Management's Discussion and Analysis

February 4, 2005

The following discussion and analysis of the results of operations and cash flows for the period ended December 31, 2004, and the financial position as at December 31, 2004, should be read in conjunction with the Company's unaudited consolidated financial statements and related notes for the period ended December 31, 2004, the Management's Discussion and Analysis and audited consolidated financial statements and related notes for the year ended March 31, 2004, as well as the Message to Shareholders included in this Third Quarter Report.

This discussion includes forward-looking statements that are based on current expectations and are subject to risks and uncertainties. Many internal and external factors may cause actual results to differ materially, including, but not limited to, those outlined in Risks and Uncertainties in the Management's Discussion and Analysis for the year ended March 31, 2004. The Company disclaims any intention or obligation to update or revise any such forward-looking statements, whether as a result of new information, future events, or otherwise.

OVERALL PERFORMANCE

The Company used the same accounting policies and methods for the period ended December 31, 2004 as used in the audited annual consolidated financial statements for the year ended March 31, 2004. The consolidated statements of income and retained earnings (deficit) and cash flows for interim periods are not necessarily indicative of results on an annual basis due to seasonal and short-term variations. The Company operates in one reportable segment, which is the manufacture and distribution of liquid storage systems including fiberglass underground and aboveground storage tanks and related products and accessories. Historically, the second and third quarters have the highest levels of activity, corresponding to the seasonality of the installation of underground liquid storage systems in Canada.

Revenue in the third quarter increased by 3.1% to an overall record $11.1 million (increased by 9.0% to $28.4 million for nine months) from $10.7 million ($26.0 million for nine months) last year. Net income for the quarter decreased to $1.0 million (increased to $2.3 million for nine months) from $1.1 million ($1.5 million for nine months) in 2003. Basic earnings per share for the third quarter were $0.06 ($0.13 for nine months) and diluted earnings per share were $0.05 ($0.12 for nine months), as compared to basic and diluted earnings per share of $0.06 for the quarter ($0.08 for nine months) last year.

The outlook for the downstream and upstream sectors of the petroleum industry, along with other traditional markets, continues to be very positive for the remaining part of this fiscal year as well as for next year. After a slow start this year, activity and the order backlog picked up during the first quarter, and remained buoyant through the second and third quarters. The fourth quarter, which historically has a lower level of activity, is also off to a strong start. The steel tank manufacturing business, acquired from Durex Steel & Alloy Industries Ltd. ("Durex") during the first quarter, has been integrated into the overall liquid storage operations and contributed to revenue. Inventories have been maintained at higher levels to meet orders and deliveries.

The slight decrease in net income in the third quarter was due to reduced manufacturing margins, mainly as a result of increased raw material costs, as compared to last year. While overall margins have decreased in the quarter, ongoing margins are expected to be maintained through selling price increases and production improvements. The increase in net income in the nine-month period as compared to last year was due to the higher revenue. Last year, the $880,000 provision for impairment of the agreement receivable from ZCL Enviro Systems, Inc. ("Enviro") decreased net income for the nine-month period by $580,000 or $0.03 per share.

Cash flows from operating activities during the third quarter this year were $3.6 million ($2.9 million for nine months), compared to $4.1 million ($5.6 million for nine months) last year. This decrease was largely due to the timing of sales (high sales later in the period with the resulting higher level of accounts receivable at December 31, 2004) and the build-up of inventories this year. The first annual dividend of $0.06 per common share was declared in the first quarter this year and dividends of $1.1 million were paid in the second quarter. The business assets of Durex were purchased for cash of $1.2 million in the first quarter this year. Last year, long-term debt of $4.3 million was repaid in the third quarter ($4.6 million in the nine-month period).

The effect of dilutive share options and warrants was 2,007,432 shares (2003 – nil) for the third quarter and 1,360,581 shares (2003 – nil) for the nine-month period.

Two-thirds of the warrants vested this year, with the first performance threshold of $1.90 per common share reached in the first quarter, and the second threshold of $2.85 in the third quarter. In 2003, share options were not included in the calculation of diluted shares as their exercise prices exceeded the average market share price for the period, and the warrants were not included as the market share price was below the performance vesting thresholds.

