

ZCL Composites Inc.

Management's Discussion and Analysis

For the year ended December 31, 2008

March 10, 2009

Management's Discussion and Analysis

INTRODUCTION

The following Management's Discussion and Analysis ("MD&A") of ZCL Composites Inc. ("ZCL" or the "Company") of the results of operations and cash flows for the year ended December 31, 2008, and of the financial position as at December 31, 2008, should be read in conjunction with the Company's consolidated financial statements and related notes for the year ended December 31, 2008 available on SEDAR at www.sedar.com or the Company's website at www.zcl.com. The Company's financial statements are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). All figures presented in this MD&A are in Canadian dollars unless otherwise specified.

The Company's primary business is liquid containment storage systems, including fibreglass underground and aboveground storage tanks, aboveground tanks made of steel, a fibreglass tank lining system and related products and accessories. The Company's other operating activities are currently not significant to the overall operations and therefore are not disclosed separately. Separate disclosure is provided in this MD&A for Canadian and US revenue, with the distinction based on the primary location of the customers for the Company's various operations. Revenue related to foreign operations is not significant and is included with Canadian revenue.

Advisory Regarding Forward-Looking Statements

This document contains forward-looking statements under the heading "Outlook" and elsewhere concerning future events or the Company's future performance, including the Company's objectives for revenue growth and EBITDA (earnings before interest, taxes, depreciation and amortization), business opportunities in the petroleum, water and wastewater, international and other markets, outlook for raw material costs and production efficiencies, anticipated capital expenditure trends and activity in the petroleum and other industries and markets served by the Company. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. Actual events or results may differ materially from those reflected in the Company's forward-looking statements due to a number of known and unknown risks, uncertainties and other factors affecting the Company's business and the industries the Company serves generally. These factors include, but are not limited to, fluctuations in the level of capital expenditures in the petroleum and water and wastewater markets, drilling activity and oil and natural gas prices, and other factors that affect demand for the Company's products and services, industry competition, the need to effectively integrate acquired businesses, uncertainties as to the Company's ability to implement its business strategy effectively in Canada and the United States, political and economic conditions, the Company's ability to attract and retain key personnel, raw material and labour costs, fluctuations in the US and Canadian dollar exchange rates, and other risks and uncertainties described under the heading "Risk Factors" in the Company's most recent Annual Information Form, and elsewhere in this document and other documents filed with Canadian provincial securities authorities. These documents are available to the public at www.sedar.com.

In addition to the factors noted above, management cautions readers that the significant economic instability in the world today could have a negative impact on the markets in which the Company operates and on the Company's ability to achieve its financial targets. Factors such as the economic downturns in the US and Canada, tighter lending standards, volatile capital markets, falling commodity prices, the severity of the US housing crisis and other factors could negatively impact the short-term demand for the Company's products and the Company's ability to grow or sustain revenues and earnings. Fluctuations in the US to Canadian dollar conversion rate also have the potential to impact the Company's revenues and earnings.

The Company believes that the expectations reflected in the forward-looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this report should not be unduly relied upon.

The forward-looking statements in this report speak only as of the date of this report. The Company does not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by the Company or on the Company's behalf, whether as a result of new information, future events, or otherwise, except as may be required under applicable securities laws. The forward-looking statements contained in this document are expressly qualified by this cautionary statement.

Non-GAAP Measures

The Company uses both GAAP and non-GAAP measures to make strategic decisions and set targets and believes that these non-GAAP measures provide useful supplemental information to investors. EBITDA, gross profit, gross margin, cash from operations, working capital and backlog are measures used by the Company that do not have a standardized meaning prescribed by GAAP and may not be comparable to similar measures used by other companies. Included at the end of this MD&A are tables calculating or reconciling these non-GAAP measures where applicable.

Gross profit is defined as revenue less manufacturing and selling costs. Gross margin is revenue less manufacturing and selling costs divided by revenue and expressed as a percentage. 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 expenses.

EBITDA is defined as income from continuing operations before interest, income taxes and amortization on property, plant and equipment, deferred development costs and intangible assets, and gains or losses on sale of property, plant and equipment. Gains or losses on foreign exchange are now excluded from the EBITDA calculation and amounts previously reported adjusted for this exclusion. Readers are cautioned that EBITDA should not be construed as an alternative to net income as determined in accordance with GAAP.

Cash from operations is defined as cash flows from operating activities before changes in non-cash working capital. Working capital is defined as current assets less current liabilities.

Backlog is defined as the total value of orders that management has assessed as having a high certainty of being performed because of the existence of a contract or purchase order specifying the scope, value and timing of an order.

BUSINESS PROFILE

ZCL is the largest North American manufacturer and distributor of environmentally-friendly fibreglass reinforced plastic (FRP) underground storage tanks (UST). These FRP UST products are used primarily in the downstream retail petroleum storage markets and the water and wastewater storage markets. ZCL manufactures both a single wall, and for secondary containment, a double wall tank, to serve these industries.

As an alternative to UST replacements, ZCL has developed a FRP tank lining system that allows a single wall steel or fibreglass tank to be upgraded to a corrosion resistant secondary contained storage tank while still in the ground. The lining system is currently being implemented in North America and Asia. In addition, ZCL manufactures and distributes a patented, three dimensional glass fibre material called Parabeam®, which is a key component of double wall tank products and tank lining systems. ZCL also manufactures and distributes a line of FRP home heating oil tanks, primarily for the Northeast US and Eastern Canada residential markets.

ZCL's business also includes the manufacture and distribution of both FRP and steel above ground storage tanks and related products and accessories. These products are used primarily in the upstream petroleum, industrial and commercial storage tank markets. In addition, ZCL can manufacture specialty fibreglass tanks, pipes and stacks for large-scale industrial projects such as the Northern Alberta oil sands development and coal-fired power plants where resistance to corrosion is a high priority.

On February 22, 2007, the Company expanded into the US with the acquisition of Xerxes Corporation ("Xerxes"). The purchase price for Xerxes of \$46.3 million was funded from the net proceeds of a "bought deal" private placement and commercial debt financing. The acquisition of Xerxes substantially increased the Company's revenues and operations as Xerxes was a similar size to ZCL.

ZCL manufactures its products in seven plants in Canada, four in the US and one in the Netherlands.

DIVIDENDS

Subsequent to the year end, on March 10, 2009, the Company's Board of Directors declared a cash dividend of \$0.12 per common share for shareholders of record on April 6, 2009, which will be paid on April 20, 2009.

In 2008, on March 18, the Company's Board of Directors declared a cash dividend of \$0.12 per common share for shareholders of record on April 3, 2008, which was paid on April 17, 2008. This dividend represented a 20% increase over the annual dividend declared in the prior year.

