

**Enerchem International Inc.**

**Financial Statements for Years Ended  
December 31, 2009 and 2008**

## Auditors' Report

### To the Shareholder of Enerchem International Inc.

We have audited the consolidated balance sheets of Enerchem International Inc. (the "Company") as at December 31, 2009 and 2008 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, 2009 and 2008 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  
Calgary, Alberta

March 9, 2010

**Enerchem International Inc.**  
**Consolidated Balance Sheets**

December 31, 2009

December 31, 2008

(\$ thousands)

**Assets**

**Current assets**

Cash and cash equivalents	137	196
Accounts receivable (note 5(a) and (b))	28,278	16,217
Income taxes receivable (note 13)	2,290	26
Inventories (note 7)	3,274	7,562
Prepaid expenses	206	188
Future income taxes (note 13)	-	70

34,185 24,259

**Other assets** (note 6) 138 125

**Property, plant and equipment** (note 8) 38,210 38,954

72,533 63,338

**Liabilities**

**Current liabilities**

Bank indebtedness (note 9)	368	3,448
Accounts payable and accrued liabilities (note 5(a) and (b))	15,853	6,896
Current portion of long term debt	184	-

16,405 10,344

**Capital lease obligations** (note 10) 595 -

**Asset retirement obligations** (note 11) 232 218

**Future income taxes** (note 13) 5,711 3,179

22,943 13,741

**Contingencies and commitments** (note 15)

**Shareholders' equity**

Share capital (note 12(b)) 29,158 29,193

Contributed surplus (note 12(c)) 1,657 1,599

Retained earnings 18,775 18,805

49,590 49,597

72,533 63,338

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

Signed on behalf of the Board,  
 (signed) "Larry B. Phillips", Director  
 (signed) "Bruce K. Gibson", Director

**Enerchem International Inc.****Consolidated Statements of Operations, Comprehensive loss and Retained Earnings**

(\$ thousands, except per share amounts)	Year ended December 31	
	2009	2008
<b>Revenues</b>	<b>105,471</b>	115,797
<b>Expenses</b>		
Operating	<b>99,369</b>	108,210
General and administrative	<b>5,014</b>	4,444
Restructuring costs (note 16)	-	850
Depreciation and amortization	<b>2,586</b>	2,495
Accretion expense (note 11)	<b>14</b>	13
Interest expense (note 14)	<b>15</b>	107
	<b>106,998</b>	116,119
<b>Loss from operations before other income (expense)</b>	<b>(1,527)</b>	(322)
<b>Other income (expense)</b>		
Interest income and other	<b>129</b>	100
Loss on write-down of plant equipment (note 15(b))	-	(2,129)
Gain on disposal of property, plant and equipment	<b>25</b>	5
	<b>154</b>	(2,024)
<b>Loss before income taxes</b>	<b>(1,373)</b>	(2,346)
<b>Income taxes</b> (note 13)		
Current expense (recovery)	<b>(3,944)</b>	119
Future provision (recovery)	<b>2,601</b>	(564)
	<b>(1,343)</b>	(445)
<b>Net loss and comprehensive loss for the year</b>	<b>(30)</b>	(1,901)
<b>Retained earnings, beginning of year</b>	<b>18,805</b>	20,712
<b>Common shares repurchased and cancelled</b> (note 12(b))	-	(6)
<b>Retained earnings, end of year</b>	<b>18,775</b>	18,805
<b>Loss per share</b> (note 12(e))		
Basic	<b>(0.00)</b>	(0.13)
Diluted	<b>(0.00)</b>	(0.13)
<b>Weighted average shares outstanding</b> (note 12(e))		
Basic	<b>15,171</b>	15,177
Diluted	<b>15,189</b>	15,177