In December 2004, a portion of the Company's manufacturing plant in Waverly, Nova Scotia was destroyed in an electrical fire. This facility is used largely to produce home heating oil tank products. All damaged property, equipment and inventories have been, or will be, repaired or replaced. It is anticipated that insurance proceeds from the Company's insurers (subject to a $25,000 deductible under the insurance policy) will cover all damages. Manufacturing has resumed and the plant will be fully restored with no major disruptions to production or sales as a result of the fire.

The Company continues to focus on the development and marketing of the tank lining technologies, as well as other new products. In conjunction with customers and suppliers, the Company has developed and is testing new lining materials and processes in order to deliver a superior performing product with inherently safe installation techniques. Field trials commenced in the third quarter and further testing will be conducted to evaluate performance and installation under various site and weather conditions. Product development costs of $210,000 (2003 – nil) in the third quarter and $442,000 (2003 – nil) for the nine-month period were deferred.

RESULTS OF OPERATIONS

Period Ended December 31, 2004 Compared to the Period Ended December 31, 2003

Revenue

Revenue in the third quarter increased by 3.1% to $11.1 million (increased by 9.0% to $28.4 million for nine months) from $10.7 million ($26.0 million for nine months) last year. The majority of the increase was due to the strong level of activity in the downstream and upstream sectors of the petroleum industry. Activity picked up in the latter part of the first quarter, and continued through the second and third quarters. In addition, the steel tank manufacturing business, acquired from Durex during the first quarter, has been integrated into the overall liquid storage operations and contributed to revenue. Products introduced in recent years – home heating oil tanks, Protektor® and Pinnacle™ oilfield tanks, filament wound pressure vessels, as well as custom storage and lining systems – continue to gain market acceptance and add to revenue.

Revenue less manufacturing and selling costs

Revenue less manufacturing and selling costs decreased to $2.6 million (23.1% of revenue) from $2.9 million (26.9% of revenue) in the third quarter last year, and remained at the same level of $6.4 million (22.7% of revenue; 2003 – 24.5% of revenue) for the nine-month period.

Manufacturing and selling costs include direct materials and labour, variable and fixed manufacturing overhead, and marketing and selling expenses, and exclude amortization, general and administration, and financing charges. The decrease in revenue less manufacturing and selling costs in the third quarter was due to reduced margins, mainly as a result of increased raw material costs, as compared to last year. While overall margins have decreased in the quarter, ongoing margins are expected to be maintained through selling price increases and production improvements. Manufacturing overhead and marketing and selling expenses have generally been maintained at similar levels as last year, but certain higher expenses were incurred to support the increased operations and sales activity.

Amortization

Amortization decreased to $481,000 (2003 – $505,000) for the third quarter and to $1.4 million (2003 – $1.5 million) for the nine-month period. The overall level of amortization has decreased, and will further moderate by the end of fiscal 2005, as certain deferred costs related to past start-up operations and acquisitions are fully amortized.

Additional lining development costs were deferred during the third quarter, and will continue in the next quarter. Although the development costs may exceed the initial estimate of $500,000, the development program is proceeding on schedule and preliminary results of field trials are very encouraging. These development costs will be amortized upon the commercial production of the lining products.

General and administration

General and administration expenses were $484,000 or 4.4% of revenue (2003 – $562,000 or 5.2% of revenue) for the third quarter and $1.4 million or 5.0% of revenue (2003 – $1.4 million or 5.4% of revenue) for nine months. These costs have generally been maintained at the same level as last year, but will increase as the Company grows and processes are put in place relating to the requirements of current corporate governance developments. General and administration expenses include the accrual of management incentives of nil (2003 – $110,000) for the third quarter and $55,000 (2003 – $150,000) for the nine-month period.

Provision for impairment of agreement receivable

As described in note 6 to the unaudited consolidated financial statements for the period ended December 31, 2004, during the second quarter of last year, a provision for impairment of the full amount of the agreement receivable from Enviro of $880,000 was recorded. Since that time, actions continue to be pursued to collect the amount receivable, but no additional recoveries have been received.

