

ZCL Composites Inc.

Consolidated Financial Statements

December 31, 2008 and 2007

AUDITORS' REPORT

To the Shareholders of
ZCL Composites Inc.

We have audited the consolidated balance sheets of **ZCL Composites Inc.** as at December 31, 2008 and 2007 and the consolidated statements of income, shareholders' equity and comprehensive income (loss) and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Edmonton, Canada,
February 27, 2009 (except for note 12,
which is as of March 10, 2009)

Ernst & Young LLP
Chartered Accountants

Consolidated Financial Statements

Consolidated Balance Sheets

As at December 31

	2008	2007
(in thousands of dollars)	\$	\$
ASSETS [note 9]		
Current		
Cash and cash equivalents	2,607	2,033
Accounts receivable	20,828	16,123
Inventories [notes 3 and 4]	21,315	16,218
Income taxes recoverable	1,926	—
Prepaid expenses	899	1,133
Future tax assets [note 15]	270	416
	47,845	35,923
Property, plant and equipment [note 5]	24,580	20,749
Deferred development costs [note 6]	604	819
Intangible assets [note 7]	9,278	8,995
Goodwill [note 8]	33,459	27,327
Restricted cash [note 16a(iii)]	306	—
Other assets	472	555
	116,544	94,368
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness [note 9]	573	150
Accounts payable and accrued liabilities	14,653	10,886
Accrued pension liability [note 10]	270	284
Income taxes payable	110	511
Deferred revenue	1,340	1,490
Current portion of long term debt [note 11]	1,994	1,960
	18,940	15,281
Future tax liabilities [note 15]	5,586	4,623
Long term debt [note 11]	4,500	6,978
	29,026	26,882
Commitments and contingencies [note 16]		
Shareholders' equity		
Share capital [note 13a]	62,210	62,190
Contributed surplus [note 13a and 14a]	552	449
Accumulated other comprehensive income (loss)	2,989	(8,729)
Retained earnings	21,767	13,576
	87,518	67,486
	116,544	94,368

See accompanying notes

On behalf of the Board:

“Venence Côté”
Director

“Leonard Cornez”
Director

Consolidated Statements of Shareholders' Equity and Comprehensive Income (Loss)

For the years ended December 31, 2008 and 2007

(in thousands)	Common Shares #	Share Capital \$	Contributed Surplus \$	Accumulated Other Comprehensive Income (Loss) \$	Retained Earnings \$	Total \$	Comprehensive Income (Loss) \$
Balance, December 31, 2007	26,445	62,190	449	(8,729)	13,576	67,486	—
Shares issued on exercise of options [note 13a]	10	14	—	—	—	14	—
Stock-based compensation [note 14a]	—	—	109	—	—	109	—
Reclassification of fair value of stock options previously expensed [note 13a]	—	6	(6)	—	—	—	—
Translation of self-sustaining foreign operations	—	—	—	11,718	—	11,718	11,718
Dividends [note 12]	—	—	—	—	(3,173)	(3,173)	—
Net income	—	—	—	—	11,364	11,364	11,364
Balance, December 31, 2008	26,455	62,210	552	2,989	21,767	87,518	23,082
Balance, December 31, 2006	21,681	23,135	452	—	8,661	32,248	—
Common shares issued for cash [note 13a]	4,000	38,147	—	—	—	38,147	—
Shares issued on exercise of options [note 13a]	281	282	—	—	—	282	—
Warrants exercised for cash [note 13a]	483	459	—	—	—	459	—
Stock-based compensation [note 14a]	—	—	164	—	—	164	—
Reclassification of fair value of stock options and warrants previously expensed [note 13a]	—	167	(167)	—	—	—	—
Translation of self-sustaining foreign operations	—	—	—	(8,729)	—	(8,729)	(8,729)
Dividends [note 12]	—	—	—	—	(2,600)	(2,600)	—
Net income	—	—	—	—	7,515	7,515	7,515
Balance, December 31, 2007	26,445	62,190	449	(8,729)	13,576	67,486	(1,214)

See accompanying notes

Consolidated Financial Statements

Consolidated Statements of Income

For the years ended December 31

	2008	2007
(in thousands of dollars, except per share amounts)	\$	\$
Revenue	128,174	104,783
Manufacturing and selling costs <i>[note 4]</i>	101,456	82,425
	26,718	22,358
General and administration <i>[note 19c]</i>	7,446	8,270
Amortization <i>[note 19b]</i>	3,812	3,572
Interest expense (income) <i>[note 19a]</i>	680	563
	11,938	12,405
Income before income taxes	14,780	9,953
Income tax expense (recovery) <i>[note 15]</i>		
Current	3,171	3,693
Future	245	(1,255)
	3,416	2,438
Net income	11,364	7,515
Earnings per share <i>[note 17]</i>		
Basic	\$0.43	\$0.29
Diluted	\$0.43	\$0.29

See accompanying notes

Consolidated Statements of Cash Flows

For the years ended December 31

	2008	2007
(in thousands of dollars)	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	11,364	7,515
Add items not affecting cash:		
Amortization expense [note 19b]	3,812	3,572
Future tax expense (recovery)	245	(1,255)
Gain on sale of equipment	—	(32)
Stock-based compensation expense [notes 14a and b]	123	172
Pension expense (recovery) [note 10]	(73)	148
	15,471	10,120
Changes in non-cash working capital:		
Increase in accounts receivable	(2,019)	(2,414)
(Increase) decrease in inventories	(3,058)	3,430
(Increase) decrease in prepaid expenses	317	(582)
Increase in accounts payable and accrued liabilities	2,211	96
Increase (decrease) in income taxes payable	(2,593)	212
Decrease in deferred revenue	(433)	(1,139)
	(5,575)	(397)
Cash flows from operating activities	9,896	9,723
CASH FLOWS FROM INVESTING ACTIVITIES		
Business acquisition, including bank indebtedness assumed and repaid [note 2a]	—	(55,659)
Purchase of property, plant and equipment	(4,412)	(3,791)
Restricted cash [note 16a(iii)]	(306)	—
Other	—	22
Cash flows used in investing activities	(4,718)	(59,428)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issue of common shares, net of transactions costs [note 13a]	—	37,350
Issue of common shares on the exercise of stock options and warrants [note 13a]	14	741
Net advance of bank indebtedness	423	150
Dividends paid [note 12]	(3,173)	(2,600)
Net cash received on issue of long term debt	—	20,000
Repayment of long term debt	(2,500)	(11,000)
Cash flows from (used in) financing activities	(5,236)	44,641
Foreign exchange gain (loss) on cash held in foreign currency	632	(705)
Increase (decrease) in cash and cash equivalents	574	(5,769)
Cash and cash equivalents, beginning of the year	2,033	7,802
Cash and cash equivalents, end of the year	2,607	2,033