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

**Enerchem International Inc.**  
**Consolidated Statements of Cash Flow**

(\$ thousands)	Year ended December 31	
	2009	2008
<b>Operating activities</b>		
Net loss	(30)	(1,901)
Items not affecting cash		
Depreciation, amortization and accretion expense	2,600	2,509
Stock based compensation	38	25
Amortization of plant turnaround costs (note 6)	550	702
Gain on disposal of property, plant and equipment	(25)	(5)
Loss on write-down of plant equipment	-	2,129
Future income tax provision (recovery) (note 13)	2,601	(564)
	<b>5,734</b>	<b>2,895</b>
Changes in non-cash components of working capital		
Net change in accounts receivable	(12,061)	(142)
Net change in inventories and prepaid expenses	4,270	(1,795)
Net change in accounts payable and accrued liabilities	8,957	(2,234)
Net change in income taxes receivable	(2,264)	280
	<b>(1,098)</b>	<b>(3,891)</b>
Net cash provided by (used in) operating activities	<b>4,636</b>	<b>(996)</b>
<b>Investing activities</b>		
Purchase of property, plant and equipment	(1,205)	(4,134)
Proceeds on disposal of property, plant and equipment	184	49
Increase in other assets	(563)	(512)
Net cash used in investing activities	<b>(1,584)</b>	<b>(4,597)</b>
<b>Financing activities</b>		
Decrease in bank indebtedness	(3,081)	3,448
Repurchase of common shares under normal course issuer bid (note 12(b))	(16)	(370)
Repayment of capital lease obligations (note 10)	(14)	-
Net cash provided by (used in) financing activities	<b>(3,111)</b>	<b>3,078</b>
<b>Decrease in cash and cash equivalents</b>	<b>(59)</b>	<b>(2,515)</b>
<b>Cash and cash equivalents - beginning of year</b>	<b>196</b>	<b>2,711</b>
<b>Cash and cash equivalents - end of year</b>	<b>137</b>	<b>196</b>

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

See note 14 for cash interest and taxes paid/received

# Enerchem International Inc.

Notes to Consolidated Financial Statements  
For the years ended December 31, 2009 and 2008

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## 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 crude oil and natural 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 materially 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 on a straight line basis over their estimated useful lives which are noted below:

Buildings and blend plant facilities	18 – 32 years
Laboratory equipment	12 years
Oilfield equipment	10 years
Fractionation processing facilities	29 - 37 years
Leasehold improvements	6 years
Automotive equipment	3 - 7 years
Oilfield trailers	20 years
Office, computer equipment and software	5 – 8 years
Assets under capital lease	6 – 20 years

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## 2. Summary of Significant Accounting Policies (continued)

### (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, the amount is determinable and collection 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.

### (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.

### (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 the discounted fair value of the estimated cost of the future abandonment and restoration. The discounted fair value of the liability is capitalized as part of the cost of the related asset and amortized to expense over

# Enerchem International Inc.

Notes to Consolidated Financial Statements  
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## 2. Summary of Significant Accounting Policies (continued)

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 estimated abandonment costs.

Actual expenditures incurred for the purpose of site restoration are 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 fair value as determined by 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 an asset over its fair value.

The Company determined that it had no impairment of long-lived assets at December 31, 2009 and 2008.

### (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 the statement of operations;
- Accounts receivable are classified as loans and receivables and are initially measured 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.

### (o) Principles of Consolidation

Principles of consolidation

The consolidated financial statements include the accounts of the Company and all of its wholly owned subsidiaries.

### (p) Foreign exchange translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rates in effect at the consolidated balance sheet dates. Revenues and expenses are translated at the rates prevailing at the respective transaction dates. Exchange gains or losses are included in net income.

## 3. Changes in Accounting Policies and Recent Canadian Accounting Pronouncements

- (a) Effective January 1, 2009 the Company adopted CICA Handbook Section 3064, "Goodwill and Intangible Assets" which replaced the existing standard for goodwill and other intangible assets in Section 3062 and research and development costs in Section 3450. 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 did not materially impact the Company's financial statements.

