Fundamental Research Corp.

Investment Analysis for Intelligent Investors

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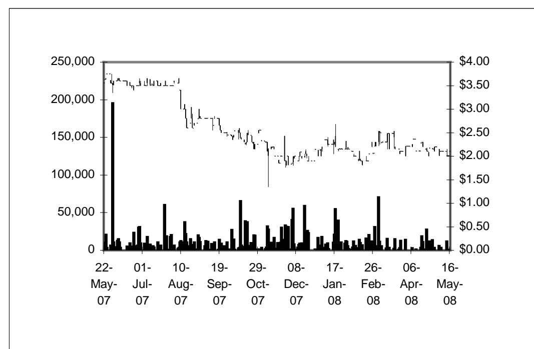
Enerchem International Inc. (TSX: ECH) – 2007 and Q1 2008 Financial Results; Weak YTD Oilfield Activities; Corporate Development Updates

Sector/Industry: Oilfield Services **www.enerchem.com**

Market Data (as of May 22, 2008)

Current Price	$2.10
Fair Value	$4.85
Rating*	BUY
Risk*	3 (Average)
52 Week Range	$1.35 - $3.75
Shares O/S	15,245,207
Market Cap	$32.01 MM
Current Yield	N/A
P/E (2009)	7.40x
P/B	0.62x
YoY Return	-42.2%
YoY TSX	6.9%

*See back of report for rating and risk definitions



2007 and Q1 2008 Highlights

- Total revenues declined 25.5% in 2007 versus 2006. Q4 2007 revenues exceeded expectations due to a one-time sale of crude oil products for the energy marketing segment. Q1 2008 revenues increased 21.1% versus Q1 2007.
- In Q4 2007, the company started reporting operating expenses instead of COGS in its income statement. Based on our estimate, gross margins were considerably lower than expectations for both FY2007 and Q1 2008. All other margins dropped in 2007 versus 2006. Margins in Q1 2008 were disappointing due to higher feedstock costs.
- The company reported a net loss of $4.5 million or $(0.29) EPS in 2007, down from net income of $5.9 million or $0.39 EPS in 2006, primarily due to weak oilfield activities and one-time losses occurring in 2007. In Q1 2008, the company had a net loss of $0.07 million or $(0.00) EPS versus net income of $1.84 million or $ 0.12 EPS in Q1 2007.
- Based on CAODC data, we estimate the Q1 2008 drilling utilization rate in Alberta was 52.9%, down from 58.9% in Q1 2007. We believe the current high oil and natural gas prices are positive for the oilfield services industry. However, we do not expect the industry to fully recover until the beginning of 2009.
- In Q1 2008, the company made progress on its strategy to control costs, improve margins and gain market share.
- The company remains undervalued based on our DCF model and industry multiples analysis. We believe current share prices present good entry points. We have maintained our BUY rating on the company with a fair value estimate of $4.85 per share.

Key Financial Data and Statistics ($000s)

	2003	2004	2005	2006A	2007A	2008E	2009E
Revenues	34,464	63,619	109,132	107,746	80,300	85,029	107,866
Net Income*	-815	758	3,884	5,931	-4,481	15	4,326
Gross Margins	20.1%	16.1%	15.3%	19.4%	10.4%	14.5%	18.0%
Net Margin	-2.4%	1.2%	3.6%	5.5%	-5.6%	0.0%	4.0%
Return on Capital	0.6%	4.0%	11.5%	15.0%	-8.7%	0.0%	0.0%
EPS (ex extra)	(0.06)	0.05	0.26	0.39	(0.29)	0.00	0.28
Debt to Capital	16.6%	16.4%	11.5%	0.5%	0.0%	0.0%	0.0%

*continuing operations

Enerchem International Inc. is a manufacturer and distributor of hydrocarbon drilling and fracturing fluids designed to provide cost effective solutions to the oil and gas industry and specialty solvents to help resolve production and processing problems. ECH is also a provider of energy marketing services and fluid transportation and other related oilfield services.