Management's Discussion and Analysis

SELECTED ANNUAL FINANCIAL INFORMATION

(in thousands of dollars, except per share amounts)	December 31 2008 12 months	December 31 2007 12 months	December 31 2006 12 months*	December 31 2006 9 months
Operating Results	\$	\$	\$	\$
Canadian revenue	48,519	48,309	55,060	41,399
US revenue	79,655	56,474	-	-
	128,174	104,783	55,060	41,399
Gross profit (<i>note 1</i>)	26,718	22,358	12,867	9,819
% of revenue	20.8%	21.3%	23.4%	23.7%
General and administration (<i>note 2</i>)	7,446	8,270	3,329	2,634
Amortization	3,812	3,572	1,655	1,269
Interest expense (income) (<i>note 2</i>)	680	563	(8)	(39)
Income tax provision	3,416	2,438	2,540	1,899
Net income from continuing operations	11,364	7,515	5,351	4,056
Net income from discontinued operations	-	-	319	-
Net income	11,364	7,515	5,670	4,056
EBITDA (<i>note 1</i>)	19,272	14,088	9,538	7,185
% of revenue	15.0%	13.4%	17.3%	17.4%
Basic earnings per share:				
Net income from continuing operations	0.43	0.29	0.26	0.19
Net income from discontinued operations	-	-	0.01	-
Net income	0.43	0.29	0.27	0.19
Diluted earnings per share:				
Net income from continuing operations	0.43	0.29	0.26	0.18
Net income from discontinued operations	-	-	0.01	-
Net income	0.43	0.29	0.27	0.18
Cash Flow				
Cash from operations (<i>note 1</i>)	15,471	10,120	7,309	5,299
Issue of common shares, net of transaction costs	14	38,091	3,564	1,590
Dividends paid	(3,173)	(2,600)	(2,081)	(2,081)
Additions to property, plant and equipment	(4,412)	(3,791)	(1,630)	(1,495)
Business acquisitions	-	(55,659)	-	-
As at	December 31 2008	December 31 2007	December 31 2006	December 31 2006
Financial Position				
Working capital (<i>note 1</i>)	28,905	20,642	18,306	18,306
Total assets	116,544	94,368	41,415	41,415
Long term debt	6,494	8,938	-	-

* Figures were compiled using the audited December 31, 2006 results and the unaudited interim quarterly March 31, 2006 results.

Note 1: Gross profit, EBITDA, cash from operations, and working capital are non-GAAP measures and are defined earlier under Non-GAAP Measures.

Note 2: Foreign exchange (gains) losses have been reclassified from Interest expense (income) to general and administration for all periods presented.

OVERALL FINANCIAL PERFORMANCE

2008 Highlights

- Record net income of \$11.4 million, up 51% from \$7.5 million last year
- Record diluted earnings per share of \$0.43, up 48% from \$0.29 last year
- Record revenue of \$128.2 million, up 22% from \$104.8 million last year
- Working capital of \$28.9 million, up from \$20.6 million at December 31, 2007
- Backlog of \$21.8 million, up 33% from December 31, 2007

ZCL's 2008 growth was attributable to strong operational performance and US revenue growth, which totalled \$79.7 million, an increase of 41% compared to \$56.5 million in 2007. Canadian revenue totalled \$48.5 million in 2008, consistent with \$48.3 million in 2007.

The US revenue growth was driven by the capture of increased market share in the US downstream petroleum market, higher water and wastewater sales, increased product sales for tank lining installations primarily in Florida, a full year of the Xerxes operations in 2008 compared to just over ten months in the prior year, and favourable exchange rates. Management believes that the capture of increased market share in the US downstream petroleum market was due to increased recognition by retail service station owners that steel underground petroleum storage tanks are subject to internal corrosion and that fibreglass tanks, such as ZCL's, have superior corrosion resistant properties.

The Company finished 2008 with working capital of \$28.9 million, an increase of 40% compared to \$20.6 million at December 31, 2007. The Company also had total assets of \$116.5 million and long term debt (including the current portion) of \$6.5 million at the end of 2008.

ZCL's backlog was \$21.8 million at December 31, 2008, an increase of 33% compared with \$16.4 million a year earlier. The increase reflected a higher US related backlog and the US to Canadian dollar conversion rate increasing to 1.22 at December 31, 2008 compared to 0.98 a year earlier.

2008 Financial Targets

With revenue growth of 22% in 2008 the Company achieved the established target for revenue growth of more than 20%. The Company's EBITDA margin of 15.0% of revenue in 2008, while below the established target of 16.0%, was nevertheless up from 13.4% in 2007. These targets were originally disclosed in March 2008 and were most recently reconfirmed in the third quarter 2008 financial report issued in November 2008.

In reconfirming the 2008 EBITDA margin target in the third quarter 2008 report, management noted that the 16.0% objective would depend in part on strong revenue growth in the fourth quarter of 2008. Management also noted that the EBITDA margin could be negatively impacted by an increase in the US to Canadian dollar conversion rate due to the raw materials and other items purchased by the Company's Canadian operations that are denominated in US dollars. Ultimately, the strong fourth quarter revenue increase of 27% in 2008 over 2007 was not enough to offset the impact of higher raw material prices and additional training and manufacturing costs associated with the transition to Parabeam® in the US double wall tank. This transition is part of ZCL's continuous improvement and best practice initiatives, and in addition to the sales and marketing benefits, it is expected to ultimately result in manufacturing efficiencies.

OUTLOOK

Over the long-term, ZCL has established an objective of achieving average revenue growth of 15% to 20% per annum. ZCL has also established a medium-range objective of improving EBITDA to 20% of revenue. These objectives remain in place.

For 2009, management however is deferring providing specific targets for these objectives due to the current economic environment. Factors such as the economic downturn in the US and Canada, tighter lending standards, volatility in the capital markets, falling commodity prices and the US housing crisis could impact the short-term demand for ZCL's products.

Despite the caution for 2009, management remains positive and believes that growth in revenue and EBITDA can be achieved in 2009. For the first quarter of the year, management is however projecting a modest loss due to customer cautiousness associated with the current economic environment, compounded by general seasonality factors that typically make the first quarter the slowest quarter of the year. To demonstrate, the Company achieved revenue of \$23.8 million in the first quarter of 2008 compared to a range of \$33.0 million to \$38.2 million in the second through fourth quarters of that year.

Some of the key reasons management believes that ZCL can achieve growth overall in 2009 include:

- The attraction of some significant new customers in the downstream petroleum market in the first part of 2009, continuing the trend experienced in 2008.
- Florida's tank upgrading requirement and the recent reconfirmation by Florida regulators to enforce the end of 2009 deadline.
- Continued growth opportunities in the water and wastewater market even with the current economic environment.
- Additional opportunities for ZCL's technology in both North America and Internationally.
- Return of raw material and production costs to more normal levels after increases in 2008, particularly in the latter part of the year 2008.
- Favourable exchange rates given that a significant portion of the Company's business is denominated in US dollars.
- A strong balance sheet that positions the Company well to take advantage of strategic opportunities that may arise.

New Customers

Throughout 2008, and to date in 2009, ZCL has attracted a number of new customers in the downstream market. Many of these new customers previously purchased steel tanks. Management believes that ZCL has benefited from growing recognition by retail service station owners that steel petroleum storage tanks are subject to internal corrosion and that fibreglass tanks, such as ZCL's, have superior corrosion resistant properties. Advances in the use of biofuels have also helped to accelerate the increased awareness of the impact of internal corrosion since biofuels create a more corrosive environment through the phenomenon known as Microbial Induced Corrosion ("MIC").

Management also believes that ZCL has benefitted from a decision by the Steel Tank Institute ("STI") to reduce the warranty on new STI licensed tanks to 10 years from 30 years effective January 1, 2008. ZCL's fibreglass tank warranty against corrosion remains intact at 30 years.

An additional factor that may help to generate growth in the downstream petroleum market is the incorporation of ZCL's patented three dimensional glass fibre, Parabeam[®], into the double wall tanks manufactured by the US operations. The use of Parabeam[®] allows the Company to introduce its insurance backed Preserver[®] Enhanced Protection Program to US customers. This program, which provides customers with third-party liability and pollution coverage, has allowed ZCL to differentiate itself in the Canadian downstream market.