See accompanying notes

Notes to the Consolidated Financial Statements

For the years ended December 31, 2008 and 2007

1) Financial Statement Presentation and Significant Accounting Policies

ZCL Composites Inc. (the "Company") manufactures and distributes liquid storage systems, including fibreglass underground and aboveground storage tanks, fibreglass-lined steel tanks, steel tanks, and related products and accessories. The Company also produces and markets fibreglass lining systems and a three dimensional glass fabric material.

Generally accepted accounting principles

The Company's financial statements have been prepared following Canadian generally accepted accounting principles ("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 these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results may vary from those estimated.

In particular, the amounts recorded for amortization of property, plant and equipment, deferred development costs and intangible assets are based on estimates of the remaining useful lives of such assets. Furthermore, the provision for warranty claims and self-insured liabilities is based on past experience and the most currently available information regarding warranty costs and incurred claims. These estimates and those related to the cash flows used to assess the potential impairment of property, plant and equipment, deferred development costs, intangible assets, and goodwill as well as those used to estimate the fair value of stock-based compensation, income tax assets and liabilities and financial instruments are subject to measurement uncertainty and the impact on the financial statements of future periods could be material. Such estimates and assumptions have been made using professional judgment, which in management's opinion, are within reasonable limits of materiality and conform to the significant accounting policies summarized below.

Basis of presentation

The consolidated financial statements include the accounts of ZCL Composites Inc. and its wholly-owned subsidiary companies. Principal operating subsidiaries include Parabeam Industries BV, Radigan Insurance Inc., VRB & Associates SRL, and Xerxes Corporation ("Xerxes"). All significant intercompany transactions and balances have been eliminated in the preparation of these consolidated financial statements.

Cash and cash equivalents

Cash and cash equivalents consist of all cash balances and highly liquid investments with an original maturity of three months or less. Cash equivalents are invested in money market funds and are carried at fair value.

Inventories

Raw materials are valued at the lower of cost, determined on an average cost basis, and net realizable value. Work in progress and finished goods are valued at the lower of manufacturing cost and net realizable value on a specific item basis. Net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. Manufacturing costs include the costs of raw materials and consumables, direct labour costs, and applicable production overheads based on normal operating capacity. Prior to the adoption of CICA Handbook Section 3031 "Inventories", raw materials were valued at the lower of average cost and replacement cost, which approximated net realizable value.

Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated amortization. Amortization is computed using the declining balance method at the following annual rates:

Buildings	4%
Land improvements	10%
Manufacturing equipment	10%
Office equipment	20%
Automotive equipment	30%

Amortization of leasehold improvements is computed using the straight-line method over the term of the lease. Amortization of capital work-in-progress commences upon substantial completion of the project and commencement of the asset’s service life.

Deferred development costs

Research and development costs are expensed as incurred. Certain development costs are deferred when criteria established by the Canadian Institute of Chartered Accountants with respect to development costs are met, and amortized over future periods commencing with commercial production of the product or process.

Deferred development costs are amortized on a straight-line basis over the estimated expected life of the related products subject to a maximum period of five years. Unamortized deferred development costs are regularly reviewed for recoverability based on projections of future revenues less relevant costs. The unamortized amount is written-off when the criteria for deferral are no longer met or written-down when the unamortized balance exceeds the amounts of deferred development costs that can be reasonably regarded as recoverable.

Intangible assets

Intangible assets with finite lives are recorded at cost less accumulated amortization. Amortization is computed using the straight-line method over the following periods:

Non-contractual customer relationships	estimated expected length of relationships
Brand	estimated expected life of brand
Licenses	term of licensing agreements
Patents	term of patent life
Customer order backlog	estimated expected life of backlog
Air permits	estimated expected life of permit
Non-patented technology	estimated expected life of related products

Non-contractual customer relationships are amortized over periods ranging from three to ten years, brand over ten years, licenses over periods ranging from three to nine years, patents over six years, customer order backlog over three months, air permits over five years, and non-patented technology over five years.

Product certification and safety marks acquired in business acquisitions are indefinite-life intangible assets recorded at cost and are not amortized.

Impairment of long-lived assets

Long-lived assets of the Company include property, plant and equipment and intangible assets. These assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Impairment is recognized when the undiscounted cash flows from the assets exceeds the carrying value. An impairment loss is then measured at the amount that the carrying amounts exceed their fair value.

During the year, there were no events or changes in circumstances which indicated that the carrying amounts of long-lived assets may not be recoverable and no impairment loss was recognized.

Goodwill

Goodwill represents the excess of the purchase price of acquired businesses over the estimated fair value of net identifiable assets acquired. Goodwill is not amortized but must be tested for impairment annually or more frequently when events or circumstances occur that would indicate that the carrying value may be impaired. Recoverability of goodwill is determined at the reporting unit level using a two-step approach. First, the carrying value of the reporting unit is compared to its fair value, which is determined based on discounted future cash flows. If the carrying value of the reporting unit exceeds its fair value, the second step is performed. In this step, the amount of impairment loss, if any, represents the excess of the carrying value of goodwill over its fair value and the loss is charged to income in the period in which it is incurred. For this step of the impairment test, the fair value of the goodwill is estimated in the same way as goodwill is determined in a business combination as the excess of the fair value of the reporting unit over the estimated fair value of its net identifiable assets.

Self-insured liabilities

The Company self-insures certain risks related to pollution protection provided on certain product sales, general liability claims, US workers' compensation program 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.