Financing charges

Financing charges for the third quarter were $12,000 ($55,000 for nine months), down from $61,000 ($256,000 for nine months) last year. The decrease is the result of the repayment of long-term bank debt and write-off of related deferred finance costs last year. Short-term interest increased marginally from last year with the utilization of the bank operating lines of credit (bank indebtedness) this year. Foreign exchange gains or losses, included in financing charges, were not significant.

Income taxes

The Company's effective tax rate was 34.9% in the third quarter (34.6% for nine months), as compared to 35.4% (36.7% for nine months) last year. The Company's statutory income tax rate is approximately the same as last year; the decrease in the effective rate was due to non-deductible expenses that are not significant but had a larger effect last year because of the lower level of pre-tax income.

The Company was in a taxable position in the second and third quarters this year. The majority of tax losses of prior years have been utilized, and current future tax assets largely represent the remaining tax losses that are available and anticipated to be utilized over the next year.

LIQUIDITY AND CAPITAL RESOURCES

Working capital (current assets less current liabilities) at December 31, 2004 was $11.4 million, as compared to $10.1 million at March 31, 2004. Current assets increased by $2.7 million and current liabilities increased by $1.4 million. At December 31, 2004, accounts receivable increased by $939,000 from March 31, 2004 to $7.3 million, inventories increased by $1.8 million to $7.3 million, accounts payable and accrued liabilities increased by $516,000 to $5.0 million, and income taxes payable increased by $914,000 to $949,000. These increases reflect the elevated level of operations during the period. Inventories have been maintained at higher levels to meet the higher activity anticipated in the fourth quarter. Income taxes payable increased as a result of the current tax provision for the period.

No one customer generally makes up more than 10% of revenue, but at a particular point in time, depending on the timing of sales, there may be higher proportionate exposure in accounts receivable. At December 31, 2004, the two largest customers accounted for approximately 24% (March 31, 2004 – two customers, 26%) of accounts receivable.

As a result of the increase in cash during the period, net repayment of the revolving operating lines of credit (bank indebtedness) was $1.3 million (2003 – nil) during the third quarter with a remaining cash balance of $2.1 million at December 31, 2004. The Company has operating lines of credit of $10.3 million provided by a chartered bank that are not utilized.

Cash flows from operating activities during the third quarter this year were $3.6 million ($2.9 million for nine months), compared to $4.1 million ($5.6 million for nine months) last year. This decrease was largely due to the timing of sales (high sales later in the period with the resulting higher level of accounts receivable at December 31, 2004) and the build-up of inventories this year.

Share options and warrants were exercised for cash of $76,000 in the third quarter (2003 – nil) and $302, 000 for the nine-month period (2003 – nil). During the second quarter this year, dividends of $1.1 million (2003 – nil) were paid. Last year, long-term debt of $4.3 million was repaid in the third quarter ($4.6 million in the nine-month period). The business assets of Durex were purchased for cash of $1.2 million in the first quarter this year. Product development costs, related to lining materials and processes, of $210,000 (2003 – nil) in the third quarter and $442,000 (2003 – nil) for the nine-month period were deferred.

During the second quarter this year, the Toronto Stock Exchange ("TSX") accepted notice of a normal course issuer bid ("2004 NCIB") filed by the Company. For the twelve-month period commencing August 19, 2004 and ending

August 18, 2005, the Company may purchase on the TSX up to a maximum of 875,566 common shares, being approximately 5% of the issued and outstanding common shares. The actual number and timing of any purchases will be determined by the Company, and the price for any such shares will be the market price at the time. The Company believes that, from time to time, its common shares have been trading at a price range which does not adequately reflect their value in relation to the assets, business and future prospects. No shares have been purchased pursuant to the 2004 NCIB. The normal course issuer bid filed by the Company last year ("2003 NCIB") expired on July 9, 2004. During the third quarter last year, 221,000 common shares (222,000 for the nine-month period) were repurchased for cancellation under the 2003 NCIB.