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

- (b) Effective January 1, 2009, the Company changed the basis on which it depreciates certain assets from a declining balance basis to a straight-line basis. As of 2009, all assets are depreciated on a straight-line basis. The accounting change is treated as a change in estimate and is applied prospectively. The benefit of the change is improved consistency of process, particularly in connection with periodic reassessments of remaining asset lives. The estimated useful lives under the straight-line method were computed as necessary in order to maintain the depreciation expense at essentially the same level as under the declining balance method immediately preceding the change. The effect of these changes on depreciation expense is nil in the current year.
- (c) On January 20, 2009 the Emerging Issues Committee of the CICA issued EIC-173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities." The EIC concluded that the credit risk of an entity and applicable counterparties should be taken into account when determining the fair values of financial assets or liabilities, including derivative instruments. The recommendations of EIC-173 are effective for interim and annual reporting periods in 2009 and were applied retrospectively, without restatement of prior periods. The application of the EIC recommendations did not have a material effect on the Company's financial statements.
- (d) The CICA amended CICA Handbook Section 3862 "Financial Instruments – Disclosures" that requires additional disclosures about the fair value measurements of financial instruments and enhances liquidity risk disclosures. The application of this amendment is for all periods ending after September 30, 2009. The adoption did not have a material impact on its consolidated financial statements.

### Recent Accounting Pronouncements Not Yet Adopted

- (e) 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.
- (f) 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.
- (g) 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, demand revolving loans, bank guarantee facilities, discussed in Note 9, long term debt, discussed in Note 10 and shareholders' equity. The Company's primary uses of capital in the past have been to finance its plant and equipment expenditures using the demand revolving loans. Throughout 2009 the Company funded these requirements from its internally generated cash flows. The Board of Directors does not establish quantitative return on capital criteria for management, but

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## 4. Capital Disclosures (continued)

rather promotes year over year sustainable profitable growth. The Company has a share repurchase plan in place which is discussed further in Note 12. The Board of Directors also monitors the share repurchase program activities. The Company is subject to capital requirements under the terms of its demand revolving loans.

## 5. Financial Instruments

Enerchem's financial instruments consist of cash and cash equivalents, accounts receivable, bank indebtedness, accounts payable and accrued liabilities and capital lease obligations.

### (a) Fair Value Disclosure

Fair value measurement of assets and liabilities recognized on the consolidated balance sheet are categorized into levels within a fair value hierarchy based on the nature of valuation inputs.

The fair value hierarchy has the following levels:

- Level 1: quoted prices in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3: inputs for the asset or liability that are not based on observable market data

The fair values of cash and cash equivalents, accounts receivable, bank indebtedness, accounts payable and accrued liabilities approximate their carrying values due to the relatively short periods to maturity of these instruments. The fair value of capital lease obligations approximates the carrying value because the interest rates approximate the rates for similar borrowing arrangements.

Cash and cash equivalents and bank indebtedness are classified as Level 2. Accounts receivable, accounts payable and accrued liabilities and capital lease obligations are classified and Level 3.

### (b) Financial Risk Management

The Company is exposed to a variety of financial risks: credit risk, liquidity risk and market risk. Its 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 through financial management combined with effective corporate governance.

#### (i) Credit Risk

The Company is exposed to credit risk through its cash and cash equivalents and accounts receivable. Cash and cash equivalents are on deposit with reputable financial institutions, from which management believes the risk of loss to be remote. Amounts receivable are due from customers in the oil and natural gas industry with exposure to risk mitigated by marketing to a diverse customer base, conducting a majority of its business with large companies in the industry, following a strict credit evaluation processes and by limiting the amount of customer credit where deemed necessary.