Employee Future Benefits

As a result of the Xerxes business acquisition in 2007 described in note 2a, the Company's consolidated financial statements include a defined benefit pension plan, a defined contribution retirement benefit plan and a non-retirement employee benefit plan, as described below.

The Company has a non-contributory defined benefit pension plan for former employees of a previously closed plant facility of one of the Company's US based subsidiaries. The cost of the defined benefit pension is actuarially determined using the projected benefits method. For purposes of calculating the expected return on plan assets, those assets are valued at fair value. Accrued benefit obligations are discounted at the end of each period based on the rate at which obligations could be effectively settled, considering the timing of estimated future cash flows related to the plan. This rate is based on high-quality bond yields, after allowing for call and default risk. Refer to note 10 for additional information.

The Company contributes to a defined contribution 401(k) retirement plan for all US based employees meeting the plan requirements. Under the plan, the Company matches employee contributions to a maximum of 4% of an employee's earnings. The Company accounts for such contributions as an expense in the period in which the contributions are due. Total contribution expense recorded during the year ended December 31, 2008 was \$458,000 (2007 - \$394,000).

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The Company has self-insured the liability associated with providing health and welfare insurance benefits to its US based employees. The Company records an expense in the period in which eligible claims are presented for payment by its employees and third party claims administrator fees are presented for payment. The Company also accrues a liability for the anticipated obligation from health insurance claims not yet submitted based on expected claims experience calculated by the third party administrator. Adjustments to the liability are recorded in the period that actual claims experience is determined.

The Company also contributes to a defined contribution retirement plan for all Canadian based employees meeting the plan requirements. Under the plan, the Company matches employee contributions to a maximum of 4% of an employee's earnings. The Company accounts for such contributions as an expense in the period in which the contributions are made. Total expense recognized in 2008 was \$229,000 (2007 - \$214,000).

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 used solely for storage of listed liquids. A number of component materials and parts are similarly warranted by their manufacturers, thereby offsetting the Company's exposure to warranty claims.

The Company's complete storage systems marketed under the Prezerver trademark carry an enhanced ten-year, insurance-backed warranty covering product replacement and pollution protection up to the limits of the policy. The Prezerver warranty is covered by insurance underwritten by a major international insurer for Prezerver storage systems installed before December 1, 2006. The Prezerver warranty for qualifying storage systems installed thereafter is insured through the Company's captive insurance company, Radigan Insurance Inc.

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.

Foreign currency translation

Transactions denominated in a foreign currency and financial statements of integrated foreign subsidiaries included in the consolidated financial statements are translated using the temporal method as follows: monetary items at the rate of exchange in effect at the balance sheet dates; non-monetary items at historical exchange rates; revenue and expense items at average exchange rates that produce substantially the same amounts that would have resulted had the transactions been translated on the dates they occurred; and amortization of assets at the same historical exchange rates as the assets to which they relate. Any resulting exchange gains or losses are included in income in the period incurred.

Two of the Company's principal operating subsidiaries, Xerxes Corporation and VRB & Associates SRL are self-sustaining foreign operations. The financial statements of these subsidiaries are included in the consolidated financial statements translated using the current rate method. Under this method, all assets and liabilities are translated at the balance sheet date exchange rate, and revenue and expense items are translated at the average exchange rate for the period. The resulting exchange gains and losses are recorded in other comprehensive income (loss).

Revenue recognition

Revenue from the sale of liquid storage systems and related products and accessories is recorded when persuasive evidence of an arrangement exists, the purchaser's price is fixed or determinable, collection is reasonably assured and ownership is effectively transferred to the purchaser. This normally occurs at the time of shipment of the

Notes to the Consolidated Financial Statements

product, customarily on a FOB-shipping basis. In circumstances where the customer chooses to temporarily store goods on the Company's premises but all other contract performance criteria have been met, revenue is recognized upon manufacturing completion. Amounts received as deposits are recorded as deferred revenue. Where final acceptance of products is specified by the customer, revenue is deferred upon manufacturing completion until all acceptance criteria have been met.

Financial instruments

The Company classifies financial assets as either held for trading, held to maturity, loans or receivables or available for sale. The Company classifies financial liabilities as either held for trading or other financial liabilities.

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, other assets, restricted cash, bank indebtedness, accounts payable and accrued liabilities, and long term debt.

The Company has classified cash and cash equivalents and restricted cash as held for trading measured at fair value with changes in fair value recognized in net income. The carrying value of these financial instruments approximates their fair value due to the relatively short period to maturity.

Accounts receivable and other assets are classified as loans and receivables and are measured at amortized cost using the effective interest rate method.

Accounts payable and accrued liabilities, bank indebtedness and long term debt are classified as other financial liabilities and measured at amortized cost. The carrying value of accounts payable and accrued liabilities approximates fair value due to the relatively short period to maturity. The carrying value of bank indebtedness and long term debt may vary from their fair value due to higher premiums charged by the bank. Using an interest rate that is 25 basis points higher than the rate in effect at year end would result in a nominal difference between the carrying value and fair value of bank indebtedness. The estimated fair value of the long term debt using the 25 basis point higher interest rate would be approximately \$6,476,000 compared to the carrying value of \$6,494,000. For additional information refer to note 21 a).

Transaction costs are incremental costs directly related to the acquisition of a financial asset or the issuance of a financial liability. The Company incurs transaction costs primarily through the issuance of debt and classifies these costs with the long term debt. These costs are amortized using the effective interest method over the life of the related debt instrument.

Comprehensive income (loss)

Comprehensive income (loss) represents the change in equity of the Company from transactions and other events arising from non-owner sources including gains and losses arising on translation of self-sustaining foreign operations.

Stock-based compensation

Stock options resulting in direct awards of shares to employees and non-employees are accounted for in accordance with the fair value method of accounting for stock-based compensation. The fair value of stock options and warrants at the date of grant or transfer is determined using an option pricing model and compensation expense is recognized over the vesting period of the stock options and warrants.