Florida

Another positive factor for 2009 is the strong commitment shown by Florida state regulators to enforce the regulations that require all existing single wall underground petroleum storage tanks in the state to be upgraded or replaced with a secondary containment system by the end of the year. On February 17, 2009 the Florida Department of Environmental Protection posted to its website and mailed to service station owners a letter confirming its intention to enforce the end of 2009 deadline. The Company believes that there may be as many as 3,000 sites (8,000 to 10,000 tanks) that may still require upgrading or replacing by the end of 2009. While many of these sites may shut down due to financial and economic factors, the deadline should still result in a strong increase in short-term demand for tanks and tank liners given that capacity for the entire US market is estimated to be 12,000 to 15,000 tanks annually.

Water and Wastewater

Management continues to believe that there are growth opportunities in the water and wastewater market. This market currently accounts for roughly 20% of ZCL's total revenue, but ZCL only has a very small share of this substantial market. Over the past number of years, the Company has generated significant growth from this market, and in 2008, even with the economic slowdown, ZCL was still able to achieve a double-digit increase in water and wastewater sales. In 2008, additional resources and initiatives were directed to this market in both the US and Canada and these investments are expected to contribute to additional growth in 2009.

International and Other Opportunities

ZCL has recently increased its focus on attracting new licensees for its tank manufacturing technology and continues to pursue additional opportunities for its tank lining system in the US (beyond the Florida market), and in Canada, Europe and South East Asia.

The Company also continues to believe that there are opportunities for its technology in the coal-burning power plant industry due to the regulatory push towards reducing sulphur dioxide emissions. ZCL's corrosion resistant fibreglass technology is an ideal and cost effective solution for use in scrubbers and chimney stacks that remove sulphur dioxide from flue gas emissions.

Manufacturing Costs

For much of 2008, and in particular in the latter part of the year, the Company experienced higher prices for its primary raw material, resin, which had a negative impact on profit margins. The cost of resin has returned to more normal levels in the first part of 2009.

As noted above, ZCL began the transition to Parabeam® in the US double wall tank in the third quarter of 2008. This transition is part of ZCL's continuous improvement and best practice initiatives, and while it resulted in additional training and other manufacturing costs in the second half of 2008, it is ultimately expected to result in manufacturing efficiencies.

Exchange Rates

Foreign exchange rates may also have an impact on 2009 as approximately two-thirds of ZCL's business activity is denominated in US dollars. In 2008, the US to Canadian dollar conversion rate averaged about 1.07, with the rate averaging about 1.02 through the first nine months and increasing to 1.22 in the fourth quarter. The conversion rate has remained in the 1.20+ range through the early part of 2009. A higher US dollar relative to the Canadian dollar is expected to have a positive impact on overall revenue and earnings, however it could result in a lower gross margin and EBITDA as a percentage of revenue due to higher expenses in Canada for the purchase of certain raw materials that are denominated in US dollars.

Financial Position

ZCL has a strong balance sheet, with lower debt than a year earlier, and as a result is well positioned to take advantage of strategic and business development opportunities that may become available.

RESULTS OF OPERATIONS

Revenue

Revenue for 2008 totalled \$128.2 million, an increase of 22% compared to \$104.8 million in 2007. This growth was driven by the capture of increased market share in the US downstream petroleum market, higher water and wastewater sales and increased product sales for tank lining installations primarily in Florida. Excluding the impact of foreign exchange and including revenues for the same ten month period in 2008 compared to 2007, the Xerxes operations accounted for 15% of the total revenue growth.

The Company generates significant revenue denominated in US dollars and as a result the 2008 revenue growth was also due to a small overall increase in the average US to Canadian dollar conversion rate. While there were significant fluctuations in the conversion rate in both 2008 and 2007, on an overall basis the weighted average conversion rates were relatively similar at an average rate of approximately 1.07 in 2008 and 1.05 in 2007. For additional information on the impact of changes in the US to Canadian dollar exchange rate see the Financial Instruments section below in this MD&A.

US Revenue

US revenue for 2008 totalled \$79.7 million, an increase of 41% compared to \$56.5 million in 2007. US revenue increased to 62% in 2008 compared to 54% in 2007. The US revenue growth was primarily due to the capture of increased market share in the US downstream petroleum market, increased product sales for tank lining installations primarily in Florida and solid growth in water and wastewater sales.

Management believes that the capture of increased market share in the US downstream petroleum market was due to increased recognition by retail service station owners that steel underground petroleum storage tanks are subject to internal corrosion and that fibreglass tanks, such as ZCL's, have superior corrosion resistant properties. Management also believes the market share capture reflected the impact of higher steel prices and the reduction in the warranty on new tanks licensed by the Steel Tank Institute to 10 years from 30 years effective January 1, 2008.

The increased sale of product for tank lining installations in Florida was due to regulations adopted by the state of Florida that require all existing single wall underground petroleum storage tanks to be upgraded or replaced with a secondary containment system by the end of 2009. In the water and wastewater market, the Company has generated very strong sales growth over the past number of years. In 2008, while the US economic downturn has caused the sales growth to slow, the Company still generated double-digit growth from this market.

The US revenue increase was also due in part to a full year of the Xerxes operations in 2008 compared to just over ten months in the prior year and the US to Canadian dollar weighted average conversion rate increasing to 1.07 in 2008 compared to 1.05 in the prior year. Before taking into account the conversion rate, US revenue was up 39% in 2008.

Canadian Revenue

Canadian revenue totalled \$48.5 million in 2008, consistent with \$48.3 million in the prior year. Modest increases in the downstream petroleum, corrosion and industrial markets were offset by lower upstream and international lining sales. The Company was awarded a new three year contract for the installation of its lining system in Hong Kong in 2008, however revenues for 2008 were lower relative to 2007 due to contracts being deferred to future periods. Canadian revenue represented 38% of total revenue in 2008 compared to 46% in 2007.

Gross Profit and Margin

Gross profit for 2008 was \$26.7 million, up 20% from \$22.4 million in the prior year reflecting the strong growth in revenue in 2008.

Gross margin for 2008 was 20.8% of revenue compared to 21.3% of revenue in 2007 and an adjusted margin for 2007 of 22.5% (see discussion below). The lower margin in 2008 reflected an increased investment in sales resources and initiatives as well as higher raw material prices and insurance expenses particularly in the second half of 2008. The lower margin also resulted from additional training and manufacturing costs associated with the transition to Parabeam® in the US double wall tank in the second half of 2008. This transition is part of ZCL's continuous improvement and best practice initiatives, and while it resulted in additional costs in the second half of 2008, it is ultimately expected to result in manufacturing efficiencies.

The 2007 gross margin adjustment noted above related to finished goods the Company purchased in conjunction with the acquisition of Xerxes. Upon acquisition, the Xerxes finished goods inventory was recorded at the estimated selling price less the costs to sell the inventory. This resulted in an increase in the carrying value of inventory of \$1.1 million which was charged to manufacturing costs as the inventory was sold. During 2007, the majority of the increase in carrying value was charged to manufacturing costs.

General and Administration, Amortization and Financing Expense

General and administration ("G&A") expenses for 2008 were \$7.4 million, a decrease of 10% compared to \$8.3 million in 2007. The decrease reflected the impact of a \$931,000 foreign exchange gain in 2008 and a foreign exchange loss of \$510,000 in 2007. Excluding these foreign exchange amounts, G&A expenses totalled \$8.4 million in 2008, an increase of 8% compared to \$7.8 million in 2007 and reflected a full year of the Xerxes operations in 2008 compared to just over ten months in 2007, as well as increased infrastructure support costs and higher public company expenses.

