Management's Discussion and Analysis

November 5, 2004

The following discussion and analysis of the results of operations and cash flows for the period ended September 30, 2004, and the financial position as at September 30, 2004, should be read in conjunction with the Company's unaudited consolidated financial statements and related notes for the period ended September 30, 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 Second 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 September 30, 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 second quarter increased by 39.6% to $11.0 million (increased by 13.2% to $17.3 million for six months) from $7.9 million ($15.3 million for six months) last year. Net income for the quarter increased to $1.2 million ($1.3 million for six months) from $97,000 ($333,000 for six months) in 2003. Basic and diluted earnings per share for the second quarter increased to $0.07 ($0.07 for six months) from $0.01 ($0.02 for six months) last year.

The outlook for the downstream and upstream sectors of the petroleum industry, as well as other traditional markets, continues to be very positive for this fiscal year. After a slow start, activity and the order backlog picked up during the first quarter and remained strong through the second quarter. The third quarter 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 during the second and third quarters.

The increase in net income and earnings per share in the second quarter and six-month period as compared to last year was due to the higher revenue. In the second quarter last year, the $880,000 provision for impairment of the agreement receivable from ZCL Enviro Systems, Inc. ("Enviro") decreased net income by $580,000 or $0.03 per share.

Cash used in operating activities during the second quarter this year was $202,000 ($730,000 for six months), compared to cash flows from operating activities of $1.0 million ($1.6 million for six 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 September 30, 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.

The effect of dilutive share options and warrants was 1,145,718 shares (2003 – nil) for the second quarter and 1,037,155 shares for the six-month period (2003 – nil). During the first quarter this year, the first performance threshold with respect to the warrants, of $1.90 per common share, was reached and one-third of the warrants vested. 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.

The Company continues to focus on the development and marketing of its tank lining technologies, as well as other new products. In conjunction with customers and suppliers, the Company is working to develop new lining materials and processes in order to deliver a product with superior quality and performance, along with inherently safe installation techniques.

Field testing is scheduled to commence later this fiscal year. Product development costs of $97,000 (2003 – nil) in the second quarter and $232,000 (2003 – nil) for the six-month period were deferred.

RESULTS OF OPERATIONS

Period Ended September 30, 2004 Compared to the Period Ended September 30, 2003

Revenue

Revenue in the second quarter increased by 39.6% to $11.0 million (increased by 13.2% to $17.3 million for six months) from $7.9 million ($15.3 million for six 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 in the second quarter. Activity picked up in the latter part of the first quarter, and continued through the second quarter. 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 increased to $2.9 million (25.9% of revenue) from $2.0 million (25.9% of revenue) in the second quarter last year, and to $3.9 million (22.5% of revenue) from $3.5 million (22.8% of revenue) for the six-month period. This increase is the result of the higher revenue.

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. Overall manufacturing margins continue to be maintained at similar levels as last year, with production improvements and higher selling prices offsetting the impact of increased raw material input costs. 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 $477,000 (2003 – $495,000) for the second quarter and to $945,000 (2003 – $999,000) for the six-month period. The overall level of amortization has decreased, and will further diminish 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 second quarter, and will continue in fiscal 2005. These additional costs are not anticipated to exceed $500,000 and will be amortized upon the commercial production of the lining products.

General and administration

General and administration expenses were $494,000 or 4.5% of revenue (2003 – $409,000 or 5.2% of revenue) for the second quarter and $923,000 or 5.3% of revenue (2003 – $844,000 or 5.5% of revenue) for six 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 $55,000 (2003 – $20,000) for the second quarter and $55,000 (2003 – $40,000) for the six-month period.

Provision for impairment of agreement receivable

As described in note 6 to the unaudited consolidated financial statements for the period ended September 30, 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 second quarter were $40,000 ($43,000 for six months), down from $81,000 ($195,000 for six months) last year. The decrease is the result of the repayment of long-term bank debt and write-off of related deferred finance costs in the third quarter last year. Short-term interest increased 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 33.4% in the second quarter (34.4% for six months), as compared to 45.5% (41.0% for six 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 relatively large effect last year because of the low level of pre-tax income.

The Company was in a taxable position in the second quarter 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 September 30, 2004 was $10.0 million, as compared to $10.1 million at March 31, 2004. Current assets increased by $2.0 million and current liabilities increased by $2.1 million. At September 30, 2004, accounts receivable increased by $2.3 million from March 31, 2004 to $8.7 million, inventories increased by $1.5 million to $7.1 million, accounts payable and accrued liabilities increased by $449,000 to $5.0 million, and income taxes payable increased by $339,000 to $374,000. These increases reflect the elevated level of operations during the period. Inventories have been increased to meet the higher level of activity in the third 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 September 30, 2004, the two largest customers accounted for approximately 20% (March 31, 2004 – two customers, 26%) of accounts receivable.

As a result of the use of cash during the period, net advances on the revolving operating lines of credit (bank indebtedness) were $1.2 million (2003 – nil) during the second quarter and $1.3 million (2003 – nil) for the six-month period. The Company has operating lines of credit of $10.3 million provided by a chartered bank.

Cash used in operating activities during the second quarter this year was $202,000 ($730,000 for six months), compared to cash flows from operating activities of $1.0 million ($1.6 million for six 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 September 30, 2004) and the build-up of inventories this year.

During the second quarter this year, dividends of $1.1 million (2003 – nil) were paid and share options and warrants were exercised for cash of $226,000 (2003 – nil). Last year, long-term debt of $179,000 was repaid in the second quarter ($358,000 for six months last year). 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 $97,000 (2003 – nil) in the second quarter and $232,000 (2003 – nil) for the six-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 second quarter last year, 1,000 common shares were repurchased for cancellation under the 2003 NCIB (during fiscal 2004, a total of 222,000 shares were purchased 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 September 30, 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 November 5, 2004, there were 17,810,586 common shares, 1,250,734 share options and 3,539,211 warrants outstanding.