The Company uses the fair value method to account for specified stock-based compensation awards issued under the Company's Stock Appreciation Rights Plan ("SARs") and Executive Restricted Share Unit Plan ("RSUs) that call for settlement in cash. The Company records compensation expense over the vesting period for the outstanding

SARs and RSUs for the difference between the market value of the Company's common shares and the value specified under the SARs and RSUs plan, if any. Changes in the market value of the Company's common shares result in compensation expense and the corresponding liability for the SARs and RSUs being re-measured at each reporting period.

The Company's stock-based compensation, consisting of a stock option plan and warrants, SARs and RSUs plans is more fully described in notes 13 and 14.

Income taxes

The Company uses the liability method to account for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities, and measured using the substantively enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse.

Earnings per share

Basic earnings per share is computed based on the weighted average number of common shares outstanding during the year. Diluted earnings per share is computed using the treasury stock method, which assumes that the cash that would be received on the exercise of options and warrants is applied to purchase shares at the average price during the period and that the difference between the shares issued upon their exercise and the number of shares obtainable under this computation, on a weighted average basis, is added to the number of shares outstanding. Anti-dilutive amounts are not considered in computing diluted earnings per share.

a) Changes in Significant Accounting Policies

Effective January 1, 2008, the Company adopted the following new accounting standards:

Capital Disclosures

The Company adopted prospectively CICA Handbook 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. See note 22.

Inventories

The Company adopted retrospectively CICA Handbook 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 adoption of this standard had no impact on the current or previous operating results of the Company.

Financial Instruments – Disclosure and Presentation

The Company adopted prospectively without restatement, CICA Handbook 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 provided to enable users to evaluate the nature and extent of risks arising from the Company's financial instruments. See note 21.

b) Recent Accounting Pronouncements

In February 2008, the CICA issued CICA Handbook Section 3064 "Goodwill and Intangible Assets" that replaced Section 3062 "Goodwill and Other Intangible Assets" and Section 3450 "Research and Development Costs". The standard applies to annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008. The Company will adopt the standard for its fiscal year beginning January 1, 2009. 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 from the standards included in the previous Section 3062. The adoption of this standard will not have a significant impact on the current or previous operating results of the Company.

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"). The International Accounting Standards Board 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 is currently in the process of completing the scoping phase of its IFRS conversion plan that included analyzing key differences and providing training to senior accounting staff. The Company is in the process of developing a conversion plan and preparing a detailed timeline assessing: further training and education requirements, the impact on accounting policies, information systems, internal controls over financing reporting, and business activities.

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 GAAP 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.

2) Business Acquisitions

a) XAHC, Inc.

On February 22, 2007, the Company purchased 100% of the shares of XAHC, Inc. ("XAHC"), the sole shareholder of Xerxes, for cash consideration of US \$39.6 million (CDN \$46.3 million) including acquisition costs. XAHC and Xerxes are based in the United States and are involved in the design, manufacture and marketing of fibreglass reinforced plastic structural products for the petroleum, chemical, water and wastewater industries.

The business acquisition was accounted for using the purchase method and the consolidated financial statements include the results of operations from February 22, 2007. Management finalized the purchase price allocation as of December 31, 2007.

The following table summarizes the fair value of acquired assets and liabilities after final adjustments:

(in thousands of dollars)	\$
Bank indebtedness, net	(6,343)
Non-cash working capital	10,712
Property, plant and equipment	5,946
Non-contractual customer relationships	6,934
Customer order backlog	306
Brand	3,418
Air permits	357
International licenses	780
Accrued pension liability	(168)
Future tax liabilities	(5,694)
Goodwill	30,057
Net assets acquired	46,305

Intangible assets are being amortized using the straight-line method over the following terms:

Non-contractual customer relationships	3 to 10 years
Customer order backlog	3 months
Brand	10 years
Air permits	5 years
International licenses	9 years

Prior to the acquisition, the Company had a license agreement with Xerxes which gave the Company exclusive rights to manufacture and sell products in certain geographic areas. Aggregate annual royalty payments under the agreement were \$300,000 of which \$43,333 was payable by the Company at the date of the acquisition.

b) Cara Concrete Products Ltd.

On August 9, 2007, the Company purchased certain property, plant and equipment from Cara Concrete Products Ltd. ("CARA") and on October 5, 2007 acquired the remaining operating assets of CARA for a combined cash consideration of \$2,960,000. Acquisition costs of \$51,000 were incurred in respect of the purchase. The business acquisition was accounted for using the purchase method and the consolidated financial statements include the results of operations of CARA from October 5, 2007.

Notes to the Consolidated Financial Statements

The fair value of the acquired assets was \$79,000 for non-cash working capital and \$2,932,000 for property, plant and equipment, for a total of \$3,011,000.

3) Inventories

(in thousands of dollars)	2008 \$	2007 \$
Raw materials	9,893	7,865
Work in progress	3,986	2,483
Finished goods	7,436	5,870
	21,315	16,218

As at December 31, 2008, inventories included raw materials and finished goods carried at net realizable value of \$133,000 and \$65,000 respectively (December 31, 2007: raw materials - \$147,000, finished goods - \$3,000). During the year ended December 31, 2008, a write down of \$247,000 of inventory to net realizable value was recorded.

4) Manufacturing and Selling Costs

For the years ended December 31,

(in thousands of dollars)	2008 \$	2007 \$
Raw materials and consumables used	41,369	32,730
Labour costs	30,921	23,474
Other costs	32,053	22,668
Net change in inventories of finished goods and work in progress	(2,887)	3,553
	101,456	82,425

5) Property, Plant and Equipment

(in thousands of dollars)	2008		2007	
	Cost \$	Accumulated amortization \$	Cost \$	Accumulated amortization \$
Land	3,506	—	2,983	—
Buildings	6,172	1,399	5,205	1,209
Leasehold and land improvements	2,609	547	1,659	298
Manufacturing equipment	22,457	9,580	19,275	8,351
Office equipment	3,066	1,982	2,743	1,521
Automotive equipment	556	278	463	200
	38,366	13,786	32,328	11,579
Net book value	24,580		20,749	

Amortization expense includes \$2,043,000 (2007- \$1,600,000) for the amortization of property, plant and equipment. Capital work-in-progress of \$71,000 is included in manufacturing and office equipment (2007 - \$972,000 is included in manufacturing and office equipment) and is not subject to amortization.