Amortization expense was \$3.8 million in 2008, an increase of 7% compared to \$3.6 million in 2007 reflecting investments in property, plant and equipment partially offset by lower amortization expense related to deferred development costs and intangible assets.

Total interest expense was \$680,000 in 2008, an increase of 21% compared to \$563,000 in 2007 due to increased short term interest partially offset by lower interest on long term debt. Short term interest expense was \$217,000 in 2008 compared to a nominal amount of interest income in 2007. The most significant component of interest expense was interest on long term debt which totalled \$463,000 in 2008, a decrease of 21% compared to \$585,000 in 2007 reflecting quarterly repayments on the long term debt and a decrease in the bank prime interest rate in 2008 compared to 2007.

Income taxes

Income tax expense represented 23.1% of pre-tax income in 2008, compared to 24.5% in the prior year. The decrease reflected variations in income generated from different tax jurisdictions and a reduction in statutory tax rates in certain jurisdictions.

Net Income and Earnings per Share

Net income for 2008 was \$11.4 million, up 51% from \$7.5 million in the prior year. The increase reflected the strong revenue growth in 2008 compared to 2007. Basic and diluted earnings per share were both \$0.43 in 2008, up 48% from \$0.29 in the prior year.

Other Comprehensive Income (Loss)

The Company had other comprehensive income ("OCI") of \$11.7 million for the year ended December 31, 2008 due to a significant increase in the value of the US dollar relative to the Canadian dollar and primarily the translation of the Company's Xerxes operations into Canadian dollars. The operations are classified as self-sustaining foreign operations for accounting purposes where assets and liabilities are translated at the exchange rate in effect at the balance sheet date in accordance with GAAP. The 2008 income reflected the US to Canadian dollar conversion rate increasing to approximately 1.22 as at December 31, 2008 from 0.98 a year earlier. In 2007, the Company had an OCI loss of \$8.7 million due to the US to Canadian dollar conversion rate decreasing from approximately 1.17 at the date of acquisition of Xerxes on February 22, 2007 to 0.98 at December 31, 2007.

SUMMARY OF QUARTERLY RESULTS

For the three months ended (in thousands of dollars, except per share amounts)	2008				2007			
	31-Dec	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31
	\$	\$	\$	\$	\$	\$	\$	\$
Revenue	38,223	33,140	33,014	23,797	30,013	31,293	28,532	14,945
Net income	3,674	3,135	3,202	1,353	2,766	2,546	2,126	77
Basic earnings per share	0.14	0.12	0.12	0.05	0.10	0.10	0.08	-
Diluted earnings per share	0.14	0.12	0.12	0.05	0.10	0.10	0.08	-

The above table of selected information for the eight most recent quarters should be read in conjunction with the Company's applicable interim unaudited and annual audited consolidated financial statements and accompanying notes.

The Company's financial results have historically been affected by seasonality with the lowest levels of activity occurring in the first and second quarters of the year. The revenue and earnings for the eight quarters shown above were also impacted by the acquisition of Xerxes on February 22, 2007. The Xerxes operations more than doubled the Company's revenue and operations. With this addition, the Company's exposure to fluctuations in the US to Canadian dollar exchange rate has increased, which can have a positive or negative impact on the Company's revenue and earnings. In both 2008 and 2007 there were significant fluctuations in the US to Canadian dollar conversion rate. In 2008, the weighted average rate ranged from 1.00 in the first quarter of 2008 to 1.22 in the fourth quarter and in 2007, the conversion rate ranged from an average of 1.17 in the first quarter to 1.01 in the fourth quarter. For additional information on the impact of changes in the US to Canadian dollar exchange rate see the Financial Instruments section below in this MD&A.

FOURTH QUARTER
Selected Financial Information

(in thousands of dollars, except per share amounts)	Three months ended December 31		
	2008	2007	Change
	\$	\$	%
Operating Results			
Revenue			
Canadian	14,039	14,079	0%
US	24,184	15,934	52%
Total	38,223	30,013	27%
Gross profit (<i>note 1</i>)	7,257	7,342	-1%
<i>% of revenue</i>	<i>19.0%</i>	<i>24.5%</i>	
General and administration	1,633	2,282	-28%
Amortization	1,157	822	41%
Interest expense (income)	80	126	-37%
Income tax provision	713	1,346	-47%
Net income	3,674	2,766	33%
EBITDA (<i>note 1</i>)	5,624	5,060	11%
<i>% of revenue</i>	<i>14.7%</i>	<i>16.9%</i>	
Earnings per share			
Basic	0.14	0.10	40%
Diluted	0.14	0.10	40%
Cash Flow			
Cash from operations (<i>note 1</i>)	5,146	3,439	
Changes in non-cash working capital	181	3,966	
Issue of common shares	7	15	
Net advance (repayment) of:			
Bank indebtedness	(4,778)	(5,929)	
Long term debt	(500)	-	
Purchase of property, plant and equipment	(1,522)	(1,272)	
Business acquisitions	-	(2,211)	

Note 1: Gross profit, EBITDA, cash from operations and working capital are non-GAAP measures and are defined earlier under "Non-GAAP Measures".

The fourth quarter of 2008 was a record quarter for ZCL in terms of net income, diluted earnings per share and revenue. Net income totalled \$3.7 million in the quarter, an increase of 33% compared to \$2.8 million in the fourth quarter of 2007. Diluted earnings per share totalled \$0.14 in the quarter, up 40% compared to \$0.10 in the fourth quarter of 2007.

Revenue for the fourth quarter of 2008 totalled \$38.2 million, an increase of 27% compared to \$30.0 million in the same quarter last year. US revenue totalled \$24.2 million in the quarter, an increase of 52% compared to \$15.9 million in the fourth quarter last year, while Canadian revenue of \$14.0 million was consistent with \$14.1 in the fourth quarter

of 2007. The strong US revenue growth was driven by the capture of increased market share in the downstream petroleum market, higher water and wastewater sales, increased product sales for tank lining installations primarily in Florida and a favourable exchange rate. The weighted average US to Canadian dollar conversion rate increased to 1.22 in the fourth quarter of 2008 compared to 1.01 in the same quarter last year.

Gross profit for the fourth quarter of 2008 was consistent with the same quarter last year at \$7.3 million. Gross margin was 19.0% of revenue in the fourth quarter of 2008 compared to a higher than average margin of 24.5% of revenue in the same quarter last year. The reduction in gross margin in the fourth quarter of 2008 reflected higher raw material prices, an increased investment in sales resources and initiatives and additional training and manufacturing costs associated with the transition to Parabeam® in the US double wall tank beginning in the second half of the year. As previously noted, this transition is ultimately expected to result in manufacturing efficiencies. The lower margin also reflected the impact of the increase in the US to Canadian dollar conversion rate since a significant portion of raw materials purchased by the Company's Canadian operations are denominated in US dollars.

General and administrative expenses were \$1.6 million in the fourth quarter of 2008, a decrease of 28% compared to \$2.3 million in the same quarter last year. The decrease was primarily due to foreign exchange gains in the fourth quarter of 2008.

Interest expense decreased to \$80,000 in the fourth quarter of 2008 compared to \$126,000 in the same quarter last year primarily due to lower interest rates. Amortization expense increased to \$1.2 million in the fourth quarter of 2008 compared to \$822,000 in the same quarter last year due to investments in property, plant and equipment and an increase in the US to Canadian dollar conversion rate.