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Industry Outlook

Oilfield activity levels in Alberta remained weak YTD in 2008. The table below shows quarterly and YTD drilling activity in Alberta, where most of ECH's operations are located.

Alberta Rigs

	Q1		Q2		Q3		Q4		YTD	
	AVG	Utilization	AVG	Utilization	AVG	Utilization	AVG	Utilization	AVG	Utilization
2008 Available	683		697						689	
2008 Drilling	362	52.9%	65	9.3%					243	35.3%
2007 Available	663		723		708		704		700	
2007 Drilling	391	58.9%	97	13.3%	239	33.8%	238	33.8%	241	34.5%
2006 Available	580		643		624		641		622	
2006 Drilling	522	89.9%	233	36.2%	384	61.5%	348	54.3%	372	59.7%

Source: CAODC, FRC

As stated in our previous report, drilling activities in Alberta were low in FY2007, with utilization rates of 34.5% in 2007, versus 59.7% in 2006. Oilfield activities in Q1 2008 continued to be weak. As shown in the table above, the drilling utilization rate in Q1 2008 was 52.9%, down from 58.9% in Q1 2007, and 89.9% in Q1 2006. Winter seasons (Q1 and Q4) are typically the strongest for oilfield activities in Alberta and Canada. The weak start this year was disappointing. According to the company, industry expectations for activity levels in the WCSB were even weaker in 2008, compared to 2007, with 13,500 to 15,300 wells to be drilled in 2008, compared to the 19,144 wells drilled in 2007. Average rig utilization rates are expected to be 35% in 2008, compared to 42% in 2007.

However, there were some positive developments. In April 2008, the Alberta government announced two new royalty programs to encourage the development of deep oil and gas wells. The new programs will provide royalty breaks to the high-cost and high productivity wells hit hard by the royalty rate increases announced last year. In addition, the short-term outlook for oil and gas prices remains strong. In May 2008, the EIA increased its 2008 natural gas and crude oil price forecasts to US$8.64/mcf and US$109.53/bbl (previously US$7.83/mcf and US$86.46/bbl), respectively.

GLJ Petroleum Consultants (GLJ) has also adjusted price forecasts for both natural gas and crude oil upwards in April 2008, from its previous January 2008 forecasts, as summarized in the table below.

Natrual Gas Prices		January 1, 2008	April 1, 2008
Henry Hub ($US/MMBTU)			
	2008	7.50	9.08
	2009	8.25	9.00
AECO-C 30 Day Spot ($Cdn/MMBTU)			
	2008	6.75	8.11
	2009	7.55	8.20
Crude oil Prices		**January 1, 2008**	**April 1, 2008**
WTI @ Cushing Price - ($US/BBL)			
	2008	92.00	97.41
	2009	88.00	90.00
Light, Sweet @ Edmonton Price - ($Cdn/BBL)			
	2008	91.10	96.93
	2009	87.10	89.10

Source: GLJ Petroleum Consultants

The health of the oilfield services industry is heavily dependent on the capital spending of E&P companies, which in turn is largely dependent on oil and natural gas prices. Oil is currently trading at record highs (above US$120/bbl). Natural gas prices, which lagged oil

prices, also improved considerably so far this year (currently trading at about US$11/mmbtu). We believe the current high commodities prices are positive for the oilfield services industry. For example, Exxon Mobil (NYSE: XOM) plans to invest record amounts of more than US$125 billion in capital spending over the next five years to help meet growing world energy demand, and Schlumberger (NYSE: SLB) expects natural gas exploration and production spending to increase in the U.S. and Canada, due to low storage levels, declining liquefied natural gas imports and declining production in Canada. Canada's National Energy Board (NEB) reported an increase in Canadian oil pipeline applications due to rising oil prices in its annual report. Also, in May 2008, US drilling increased to 1,846 rigs, up from 1,740 during the same period a year ago. Finally, Goldman Sachs has increased its average second-half 2008 West Texas Intermediate (WTI) price forecast to US$141/bbl (US$135.30/bbl for Q3 2008, and US$145.60/bbl for Q4 2008) from the previous forecast of US$107/bbl.