Notes to the Consolidated Financial Statements

6) Deferred Development Costs

(in thousands of dollars)	2008 \$	2007 \$
Cost	1,147	1,652
Accumulated amortization	543	833
Net book value	604	819

Amortization expense includes \$173,000 (2007 - \$244,000) for the amortization of deferred development costs. The total amount of research and development charged to expense for the year is not separately identifiable, as such costs are only tracked for development projects that are deferred. Development costs that were fully amortized during the year ended December 31, 2007 were relieved from the accounts at December 31, 2008.

7) Intangible Assets

(in thousands of dollars)	2008		2007	
	Cost \$	Accumulated amortization \$	Cost \$	Accumulated amortization \$
Intangible assets subject to amortization:				
Non-contractual customer relationships	7,278	2,162	5,970	914
Brand	3,578	656	2,873	239
Licenses	817	166	1,177	581
Patents	369	187	369	80
Customer order backlog	—	—	264	264
Air permits	374	137	300	50
Non-patented technology	—	—	1,944	1,944
	12,416	3,308	12,897	4,072
Intangible assets not subject to amortization:				
Product certification and safety marks	170	—	170	—
	12,586	3,308	13,067	4,072
Net book value	9,278		8,995	

Amortization expense includes \$1,032,000 (2007- \$887,000) for the amortization of non-contractual customer relationships, \$313,000 (2007 - \$260,000) for brand, \$79,000 (2007 - \$96,000) for licenses, \$107,000 (2007 - \$37,000) for patents, \$nil (2007- \$264,000) for customer order backlog, \$65,000 (2007 - \$54,000) for air permits, and \$nil (2007 - \$130,000) for non-patented technology. Certain intangible asset costs that were fully amortized during the year ended December 31, 2007 were relieved from the accounts at December 31, 2008.

8) Goodwill

(in thousands of dollars)	2008 \$	2007 \$
Balance, beginning of the year	27,327	1,991
Goodwill from business acquisition (<i>note 2a</i>)	—	30,057
Translation adjustment	6,132	(4,721)
Net book value	33,459	27,327

9) Bank Indebtedness

Bank indebtedness consists of amounts drawn under available credit facilities and cheques issued in excess of related bank balances. The Company has a revolving operating credit facility to a maximum \$15,000,000 (2007 - \$15,250,000) for working capital and other general corporate purposes subject to certain accounts receivable and inventory levels at a point in time and reduced by outstanding letters of credit (see note 16 a) iii)). The credit facility is payable on demand and expires on May 2, 2009. Depending on the form under which the credit facility is accessed, rates of interest vary between Canadian prime plus zero or 25 basis points, US base rate plus zero or 25 basis points, or Canadian bankers acceptances with terms of 1, 2, 3, or 6 months, subject to availability plus 150 or 175 basis points. Interest rates are adjusted quarterly based on certain financial performance indicators of the Company. At December 31, 2008 the effective interest rate on this credit facility was prime plus 25 basis points (3.75%; 2007 – 6.25%).

The Company has pledged as general collateral for advances under the operating credit facility and the term loan (see note 11) a general security agreement on present and future assets, guarantees from each present and future direct and indirect subsidiary of the Company supported by a first registered security over all present and future assets, and pledge of shares. The Company is not permitted to sell or re-pledge significant assets held under collateral without consent from the lenders.

The Company is required to meet certain covenants as a condition of the debt agreements. At December 31, 2008, the Company was in compliance with all restrictive covenants.

10) Accrued Pension Liability

The pension liability relates to a noncontributory defined benefit pension plan (the “Plan”) for former full-time union employees of a previously closed plant facility of Xerxes. The employment of all participants in the Plan was terminated in 2001 and their benefit accrual fully vested. The Plan assets and the accrued benefit obligation are measured on December 31 each year.

In November 2006, trustees of the Plan approved a process that was expected to result in full settlement of plan obligations by the end of 2007. As part of the approved settlement process, the Plan’s investments were all converted to cash and cash equivalents in the form of money market fund investments in December 2006. Participants who had not started receiving their pension were also provided the option of receiving either a lump sum payment or a guaranteed annuity contract that will be purchased by the Plan from a private insurance company upon settlement of the plan. The Plan settlement is now expected to occur during 2009 upon approval of the Plan’s determination letter by the IRS (“Internal Revenue Service”).

Notes to the Consolidated Financial Statements

Information regarding the Plan is summarized as follows and reflects management's best estimates of the accrued benefit obligation based on assumptions consistent with the approved settlement process.

(in thousands of dollars)	2008 \$	2007 \$
Change in fair value of plan assets during the period		
Fair value of plan assets, beginning of the period	1,816	2,178
Actual return on plan assets	42	74
Employer contributions	—	—
Benefits paid	(111)	(90)
Lump sum payments	(888)	—
Translation adjustment	305	(346)
Fair value of plan assets, end of the period	1,164	1,816
Change in accrued benefit obligation during the period		
Accrued benefit obligation, beginning of the period	2,100	2,346
Interest cost	90	92
Actuarial (gain) loss	(121)	130
Benefits paid	(111)	(90)
Lump sum payments	(888)	—
Translation adjustment	364	(378)
Accrued benefit obligation, end of the period	1,434	2,100
Accrued pension liability	(270)	(284)

Weighted-average actuarial assumptions used to determine obligations at December 31 and periodic benefit cost for the period then ended:

Discount rate	5.00%	4.59%
Expected return on assets	2.00%	5.50%
Rate of compensation increase	N/A	N/A

The discount rate used to determine the accrued benefit obligation was 5.00% and the expected return on assets rate used was 2.00% at December 31, 2008. The pension liability and future pension expense both increase as the discount rate is reduced. Lowering the discount rate by 100 basis points (from 5.00% to 4.00%) would increase the 2008 pension expense and liability at December 31, 2008 by \$143,000. Pension expense would increase as the expected rate of return on assets decreases. The Company immediately recognizes gains and losses on the assets in anticipation of the pending plan settlement.

A recovery of \$73,000 (2007 - expense of \$148,000) relating to the change in the accrued pension liability based on actuarial valuations was recorded in general and administration in the consolidated statements of income.