Other comprehensive income totalled \$9.2 million in the fourth quarter of 2008 compared to a loss of \$0.6 million in 2007. The significant improvement in the fourth quarter of 2008 was due to the US to Canadian dollar conversion rate increasing to 1.22 at December 31, 2008 compared to 1.04 at September 30, 2008. The small loss in the fourth quarter of 2007 resulted from the US to Canadian dollar conversion rate decreasing to 0.98 at December 31, 2007 compared to 0.99 at September 30, 2007.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2008, the Company had positive working capital (current assets less current liabilities) of \$28.9 million, up 40% compared to \$20.6 million at December 31, 2007. The improvement of \$8.3 million was due to strong positive cash flow from operations and the increase in the US to Canadian dollar conversion rate, partially offset by a dividend of \$3.2 million, payments on long term debt of \$2.5 million and capital asset additions of \$4.4 million. Current assets as at December 31, 2008 increased \$11.9 million relative to a year ago and current liabilities increased \$3.7 million. Both increases were due to increased business activities and the increase in the US to Canadian dollar conversion rate. The increase in current assets largely reflected higher accounts receivable and inventory levels, while current liabilities increased largely due to higher accounts payable levels.

As at December 31, 2008, the Company had cash and cash equivalents of \$2.6 million (2007 - \$2.0 million) and approximately \$573,000 of cash (2007 - \$150,000) drawn against its revolving operating credit facility (bank indebtedness). The operating credit facility is provided by a Canadian chartered bank and is available to a maximum of \$15.0 million subject to meeting prescribed margin requirements. The facility is limited to a prescribed percentage of accounts receivable and inventory balances at a point in time and reduced by outstanding letters of credit. The Company was in compliance with all required bank covenants as at December 31, 2008 and as at the date of this report. The Company's bank has provided no indication at this time that the available credit facility will be curtailed. Management believes that internally generated cash flows, along with the available revolving operating credit facility, will be sufficient to cover the Company's normal operating and capital expenditures for 2009 and beyond.

Management's Discussion and Analysis

In 2008, the Company generated an increase in cash and cash equivalents of \$574,000 compared to a decrease of \$5.8 million in the prior year. The key items impacting cash and cash equivalents were as follows:

- Cash flow from operations (before changes in non-cash working capital) of \$15.5 million in 2008 (2007 - \$10.1 million) reflecting a \$5.4 million or 53% increase over 2007 primarily due to the higher net income achieved in 2008.
- Changes in non-cash working capital which resulted in a \$5.6 million decrease in cash and cash equivalents (2007 - \$397,000 decrease).
- Scheduled repayment of long term debt of \$2.5 million in 2008 (2007 - \$1.0 million), including \$500,000 that was due December 31, 2007 but not withdrawn by the bank until the beginning of 2008.
- A dividend of \$0.12 per share or \$3.2 million in total paid in 2008 (2007 - \$0.10 per share or \$2.6 million in total).
- Capital expenditures of \$4.4 million in 2008 (2007 - \$3.8 million) primarily related to maintenance capital, the exercise of a purchase option on certain land and buildings and the purchase of additional production equipment for the Company's Parabeam® operations.

Another transaction that contributed to the 2007 decrease in cash and cash equivalents was the acquisition of Xerxes. In the first quarter of 2007, the Company acquired Xerxes for \$46.3 million. This acquisition was funded from the net proceeds of a "bought deal" private placement and commercial debt financing. The private placement resulted in total gross proceeds of \$40.0 million (\$37.4 million in net cash proceeds after deducting expenses of the offering of \$2.6 million). The balance of the purchase price was funded from a two year term loan from a commercial bank which provided financing of \$20.0 million with a minimum repayment requirement of \$2.0 million per year. Ten million dollars of the financing was repaid in the first quarter of 2007. The Company also borrowed against its operating line of credit to repay Xerxes' indebtedness of \$6.3 million. The Company also acquired certain property, plant and equipment from Cara Concrete Products Ltd. for \$3.0 million in 2007.

Contractual Obligations

In 2007, the Company supplied a US \$500,000 Letter of Credit to secure claims in favour of the Commissioner of Insurance for the State of Montana to establish its captive insurance company, Radigan Insurance Inc. ("Radigan"). Radigan provides insurance protection for product warranties, patent infringements, deductible buy down for the US workers' compensation program and the general liability coverage for the US operations. In 2008, cash and cash equivalents of US \$250,000 held by Radigan are restricted for collateral on a contract performance guarantee. The Company also supplied a US \$830,000 Letter of Credit to Xerxes Corporation to secure claims for the US workers' compensation program. The Company supplied Letters of Credit of \$40,500 as security for contract performance guarantees.

As at December 31, 2008, ZCL's minimum annual lease commitments under all non-cancellable operating leases for production facilities, office space and automotive and equipment were \$8.5 million.

Contractual obligations due over the next five years and thereafter:

(in thousands of dollars)	2009	2010	2011	2012	2013	2014 and Thereafter	Total
Long term debt	\$ 1,994	\$ 4,500	\$ -	\$ -	\$ -	\$ -	\$ 6,494
Operating leases	2,177	1,447	1,227	1,145	1,117	1,425	8,538

Pension obligation

The Company's defined benefit pension plan acquired as a result of the Xerxes acquisition in 2007 is underfunded by \$270,000 at December 31, 2008 (2007 - \$284,000). Management expects to fully fund this shortfall in 2009 upon final settlement of the plan through the transfer of the assets and liabilities to a private insurance company. If settlement

does not happen, the expected benefit payments to be made by the plan for 2009 to the remaining participants are approximately \$125,000, assuming no additional lump sum payments. As part of the settlement process, participants who were eligible for lump sum payments were paid \$888,000 from the plan during 2008.

TRANSACTIONS WITH RELATED PARTIES

In 2008, the Company purchased certain manufacturing components for \$136,900 (2007 - \$99,800) from a corporation whose Chairman and CEO became a director of the Company on May 15, 2007. The costs associated with these components were included in manufacturing and selling costs in the consolidated statements of income or inventories on the consolidated balance sheet. The transactions were incurred in the normal course of operations and recorded at the exchange amount being normal commercial rates for the products. Accounts payable and accrued liabilities at December 31, 2008 included \$1,900 (2007 - \$3,500) owing to the corporation. There are no ongoing contractual or other commitments resulting from these transactions.

In 2008, the Company also paid fees to a law firm in which an officer of the Company is a partner in the amount of \$337,500 (2007 - \$890,400). These fees were included in general and administration expenses in the consolidated statements of income. The majority of the fees charged in 2007 related to the acquisition of Xerxes and the related private placement. The transactions were incurred in the normal course of operations and recorded at the exchange amount being normal commercial terms for the services. Accounts payable and accrued liabilities at December 31, 2008 included \$53,400 (2007 - \$135,300) owing to the law firm. There are no ongoing contractual or other commitments resulting from these transactions.

In 2007, a corporation controlled by a director of the Company provided trucking services to the Company. This director resigned from the Board effective September 18, 2007 and is no longer a related party. Included in manufacturing and selling costs in the consolidated statements of income in 2007 was \$428,000 related to these services. The transactions were incurred in the normal course of operations and recorded at the exchange amount being normal commercial rates for the services. Accounts payable and accrued liabilities at December 31, 2007 included \$22,000 owing to the corporation.

CRITICAL ACCOUNTING ESTIMATES

The Company's financial statements have been prepared following GAAP. The measurement of certain assets and liabilities is dependent upon future events whose outcome will not be fully known until future periods. Therefore the preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Such estimates and assumptions have been made using careful judgments, which in management's opinion, are within reasonable limits of materiality and conform to the significant accounting policies summarized in the consolidated financial statements. Actual results may vary from those estimated.