In the long term, the Energy Information Administration (EIA) expects natural gas supplies to be in deficit for both North America and China as shown in the table below. Therefore, we have a positive outlook on natural gas prices, and believe the Alberta oilfield services industry will benefit from it because of the province's large natural gas resources.

World Natural Gas Supply and Demand - in trillion cu. feet

	2003	2010	2015	2020	2025	2030	Average 2003-30
North America							
Production	27.1	28.1	28.2	29.3	29.2	29.6	**0.4%**
Consumption	27.4	29.6	32.7	34.7	35.7	36.6	**1.1%**
Deficit	-0.3	-1.5	-4.5	-5.4	-6.5	-7.0	
China							
Production		2.5	3.1	3.5	4.0	4.3	**4.1%**
Consumption	1.2	3.0	3.9	5.1	6.2	7.0	**6.8%**
Deficit		-0.5	-0.8	-1.6	-2.2	-2.7	

Source: EIA

In addition, the International Energy Agency (IEA) expects world oil demand to grow at 1.8% per year to 116 mmbbl/day in 2030, and world oil supply to grow at 1.3% per year to 116.3 mmbbl/day in 2030. Although oil demand is anticipated to grow at a higher rate than oil supply, the EIA does not expect the oil market to be in deficit going forward. Therefore, we expect oil prices are likely to decrease going forward from the current high levels. However, based on the fundamentals of the oil industry, such as increased finding costs, we believe oil prices will stay above historical averages ($35.5/bbl during 1996-2007). Both GLJ and Sproule expect oil prices (inflation adjusted) to stay above US$80/bbl for the period 2008 – 2018 in their most recent forecasts.

We note that oil prices are influenced by current economic and political events, which may not reflect longer-term fundamentals. The IEA has recently cut its 2008 oil product demand forecast by 0.31 mmbbl/day in fears that an economic slowdown in the US may reduce consumption. Therefore, we do not expect the Canadian oilfield services industry to fully recover until the beginning of 2009.

2007 Revenues down due to weak oilfield activities

Enerchem reported FY2007 revenues of $80.3 million, down 25.5% from revenues of $107.7 million recorded by the company in FY2006. However, this exceeded our FY2007 revenue forecast of $74.5 million by 7.8%. The company recorded Q4 revenues of $25.1 million versus $24.2 million in the same quarter last year. This considerably exceeded our

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Q4 revenue expectation of $19.3 million. According to the company, the increase in Q4 revenues resulted from a one-time opportunity from the sale of crude oil products available to the Energy Marketing segment. Q1 2008 revenues increased 21.1% to $33.7 million compared to $27.9 million in Q1 2007, primarily due to increased sales from the energy marketing segment.

Overall, the company attributes the decrease in revenues in FY2007 to the decline in oilfield activity levels. According to the company, the significant build up in North American natural gas inventories had contributed to the past weakness in natural gas prices. Prices were at levels that were economically unattractive for conducting gas drilling programs in western Canada, and drilling in the WCSB is predominantly focused on natural gas activities.

The table below presents the company's 2007 and Q1 2008 revenues by segment.