The Company's exposure to credit risk for accounts receivable was as follows:

Aging of financial assets as at December 31, 2009:	Total	Current Amount	Not more than	
			three months past due	More than three months but less than six months past due
Accounts receivable	28,278	14,290	13,779	209

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## (b) Financial Risk Management (continued)

Aging of financial assets as at December 31, 2008:				
	Total	Current Amount	Not more than three months past due	More than three months but less than six months past due
(\$ thousands)				
Accounts receivable	16,217	6,713	6,860	824

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### (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. Management contemplates the dynamic nature of the business in determining the appropriate availability of credit lines. The contractual maturity of accounts payable and accrued liabilities as at December 31, 2009 totaled \$15,853,000 (December 31, 2008 - \$6,896,000), all of which generally requires payment within 30 days.

During the third quarter of 2009, as part of its annual review, the Company entered into a new credit facility which is described in detail in Note 9 and Note 15(d).

### (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. Enerchem does not have significant exposure to foreign currency risk given its operations are carried on almost entirely in Western Canada.
- *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.
- Using a sensitivity analysis based on a 50 basis point change as the most reasonable possible change in market interest rates affecting the Company's floating rate debt outstanding at the balance sheet date, the effect on the Company's pre-tax earnings for the year ended December 31, 2009 is immaterial.
- *Other Price Risk:* The Company's exposure to financial market risk arises from changes in crude oil and natural gas prices as a result of the use of crude oil as feedstock and natural gas as fuel at its Sundre and Slave Lake fractionation plants. The potential fluctuations in crude oil and natural gas prices could have a significant impact on the costs of production and therefore 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 crude oil 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, 2009 or December 31, 2008.

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## 6. Other Assets

(\$ thousands)	December 31, 2009	December 31, 2008
Deferred charges	130	117
Other	8	8
	<b>138</b>	<b>125</b>

Deferred charges represent the costs incurred for scheduled turnaround maintenance programs for the Company's fractionation plants which program is described in note 2(h). For the year ended December 31, 2009, \$550,000 (December 31, 2008 - \$703,000) of turnaround costs were amortized and included in operating expenses.

## 7. Inventories

Inventories are comprised as follows:

(\$ thousands)	December 31, 2009	December 31, 2008
Raw materials	1,324	2,659
Finished product	1,950	4,903
Total	<b>3,274</b>	<b>7,562</b>

For 2009, operating expenses include inventories recognized as an expense, using the weighted average cost method, in the amount of \$88,805,000 (2008 - \$88,239,000).

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, 2009

(\$ thousands)	Cost	Accumulated Depreciation	Net Book Value
Land	675	-	675
Buildings and blend plant facilities	7,070	1,015	6,055
Laboratory equipment	221	67	154
Oilfield equipment	586	262	324
Fractionation processing facilities	35,409	8,103	27,306
Leasehold improvements	199	84	115
Automotive equipment	4,510	3,466	1,044
Oilfield trailers	2,089	459	1,630
Office, computer equipment & software	618	502	116
Assets under capital lease	799	8	791
	<b>52,176</b>	<b>13,966</b>	<b>38,210</b>

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## 8. Property, Plant and Equipment (continued)

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

Fractionation processing facilities include \$456,000 (December 31, 2008 - \$581,000) of costs associated with projects under construction at the Slave Lake fractionation plant. Buildings and blend plant facilities included \$805,000 at December 31, 2008 associated with the construction of the Company's blend facility pipeline connection in Slave Lake. Costs associated with these projects were not depreciated in the respective years as they had not yet been completed and put into use in those years.

## 9. Operating Lines of Credit and Bank Guarantee Facility

The Company has a \$ 10,500,000 (December 31, 2008 - \$10,500,000) demand revolving loan (Operating Loan) and a \$10,000,000 (December 31, 2008 - \$17,000,000) bank guarantee facility with a Canadian chartered bank. The guarantee facility bears a fee of 1.5% per annum (2008 - 1.35%) at the time of issuance of each bank guarantee. Advances under the Operating loan are available at either of the bank's prime rate plus 0.75% (2008 - 0.40%), or Bankers' Acceptance rates, or a combination thereof, and are repayable on demand.