Property, Plant and Equipment, Deferred Development Costs, Intangible Assets and Goodwill

Property, plant and equipment, deferred development costs, and intangible assets with finite lives are recorded at cost less accumulated amortization. Goodwill and indefinite life intangible assets are recorded at cost. The unamortized balances, or carrying values, are regularly reviewed for recoverability or tested for impairment whenever events or circumstances indicate that these amounts exceed their fair values. The valuation of these assets is based on estimated future net cash flows, taking into account current and future industry and other conditions. An impairment loss would be recognized for the amount that the carrying value exceeds the fair value.

The acquisition of business assets are accounted for using the purchase method and the allocation of the purchase price relating to the purchases is completed in accordance with GAAP. This allocation results in values being assigned to assets acquired based on expected future cash flows, and other methods, using estimates, assumptions and other information available at the time of acquisition.

Amortization of property, plant and equipment, deferred development costs, and intangible assets with finite lives is based on estimates of the useful lives of the assets. The useful lives are estimated, and a method of amortization is selected at the time the assets are initially acquired and then re-evaluated each reporting period.

Judgment is required to determine whether events or circumstances warrant a revision to the remaining periods of amortization. The estimates of cash flows used to assess the potential impairment of these assets are subject to measurement uncertainty. A significant change in these estimates and judgments could result in a material change to amortization expense or impairment charges.

Self-insured Liabilities

The Company self-insures certain risks related to pollution protection provided on certain product sales, general liability claims, US workers' compensation and patent infringement through Radigan Insurance Inc., its captive insurance company, as well as health benefit claims. The provision for self-insured liabilities includes estimates of the costs of reported and expected claims based on estimates of loss using assumptions determined by a certified loss reserve analyst. The actual costs of claims may vary from those estimates, and the difference may be material.

Warranties

The Company generally warrants its products for a period of one year after sale, and for up to thirty years for corrosion, if the products are properly installed and are used solely for storage of listed liquids. The Company markets a storage system under the Prezerver™ trademark that carries an enhanced protection program. In Canada, the Prezerver system includes an enhanced ten year limited warranty covering product replacement, third party pollution protection, site clean-up and defence costs up to the limits allowed under the warranty. Until December 1, 2006, the Canadian Prezerver program was covered by insurance underwritten by a major international insurer. Effective, December 1, 2006, the Company formed its own insurance captive to insure the Prezerver program. No claims have been registered since the Prezerver program's inception in 1996. Additionally, a number of component materials and parts are similarly warranted by their manufacturers, thereby reducing the Company's exposure to warranty claims.

The Company also began marketing the Prezerver system in the US in 2008. Under this program, the customer is offered a ten year master program of insurance by a third party insurance provider which covers third party property damage, onsite cleanup of pollution conditions, defence costs and product warranty/replacement up to limits allowed under the policy. The tank warranty/replacement portion of the coverage is reinsured by the third party insurance provider through ZCL's insurance captive.

The Company provides for warranty obligations based on a review of products sold and historical warranty cost experience. Provisions for warranty costs are charged to manufacturing and selling costs and revisions to the estimated provision are charged to earnings in the period in which they occur. The Company maintains high quality standards at its production facilities, uses only reputable suppliers for raw materials and other products, and has an unblemished history of no liability or warranty problems under the Prezerver system. There can be no assurance that third party or self insurance will sufficiently cover all potential claims. The actual costs of warranties may vary from those estimated, and the difference may be material.

Allowance for Doubtful Accounts

The Company's accounts receivable balance is a significant portion of overall assets. Credit is spread among many customers and the Company has not experienced significant accounts receivable collection problems in the past. The Company performs ongoing credit evaluations and maintains allowances for doubtful accounts, based on the assessment of individual customer receivable balances, credit information, past collection history and the overall financial strength of customers. A change in these factors could impact the estimated allowance and the provision for bad debts recorded in the accounts. The actual collection of accounts receivable and the resulting bad debts may differ from the estimated allowance for doubtful accounts and the difference may be material.

FINANCIAL INSTRUMENTS

Financial Risk Management

The Company's activities expose it to a variety of financial risks including market risk (foreign exchange risk and interest rate risk), credit risk and liquidity risk. Management reviews these risks on an ongoing basis to ensure that the risks are appropriately managed. The Company may use foreign exchange forward contracts to manage exposure to fluctuations in foreign exchange from time to time. The Company does not have a practice of trading derivatives. The Company had no derivative instruments outstanding at December 31, 2008.

Interest Rate Risk

The Company's objective in managing interest rate risk is to monitor expected volatility in interest rates while also minimizing the Company's financing expense levels. Interest rate risk mainly arises from fluctuations of interest rates and the related impact on the return earned on cash and cash equivalents and other assets and the expense on floating rate debt. On an ongoing basis, management monitors changes in short term interest rates and considers long term forecasts to assess the potential cash flow impact to the Company. The Company does not currently hold any financial instruments to mitigate its interest rate risk. Cash and cash equivalents and other assets earn interest based on market interest rates. Bank indebtedness balances and long term debt bear interest at the bank prime rate, which is variable.

The effective interest rate on the bank indebtedness balance at December 31, 2008 was Canadian bank prime interest rate plus 25 basis points (3.75%; 2007 – 6.25%). The term loan bears interest at bank prime plus 25 or 50 basis points, adjusted quarterly based on certain financial indicators of the Company. With other variables unchanged, an increase or decrease of 100 basis points in the prime interest rate as at December 31, 2008 would have impacted net income for the year then ended by approximately \$114,000. There would be no effect on other comprehensive income (loss).

The spread between the interest rate that the bank can borrow funds at and the interest rate they charge on loans has compressed with the decline in the Canadian bank prime interest rate and the general deterioration in credit quality around the world. Therefore, if the debt balances noted above were renegotiated during 2009, the premiums above prime rate may increase between 25 or 50 basis points.

Foreign Exchange Risk

The Company operates on an international basis and is subject to foreign exchange risk exposures arising from transactions denominated in foreign currencies. The Company's objective with respect to foreign exchange risk is to minimize the impact of the volatility related to financial assets and liabilities denominated in a foreign currency where possible through effective cash flow management. Foreign currency exchange risk is limited to the portion of the Company's business transactions denominated in currencies other than Canadian dollars. The Company's most significant foreign exchange risk arises primarily with respect to the US dollar. The revenues and expenses of the Company's US operations are denominated in US dollars. Certain of the revenue and expenses of the Canadian operations are also denominated in US dollars. The Company is also exposed to foreign exchange risk associated with the Euro due to its operations in The Netherlands, however these amounts are not significant to the Company's consolidated financial results. On an ongoing basis, management monitors changes in foreign currency exchange rates as well as considering long term forecasts to assess the potential cash flow impact to the Company. The Company has elected not to actively manage foreign exchange exposures at this time.

Management's Discussion and Analysis

The tables that follow provide an indication of the Company's exposure to changes in the value of the US dollar relative to the Canadian dollar as at and for the year ended December 31, 2008. The analysis is based on financial assets and liabilities denominated in US dollars at the end of the year ("balance sheet exposure") separated by subsidiaries classified as self-sustaining and other operations, which include the Canadian operations and subsidiaries classified as integrated operations, and US dollar denominated revenue and operating expenses during the year ("operating exposure").