Enerchem - Segmented Revenues
(C$000s)

	2006A	2007A	Q1 2007	Q1 2008
Oilfield Services	75,668	51,394	19,152	19,030
Energy Marketing	25,423	19,225	6,089	11,390
Transportation Services	6,655	9,681	2,635	3,327
Total Revenues	107,746	80,300	27,876	33,747

Oilfield Services – Revenues in this segment decreased by 32.1% from $75.7 million in FY2006, to $51.4 million in FY2007. This is about in line with our expectations of $50.0 million for this segment. The company attributes the decline to the decrease in oilfield activity levels, and the pricing pressures resulting from oil and gas producer's focus on reducing their service costs. As a result, the company experienced a decline in product selling prices, and the volume of products sold, for each of its product lines in FY2007 versus FY2006. Q1 2008 revenues in this segment amounted to $19.0 million compared to $19.2 million in Q1 2007, due to continued weak oil field activities.

Energy Marketing – Revenues in this segment decreased by 24.4% from $25.4 million in FY2006, to $19.2 million in FY2007. However, this exceeded our previous revenue forecast of $14.0 million as the company recorded a one-time sale of crude oil products for the segment. According to the company, the revenue decrease in 2007 was largely due to the decline in the company's activity levels, reducing the volume of by-products available for resale.

Q1 2008 revenues in this segment amounted to $11.4 million, up 87.0% from $6.1 million in Q1 2007. According to the company, the increase in revenues was primarily due to increased feedstock put into production (which in turn led to an increase in by-products available for resale) and an increase in underlying crude oil prices in Q1 08 versus Q1 07.

Transportation Services – In 2007, the company generated $9.7 million in revenues versus our forecast of $10.5 million.

Revenues in 2007 are not comparable to those in 2006 because 2006 revenues only account for 7 – 8 months of revenues from this segment, as the company completed the acquisition of Millard Trucking in May 2006. Revenues declined from an average of $0.83 million per month in 2006, to $0.81 million per month in 2007. The company attributes the decline to extended spring break-up conditions in 2007, and a general slow down in industry activity.

Q1 2008 revenues in this segment were $3.3 million compared to $2.6 million in Q1 2007 due to new secured business arrangements.

Revenues Forecasts: In light of soft drilling data YTD in Alberta and uncertainties regarding the timing of an industry recovery, we are lowering our revenue forecasts for the oilfield services segment to $52.5 million (previously $54.6 million) for 2008. Although we expect the oilfield services industry to recover in 2009, we have lowered our growth rate assumptions of this segment to reflect the uncertainties about the magnitude and timing of the recovery, resulting in a lowered revenue forecast of $68.1 million (previous estimate: $73.6 million) in 2009.

As a result of strong Q1 sales from the energy marketing segment, we have increased our revenue forecasts for this segment to $22.4 million in 2008, and $29.1 million in 2009 (previous estimates: $16.1 million in 2008, and $25.7 million in 2009).

For the transportation services segment, we have maintained our growth rate assumption and revised our revenue forecasts to $10.2 million in 2008, and $10.7 million in 2009 (previous estimates: $11.0 million in 2008, $11.6 million in 2009).

As a result, our revised revenue forecasts for the company are $85.0 million in 2008 and $107.9 million in 2009 (previous estimates: $81.7 million in 2008, $110.9 million in 2009).

Update on Corporate Developments

The following list summarizes recent developments that we believe will affect future performance.

- The company has installed a desalter in the Slave Lake refinery, and management has told us that commissioning was completed at the end of March 2008. The desalter is currently in operation. The desalter is expected to reduce the flow of impurities in crude oil through the refinery and lower overall repair and maintenance costs at the facility.
- The new blending operation at the Slave Lake refinery has also been completed and is in the final stages of commissioning. Based on our discussion with management, the blending facility has been connected to the Rainbow Pipeline. ECH expects the connection to reduce transportation costs of crude oil by-products and create blending opportunities for the company's energy marketing business segment.
- In 2007, ECH completed the automation of the entire Sundre facility, and expects the automation to increase finished product yield. Also, in Sundre, the construction and commissioning of the flowback cleaning facility was completed. The company is pleased with its ability to clean and re-cycle used fracturing fluid, which is used by the Sundre refinery as a crude oil substitute in the manufacturing of a premium fracturing fluid.