At December 31, 2009, the Company had drawn \$368,000 on the operating lines of credit (2008 - \$3,448,000) and had outstanding bank guarantees in the amount of \$3,082,000 (December 31, 2008 - \$3,635,000) in respect of petroleum feedstock purchases.

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 also has a \$5,000,000 (December 31, 2008 - \$8,000,000) demand revolving loan (Evergreen loan) with a Canadian chartered bank, which bears interest at the bank's prime rate plus 1.5% (2008 - 0.90%), to assist in financing equipment purchases and projects undertaken at the Company's facilities. The bank's prime rate at December 31, 2009 was 2.25 % (December 31, 2008 - 3.50%).

While the Evergreen loan 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. At December 31, 2009 and 2008 there were no amounts drawn on the Evergreen loan.

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## 10. Capital Lease Obligations

Enerchem entered into lease financing agreements in the fourth quarter of 2009 to acquire long life heavy haul equipment used in the Oilfield services and Transportation services segments. The agreements require equal monthly payments over periods varying from 48 to 60 months. Imputed interest rates are fixed for the terms of the agreements and vary from 6% to 8.5%. The obligations under these capital leases require the following minimum lease payments:

Year	\$ in thousands
2010	184
2011	184
2012	184
2013	181
2014	161
Less: Imputed interest	(115)
	<u>779</u>
Less: Current portion	184
Long term debt	<u>595</u>

## 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, 2009	December 31, 2008
Asset retirement obligations - beginning of year	218	205
Accretion expense	14	13
Asset retirement obligations - end of year	<u>232</u>	<u>218</u>

Upon adoption of this standard at December 31, 2004, \$137,000 was added to property, plant and equipment. Included in depreciation and amortization expense for the year ended December 31, 2009 is a charge of \$3,000 (December 31, 2008 - \$3,000)

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 may be significant and would be recognized prospectively as a change in estimate, when applicable.

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## 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

(thousands)

	December 31, 2009		December 31, 2008	
	#	\$	#	\$
Balance - beginning of year	15,027	29,193	15,253	29,631
Redemption pursuant to normal course issuer bid	(20)	(35)	(226)	(438)
Balance - end of year	15,007	29,158	15,027	29,193

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 terminated on July 14, 2009. All shares purchased under the issuer bid were 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 \$89,000, or \$2.07 per common.

Prior to expiry of the bid, the Company purchased 10,100 shares in 2009 at prices ranging from \$0.58 to \$0.71 per share.

On July 15, 2009, Enerchem commenced a new normal course issuer bid to purchase up to 500,000 of its issued and outstanding common shares. Purchases under the bid will terminate on July 14, 2010 or such earlier time as the full amount of common shares are acquired or the NCIB is terminated by the Company. The Company has purchased 10,200 shares under this plan up to December 31, 2009 at prices which range from \$0.68 to \$1.30 per share.

### (c) Contributed Surplus

(\$ thousands)	Year ended	Year ended
	December 31, 2009	December 31, 2008
Balance - beginning of year	1,599	1,501
Stock based compensation expensed during the period	38	25
Redemption pursuant to normal course issuer bid at an average price less than the average carrying value	20	73
Balance - end of year	1,657	1,599

### (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.

# Enerchem International Inc.

Notes to Consolidated Financial Statements  
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## 12. Share Capital and Contributed Surplus (continued)

A summary of the status of the Company's Option Plan is presented below:

	December 31, 2009		December 31, 2008	
	Options #	Weighted Average Exercise Price \$	Options #	Weighted Average Exercise Price \$
Common shares under option				
- beginning of year	565,000	3.07	540,000	3.26
Share options granted	75,000	0.58	375,000	1.76
Share options cancelled	(75,000)	1.42	(340,000)	3.03
Share options expired	-	-	(10,000)	3.25
Share options exercised	-	-	-	-
Common shares under option				
- end of year	565,000	2.24	565,000	2.35
Options exercisable at end of year	330,000	2.89	290,000	3.07

