	-	-	-	107
Other expense (income)	2,028	-	(4)	-	2,024
Subtotal	(2,441)	1,253	4,217	(81)	2,948
Less: General and administrative					4,444
Less: Restructuring costs					850
Loss from operations, before income taxes					(2,346)
Total assets	55,492	3,538	9,814	(5,506)	63,338
Capital expenditures	3,480	532	634	-	4,646

During 2008, the Energy Marketing segment had sales to one customer accounting for approximately 85% (December 31, 2007 – 60%) of total revenues provided by this segment.

During 2008, the Oilfield Services segment had sales to one customer which accounted for approximately 12% of segment sales however no other customer's sales represented more than 10% of total segment revenues. During 2007, this segment had sales to three customers each accounting for more than 10% of total segment revenues and in aggregate accounting for approximately 43% of segment revenues.

18. Segmented Information (continued)

December 31, 2007 (\$ thousands)	Oilfield Services	Energy Marketing	Transportation Services	Inter-segment Eliminations	Total
Revenues	51,394	19,225	9,681	-	80,300
Inter-segment revenues	-	-	4,557	(4,557)	-
Total revenues	51,394	19,225	14,238	(4,557)	80,300
Operating expenses	48,760	17,033	10,738	(4,557)	71,974
Depreciation, amortization and accretion expense	1,280	-	1,177	-	2,457
Interest expense	-	-	8	-	8
Goodwill impairment	6,049	-	-	-	6,049
Other expense	71	-	19	-	90
Subtotal	(4,766)	2,192	2,296	-	(278)
General and administrative					4,221
(Loss) earnings from operations, before income taxes					(4,499)
Total assets	57,216	4,745	8,901	(5,936)	64,926
Capital expenditures	6,692	1,405	1,870	-	9,967

19. Comparative Figures

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

Health, Safety and Environmental

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

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

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

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

Corporate Governance

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

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

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

Composition of the Board of Directors and Committees

Enerchem's Board of Directors comprises seven members, all of whom have been determined to be independent within the meaning of National Instrument 58-101 – *Disclosure of Corporate Governance Practices* by virtue of their independence from management or any interest, business or other relationship that could materially interfere with the directors' ability to act in the best interests of the Company and all Audit Committee members have been determined to be independent within the meaning of National Instrument 52-110 – *Audit Committees*. It believes that such number of directors is large enough to allow the directors to benefit from a wide variety of ideas and viewpoints without compromising communication among the directors, and between the directors and management.

The Board of Directors has three committees to which the Board has delegated certain of its authority and responsibilities, as well as certain advisory functions and power to make recommendations and reports to the Board. The standing committees of the Board are: the Audit Committee, the Compensation Committee, and the Health, Safety and Environmental Committee. The full Board has regularly scheduled meetings four times per year and to ensure that the Board is fully informed of the strategic issues and critical risks facing the Company, the Board has one meeting each year devoted to the review and approval of the Company's strategic plan. The Audit Committee meets four times per year. The Compensation Committee generally meets at least two times per year.

The Audit Committee meets on a regular basis with the Chief Financial Officer of the Company and the independent auditors to, among other things, review and inquire into: (a) matters affecting financial reporting; (b) the adequacy of internal controls and procedures for financial reporting and accounting; (c) the audit procedures and audit plans; and (d) the financial and business risks or exposures of the Company and the steps

that management has taken to control such risks. It also recommends to the Board of Directors the external auditors to be appointed and their remuneration. The Audit Committee annually reviews the independence of the external auditors.

The Audit Committee reviews and recommends to the Board, for its approval: (a) the interim unaudited financial statements and Management's Discussion and Analysis related thereto; (b) the audited annual financial statements and Management's Discussion and Analysis related thereto; (c) prospectuses and other offering memoranda, if applicable; and (d) the annual and interim earnings press releases and other public disclosure documents containing audited or unaudited financial information required by regulatory authorities.

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

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

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

Code of Ethics and Business Conduct

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

Enerchem is committed to maintaining its business in compliance with applicable laws, statutes and regulations. Additional information about our commitment to corporate governance practices is detailed in our 2009 Information Circular which can be found at www.sedar.com.

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Chairman of the Board
Director (2)

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Director (1)

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

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

Kevin M. Maguire, P. Eng., MBA
Director (1), (3)

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

David M. Fitzpatrick, P.Eng., C.Dir.
Director (2)

Member of:

- (1) Audit Committee
- (2) Compensation Committee
- (3) Health, Safety and Environment Committee

Officers

Kenneth Bagan, LLB
President and Chief Executive Officer

Timothy A. Lemke, B.Comm., CA
Vice-President Finance and Chief Financial Officer

James C. Burroughs, BBA
Vice-President Operations and Chief Operating Officer

J. Barrie Brookman
Vice President, Corporate Development

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Auditors

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Calgary, 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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