The Company will fully fund the existing shortfall of the Plan upon final settlement. If the settlement does not happen, the expected benefit payments to participants from the Plan for 2009 are approximately \$125,000, assuming no lump sum payments.

11) Long Term Debt

(in thousands of dollars)	2008 \$	2007 \$
Term loan	6,494	8,938
Less current portion	1,994	1,960
	4,500	6,978

The term loan bears interest at an annualized rate of Canadian bank prime (2008 – 3.5%, 2.5% effective March 4, 2009; 2007 – 6.0%) plus 25 or 50 basis points, adjusted quarterly based on certain financial performance indicators of the Company. The term loan requires payment of interest monthly and quarterly repayments of \$500,000, with the balance due on maturity on May 2, 2010. The Company is also subject to mandatory prepayments of outstanding loan principal equal to 100% of any net proceeds of asset disposal and net proceeds from any insurance proceeds received by the Company. Transaction costs directly attributable to the term loan are recorded as part of the carrying value of the debt and reflected in the measurement of the amortized cost of the obligation using the effective interest method.

The Company's operating and term credit facilities are utilized as required throughout the year. Both credit facilities bear interest at floating rates and changes in interest rates would affect the Company's exposure to interest rate risk in servicing the facilities (see note 21a).

12) Dividends Paid

During the year ended December 31, 2008, dividends in the amount of \$3,173,000 were paid on April 17, 2008 (\$0.12 per common share for all shareholders of record on April 3, 2008). During the year ended December 31, 2007, dividends in the amount of \$2,600,000 were paid on April 4, 2007 (\$0.10 per common share for all shareholders of record on March 28, 2007).

Subsequent to December 31, 2008, the Company's Board of Directors declared a cash dividend of \$0.12 per common share on March 10, 2009 to shareholders of record on April 6, 2009. The dividend will be paid on April 20, 2009.

13) Share Capital and Contributed Surplus

a) Share capital and contributed surplus

Authorized

Unlimited number of common shares with no par or stated value.

Issued and outstanding

During the year, the Company issued 10,000 shares (2007 – 281,000 shares) for options exercised and 483,000 shares in 2007 for warrants exercised. The 10,000 stock options exercised had an exercise price of \$1.40 resulting in cash proceeds to the Company of \$14,000 for the year ended December 31, 2008. In 2007, the 281,000 stock options exercised had exercise prices of \$0.95 or \$1.40 resulting in cash proceeds to the Company of \$282,000 for the year ended December 31, 2007. The 483,000 warrants exercised in 2007 had an exercise price of \$0.95 resulting in cash proceeds to the Company of \$459,000 for the year ended December 31, 2007.

Notes to the Consolidated Financial Statements

On February 13, 2007 the Company completed a "bought deal" private placement of subscription receipts with a syndicate of underwriters whereby the underwriters purchased as principals 4,000,000 subscription receipts at a price of \$10.00 per subscription receipt for total gross proceeds of \$40.0 million. After deducting expenses of the offering of \$2,650,000 (\$1,853,000 net of taxes), net cash proceeds of \$37,350,000 were received. Each holder of subscription receipts automatically acquired one common share of the Company in exchange for every one subscription receipt held without the payment of any additional consideration upon closing of the XAHC/Xerxes acquisition described in note 2a. The issued shares were subject to trading restrictions for a four-month period subsequent to issuance.

During the year, the amount credited to share capital related to options and warrants exercised included \$6,000 (2007 - \$72,000) for options and \$nil (2007 - \$95,000) for warrants in respect of compensation expense previously included in contributed surplus.

b) Stock options

Under the Company's stock option plan, options to purchase common shares may be granted by the Board of Directors to directors, employees, and persons who provide management or consulting services to the Company. The shareholders authorized the number of options that may be granted under the plan to be not more than 10% of the issued and outstanding shares of the Company on a non-diluted basis provided that the number of listed securities that may be reserved for issuance under stock options granted to any one individual or insiders of the Company not exceed 5% of the Company's issued and outstanding securities. The exercise price of options granted cannot be less than the closing market price of the Company's common shares on the last trading day preceding the grant. The Company's Board of Directors may determine the term of the options but such term cannot be greater than 5 years from the date of issuance. Vesting terms, eligibility of qualifying individuals to receive options and the number of options issued to individual participants are determined by the Company's Board of Directors. The plan has no cash or equity settlement features. Options generally expire 90 days from the date on which a participant ceases to be a director, officer, employee, management company employee or consultant of the Company.

The Company has 1,078,168 (2007 – 254,068) options outstanding, which expire on dates between May 2009 and December 2012. The following tables present the changes during and the options outstanding and exercisable at the end of each of the fiscal years:

	2008		2007	
	Stock options #	Weighted Average Exercise Price \$	Stock options #	Weighted Average Exercise Price \$
Balance, as at January 1	254,068	3.70	498,002	1.69
Granted	834,100	3.76	37,400	10.14
Exercised	(10,000)	1.40	(281,334)	1.00
Balance, as at December 31	1,078,168	3.77	254,068	3.70

Notes to the Consolidated Financial Statements

2008					
Exercise Price \$	Options Outstanding			Options Exercisable	
	Stock options #	Weighted Average Exercise Price \$	Weighted Average Remaining Contractual Life in Years #	Stock options #	Weighted Average Exercise Price \$
1.40	90,001	1.40	0.40	90,001	1.40
2.90	66,667	2.90	1.92	66,667	2.90
4.55	50,000	4.55	2.47	50,000	4.55
10.14	37,400	10.14	3.93	12,467	10.14
7.67	1,600	7.67	4.21	—	—
3.75	832,500	3.75	4.94	—	—
1.40 – 10.14	1,078,168	3.77	4.22	219,135	3.07