- The company is still in the process of completing the installation of the heaters at the Sundre plant as they were unable to meet the required operating parameters during commissioning. The delay affected the company's ability to fully utilize the refinery to process flowback, which is currently being processed through the Sundre refinery using two of its three towers. The company expects the Sundre refinery to be fully operational during Q3 2008.

The price of oilfield service products are not always set by oilfield service companies themselves because the demand for these products are subject to capital spending budgets of E&P companies. According to our conversation with management, ECH has strategies to control internal costs to be competitive, gain market share and improve margins. We believe the above developments are positive steps for the company to implement its strategies, particularly in industry down times.

Margins

In Q4 2007, the company has combined cost of goods sold (COGS) with operating expenses in its income statement. According to the company, operating expenses represent product and service costs associated with the manufacture and sale of its hydrocarbon products, and the execution of its transportation services. Based on our discussion with management, the company changed its reporting format to align with comparable companies in the oilfield service sector, and COGS will be disclosed in the notes in its future financial statements. The company also reclassified certain comparative figures from its previous financials to conform with the current year's presentation. The following table shows operating expenses as a percentage of revenues for FY2007 and Q1 2008.

Operating expenses/Revenue	2006	**2007**	Q1 2007	**Q1 2008**
Oilfield Services	60%	**56%**	56%	**53%**
Energy Marketing	20%	**20%**	17%	**31%**
Transportation Services	7%	**14%**	11%	**11%**
Total	87%	**90%**	84%	**95%**

According to the company, the increase in operating expenses to revenues, from 87% in 2006, to 90% in 2007, reflects higher feedstock costs, an increase in plant operations and maintenance expenditures, and a full year of Millard operating costs in 2007, compared to eight months in 2006. The company's operating expenses/revenues ratio in Q1 2008 was 95%, versus 84% in Q1 2007 (with a sharp increase in the energy marketing segment) primarily due to an increase in feedstock costs (due to higher crude oil prices). Also, we believe that prices of ECH's products could have dropped due to increased focus of oil and gas producers on reducing service costs.

We have lowered our gross margin forecast for 2008 from 21% to 14.5%. Although we believe the company's strategy to control internal costs (such as the use of flowback as a crude oil substitute) to stay competitive and gain market share will have a positive impact on the company's margins in the future, we remain conservative and do not expect the oilfield industry to recover until early 2009. We have also lowered our gross margin forecast from 21% to 18% in 2009.

All other results for 2007, and Q1 2008, were in line with our expectations. The table below

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presents the company's margins in 2007, and Q1-2008, along with our forecasts.

Margins	2006A	2007A	2008E	2009E	Q1 2008
EBT	7.7%	-5.6%	0.2%	5.7%	-0.3%
Net (ex disc ops)	5.5%	-5.6%	0.1%	4.0%	-0.2%
Net	5.5%	-5.6%	0.1%	4.0%	-0.2%

Earnings

ECH reported a net loss of $4.5 million or $(0.29) EPS in 2007, versus net income of $5.9 million or $0.39 EPS in 2006. The company attributes the decline in net earnings in 2007 to the following factors.

- Decline in oilfield activity levels and extended spring break-up conditions that affected Q1 and Q2 2007
- Goodwill impairment of $6 million
- An increase in depreciation expenses associated with the acquired Millard assets
- An increase in plant repair and maintenance costs combined with one-time plant repair expenditures at Sundre
- Margins squeezed due to oil and gas producers' efforts on reducing service costs and the increase in feedstock costs.

The company's FY2007 results were affected by a number of one-time charges as shown in the above list (another is a $0.06 million investment loss relating to the sales of ECH's 25% interest in an Egyptian company). However, we believe the company's performance is cyclical and primarily related to oilfield activity levels that are expected to improve when industry conditions pick up.