The following options were outstanding and exercisable under the Option Plan at December 31, 2009:

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	0.01	270,000	3.05
January 7, 2010	20,000	3.30	3.30	0.02	20,000	3.30
April 1, 2015	100,000	2.21	2.21	5.25	20,000	2.21
September 29, 2015	25,000	1.42	1.42	5.75	5,000	1.42
October 7, 2015	75,000	1.01	1.01	5.77	15,000	1.01
May 25, 2016	75,000	0.58	0.58	6.40	-	-
	565,000	-	2.24	2.79	330,000	2.90

During the year ended December 31, 2009, the Company granted 75,000 stock options (year ended December 31, 2008 – 375,000) at an exercise price of \$0.58 to an employee of the Company (2008 – exercise prices ranging from \$1.01 to \$2.21) and cancelled 75,000 options on the departure of an employee (2008 – 340,000 options). The options granted in both years have seven year terms and vest in equal proportions over five years.

# Enerchem International Inc.

Notes to Consolidated Financial Statements  
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## 12. Share Capital and Contributed Surplus (continued)

The fair value of the options granted in 2009 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, 2009 was \$38,000 (December 31, 2008 - \$25,000), with a corresponding increase in contributed surplus.

### (e) Net Loss Per Share

Basic income (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 income (loss) per share is as follows:

	December 31, 2009	December 31, 2008
	#	#
<b>Weighted average share reconciliation</b>		
- Basic		
Common shares – opening	15,177,000	15,253,000
Weighted average of common shares issued (purchased) during the year	(6,000)	(76,000)
	<b>15,171,000</b>	15,177,000
- Diluted		
Basic weighted average common shares - opening	15,177,000	15,177,000
Dilutive effect of stock options and equivalents	12,000	-
	<b>15,189,000</b>	15,177,000

## 13. Income Taxes

Enerchem International Inc. and its subsidiary Millard Trucking Ltd. have carried non-capital losses back to the 2005 and 2006 tax years, generating recoveries of income taxes previously paid amounting to \$1,561,000. For 2009, the consolidated provision for income tax anticipates further non-capital losses which can be carried back to prior tax years resulting in additional recovery of taxes previously paid of \$2,290,000

# Enerchem International Inc.

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## 13. Income Taxes (continued)

The following table reconciles income taxes from operations calculated at the combined statutory federal and provincial tax rate with Income taxes in the Consolidated Statement of Operations, Comprehensive loss and Retained earnings.

(\$ thousands)	December 31, 2009	December 31, 2008
Expected Income taxes based on combined statutory		
Canadian federal and provincial tax rate	(398)	(692)
Changes in substantively enacted rates	(414)	143
Non-capital losses	(455)	-
Stock based compensation	11	6
Non-deductible and other	(87)	98
	<b>(1,343)</b>	<b>(445)</b>

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

(\$ thousands)	December 31, 2009	December 31, 2008
Prepaid expenses and deferred charges	44	31
Property, plant and equipment	5,778	3,260
Other assets	(53)	(56)
Accounts payable and accrued liabilities	-	(70)
Asset retirement obligation	(58)	(56)
	<b>5,711</b>	<b>3,109</b>

Comprised of:

(\$ thousands)	December 31, 2009	December 31, 2008
Current asset	-	(70)
Long-term liability	5,711	3,179
Net	<b>5,711</b>	<b>3,109</b>

## 14. Supplementary Cash Flow Information

(\$ thousands)	December 31, 2009	December 31, 2008
Cash interest income received	30	17
Cash interest expense paid	15	112

  

(\$ thousands)	December 31, 2009	December 31, 2008
Cash income taxes paid	-	429
Refunds received during the year	(1,561)	(590)
Net cash income taxes paid	<b>(1,561)</b>	<b>(161)</b>

## 15. Contingencies and Commitments

### (a) Contingent Liabilities

The Company currently has no claims or proceedings against it.