2007					
Exercise Price \$	Options Outstanding			Options Exercisable	
	Stock options #	Weighted Average Exercise Price \$	Weighted Average Remaining Contractual Life in Years #	Stock Options #	Weighted Average Exercise Price \$
1.40	100,001	1.40	1.40	100,001	1.40
2.90	66,667	2.90	2.92	33,333	2.90
4.55	50,000	4.55	3.47	50,000	4.55
10.14	37,400	3.75	4.93	—	—
1.40 – 10.14	254,068	3.70	3.25	183,334	2.53

c) Warrants

As part of a private placement in September 2002, the Company issued 3,684,211 Performance Warrants (“Warrants”). One-half of these Warrants were segregated, and approved by the shareholders at the Annual General and Special Meeting of Shareholders on August 18, 2003, for transfer to senior management of the Company. Each Warrant entitled the holder to subscribe for one common share at a price of \$0.95 for a period of up to five years subject to a performance vesting provision. The Warrants vested at one-third intervals upon the weighted-average trading price of common shares reaching thresholds, for a period of twenty trading days, of \$1.90, \$2.85 and \$3.80 per common share. The first two thresholds were reached during the fiscal year ended March 31, 2005; the third vesting threshold was reached in the fiscal period ended December 31, 2006 and the remaining 1,228,070 unvested warrants vested. All remaining warrants were exercised during the year ended December 31, 2007.

14) Stock-Based Compensation

The Black-Scholes model, used by the Company to calculate the values of options and warrants, as well as other currently accepted option valuation models, were developed to estimate the fair value of freely-tradeable, fully-transferable options and warrants without vesting restrictions. These models require subjective assumptions, including future share price volatility and expected time until exercise, which affect the calculated values. The options and warrants contemplated by the Black-Scholes model differ significantly from the stock options granted and warrants transferred by the Company.

Notes to the Consolidated Financial Statements

a) Stock Options and Warrants

	2008		2007	
	Stock options #	Warrants #	Stock options #	Warrants #
Balance, as at January 1	254,068	—	498,002	482,750
Granted	834,100	—	37,400	—
Exercised	(10,000)	—	(281,334)	(482,750)
Balance, as at December 31	1,078,168	—	254,068	—

The Company granted 832,500 options at an exercise price of \$3.75 and 1,600 options at an exercise price of \$7.67 to employees during the year ended December 31, 2008 (2007 – 37,400 options at an exercise price of \$10.14). The exercise price was the market share price on the grant date.

The Company uses the fair value method of accounting for all stock options granted and warrants transferred to employees. Stock-based compensation expense of \$109,000 (2007 - \$164,000) was recorded in manufacturing and selling costs and general and administration expenses in the consolidated statements of income during the year.

The estimated fair values of stock options granted at market during the years ended December 31 were determined, at the date of the grant, using the Black-Scholes option pricing model with the following weighted-average assumptions resulting in a fair value per option of \$1.18 (2007 - \$4.08).

	2008	2007
Risk-free interest rate (%)	1.79	3.88
Expected hold period to exercise (years)	3.5	4.0
Volatility in the price of the Company's shares (%)	53.0	50.0
Dividend yield (%)	2.0	1.0

Notes to the Consolidated Financial Statements

b) Stock Appreciation Rights (SARs) and Restricted Share Units (RSUs)

	2008		2007	
	SARs #	RSUs #	SARs #	RSUs #
Balance, as at January 1	230,250	21,160	—	—
Granted	14,750	71,965	230,250	21,160
Forfeited	(15,000)	—	—	—
Balance, as at December 31	230,000	93,125	230,250	21,160

On December 3, 2007 the Company's Board of Directors approved a Stock Appreciation Rights Plan where SARs may be granted to Directors, officers and employees of the Company at the Board's discretion. Each SAR entitles the holder to the cash amount for the difference between the value specified under the Plan and the market value of the Company's common shares on the exercise date. The rights vest equally over a three year period, beginning January 1, 2009, and expire at the end of 2011.

On December 3, 2007 the Company's Board of Directors approved an Executive Restricted Share Unit Plan where each designated executive receives an annual grant of RSUs as part of their compensation at the Board's discretion. Each RSU represents one notional common share that entitles the participant to an equivalent cash amount. The RSUs granted are generally scheduled for payout after five years and vest upon attainment of performance targets or the later of the end of five years following the year of the date of grant.

The Company granted 14,750 SARs (2007 – 230,250) and 71,965 RSUs (2007 – 21,160) with the SARs and 1,840 of the RSUs granted at a value of \$7.67 (2007 - \$10.14) and 70,125 of the RSUs granted at a value of \$3.75, the market share prices on the grant date, to employees during the year ended December 31, 2008.

Compensation expense recorded in manufacturing and selling costs and general and administration expenses in the consolidated statements of income of \$18,500 (2007 - \$3,800) was recorded relating to the RSUs and a recovery of \$4,200 (2007 - \$4,200 expense) was recorded relating to the SARs during the year.

15) Income Taxes

The Company's effective income tax expense has been determined as follows:

(in thousands of dollars)	2008 \$	2007 \$
Statutory federal and provincial taxes at 30.22% (2007 – 32.55%)	4,466	3,239
Increase (decrease) in income taxes resulting from:		
Rate differences for foreign jurisdictions	(384)	185
Effect of substantively enacted future rates on temporary differences	(135)	(82)
Non-taxable foreign income net of non-creditable withholding taxes and other tax exempt income and other items	(531)	(904)
	3,416	2,438

Notes to the Consolidated Financial Statements

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

(in thousands of dollars)	2008 \$	2007 \$
Future tax assets		
Share issue and financing costs	491	631
Tax basis in excess of carrying value of:		
Deferred development costs	347	372
Non-deductible reserves and pension liability	1,020	1,019
State loss carry forward	124	200
Other	194	90
	2,176	2,312
Future tax liabilities		
Carrying value in excess of tax basis of:		
Property, plant and equipment	2,810	2,211
Intangible assets	3,481	3,349
Deferred development costs	177	238
Inventories	908	603
Other	116	118
	7,492	6,519
	(5,316)	(4,207)
(in thousands of dollars)	2008 \$	2007 \$
Represented by:		
Future tax assets - current	270	416
Future tax liabilities - long-term	(5,586)	(4,623)
	(5,316)	(4,207)

The Company has state loss carry forwards of approximately \$2.5 million that are available to reduce the taxable income of certain US subsidiaries that expire at varying times from 2009 to 2027. The potential income tax benefits that will result from the application of US tax losses have been recognized in these financial statements.