Balance sheet exposure as at December 31, 2008			
	Self-sustaining Operations	Other Operations	Total
(in thousands of US dollars)	\$	\$	\$
Cash and cash equivalents	778	2,588	3,366
Accounts receivable	9,634	1,189	10,823
Restricted cash	-	250	250
Bank indebtedness	(403)	-	(403)
Accounts payable and accrued liabilities	(5,693)	(535)	(6,228)
Accrued pension liability	(221)	-	(221)
Deferred revenue	(922)	-	(922)
Net balance sheet exposure	3,173	3,492	6,665

Operating exposure for the year ended December 31, 2008,	
(in thousands of US dollars)	\$
Sales	77,297
Operating expenses	67,135
Net operating exposure	10,162

The weighted average US to Canadian dollar translation rate was 1.07 for the year ended December 31, 2008. The translation rate as at December 31, 2008 was 1.22.

Based on the Company's foreign currency exposures noted above, with other variables unchanged, a twenty percent change in the Canadian dollar would have impacted net income as follows:

Net income impact for the year ended December 31, 2008,	
(in thousands of US dollars)	\$
Net balance sheet exposure of other operations	537
Net operating exposure	1,563
Increase in net income	2,100

Other comprehensive income would have increased \$488,000 due to the net balance sheet exposure of financial assets and liabilities of self-sustaining operations. The timing and volume of the above transactions as well as the timing of their settlement could impact the sensitivity analysis.

Credit Risk

Credit risk is the risk of a financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company is exposed to credit risk through its cash and equivalents, restricted cash, other assets, and accounts receivable. The Company manages the credit risk associated with its cash and cash equivalents and restricted cash by holding its funds with reputable financial institutions and investing only in highly rated securities that are traded on active markets and are capable of prompt liquidation. Credit risk for other assets and trade and other accounts receivables are managed through established credit monitoring activities. The Company

also mitigates its credit risk on trade accounts receivable by obtaining a cash deposit from certain customers with no prior order history with the Company or where the Company perceives the customer has a higher level of risk. The Company has a concentration of customers in the oil and gas sector. The concentration risk is mitigated by the number of customers and by a significant portion of the customers being large international organizations. As at December 31, 2008 and 2007 no single customer exceeded 10% of the consolidated trade accounts receivable balance. Losses under trade accounts receivable have not historically been significant. The credit worthiness of new and existing customers is subject to review by management by considering such items as the type of customer, prior order history and the size of the order. Decisions to extend credit to new customers are approved by management and the credit worthiness of existing customers is monitored. The recent volatility in the global capital markets and the economic slowdown in Canada and the US could cause the credit worthiness of some of the Company's customers to decline.

The Company reviews its trade receivable accounts regularly and amounts are written down to their expected realizable value when the account is determined not to be fully collectible. This generally occurs when the customer has indicated an inability to pay, the Company is unable to communicate with the customer over an extended period of time, and other methods to obtain payment have been considered and have not been successful. The bad debt expense is charged to net income in the period that the account is determined to be doubtful. Estimates for the allowance for doubtful accounts are determined on a customer-by-customer evaluation of collectability at each reporting date, taking into account the amounts which are past due and any available relevant information on the customers' liquidity and going concern status. After all efforts of collection have failed, the accounts receivable balance not collected is written off with an offset to the allowance for doubtful accounts, with no impact on net income. The Company's maximum exposure to credit risk for trade accounts receivable is the carrying value of \$20,828,000 as at December 31, 2008 (2007 - \$16,123,000). On a geographic basis as at December 31, 2008, approximately 43% (2007 - 58%) of the balance of trade accounts receivable was due from Canadian and non-US customers and 57% (2007 - 42%) was due from US customers.

Payment terms are generally net 30 days. As at December 31, 2008, the percentages of past due trade accounts receivable were as follows: 19% past due 1 to 30 days (2007 - 22%), 9% past due 31 to 60 days (2007 - 7%), 10% past due 61 to 90 days (2007 - 2%) and 6% past due greater than 90 days (2007 - 3%) prior to including the allowance for doubtful accounts. Despite the established payment terms, customers in the oil and gas industry, who represent a significant portion of the customer base for the Company, typically pay amounts within 60 days of the invoice date. Accordingly, it is management's view that amounts outstanding from these customers up to 60 days from the invoice date have a low risk of not being collected.

The Company had recorded an allowance for doubtful accounts of \$200,300 as at December 31, 2008 (2007 - \$69,400). The allowance is an estimate of the December 31, 2008 trade receivable balances that are considered uncollectible. The allowance increased for bad debt expense of \$242,200 and a translation adjustment of \$18,200, offset by payments of \$51,500 and write offs of \$78,000 for the year ended December 31, 2008.

Liquidity Risk

The Company's objective related to liquidity risk is to effectively manage cash flows to minimize the exposure that the Company will not be able to meet its obligations associated with financial liabilities. On an ongoing basis, Management manages liquidity risk by maintaining adequate cash and cash equivalent balances and appropriately utilizing available lines of credit. Management believes that forecasted cash flows from operating activities, along with the available lines of credit, will provide sufficient cash requirements to cover the Company's forecasted normal operating activities and budgeted capital expenditures.

The following are the undiscounted contractual maturities of financial liabilities excluding future interest:

Management's Discussion and Analysis

	Carrying Amount	2009	2010	2011
(in thousands of dollars)	\$	\$	\$	\$
Bank indebtedness	573	573	-	-
Accounts payable and accrued liabilities	14,653	14,653	-	-
Long term debt	6,494	1,994	4,500	-
Total	21,720	17,220	4,500	-

RISKS AND UNCERTAINTIES

The Company is subject to a number of known and unknown risks, uncertainties and other factors that could cause the Company's actual future results to differ materially than those historically achieved and those reflected in forward-looking statements made by the Company. These factors include, but are not limited to, fluctuations in the level of capital expenditures in the petroleum and water and wastewater markets, drilling activity and oil and natural gas prices, and other factors that affect demand for the Company's products and services, industry competition, the need to effectively integrate acquired businesses, the ability of management to implement the Company's business strategy effectively, political and general economic conditions, the ability to attract and retain key personnel, raw material and labour costs, fluctuations in the US and Canadian dollar exchange rates, accounts receivable risk, the ability to generate capital or maintain liquidity necessary to fund future operations, and other risks and uncertainties described under the heading "Risk Factors" in the Company's most recent Annual Information Form, and elsewhere in other documents filed with Canadian provincial securities authorities which are available to the public at www.sedar.com.

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

Financial Instruments Disclosure and Presentation

Effective January 1, 2008, the Company prospectively adopted the Canadian Institute of Chartered Accountants ("CICA") Sections 3862, "Financial Instruments - Disclosure" and 3863, "Financial Instruments - Presentation", which requires additional disclosures to enable users to evaluate the significance of financial instruments to the Company's financial position and performance. Qualitative and quantitative disclosures are also required to enable users to evaluate the nature and extent of risks arising from the Company's financial instruments. The Company has provided the additional required disclosures in its consolidated financial statements for the year ended December 31, 2008.

Capital Disclosures

Effective January 1, 2008, the Company prospectively adopted CICA Section 1535, "Capital Disclosures", which requires disclosure of qualitative and quantitative information that enables users to evaluate the Company's objectives, policies and process for managing capital. The Company has provided the additional required disclosures in its consolidated financial statements for the year ended December 31, 2008.

Inventories

Effective January 1, 2008, the Company retrospectively adopted CICA Section 3031, "Inventories", which requires inventories to be measured at the lower of cost and net realizable value and provides guidance on the determination of cost, including the allocation of overheads and other costs to inventories. The new section did not have a material impact on the Company's consolidated financial position or results of operations and the additional required disclosures have been provided in the Company's consolidated financial statements for the year ended December 31, 2008.