# Enerchem International Inc.

Notes to Consolidated Financial Statements  
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## 15. Contingencies and Commitments (continued)

### (b) Construction Projects

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 December of that year. In the third 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 previously recorded on the balance sheet under property, plant and equipment associated with the manufacture and installation of the direct fired-heaters. The Company is 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.

### (c) 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.

### (d) 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, 2009, the Company had obligations under letters of guarantee totaling \$ 3,082,000 to two suppliers (December 31, 2008 - \$2,632,500 to two suppliers), which were subsequently terminated and renewed in January 2010.

### (e) Leases

The future minimum lease payments under operating leases amount to \$1,600,000 as at December 31, 2009 (December 31, 2008 - \$1,902,000) and for each of the next five years are:

Year	\$ in thousands
2010	659
2011	492
2012	288
2013	161
2014	-

### f) Subsequent Events

Subsequent to the year end, Enerchem received preliminary information from Canada Revenue Agency (CRA) with respect to claims the Company had filed regarding Scientific Research and Experimental Development tax credits. The amount of the credits the Company will be able to apply to taxes otherwise payable is expected to be in the range of \$350,000 to \$450,000 however final quantification of the timing and amount of the application of the credits remains to be resolved and therefore no amount has been recorded in these financial statements.

# Enerchem International Inc.

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## 16 Restructuring

During 2008, the Company recorded 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.

## 17. 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".

During 2009, Oilfield Services segment had sales to three customers each accounting for more than 10% of total segment revenues and in aggregate accounting for approximately 40% of segment revenues. During 2008, this 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 2009, the Energy marketing segment had sales to a mix of customers, four of which accounted for 76% and one of those which accounted for 30% (December 31, 2008 – two customers accounted for 97%) of total revenues provided by this segment.

### December 31, 2009

	Oilfield Services	Energy Marketing	Transportation Services	Inter-segment Eliminations	Total
(\$ thousands)					
Revenues	63,853	34,035	7,583	-	105,471
Inter-segment revenues	-	-	8,172	(8,172)	-
Total revenues	63,853	34,035	15,755	(8,172)	105,471
Operating expenses	62,009	34,290	11,191	(8,121)	99,369
Depreciation, amortization and accretion expense	1,470	91	1,039	-	2,600
Interest expense	15	-	-	-	15
Other expense (income)	(133)	-	(21)	-	(154)
Subtotal	492	(346)	3,546	(51)	3,641
Less: General and administrative					5,014
Loss before income taxes					(1,373)
Total assets	59,563	8,689	10,187	(5,906)	72,533
Capital expenditures	677	524	4	-	1,205

# Enerchem International Inc.

Notes to Consolidated Financial Statements  
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## 17. Segmented Information (continued)

### 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)	-
<b>Total revenues</b>	<b>71,370</b>	<b>32,986</b>	<b>18,459</b>	<b>(7,018)</b>	<b>115,797</b>
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
<b>Subtotal</b>	<b>(2,441)</b>	<b>1,253</b>	<b>4,217</b>	<b>(81)</b>	<b>2,948</b>
<b>Less: General and administrative</b>					<b>4,444</b>
<b>Less: Restructuring costs</b>					<b>850</b>
<b>Loss, before income taxes</b>					<b>(2,346)</b>
<b>Total assets</b>	<b>55,492</b>	<b>3,538</b>	<b>9,814</b>	<b>(5,506)</b>	<b>63,338</b>
<b>Capital expenditures</b>	<b>2,968</b>	<b>532</b>	<b>634</b>	<b>-</b>	<b>4,134</b>

## 18. Comparative Figures

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