TRANSACTIONS WITH RELATED PARTIES

The related party transactions are described in note 9 to the unaudited consolidated financial statements for the period ended December 31, 2004. There are no ongoing contractual or other commitments resulting from these transactions.

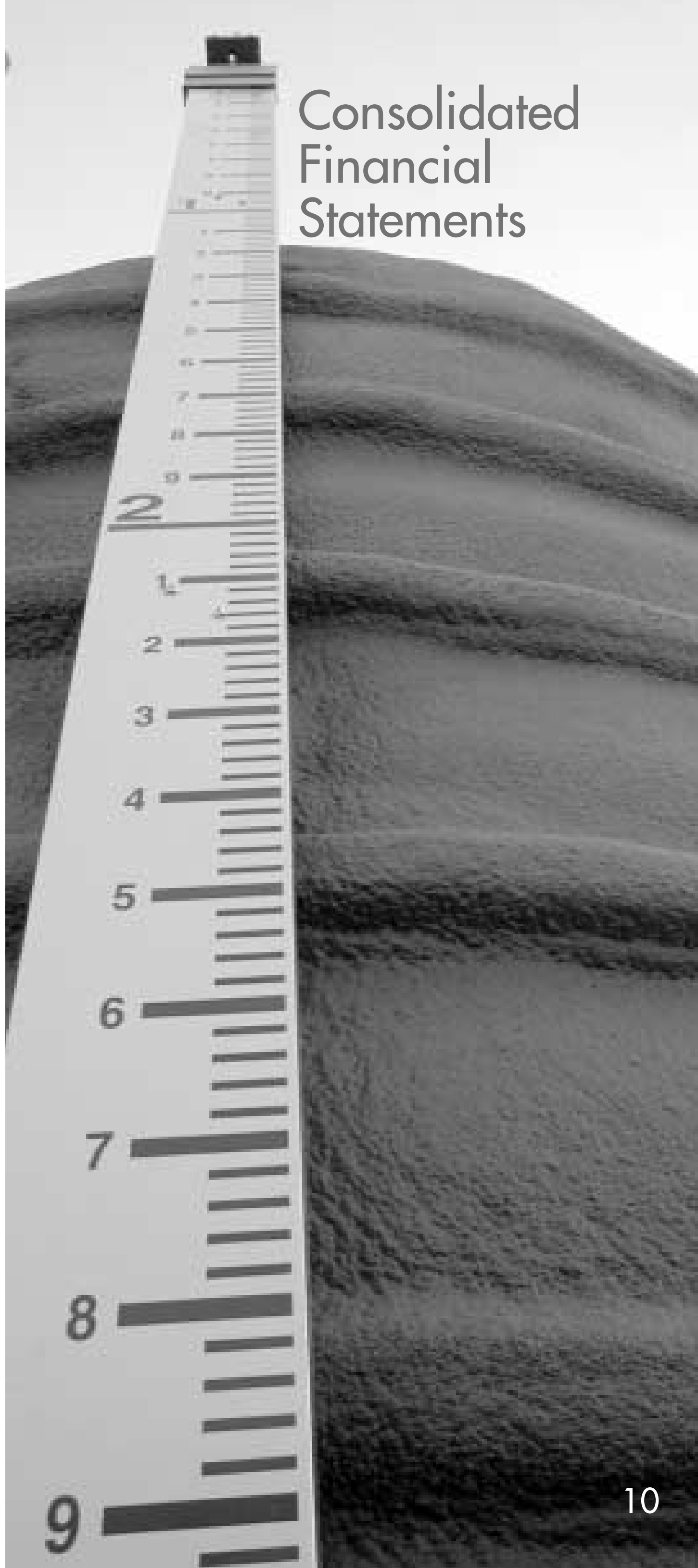
OUTLOOK

The Company's outlook remains as described in the Management's Discussion and Analysis included in the March 31, 2004 Annual Report.

OTHER

Outstanding Share Data

As at February 4, 2005, there were 17,828,919 common shares, 1,190,734 share options and 3,530,878 warrants outstanding.



Consolidated Financial Statements