Recent Accounting Pronouncements

Goodwill and Intangible Assets

In February 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets", replacing Section 3062, "Goodwill and Other Intangible Assets" and Section 3450, "Research and Development Costs". The new standard establishes standards for the recognition, measurement, presentation, and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. The standards concerning goodwill were unchanged

Management's Discussion and Analysis

from the standards included in the previous Section 3062. The Company is required to adopt the standard effective January 1, 2009. The adoption of this standard will not have a material impact on the Company's consolidated financial position or current and previous results of operations.

International Financial Reporting Standards

In February 2008, Canada's Accounting Standards Board confirmed January 1, 2011 as the official changeover date for publicly listed Canadian companies to start reporting under International Financial Reporting Standards ("IFRS"). IFRS uses a conceptual framework that is similar to Canadian GAAP, but there are differences in recognition, measurement and disclosure. The International Accounting Standards Board also currently has projects underway that should result in new pronouncements and the Canadian convergence initiative is on-going as of the date of these statements.

The Company commenced its conversion project in 2008. An IFRS project team has been established and an initial project plan has been prepared. The Company, with the assistance of external advisors, has also completed a high level review of key accounting policy differences between Canadian GAAP and IFRS, as well as policy choices and elections allowed under IFRS, and provided training to senior accounting staff. The Company is in the process of developing a detailed conversion project plan for 2009 and 2010 that will enable the Company to begin reporting its consolidated financial statements in accordance with IFRS on a comparative basis beginning January 1, 2011.

At this time, the impact on the Company's future financial results and position is not determinable. The Company does anticipate that there will be a significant increase in disclosure resulting from the adoption of IFRS. The Company also expects the transition to IFRS to impact financial reporting, business processes, internal controls and information systems.

Business Combinations, Consolidated Financial Statements

In January 2009, the CICA issued Section 1582 "Business Combinations", Section 1601 "Consolidated Financial Statements" and Section 1602 "Non-Controlling Interests", which supersede 1581 "Business Combinations" and Section 1600 "Consolidated Financial Statements". The standards apply to annual and interim financial statements relating to fiscal years beginning on or after January 1, 2011. Section 1582 establishes standards for the accounting for a business combination. It provides the Canadian equivalent to IFRS 3, "Business Combinations" (January 2008) and applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Section 1601, together with Section 1602, establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS IAS 27, "Consolidated and Separate Financial Statements" (January 2008). Earlier application of the standards is permitted. If an entity applies the Sections before January 1, 2011, it shall disclose that fact and apply Sections 1582, 1601 and 1602 at the same time. The Company is currently evaluating the impact of adopting the standards as part of its IFRS conversion plan.

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that material information is gathered and reported to senior management, including the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") of ZCL on a timely basis so that appropriate decisions can be made regarding public disclosure. In accordance with National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*, the CEO and CFO have evaluated the effectiveness of the Company's disclosure controls and procedures as of the year ended December 31, 2008. Based on that evaluation, the CEO and CFO have concluded that the disclosure control procedures are effective and provide reasonable assurance that: (a) information required to be disclosed by the Company in its annual filings or other reports filed and submitted under applicable securities legislation is recorded, processed, summarized and reported within the prescribed time periods, and (b) material information regarding the Company is accumulated and communicated to management, including its CEO and CFO in a timely manner.

Internal Controls over Financial Reporting

The CEO and CFO have designed or caused to be designed under their supervision, internal controls over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles. In accordance with NI 52-109, management designed and assessed the effectiveness of internal controls over financial reporting as of December 31, 2008, based on the criteria set forth in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that assessment, management concluded that, as of December 31, 2008, internal control over financial reporting was effective based on the criteria established in Internal Control – Integrated Framework.

Management has evaluated whether there were changes in the Company's ICFR during the most recent interim period ended December 31, 2008 that have materially affected or are reasonably likely to materially affect, the Company's ICFR. No material changes were identified through management's evaluation in the fourth quarter.

While management of the Company have evaluated the effectiveness of disclosure controls and procedures and ICFR as at December 31, 2008 and have concluded that these controls and procedures are being maintained as designed, they expect that the disclosure controls and procedures and ICFR may not prevent all errors and fraud. A control system, no matter how well conceived or operated, can only provide reasonable, not absolute assurance that the objectives of the control system are met.

OTHER

Outstanding Share Data

As at March 10, 2009, there were 26,455,529 common shares and 1,078,168 share options outstanding. Of the options outstanding, 219,135 are currently exercisable into common shares.

Off-Balance Sheet arrangements

The Company has no off-balance sheet arrangements.

Other Information

Additional information relating to the Company, including the Annual Information Form (AIF), is filed on SEDAR at www.sedar.com.

RECONCILIATION TABLES

The following tables show the calculation or reconciliation of non-GAAP measures used in this MD&A from GAAP measures or amounts reflected in the Company's consolidated financial statements (see "Non-GAAP Measures").

The following table presents the calculation of gross profit and gross margin.

	Three months ended December 31			Year ended December 31		
	2008	2007	Change	2008	2007	Change
(in thousands of dollars)	\$	\$	%	\$	\$	%
Revenue	38,223	30,013	27%	128,174	104,783	22%
Manufacturing and selling costs	30,966	22,671	37%	101,456	82,425	23%
Gross profit	7,257	7,342	-1%	26,718	22,358	20%
Gross margin (<i>Gross profit as a % of revenue</i>)	19.0%	24.5%		20.8%	21.3%	

Management's Discussion and Analysis

The following tables reconcile quarterly net income in accordance with GAAP to EBITDA.

(in thousands of dollars)	2008				
	Three months ended				Year ended
	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31
	\$	\$	\$	\$	\$
Net income	3,674	3,135	3,202	1,353	11,364
Amortization expense	1,157	919	919	817	3,812
Interest expense (income)	80	228	150	222	680
Income tax expense (recovery)	713	975	1,267	461	3,416
EBITDA	5,624	5,257	5,538	2,853	19,272
% of revenue	14.0%	15.9%	16.8%	12.0%	15.0%

(in thousands of dollars)	2007				
	Three months ended				Year ended
	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31
	\$	\$	\$	\$	\$
Net income	2,766	2,546	2,126	77	7,515
Amortization expense	822	1,072	926	752	3,572
Interest expense (income)	126	299	106	32	563
Income tax expense (recovery)	1,346	424	679	(11)	2,438
EBITDA	5,060	4,341	3,837	850	14,088
% of revenue	16.9%	13.9%	13.4%	5.7%	13.4%

The following table presents the calculation of cash from operations.

(in thousands of dollars)	Three months ended Dec 31		Year ended Dec 31	
	2008	2007	2008	2007
	\$	\$	\$	\$
Net income	3,674	2,766	11,364	7,515
Add items not affecting cash:				
Amortization expense	1,157	822	3,812	3,572
Future tax expense (recovery)	345	(285)	245	(1,255)
Gain on sale of equipment		(32)	-	(32)
Stock-based compensation expense	43	20	123	172
Pension expense (recovery)	(73)	148	(73)	148
Cash from operations	5,146	3,439	15,471	10,120

The following table presents the calculation of working capital.

(in thousands of dollars)	As at		
	December 31	December 31	Change
	2008	2007	
	\$	\$	\$
Current assets	47,845	35,923	11,922
Current liabilities	18,940	15,281	3,659
Working capital	28,905	20,642	8,263