Due to higher operating expenses, the company reported a net loss of $0.07 million or $(0.00) EPS in Q1 2008, versus net income of $1.84 million or $0.12 EPS in Q1 2007.

Given the changes to our valuation model, we expect net income of $0.02 million or $0.00 EPS in 2008, versus our previous estimate of $4.40 million or $0.29 EPS. We have also lowered our 2009 forecasts to net income of $4.3 million or $0.28 EPS, compared to net income of $6.65 million, $0.43 EPS in our previous report.

Capital Structure and Cash Flow

ECH had a cash balance of $2.7 million at the end of 2007. The company had positive free cash flow of $0.30 million in 2007, and its cash flow from operations were $9.6 million in 2007, providing enough cash to cover the company's investing activities, which were $9.0 million.

At the end of Q1 2008, the company cash position fell significantly to $0.36 million, whereas account receivables (A/R) and inventory increased considerably to $23.3 million and $8.7 million, respectively, from $16.1 million and $5.8 million at the end FY2007. Based on our discussion with management, the increase in A/R represents energy marketing and oilfield services sales. Management also told us that the company planned plant turn around programs at the start of Q2 2008 (which limited the availability of plants to produce products), and had built up finished product inventories in Q1 2008.

In Q1 2008, the company had negative cash flows from operations of $4.9 million and spent $2.1 million in investing activities. The expenditures were partly financed by the company's operating line of credit in the amount of $4.7 million.

ECH continues to be debt free at the end of Q1 2008. We believe the company has maintained relatively strong financials, which allows the company to weather industry downturns and recover quickly in an industry upturn. However, we are concerned about the small cash position at the end of Q1 2008. The company needs to convert A/R to cash and generate more sales from its inventory.

Capital expenditures of $9.1 million in 2007 were largely directed to the construction of the flowback facility in Sundre, 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. According to ECH, capital expenditures in 2008 are estimated to be $3 million (versus our previous forecast of $3.8 million), and will be deployed to complete existing projects at its plants with normal maintenance expenditures. We have maintained our capex estimates at $2 million for 2009+.

Valuation

Our revised DCF valuation model (shown below) gave a fair value estimate on the company of $4.85 per share (previously $4.91 per share).

Enerchem - DCF Valuation ($000s)

	2008E	2009E	2010E	2011E	2012E	2013E	2014E	Terminal
Net Income	15	4,326	6,989	7,595	8,250	8,959	9,727	10,216
Non Cash Charges	2,777	2,792	2,737	2,685	2,637	2,593	2,551	2,513
Funds from Operations	2,792	7,119	9,726	10,280	10,887	11,552	12,278	12,729
Investment in W/C	-1,172	-3,668	-1,140	-1,178	-1,281	-1,392	-1,518	-949
Cash From Operations	1,620	3,451	8,586	9,102	9,606	10,160	10,760	11,780
Capex	3,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
Free Cash Flow	-1,380	1,451	6,586	7,102	7,606	8,160	8,760	9,780
PV	(1,288)	1,209	4,899	4,717	4,511	4,320	4,141	51,371
Discount Rate	12%							
Terminal Growth	3%							
Firm PV	73,880							
Cash	360							
Debt	-							
PV Equity	73,880							
Shares O/S	15,245,207							
DCF Value/Share	4.85							

We also valued ECH based on industry multiples. Since our EPS forecast for 2008 is $0.00, we have valued ECH based on our 2009 EPS estimate of $0.28 per share. The table below shows our valuation results.

Oil Related Services & Equipment Industry

Industry P/E	20.08
Forward ECH P/E (2009)	7.40
EPS (2009)	$0.28
Value Based on 2009 EPS	$5.70

Source: Reuters, FRC

The industry P/E has increased to 20.08x versus 16.65x in our previous report. ECH's forward P/E of 7.40x is lower than the industry average P/E of 20.08x, which indicates that the company continues to be undervalued. Based on ECH's 2009 EPS estimate, and the industry P/E, our revised multiples valuation on the company is $5.70 per share compared to $4.80 in our previous report.