16) Commitments and Contingencies

a) Commitments

i) Operating leases

The minimum annual rentals under the terms of operating leases for premises and automotive and office equipment are as follows:

(in thousands of dollars)	\$
2009	2,177
2010	1,447
2011	1,227
2012	1,145
2013	1,117
Thereafter	1,425

ii) Letters of credit

The Company issues letters of credit for various business reasons throughout the year. As at December 31, 2008, the Company had issued four letters of credit totaling \$40,500 and \$1,330,000 US. The balances of the letters of credit are subject to interest at an annualized rate of 1.1% and reduce the amount available on the operating credit facility.

iii) Restricted cash

An amount of \$250,000 US is secured by cash held by the captive insurance company as a contract performance guarantee and is recorded as restricted cash.

b) Contingencies

In the normal conduct of operations, various legal claims or actions are pending against the Company in connection with its products and/or other commercial matters. The Company carries liability insurance, subject to certain deductibles and policy limits, against such claims. Based on advice and information provided by legal counsel, management believes that no provision for these matters is required and that their ultimate resolution will not have a material adverse effect on the financial position of the Company or its operations. The amount of loss, if any, incurred upon resolution of these matters will be recorded in the period in which the uncertainty regarding such matters are resolved and the amount of the loss can be reasonably estimated.

17) Earnings Per Share

The following table sets forth the net income available to common shareholders and weighted-average number of common shares outstanding for the computation of basic and diluted earnings per share:

For the years ended December 31,

(in thousands of dollars)	2008 \$	2007 \$
Numerator:		
Net income	11,364	7,515
	2008 #	2007 #
Denominator:		
Weighted-average shares outstanding - basic	26,448,412	25,536,328
Effect of dilutive securities		
Stock options	127,785	192,788
Weighted-average shares outstanding - diluted	26,576,197	25,729,116

18) Related Party Transactions

Certain manufacturing components purchased for \$136,900 (2007 - \$99,800) for the year ended December 31, 2008, included in manufacturing and selling costs in the consolidated statements of income or inventories were provided by a corporation whose Chairman and CEO is an individual who became a director of the Company on May 15, 2007. 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.

The Company 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) for the year ended December 31, 2008 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.

A corporation controlled by a director of the Company provided trucking services to the Company during 2007. 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.

19) Other Expenses (Income)

a) Interest Expense (Income)

For the years ended December 31,

(in thousands of dollars)	2008 \$	2007 \$
Short term interest, net of interest income	217	(22)
Interest, long term debt	463	585
	680	563

b) Amortization

For the years ended December 31,

(in thousands of dollars)	2008 \$	2007 \$
Property, plant and equipment	2,043	1,600
Deferred development costs	173	244
Intangible assets	1,596	1,728
	3,812	3,572

c) Foreign Exchange Gain (Loss)

General and administration expenses include a foreign exchange gain of \$931,000 for the year ended December 31, 2008 (2007 – foreign exchange loss of \$510,000).

20) Statement of Cash Flows

Supplementary disclosures required in respect of the Statement of Cash Flows are as follows:

For the years ended December 31,

(in thousands of dollars)	2008 \$	2007 \$
Net interest paid	649	536
Income taxes paid	4,992	3,545

21) 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.

a) 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, restricted cash 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, restricted cash 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.

b) 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.

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").

Notes to the Consolidated Financial Statements

Balance sheet exposure as at December 31, 2008

(in thousands of US dollars)	Self-sustaining Operations \$	Other Operations \$	Total \$
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:

For the year ended December 31, 2008,

(in thousands of US dollars)	\$
Net balance sheet exposure of other operations	537
Net operating exposure of other operations	1,563
Change 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.

c) 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.

d) 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.

Notes to the Consolidated Financial Statements

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

(in thousands of dollars)	Carrying Amount \$	2009 \$	2010 \$	2011 \$
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	—

22) Capital Risk Management

Management's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, to provide an adequate return to shareholders, to meet external capital requirements on the Company's debt and credit facilities and preserve financial flexibility in order to benefit from potential opportunities that may arise. The Company maintained \$50 million of shareholders' equity to meet its external capital requirement as at December 31, 2008. Management considers changes in economic conditions, risks that impact the consolidated operations and future significant capital investment opportunities in managing its capital and considers adjustments to its ratio of long term debt to adjusted capital employed when significant changes in these factors are expected. Management considers the ratio of long term debt to adjusted capital employed of 8% as at December 31, 2008 to be low. Adjusted capital employed is defined by the Company as long term debt plus total shareholders' equity excluding accumulated other comprehensive income (loss).

23) Segmented Information

Operating segments are defined as components of the Company for which separate financial information is available that is evaluated regularly by the chief operating decision maker in allocating resources and assessing performance. The chief operating decision maker of the Company is the Chief Executive Officer. The Company operates substantially all of its activities in one reportable segment, liquid containment storage systems, which include the manufacture and distribution of liquid storage systems including fibreglass underground and aboveground storage tanks and related products and accessories.

Information about geographic areas

For the years ended December 31,

(in thousands of dollars)	Revenues	
	2008	2007
	\$	\$
Canada and Foreign	48,519	48,309
United States	79,655	56,474
	128,174	104,783

(in thousands of dollars)	Total assets		Property, plant and equipment and goodwill	
	2008	2007	2008	2007
	\$	\$	\$	\$
Canada and Foreign	42,592	39,804	19,717	17,408
United States	73,952	54,564	38,322	30,668
	116,544	94,368	58,039	48,076

Information on geographic location was allocated based on the primary location of the Company's customers. Revenue, total assets, property, plant and equipment, and goodwill related to foreign operations were not significant and therefore have been included in the Canadian and Foreign category.

Information about major customers

The Company has long-term contracts and alliance arrangements with many of the major oil and gas companies in Canada and provides products for distributors and retail oil and gas companies in the US. For the years ended December 31, 2008 and 2007, no single customer exceeded 10% of total revenue.

24) Comparative Figures

Certain comparative figures have been reclassified to conform to the presentation of the current period's consolidated financial statements.