Note that our valuation based on industry multiples increased due to an increase in the industry P/E. However, we still have not seen the company's projects aimed at controlling costs transfer to higher margins and earnings. ECH currently has negative earnings and we had a $0.00 EPS forecast for FY2008. In addition, we remain conservative about the timing and magnitude of the industry recovery. Therefore, we decided to value the company based on our DCF valuation model only. As a result, our revised valuation of ECH is $4.85 per share compared to $4.86 per share in our previous report.

Rating

We are maintaining our **BUY** rating with a fair value estimate of $4.85 per share, representing upside potential of 130.8% above current price levels. Although drilling activities in Alberta have been weak so far this year, we have seen some positive signs in the industry given strong oil & natural gas prices. The company remains debt free. However, its cash position has decreased significantly in Q1 2008, as the company's A/R and inventory levels increased.

Overall, we believe the fundamentals of ECH have remained strong particularly given that it has made good progress on its projects aimed at controlling costs and staying competitive. The company continues to trade below book value.

Risks

- The company is exposed to commodity prices both on the revenue and expense side. Rising oil prices increase input costs while decreasing oil prices may cause less demand for products.
- A sustained drop in energy prices would cause less drilling activity and hence, less demand for ECH's products.
- The company competes in an industry where certain competitors may have better access to capital and larger infrastructure.
- The company is exposed to environmental legislation risks.
- Low average trading volumes

We rate the shares Risk 3 (Average)

APPENDIX

Income Statement
Enerchem International Inc (C$000s)

Fiscal Period:	2006A	2007A	2008E	2009E
Total Revenue	**107,746**	**80,300**	**85,029**	**107,866**
Cost of Sales/Operating expenses	86,877	71,974	72,699	88,450
Gross Margins	20,869	8,325	12,329	19,416
Salaries/Benefits	5,097		5,209	5,070
Selling/General/Administration	5,861	4,221	4,421	5,609
Depreciation/Amortization	1,678	2,357	2,764	2,780
Amort. Dfrd. Costs				
Amort. Pre-Opening	87	87		
Accretion Expense	12	13	13	13
Interest on Long Term Debt	70	8	0	0
Interest-Bank				
Interest-Leases				
Other Interest				
Write-Down Invest.				
Total Operating Expense	**12,806**	**6,685**	**12,408**	**13,471**
Interest Income and other		**235**	**100**	**235**
Plant tank farm remediation		**-240**		
Goodwill impairment		**-6,050**		
Loss on write-down of investment on foreign Ops		**-58**		
Asset Disposal	95	-27		
Loss on Settlement of Legal Claim				
Other	120			
Net Income Before Taxes	**8,279**	**-4,500**	**21**	**6,180**
Provision for Income Taxes	2,348	-18	7	1,854
Net Income After Taxes	**5,931**	**-4,481**	**15**	**4,326**
Discontinued Operations	0	0		
Net Income	**5,931**	**-4,481**	**15**	**4,326**
Basic Weighted Average Shares	15,295	15,293	15,245	15,245
Basic EPS Excluding ExtraOrdinary Items	**0.39**	**(0.29)**	**0.00**	**0.28**

Balance Sheet
Enerchem International Inc (C$000s)

Fiscal Period:	2006A	2007A	2008E	2009E
Cash	2,414	2,711	1,331	2,782
Accounts Receivable	16,387	16,075	14,455	18,337
Other Receivable			--	--
Taxes Recoverable		306	306	306
Inventories	9,289	5,840	7,415	9,022
Promissory Notes	61		-	-
Discontinued Operations			--	--
Current portion of future tax asset		73	73	73
Prepaid Expenses & Other	198	117	927	996
Total Current Assets	**28,348**	**25,121**	**24,507**	**31,515**
PPE	32,878	39,489	39,712	38,919
Goodwill, Gross				
Amortization				
Discontinued Operations				
Promissory Notes				
Goodwill	6,050		-	-
Other Assets	1,280	316	316	316
Total Assets	**68,555**	**64,926**	**64,534**	**70,750**
Bank Indebtedness			-	-
Payable/Accrued	7,258	9,130	8,724	10,614
Taxes Payable	324		-	-
Current Portion Lease				
Current Portion of Long Term Debt	116		-	-
Total Current Liabilities	**7,697**	**9,130**	**8,724**	**10,614**
Capital Leases				
Long Term Debt	171		-	-
Total Long Term Debt	**171**		**-**	**-**
Asset Retirement Obligation	192	205	205	205
Deferred Taxes	4,440	3,746	3,746	3,746
Total Liabilities	**12,501**	**13,082**	**12,675**	**14,565**
Share Capital	29,676	29,631	29,631	29,631
Contributed Surplus	1,124	1,501	1,501	1,501
Retained Earnings	25,254	20,712	20,727	25,053
Total Equity	**56,054**	**51,844**	**51,859**	**56,185**
Total Liabilities & Shareholders' Equity	**68,555**	**64,926**	**64,534**	**70,750**

PLEASE READ THE IMPORTANT DISCLOSURES AT THE BACK OF THIS REPORT

Cash Flow Statement

Enerchem International Inc (C$000s)

Fiscal Period:	2006A	2007A	2008E	2009E
Net Income	5,931	(4,481)	15	4,326
Depreciation	2,573	2,456	2,777	2,792
Stock Based Compensation	220	377		
Amortization of plant turnaround costs		843		
Dispose Assets & other	(95)	27		
Deferred Taxes	(194)	(766)		
Working Capital				
Write-Down Invest.	230	58		
Goodwill impairment		6,050		
Accounts Rcvbl.	8,845	312	1,620	(3,882)
Inventories/Prepaids	137	3,530	(2,386)	(1,675)
Payable/Accrued	(6,599)	1,872	(406)	1,890
Interest Payable				
Taxes Payable	(2,086)	(629)	-	-
Discontinued Ops.				
Cash from Operating Activities	**8,961**	**9,647**	**1,620**	**3,451**
Capital Expenditures	(7,446)	(9,118)	(3,000)	(2,000)
Promissory Notes	122	61	-	-
Dispose Assets	546	123	-	-
Sale of Assets				
Acquisition	(2,733)	826	-	-
Sale of Subsidiary			-	-
Other Assets	(867)	(850)	-	-
Discontinued Ops.			-	-
Cash from Investing Activities	**(10,378)**	**(8,957)**	**(3,000)**	**(2,000)**
Share Capital	1,147	104		
Common share repurchase		(209)		
Preferred Redeem				
Preferred Conv.				
Bank Indebted.	(3,695)		-	
Increase-LTD				
Increase-Leases				
Repay. Leases				
Repayment LTD	(4,596)	(287)		
Dividends-Pref.				
Discontinued Ops.				
Cash from Financing Activities	**(7,145)**	**(392)**	**-**	**-**
Net Change in Cash	**(8,561)**	**298**	**(1,380)**	**1,451**
Net Cash - Beginning Balance	10,975	2,414	2,711	1,331
Net Cash - Ending Balance	2,414	2,711	1,331	2,782

Fundamental Research Corp. Equity Rating Scale:
Buy – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk
Hold – Annual expected rate of return is between 5% and 12%
Sell – Annual expected rate of return is below 5% or the expected return is not commensurate with risk
Suspended or Rating N/A— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

Fundamental Research Corp. Risk Rating Scale:
1 (Low Risk) - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

2 (Below Average Risk) - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

3 (Average Risk) - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

4 (Speculative) - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

5 (Highly Speculative) - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues, and may rely on external funding. These stocks are considered highly speculative.

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